OECD Economic Outlook

Volume 2007/1
No. 81, June

OECD ECONOMIC OUTLOOK

81

JUNE 2007

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Conventional signs

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

Summary of projections

	2006	2007	2008	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4	Fourth quarter 2006	Fourth quarter 2007	Fourth quarter 2008
							Per cent						
Real GDP growth													
United States	3.3	2.1	2.5	2.5	2.3	2.5	2.5	2.6	2.7	2.7	3.1	2.1	2.6
Japan	2.2	2.4	2.1	1.8	1.9	2.0	2.1	2.2	2.1	2.2	2.5	2.0	2.2
Euro area	2.8	2.7	2.3	2.6	2.5	2.4	2.3	2.2	2.1	2.1	3.3	2.5	2.2
Total OECD	3.2	2.7	2.7	2.7	2.6	2.7	2.7	2.7	2.7	2.7	3.2	2.6	2.7
Inflation													
United States	2.9	2.6	2.2	2.3	2.0	2.2	2.4	2.2	2.1	2.1	2.5	2.6	2.2
Japan	-0.9	-0.4	0.2	-0.4	0.0	0.1	0.2	0.3	0.4	0.6	-0.5	-0.3	0.4
Euro area	1.7	2.0	2.0	1.0	2.0	2.0	2.0	2.1	2.2	2.2	1.6	2.0	2.1
Total OECD	2.2	2.1	2.0	1.9	2.0	2.0	2.0	2.0	2.0	2.0	1.8	2.3	2.0
Unemployment rate													
United States	4.6	4.6	4.8	4.5	4.6	4.7	4.8	4.8	4.8	4.9	4.5	4.7	4.9
Japan	4.1	3.8	3.6	3.8	3.7	3.7	3.6	3.6	3.6	3.6	4.1	3.7	3.6
Euro area	7.8	7.1	6.7	7.1	7.0	6.9	6.9	6.8	6.7	6.6	7.5	6.9	6.6
Total OECD	5.9	5.6	5.5	5.6	5.6	5.6	5.5	5.5	5.5	5.4	5.7	5.6	5.4
World trade growth	9.6	7.5	8.3	7.7	8.2	8.4	8.3	8.3	8.2	8.2	8.6	7.7	8.3
Current account balance													
United States	-6.5	-6.1	-6.2										
Japan	3.9	4.8	5.4										
Euro area	0.1	0.4	0.4										
Total OECD	-1.9	-1.5	-1.5										
Cyclically-adjusted fiscal balance													
United States	-2.5	-2.8	-2.8										
Japan	-2.2	-2.7	-3.2										
Euro area	-1.0	-0.8	-0.7										
Total OECD	-1.7	-1.8	-1.9										
Short-term interest rate													
United States	5.2	5.3	5.0	5.3	5.3	5.2	5.1	5.1	5.0	4.9	5.3	5.2	4.9
Japan	0.2	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.4	0.6	0.7
Euro area	3.1	4.1	4.3	4.0	4.2	4.3	4.3	4.3	4.3	4.3	3.6	4.3	4.3

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

Assumptions underlying the projections include:

- no change in actual and announced fiscal policies;
- unchanged exchange rates as from 9 May 2007; in particular 1$ = 119.72 yen and 0.74 euros;

The cut-off date for other information used in the compilation of the projections is 15 May 2007.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/036245131153

EDITORIAL
ACHIEVING FURTHER REBALANCING

In its *Economic Outlook* last Autumn, the OECD took the view that the US slowdown was not heralding a period of worldwide economic weakness, unlike, for instance, in 2001. Rather, a "smooth" rebalancing was to be expected, with Europe taking over the baton from the United States in driving OECD growth.

Recent developments have broadly confirmed this prognosis. Indeed, the current economic situation is in many ways better than what we have experienced in years. Against that background, we have stuck to the rebalancing scenario. Our central forecast remains indeed quite benign: a soft landing in the United States, a strong and sustained recovery in Europe, a solid trajectory in Japan and buoyant activity in China and India. In line with recent trends, sustained growth in OECD economies would be underpinned by strong job creation and falling unemployment.

Recent "hard data", as well as consumer and business confidence, suggest that in the euro area a vibrant German-led recovery has remained on track, despite a large VAT hike at the start of this year. Interestingly, the so-far lagging Italian economy has been sharing in the upswing, notwithstanding the volatility of the quarterly accounts. All told, the recovery in Germany and Italy in 2006-07 is set to be much stronger than initially expected.

In the United States, the incoming data suggest that, following a weak first quarter, economic activity should gradually regain momentum. Sustained job and labour income growth should provide the basis for a progressive return to economic normality, while excess supply of housing is being gradually worked off.

In China, the authorities are struggling to contain business investment with a view to reining in the pace of the economic expansion, which at over 11% most recently may have exceeded the speed limit. Such buoyancy should provide solid support both for the ongoing Japanese export-led expansion and other trading partners.

The rebalancing is not without risks, however. To be sure, stronger growth in the hitherto weaker OECD economies is to be warmly commended. But going forward, several other sources of imbalance may still be standing in the way of sustained and steady growth. On the monetary front, there is a risk that, in many places, the balance between aggregate demand and supply has already started shifting towards overheating, at a time when the appetite for fiscal tightening may be waning. Looking further ahead, there is also little sign that, once adjusted for cyclical influences, current account imbalances have retreated in the United States, while they are getting even more pronounced in countries such as China and Japan, where time and again household demand seems to be lagging behind.

Imbalances may have developed in financial and housing markets too. As a general rule, spreads on risky bonds are close to historical lows and for a range of financial assets OECD analysis suggests that risk may be under-priced. Equity prices may be somewhat on the high side, for example, although current potential overvaluation in stock markets pales in comparison with the excesses that prevailed in the late 1990s. Last but not least, housing investment is at ten-year highs in many OECD countries.

Assessing more precisely the extent of such remaining imbalances is of some importance to gauge the uncertainties surrounding our smooth rebalancing scenario.

In the US case, the diagnosis is tricky. On the one hand, the issue may just be one of an over-extended housing market still in need of correction. But such a sanguine assessment may need to be qualified in at least two ways. First, recent housing developments may point to the risk of a slower overall recovery. Compared to previous OECD forecasts, the housing sector has cooled somewhat more than expected, leading to a disquieting build-up in the stock of unsold housing. Second, the slowdown of the US economy could turn out to be of a broader nature. It might involve a mild form of stagflation, with weaker trend productivity and output growth than assumed heretofore translating into more overheating. Weaker prospects for long-term growth would help to explain, for instance, why inflation has been more persistent than expected and why business investment faltered recently, despite ample profits and still favourable financial market conditions.

The amount of residual economic slack is also uncertain in some of the other main OECD regions, notably in Continental Europe and the United Kingdom. This constitutes a challenge for central banks which, on both sides of the Atlantic, should probably err on the side of tightness.

In the United States, with core inflation still higher than desired and unemployment below most estimates of its sustainable level, there is a case for keeping a slightly restrictive monetary stance and not cutting policy rates in 2007. There may even be a case for additional tightening in the United Kingdom, should inflationary pressures persist, and more clearly so in the euro area, where core inflation has essentially reached the 2% mark, while activity is set to continue to expand vigorously.

In Japan, by contrast, where deflation has not yet been rooted out and economic slack may be larger than expected, policy rates would need to remain on hold for some time.

Fiscal policy has a role to play in smoothing out the current economic upswing, in improving the long-term sustainability of public finances in most OECD countries, and in providing enough scope for automatic stabilisers to act in the next downturn. Policymakers are facing treacherous waters, however. On the positive side, public deficits have finally been shrinking, in most OECD countries, over the past two or three years. However, consolidation has been overly reliant on cyclical revenue gains rather than on lasting spending restraint. Looking forward, decisive reductions in structural deficits appear both highly desirable and rather unlikely. But, given the high stakes, there is at the very least a need to avoid, over the next few years, the unravelling of past fiscal consolidation.

In such a challenging context, policymakers need to save current tax windfalls, so that fiscal policy does not exacerbate, in the short run, the present economic upswing while preventing, in the long run, the repeat of those depressing "post-boom" budgetary crises of the past. But spending pressures will be extremely strong, given the considerable magnitude of the unforeseen capital and corporate tax receipts. Sticking to tight spending plans and waiting long enough before contemplating new tax cuts should be the "categorical imperative" for forward-looking policymakers.

Against this worrying backdrop, this *Economic Outlook* incorporates a special chapter on the political economy of fiscal consolidation, trying to infer from past experiences the policies and institutional factors that underpin successes and failures. This work yields challenging conclusions. It suggests, for instance, that successful and lasting consolidations often emerge from fiscal crisis and work better when conducted from the expenditure side. It also underlines the useful role that can be played by fiscal rules, in particular those that include a focus on expenditure control alongside budget-balance rules. Even so, there are probably no mechanical means to lock in fiscal consolidation. In the current circumstances, characterised by buoyant activity and large revenue increases, what is needed, ultimately, is political will and strong leadership.

Political will and collective wisdom will also be needed to achieve a successful conclusion of WTO negotiations. The potential costs of stalling trade integration, possibly followed by various sorts of back-pedalling, could be of unforeseen magnitude. With so much emphasis in the public arena put on the drawbacks of globalisation, one may easily lose sight of the multifaceted gains arising from a more integrated world. This is indeed the central message of our second special chapter entitled "Making the most of globalisation". It reviews, from a long-term perspective, both the potential benefits and the economic and social challenges stemming from globalisation, and highlights the importance of public policies for effectively translating the huge potential of globalisation into shared well-being.

21 May 2007

J P Cotis

Jean-Philippe Cotis
Chief Economist

ISBN 978-92-64-03449-5
OECD Economic Outlook 81

Chapter 1

GENERAL ASSESSMENT OF THE MACROECONOMIC SITUATION

Overview

Global rebalancing is under way

Cyclical differences have continued to unwind among the major OECD regions (Table 1.1). In the United States the correction in the housing market has pushed GDP growth below its potential rate. Growth in the euro area has continued at a fast clip and has been increasingly balanced between the different aggregate expenditure components. In Japan, despite some variability in recorded quarterly growth, the underlying pace of output remains above that of potential, driven mainly by exports and business investment.

Table 1.1. **The expansion should remain on track**

OECD area, unless noted otherwise

	Average 1994-2003	2004	2005	2006	2007	2008	2006 q4	2007 q4	2008 q4
	Per cent								
Real GDP growth[1]	2.7	3.2	2.6	3.2	2.7	2.7	3.2	2.6	2.7
United States	3.2	3.9	3.2	3.3	2.1	2.5	3.1	2.1	2.6
Euro area	2.2	1.8	1.5	2.8	2.7	2.3	3.3	2.5	2.2
Japan	1.0	2.7	1.9	2.2	2.4	2.1	2.5	2.0	2.2
Output gap[2]	-0.6	-0.8	-0.7	-0.2	-0.1	0.1			
Unemployment rate[3]	6.6	6.7	6.5	5.9	5.6	5.5	5.7	5.6	5.4
Inflation[4]	3.5	2.4	2.2	2.2	2.1	2.0	1.8	2.3	2.0
Fiscal balance[5]	-2.4	-3.5	-2.9	-1.6	-1.6	-1.6			

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035655363831

Growth is set to continue

Going forward, for the OECD area as a whole, and following a temporary slowing in the first quarter of 2007, growth is set to exceed its potential rate through the remainder of 2007 and in 2008, supported by ongoing buoyancy in emerging market economies and favourable financial conditions. Activity in the United States is projected to regain strength as the adjustment in housing investment is completed. The expansion in the euro area is projected to remain strong, before slowing gradually as a result of business cycle dynamics and as tighter monetary conditions progressively bite in 2008. The Japanese economy is likely to go on expanding at a pace above its potential growth rate, which could eventually bring about a sustained exit from deflation.

Risks to inflation have increased

In nearly two-thirds of OECD countries, unemployment has fallen below estimated structural rates and in most others the gaps are small, so that upside pressures on inflation from the demand side are now predominant. Such pressures could be magnified through international spillovers because many economies are moving into a position of excess demand at the same time. Indeed, there are many signs of strong underlying global inflation pressures which could yet feed through into headline inflation; reflecting past increases in commodity prices, the inflation rate for intermediate industrial goods in most OECD countries has picked up and in many is running at its highest level since the beginning of the decade; shipping costs have surged over the past year; and the price of food relative to other consumer prices has risen across most OECD countries. Increased inflationary pressures could pose more of a policy dilemma in the United States than elsewhere, with significant upside risks to inflation combined with downside risks to activity. To date the downturn in US housing investment has been contained, but there could be negative spill-over effects either on consumption or if problems in the sub-prime mortgage market lead to wider financial-market distress. On the other hand, certain components of US consumer price inflation, particularly related to housing and the indirect effect of energy costs, might turn out to be less transitory than currently anticipated, thereby delaying a return to acceptable levels of inflation with a risk that this gets built into wage settlements.

Monetary policy reflects reduced cyclical divergences

Reduced cyclical divergences are reflected in greater similarity of monetary policy settings across most major economies, with the exception of Japan. A continuation of recent sub-trend growth in the United States should be sufficient to relieve pressures on capacity and the dissipation of a number of temporary influences boosting core inflation should allow rates to be cut in 2008. In the euro area, with core inflation already having picked up and output growth set to exceed potential through 2007, the recent series of rate increases may need to extend a bit further to keep the medium-term outlook for inflation close to, but below, 2%. Finally, the failure of Japan to durably escape deflation during 2006 serves to emphasise that further withdrawal of monetary ease should be based on the unambiguous realisation, rather than anticipation, of an exit from deflation, given the asymmetric costs involved.

Fiscal restraint, especially on spending, remains a priority

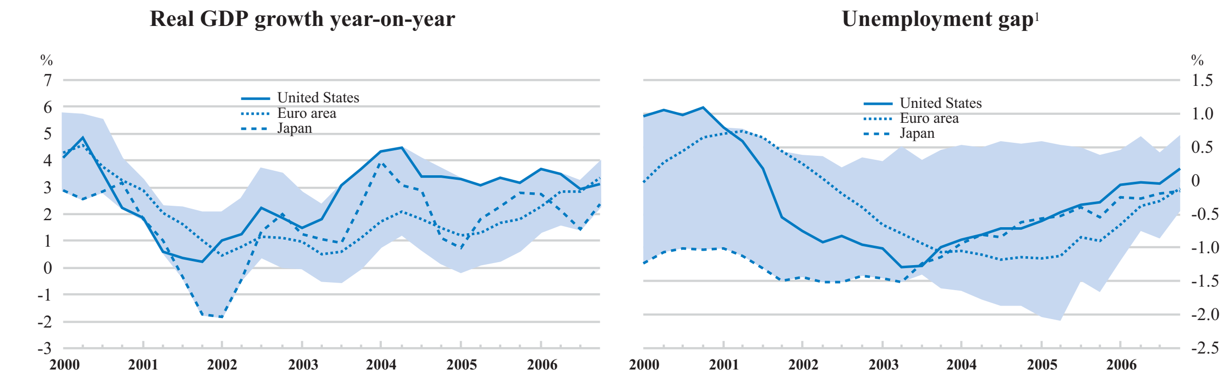
Fiscal outcomes have generally been more favourable than budgeted in 2006, mainly thanks to unexpectedly abundant tax revenues. Compared with previous such episodes, more of these windfalls have been appropriately reflected in lower deficits. Looking forward, better-than-expected current performance should not be a cause for complacency in respect of the need for a continuation of fiscal consolidation. In the first instance, to the extent the revenue surprises are related to exceptional developments in asset prices or unusually strong growth in profits or are simply unexplained, it would be imprudent to rely on their persistence. More importantly, in most countries additional efforts – in particular on the spending side – are required to restore fiscal margins of manoeuvre. Notably, in the face of rapidly ageing populations, pension and health-care system reforms are a matter of urgency. In this regard, the apparent slackening in the planned pace of fiscal consolidation in many OECD countries, particularly those where deficit and/or debt levels are high, is a cause for concern.

An increasingly synchronised expansion

Cyclical positions are converging

Going into 2007, growth differentials among the major seven economies, as well as differences in unemployment gaps, were the narrowest they have been in more than a decade (Figure 1.1). In part, this reflects the inevitable slowing of the US economy as it pushes up against capacity constraints, but it is also due to a stronger performance of the three largest euro area economies and of Japan.

Figure 1.1. **Growth differentials and cyclical positions are converging**



Note: Shaded region shows range of major 7 countries' outcomes.
1. The estimated structural unemployment rate minus the actual unemployment rate.
Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/033223854527

US growth has fallen below its potential rate

In the United States, the ongoing correction to residential investment dragged down GDP growth in the year to the first quarter of 2007 by about 1 percentage point to around 2 %, about ¾ percentage point below the estimated potential growth rate. However, the correction in housing investment and problems in the market for sub-prime mortgage debt have not yet had wider adverse repercussions. Indeed, private consumption has remained buoyant into 2007, boosted by lower energy prices, continued robust employment growth and high share prices. On the other hand, business investment has recently been weak and more generally has remained a relatively modest share of GDP throughout the cycle, despite apparently favourable conditions in terms of a relatively low cost of capital, high profitability and tight labour markets. Unusually, strong exports and a fall in imports supported growth at the end of 2006, but this was in large part explained by temporary weather-related factors and has been reversed in the first quarter of 2007.

The upswing in the euro area is well underway

In the euro area, growth has remained above potential and outpaced that in the United States in recent quarters. Domestic demand has become the main driver of activity, particularly due to strong investment underpinned by healthy profits. Private consumption has also gathered momentum, benefiting from stronger employment growth, with the German value-added tax (VAT) hike providing only a modest set-back. The German recovery has been particularly vigorous, supported by strong exports, and the Italian economy has picked up more than expected, following a protracted period of subdued activity. Growth has been more modest in France, however, owing to weak exports and rising import penetration.

The Japanese economy is evolving along a solid growth trajectory

Japan has continued to experience a robust upswing, with business investment and exports providing the underlying growth momentum. Export demand has been boosted by a weak exchange rate, as well as buoyant market growth. Private consumption growth has shown some recent signs of picking up, however this is unlikely to be sustained while real wages remain stagnant.

Labour markets are buoyant

Labour market conditions have improved further in the OECD area with employment growth strengthening and unemployment falling to low levels (Table 1.2). In the United States, the slowdown in activity is barely evident in the labour market, with the unemployment rate remaining close to 4½ per cent since late 2006. This is partly because there has yet to be a shake-out in construction employment following the sharp fall-off in building activity. The sustained upswing in the euro area has led to the unemployment rate falling to a 15-year low of just below 7¼ per cent, although it still remains high among some groups such as the unskilled and young people. Similarly, in Japan, continued employment growth has reduced the unemployment rate to below 4%, the lowest level in nearly ten years, with the tightening of the labour market also reflected in a high vacancies-to-applicants ratio.

Table 1.2. **Labour markets are buoyant**

	2001	2002	2003	2004	2005	2006
	Percentage change from previous period					
Employment						
United States	0.0	-0.3	0.9	1.1	1.8	1.9
Japan	-0.5	-1.3	-0.2	0.2	0.4	0.4
Euro area	1.6	0.7	0.4	0.9	1.0	1.6
Labour force						
United States	0.8	0.8	1.1	0.6	1.3	1.4
Japan	-0.2	-0.9	-0.3	-0.4	0.1	0.1
Euro area	1.1	1.2	1.1	1.1	0.7	0.8
Unemployment rate	Per cent of labour force					
United States	4.8	5.8	6.0	5.5	5.1	4.6
Japan	5.0	5.4	5.3	4.7	4.4	4.1
Euro area	7.7	8.1	8.7	8.8	8.5	7.8

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035661774352

But wage pressures remain moderate

Despite low unemployment rates in all three main OECD regions, there are few signs of increased wage pressures (Table 1.3). In the United States, growth in average compensation has risen only marginally, while the private-sector employment cost index is rising only at about 3 per cent *per annum* and shows no sign of accelerating. The pick-up in unit labour costs mainly reflects a cyclical downturn in productivity growth, related to a large extent to the lagging employment adjustment in the construction sector. In the euro area, measures of growth in compensation have risen modestly, and there are signs in some recent wage settlements, notably in Germany, that this may continue. However, for the euro area as whole, growth in unit labour costs is currently running at only 1% *per annum*. In Japan, the tightening of the labour market has started to put upward pressure on wages for some groups. However, at the aggregate level any such tendencies appear to be offset by compositional effects,[1] with aggregate measures of nominal compensation broadly flat and economy wide unit labour costs falling. There are a number of possible explanations for the combination of moderate wage developments with low unemployment, including: lower structural unemployment rates; downward wage pressures stemming from globalisation; better anchored inflation expectations; or delayed adjustment of wages. Each of these explanations has differing policy implications, although at present the evidence is as yet insufficient to discriminate between them.

Table 1.3. **Wage developments remain moderate**

	2001	2002	2003	2004	2005	2006
	Percentage change from previous period					
Labour productivity						
United States	0.9	2.8	2.5	2.8	1.6	1.5
Japan	0.7	1.6	1.6	2.5	1.5	1.8
Euro area	0.3	0.2	0.4	0.9	0.5	1.2
Compensation per employee						
United States	2.8	3.7	3.9	4.5	3.7	4.4
Japan	-1.0	-1.8	-1.5	-1.2	0.2	0.0
Euro area	2.6	2.6	2.3	1.9	1.4	1.9
Real compensation per employee[1]						
United States	0.4	1.9	1.7	1.6	0.7	1.4
Japan	0.3	-0.2	0.1	-0.1	1.5	1.0
Euro area	0.2	0.0	0.2	0.0	-0.5	0.2
Unit labour cost						
United States	2.0	0.9	1.1	1.7	2.2	2.9
Japan	-0.9	-2.7	-2.8	-3.5	-1.0	-0.7
Euro area	2.5	2.5	1.8	1.0	1.1	0.9

1. Deflated by the GDP deflator.
Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035670384507

Emerging markets are major growth poles

Buoyant growth in major emerging-market economies has supported global economic activity. Despite monetary tightening, the growth of the Chinese economy has remained above 10% in recent quarters, even strengthening further in the first quarter of 2007, mainly driven by

1. Large cohorts of well paid regular workers are now reaching retirement age while newcomers in the labour force are often hired through low-paid temporary contracts.

exports and investment. In India, GDP accelerated to above 9% in 2006, despite a tightening of monetary policy to prevent inflationary pressures from building further. Activity is broad-based on the demand side, backed by vigorous capital deepening that has boosted the economy's growth potential. Other emerging Asian economies are also expanding rapidly. In Russia, growth firmed to nearly 7% in 2006 as fixed investment rebounded strongly, compensating for a moderate slowing in household consumption and a greater drag from net exports. Activity in Brazil is gaining momentum, particularly through a strong pick-up in investment, while improving labour market conditions are supporting consumption.

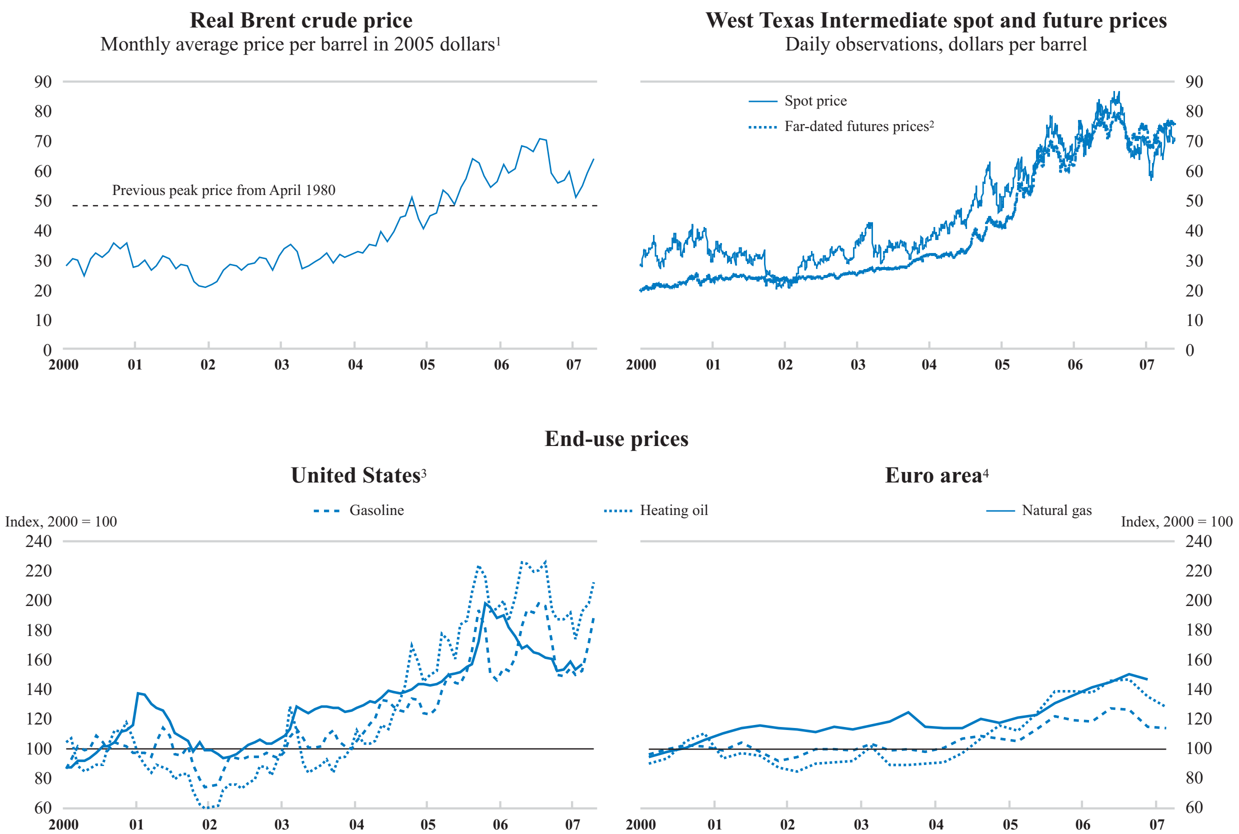
Forces acting and risks

Commodity prices remain high and volatile

Oil prices have bounced back

Prices of oil and oil products remain high after a temporary drop – largely induced by unusually warm weather conditions – at the beginning of the year (Figure 1.2), with the price for a barrel of Brent crude averaging

Figure 1.2. **Energy prices hover around high levels**



1. Deflated by the US export price deflator. Deflating by the US consumer price index would show a similar profile.
2. Far future prices refer to the New York Mercantile Exchange contract on light crude with the farthest maturity (6 to 7 years).
3. Monthly averages. For the United States, the heating oil price refers to New York harbor No. 2 heating oil spot price FOB.
4. Quarterly averages. Euro area series are estimates based on the countries for which data are available.

Source: International Energy Agency, US Energy Information Agency, Datastream and OECD Economic Outlook 81 database.

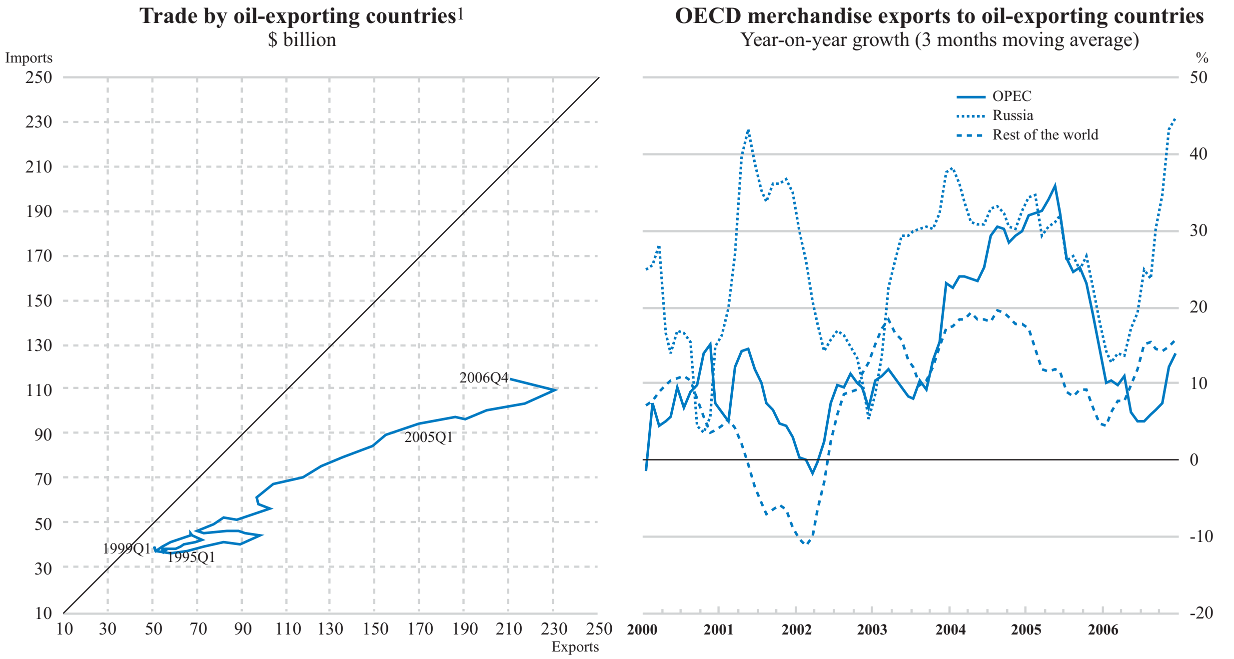
StatLink http://dx.doi.org/10.1787/033422658328

about $65 over the three months to mid-May. OPEC production cuts, offsetting modest non-OPEC additions to crude oil supply, have played an important role in shaping recent price developments, while uncertainty about growth prospects for the US economy, production outages, and the waxing and waning of geopolitical tensions have added to price volatility. The far-dated futures price has recently been following the spot price (Figure 1.2, upper right panel), suggesting that market expectations are poorly anchored. Overall, it appears unlikely that prices will fall in the near term to the much lower levels seen several years ago.

Re-spending of oil revenues is firming

Re-spending of oil export revenues, which appears to have been cautious in the past, has strengthened recently (Figure 1.3) and might well firm further as a lagged response to recent oil price hikes. Recycling of oil revenues is benefiting euro area exports in particular, given the area's relatively high share in the major oil exporters' imports.

Figure 1.3. **Re-spending of petrodollars is firming**



Note: Goods, Customs base.

1. Oil exporting countries are defined as those countries whose oil exports (net of any imports of crude oil) both represent a minimum of two thirds of their total exports and are at least equivalent to approximately 1 per cent of world exports of oil. The calculations presently used to determine which countries meet the above criteria are based on 1976-78 averages.

Sources: Datastream (IMF database) and OECD International Trade Monthly Statistics database.

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Base metal prices are still high but should decline

Prices of minerals and metals have remained at high levels, driven by buoyant demand from China and growth in world output more generally. However, at least for the most important base metals, downward sloping futures curves suggest that prices may decline over the next couple of years as supply rises in response to past spending aimed at increasing capacity.

Financial markets are supportive, but risk may be under-priced

The appetite for risk appears to be strong…

The markets for securitised debt (corporate as well as those for emerging markets), bank credit and equity remain supportive of growth. Although fundamentals are an important part of the explanation for these favourable conditions,[2] an appetite for risk among market participants appears to be a factor as well. For instance, spreads on risky bonds (corporate and those from emerging markets over US Treasuries) are close to, or at, historically low levels. In addition, OECD indicators suggest that for a range of financial assets, risk may be under-priced (Figure 1.4).[3] In equity markets, listed price-earnings ratios look to be in line with past norms, but they are somewhat out of line with measures that try to correct for the influence of the business cycle on earnings (Figure 1.5).[4]

… and well entrenched

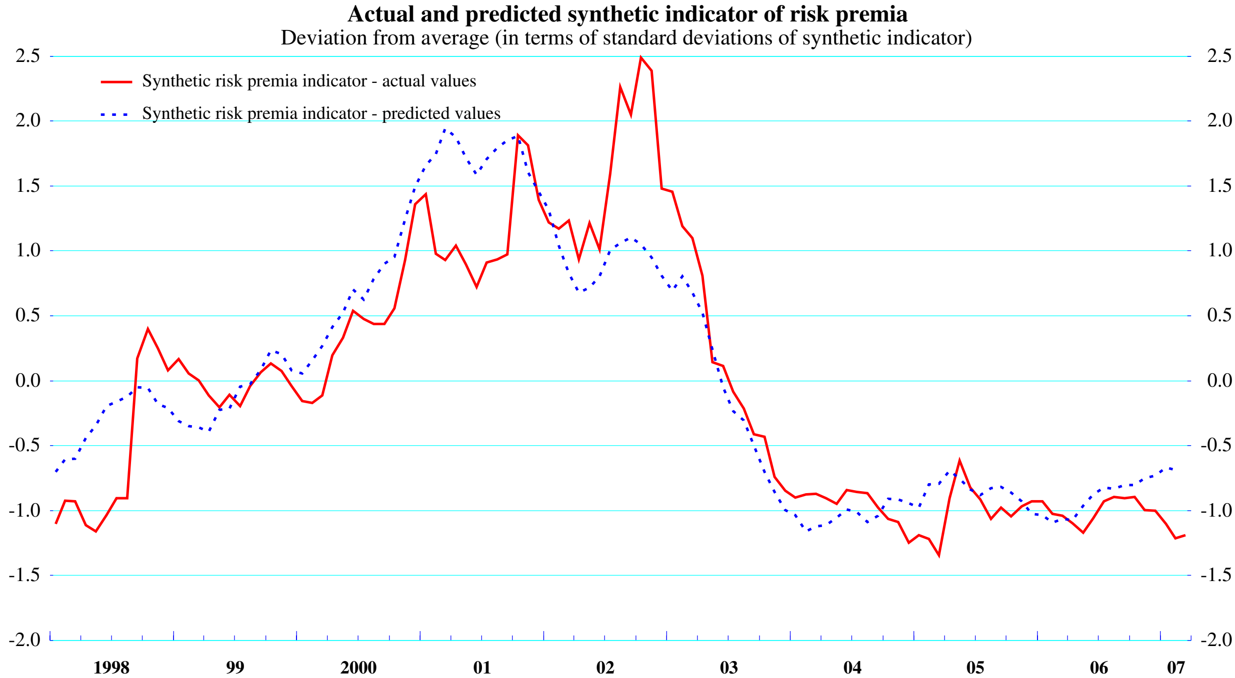
To date, this low degree of risk aversion has proven well entrenched. For example, concerns about the quality of securities backed by US sub-prime mortgages have not spread to other financial-asset classes.[5] In addition, market participants have quickly shaken off the equity-market turbulence of the Spring of 2006 and earlier this year, when global equity markets turned down sharply at the end of February in the wake of rumours about capital controls being imposed in Chinese markets. While market-based proxies for perceived risk registered some reaction during this period,[6] it was in the form of relatively small and ephemeral spikes.

Recent market volatility has been associated with the carry trade

The turmoil in global equity markets earlier this year may have been reinforced by some unwinding of the so called "global carry trade" (Box 1.1), but the extent of these disturbances was limited. The sharp sell-off in equity markets started at the end of February and was associated

2. For an explanation of the role of fundamentals in bond markets, see Ahrend, R., P. Catte and R. Price, (2006), "Factors behind low long-term interest rates", *OECD Economics Department Working Papers*, No. 490.
3. The current value of the OECD's synthetic measure of risk for a range of financial assets is below what its estimated determinants would suggest. The synthetic measure is derived from risk proxies for equities, corporate and emerging market bonds. In regression analysis, it seems to be well explained by global short-term interest rates and liquidity, corporate default rates and the OECD's leading economic indicators, a proxy for expectations of the near-term outlook for the OECD cyclical position (see OECD (2006), "The OECD Synthetic Indicator of Risk Premiums", Appendix I.2 in *OECD Economic Outlook*, No. 80).
4. The cyclically-adjusted measure is calculated as the ratio of stock prices to a ten-year moving average of earnings, adjusted for nominal trend growth. To the extent that the recent increase in profits is the result of structural features (for example, globalisation may have contributed to a decrease in the income share of labour) rather than cyclical features, the adjusted measure would tend to over-estimate the extent to which the market was richly priced.
5. This may be due to perceptions that risk is well diversified across large number of market participants, see Geithner, T. (2007), "Credit Markets Innovations and their Implications", speech to *Credit Markets Symposium*, Federal Reserve Bank of Richmond, 23 March.
6. For example, implied volatilities from options on equity prices increased during this period.

Figure 1.4. **Risk may be priced somewhat low**



Note: The synthetic measure is derived from risk proxies for equities, corporate and emerging market bonds. In regression analysis, it seems to be well explained by global short-term interest rates and liquidity, corporate default rates and the OECD s leading economic indicators, a proxy for expectations of the near term outlook for the OECD cyclical position. See OECD (2006), 'The OECD synthetic indicator of risk premiums', Appendix I.2 in OECD Economic Outlook, No. 80.
Source : OECD calculations.

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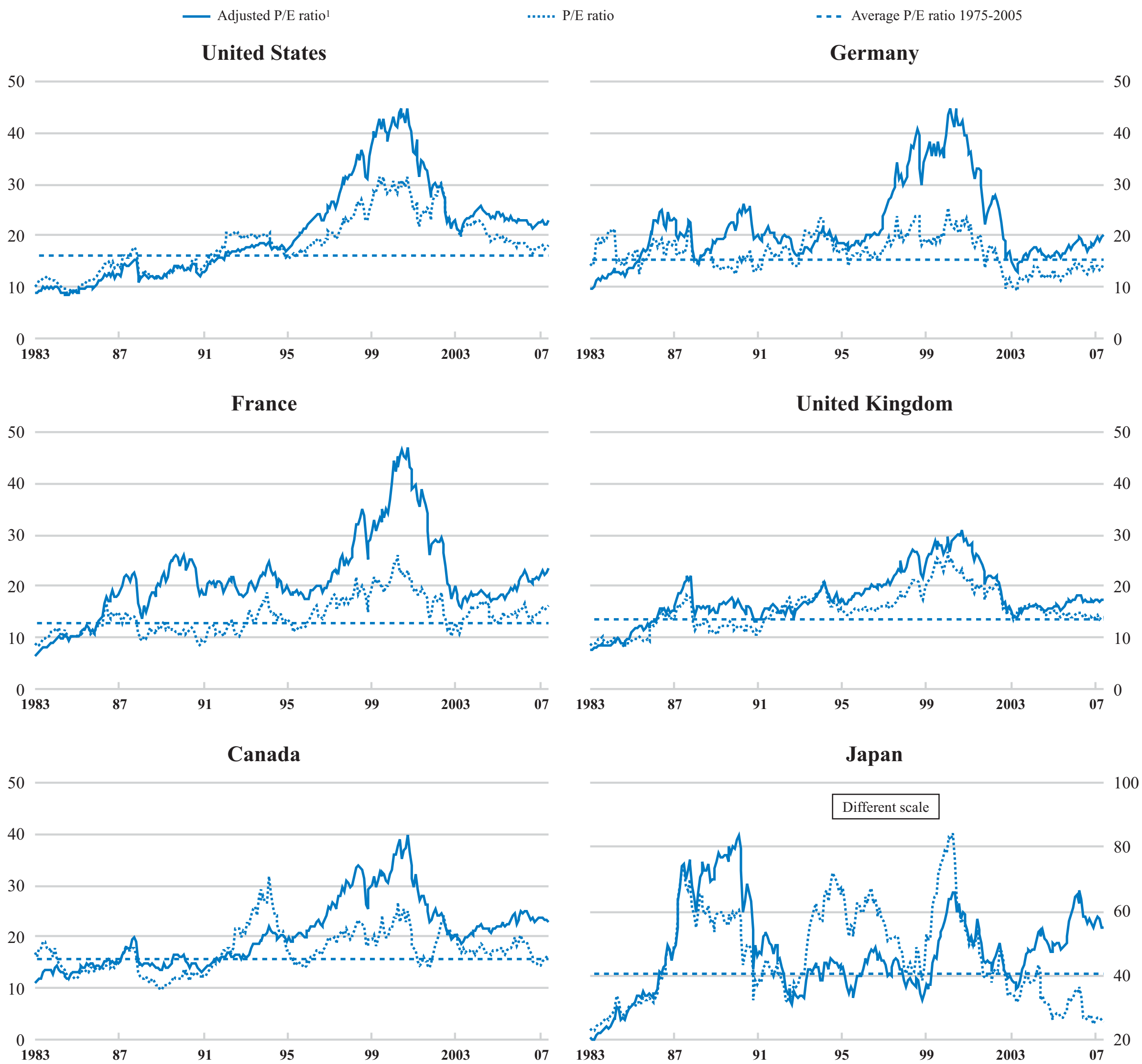
with, at least, a temporary mood of de-leveraging and risk exposure reduction. Carry-trade-funding currencies (the Japanese yen and the Swiss franc) rallied, while carry-trade-target currencies weakened. The degree of yen appreciation with respect to the US dollar, however, was quite small (at around 5% at the height of the sell-off). This stands in contrast with the situation in 1998 – in the wake of what probably was the historical height of speculative yen carry trade – when the yen appreciated by 15% within a week, and by a total of 35% within five months.

The importance of the carry trade is difficult to gauge

The exact extent of the carry trade is difficult to deduce from statistics on cross-border flows, which generally do not point to a recent upturn of outflows from Japan. Most carry trades are probably undertaken through over-the-counter derivatives markets, on which statistical evidence is rather meagre.[7] It seems, nonetheless, that derivatives markets played a role in both the upturn and subsequent unwinding of

7. Evidence on outstanding futures positions from the Commodity Futures Trading Commission, however, would indicate some upturn in yen carry trade during the months prior to the sell-off. Moreover, the fact that spreads on risky assets were very narrow would also appear to indicate that the sums involved were large. When market turbulence set in, there appears to have been a fairly substantial unwinding of such derivatives.

Figure 1.5. **Equity markets are tightly priced**



1. Adjusted P/E ratios are calculated as the ratio of stock prices to the moving average of the previous 10 years' earnings, adjusted for nominal trend growth.
Source: Datastream; OECD calculations.

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the yen carry trade at the beginning of the year. But markets seem to have had few problems coping.

Some limited re-pricing of risk looks likely

With indications that risk outside the US sub-prime mortgage markets is currently somewhat under-priced, some re-pricing cannot be excluded. Suggestive in this regard is that the growth rate in some measures of global liquidity appears to have moderated, although liquidity remains ample in level terms.[8] In addition, a modest further monetary tightening in both the euro area and later in Japan is projected

8. For a discussion of various measures of liquidity, see OECD (2006), "Gauging Liquidity Abundance", Appendix I.1 in *OECD Economic Outlook*, No. 80.

Box 1.1. **The global carry trade**

How is the carry trade defined?

An international carry trade in its most basic form means that an investor borrows a given amount in a low-interest-rate currency (the "funding" currency), converts the funds into a high-interest-rate currency (the "target" currency) and invests the resulting amount in the target currency at the higher interest rate. While the theory of uncovered interest parity suggests that engaging in the carry trade should produce a zero return in the longer term, in practice, uncovered interest parity does *not* hold in the short to medium term. Accordingly, carry-trade strategies do produce positive returns most of the time. But these gains come at the risk of exchange rates moving strongly against the open position, in which case losses may be very substantial. In recent years, the strong difference between short-term rates in countries like Japan and Switzerland compared with the United Kingdom, Australia, New Zealand or Iceland, in a context of relatively low volatility, has delivered fairly high returns to carry trade. It is worth stressing that it is not only interest rate differentials as such, but the overall appraisal of risk – largely determined by exchange rate risk– which determines the attractiveness of carry-trade strategies.

How does it work in practice?

In practice, the exact definition of an international carry trade can be somewhat blurred, depending on the type of transaction examined, but the phenomenon may essentially be defined as relating to transactions where the investor can expect to take advantage of the interest rate differential between a low and high yielding currency (the carry). This could include not just bank borrowing but also investors using their own funds, as well as non-bank borrowing (*e.g.* mortgage borrowing) in a low yielding foreign currency, as for example is a widespread phenomenon in eastern European countries in Swiss francs. It may also involve derivative strategies that replicate the original carry trade idea. Indeed, quantifying the extent of carry-trade activity comes up against the problem that only a minor part is actually performed by physically borrowing a low yielding currency and investing in a high yielding one. For large investors, derivatives offer the possibility of replicating such transactions at much lower transaction costs. To perform a carry trade between the yen and sterling, for example, it suffices to sell the yen forward against the pound. In practice, large investors often use foreign exchange swaps instead of forward contracts, as there usually is more liquidity in swap markets.

What is its size?

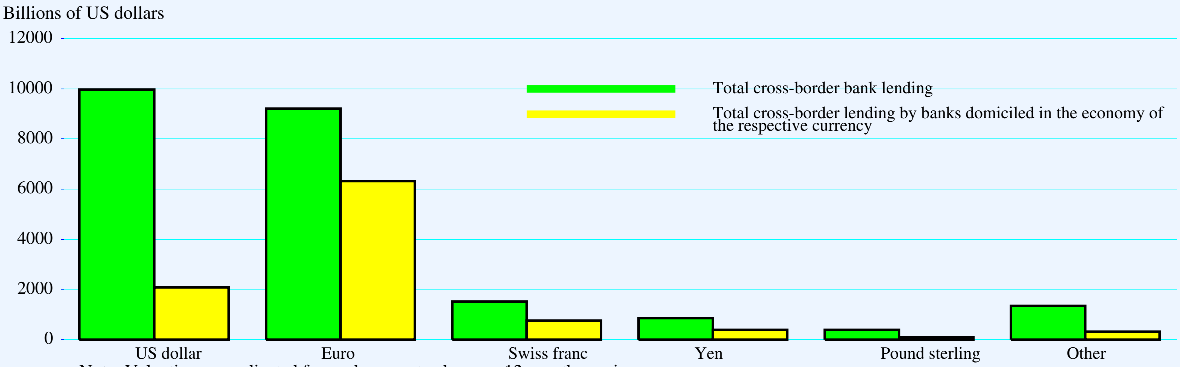
Cross-border bank lending in yen at about USD 800 billion, is fairly low compared to similar lending in euros or dollars (Figure). Moreover, in real dollar terms, yen cross-border bank lending is about a third lower than during the second half of the 90s. However, because it is to a large extent performed in derivatives markets, observed flows do not adequately measure the size of the carry trade. Derivative markets in futures, forwards and foreign exchange swaps have become very large (outstanding notional amounts with one leg in yen and Swiss franc amounted, respectively, to roughly $4 and $1 trillion, respectively in June 2006). Though positioning in them is very hard to assess (the data could include perfectly hedged positions), yen and Swiss franc futures are reported to have been at historic highs prior to the recent financial-market sell-off, roughly halving during it.[1] Outstanding yen and Swiss franc forwards and foreign exchange swaps are an order of 100 times larger than futures transactions. While there is survey evidence that fixed income funds apparently had relatively little exposure to yen carry-trade risk in early 2007, other evidence points to large short positions in yen put options (which do not constitute carry trade as such, but probably reflect insurance sold to those engaged in the carry trade), with many market participants assuming that these short positions are held by Japanese banks. The need to cover these short positions in the event of a sharp yen appreciation could strongly amplify such currency moves.

1. International Money Market data on outstanding yen futures are available on a weekly basis, but data on forwards and foreign exchange swaps are only available on a half-yearly basis (the latest available data being for June 2006). Given the available data there is no convincing evidence that in 2005 or 2006 yen-based derivatives would have experienced growth above the generally observed strong growth of derivative markets.

Box 1.1. **The global carry trade** *(cont.)*

Cross border bank lending by currency

Amounts outstanding – September 2006



Note: Valuations are adjusted for exchange rate changes; 12-month moving average.
Source: Bank for International Settlements.

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What are some of its possible effects?

Carry-trade activity can affect exchange rates, pushing down the value of funding currencies such as the yen, while putting downward pressure on interest rates and pushing up asset prices in carry trade target economies. Global liquidity can be increased to the extent that central banks follow exchange rate targets and do not fully sterilise any build up in reserves (though the carry trade is likely to be only a small contributing factor behind the build up in global liquidity). While the likely triggers for adjustment are uncertain, a large amount of outstanding carry trades implies that any shift in expectations could lead to fairly large, and potentially disruptive, exchange rate swings, with increased volatility feeding into higher interest rates and reduced liquidity. Also, countries that have seen a large build up in currency mismatch in mortgage or enterprise borrowing based on the carry trade (as in Eastern Europe) face the risk of significant disruption should their currencies depreciate. However, the fact that un-hedged leveraged positions seem to play a smaller role in the carry trade now than in 1997-98[2] could provide some cushion against the risk of large exchange rate swings, as could the fact that during the recent financial market sell-off, exchange rate impacts and known losses among financial institutions were comparatively limited. Indeed, the carry trade may reflect a dispersion of risk which has made the global system more resilient to shocks. That said, the fact that little that is known about who actually bears the risk, and the exact degree of market exposure, may also imply that a significant systemic impact could arise if a problem were to occur.

2. According to the Deutsche Bank/Russell Mellow survey, the median fund manager was significantly short in yen in 1997-98, but was long most of 2004-06, and only marginally short in early 2007.

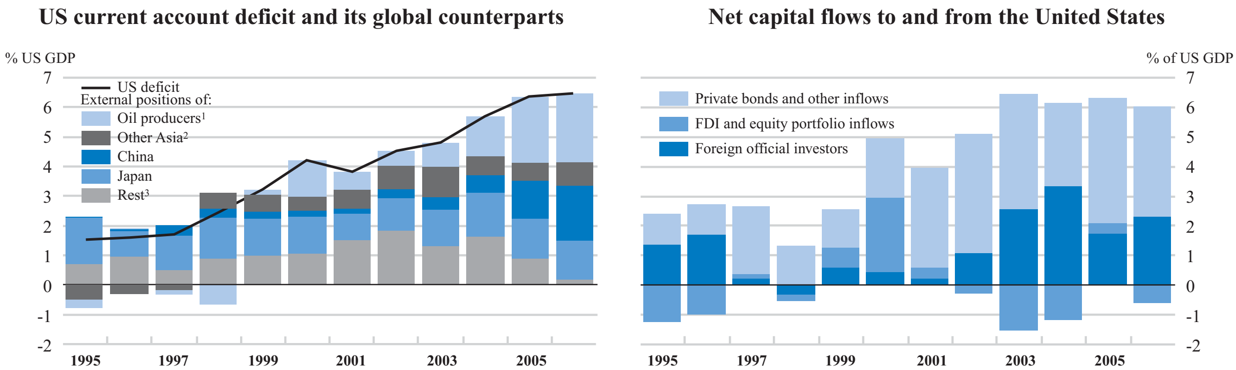
over the next 18 months. Nonetheless, provided that there is no substantial deterioration in the outlook for global growth or corporate defaults, any adjustment is unlikely to prove disruptive.

Little progress in sight, yet, in reducing global imbalances

Current account imbalances will remain…

Global imbalances remain large even if the US current account deficit fell to just below 6% of GDP at the end of 2006. It is now below what had been estimated at the time of the previous *Economic Outlook* and, with the euro area current account more or less in balance, the counterparts are to be found mainly in the oil-exporting economies, China and Japan (Figure 1.6, left panel). While some adjustments in exchange rates have occurred since 2004, they have nonetheless been modest and in some cases changes have gone in the wrong direction in terms of resolving the imbalances. In this context, recent current account developments and trends are expected to continue over the projection horizon, with the US deficit stabilising at a little over 6% of GDP, the euro area remaining close to balance while the surpluses in Japan and China continue to grow, with the surplus for the latter increasing to over 10% of GDP this year.

Figure 1.6. **The US current account counterparts and financing**



1. Africa and Middle East, Central and Eastern Europe.
2. Non-OECD Asia and Oceania, excluding China and the Middle East.
3. Includes the global current account residual.

Source: OECD Economic Outlook 81 database, International Monetary Fund and the US Bureau of Economic Analysis.

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... and are importantly financed by official flows

To date, the US current account deficit has been financed smoothly. That said, since 2002 official foreign investments, rather than private sources of finance, have accounted for over 40% of net capital inflows to the United States, in particular through the accumulation of foreign exchange reserves by Asian central banks (Figure 1.6, right panel).

The management of China's official reserve is set to change

China remains the most prominent source of such financing and, with the Chinese currency appreciating against the dollar at an annualised rate of about 5% in the six months to mid-May, a rate greater than the nominal interest received on its dollar assets, the renminbi-denominated value of these reserves has seen steady losses. Recently the Chinese government announced plans to create a special fund whose purpose is to diversify some part of its large holdings of foreign exchange, which are now predominantly in US bonds (Treasuries and asset-backed securities). At this point, the specifics of the investment strategy to be followed are not known. However, adverse public reactions in host countries in the event of high-profile large-scale equity and direct investments could pose a challenge to policies aimed at keeping markets for investment, as well as for goods and services, open.

Continuing globalisation has also facilitated the financing of imbalances

Financing the large US current account deficit entails risks, but so far they have not materialised. One reason is that the US net debtor position has remained unchanged as a per cent of GDP over the past few years. This partly reflects a favourable combination of higher yields on foreign asset holdings compared with external liabilities and large capital gains on foreign assets coupled with exchange-rate movements. The easy financing of the deficit also reflects the advantage that US financial markets enjoy as a destination for funds in terms of depth and efficiency and which is likely to persist for some time. The sustainability of the existing US current account deficit depends to an important degree on how the globalisation process evolves.[9] Rapid economic growth and financial integration increase the global pool of funds that can be invested, including in US liabilities. As a result, the share of US liabilities in global portfolios may not increase for a while yet, despite a continued large current account deficit. Indeed, this may help explain why current account imbalances have not yet receded markedly. Against this, the share of portfolios that investors would wish to hold in US liabilities should diminish as the US economy is set to decline as a share of the world economy. At the end of the day current account adjustment is therefore unavoidable.

Housing markets remain a risk in many countries

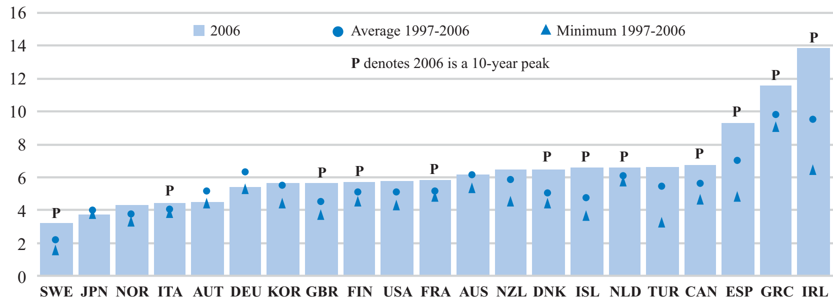
Housing investment is high in many countries

For half of all OECD countries, many of which are in Europe, the share of housing investment in GDP in 2006 was at a ten-year high (Figure 1.7).[10] Booms in housing investment have been an important source of increased employment, with the construction sector having accounted for more than one-fifth of all employment gains in the United States, France, Spain, Denmark, Norway, Sweden, Ireland and Greece since 2000. Some slackening in the pace of housing investment is likely in many OECD countries and may contribute to a cooling down of some fast-growing economies. There is always the risk, nonetheless, that it takes the form of a pronounced slump with, possibly, substantial knock-on effects to activity in the rest of the economy.

9. See Hervé, K., I. Koske, N. Pain and F. Sédillot (2007), "Globalisation and the Macroeconomic Policy Environment", *OECD Economics Department Working Papers*, No. 552.
10. Those countries for which the share of housing investment in GDP is particularly high both relative to historical and international norms – namely Spain, Ireland and Greece – are all countries where rapid population growth, especially from immigration, has been a driving factor. In Greece, an additional factor has been a surge in building permits in 2005 prior to the introduction of new tax measures. In Spain, a slowdown in residential construction appears to be underway as indicated by a fall in the number of new building permits. Fears of the fall-out from such a downturn have led to a sharp drop in stock prices for many firms in the sector. In Ireland, the housing market has also begun to cool with a sharp fall in housing investment and planning applications at the end of 2006. An additional factor which has certainly reduced housing turnover is expectations of a future cut in stamp duty.

Figure 1.7. **Housing investment is at ten-year highs in many countries**

Per cent of GDP



Source: OECD Economic Outlook 81 database and OECD Quarterly National Accounts.

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Previous cycles in housing investment may not be a reliable guide

Past housing investment booms have often been followed by sharp reversals and often with wider downturns in activity.[11] However, this is not necessarily a reliable guide to the evolution of the current situation, because many of these reversals were preceded by a rapid ratcheting up of short-term interest rates, often as a belated response to a substantial and unanticipated pick-up in inflation. Among OECD countries, around two-thirds of past episodes of a sharp downturn in housing investment (defined as a fall in the share of housing investment in GDP of at least 1½ percentage points over two years) were preceded by a rise in short-term interest rates of at least 250 basis points during the previous 18 months. In the current conjuncture, monetary tightening has been more gradual in comparison and has been accompanied by continued low long-term interest rates.[12]

Consumption would be vulnerable if real house prices fell

A downturn in the housing market could have a much larger impact on economic activity if it reduced consumption via wealth related effects.[13] However, house prices (and hence household wealth) are still increasing in most countries (Table 1.4).[14] While in itself that may seem to

11. Analysis of past downturns in housing investment across OECD countries following a housing boom (where a "boom" is defined as a rise in real housing investment *per capita* of at least 15% over the previous five years), suggests that there has rarely been a subsequent soft landing in housing investment, a soft landing being defined as a decline in per capita residential investment of less than one-third of the increase in the boom years. Further details of the analysis are reported in OECD (2006), *Economic Survey of Ireland*.
12. By the same token, the risk of sharp corrections in housing markets would be heightened if there was to be a significant increase in long-term interest rates.
13. See Catte, P., N. Girouard, R. Price and C. André (2004), "Housing Markets, Wealth and the Business Cycle", *OECD Economics Department Working Papers*, No. 394.
14. In some countries, the rate of increase of house prices has been slackening (the United States, France, Spain, Denmark, Finland, and New Zealand). For the United States the most widely monitored house price index from the Office of Federal Housing Enterprise Oversight (OFHEO) was up 4% over the year to the last quarter of 2006, although the S&P Case-Schiller home-price index (20-city composite), which is more representative of houses purchased under different types of mortgage (including less conventional ones), has decelerated more rapidly, declining by 1% in the 12 months to February.

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Table 1.4. **Recent house price developments**

	Per cent annual rate of change			Level relative to long-term average[1]	
	2000-2006	**2005 [2]**	**2006 [2]**	**Price-to-rent ratio**	**Price-to-income ratio**
United States	6.3	9.1	3.8	136	119
Japan	-4.3	-3.3	-3.4	69	67
Germany	-2.4	-1.8	-0.6	73	67
France	9.5	12.7	9.0	160	145
Italy	6.0	4.5	4.3	128	113
United Kingdom	8.8	0.1	6.2	165	145
Canada	6.7	8.2	8.5	182	130
Australia	7.1	-0.5	5.4	172	145
Denmark	7.7	20.4	12.3	169	150
Spain	11.2	10.2	5.7	205	162
Finland	4.7	8.9	6.6	154	106
Ireland	7.9	11.1	10.9	183	155
Netherlands	3.6	3.1	2.5	160	168
Norway	5.5	6.1	13.9	164	133
New Zealand	9.2	11.8	6.7	161	159
Sweden	6.7	9.2	9.0	163	121
Switzerland	1.7	0.2	1.3	84	79
Euro area[3,4]	4.7	5.3	4.1	132	117
Total of above countries[4]	4.5	5.5	3.4	130	114

1. Long-term average = 100, final quarter of 2006 or latest available.
2. Increase in final quarter (or latest available one) over a year earlier.
3. Germany, France, Italy, Spain. Finland, Ireland and the Netherlands.
4. Using 2000 GDP weights.

Source: Various national sources, see table A.1 in Girouard, N., M. Kennedy, P. van den Noord and C. André, "Recent house price developments: the role of fundamentals", *OECD Economics Department Working Papers,* No. 475, 2006.

StatLink http://dx.doi.org/10.1787/035716442654

have increased the risk of a future correction, most previous historical episodes in which there has been a sharp fall in house prices were again preceded by a rapid and substantial increase in short-term interest rates, which seems unlikely in the current conjuncture.[15] The limited degree of future monetary tightening also means that any impact on consumption, through reducing the amount of discretionary disposable income available to homeowners as more is absorbed in higher mortgage payments, is also likely to be small.[16]

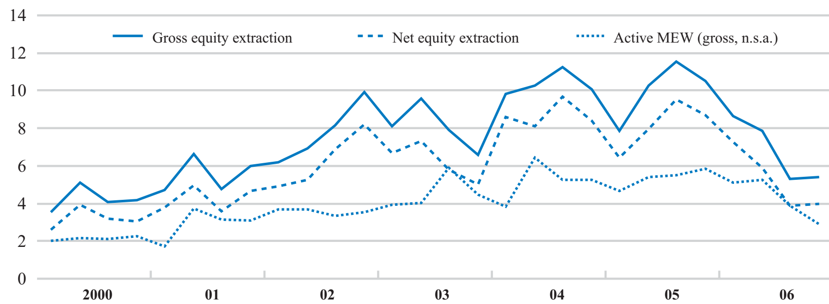
15. Of the episodes of major downturns in real house prices across OECD countries identified by Girouard, N., M. Kennedy, P. van den Noord, and C. André (2006), "Recent House Price Developments: The Role of Fundamentals", OECD Economics Department Working Papers, No. 475, nearly two-thirds were preceded by an increase in nominal short term interest rates of at least 250 basis points over the preceding 18 months.
16. Such a transmission mechanism will operate more strongly in those countries – notably the United Kingdom, Italy, Australia, Finland, Ireland and Spain – where variable-rate mortgages are more common, although this distinction is becoming less clear-cut given that the flexibility of mortgage markets in several countries has allowed households to switch the form of their mortgage relatively easily.

The link from mortgage equity withdrawal to consumption is complex

An alternative transmission mechanism from housing to consumption is *via* mortgage equity withdrawal (MEW) which allows homeowners in some countries to borrow at more favourable rates than would otherwise be available to them.[17] In the United States, MEW has turned down sharply (Figure 1.8). There is, however, some uncertainty about how large the effect of MEW on consumption can be.[18] A possibly important distinction can be drawn between "active" and "passive" MEW, where the former is composed of cash-out refinancing and home equity borrowing which are discretionary actions to extract home equity, whereas the latter is the equity released during housing turnover. The active component has made up about half of total MEW in recent years and there is some evidence to suggest a significant effect on consumption from this component of MEW.[19] If the distinction between active and passive MEW is important it might help to explain why consumption has so far remained strong, given that the decline in the active component of MEW has lagged and been smaller than the decline in the passive component.

Figure 1.8. **US mortgage equity withdrawal**

Per cent of disposable income (seasonally adjusted unless otherwise specified)



1. Active mortgage equity withdrawal (MEW) consists of cash-out refinancing and home equity borrowing. The other component of MEW (passive MEW) reqults from home turnover. Net equity extraction substracts costs related to the extraction of home equity from gross equity extraction.

Source: Updated estimates provided by J. Kennedy of the mortgage system presented in "Estimates of Home Mortgage Originations, Repayments, and Debt On One-to-Four-Family Residences", Alan Greenspan and James Kennedy, Federal Reserve Board FEDS working paper No. 2005-41 and OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050018214426

17. Mortgage equity withdrawal has been particularly important in Australia, Canada, Netherlands, the United Kingdom and the United States, see Catte *et al.* (2004), *op. cit.*
18. A number of researchers find much larger and quicker effects from MEW on consumption than from conventional wealth effects. However, a possible reason for such empirical findings is that both MEW and consumption are driven by common explanatory factors. Also, MEW may often be a substitute for other types of credit, so that it is used to pay down more expensive consumer debt or to make purchases that would otherwise have been financed by costlier credit.
19. A survey by the Federal Reserve conducted during 2001 and early 2002, suggests that consumers used 16% of the equity extracted through cash-out re-financing for consumer expenditures and 35% for home improvements while they used the remainder to repay other debts, to make other investments, or to pay taxes (Federal Reserve Bulletin, 2002, December). A similar study done by Fannie Mae Economics showed that consumers used 60% of funds liquidated through cash-out refinancing in 2001 for either home improvements or other consumer expenditures (Fannie Mae (2003), Economic and Mortgage Market Developments, January).

Recent mortgage market developments may have increased vulnerability

A downturn in the housing market might lead to a more generalised downturn in activity through distress in mortgage markets spilling over into other financial markets. To date, there have been few signs at the aggregate level across OECD countries that households are having trouble meeting mortgage repayments. A commonly used indicator of debt-repayment ability, the delinquency rate, shows that arrears on housing loans held by banks have been generally trending down or have remained quite low relative to the average of the past decade.[20]

Developments in mortgage markets potentially raise risks

For the outlook an important issue is the extent to which recent developments in mortgage markets may have increased the vulnerability of some households to recent and further monetary tightening. Several banks and other private financial institutions have recently specialised in offering non-conventional housing loans which are likely to appeal more to consumers with low credit ratings who may find it difficult to obtain finance from traditional sources. The so-called sub-prime market, loosely defined as being for borrowers with a poor or no credit history or whose income is particularly uncertain or poorly documented, has seen rapid growth in a number of OECD countries, but the scale of the market in the United States is much larger than elsewhere (Box 1.2).

Distress in the US sub-prime mortgage market has so far been contained

A feature of the current US housing market downturn has been the emergence of problems in the sub-prime mortgage lending sector, although thus far such problems appear well contained. Moreover, at present it seems likely that the macroeconomic impact of any further fall-out from these developments will be small.[21] Nevertheless, such judgements can not easily be informed by previous experience, so the potential negative spill-over to the housing market and economy more generally remain a risk factor going forward.

Solid growth ahead

OECD economies are sustaining their expansion overall

Growth over the next 18 months across the major OECD regions is projected to converge towards respective potential rates, with little if any stimulus expected to stem from monetary and fiscal policies (Box 1.3). In the United States, business expectations stand at about their long-term average and consumer confidence, while having retreated somewhat in recent months, is above its low of summer 2006. In the euro area and Japan business expectations continue to be upbeat, and consumer

20. The credit delinquency rate typically refers to loans that are in repayment arrears for at least three months, although there are some cross-country differences in how such loans are defined. See OECD (2006), "Has the Rise in Debt Made Households More Vulnerable?", Chapter III in *OECD Economic Outlook*, No. 80, for further discussion.
21. Further adjustment in the US sub-prime mortgage market are in the offing: forced sales from repossessions are likely to add to the supply overhang and depress house prices; higher sub-prime mortgage rates will further reduce house buying; the availability of credit in the regular mortgage market could become more constrained; and spending by owners of securities backing sub-prime lending may be reduced.

Box 1.2. Recent developments in sub-prime mortgage markets

Sub-prime loans are those made to borrowers with poor credit ratings, which might include those with low incomes, previous payment defaults, a previous loan foreclosure or bankruptcy. Given their higher risk of default sub-prime borrowers are charged higher interest rates than prime borrowers. A related, but distinct, category of borrowers are those whose income is poorly documented or highly uncertain (including many self-employed).

The development of sub-prime mortgage markets in a number of OECD countries is welcome because it eases liquidity constraints and creates homeownership opportunities for previously under-served borrowers. However, the recent marked increase in problem loans in this segment of the mortgage market in the United States has led to concerns that as the housing boom has progressed borrowing standards may have become increasingly imprudent.

Recent problems in the US sub-prime mortgage market

The sub-prime mortgage market has grown rapidly in the United States since 2003, accounting for about 14% of the total value of the mortgage market at the end of 2006 and about one-fifth of all new mortgages originated during 2006. In addition to the sub-prime market the so-called "Alt-A" mortgage market has also experienced considerable growth. Alt-A borrowers typically have stronger credit histories, but often have irregular or poorly documented income, including, for example, many self-employed. Over two-thirds of sub-prime loans have variable rates, compared to around one-third in the prime mortgage market. In addition many sub-prime loans incorporate unusual features such as a "teaser" component whereby the initial rate paid over the first year or two is relatively low with the rate then subsequently adjusted in line with market rates.[1]

The rapid growth in sub-prime and Alt-A lending is partly a reflection of strong competition among financial institutions which has led to a progressive relaxation of lending standards. Lenders have been able to finance much of the lending though the securitisation market, with a large share of sub-prime loans being re-packaged as residential mortgage-backed securities (RMBS) and sold to investors attracted by the high returns.

As house prices have slowed, mortgage rates have risen and introductory teaser rates have expired, there has been a sharp increase in the delinquency rate among variable rate sub-prime borrowers, rising from around 6% in mid-2005 to nearly 12% in early 2007. Also, "juvenile defaults" of sub-prime variable-rate loans originated in 2005 and especially 2006 are well above comparable levels for previous years, and while they are similar to levels for loans originated in 2001, on that occasion the deterioration was driven by a pronounced downturn in activity and rising unemployment. As introductory teaser rates continue to expire, it not being uncommon for payments for some sub-prime borrowers to increase by more than 50%, the delinquency rate is expected to increase further. With rising default risk, spreads on sub-prime mortgage backed securities have also increased sharply.

So far, however, the problems in the variable rate sub-prime market have remained well contained; the delinquency rate on sub-prime fixed mortgages has increased very little and that on prime mortgages not at all. Indeed, prime mortgage rates in the United States remain low by historical standards and the spread between prime mortgage rates and Treasury bonds has been stable. Moreover, as yet there has been no sign of any upturn in the delinquency rates in other forms of consumer credit; delinquency rates on credit card loan, non-revolving consumer loans at banks, auto loans at captive finance companies are all either close to, or below, ten-year averages.

1. Other unusual features of both prime and sub-prime mortgages have included "balloon" loans where only interest was due for a number for years, to be followed by a big lump-sum payment; "liar" loans which only required the borrower to state his annual income without need for any proof; "option" ARMs (adjustable rate mortgages) where the borrower could chose to pay less than his normal monthly installment, with the missing part simply added to the outstanding amount; and "piggyback" loans where a combination of two loans bypassed the need for a down-payment. One lender apparently even proposed "NINJA" loans (NINJA standing for "No Income, No Job and No Assets").

Box 1.2. **Recent developments in sub-prime mortgage markets** *(cont.)*

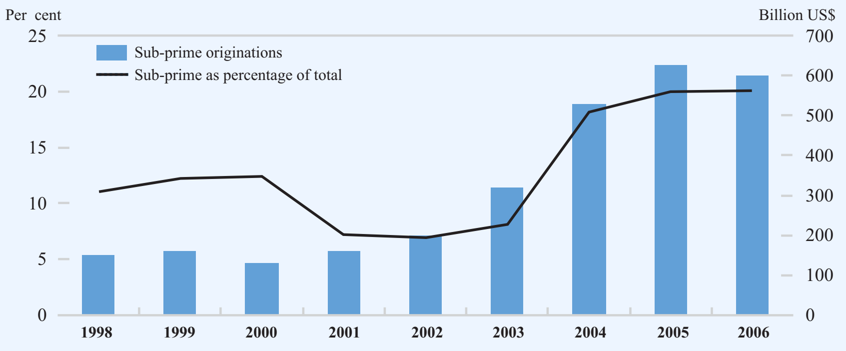
The increased delinquency rate has led to problems for many sub-prime lenders. Some have been forced to re-purchase loans that they had earlier sold because of complex contractual obligations attached to early default, and many are having difficulty renewing their own lines of credit. Almost three dozen sub-prime lenders have gone bankrupt or been sold in recent months. On average the share price of the largest sub-prime lenders has roughly halved between mid-2006 and early 2007. There has been some spillover into other financial stocks, in particular those investment banks exposed to the sub-prime market either through their operations in the market for residential mortgage-backed securities or because they have provided credit lines to sub-prime borrowers.

Developments in sub-prime mortgage markets in other OECD countries

In other OECD countries where there has recently been rapid growth in the sub-prime mortgage market – notably Australia, Canada and the United Kingdom – the overall size of the market remains smaller, and the characteristics of the loans appear less risky than in the United States, with macroeconomic risk correspondingly smaller.

- In the United Kingdom, sub-prime loans are estimated at 5 to 10% of gross lending in 2006 and the Financial Services Authority has expressed concern over lending standards.[2] However, one important feature which will limit the future risk of default is that a much higher share of sub-prime loans are based on fixed rather than variable rates compared to the regular mortgage market.
- In Canada, sub-prime mortgage products are estimated to be less than 5% of total outstanding mortgage loans, and mainly focused on borrowers with a good credit history, but limited documentation regarding their income or employment. While delinquency rates have risen, they remain at levels of the order of only 1%.
- In Australia, "non-conforming loans" to credit-impaired borrowers were less than 2% of loan approvals in 2005 and, although there has been an increase in the delinquency rate on such loans, up from about 2% at the beginning of 2004 to about 5¼ per cent at the end of 2006, this rate has showed no tendency to increase through 2006.

Sub-prime mortgage market



Source: Inside B&C Lending; Inside Mortgage Finance Mortgage Backed Securities Database.

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2. Writing "... overall, there were too many cases where firms were unable to show that they had followed the required procedures relating to suitability when advising on these mortgage contracts ... in 60% of cases, insufficient information was obtained about the customer in key areas relating to the sale of sub-prime products; in 80% of cases, there was lack of evidence to show how the recommended sub-prime product met the customer's needs and circumstances" (Financial Services Authority (2005), "FSA Finds Mixed Picture on Sub-Prime Mortgage Compliance", Press release, 6 September, FSA/PN/095/2005).

Box 1.3. **Policy and other assumptions underlying the projections**

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

For the United States, the projections assume that tax cuts that are due to expire are instead extended and that the Alternative Minimum Tax is indexed, while outlays grow in line with GDP (driven by rising defence expenditures). On the basis of these assumptions the general government deficit is projected to rise to almost 3% of GDP over the projection period.

In Japan, fiscal consolidation is taken to be accomplished as announced largely through spending restraint achieved *via* further cuts in public investment and a reduction in the number of government employees. In addition, the abolition of the temporary personal income tax cut introduced in 1999 and a hike in the pension contribution rate will raise government revenue in 2007 by about ½ per cent of GDP.

In the euro area, budgets for 2007 incorporate a small amount of fiscal consolidation with most of the deficit reduction from 1½ per cent of GDP in 2006 to ¾ per cent in 2008 due to cyclical factors. In Germany a cut in the corporate tax rate in 2008 as well as a set of partially counterbalancing measures is built into the projection.

Policy-controlled interest rates are set in line with the stated objectives of the relevant monetary authorities, conditional upon the OECD projections of activity and inflation, which may differ from those of the monetary authorities. The interest-rate profile is thus not to be interpreted as a projection of central bank intentions or market expectations thereof:

In the United States, the Federal Reserve is assumed to leave the target federal funds rate at 5¼ per cent until the end of 2007. As core inflation subsides and unemployment rises over the projection period, two 25 basis point reductions are assumed to occur, bringing the policy rate to 4¾ per cent by the end of 2008.

In the euro area, the expansion is expected to continue at a healthy pace in 2007, with the output gap being eliminated by 2008. In the face of some upside risk to inflation, the main refinancing rate is assumed to be raised in two 25 basis-point steps this year, bringing the rate to 4¼ per cent.

In Japan, the short-term policy interest rate is assumed to remain on hold at ½ per cent until a 25 basis point hike in the second half of 2008.

The projections assume unchanged exchange rates from those prevailing on 9 May 2007, at one US dollar equal to ¥ 119.72 and € 0.74 (or equivalently, one euro equals $1.35). For Turkey, the exchange rate is assumed to depreciate in line with the projected inflation differential *vis-à-vis* the United States.

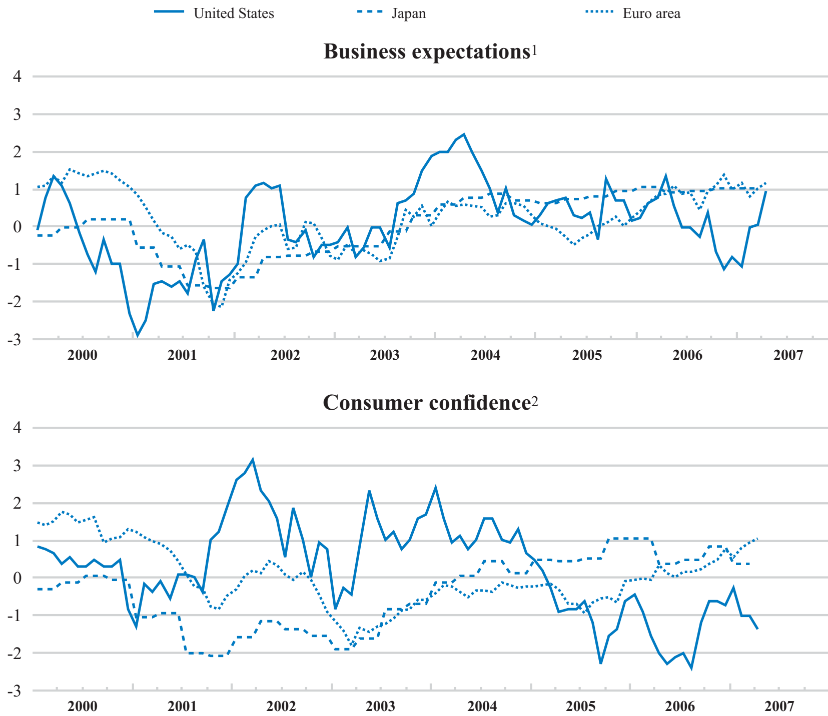
Oil prices have been volatile since the previous *Economic Outlook* was published and have averaged roughly $65 per barrel (Brent crude) over the three months to mid-May. As a working hypothesis, the price of Brent crude is assumed to remain constant at $65 per barrel on average from the second quarter of 2007 to the end of the projection period. Non-oil commodity prices have continued to rise strongly into 2007. However, commodity price inflation should ease over the projection period in response to increased supplies.

The cut-off date for information used in the projections is 15 May 2007. Specifically, in the case of France the GDP data shown do not reflect the revisions to historical series entailed by the recent shift to chain-linking. Details of assumptions for other countries are provided in "Developments in individual OECD countries and selected non-member economies".

confidence well exceeds long-term averages (Figure 1.9). According to the OECD indicator models – which translate conjunctural data into point estimates for growth one or two quarters ahead[22] – after a temporary lull

22. See Sédillot, F. and N. Pain (2005), "Indicator Models for Real GDP Growth in the Major Economies", *OECD Economic Studies*, No. 40; and Mourougane, A. (2006), "Forecasting Monthly GDP Data for Canada", *OECD Economics Department Working Papers*, No. 515.

Figure 1.9. **Confidence points to solid expansion**



Note: All series have been normalised at the average for the period starting in 1985 and are presented in units of standard deviation. Monthly data, seasonally adjusted except Japan (quarterly, s.a.).

1. USA: Purchasing Management Index: Production Tendency (Institute for Supply Management); Japan: Business Survey (manufacturing): Prospect; Euro area: Business Survey (manufacturing): Future Production Tendency.
2. USA: Consumer Confidence Survey – Expected Economic Situation (University of Michigan), Japan: Consumer Confidence Index, Euro area: Consumer Opinion Surveys – Expected Economic Situation.

Source: OECD *Main Economic Indicators*.

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in the first quarter, the major seven economies as a group are growing at an annual rate of around 2¾ per cent in the second quarter of 2007 (Table 1.5). These models suggest that GDP is advancing at about its potential rate in the United States, although this may not fully reflect the drag from the housing market, whereas growth is slightly above the potential rate in Japan and visibly above in the euro area.

Activity in the US is projected to firm gradually…

In the United States growth is projected to remain below trend into 2008, weighed down by the ongoing adjustment in the housing sector. Trend growth is estimated to stay at about 2¾ per cent, with recent weak productivity growth reflecting cyclical factors rather than a deterioration in the underlying trend. Nevertheless, given the relatively weak performance of business investment, future labour productivity gains will rely more on improvements in total factor productivity and less on capital deepening. The contraction in residential investment is projected to continue for some time before flattening out in 2008, when inventories of unsold homes will have been reduced to more sustainable levels (Table 1.6). Consumption growth is also likely to ease from the growth rates in 2005-06, as the unemployment rate drifts up in response to weaker activity, so raising the household saving ratio towards a more

Table 1.5. **Growth remains robust**

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

	Outcomes				Estimates	
	2006Q1	**20O6Q2**	**2006Q3**	**2006Q4**	**2007Q1**	**2007Q2**
United States	1.4	0.6	0.5	0.6	0.3	0.7 (+/- 0.5)
Japan	0.8	0.3	0.1	1.2	0.6	0.5 (+/- 0.5)
Euro area	0.8	1.0	0.6	0.9	0.6	0.7 (+/- 0.3)
Germany	0.8	1.2	0.8	1.0	0.5	0.7 (+/- 0.5)
France	0.7	0.9	0.1	0.5	0.5	0.7 (+/- 0.4)
Italy	0.8	0.6	0.3	1.1	0.2	0.5 (+/- 0.4)
United Kingdom	0.8	0.8	0.7	0.7	0.7	0.7 (+/- 0.3)
Canada	0.9	0.5	0.5	0.4	0.9 (+/- 0.1)	0.9 (+/- 0.5)
Major 7 countries	1.1	0.6	0.4	0.8	0.4 (+/- 0.0)	0.7 (+/- 0.4)

1. Based on GDP releases and high-frequency indicators published by May 16 2007. Seasonally and in some cases also working-day adjusted. Aggregations for the G7 use 2000 purchasing power parity weights. Associated ±1 standard error ranges are in parentheses

Source: OECD Economic Outlook 81 database.

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Table 1.6. **Rebalancing of demand is under way**

Contributions to GDP growth, per cent of GDP in previous period [1]

	2004	**2005**	**2006**	**2007**	**2008**
United States					
Final domestic demand	4.2	3.8	3.1	2.0	2.4
of which: Business investment	0.6	0.7	0.8	0.3	0.5
Residential investment	0.5	0.4	-0.2	-0.8	-0.1
Private consumption	2.7	2.5	2.3	2.2	1.7
Stockbuilding	0.4	-0.3	0.2	-0.2	0.0
Net exports	-0.6	-0.2	0.0	0.3	0.0
GDP	3.9	3.2	3.3	2.1	2.5
Japan					
Final domestic demand	1.6	1.7	1.3	1.7	1.4
of which: Business investment	0.8	1.0	1.2	0.9	0.5
Residential investment	0.1	0.0	0.0	0.0	0.0
Private consumption	0.9	0.9	0.5	0.8	0.8
Stockbuilding	0.3	-0.1	0.1	-0.1	0.0
Net exports	0.8	0.3	0.8	0.8	0.6
GDP	2.7	1.9	2.2	2.4	2.1
Euro area					
Final domestic demand	1.5	1.7	2.6	2.4	2.3
of which: Business investment	0.3	0.4	0.7	0.7	0.5
Residential investment	0.1	0.1	0.3	0.2	0.1
Private consumption	0.8	0.9	1.1	1.1	1.3
Stockbuilding	0.2	0.1	0.0	0.1	0.0
Net exports	0.1	-0.3	0.3	0.3	0.0
GDP	1.8	1.5	2.8	2.7	2.3
OECD					
Final domestic demand	3.1	3.0	3.1	2.5	2.5
of which: Business investment	0.5	0.7	0.8	0.6	0.5
Residential investment	0.3	0.2	0.0	-0.2	0.0
Private consumption	1.9	1.8	1.7	1.7	1.6
Stockbuilding	0.3	-0.2	0.0	-0.1	0.0
Net exports	-0.2	-0.2	0.1	0.3	0.1
GDP	3.2	2.6	3.2	2.7	2.7

1. Chain-linked calculation for stockbuilding and net exports in USA and Japan.

Source: OECD Economic Outlook 81 database.

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sustainable level. With the adjustment to housing investment complete, overall GDP growth is projected to return to a rate near potential during 2008. Strong external demand will also support GDP growth and, coupled with slower demand at home, is likely to stabilise the current account deficit at a little over 6% of GDP (Table 1.7).

Table 1.7. **Robust world trade growth and large external imbalances**

	2004	2005	2006	2007	2008
	Percentage change from previous period				
Goods and services trade volume					
World trade[1]	10.8	7.7	9.6	7.5	8.3
of which: OECD	8.6	6.0	8.4	5.4	6.7
NAFTA	9.7	6.2	6.9	3.7	5.5
OECD Asia-Pacific	12.8	6.8	8.4	6.9	8.6
OECD Europe	7.0	5.7	9.1	5.9	6.8
Non-OECD Asia	18.0	12.1	12.9	12.2	12.0
Other non-OECD	12.8	10.4	10.9	10.9	10.3
OECD exports	8.5	5.8	8.9	6.1	7.1
OECD imports	8.8	6.3	7.8	4.7	6.3
Trade prices[2]					
OECD exports	9.0	3.5	3.3	5.9	1.6
OECD imports	9.0	4.9	4.7	5.3	1.9
Non-OECD exports	10.5	9.5	6.4	3.5	2.3
Non-OECD imports	8.6	5.3	6.4	4.1	2.1
Current account balances	Per cent of GDP				
United States	-5.7	-6.4	-6.5	-6.1	-6.2
Japan	3.7	3.7	3.9	4.8	5.4
Euro area	1.1	0.3	0.1	0.4	0.4
OECD	-1.1	-1.6	-1.9	-1.5	-1.5
	$ billion				
United States	-665	-792	-857	-842	-905
Japan	173	166	171	208	241
Euro area	109	32	8	50	47
OECD	-354	-564	-688	-609	-626
Non-OECD	326	552	712	708	724
World	-29	-12	24	99	98

Note: Regional aggregates include intra-regional trade.

1. Growth rates of the arithmetic average of import volumes and export volumes.
2. Average unit values in dollars.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/036021445522

… while growth above the potential rate continues in the euro area…

For the euro area, strong growth is projected to be ongoing through 2007, exceeding the potential rate by about ½ percentage point. Robust domestic demand should continue to underpin the expansion while external trade should also stimulate activity. Private consumption is projected to play an increasing role as households benefit from rising disposable incomes and further improvements in labour market conditions. Growth is likely to ease somewhat in 2008 with the effect of monetary tightening weighing on activity. This should be reflected in a slowing of business investment, and particularly in housing investment.

… as well as in Japan

In Japan, GDP continues to grow at rates of around 2% through 2007 and 2008, about ½ percentage point above the estimated potential growth rate. While exports are likely to decelerate, reflecting some easing in demand from China and South-East Asian economies, Japan's current account surplus is expected to go on rising. Business investment is projected to continue growing at a faster rate than output; however, it is at an internationally high level relative to trend growth and likely to decelerate to a more sustainable pace. Private consumption may only gradually strengthen, reflecting sluggish real wage growth. But real wages should eventually pick up as labour markets are projected to tighten further.

Developments elsewhere are generally positive

In the United Kingdom, growth is expected to remain close to its potential rate of about 2½ to 2¾ per cent, underpinned by buoyant investment and solid export growth. In Canada, activity is projected to re-accelerate quickly to around the potential growth rate as the recent period of de-stocking comes to an end, export demand from the United States strengthens and Canada's own slump in residential construction bottoms out. Most Nordic countries look set to grow above the euro area average, although the pace of activity is likely to slow towards potential, following several years of above-trend growth. For most OECD countries which recently joined the European Union, buoyant activity is projected to continue, based on double-digit export growth and strong domestic demand.

Emerging markets will continue to grow strongly

The Chinese economy is likely to continue to grow at rates above 10% over the next two years, only marginally below the growth rate seen in 2006. While domestic demand is projected to accelerate, exports will remain buoyant and China's trade surplus is expected to widen further, worsening global current account imbalances. In India, tighter monetary and fiscal policies are likely to result in a moderate slowing of GDP growth, to 8% in 2008, while exports are expected to continue growing at double digit rates. Economic activity in Russia is also set to moderate somewhat over the next couple of years as the positive impulse stemming from terms-of-trade improvement is dissipating. In contrast, strengthening domestic demand in Brazil is likely to result in overall activity continuing to accelerate.

Non-OECD Asia continues as the main driver of world trade

The large emerging market economies, in particular in Asia, will remain major drivers of world trade. World trade is expected to keep up a strong momentum, while moderating slightly towards trend growth rates seen over the past decade.

Challenges for macroeconomic policy

Monetary policy: counter-acting threats to price stability

Monetary policy settings are converging

The setting of monetary policy rates across the main OECD regions is converging as cyclical differences narrow, although Japan remains an outlier (Figure 1.10).

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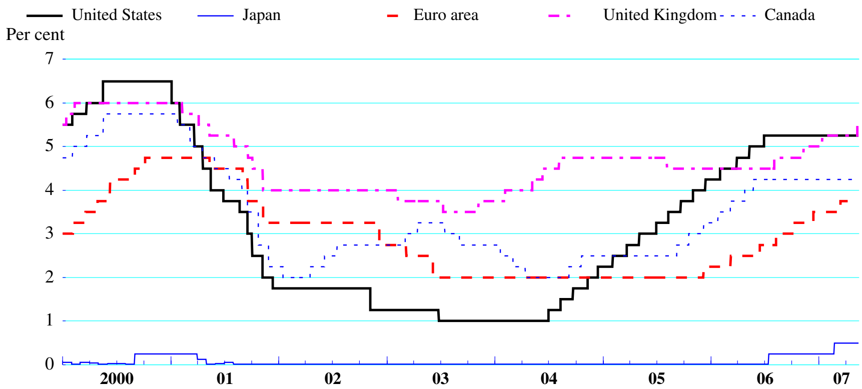
Figure 1.10. **Policy rates have moved up**



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

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Inflation responds less to domestic demand pressures…

With unemployment gaps closed or narrowing in most OECD countries, assessments of the future risks to inflation are complicated by evidence that inflation seems to have become less responsive to domestic demand pressures. This is partly a result of improvements in monetary policy frameworks, but it may also be related to globalisation, as discussed further in Chapter 3. However, this lower sensitivity also means that, should inflation get above desirable levels, bringing it back down will be more costly in terms of foregone output.

… but perhaps more to global demand pressures

At the same time, there is some empirical evidence, although inconclusive, to suggest that global capacity utilisation could have become an increasingly important driver of domestic inflation in many OECD countries.[23] Any such tendency could reflect an increasingly integrated world market in which goods produced in different countries are close substitutes. While the evidence regarding the importance of global capacity utilisation effects on domestic inflation is at present inconclusive, it does suggest upside risks to inflation may be heightened in the current conjuncture as output gaps in many countries are closed, or closing, simultaneously.

23. Recent research finds significant effects from various measures of a global output gap on domestic inflation in estimated inflation equations for 16 industrialised countries (plus the euro area) over the period 1985-2005 (see Borio, C and A. Filardo (2006), "Globalisation and Inflation: New Cross-Country Evidence on the Global Determinants of Domestic Inflation", unpublished, Bank for International Settlements, Basel, Switzerland). The findings suggest that such effects are generally larger than those of domestic output gaps with a tendency for them to rise over time. On the other hand, other research finds that an additional world output gap variable is jointly insignificant when it is used to augment inflation equations for individual OECD countries and hence concludes that the world output gap does not have any significant impact on domestic consumer price inflation over and above the one that works through import prices, although effects from the latter were found to be large in relation to the weight of imports in total expenditure (see Pain, N. I. Koske, and M. Sollie (2006), "Globalisation and Inflation in the OECD Economies", *OECD Economics Department Working Papers*, No. 524). This, however, does not exclude effects working through domestic wage setting.

US monetary tightening is complete, but core inflation remains high

In the United States, headline inflation has eased considerably, as energy prices have fallen, but core inflation has remained above 2% (Figure 1.11). In the current projections, with output falling from slightly above to slightly below capacity, demand pressures do not exert a strong influence on inflation; rather, core inflation gradually falls back towards 2% as the influence of temporary factors, in particular the indirect effects of higher energy prices and housing costs, fades.

There is uncertainty about the adjustment of rental costs

The housing or "shelter" component of core inflation, mainly consisting of actual rents and imputed rents of home-owners, is not only one of the largest but has also been one of the fastest rising components of consumer prices, increasing by more than 4% *per annum* to the end of 2006.[24] The recent strong rise in rental prices may be related to a shift in demand to rental housing as higher house prices and mortgage rates, together with reduced expectations for capital gains, have made home-ownership less attractive. This should eventually lead to an increased supply of rental accommodation and hence reduced pressure on rents. There is, nevertheless, considerable uncertainty surrounding the timing of these adjustments, particularly because rents are currently close to historic lows in relation to house prices.

The timing of monetary easing should depend on a fall in core inflation

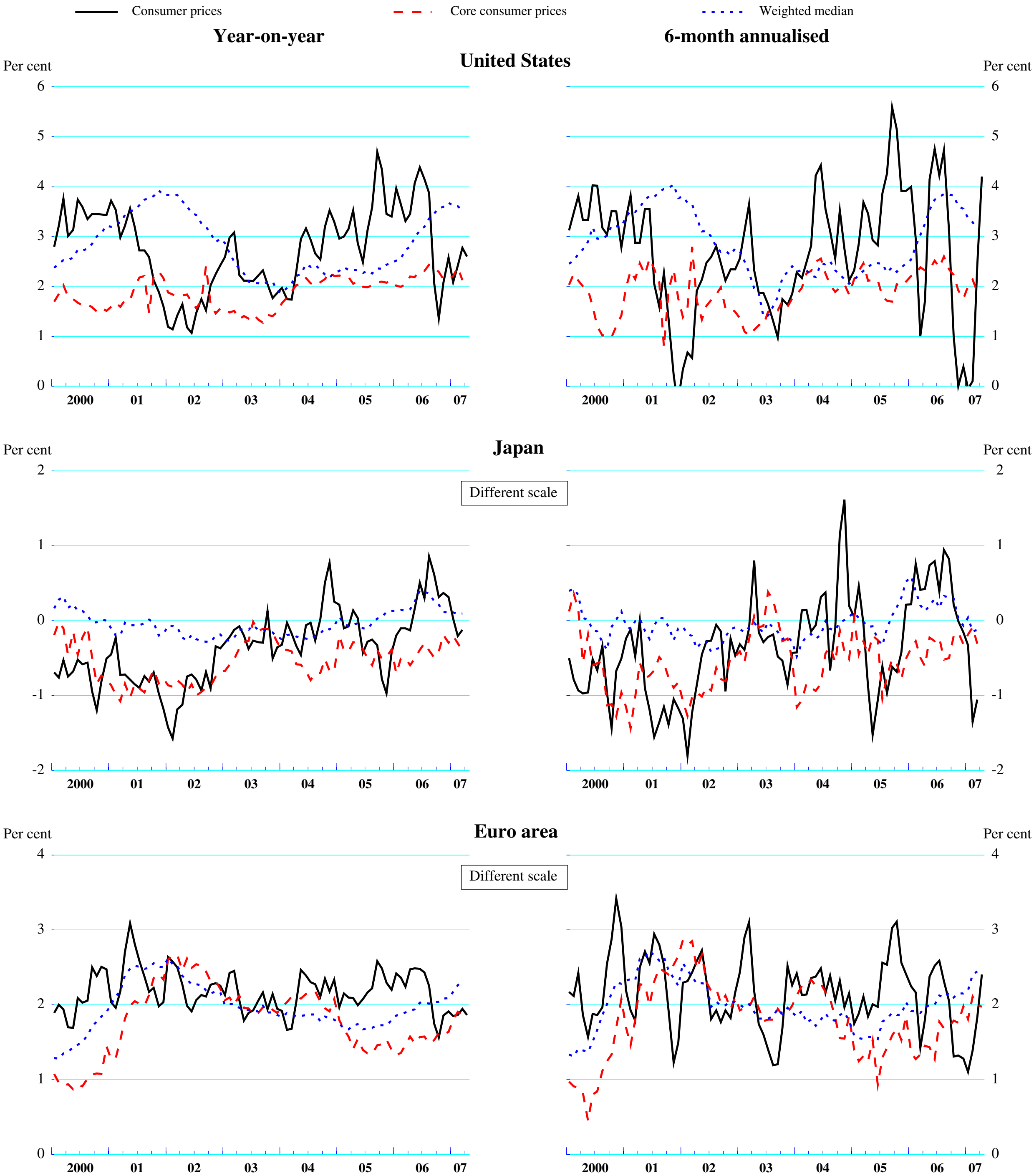
As core inflation returns to a more comfortable level, some easing of currently mildly restrictive monetary conditions will eventually be appropriate. However, given the importance of ensuring that inflation expectations remain firmly anchored, such moves should wait until the temporary components of core inflation are clearly fading and core inflation is trending down. This may not be achieved until early 2008, at which point a gradual easing of monetary policy could be envisaged. On the other hand, signs that the downturn in the housing market was leading to greater distress in the wider economy would warrant bringing such easing forward.

For the euro area, some further tightening is needed

In the euro area, headline inflation has fallen to just below 2% as pressures from energy costs have diminished. However, the unexpectedly strong GDP growth in the second half of 2006 has reduced spare capacity more rapidly than previously projected, while various measures of core inflation have been on an upward trend over the past year or longer. This pick-up in area-wide inflation has little to do with the increase in the VAT rate in Germany in the first quarter which, as anticipated in the previous *Economic Outlook*, has had a relatively modest effect, adding about one percentage point to year-on-year German core inflation (or about 0.3 percentage points to area-wide inflation). Indeed, the increase in core inflation over the past year has been common to most euro area countries, reflecting most likely a combination of both indirect effects of higher

24. Housing costs have a weight of about 18% and 38% in the core consumers' expenditure deflator and core consumer price index, respectively. If housing costs are additionally excluded from the core consumer price index then in the final quarter of 2006 core inflation would have been lower by more than 1 percentage point and would have been falling rather than rising over the course of 2006.

Figure 1.11. **Headline and underlying inflation are converging**



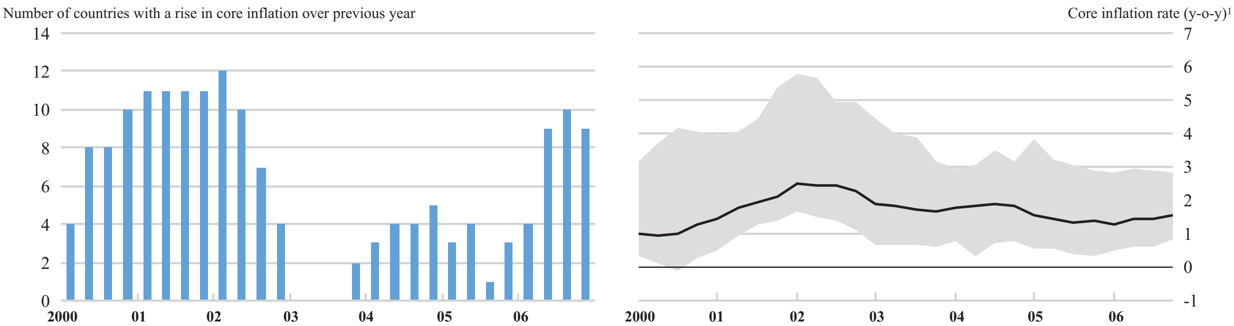
Note: For the euro area, consumer prices refer to the harmonised index of consumer prices (HICP) and core consumer prices refer to the HICP excluding energy and unprocessed food. For the United States, consumer prices refer to the consumer price index (CPI) and core consumer prices refer to the private consumption expenditure (PCE) deflator excluding food and energy. The weighted median is, each month, the middle element in the distribution of consumer price index component changes, that is, the one leaving 50% of the components (in terms of weights of the consumer price index) on each side.

Source: OECD Main Economic Indicators and OECD calculations.

StatLink http://dx.doi.org/10.1787/033274537511

energy prices and demand pressures (Figure 1.12). The recent series of interest-rate hikes has largely removed monetary accommodation. Nonetheless, with growth robust, slack having been almost absorbed and questions remaining around the drivers of the upturn in core inflation, it may be prudent for monetary policy to go a bit beyond a neutral stance. The projection accordingly embodies two further ¼ percentage point increases in policy rates this year to help constrain demand pressures going into 2008. This, along with reduced pressure from energy prices, should be sufficient to ensure inflation remains close to the 2% mark.

Figure 1.12. **Core inflation in the euro area has become more synchronised**



1. Shaded region shows range of country outcomes. Core inflation is measured by the change in the Harmonised Index of Consumer Prices (HICP) excluding energy, food, alcohol and tobacco.

Source: Statistical Office of the European Communities (Eurostat).

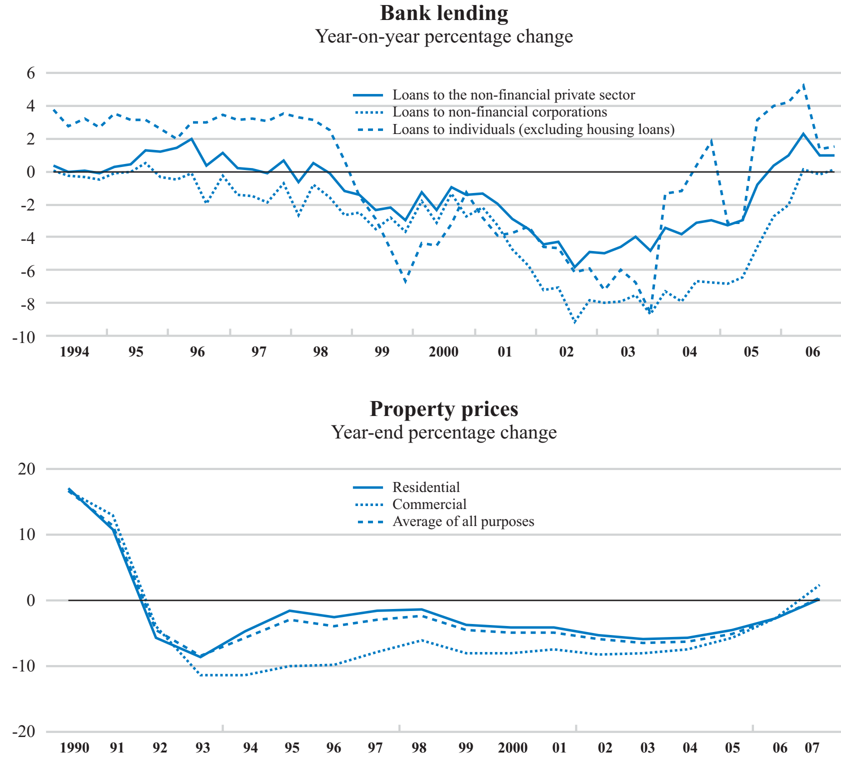
StatLink http://dx.doi.org/10.1787/033307184340

In Japan premature tightening should be avoided

In Japan, deflation is lingering on. Headline inflation and central-tendency measures of core inflation are close to zero, having slipped back from slightly positive rates in mid-2006, while core inflation (excluding fresh food and energy) as well as the year-on-year rate of change of the GDP deflator are still negative. There are, however, signs that the prolonged period of balance-sheet adjustment and financial consolidation may be coming to an end, suggesting that a permanent exit from deflation, while not imminent, should be possible over the projection period. Thus banks are again starting to expand their lending (Figure 1.13, upper panel) and land prices in some areas, notably in Tokyo, have stopped falling (Figure 1.13, lower panel). The growth and unemployment projections are consistent with the continued absorption of remaining slack in the economy. Against this background, inflation is seen to move into the lower half of the 0 to 2% range, considered by members of the Bank of Japan Monetary Policy Board to be consistent with price stability, during the course of 2008. Nevertheless, given both the asymmetric costs associated with exiting deflation as well as the more-than-usual difficulties of assessing the degree of spare capacity,[25]

25. There is evidence that at very low or negative rates of inflation nominal wages and prices become less responsive to excess capacity in goods and labour markets, so that inflation becomes a less useful signal in discerning output and unemployment gaps, see Mourougane, A. and H. Ibaragi (2004), "Is there a Change in the Trade-off Between Output and Inflation at Low or Stable Inflation Rates? Some Evidence in the Case of Japan", *Economics Department Working Papers*, No. 379.

Figure 1.13. **Bank lending and property prices have both recently picked up in Japan**



Source: CEIC and Datastream.

StatLink http://dx.doi.org/10.1787/033370021333

further removal of stimulus should be based on the realisation, rather than anticipation, of such outcomes.

In the United Kingdom inflation surprised on the upside

In the United Kingdom, consumer price inflation has recently exceeded the 2% target by more than one percentage point for the first time under the 10-year period of Bank of England independence.[26] Despite the fact that monetary conditions have already tightened significantly and a number of temporary factors, particularly utility prices, contributed to the inflation overshoot, the policy rate was increased by a further ¼ percentage point. Such a tightening appears warranted to guard against the risk that higher inflation gets built into

26. According to the UK monetary policy framework because consumer price inflation diverged by more than 1 percentage point from the 2% target rate, the Governor of the Bank of England was obliged to write an open letter to the Chancellor, setting out the reasons why inflation has moved away from the 2% inflation target and the policy action that the Monetary Policy Committee is taking to deal with it. The letter argues that about half of the increase in inflation to 3.1% in March from 1.8% a year earlier is due to sharp increases in domestic energy and food prices, while the other half is due to robust growth that has led to rising profit margins. In April, headline consumer price inflation fell to 2.8%.

expectations and increased wage demands, although it may be reversed in 2008 as inflation falls back towards the target.

Canadian rates are set to stay on hold

In Canada, core inflation has picked up to a year-on-year rate of 2.5%, the highest in four years, but is expected to fall back towards the 2% midpoint of the target range without any further increase in policy rates. The main risk factor that might prompt an easing in the near term is greater-than-expected weakness in the US economy. On the other hand, if the pick-up in inflation were to have more momentum than expected, the need to raise rates somewhat further could not be ruled out either.

In China, a change in the policy mix is appropriate

In China, a further tightening of macroeconomic policy is not needed given that inflation, abstracting from temporary effects from food prices, remains low. There is, however, a case for changing the policy mix between monetary and fiscal policy as well as the composition of monetary conditions. In particular, the pressing need for higher social expenditure could lead to a relaxation of fiscal policy compared with current planning. This stimulus should be offset by monetary tightening, but achieved through putting more weight on effective exchange rate appreciation and less on administrative measures applied to the banking system, such as increased reserve requirements or compelling banks to buy low-interest bonds. Such a change in the policy mix would also help to tackle the continued increase in the current account surplus and associated rapid accumulation of foreign-exchange reserves, as well as improve the efficiency of the banking sector.

Fiscal policy: revenue windfalls must not distract from spending restraint

Positive revenue surprises in 2006 have been banked

Fiscal positions in most OECD economies benefited from unexpectedly strong revenue gains in 2006, which contributed to a swing in structural balances over and above any discretionary tightening and the estimated impact of normal built-in stabilisers. The area-wide underlying cyclically-adjusted structural deficit was reduced from 2¾ per cent of GDP in 2005 to 2% of GDP in 2006 (Table 1.8). Increases in revenue account for practically the entire improvement in the cyclically-adjusted fiscal balance in all three main OECD regions.

Corporate taxes have been surprisingly strong

Taking 2005 and 2006 together, almost half of the cyclically-adjusted revenue gains in each of the main OECD areas are estimated to have come from corporate taxes (Table 1.9), whereas usually this source only accounts for between 5% and 10% of total government revenues. Indeed, corporate tax revenues as a share of GDP in 2006 are estimated to have been their highest in ten years in Japan and over an even longer period in the euro area and the United States. The sustained strength of profits is an important factor explaining such revenues, particularly as provisions to offset current tax liabilities against previously incurred losses have been steadily exhausted. It is likely that the run-up in equity and real estate prices may also be part of the explanation through income/wealth taxes

Table 1.8. **Fiscal consolidation is stalling**

Per cent of GDP / Potential GDP

	2004	2005	2006	2007	2008
United States					
Actual balance	-4.6	-3.7	-2.3	-2.7	-2.9
Cyclically-adjusted balance	-4.3	-3.6	-2.5	-2.8	-2.8
Cyclically-adjusted primary balance	-2.4	-1.6	-0.3	-0.6	-0.7
Gross financial liabilities	61.8	62.2	61.5	62.4	63.2
Japan					
Actual balance	-6.2	-6.4	-2.4	-2.7	-3.0
Underlying balance[2]	-7.4	-5.6	-4.3	-3.3	-3.0
Underlying cyclically-adjusted balance[2]	-6.7	-5.1	-4.1	-3.4	-3.2
Underlying cyclically-adjusted primary balance[2]	-5.6	-4.3	-3.4	-2.6	-2.3
Gross financial liabilities	167.1	177.3	179.3	179.0	178.4
Euro area					
Actual balance	-2.8	-2.4	-1.6	-1.0	-0.7
Underlying balance[2]	-3.2	-2.7	-1.5	-1.0	-0.8
Underlying cyclically-adjusted balance[2]	-2.5	-1.7	-0.9	-0.8	-0.8
Underlying cyclically-adjusted primary balance[2]	0.2	0.8	1.5	1.6	1.7
Gross financial liabilities	75.5	76.8	76.1	74.2	72.7
OECD[1]					
Actual balance	-3.5	-2.9	-1.6	-1.6	-1.6
Underlying balance[2]	-3.7	-2.9	-1.8	-1.7	-1.6
Underlying cyclically-adjusted balance[2]	-3.5	-2.8	-1.9	-1.9	-1.9
Underlying cyclically-adjusted primary balance[2]	-1.6	-0.9	-0.1	0.0	0.0
Gross financial liabilities	75.6	77.5	77.1	76.8	76.5

Note: Actual balances and liabilities are in per cent of nominal GDP. Cyclically-adjusted balances are in per cent of potential GDP. The primary cyclically-adjusted balance is the cyclically-adjusted balance less net debt interest payments.
1. Total OECD excludes Mexico and Turkey.
2. In this context "underlying" means that the balance has been purged of one-off and temporary measures, insofar as they have been identified.

Source: OECD Economic Outlook 81 database.

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on capital gains in corporate balance sheets, with recent research suggesting that asset-price movements may be more important in explaining corporate taxes and transaction taxes than household and indirect taxes.[27] In addition, asset price increases may also be providing an additional boost to capital gains tax revenues from households (although typically the effect from higher house prices is limited, because gains from the principal residence are excluded from the tax base in most countries).[28] Stamp duties on housing transactions have also been soaring

27. Recent research based on estimated reduced form tax equations for euro area countries as well as a number of other European and major OECD countries found that equity and real-estate prices have statistically significant short-run effects on corporate taxes in about half of the 17 countries considered, and that the average short-run elasticity of corporate taxes with respect to both is about three times the corresponding size of that of household direct taxes. The estimated equations also suggest greater non-linearities of corporate taxes with respect to the main tax base; the short run-elasticity with respect to the tax base is much greater than unity for corporate taxes, whereas it is close to unity for household taxes. For the euro area, an asset price upswing typically contributes about ½ per cent of GDP to revenue buoyancy. See Morris, R. and L. Schuknecht (2007), "Structural Balances and Revenue Windfalls: The Role of Asset Prices Revisited", *ECB Working Paper*, No. 737.
28. See OECD (2006), Box I.4 in *OECD Economic Outlook*, No. 80.

Table 1.9. **The contribution of corporate taxes to recent revenue buoyancy**

	United States	Euro area	Japan
Growth, 2004-06, % annual average			
Nominal GDP	6.3	4.0	0.9
Corporate taxes	26.1	16.5	16.7
Change 2004-06, percentage points of GDP			
[1] Corporate taxes, cyclically-adjusted	1.0	0.6	1.0
[2] Total government revenues, cyclically-adjusted	2.3	1.0	2.3
[1] as % of [2]	43%	56%	42%

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/036053423825

in some countries due to rising house prices and high turnover on housing markets. In addition, those countries that are major commodity producers (particularly Norway, Canada and Australia) have benefited from a tax windfall resulting from high commodity prices. To the extent that recent upside revenue surprises have been related to exceptional profit growth and rising asset prices, there is a risk that such surprises may dissipate in the near future.

Fiscal margins of manoeuvre need to be re-established

Against this background, the favourable budget surprises of 2006 ought to provide a platform for continued fiscal improvement in 2007. However, it appears that the pace of fiscal consolidation is set to slacken across many countries. Following two years in which the underlying area-wide structural deficit (adjusted for one-off temporary factors) has fallen from over 3½ per cent to 2% of GDP, it is projected to register only a modest further improvement, with the deficit falling to 1¾ per cent of GDP in 2007 and 2008.[29] In most countries, and particularly among the major ones (with the clear and notable exception of Canada), further efforts are also required to reduce deficits and so restore fiscal margins of manoeuvre, so that there is at least scope for automatic stabilisers to operate in the event of a future downturn. Currently there are three OECD countries, including Japan, for which the underlying cyclically-adjusted fiscal deficit is expected to exceed 3% of GDP over the projection period, while for the United States the general government deficit is expected to widen to 2¾ per cent of GDP on a cyclically-adjusted basis. In another four European Union countries (Italy, the United Kingdom, Greece and France) the projected deficit, while remaining below 3% of GDP, is well beyond the safe budget margins which might reasonably be expected to ensure that

29. However, because only measures which have been legislated are incorporated in the fiscal projections, this may understate the degree of ambition in planned fiscal consolidation in 2008.

the 3% deficit limit would be respected in the face of a major cyclical downturn.[30]

More needs to be done to constrain expenditure

What has been conspicuously lacking during recent years has been sustained fiscal consolidation achieved through expenditure restraint. This is despite the fact that the historical record of OECD countries over several decades tends to suggest that cutting current expenditures is associated with overall larger consolidation efforts, as discussed further in Chapter 4.

The United States needs to tighten further

In the United States, the federal budget deficit declined further in fiscal year 2006, to just below 2% of GDP, meeting the Administration's objective of halving the deficit (relative to a 2004 baseline) three years ahead of schedule. However, with the economy operating close to capacity, the remaining deficit is structural. According to OECD projections, pressures from increased military spending, combined with a slowing in revenue growth in line with the slowdown in activity, will lead to a deterioration in both the actual and structural fiscal balances in 2007. The Administration has set a new fiscal target, which calls for the elimination of the federal budget deficit by 2012. Meeting this goal will require tight control over spending, and evidence from successful episodes of fiscal consolidation across a large number of OECD countries suggests explicit rules relating to expenditure could be helpful in this regard. The budget enforcement rules that expired in 2002 should be reinstated, particularly the statutory caps on discretionary spending and pay-as-you-go requirements for increases in mandatory spending and tax cuts.[31] Since the major entitlement programmes, particularly on retirement and health, are the main source of spending pressure, entitlement reform is essential.[32]

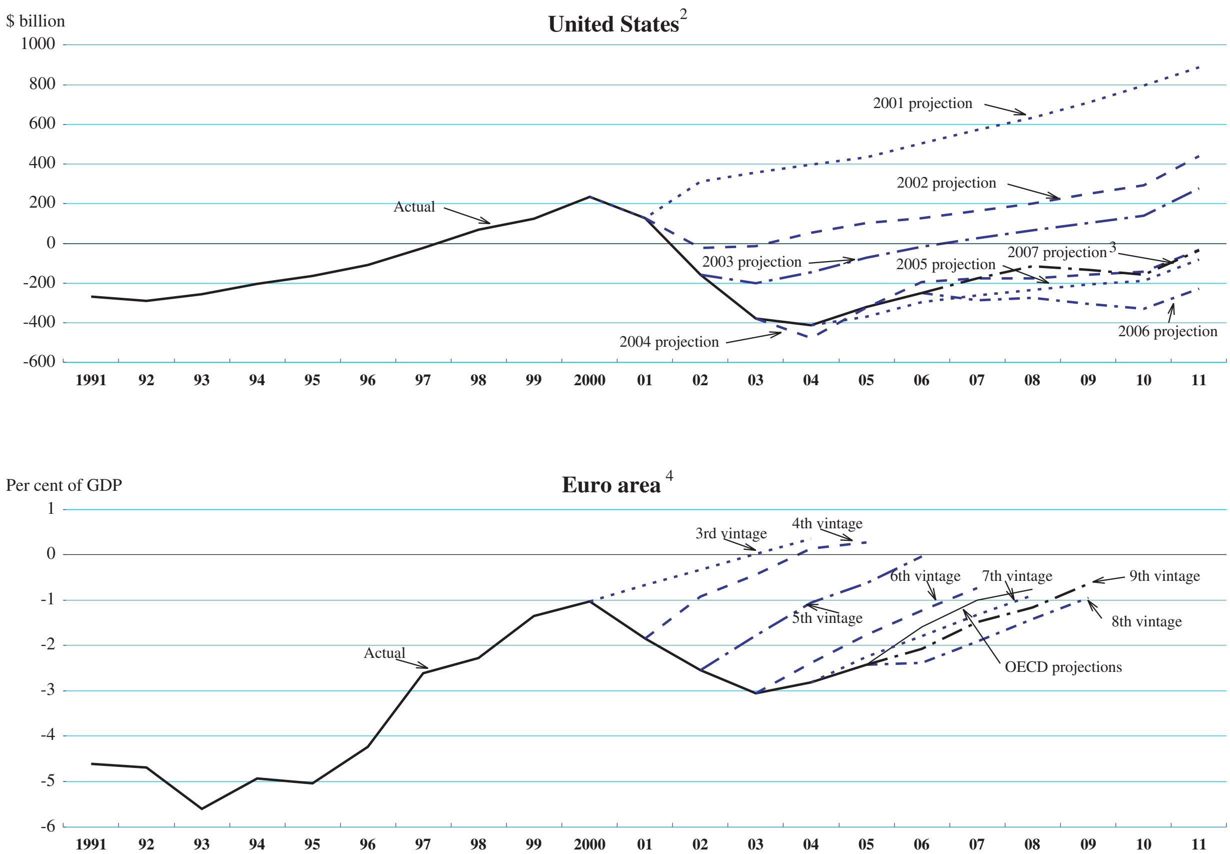
30. Cyclical safety margins were calculated by the European Commission using country-specific estimates of the cyclical sensitivity of expenditure and revenue and applying them to the average of the largest two output gaps experienced by each country. The average safety margin estimated across all EU countries was estimated to be 1.9% of GDP, implying that, for a typical country, a "minimal benchmark" would be a deficit of about 1% of GDP, although given that business cycle volatility appears to have declined since the late 1990s a somewhat smaller safety margin might now be appropriate (see European Commission (2000), *European Economy*, Directorate General for Economic and Financial Affairs, No. 3). Other research using a structural VAR model, showed that for a majority of 11 EU countries considered, it would be necessary to aim for a cyclically-adjusted deficit of no more than 1½ per cent of GDP in order to ensure that the actual deficit-to-GDP ratio remains below 3% over a three-year horizon with a 90% likelihood. See Dalsgaard, T. and A. De Serres (1999), "Estimating Prudent Budgetary Margins for Eleven EU Countries: A Simulated VAR Approach", *OECD Economic Department Working Papers*, No. 216.
31. After the recent elections, the House of Representatives adopted "pay-as-you-go" budget rules requiring any new entitlement spending or tax cuts to be offset, that is, budget neutral. The rules are internal to the House, which can waive them any time (they would have to be signed by the President to become statutory rules). Moreover, such a rule has not been adopted by the second chamber, the Senate.
32. Pressures could also arise on the revenue side stemming from the widely-recognised need to simplify the US tax system. One of the most straight-forward means of achieving this would be to abolish the so-called "Alternative Minimum Tax", but doing so without also broadening the base of the regular tax system and introducing other offsetting changes would lead to a substantial loss in revenue.

Euro area consolidation has been over-reliant on revenue measures

Unusually, fiscal outcomes in the euro area bettered official targets in 2006 (Figure 1.14). The combined underlying deficit (adjusted for one-off factors) is likely to have declined for the third year in a row and by 1¼ percentage points of GDP, although one-third of this can be attributed to cyclical factors and most of the rest to unexplained revenue buoyancy. Recent favourable fiscal outcomes also contributed to the decision to terminate the Stability and Growth Pact's excessive deficit procedures against Germany, France and Greece. However, this progress is expected to stall over the projection period with the area-wide underlying cyclically-adjusted primary balance barely improving in 2007 and 2008, and primary expenditure rising slightly as a share of GDP. Most progress is expected in Portugal where the cyclically-adjusted primary balance improves by more than one percentage point of GDP. Smaller improvements of between ¼ and ½ of a percentage point of GDP are projected for France, Italy and Greece, although, as previously noted, in all of these countries further progress will be required to restore fiscal margins of manoeuvre.

Figure 1.14. **Successive vintages of fiscal projections**

General government fiscal balance[1]



1. Net lending, excluding third generation telephone licence proceeds.
2. US Congressional Budget Office projections for fiscal year federal government fiscal balance.
3. As of March 2007.
4. The various vintages of the Stability Programmes were released over the following periods: 3rd 2000/01, 4th 2001/02, 5th 2002/03, 6th 2003/04, 7th 2004/05 8th 2005/06 and 9th 2006/07.

Source: US Congressional Budget Office, Statistical Office of the European Communities (Eurostat) and OECD Economic Outlook 81 database.

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Japan should aim for sustainable debt levels

In Japan, following large improvements over the past two years in the underlying fiscal deficit (adjusted for one-off factors), mainly as a result of strong tax revenue increases, a further substantial improvement is expected in 2007. However, the underlying pace of consolidation may slow in 2008, with the cyclically-adjusted primary deficit still at 2¼ per cent of GDP. Thus, achieving the government's medium-term fiscal target for a primary surplus of the combined central and local governments by fiscal year 2011 will require further substantial and sustained consolidation efforts, including measures to boost tax revenues, particularly as ageing-related spending pressures are more immediate than in other OECD countries. Moreover, even the achievement of this target may be insufficient to stop the debt-to-GDP ratio from rising.[33]

Table 1.10. **Spending pressures from ageing**

From 2005 levels, in percentage points of GDP

	Health care		Long-term care		Pensions		Total		Cumulative increase in public debt ratios
	2025	2050	2025	2050	2025	2050	2025	2050	2005-2050
Australia	1.8	4.2	0.5	2.0	1.0	1.7	3.3	7.9	176
Austria	1.5	3.8	0.6	2.0	0.1	-1.0	2.2	4.8	111
Belgium	1.3	3.3	0.6	1.9	3.0	5.1	4.8	10.3	241
Canada	1.9	4.1	0.6	2.1	0.8	1.7	3.3	7.9	176
Denmark	1.5	3.5	0.4	1.5	2.5	3.2	4.3	8.2	203
Finland	1.8	3.6	0.8	2.4	2.8	3.3	5.4	9.3	241
France	1.5	3.5	0.4	1.7	1.2	2.1	3.1	7.3	164
Germany	1.5	3.6	0.8	1.9	0.2	2.0	2.5	7.5	153
Greece	1.6	3.9	1.3	2.7	4.6	10.3	7.5	16.8	386
Ireland	1.6	4.0	1.5	3.8	2.5	6.5	5.6	14.4	312
Italy	1.6	3.8	1.3	2.9	0.2	0.4	3.1	7.0	160
Japan	1.9	4.3	1.1	2.2	0.3	0.6	3.4	7.1	168
Luxembourg	1.4	3.7	1.3	3.1	3.7	7.4	6.3	14.3	326
Netherlands	1.7	3.8	0.7	2.0	2.0	3.8	4.4	9.6	223
New Zealand	1.8	4.3	0.6	2.0	3.2	5.9	5.7	12.0	283
Portugal	1.6	4.2	0.6	2.0	3.9	9.3	6.1	15.5	338
Spain	1.6	4.1	1.1	2.4	1.8	7.0	4.5	13.5	276
Sweden	1.4	3.2	0.3	1.1	0.1	0.8	1.8	5.1	106
United Kingdom	1.4	3.6	0.6	1.9	0.7	1.7	2.8	7.2	156
United States	1.5	3.4	0.4	1.7	0.9	1.8	2.9	7.0	156
Euro area	1.5	3.7	0.9	2.2	1.1	3.0	3.5	8.9	194

Sources: OECD (2006), "Projecting OECD Health and Long-term Care Expenditures: What Are the Main Drivers?", *OECD Economics Department Working Papers*, No. 477, Paris; Visco, I. (Ed.) (2005), "Ageing and Pension System Reform: Implications for Financial Markets and Economic Policies", in *Financial Market Trends*, November 2005 Supplement, OECD, Paris; EU Economic Policy Committee (2006), *Impact of Ageing Populations on Public Spending*, European Commission, Brussels; Dang, T.-T., P. Antolin and H. Oxley (2001), "Fiscal Implications of Ageing: Projections of Age-Related Spending", *OECD Economics Department Working Papers*, No. 305, OECD, Paris; and Greek Ministry of Finance (2005), *The 2005 Update of the Hellenic Stability and Growth Program 2005-2008*, Athens.

StatLink http://dx.doi.org/10.1787/036108506087

33. Analysis in the 2006 *OECD Economic Survey of Japan* suggests that a primary surplus of between ½ and 1½ per cent of GDP in 2011 will be required to stabilise net debt.

Reforms are required to contain spending pressures from ageing

Over the longer term, structural reforms are urgently required in most OECD countries, in particular to contain future spending on pensions, health and long-term care systems in the face of rapidly ageing populations, as discussed further in Appendix 1.A1. Without such reforms the cumulative spending pressures from pensions and health would threaten to put debt on an explosive path (Table 1.10) unless there are substantial increases in the tax-to-GDP ratio, which would then risk undermining growth. While such mechanical extrapolations are unrealistic, they do serve to demonstrate that the issue is not *whether* further fiscal consolidation is needed, but rather *when* and *how* it is best achieved.

APPENDIX 1.A1

Policy options to address future public spending pressures

This appendix reviews challenges associated with ageing and health

Despite significant improvements in budget positions over the past couple of years, policy adjustments need to go much further in the light of future budget pressures arising from population ageing as well as other drivers of public spending, not least in the area of health care. This appendix reviews the future challenges associated with public spending on pensions and health care and then discusses policy options to address these issues – distinguishing non-solutions from real options.

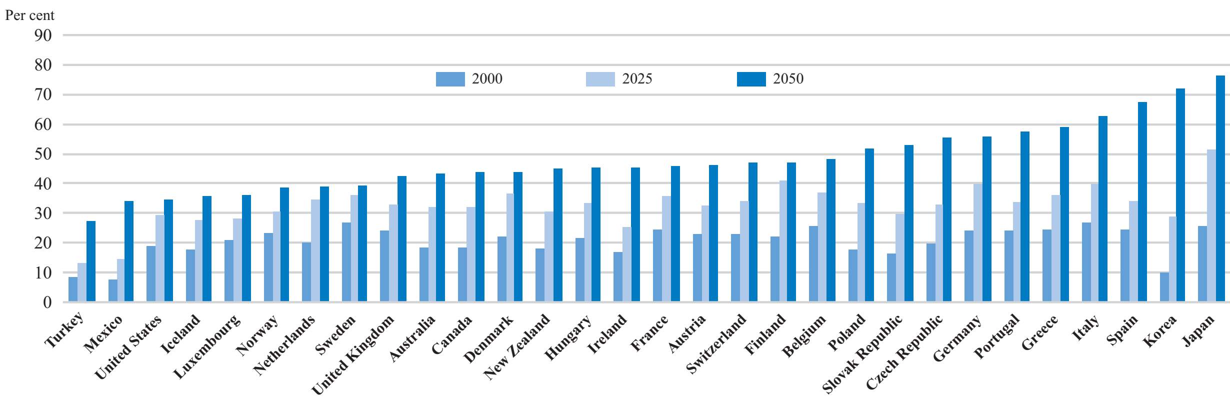
The challenges

Fiscal pressures from ageing are set to rise

Fiscal pressures arising from ageing populations will be present in all major economies over coming decades – albeit to different degrees. Old-age dependency is set to rise dramatically in Japan and Italy, substantially in France, Canada, Germany and the United Kingdom and visibly in the United States (Figure 1.15). Outside the large economies, the Czech Republic, Portugal, Greece, Spain and Korea will also see dramatic increases. These budgetary trends could be even be more pronounced – standard demographic assumptions involve a substantial slowing in increases in life expectancy compared with trends over the past century.

Figure 1.15. **Old age dependency ratios**

Population age 65 and over as a per cent of the population age 15-64



Source: OECD, based on national sources.

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Some reforms have been implemented...

Policy reforms over the past one or two decades have gone some way towards defusing the ageing bomb. Previous tendencies for people to retire ever earlier have been partially reversed. Levels of public pensions and other transfers in old age have been set on a declining trend relative to income from work. And employment has risen among those of traditional working age.

... but more are required

Yet, the reforms have not gone far enough. Among the major economies, official projections for the United States point to a rise in social security spending of about 2 percentage points of GDP by the middle of the century. For Canada, pension spending could increase by around 2½ percentage points of GDP by 2040. Recent EU estimates point to increases in public pension spending of similar magnitudes in the cases of France, Germany, Italy and the United Kingdom. And that is despite the assumed full implementation of recent policy decisions that will imply sharp cuts in relative pension levels as well as reduced coverage – changes that have been controversial and may even be reversed in the future.

Health and long term care will exert large pressures...

Public spending on health and long-term care is likely to involve larger future budget pressures than spending on pensions. Unlike for pensions, ageing does not play the sole dominant role as a driver of future health and long-term care spending – in part because increases in life expectancy are likely to be matched by time spent in good health. Other main drivers of health spending are the tendency for the relative price of services to increase and the role of innovation in expanding the set and quality of available treatments. Further, changing family structures and, not least, the tendency for rising labour-force participation of females and older people can be expected to increase demands for professional long-term care, as opposed to that provided by the family.

... as shown in OECD projections

Taking these factors into account, OECD projections point to substantial budget pressure arising from health and long-term care spending (Figure 1.16). Given the vast uncertainties a range of scenarios have been explored. However, even under a cost containment scenario where policies gradually become more effective in bearing down on costs than they have been over recent decades, most countries could experience public spending increases in the range of 2½ to 4 percentage points of GDP.

Some non-solutions

Among policies that may be ineffective at reducing fiscal pressures are...

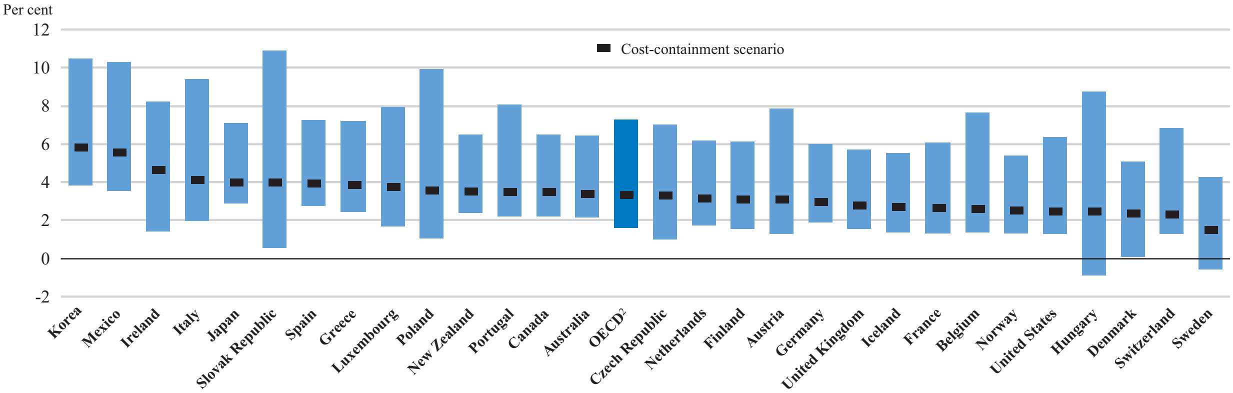
Some policy approaches are likely to be more effective than others in addressing future budget pressures. Despite being frequently touted, the following policies may not be particularly effective – even if they may of course still be desirable for other reasons.

... an easing of immigration controls...

- Easier immigration controls might allow an inflow of relatively young persons. In the near term, such immigrants could contribute positively to budgets – provided that they gain employment, which hinges not

Figure 1.16. **Total increase in health and long-term care spending by country, 2005-2050**[1]

In percentage points of GDP



1. The vertical bars correspond to a range of alternative scenarios. Countries are ranked by the increase of expenditures between 2005 and 2050 in the cost-containment scenario.
2. OECD average excluding Turkey.

Source: Projecting OECD health and long-term care expenditures: What are the main drivers?, OECD Economic Department Working Paper No. 477, February 2006.

StatLink http://dx.doi.org/10.1787/054812057706

least on labour and social policies. Over the longer term, however, immigrants will also get older and qualify for pension, health and long-term care spending. Durably tilting the population structure towards younger ages would require immigration levels that are unprecedented in most countries, whereas current debates seem to indicate a reduced popular acceptance of immigration.

… increased fertility…

- Increased fertility could in principle reduce old-age dependency over the long term, although an increased number of children would in the very near term boost spending related to education, child-care, etc. That said, the drivers of fertility are poorly understood. While there is some evidence that economic incentives play a role, policies attempting to play on those incentives would likely involve substantial immediate budgetary outlays, with uncertain long-term returns.

… running overly large fiscal surpluses…

- The continued build-up of public debt in many countries is a particularly bad way of preparing for future budget pressures and needs to come to an end. However, moving in the opposite direction of pre-saving to fund the future burdens may also be difficult. The risk that public surpluses could generate demands for short-sighted spending increases or tax cuts would be non-negligible. As well, it may not seem fair to ask currently active generations to pre-save in order to fund pension, health and long-term care spending for future generations that will be much richer.[34]

34. While still faced with the challenge of maintaining fiscal discipline, countries that exploit non-renewable resources face little alternative to saving the resource rent if they wish to maintain generational balance.

... and increasing overall productivity growth

- Higher productivity growth is obviously welcome because it generates higher real incomes. Hence, policies should aim to provide the right framework to stimulate productivity. However, higher productivity growth might not have much of an impact on public budgets. Public-sector wages and most income transfers can be expected to rise in sympathy with higher private-sector real wages. Even in countries where pensions and other transfers are formally adjusted by prices rather than wages, the resulting relative decline could well be controversial. In any case, productivity growth depends on many factors and is hard to predict which makes it risky to rely on productivity growth to reduce spending pressures.

Options for reform

Reform of retirement and health care systems is imperative

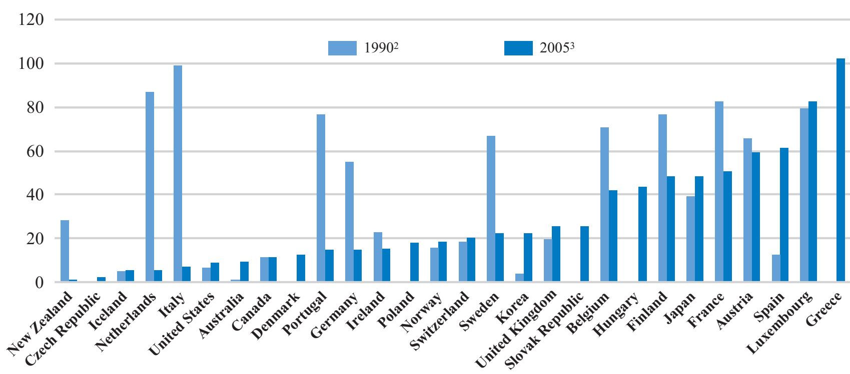
With tax pressure at the respective pain thresholds in most countries, there is little alternative to further reforms of retirement income systems as well as of health and long-term care spending. As regards retirement spending, two axes of reform may be of particular importance: later retirement and greater private provision of retirement income.

Incentives for early retirement have been reduced

Governments have already taken action to reduce the incentives to retire early but they still remain high in a number of countries (France, Austria, Luxembourg, Spain and Greece) (Figure 1.17). Statutory retirement ages have been raised, accrual rates in pension systems changed, early retirement schemes tightened or closed, and special provisions for older unemployed abolished. Some countries have gone further to make pension schemes "self-adjusting" in the face of rising life expectancy, by indexing pension systems to life expectancy. As well, some

Figure 1.17. **Implicit tax on continued work: early retirement**[1]

Percentage of average worker earnings



1. Implicit tax on continued work for an average male worker, taking into account early retirement routes. The implicit tax corresponds tothe transfers or pension income foregone by staying at work relative to the earnings from work. Duval, R.(2003), "The Retirement Effects of Old-Age Pension and Early Retirement Schemes in OECD Countries", *OECD Economic Department Working Papers,* No. 370.
2. Data refer to 1995 for Belgium, Iceland, Japan and Luxembourg. Not available for Czech Republic, Denmark, Greece, Hungary and Poland.
3. The numbers refer to the implicit taxes which will prevail once policy settings are fully phased in.

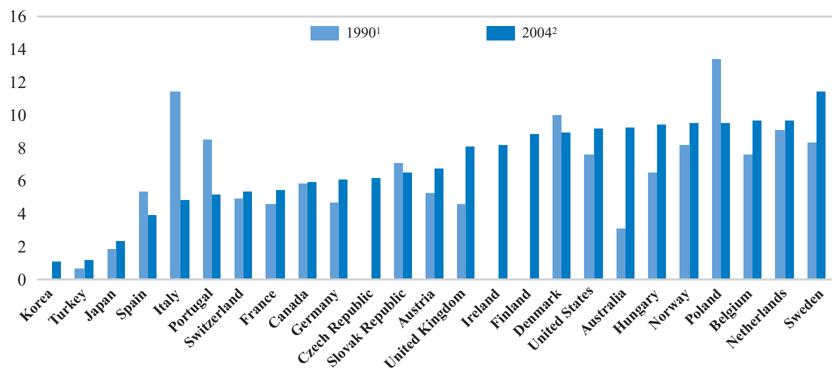
Source: OECD estimates.

StatLink http://dx.doi.org/10.1787/054821317748

countries have given greater scope for individuals to trade off pension levels against retirement age within a context of actuarial neutrality. For the countries that need to do more, the wealth of recent actions taken by others may serve as inspiration. Disability benefits are an exception where there has been little policy change so far and where spending pressure seems to increase as other exit routes from the labour market are blocked (Figure 1.18).

Figure 1.18. **Recipients of disability benefits**

Per cent of working age population non-employed and receiving disability benefits



1. For Austria, Poland, Slovak Republic, Switzerland and Japan data refer to 1995. Not available for Czech Republic, Finland, Ireland and Korea.
2. For Czech Republic, France, Germany and Italy, data refer to 2003. For Canada, data refer to 1999.
3. The numbers refer to the implicit taxes which will prevail once policy settings are fully phased in.

Source: OECD.

StatLink http://dx.doi.org/10.1787/054842131260

More reliance on private pensions should not put poverty reduction at risk

A main achievement of public pension systems has been the strong reduction in old-age poverty. Greater reliance on private pension saving should not put this at risk. Cross-country evidence is comforting in that respect, showing that lower public pensions tend to be associated with higher private retirement income. This suggests that, given sufficient lead time, most people adjust to lower public pensions through increased private pension saving. Nonetheless, getting the incentives right can be tricky. Needs-based public pensions may alleviate concerns with poverty but may undermine the incentives for private pension saving. The effectiveness of tax breaks to stimulate private pension saving is, at best, questionable, and such schemes may also have debatable distributional impacts.[35] However, as yet, few countries have been willing to go as far as to make pension saving compulsory so as to overcome concerns with equity while at the same time increasing private pension provision. A step in that direction, which could also help deal with short-sightedness on

35. Recent OECD work provides an estimate of tax breaks on pension saving and their net fiscal cost for many OECD countries, (Yoo; K-Y. and A. De Serres, (2004), "Tax Treatment of Private Pension Savings in OECD Countries and the Net Tax Cost per Unit of Contribution to Tax-Favoured Schemes", *OECD Economics Department Working Papers*, No. 406; Antolin, P., A. De Serres, C. de la Maisonneuve (2004), "Long-Term Budgetary Implications of Tax-Favoured Retirement Plans", *OECD Economics Department Working Papers*, No. 393).

the part of individuals, would be for occupational pension schemes to be based on the principle of automatic enrolment but with a right for individuals to opt out.[36]

Private pension saving has to be encouraged

Despite the cross-country evidence of substitution between private and public pensions, private pension saving has been slow to respond in some of the countries that have reduced future pension levels. A number of specific reforms may strengthen the responsiveness of private pension saving. Apart from efforts to enhance financial literacy at the level of individuals,[37] reform of overly restrictive regulations on investments might contribute by increasing returns. At the same time, confidence in prudential standards remains crucial. A particular problem relates to the uncertainty about life expectancy, both at the individual and the aggregate level. At the level of the individual, annuities pricing often reflects adverse selection issues that might be addressed through a more collective approach. At the aggregate level, sponsors of pension plans and annuities sometimes face insufficient official information about mortality developments as well as a lack of instruments to hedge risks associated with aggregate life expectancy.

Health and long-term care present more challenges…

In the pension area, the main parameters to be affected by reform to contain future spending are fairly well identified. This is less so for the area of health and long-term care where, at the same time, future spending pressures seem to be larger. Health and long-term care is a particularly tricky area to reform, not just because equity concerns are important, but also because issues of asymmetric information are pervasive and make it more difficult to implement market solutions. These challenges are not a reason for giving up on spending control, however. Success in that endeavour will reduce the risk that up-drift in health and long-term care spending leads to additional, compensating reform requirements in other areas, such as pensions.

… particularly in controlling costs while enabling innovation

Countries with largely government-run, top-down health systems have in the past used direct controls on wages, prices and/or budget envelopes to control costs. However, there is a widespread perception that such policies have run their course. Countries with more decentralised systems have avoided some of the problems associated with top-down cost control but have generally experienced more rapid spending increases. Going forward, a main issue is likely to be the appropriate balance between public and private provision of services that respects

36. For example, "KiwiSaver", soon to be introduced in New Zealand, is designed to encourage participation in voluntary work-place savings schemes by automatically enrolling new employees. For further discussion see OECD (2007), *Economic Survey of New Zealand*.
37. An analysis of financial literacy surveys across OECD countries, together with evaluations of policies to improve financial education and awareness is provided in OECD (2005), *Improving Financial Literacy: Analysis of Issues and Policies*, OECD, Paris.

national objectives with respect to population coverage and equity. As regards publicly financed provision, a main driver of spending is likely to be developments in medical technology, posing the challenge of designing systems that emphasise value for money in terms of new treatments. More generally, systems should be designed so as to stimulate efficient delivery of health and long-term care, likely calling for the use of market mechanisms but within a framework that addresses market failure. Overall, no country seems to have the full recipe for sustainable delivery of good quality health and long-term care at reasonable spending levels, and learning from each other's experience will be an important part of policy development in the years to come.

APPENDIX 1.A2

The medium-term reference scenario

Area-wide potential is expected to ease slightly

The medium-term reference scenario (Tables 1.11 to 1.13) is a supply-side[38] driven extension of the current short-term projections to the end of 2013, based on a set of specific assumptions described in Box 1.4. It is designed as a benchmark and to provide insights on the possible build-up or unwinding of specific imbalances and tensions in the world economy over the medium term, for example with respect to global imbalances and persistent public deficits. Growth in output for any country beyond 2008 is assumed to reflect the growth of potential output and a closing of the output gap. Over the period, growth in potential for the OECD area as a whole is expected to slow slightly to just below 2½ per cent *per annum* by 2013. This movement reflects expected slowing in working-age population growth and participation rate trends which are not fully offset by increases in growth of trend labour productivity.

Inflation remains low but fiscal deficits persist in the major economies

With the OECD area as a whole projected to operate at potential in 2008, GDP growth in subsequent years remains close to 2½ per cent *per annum*, although there are some differences in regional developments, as discussed below. Area-wide unemployment remains at an underlying structural rate of 5½ per cent and, with oil prices assumed to remain stable at $65 per barrel (Box 1.4), inflation remains at or below 2% *per annum*. The fiscal balance for the area as a whole remains negative in a range of 1½ to 1¾ per cent of GDP, reflecting continuing structural deficits in most major economies. No unwinding of recent and projected extraordinary revenue buoyancy is assumed over the baseline period.

Real growth is widely dispersed: robust in the United States…

Potential output for the United States is projected to grow at around 2¾ per cent *per annum* over the medium term driven by both dynamic trend productivity and labour force growth, revised down slightly from previous estimates. With output slightly below potential through much of the period, inflation declines to around 1¾ per cent in 2013. The general

38. The underlying supply-side assumptions are derived consistently with the methodology described in Beffy, P-O., P. Ollivaud, P. Richardson and F. Sédillot (2006) "New OECD methods for supply-side and medium-term assessment: a capital services approach", *OECD Economics Department Working Papers*, No. 482.

Table 1.11. **Medium-term reference scenario summary**

Per cent

	Real GDP growth	Inflation rate[1]		Unemployment rate[2]		Current balance[3]		Long-term interest rate	
	2009-2013	2008	2013	2008	2013	2008	2013	2008	2013
Australia	2.7	2.4	2.4	4.6	5.0	-5.2	-4.6	5.9	6.1
Austria	1.9	1.9	1.7	5.3	4.9	4.5	5.1	4.3	4.4
Belgium	1.8	1.8	1.7	7.1	7.2	2.1	2.6	4.3	4.4
Canada	2.5	1.9	1.9	6.0	6.6	2.0	2.8	4.4	4.8
Czech Republic	3.4	3.3	1.9	6.1	6.8	-2.5	-2.4	4.3	5.1
Denmark	1.1	2.6	1.7	3.5	4.5	1.8	2.6	4.2	4.4
Finland	1.8	1.7	1.5	6.8	8.0	6.1	6.5	4.3	4.4
France	2.1	1.7	1.7	8.0	8.5	-1.0	-1.1	4.2	4.4
Germany	1.5	1.7	1.7	6.3	7.2	7.0	6.7	4.2	4.4
Greece	3.4	3.0	2.1	7.9	8.3	-8.9	-7.1	4.4	4.5
Hungary	4.1	3.7	2.9	7.5	5.2	-2.2	-2.6	5.8	5.7
Iceland	3.2	2.5	2.7	3.8	2.7	-13.5	-9.6	10.5	6.2
Ireland	4.5	3.0	1.7	4.3	5.0	-1.1	-2.7	4.3	4.4
Italy	1.3	2.1	1.7	6.0	6.0	-2.6	-2.8	4.5	4.6
Japan	1.3	0.3	1.0	3.6	3.8	5.4	5.1	2.4	3.5
Korea	4.9	3.0	2.4	3.4	3.5	-0.4	-0.9	5.8	5.3
Luxembourg	3.8	2.8	1.7	3.7	4.4	9.7	10.5	3.8	4.4
Mexico	3.8	3.5	3.1	3.7	3.7	-1.3	-1.3	7.2	5.9
Netherlands	1.4	1.8	1.7	2.8	3.3	7.6	6.7	4.3	4.4
New Zealand	2.7	2.0	1.9	4.4	4.3	-9.1	-8.6	5.7	5.6
Norway	2.2[4]	2.5	2.4	2.7	4.4	16.9	16.6	5.0	4.8
Poland	3.8	2.3	2.3	9.7	10.1	-2.5	-2.4	5.4	4.8
Portugal	1.9	2.1	1.7	7.1	4.9	-9.5	-9.0	4.4	4.5
Slovak Republic	4.6	2.1	1.9	10.3	10.3	-2.5	-1.4	4.3	4.5
Spain	2.4	2.7	1.9	8.1	8.1	-10.5	-9.0	4.2	4.4
Sweden	2.3	2.5	1.9	4.3	4.7	6.8	5.6	4.7	4.7
Switzerland	1.8	1.1	0.7	2.9	2.2	18.0	20.2	2.9	2.9
Turkey	7.4	6.2	4.6	9.6	8.0	-7.2	-8.0	14.0	9.0
United Kingdom	2.4	2.1	1.9	5.5	5.3	-2.7	-2.3	5.0	4.9
United States	2.7	2.2	1.8	4.8	4.6	-6.2	-5.9	4.8	5.4
Euro area	1.9	2.0	1.8	6.7	7.0	0.4	0.3	4.3	4.5
Total OECD	2.5	2.0[5]	1.8[5]	5.5	5.5	-1.5	-1.5	4.5[5]	4.8[5]

Note: For further details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*
1. Percentage change from the previous period in the private consumption deflator.
2. Per cent of labour force.
3. Per cent of nominal GDP.
4. Including oil-sector.
5. Excluding Turkey.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/036128041672

government deficit remains at around 3% of GDP over the medium term, translating into a continuing deterioration in public debt, with general government net financial liabilities rising to around 50% of GDP in 2013.

... but more modest in Europe

In the euro area, potential output growth, at around 2% *per annum*, is much slower than in the United States, reflecting lower growth in both the working-age population and trend labour productivity. With output close to potential in 2008, real GDP growth for the region averages 2% *per annum* over the medium term. Unemployment remains close to its estimated

Table 1.12. **Fiscal trends in the medium-term reference scenario**

As a percentage of nominal GDP

	Financial balances[1]		Net financial liabilities[2]		Gross financial liabilities[3]		Gross public debt (Maastricht definition)[4]	
	2008	2013	2008	2013	2008	2013	2008	2013
Australia	1.0	1.0	-6	-9	14	7	..	..
Austria	-0.6	0.0	39	33	66	56	60	49
Belgium	0.0	0.2	70	57	85	70	83	68
Canada	0.7	1.0	23	14	65	47	..	..
Czech Republic	-3.5	-3.7	7	22	36	43	..	..
Denmark	3.7	1.6	-5	-14	27	13	22	8
Finland	3.2	2.5	-62	-67	50	42	43	35
France	-1.7	-1.4	39	40	72	73	61	62
Germany	-0.4	-1.0	49	45	68	61	64	57
Greece	-2.2	-2.0	62	56	88	75	78	66
Hungary	-4.8	-3.6	52	50	74	67	..	..
Iceland	-0.3	0.8	11	7	34	23	..	..
Ireland	1.7	1.4	-1	-7	30	15	24	9
Italy	-2.5	-2.3	93	91	118	112	105	99
Japan	-3.0	-3.3	87	94	178	185	..	..
Korea	2.4	2.1	-36	-38	29	29	..	..
Luxembourg	1.1	1.4	-39	-35	12	11	..	..
Netherlands	0.3	0.0	32	26	58	52	47	41
New Zealand	2.3	3.0	-10	-20	23	6	..	..
Norway	18.8	17.0	-188	-228	37	34	..	..
Poland	-2.4	-2.1	8	3	46	31	..	..
Portugal	-2.4	0.4	47	41	74	68	66	60
Slovak Republic	-2.2	-0.8	-2	-10	34	16	..	..
Spain	1.5	1.6	18	7	40	23	32	16
Sweden	2.5	1.7	-19	-26	47	43	40	36
Switzerland	1.0	2.1	17	7	58	43	..	..
United Kingdom	-2.6	-2.5	41	45	48	50	46	48
United States	-2.9	-3.0	45	50	63	66	..	..
Euro area	-0.7	-0.7	47	42	73	66	65	58
Total of above OECD countries	-1.6	-1.7	43	43	76	75		

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

1. General government fiscal surplus (+) or deficit (-) as a percentage of GDP.
2. Includes all financial liabilities minus financial assets, as defined by the System of National Accounts (where data availability permits) and covers the general government sector, which is a consolidation of central government, state and local government and the social security sector.
3. Includes all financial liabilities, as defined by the System of National Accounts (where data availability permits) and covers the general government sector, which is a consolidation of central government, state and local government and the social security sector.
4. Debt ratios are based on debt figures for 2006, provided by Eurostat, and GDP figures from national authorities, projected forward in line with the OECD projections for GDP and general government financial liabilities.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/036130064302

underlying structural rate of 7%, with inflation at around 1¾ per cent *per annum*. Over the period, the fiscal deficit for the euro area is broadly unchanged at about ¾ per cent of GDP in 2013. There are nonetheless fairly wide disparities across euro area countries with structural balances ranging from –2¼ to 2½ per cent of GDP in the end year. With the exception of Denmark and Sweden, the fiscal balances in most of the other European Union countries remain in substantial deficit.

Table 1.13. **Growth in total economy potential output and its components**

Annual averages, percentage points

	Output gap	Potential GDP growth		Potential labour productivity growth (output per employee)		Potential employment growth		Components of potential employment[1]: *Trend participation rate*		*Working age population*		*Structural unemployment*[2]	
	2008	2004-2008	2009-2013	2004-2008	2009-2013	2004-2008	2009-2013	2004-2008	2009-2013	2004-2008	2009-2013	2004-2008	2009-2013
Australia	-0.2	3.2	2.7	1.7	2.0	1.5	0.7	0.1	0.0	1.2	0.7	0.1	0.0
Austria	-0.1	2.2	1.9	1.7	1.8	0.5	0.1	0.1	0.1	0.4	0.1	0.0	0.0
Belgium	-0.1	2.1	1.8	1.2	1.6	0.8	0.2	0.3	0.1	0.6	0.1	0.0	0.0
Canada	-0.3	3.0	2.4	1.4	1.7	1.6	0.7	0.3	0.1	1.3	0.6	0.1	0.0
Denmark	1.7	1.7	1.4	1.6	1.7	0.1	-0.2	-0.2	-0.1	0.2	-0.2	0.1	0.0
Finland	1.4	3.0	2.1	2.4	2.3	0.6	-0.2	0.3	0.1	0.2	-0.4	0.1	0.0
France	-1.0	1.8	1.9	1.3	1.6	0.6	0.4	-0.1	-0.2	0.6	0.5	0.0	0.0
Germany	1.0	1.5	1.7	1.3	1.6	0.2	0.1	0.4	0.2	-0.3	-0.1	0.1	0.0
Greece	0.5	4.1	3.5	3.2	3.2	0.9	0.3	0.7	0.3	0.1	-0.2	0.1	0.1
Iceland	-3.6	4.4	2.4	2.5	1.7	1.9	0.7	0.0	0.0	1.9	0.7	0.0	0.0
Ireland	0.5	5.4	4.6	1.9	2.1	3.4	2.5	1.0	0.8	2.3	1.6	0.2	0.0
Italy	-0.5	1.3	1.3	0.8	1.5	0.5	-0.2	0.5	0.1	-0.1	-0.3	0.2	0.0
Japan	0.7	1.5	1.5	2.0	2.2	-0.4	-0.7	0.2	0.2	-0.7	-0.9	0.0	0.0
Netherlands	1.2	1.8	1.7	1.2	1.3	0.6	0.3	0.5	0.3	0.1	0.0	0.0	0.0
New Zealand	-2.2	2.9	2.3	1.1	1.6	1.8	0.6	0.3	0.0	1.3	0.6	0.2	0.0
Norway[3]	2.3	3.3	2.6	2.2	2.3	1.1	0.4	0.0	0.0	1.1	0.3	0.0	0.0
Spain	-0.1	3.2	2.3	0.3	1.2	2.9	1.1	0.9	0.2	1.6	0.9	0.5	0.1
Sweden	1.2	3.1	2.6	2.3	2.4	0.8	0.1	0.2	0.0	0.7	0.1	0.0	0.0
Switzerland	0.0	1.7	1.8	0.8	1.0	0.9	0.7	0.1	0.1	0.8	0.6	0.0	0.0
United Kingdom	-0.2	2.7	2.4	1.8	2.1	0.8	0.3	0.1	0.1	0.7	0.2	0.0	0.0
United States	-0.1	2.7	2.7	2.0	2.1	0.7	0.6	-0.5	-0.5	1.2	1.1	0.0	0.0
Euro area	0.0	2.0	1.9	1.1	1.6	0.9	0.2	0.5	0.1	0.3	0.2	0.1	0.0
Total of above OECD countries	0.1	2.3	2.2	1.6	1.9	0.7	0.3	-0.1	-0.3	0.7	0.6	0.1	0.0

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/036140750706

For Japan growth slows moderately and fiscal deficits persist

Potential output in Japan is projected to grow at around 1½ per cent over the period, with an up-tick in trend productivity growth broadly offsetting the increasingly negative impact on working-age population arising from ageing. With Japan projected to operate above potential in 2008, GDP growth slows over the medium-term horizon, while inflation is projected to remain in positive territory rising to around 1% by 2013. The public deficit is projected to increase moderately over the medium term to around 3¼ per cent of GDP in 2013, with gross public sector liabilities rising steadily over the period to around 185% of GDP in 2013. The projected deterioration in the fiscal balance is largely structural, reflecting increases in ageing-related expenditures which are only partly offset by increases in social security contributions assumed to take place over the period.

Box 1.4. **Assumptions underlying the medium-term reference scenario**

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

- Gaps between actual and potential output are eliminated by 2013 in all OECD countries.
- Unemployment returns to its estimated structural rate (the NAIRU) in all OECD countries by 2013.[1]
- Commodity prices remain unchanged in real terms apart from oil prices which are assumed to be constant in nominal terms at $65 per barrel (Brent crude).
- Exchange rates remain unchanged in nominal terms.
- Monetary policies are directed at keeping inflation low, or bringing inflation in line with medium-term objectives.
- Fiscal policies are assumed to remain broadly unchanged (with the cyclically-adjusted primary budget deficit/surplus held approximately constant from one year to the next),[2] subject to Secretariat assessment of specific influences implicit in currently legislated tax and expenditure measures.

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

1. The concept and measurement of structural unemployment rates are discussed in more detail in Chapter V, "Revised OECD measures of structural unemployment", *OECD Economic Outlook* No. 68, December 2000.
2. This implicitly assumes that the authorities take measures to offset underlying changes in primary structural balances.

World trade remains robust, but current accounts fail to adjust

Against a background of fairly robust growth in the OECD and non-OECD regions (notably China and Dynamic Asia), world trade is projected to grow steadily over the period, by up to 9% *per annum*. At broadly unchanged nominal exchange rates and in the absence of major changes in potential growth or trade openness, there is only slight adjustment in regional imbalances and the current account deficit for the OECD area remains at around 1½ per cent of GDP. The euro area current account is projected to remain close to balance whilst the US current account deficit is projected to remain close to 6% of GDP, reflecting persistent public dissaving and little further adjustment in private-sector saving and investment. This deficit is partly offset by continuing large surpluses for Japan, at around 5% of GDP, and a number of smaller OECD countries.

ISBN 978-92-64-03449-5
OECD Economic Outlook 81

Chapter 2

DEVELOPMENTS IN INDIVIDUAL OECD COUNTRIES AND SELECTED NON-MEMBER ECONOMIES

UNITED STATES

Output has slowed to below its potential growth rate, reflecting a dramatic contraction in house building. As this flattens out, GDP growth should progressively return to trend. Core inflation has been high, partly due to rising housing costs and the flow-on of higher energy prices to other goods and services. But, as long as expectations of inflation remain relatively low, these effects should fade and inflation should edge down.

Monetary policy is mildly restrictive. This stance should be maintained as long as core inflation remains high and the unemployment rate stays low. The federal government budget deficit has fallen, reflecting a largely unexplained surge in tax collections. But the fiscal improvement looks likely to be reversed due to rising military spending and the effects of slower GDP growth on tax collections. This raises the urgency of addressing the long-run challenges of funding entitlements.

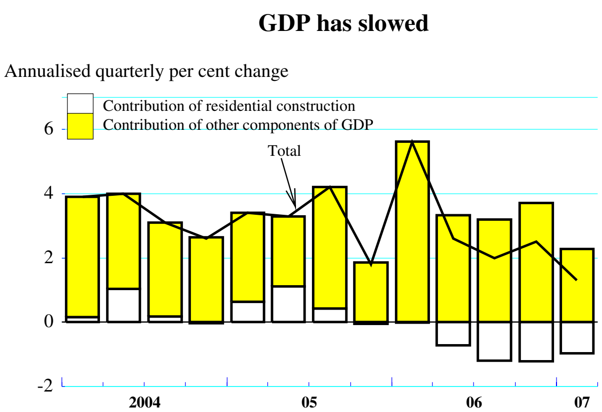
Output has slowed

Real GDP grew by 2.1 per cent over the year to 2007Q1, a markedly slower rate of growth than before. The deceleration reflects a sharp drop in residential construction, which subtracted 1% from GDP in this period. Rising interest rates and a correction of previous building excesses have contributed to this contraction, though its magnitude is surprisingly large. Outside the housing sector, activity in the rest of the economy has been strong, with spending on non-residential structures and exports growing particularly quickly. In more fundamental terms, the slowdown in activity was necessary, as the expansion appeared to be outstripping available resources.

But the labour market remains strong

Although the growth in GDP has been below that of its potential (now estimated to be about 2.7%), the labour market has been strong. Non-farm payrolls grew at an annual rate of 1.5% in 2007Q1, the same pace as in previous quarters and well in excess of the trend growth of the labour force. Consequently, the unemployment rate has trended down, reaching a six-year low of 4.4% in March. Most of the strength of the labour market – and its corollary, weak productivity – probably reflects cyclical lags. Indeed, the most recent April data showed weaker employment growth.

United States



Source : US Bureau of Labor Statistics, Bureau of Economic Analysis, OECD Analytical Database.

StatLink http://dx.doi.org/10.1787/032782680558

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United States: Employment, income and inflation

Percentage changes from previous period

	2004	2005	2006	2007	2008
Employment[1]	1.1	1.6	1.8	1.0	0.4
Unemployment rate[2]	5.5	5.1	4.6	4.6	4.8
Employment cost index	3.8	3.1	2.9	3.3	4.0
Compensation per employee[3]	4.4	3.6	4.6	4.5	4.5
Labour productivity[3]	3.1	1.7	1.6	1.1	2.1
Unit labour cost[3]	1.7	2.2	2.9	3.5	2.4
GDP deflator	2.8	3.0	2.9	2.6	2.2
Consumer price index	2.7	3.4	3.2	2.6	2.6
Core PCE deflator[4]	2.0	2.1	2.2	2.2	2.1
Private consumption deflator	2.6	2.9	2.7	2.4	2.2
Real household disposable income	3.6	1.2	2.6	3.1	2.9

1. Whole economy, for further details see *OECD Economic Outlook* Sources and Methods, *(http://www.oecd.org/eco/sources-and-methods).*
2. As a percentage of labour force.
3. In the private sector.
4. Price index for personal consumption expenditure excluding food and energy.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/033785723873

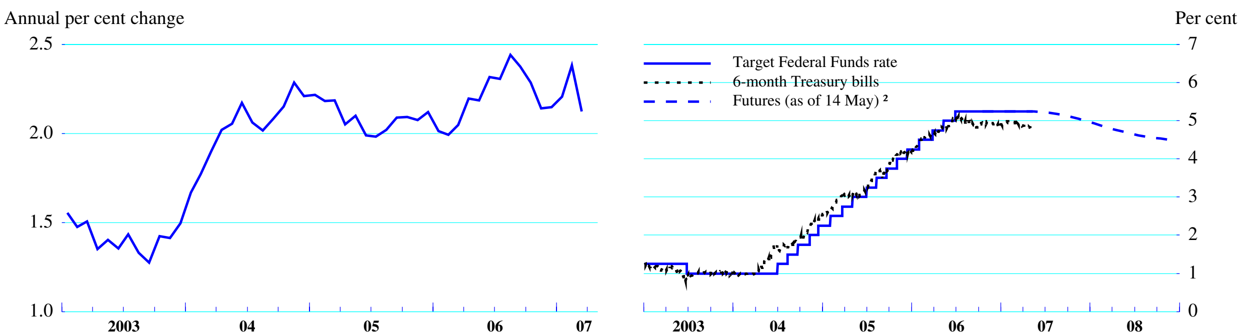
Nevertheless, the persistence of the divergence between weak output and strong employment raises questions about whether estimates of trend productivity should be further revised downward.

Although core inflation is too high…

Since early 2004, core inflation, as measured by the price index for personal consumption expenditures (PCE) excluding food and energy, has remained above 2% – the upper limit of the range some policy-makers have said they are comfortable with. A substantial part of this excess inflation may reflect indirect effects of higher energy prices, though estimates of this contribution are uncertain. More recently, housing costs, largely comprising rent and the price owner-occupiers are assumed to pay themselves, have risen sharply. The rise in rents is difficult to attribute to

United States

Core inflation remains high ¹ | **But markets expect a monetary policy easing**



1. Price index for personal consumption expenditure, excluding food and energy.
2. Eurodollar futures, adjusted for term and risk premia.

Source : Federal Reserve, Chicago Mercantile Exchange, OECD Main Economic Indicators.

StatLink http://dx.doi.org/10.1787/032831018583

United States: Financial indicators

	2004	2005	2006	2007	2008
Household saving ratio[1]	2.0	-0.4	-1.1	-1.2	-0.8
General government financial balance[2]	-4.6	-3.7	-2.3	-2.7	-2.9
Current account balance[2]	-5.7	-6.4	-6.5	-6.1	-6.2
Short-term interest rate[3]	1.6	3.5	5.2	5.3	5.0
Long-term interest rate[4]	4.3	4.3	4.8	4.7	4.8

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/033817867311

excess demand, as vacancy rates are high. It may reflect a catch-up to previous large increases in house prices. In any case, this contribution seems likely to continue but at a diminishing pace.

... inflation expectations remain moderate

Despite some strong upward pressures on inflation, expectations of long-term inflation remain moderate. For example, bond yields appear to include a premium compensating for expected increases in the consumer price index of about 2½ per cent, much as they have for the past several years. Given historical term premia and differences between the price series, that seems consistent with core PCE prices rising at about a 2% rate. Although wage measures are mixed, the employment cost index for private-sector workers has remained remarkably subdued, rising 3.2% in the year to March 2007 – showing little, if any, sign that wage setters are building higher inflation into their negotiations.

United States: Demand and output

	2003	2004	2005	2006	2007	2008
	Current prices $ billion	Percentage changes, volume (2000 prices)				
Private consumption	7 703.6	3.9	3.5	3.2	3.1	2.4
Government consumption	1 736.5	2.1	0.9	1.6	2.5	2.5
Gross fixed investment	2 005.7	6.1	6.4	3.1	-2.9	1.8
Public	356.0	0.5	1.1	4.1	2.4	2.5
Residential	572.4	9.9	8.6	-4.2	-16.0	-3.4
Non-residential	1 077.4	5.9	6.8	7.2	2.6	4.0
Final domestic demand	11 445.8	4.0	3.6	2.9	1.9	2.3
Stockbuilding[1]	14.3	0.4	-0.3	0.2	-0.2	0.0
Total domestic demand	11 460.2	4.4	3.3	3.2	1.7	2.4
Exports of goods and services	1 040.8	9.2	6.8	8.9	5.6	7.1
Imports of goods and services	1 540.2	10.8	6.1	5.8	2.0	4.7
Net exports[1]	- 499.4	-0.6	-0.2	0.0	0.3	0.0
GDP at market prices	10 960.8	3.9	3.2	3.3	2.1	2.5

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

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/033826503575

United States: External indicators

	2004	2005	2006	2007	2008
			$ billion		
Goods and services exports	1 178.1	1 303.2	1 466.2	1 594	1 734
Goods and services imports	1 791.4	2 019.9	2 228.7	2 319	2 487
Foreign balance	- 613.2	- 716.7	- 762.5	- 726	- 753
Invisibles, net	- 52.1	- 74.8	- 94.2	- 116	- 152
Current account balance	- 665.3	- 791.5	- 856.7	- 842	- 905
			Percentage changes		
Goods and services export volumes	9.2	6.8	8.9	5.6	7.1
Goods and services import volumes	10.8	6.1	5.8	2.0	4.7
Export performance[1]	- 1.6	- 1.4	- 0.1	- 1.2	- 0.6
Terms of trade	- 1.3	- 2.5	- 0.9	0.9	- 0.8

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/033875521410

Monetary policy is mildly restrictive

The federal funds rate has remained at 5¼ per cent since July 2006. This mildly restrictive stance reflects a core inflation rate that is higher than desired and an unemployment rate that is below most estimates of its sustainable level. Ordinarily, tighter policy might be expected in these circumstances. However, the expectation that the increase in inflation is temporary, coupled with the downturn in the housing market, suggest that only light restraint is needed – an assessment that will be revised in the light of incoming data. Should core inflation remain high and unemployment stay low, then a further tightening would be appropriate.

Bond yields seem low

Long–term interest rates have fluctuated without trend about a low level over recent months. Financial markets seem to expect the federal funds rate to fall to 4½ per cent by late-2008. This suggests the markets are discounting Federal Reserve statements that it is worried about the inflation outlook. If the federal funds rate does remain at its current level through 2007, as assumed in this projection, then bond yields are likely to rise slightly.

The near-term fiscal position has improved

The consolidated federal budget deficit (including the social security surplus) narrowed further in calendar year 2006, to 1.5% of GDP on a national accounts basis. The decline reflected a further unexpected boom in tax receipts while outlays rose in line with GDP. Looking forward, the deficit is expected to widen again. Expenditures are seen to rise in real terms, mainly due to military spending. Revenue growth seems likely to ease with the slowdown in the economy – though the share of taxes in GDP will remain high.

Housing will eventually level out

Residential investment should continue declining for several more quarters, largely reflecting further reductions in activity flowing from the decline in starts that has already occurred. But with the fundamentals underpinning housing demand (rising incomes, population, low unemployment, moderate mortgage rates) still solid, a collapse like those seen during past recessions is unlikely and the market should flatten out. With the rest of the economy continuing to grow strongly, GDP growth should return to near its potential rate by 2008. The unemployment rate is projected to rise to 4¾ per cent and then flatten out. Strong demand abroad coupled with slower growth at home should help to stabilise the current account deficit at a little over 6% of GDP.

Core inflation should decline slightly

Core inflation is expected to edge down slightly. The impetus from higher energy prices and housing costs should fade. If inflationary expectations remain moderate, the increase in core inflation should not persist. With unemployment remaining near the non-accelerating inflation rate of unemployment (NAIRU), demand pressures on inflation are likely to be small.

Sub-prime mortgages pose a downside risk…

One uncertainty about this projection concerns the recent turmoil in the sub-prime mortgage market. Though important for financial markets, the macroeconomic implications of these developments may be small. At the time of writing, there appears to have been little flow-on effect, so far, to fixed-rate sub-prime lending, prime mortgages, or other credit markets, such as for automobiles. There will probably be some further reduction in home lending, though that should also be small relative to the sharp decline already seen to date. But these conjectures may prove too optimistic, so there is a risk of larger effects.

… as does equipment spending

Another uncertainty relates to business spending on equipment. In the first quarter of 2007, orders and shipments of core capital goods (that is, those excluding aircraft and defence) fell noticeably. Although the sources of this decline are not fully understood, many factors could have contributed: changes in overall demand typically have larger effects on business investment via accelerator mechanisms; new emissions regulations brought truck sales forward; and demand for construction equipment has weakened markedly. The special nature of these factors suggest that the slump in equipment spending may be short-lived. Indeed, recent monthly data show a pick-up. But if that assessment is incorrect, economic growth will be weaker going forward.

 OECD ECONOMIC OUTLOOK 81 – ISBN 978-92-64-03449-5 – © OECD 2007

JAPAN

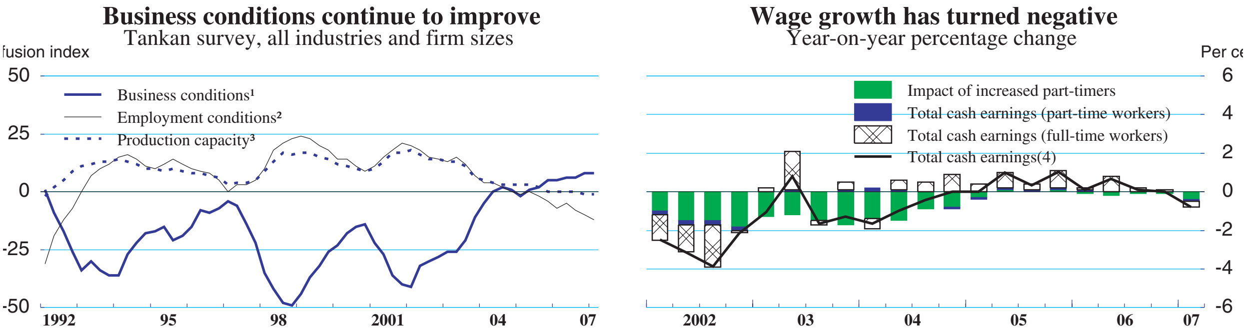
The longest expansion in the post-war history of Japan remains on track, led by buoyant corporate activity, although stagnant wages have limited the positive impact on the household sector thus far. The further tightening of the labour market is projected to boost wage gains during 2007-08, leading to faster growth in private consumption and pushing inflation into positive territory.

The Bank of Japan should not raise the short-term policy interest rate further until inflation is firmly positive and the risk of renewed deflation becomes negligible. Rapid ageing makes fiscal consolidation, based on reform of the tax system and expenditure cuts, increasingly urgent. Moreover, given the accelerated decline in the working-age population, structural reform, particularly in the product and labour markets, is a priority in order to achieve further increases in living standards.

The expansion led by the corporate sector continues...

After a sluggish third quarter in 2006, real GDP bounced back with its largest increase in three years in the fourth quarter, and the positive momentum continued in the first quarter of 2007. Business investment, underpinned by strong corporate profits, remains the key driver of the expansion. The March Tankan survey reported that business confidence remains at a relatively high level. In addition, the outlook for capital investment in fiscal year (FY) 2007 is encouraging, in part due to external demand. Exports are growing steadily, helped by a weak currency. Indeed, the effective exchange rate of the yen in the first quarter of 2007 was 19% lower than the 2000 average, the second largest decline in the OECD area. Meanwhile, private consumption was sluggish in the second half of 2006, reflecting weak wage gains despite the tightening of the labour market as indicated by a fall in the unemployment rate to the lowest level in nine years and a job-offer-to-applicant ratio above unity. Indeed, total wages declined by 0.8% (year-on-year) in the first quarter of 2007, and wages for full-time workers decelerated from a gain of 0.8% in the second quarter of 2006 to a decline of 0.6% in the first quarter of 2007. In sum, the benefits of the long expansion led by business investment and exports have not spread fully to the household sector.

Japan



Diffusion index of ''Favorable'' minus ''Unfavorable'' business conditions.
Diffusion index of ''Excessive employment'' minus ''Insufficient employment''.
Diffusion index of ''Excessive capacity'' minus ''Insufficient capacity''.
Total cash earnings: all workers, including bonuses.
ource: Bank of Japan and Ministry of Health, Labour and Welfare.

StatLink http://dx.doi.org/10.1787/032256452856

Japan: Employment, income and inflation

Percentage changes from previous period

	2004	2005	2006	2007	2008
Employment	0.2	0.4	0.4	0.2	-0.3
Unemployment rate[1]	4.7	4.4	4.1	3.8	3.6
Compensation of employees	-0.8	0.9	1.5	1.6	1.7
Unit labour cost	-3.5	-1.0	-0.7	-0.9	-0.3
Household disposable income	0.8	0.2	0.6	0.8	1.9
GDP deflator	-1.1	-1.3	-0.9	-0.4	0.2
Consumer price index[2]	0.0	-0.6	0.2	-0.3	0.3
Core consumer price index[3]	-0.4	-0.4	-0.4	-0.1	0.3
Private consumption deflator	-0.7	-0.8	-0.3	-0.5	0.3

1. As a percentage of labour force.
2. Calculated as the sum of the seasonally adjusted quarterly indices for each year. In the Japanese official statistics, annual growth rates are based on the non-seasonally adjusted series, giving -0.3% in 2005 and 0.3% in 2006.
3. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 81 database.

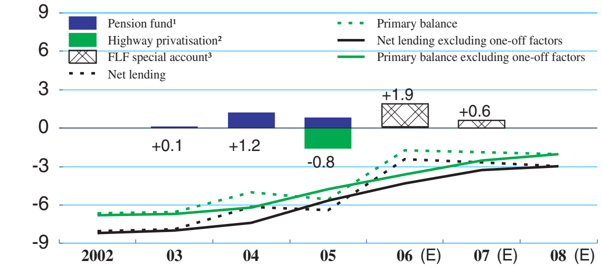
StatLink http://dx.doi.org/10.1787/034015277544

... and although deflation is not over yet...

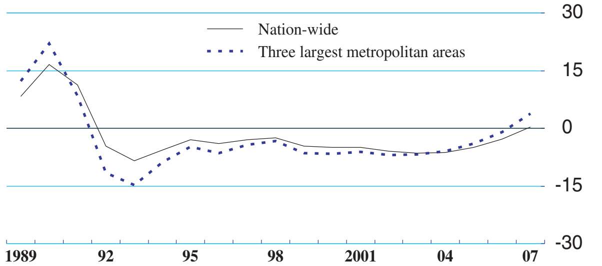
Despite the continued expansion and a weak currency, prices are still falling according to some measures. As upward pressure from energy prices has eased, both the headline and the official Japanese measure of core consumer prices (excluding fresh food only) declined in the first quarter of 2007, while the narrower measure of core consumer prices (excluding food and energy) calculated by the OECD continues to fall. The GDP and private consumption deflators also remain in negative territory on a year-on-year basis. Such trends have reduced consumers' price expectations, so that the consensus forecast for inflation at the end of 2008 (consumer price index excluding fresh food) has moved down to less than 0.5%. On the other hand, the corporate price index (which covers goods traded among firms) continues to rise steadily, and the nation-wide land price index finally achieved positive growth in 2007 for the first time in 16 years. Increases in commercial land prices are particularly strong,

Japan

The fiscal deficit continues to decline



Land prices have started to rise
Annual percentage change(4)



1. Transfer of the basic part of corporate pension funds to the government (Daiko Henjo).
2. Transfer of debt from the highway corporations, which were privatised, to the newly established Expressway Holding and Debt Repayment Agency.
3. Transfer of reserve fund from the Fiscal Loan Fund Special Account to the central government to reduce debt.
4. Average of all land categories.

Source: Cabinet Office, Ministry of Finance, OECD calculations and Ministry of Land, Infrastructure and Transport.

StatLink http://dx.doi.org/10.1787/032322305860

Japan: Financial indicators

	2004	2005	2006	2007	2008
Household saving ratio[1]	3.5	3.0	3.1	2.9	3.0
General government financial balance[2]	-6.2	-6.4	-2.4	-2.7	-3.0
Current account balance[2]	3.7	3.7	3.9	4.8	5.4
Short-term interest rate[3]	0.0	0.0	0.2	0.5	0.6
Long-term interest rate[4]	1.5	1.4	1.7	1.9	2.4

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034058426856

with double-digit growth rates achieved in some regional cities as well as in the major metropolitan areas. These mixed signals suggest that, despite sustained economic growth at a pace above Japan's potential rate, structural changes in the labour market are acting as a drag on wage and price developments. These structural changes include the large-scale retirement of baby boomers and the continued shift towards lower-paid part-time workers, which has a negative impact on the wages of regular workers.

... the Bank of Japan has raised its policy rate again

Despite the continued decline in consumer prices, the Bank of Japan raised its policy rate by a quarter percentage point to 0.5% in February. The financial market expects two more hikes by early 2008, which suggests that the Monetary Policy Board's view of price stability as inflation

Japan: Demand and output

	2003	2004	2005	2006	2007	2008
	Current prices ¥ trillion	Percentage changes, volume (2000 prices)				
Private consumption	281.8	1.6	1.6	0.9	1.5	1.5
Government consumption	88.5	1.9	1.7	0.3	1.3	1.7
Gross fixed investment	111.8	1.4	2.4	3.5	3.0	1.4
Public[1]	27.3	-9.0	-6.2	-7.4	-4.9	-5.1
Residential	17.8	1.9	-1.3	1.0	1.1	0.4
Non-residential	66.6	5.6	6.6	7.6	5.6	3.3
Final domestic demand	482.1	1.6	1.8	1.4	1.8	1.5
Stockbuilding[2]	0.2	0.3	-0.1	0.1	-0.1	0.0
Total domestic demand	482.3	1.9	1.7	1.4	1.7	1.5
Exports of goods and services	58.9	13.9	7.0	9.5	7.4	8.2
Imports of goods and services	50.9	8.1	5.8	4.5	2.7	5.3
Net exports[2]	8.0	0.8	0.3	0.8	0.8	0.6
GDP at market prices	490.3	2.7	1.9	2.2	2.4	2.1

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

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034077144658

Japan: External indicators

	2004	2005	2006	2007	2008
			$ billion		
Goods and services exports	613.1	652.8	702.2	753	818
Goods and services imports	524.1	589.4	647.8	674	717
Foreign balance	89.0	63.4	54.3	80	101
Invisibles, net	83.6	102.9	116.9	128	139
Current account balance	172.6	166.3	171.2	208	241
			Percentage changes		
Goods and services export volumes	13.9	7.0	9.5	7.4	8.2
Goods and services import volumes	8.1	5.8	4.5	2.7	5.3
Export performance[1]	0.7	- 0.8	1.3	0.2	- 0.5
Terms of trade	- 4.0	- 6.4	- 6.6	- 1.4	- 0.6

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034083688571

between 0 and 2% provides little guidance to the course of monetary policy in the short term. Given the importance of ensuring an adequate buffer against deflation by allowing inflation to rise until it is firmly positive and the risk of renewed deflation becomes negligible, the OECD's projection assumes that the policy interest rate remains unchanged until near the end of 2008.

Fiscal consolidation should be continued

The fiscal stance is projected to be contractionary in 2007, with a fall in the cyclically-adjusted deficit from 4¼ per cent in 2006 (excluding one-off factors) to 3¼ per cent in 2007. The decline is primarily due to the ending of the temporary personal income tax cut, strong corporate tax revenue, the scheduled hike in pension contributions and continued cuts in public investment. However, progress in fiscal consolidation would slow in 2008 if no additional measures were taken. In January 2007, the government announced its new medium-term policy framework, "Direction and Strategy for the Japanese Economy", which maintains the goal of achieving a primary budget surplus for the combined central and local governments by FY 2011. This is a first step toward reducing the public debt-to-GDP ratio in the long term. The authorities also plan to establish a mechanism to ensure that the annual budget is consistent with the medium-term spending target. Such a link, which has been recommended by the OECD in the past, is a welcome step to raise the credibility of fiscal policy. However, its effectiveness will depend on the design of the mechanism. In contrast to the spending projections, the medium-term framework still lacks detailed revenue targets. Effective fiscal consolidation requires a detailed tax reform plan.

The economy is projected to grow at a 2% rate through 2008

The economy is projected to grow at a 2% annual pace through 2008, a rate above Japan's growth potential as estimated by the OECD. Business investment is expected to remain the key driver of the expansion, though it will slow to a more sustainable pace. The labour market will continue to tighten, reflecting the shrinking working-age population. With the unemployment rate expected to fall below its “natural” rate in mid-2007, wages are projected to finally pick up, leading to faster growth in private consumption. A continued expansion should push inflation firmly into positive territory, rising to a year-on-year rate of nearly ½ per cent by the end of 2008. However, there are a number of risks to the outlook, including a decline in overseas demand, notably from China and Southeast Asia, and a sudden and marked appreciation of the yen as the current account surplus continues rising to over 5% of GDP in 2008. On the domestic side, the key risk is that the expected acceleration in wage growth will fail to materialise. Finally, further interest rate hikes by the central bank would have an adverse impact on domestic demand.

EURO AREA

The euro area started this year with considerable momentum. Growth in 2006 was higher than it has been since 2000, with stronger activity leading to a further improvement in the labour market. The outlook is bright. Consumption is expected to underpin the recovery going forward, with business and residential investment playing less of a role. GDP is projected to grow by 2¾ and 2¼ per cent this year and next, with inflation staying at close to 2%.[1]

With underlying inflation close to the central bank's target, and upside risks on the horizon, some additional monetary tightening may be appropriate. The improvement in the fiscal position is welcome, but more is required to make it sustainable. Countries should also take advantage of the upswing to reform their product and labour markets. Strengthening the internal market in the European Union would improve the euro area's longer term growth prospects and would make the monetary union run more smoothly.

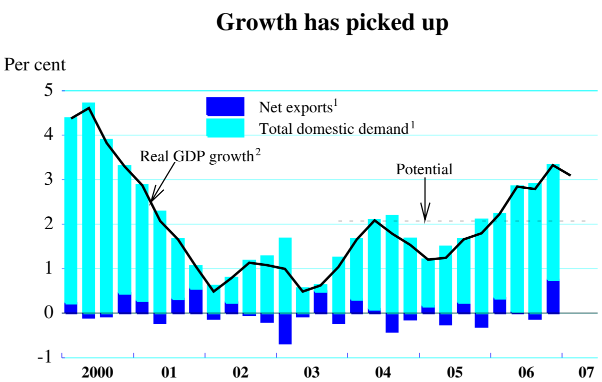
The expansion is continuing at a healthy pace

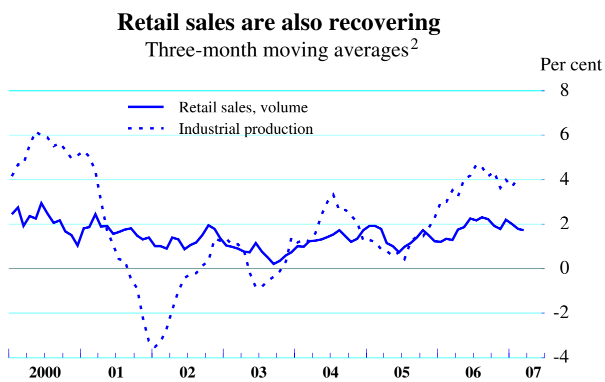
The euro area expansion is well entrenched. Output grew by 2¾ per cent last year, the fastest growth rate since 2000. Domestic demand has been the main driver of growth in recent quarters, indicating that the expansion has become self-sustaining. Investment has been particularly strong, especially residential construction, although equipment investment has also picked up in line with increased confidence in the durability of the upswing. Exports grew strongly throughout 2006, though export performance varied widely across euro area countries. Private consumption has been growing at a more measured pace, however, as households are still cautious and consumer spending has stayed closely in line with disposable income.

The labour market is tightening

The improvement in the labour market has been a noticeable bright spot. The unemployment rate has fallen to around 7%, and it is now at its lowest level for 15 years. At the same time, labour market participation

Euro area





1. Contribution to real GDP growth, in per cent of previous year's GDP.
2. Year-on-year percentage changes.
Source: Eurostat and OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/031720682271

1. Euro area aggregates do not include Slovenia.

Euro area: Employment, income and inflation

Percentage changes from previous period

	2004	2005	2006	2007	2008
Employment	0.9	1.0	1.6	1.5	1.2
Unemployment rate[1]	8.8	8.5	7.8	7.1	6.7
Compensation per employee[2]	1.6	1.0	1.7	2.1	2.9
Labour productivity	0.9	0.5	1.2	1.2	1.1
Unit labour cost	1.0	1.1	0.9	1.0	1.8
Household disposable income	3.6	3.2	3.6	3.7	4.0
GDP deflator	1.9	1.9	1.7	2.0	2.0
Harmonised index of consumer prices	2.2	2.2	2.2	1.8	2.0
Core harmonised index of consumer prices[3]	2.1	1.5	1.5	1.9	2.0
Private consumption deflator	2.0	2.0	2.0	1.7	2.0

1. As a percentage of labour force.
2. In the private sector.
3. Harmonised index of consumer prices excluding energy and unprocessed food.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034702155800

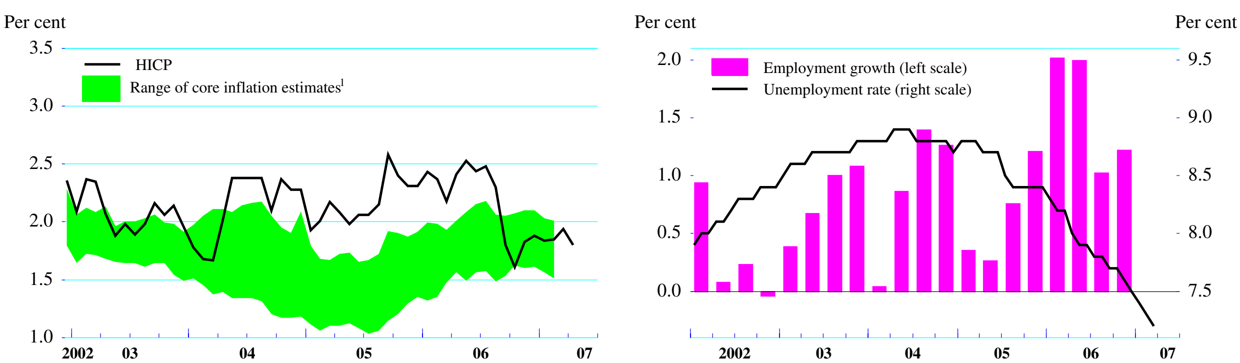
has continued to increase, especially among women and older workers. Nonetheless, unemployment among some groups – especially young people and those with fewer skills – remains high by international standards. Despite the clear tightening in the labour market, wage pressures remain subdued which suggests that the structural rate of unemployment has fallen as well.

Private consumption will play a greater role in the expansion

Business and consumer confidence remain at relatively high levels and world trade continues to grow vigorously, so the outlook for the first half of 2007 looks bright. Investment spending should provide the main stimulus in the short term. Private consumption is projected to play an increasing role as higher disposable incomes and improved job prospects make households more confident about spending. However, consumption in Germany may be damped to some extent in 2007 as a result of the

Euro area

Inflation has fallen back below 2% | **The labour market is improving**



1. Range of nine measures of core inflation. Adjusted for VAT effect in 2007.
Source: Eurostat and OECD calculations.

StatLink http://dx.doi.org/10.1787/031721617257

Euro area: Financial indicators

	2004	2005	2006	2007	2008
Household saving ratio[1]	10.4	10.2	10.0	9.9	9.5
General government financial balance[2]	-2.8	-2.4	-1.6	-1.0	-0.7
Current account balance[2]	1.1	0.3	0.1	0.4	0.4
Short-term interest rate[3]	2.1	2.2	3.1	4.1	4.3
Long-term interest rate[4]	4.1	3.4	3.8	4.2	4.3

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034706040633

increase in the value-added tax (VAT). Export demand should also stimulate activity, although the contribution from net exports is unlikely to be large since strong equipment investment and the pick-up in private consumption will lead to further growth in imports. The main negative factor is expected to be residential construction. There are already signs that housing markets are cooling in response to the increases in interest rates, so construction activity is likely to be subdued and may even fall slightly. All in all, the outlook is for solid growth through 2007, and then some easing off in 2008 as the effect of past and upcoming interest rate increases weighs on activity. Economic slack should be essentially gone by early 2008.

Inflation is running close to the European Central Bank's target

Inflation at the start of the year was lower than expected due to falling energy prices and relatively slow pass-through of Germany's VAT increase. These factors mean that in the very short term, the year-on-year inflation rate is likely to fall to around 1½ per cent. However, the decline is likely to be short-lived. The various measures of underlying inflation

Euro area: Demand and output

	2003	2004	2005	2006	2007	2008
	Current prices € billion	Percentage changes, volume (2001 prices)				
Private consumption	4 308.7	1.5	1.6	1.9	2.0	2.3
Government consumption	1 530.4	1.3	1.3	2.1	1.8	1.6
Gross fixed investment	1 507.4	1.8	2.7	5.1	4.3	3.0
Public	195.9	-1.5	1.6	3.9	4.0	3.2
Residential	400.7	2.7	2.5	5.0	2.9	1.4
Non-residential	910.8	2.1	3.0	5.4	5.0	3.5
Final domestic demand	7 346.5	1.5	1.8	2.6	2.5	2.3
Stockbuilding[1]	3.7	0.2	0.1	0.0	0.1	0.0
Total domestic demand	7 350.2	1.7	1.8	2.6	2.5	2.3
Net exports[1]	152.7	0.1	-0.3	0.3	0.3	0.0
GDP at market prices	7 502.9	1.8	1.5	2.8	2.7	2.3

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034708753241

Euro area: External indicators

	2004	2005	2006	2007	2008
			$ billion		
Foreign balance	196.4	144.0	119.4	192	202
Invisibles, net	- 87.7	- 112.4	- 111.3	- 142	- 155
Current account balance	108.7	31.7	8.1	50	47

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034747048050

suggest that core inflation is running close to or slightly below 2%. While this is in line with the European Central Bank's inflation target, and while inflation expectations remain well anchored, unemployment is projected to decline to 6½ per cent by the end of 2008, and this may ignite some wage pressures. The increase in profit margins over the past few years means that firms have some room to absorb cost pressures without having to pass them on in the form of higher prices, but the balance of risks to inflation is towards the upside over the projection period. For that reason, some additional monetary tightening may be justified from a risk management point of view.

Public finances are improving

Government revenues have been higher than expected in many euro area countries. Some of the improvement in public finances is clearly related to the cyclical recovery, although there has been some structural fiscal improvement by several euro area members, especially those that recently were above the 3% deficit limit. While the level of public debt is falling, it needs to fall much further in coming years if the euro area is to be well placed to deal with ageing-related fiscal pressures. For that reason, governments should use this window of opportunity to its fullest by making sure that any revenue windfalls during the upswing are used to pay down debt. For the area as a whole, public finances are too far from a sustainable position to consider expenditure increases or unfunded tax cuts at this time.

How will the economy react to being stretched?

Economic slack is likely to be eliminated in the near future, and the economy will have a positive output gap for the first time since 2001. Apart from the risk that spare capacity may be eliminated sooner than expected, it is uncertain how the economy will respond to being stretched. It could cause a sudden pick-up in wage growth, putting pressure on inflation further down the road. On the other hand, cooling housing markets could lead to a hard landing in house-building activity. Longer term, the main risk to activity comes from financial markets. The appreciation of the euro exchange rate to date is justified by the euro area's improved economic prospects, but a sudden jump in the euro driven not by growth and interest rate differentials but by a reaction to global current account imbalances, would have more serious repercussions. A sudden shift in the appetite for risk could also halt the expansion if it led to sharply higher long-term interest rates.

GERMANY

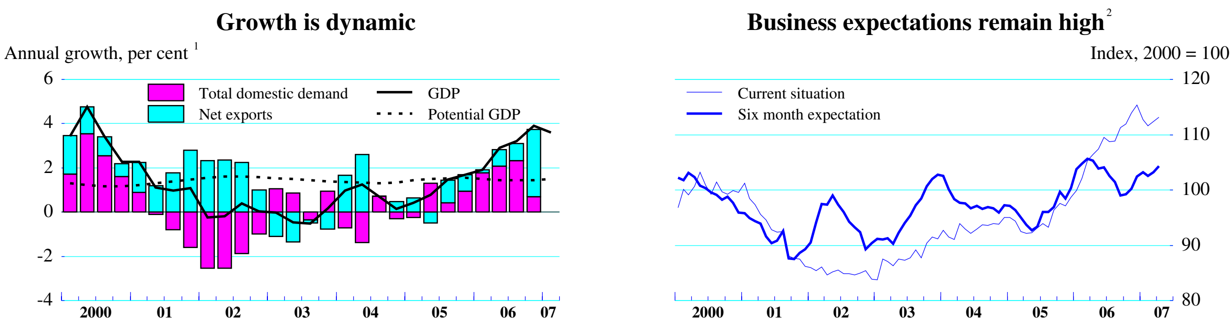
The economy recovered strongly in 2006 and growth is expected to slow down only slightly to 2.9% this year and 2.2% in 2008. Employment growth has been strong and the unemployment rate is expected to fall by almost 2 percentage points to 6.3%. The value-added tax rate increase should only temporarily damp consumption in 2007, while investment growth is projected to remain solid, also reflecting the recent recovery in construction activity. With growth significantly above potential for two years in a row, the output gap will be closed this year, with inflation rising towards 2% in 2008.

The government deficit is projected to fall below 1% of GDP this year and slightly below ½ per cent in 2008. This upswing presents a golden opportunity to implement additional reforms to raise the long-run growth potential. On the labour market, further reducing social security contributions and fostering the incentives for long-term unemployed to take up work would be important steps. Strengthening competition in product markets and improving the efficiency of the education system should also be on the agenda.

Activity has picked up strongly…

Economic growth remained dynamic in the second half of 2006, growing at more than twice its potential rate of around 1½ per cent. Average annual growth for 2006 as a whole reached 3% (2.8% non-working-day adjusted), the highest rate since the year 2000 and, for the first time, slightly higher than in the euro area as a whole. With growth gradually shifting towards domestic demand, the economy finally seems to be following its traditional business cycle pattern. The recovery in domestic demand mainly reflected a strong upswing in fixed capital investment. In addition, construction activity recovered from its persistent slump, showing an increase for the first time since 1999. While private consumption remained rather subdued, households' purchases of durable goods such as cars increased in the second half of the year in anticipation of the value-added tax (VAT) increase, although this effect was less than expected. Buoyant external demand continued to support the expansion, underpinned by further increases in competitiveness and robust foreign demand. The exceptionally strong export growth in the fourth quarter, however, was positively influenced by late reports of

Germany



1. Real GDP growth is decomposed into the contribution of total domestic demand and net exports using value weights from the same quarter of the previous year. Exports in 2006Q4 were positively influenced by late reports. In parallel there was a negative effect on inventories.
2. Manufacturing, construction, wholesale and retail trade.
Source: Ifo Institut für Wirtschaftsforschung; OECD, Economic Outlook 81 database; Statistisches Bundesamt Deutschland.

StatLink http://dx.doi.org/10.1787/031638053150

Germany: Employment, income and inflation

Percentage changes from previous period

	2004	2005	2006	2007	2008
Employment	0.4	-0.1	0.7	1.2	0.8
Unemployment rate[1]	9.2	9.1	8.1	6.9	6.3
Compensation of employees	0.4	-0.6	1.4	2.5	3.3
Unit labour cost	-0.4	-1.7	-1.6	-0.5	1.1
Household disposable income	1.7	1.7	1.8	2.1	2.7
GDP deflator	0.9	0.6	0.3	1.8	1.3
Harmonised index of consumer prices	1.8	1.9	1.8	1.8	1.7
Core harmonised index of consumer prices[2]	1.5	0.6	0.7	1.7	1.7
Private consumption deflator	1.6	1.3	1.3	1.7	1.7

1. As a percentage of labour force.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 81 database.

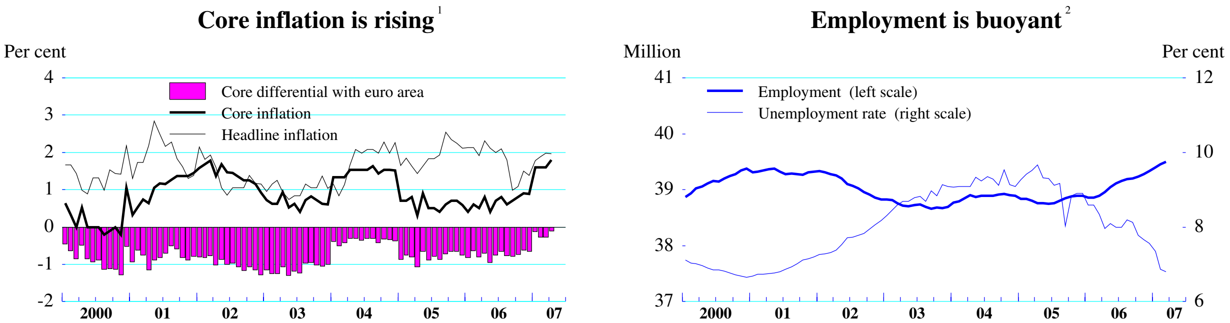
StatLink http://dx.doi.org/10.1787/034102423574

earlier transactions. Exports to European and Asian countries as well as to the United States remained vigorous, while purchases by OPEC countries grew somewhat less dynamically.

... continuing into 2007...

The growth momentum of the economy has continued into 2007, despite an initial dent in private consumption due to the VAT increase. Retail sales recorded a significant drop at the beginning of the year, more than offsetting their increase in late 2006. The effect was most pronounced for consumer durable goods. But growth in other sectors of the economy continued on a strong path, partly offsetting the slowdown in consumption. Industrial production was particularly strong, but this was also due to the mild winter which boosted activity in construction. Business sentiment remains at its highest level since the early 1990s, suggesting a continuation of the growth momentum going forward. High capacity utilisation should provide support for continued business

Germany



1. Growth relative to the same month of the previous year, based on the Eurostat harmonised index of consumer prices, core is total excluding energy, food, alcohol and tobacco. The euro area covers 13 countries.
2. Seasonally adjusted employment, domestic concept of the national accounts. Seasonally adjusted unemployment (ILO concept). Unemployment rate is unemployment as a percent of labour force.
Source: Deutsche Bundesbank; Eurostat; Statistisches Bundesamt Deutschland.

StatLink http://dx.doi.org/10.1787/031647702572

Germany: Financial indicators

	2004	2005	2006	2007	2008
Household saving ratio[1]	10.4	10.6	10.5	10.1	9.2
General government financial balance[2]	-3.7	-3.2	-1.7	-0.7	-0.4
Current account balance[2]	4.3	4.6	5.1	6.7	7.0
Short-term interest rate[3]	2.1	2.2	3.1	4.1	4.3
Long-term interest rate[4]	4.0	3.4	3.8	4.1	4.2

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034237108221

investment. Consumer confidence increased further, suggesting that the VAT-related weakness in private consumption will prove to be temporary.

... and boosting employment

The strong recovery also reached the labour market in 2006. In line with previous cyclical patterns, employment rose by over 1%, contributing to a significant fall in the unemployment rate to 7.7% (national accounts definition) in the fourth quarter of 2006. Employment continued to be very strong at the beginning of 2007, also helped by the mild winter and the associated buoyant construction activity. Although employment creation is unlikely to continue at the speed seen at the start of the year, the

Germany: Demand and output

	2003	2004	2005	2006	2007	2008
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption	1 283.0	-0.3	0.3	1.0	0.9	1.7
Government consumption	417.2	-1.3	0.6	1.8	1.3	1.8
Gross fixed investment	385.7	-1.4	1.0	6.4	4.9	2.7
Public	33.7	-7.3	-3.8	5.5	6.7	4.0
Residential	122.8	-3.6	-3.9	5.1	3.3	1.0
Non-residential	229.2	0.7	4.2	7.2	5.5	3.5
Final domestic demand	2 085.9	-0.7	0.5	2.1	1.7	1.9
Stockbuilding[1]	- 7.3	0.3	0.2	-0.2	0.1	0.0
Total domestic demand	2 078.7	-0.4	0.6	1.9	1.9	1.9
Exports of goods and services	772.7	8.8	7.1	12.9	9.4	7.2
Imports of goods and services	687.0	6.2	6.7	11.5	7.7	7.5
Net exports[1]	85.8	1.2	0.5	1.2	1.2	0.4
GDP at market prices	2 164.4	0.8	1.1	3.0	2.9	2.2
Memorandum items						
GDP without working day adjustments	2 161.6	1.3	0.9	2.8	2.8	2.5
Investment in machinery and equipment	172.2	2.6	6.3	7.7	4.8	4.6
Construction investment	213.5	-4.6	-3.5	5.3	5.1	1.1

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

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034270588068

Germany: External indicators

	2004	2005	2006	2007	2008
			$ billion		
Goods and services exports	1 044.1	1 130.7	1 302.8	1 535	1 665
Goods and services imports	907.9	986.8	1 147.8	1 313	1 427
Foreign balance	136.3	143.9	155.0	222	238
Invisibles, net	- 19.1	- 14.7	- 7.1	- 4	- 1
Current account balance	117.2	129.2	147.9	218	237
			Percentage changes		
Goods and services export volumes	8.8	7.1	12.9	9.4	7.2
Goods and services import volumes	6.2	6.7	11.5	7.7	7.5
Export performance[1]	- 1.0	0.0	3.4	2.4	- 0.6
Terms of trade	- 0.2	- 0.8	- 2.2	1.5	0.1

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 81 database.

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number of unemployed is expected to decline to below 3 million, some 6.6% (national accounts definition) by the end of 2007.

Higher VAT has raised core inflation

While headline inflation (harmonised consumer price index) declined in the second half of 2006 on the back of lower energy prices, core inflation rose continuously from its previously low levels. The impact of the 3 percentage point increase in the standard VAT rate, which seems to have affected prices already in late 2006, as well as a rise in the insurance tax rate contributed to this increase. Overall, around two thirds of the tax hike is likely to have been passed through to consumers, thereby accounting for a 1 percentage point rise in core inflation since the third quarter of 2006. The first collective wage settlements suggest that nominal wage growth will increase in the wake of improved employment conditions.

Continued dynamic growth will close the output gap

Growth in 2007 is likely to reach 2.9% (working-day adjusted), primarily driven by strong business investment, which complements foreign demand. The continued upswing in fixed capital formation will be supported by the high levels of capacity utilisation and will be temporarily boosted by the ending of generous investment depreciation allowances by the end of 2007. Private consumption this year will suffer from the phasing out of certain tax breaks and the hike in VAT at the beginning of the year, which should reduce GDP growth somewhat. However, consumption is expected to gain momentum in 2008 as disposable income picks up and the savings rate declines, reflecting improved labour market conditions. As growth has passed its cyclical peak, the expansion may moderate to 2.2% in 2008. The output gap is likely to be closed during 2007 and wage growth is projected to increase to over 2% in 2008. The impact on inflation, however, should be limited as productivity will remain relatively strong and the solid profit situation of companies gives them some room to absorb such costs.

Risks are balanced

On the positive side, employment developments could turn out to be stronger than projected. In this context, household consumption could surge even more than envisaged. At the same time, exports could be adversely affected by a more marked weakening of growth in the main trading partners as well as by a significant appreciation of the euro.

FRANCE

The economy ended 2006 somewhat more strongly, after stalling in the third quarter. Growth is projected to remain above the OECD's estimate of its potential rate, despite slowing slightly in 2008. Steady employment increases should be maintained and unemployment may continue to fall. The budget deficit fell by more than expected in 2006 and will probably decline further.

The key to budget deficit reduction is low public expenditure growth. To cope with growing demands resulting from demographic ageing, the reduction of public debt as a share of GDP must be sustained. Long-term employment gains depend on wage moderation and on containing and indeed reducing non-wage costs of labour, including those of hiring and firing.

GDP accelerated despite weak manufacturing

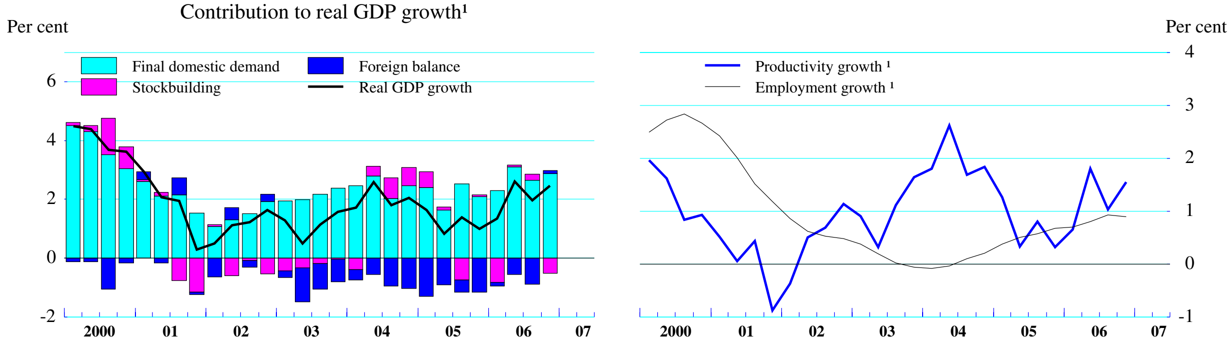
In 2006 as a whole GDP grew by 2.2%, with particularly large increases in construction, transport and commerce; non-financial services also expanded somewhat faster than the rest of the economy. Manufacturing output was soft, largely due to a sharp contraction in the automobile sector. On the demand side, the most robust growth came from exports; net exports were nevertheless weak, as imports accounted for about half the increase in total (foreign and domestic) demand. The quarterly path of output was not smooth; it finished the year quite vigorously as output bounced back in the fourth quarter, after barely increasing at all in the third, and in the first half of 2007 seems to be growing above the OECD estimate of potential of nearly 2% *per annum*.

Unemployment has fallen, but by how much is unclear

Employment growth has continued quite smoothly, but a divergence has arisen between different measures of unemployment. According to the labour force survey, unemployment fell by some 0.6 percentage point in the year to the final quarter of 2006; however, benefit claimant statistics suggest that the decline over the same period was 1 percentage point. Both measures have continued to fall thus far in 2007. The difference is partly due to changes in the rate at which people have been removed from the claimant count for administrative reasons, for example because they appear not to be seriously seeking work. In addition to the relatively

France

Domestic demand has sustained growth / **Productivity and employment growth have increased**



1. Year-on-year.
Source: OECD, Economic Outlook 81 database.

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France: Employment, income and inflation

Percentage changes from previous period

	2004	2005	2006	2007	2008
Employment	0.1	0.5	0.9	0.9	0.9
Unemployment rate (claimant count)[1]	10.0	9.8	9.0	8.4	8.0
Compensation of employees	3.3	3.0	4.1	3.9	4.1
Unit labour cost	1.3	1.8	2.0	1.7	1.9
Household disposable income	4.0	3.1	4.1	4.0	3.7
GDP deflator	1.7	1.8	2.1	1.9	1.8
Harmonised index of consumer prices	2.3	1.9	1.9	1.3	1.7
Core harmonised index of consumer prices[2]	1.8	1.5	1.5	1.6	1.7
Private consumption deflator	1.6	1.8	1.2	1.0	1.7
Memorandum items					
Unemployment rate (labour force survey)[1]	9.6	9.7	9.4		

1. As a percentage of labour force.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 81 database.

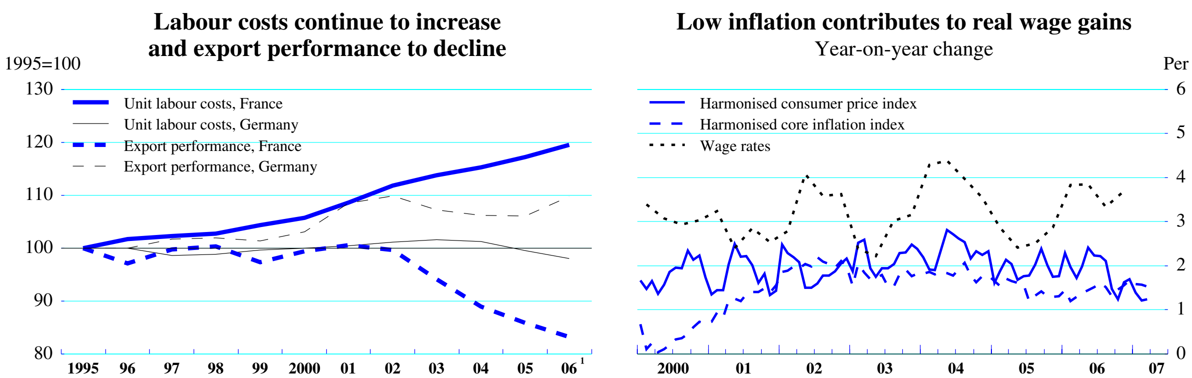
StatLink http://dx.doi.org/10.1787/034362438841

unusual gap between the two unemployment measures, the official statistical institute also feels that the labour force survey data may be less reliable than usual; a reconciliation of the two series is expected in the autumn. Both series are reported in the labour market table here.

Bonuses have boosted average earnings

Real wages have continued to increase. Basic wages grew by nearly 3% in 2006, the same rate as in 2005, whereas average earnings including bonuses rose somewhat faster. Increases were more substantial in the private sector, as earnings in public administration grew by less than 2%. Income gains were concentrated in the first half of 2006 and seem to have moderated later in the year. The reaction to the fall in unemployment has thus been relatively modest, suggesting that the structural unemployment rate may have edged down in recent years. Consumer price inflation has moved little, with variations caused mainly by fluctuating energy prices;

France



1. Data for 2006 are estimates.
Source: Ministry of Economy, Finance and Industry ; OECD, Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/031746184077

France: Financial indicators

	2004	2005	2006	2007	2008
Household saving ratio[1]	12.7	11.9	11.9	12.5	12.0
General government financial balance[2]	-3.6	-3.0	-2.6	-2.3	-1.7
Current account balance[2]	0.1	-1.2	-1.2	-1.0	-1.0
Short-term interest rate[3]	2.1	2.2	3.1	4.1	4.3
Long-term interest rate[4]	4.1	3.4	3.8	4.1	4.2

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034374368516

the harmonised measure stood at 1.2% year on year in March 2007, while underlying inflation was somewhat higher, at 1.4%.

The debt-to-GDP ratio began to fall

The general government budget deficit fell from 3.0% of GDP in 2005 to 2.6% last year, and the debt-to-GDP ratio dropped back to 64.5% by the end of 2006. This appears to represent a considerable tightening of the fiscal stance: the underlying improvement is some 0.7 percentage point of GDP once account is taken of one-off effects in both years, even though output grew barely faster than potential. Much of the explanation may lie in taxes on company profits, which rose nearly 40% to 3.1% of GDP. Profit margins on domestic activity do not seem to have increased in 2006, but larger companies significantly improved their profits made abroad, which contribute to taxable income. Overall taxation of domestic activity may therefore not have risen very much. Central government expenditure was

France: Demand and output

	2003	2004	2005	2006	2007	2008
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption	900.4	2.5	2.1	2.6	2.2	2.6
Government consumption	378.5	2.2	1.1	1.9	1.7	1.0
Gross fixed investment	300.8	2.6	3.7	4.0	3.9	2.0
Public	49.0	2.2	3.9	2.9	4.8	2.3
Residential	80.2	3.3	4.1	2.5	0.7	0.5
Non-residential	171.6	2.4	3.5	4.9	5.0	2.6
Final domestic demand	1 579.7	2.4	2.2	2.7	2.4	2.1
Stockbuilding[1]	1.1	0.3	0.0	-0.3	-0.4	0.1
Total domestic demand	1 580.8	2.8	2.1	2.4	2.0	2.2
Exports of goods and services	408.5	3.3	3.3	6.2	4.0	5.9
Imports of goods and services	393.1	5.9	6.5	7.1	3.5	5.8
Net exports[1]	15.4	-0.7	-0.9	-0.4	0.1	-0.1
GDP at market prices	1 596.2	2.0	1.2	2.1	2.2	2.2

Note : Data in this table do not reflect revisions to historical series entailed by the shift to chain-linking constant price expenditure data, in particular new data show GDP rising 1.7% in 2005 and 2.2% in 2006.

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034376552568

France: External indicators

	2004	2005	2006	2007	2008
			$ billion		
Goods and services exports	528.4	553.0	600.7	671	719
Goods and services imports	523.1	573.6	637.6	701	750
Foreign balance	5.3	- 20.6	- 36.9	- 30	- 31
Invisibles, net	- 3.0	- 4.0	9.2	5	6
Current account balance	2.3	- 24.6	- 27.7	- 25	- 25
			Percentage changes		
Goods and services export volumes	3.3	3.3	6.2	4.0	5.9
Goods and services import volumes	5.9	6.5	7.1	3.5	5.8
Export performance[1]	- 5.4	- 3.6	- 3.0	- 2.8	- 1.8
Terms of trade	- 0.3	- 1.7	- 1.4	1.1	0.1

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034402367058

kept under fairly tight control, but general government real current spending nevertheless rose nearly 2%. Local government and health care outlays grew quite strongly, although the latter were broadly contained within the planned target for the second year running, in contrast to past experience.

Moderate growth should continue

Indicators show that growth in the first half of 2007 should proceed at somewhat above the OECD's estimate of its potential rate, and there may be a short-term boost as energy output returns to seasonal norms after a mild winter. Projections of foreign market growth and real income gains imply continuing favourable demand conditions. Business investment looks likely to remain robust, but there are signs that residential fixed investment may slow further as house building permits and housing starts have been falling recently. Further out, export demand growth may be higher still in 2008, though investment could slow. But the economy's weak supply response in recent years suggests that, even with these relatively buoyant demand levels, increases in domestic output are unlikely to be much above 2¼ per cent *per annum*; and even this requires raising labour utilisation. Falling unemployment could be expected to generate some upward pressure on wages, but real wages do not seem likely to accelerate much beyond productivity growth. Prospects are therefore for relatively subdued inflation in 2007 and then some increase in 2008 as unemployment continues to fall.

The budget deficit is likely to fall further

The previous government's target of 0.5% annual volume growth in total general government expenditure over the next few years looks difficult to achieve. Even if State spending declines in real terms, as planned by the outgoing government, meeting the target will require both much greater moderation by local government than seen over the past decade and continued restraint in health care outlays. The budget deficit and the ratio of debt-to-GDP can be expected to continue edging down nonetheless.

Better supply conditions would improve the outlook

A degree of uncertainty surrounds the future performance of the external sector. If the recent, only partly understood, deterioration of export performance reverses itself, the outlook would be considerably brighter, as it would be too if a greater proportion of increased demand were supplied from domestic output. But a continued worsening of export performance could keep growth below 2%. Although unemployment would remain high by European standards, its expected fall in 2007-08 may be enough to trigger stronger wage increases than projected here.

ITALY

The long-awaited recovery was confirmed in 2006 as GDP grew by nearly 2%. Buoyant export markets and quality improvements by Italian exporters gave rise to solid export gains, which then stimulated domestic demand and jobs growth. Growth should remain strong in both 2007 and 2008 so long as foreign demand stays robust and restructuring continues. The output gap will narrow rapidly given that potential output growth is estimated to be less than 1½ per cent, and inflation could rise somewhat.

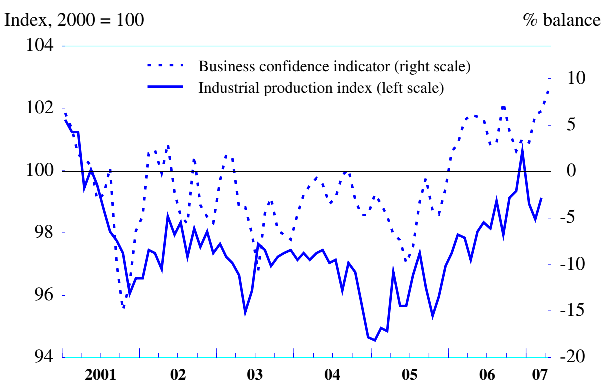
An impressive fiscal adjustment is being achieved in 2006 and 2007, albeit at the cost of a 2 percentage point jump in the tax–to–GDP ratio which, if sustained, could have harmful consequences for growth in the medium term. The primary current spending-to-GDP ratio was stabilised in 2006 through policy actions from the record high reached in 2005; however, reforms to control its growth are essential in order to raise the primary surplus to 5% by 2011 as planned. Once debt dynamics improve, room should be made for tax cuts. Competition reforms should at the same time be deepened in order to boost productivity and growth potential.

An export-led recovery

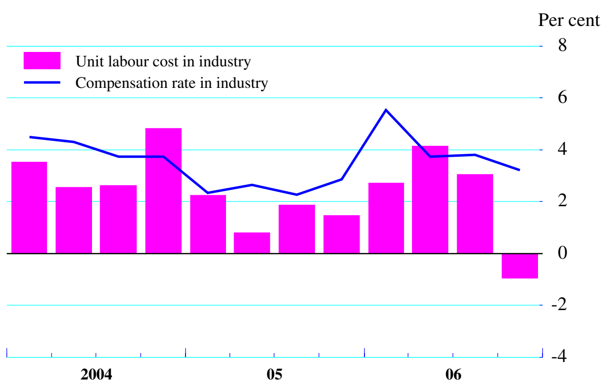
The recovery of output began in the course of 2005 and gathered pace in 2006. Exports were the main driver of demand, reflecting export market growth in 2006 of over 10%. A restructuring process in the Italian export sector also helped to compensate for poor price competitiveness, hence allowing for somewhat better export performance. Exports to Germany, Russia and China were particularly strong. Exports and industrial production accelerated markedly in the fourth quarter, in part reflecting rising imports of traditional Italian products by German consumers in anticipation of the value-added tax (VAT) increases in 2007. Private investment picked up as business confidence recovered in line with exports, and firms, especially larger ones, restructured. Consumption accelerated as household confidence, wealth and employment all rose. Housing investment, however, which had been supportive of activity in the previous low growth years, softened after mid-2006. The current

Italy

A rebound in confidence and industrial production



Unit labour costs may be decelerating
Year-on-year percentage changes



Source: OECD Economic Outlook 81 database, Eurostat and Istat.

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Italy: Employment, income and inflation

Percentage changes from previous period

	2004	2005	2006	2007	2008
Employment	1.5	0.7	2.2	1.6	0.9
Unemployment rate[1]	8.1	7.8	6.9	6.3	6.0
Compensation of employees	3.6	4.6	4.6	3.4	3.8
Unit labour cost	2.5	4.4	2.6	1.3	2.1
Household disposable income	3.7	3.1	3.7	3.1	3.9
GDP deflator	2.9	2.2	1.8	2.0	2.1
Harmonised index of consumer prices	2.3	2.2	2.2	2.0	2.1
Core harmonised index of consumer prices[2]	2.1	1.9	1.6	2.0	2.1
Private consumption deflator	2.6	2.4	2.7	1.9	2.1

1. As a percentage of labour force.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034431835654

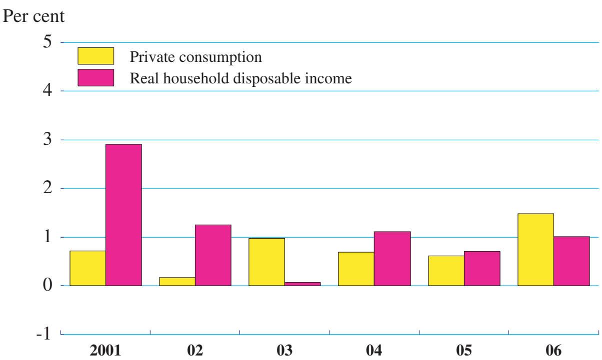
account deficit excluding petroleum imports stabilised, despite cyclical import growth, given strongly rising export unit values and volumes alike.

Expanding jobs and productivity

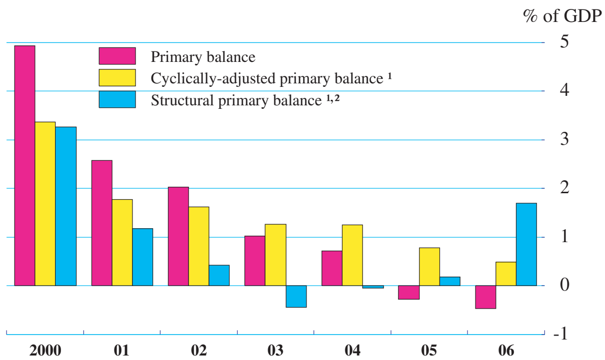
The number of persons employed, irrespective of hours worked, continued to rise at a comparatively fast pace in 2006 and the unemployment rate fell to 6½ per cent by end year. Robust employment growth reflected previous liberalisations of part time and fixed term work, even if a significant part of recorded job creation also came from regularisations of immigrants already living and working in Italy. The recorded employment rate rose by more than one percentage point in 2006, to 59%, though such a level is still low by international standards. That said, 80% of the employment gains were in the form of atypical contracts. Employment as measured in full-time equivalents expanded slightly less than output, so that labour productivity growth moved into

Italy

Consumption growth picking up
Year-on-year percentage changes



A fiscal policy turnaround?



1. As a percentage of potential GDP.
2. Cyclically-adjusted primary balance net of one-off measures and other extraordinary factors.
Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/032184345228

Italy: Financial indicators

	2004	2005	2006	2007	2008
Household saving ratio[1]	11.5	12.1	11.9	11.6	11.5
General government financial balance[2,3,4]	-3.5	-4.3	-4.5	-2.5	-2.5
Current account balance[2]	-0.9	-1.6	-2.4	-2.5	-2.6
Short-term interest rate[5]	2.1	2.2	3.1	4.1	4.3
Long-term interest rate[6]	4.3	3.6	4.0	4.4	4.5

1. As a percentage of disposable income.
2. As a percentage of GDP.
3. Excludes the impact of swaps and forward rate transactions on interest payments. These operations are however included in the financial balance reported to the European Commission for purposes of the excessive deficit procedure, as well as in the official financial balance which reached -3.5, -4.2, and -4.4 % of GDP for 2004, 2005, and 2006, respectively.
4. In 2006 includes a one-off refund of VAT receipts amounting to 1.1% of GDP, following a judgement by the European Court of Justice and a railways debt forgiveness operation amounting to 0.9% of GDP. Excluding these extraordinary payments, therefore, the general government financial balance in 2006 was -2.5% of GDP.
5. 3-month interbank rate.
6. 10-year government bonds.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034480211806

positive territory after being negative in four of the five previous years. Positive productivity growth and modest real wage growth allowed for moderating growth in unit labour costs in 2006 – albeit remaining high in comparison with trading partners.

Moderating inflation

Headline inflation converged to the euro area average in 2005 and early 2006, thanks, in part, to the stabilising energy tax mechanism. But by the same token, Italy benefited comparatively less from the more recent softening in the oil price. In the eight months to March 2007, Italy's

Italy: Demand and output

	2003	2004	2005	2006	2007	2008
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption[1]	789.1	0.7	0.6	1.5	1.5	1.8
Government consumption	262.9	1.6	1.5	-0.3	0.8	0.8
Gross fixed investment	272.1	1.3	-0.2	2.4	3.2	2.8
Machinery and equipment	147.0	1.4	-0.9	2.7	2.6	3.7
Construction	125.2	1.1	0.6	2.2	3.8	1.9
Residential	52.0	2.0	5.5	4.1	4.1	1.5
Non-residential	73.1	0.5	-3.0	0.6	3.6	2.1
Final domestic demand	1 324.2	1.0	0.6	1.3	1.7	1.8
Stockbuilding[2]	4.7	-0.2	-0.1	0.4	0.5	0.0
Total domestic demand	1 328.9	0.8	0.5	1.7	2.2	1.8
Exports of goods and services	328.6	2.7	0.0	5.5	4.0	5.1
Imports of goods and services	321.3	2.0	1.0	4.5	4.7	5.5
Net exports[2]	7.4	0.2	-0.3	0.3	-0.2	-0.2
GDP at market prices	1 336.2	1.0	0.2	1.9	2.0	1.7

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034483616326

Italy: External indicators

	2004	2005	2006	2007	2008
			$ billion		
Goods and services exports	437.3	461.4	517.8	594	639
Goods and services imports	424.6	462.6	533.0	610	661
Foreign balance	12.6	- 1.1	- 15.2	- 16	- 22
Invisibles, net	- 28.5	- 26.7	- 29.6	- 35	- 34
Current account balance	- 15.8	- 27.9	- 44.8	- 51	- 56
			Percentage changes		
Goods and services export volumes	2.7	0.0	5.5	4.0	5.1
Goods and services import volumes	2.0	1.0	4.5	4.7	5.5
Export performance[1]	- 6.7	- 7.3	- 4.1	- 3.2	- 2.8
Terms of trade	0.0	- 2.1	- 3.5	0.8	- 0.3

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034507624032

average harmonised consumer price index inflation rate, on a year-over-year basis, exceeded that of the euro area as a whole by some ¼ percentage point. Core inflation has been relatively high, especially for industrial goods, reflecting unit labour cost growth. Low competition in a number of markets, including retail distribution, may also have been a factor, as suggested for instance by substantially higher price rises for high-tech consumer goods in Italy than in partner countries. Nevertheless, core inflation now appears to be converging to the euro area average. Inflation expectations remain benign, perhaps reflecting the greater flexibility of the labour market and continuing wage moderation.

The fiscal balance has improved

The general government deficit came in at 4.5% of GDP in 2006, compared with 4.3% in 2005. But netting out extraordinary deficit-boosting factors (a VAT refund on company cars and cancellation of the high speed train company's debt to the State), the deficit fell to just 2.5% of GDP. This almost unprecedented one-year improvement resulted mostly from surging tax receipts. The recovery of corporate taxation reflected cyclical factors and one-off budget measures to expand the tax base, notably a revaluation of company assets. The recovery of personal income tax receipts was due to its high elasticity with respect to GDP plus rising employment and public wages. The tax on financial income was fuelled by rising interest rates and share prices, and by a reduction in previously large tax credits. VAT receipts were boosted by high oil prices and apparently better compliance in response to measures in both the 2006 budget and its mid-year correction. Spending control also played a role, at least insofar as the primary current spending to GDP ratio stabilised from the record high reached in 2005. The debt to GDP ratio rose for the second year in a row, even though the VAT refunds will be spread out over a number of years in cash terms.

The 2007 budget consolidates the improvement

The 2007 budget seeks to correct negative trends in the public finances, thus consolidating the previous year's positive result by means of structural measures. In the latest official projection, the deficit declines to 2.3% of GDP. Uncertainty surrounding the budget outcome could be significant. Strong momentum in tax receipts could continue into 2007, and seems to have done so in the first few months. At the same time, the effects of some revenue measures are hard to predict, notably the fight against tax evasion and avoidance as well as the voluntary transfer of worker severance pay to the social security system. The OECD projections are slightly less optimistic than official ones about the government's ability to push up the tax ratio further by means of anti-evasion measures, which seem to have been anticipated already in 2006. On balance, the deficit remains at 2½ per cent of GDP. The deficit should stabilise in 2008, as a continuing positive cyclical effect is largely offset by a renewed small structural deterioration. Hence, staying on track with the government's official plans (the DPEF) would imply further corrective measures. The debt to GDP ratio should start to decline again in 2007 and fall further in 2008, given the higher primary surplus and projected strong growth.

Growth should stay strong in both 2007 and 2008

Growth in 2007 should remain at the 2% mark, helped by a very large carry-over from the fourth quarter of last year, with growth through the year of about 1½ per cent. The preliminary estimate for the first quarter of 2007 shows a slowdown of growth due to a correction in industrial production. Starting in the second quarter, growth should resume at above potential growth rates, for a number of reasons. Export market growth is projected to remain strong. Export market share losses remain at the comparatively modest rate seen in 2006, in turn reflecting continuing positive productivity growth, wage moderation thanks to labour market flexibility, and quality adjustments among Italian exporters. The fiscal stance may not be very restrictive given that most of the adjustment to higher taxes was already made in 2006. Inflation nevertheless could rise by 2008 insofar as still low potential output growth implies a rapid build up of capacity pressures.

The main risks are global and fiscal

Since exports continue to be the growth anchor in Italy, and a main determinant of business confidence, any unexpected slackening in the pace of foreign growth or large euro appreciation could undermine Italy's growth prospects. Major risks pertain to fiscal performance. Although the government is committed to a continued consolidation, the much better than expected budget outcome for 2006 has already encouraged political demands for higher spending and premature tax cuts, which could skew the balance of fiscal risks towards a worse outcome, especially for 2008.

UNITED KINGDOM

Output grew by 2¾ per cent in 2006, close to its trend rate, with only moderate labour market tensions, because of strong inward migration. Consumer price inflation veered up temporarily to just above 3%, partly because of a hike in electricity and gas prices, but is expected to drop back to about 2%. Output growth is likely to remain brisk, propelled by strong business investment.

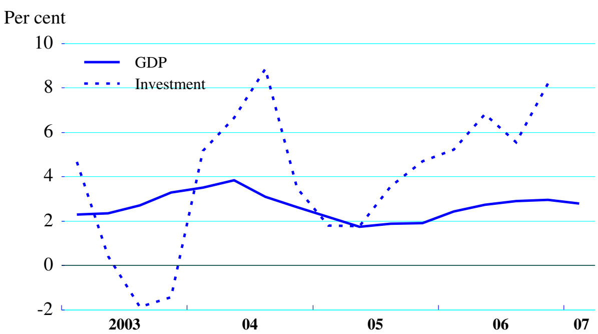
The Bank of England has raised interest rates since mid-2006. While inflation should come down to the target, the Bank needs to remain vigilant as inflation expectations have risen, albeit by a lot less than actual inflation, and the current wage round may be affected by the recent spike in inflation. The March budget, which included both tax rate cuts and base broadening measures, had no significant impact on the fiscal stance, which is likely to damp demand somewhat. Going forward, greater spending restraint will be needed to achieve a more rapid reduction in the deficit. Improved workforce skills and a better transport infrastructure are required to raise potential growth.

Output is expanding at a healthy pace

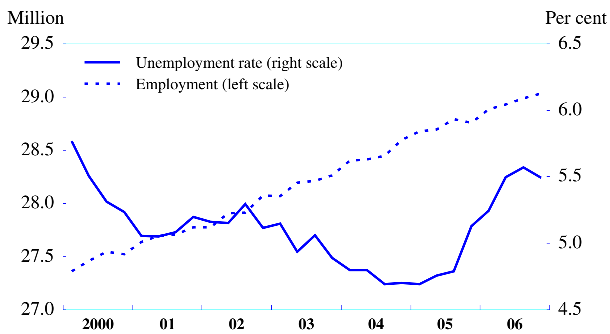
The current expansion is well entrenched. Output grew by 2.8% in 2006. Business investment has been the main engine of growth in recent quarters, propelled by the highest profitability in 40 years and the buoyant outlook for activity. The annual profiles of business and government investment between 2005 and 2006 were heavily influenced by the transfer of British Nuclear Fuel assets to the central government sector and underlying business investment rose by nearly 8% in 2006, rather than declining as indicated in the headline national accounts number. Residential construction has staged a small recovery, following government initiatives to speed up the planning process. Private consumption was held back by subdued real income growth, but the saving rate also dipped. Export and import data are difficult to interpret. They had been boosted by trade flows related to value-added tax (VAT) fraud, but a clamp-down by the government led to a sharp decline in both in the second half of 2006.

United Kingdom

Growth has picked up[1]



Unemployment rose, despite strong job creation



1. Year-on-year percentage change, volume.
Source: OECD, Economic Outlook 81 database and National Statistics.

StatLink http://dx.doi.org/10.1787/031760310551

Table 2.1. **United Kingdom: Employment, income and inflation**

Percentage changes from previous period

	2004	2005	2006	2007	2008
Employment	1.0	0.9	0.8	1.0	1.1
Unemployment rate[1]	4.7	4.8	5.5	5.5	5.5
Compensation of employees	5.2	5.6	4.7	5.3	5.4
Unit labour cost	1.8	3.6	1.9	2.6	2.8
Household disposable income	3.4	5.1	3.7	4.5	4.6
GDP deflator	2.6	2.2	2.4	2.8	2.4
Harmonised index of consumer prices[2]	1.3	2.0	2.3	2.4	2.0
Core harmonised index of consumer prices[3]	1.0	1.4	1.3	2.0	2.0
Private consumption deflator	1.7	2.5	2.3	2.3	2.1

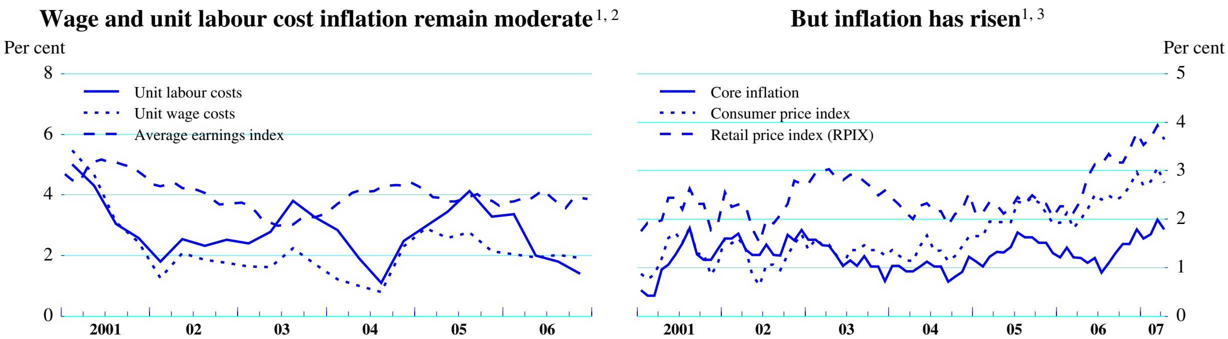
1. As a percentage of labour force.
2. The HICP is known as the Consumer Price Index in the United Kingdom.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034556738640

Unemployment rose, despite brisk job creation

The unemployment rate had fallen to 4½ per cent in 2004, but rose sharply to 5½ per cent by early 2006, and has since remained stable. The current rate is close to the estimated structural rate. The rise in unemployment came in spite of strong job creation because the labour force was boosted by higher participation of older workers and considerable inward migration, mainly from the new EU member countries. The United Kingdom allows free entry from the new member countries that joined the European Union in 2004, but has placed restrictions on migrants from Bulgaria and Romania. Inward migration has helped contain wage pressures, though the social contributions component of labour costs has risen in recent years. It is too early to tell to what extent demands for higher wages in early 2007 are going to be met.

United Kingdom



1. Year-on-year percentage change.
2. The average earnings index covers the private sector, excludes bonus payments and is a three month average. Unit labour costs include pension contributions, whereas unit wage costs do not.
3. Core inflation excludes energy, food, alcohol and tobacco. RPIX excludes mortgage interest payments.
Source: National Statistics.

StatLink http://dx.doi.org/10.1787/031811414871

United Kingdom: Financial indicators

	2004	2005	2006	2007	2008
Household saving ratio[1]	3.7	5.3	4.9	4.9	5.3
General government financial balance[2]	-3.3	-3.3	-2.9	-2.7	-2.6
Current account balance[2]	-1.6	-2.4	-3.4	-3.2	-2.7
Short-term interest rate[3]	4.6	4.7	4.8	5.5	5.4
Long-term interest rate[4]	4.9	4.4	4.5	5.0	5.0

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034570804386

Investment should remain strong

With business and consumer confidence buoyant, and foreign demand growing rapidly, the outlook for the first half of 2007 looks bright. Investment spending should continue to provide the main stimulus in the short term. Household demand is projected to play a greater role, underpinned by higher disposable incomes and yet another recovery in house prices, which are currently rising at a pace of more than 10%. Nevertheless, this is much below the rate of increase at the 2002 peak in the house price boom, and price increases are now concentrated in the south of England and Northern Ireland rather than being widespread. Export demand should also stimulate activity, although this cannot be seen in the projections because of the clamp-down on VAT fraud. Overall, the outlook is for growth of 2½-2¾ per cent over the next two years, with little economic slack in the economy.

United Kingdom: Demand and output

	2003	2004	2005	2006	2007	2008
	Current prices £ billion	Percentage changes, volume (2003 prices)				
Private consumption	724.3	3.4	1.4	2.0	2.4	2.2
Government consumption	232.7	3.2	3.0	2.4	2.3	2.1
Gross fixed investment	178.8	6.0	3.0	6.5	7.6	5.3
Public[1]	18.3	8.3	-64.7	234.2	4.3	6.5
Residential	51.2	13.0	-1.2	4.1	4.7	4.3
Non-residential	109.2	2.3	17.2	-4.7	9.6	5.6
Final domestic demand	1 135.8	3.7	2.0	2.8	3.2	2.7
Stockbuilding[2]	3.9	0.1	-0.1	0.2	-0.4	0.0
Total domestic demand	1 139.7	3.8	1.9	3.0	2.8	2.7
Exports of goods and services	285.4	4.9	7.9	11.6	-2.1	6.6
Imports of goods and services	314.8	6.6	7.0	11.8	-1.1	7.0
Net exports[2]	- 29.4	-0.6	0.0	-0.4	-0.3	-0.4
GDP at market prices	1 110.3	3.3	1.9	2.8	2.7	2.5

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034600263543

United Kingdom: External indicators

	2004	2005	2006	2007	2008
			$ billion		
Goods and services exports	547.5	592.2	681.0	726	786
Goods and services imports	611.6	672.9	780.5	835	910
Foreign balance	- 64.1	- 80.7	- 99.5	- 110	- 124
Invisibles, net	28.8	28.1	19.4	23	48
Current account balance	- 35.3	- 52.6	- 80.1	- 87	- 76
			Percentage changes		
Goods and services export volumes	4.9	7.9	11.6	- 2.1	6.6
Goods and services import volumes	6.6	7.0	11.8	- 1.1	7.0
Export performance[1]	- 4.5	0.5	3.0	- 8.6	- 0.8
Terms of trade	0.4	- 2.5	- 0.7	0.6	- 0.2

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034605668740

Inflation is likely to come down again

The rise in consumer price inflation peaked at 3.1% in March 2007, triggering the need for an open letter from the Governor of the Bank of England to the Chancellor. The letter set out the reasons why inflation moved away from the 2% inflation target and the policy action that the Monetary Policy Committee is taking to deal with it. The rise in inflation is partly due to the impact of higher gas and electricity prices and increased food costs. Underlying inflation has also moved up, but to a much lesser extent. The Bank of England has reacted to higher inflation with several rate hikes since mid-2006, the latest one in May 2007, bringing the policy rate to 5.5%. However, the Bank continues to be worried by high inflation expectations and by the even sharper increase of the Retail Price Index (excluding mortgage interest payments) to 3.9% in March 2007. Implicitly, the Retail Price Index is used as a benchmark for many of the wage negotiations that are currently underway. Nevertheless, inflation expectations have risen only marginally and earnings growth excluding bonuses has remained subdued. Consumer price inflation fell to 2.8% in April and is likely to fall back further as retail gas and electricity prices decline. Although the projections envisage an easing in inflation over the next 18 months, the balance of risks is towards the upside over the projection period, because little economic slack exists and the outcome of the current wage round could be influenced by the recent spike in inflation.

Public finances are improving gradually

Both government revenues and spending rose rapidly in 2006. With the government deficit just under 3% of GDP, the cyclically-adjusted budget shortfall looks large by European standards. Public sector net debt has drifted up in recent years, but without breaching the 40% of GDP ceiling set by the fiscal rules and it remains below European norms. The 2007 budget included a reduction in the corporate tax rate from 30 to 28% largely financed by base broadening, and a cut in the basic personal income tax rate from 22 to 20%, financed by the removal of the 10 pence starting rate. Both will take effect in April 2008. The government also pushed through changes to VAT accounting procedures (for mobile phones and computer chips) at the European level which should make it easier to tackle VAT fraud. Overall the fiscal stance continues to be mildly restrictive and the deficit could fall to around 2½ per cent of GDP by 2008.

There are upside risks to output and inflation

There is little economic slack in the economy and so far labour market bottlenecks have not materialised because of strong inward migration. But migration flows could diminish now that more EU countries have opened their borders. Although, real house prices are continuing to move up, the projection is based on the assumption that this will remain localised and eventually stabilise. This suggests a risk that more widespread and stronger house price inflation could fuel consumption. Finally, as already noted, the current wage round could be influenced by the recent spike in inflation, in which case additional interest rate hikes might be needed.

CANADA

Although the Canadian economy accelerated at the start of the year, it is estimated to be still operating with some spare capacity. Activity is expected to grow at rates close to potential and the unemployment rate would go down further to levels not seen since 1975. Headline inflation is likely to stabilise around the mid-point of the monetary target range once pressures from energy price increases dissipate.

With benign inflation and sound economic growth, the Bank of Canada should continue to hold its interest rate constant. At the same time, fiscal settings at all levels of government should remain neutral. Provincial governments need to make prudent use of the transfers legislated in the most recent federal Budget and focus on reducing existing debt burdens to prepare for the looming spending effects from ageing.

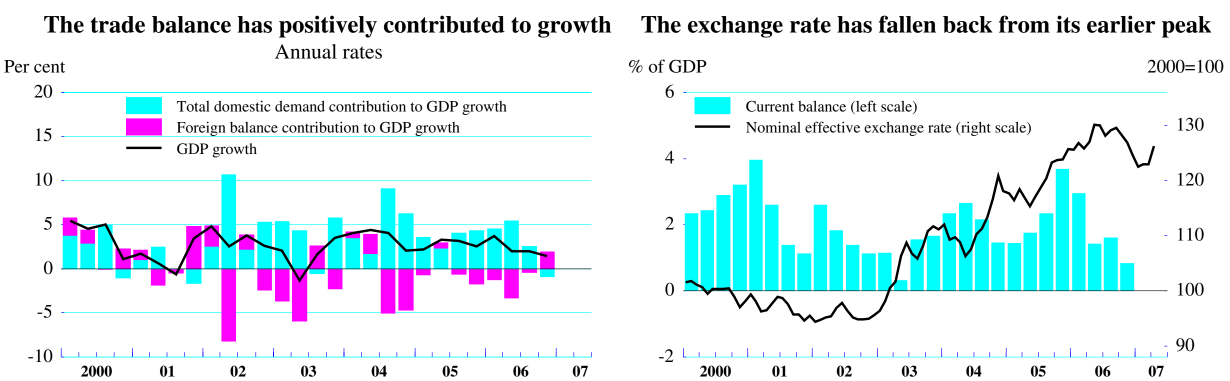
Activity has picked up...

The economy has grown rapidly since December 2006, as several external and internal factors behind last year's slowdown have dissipated. *First*, the outlook for export competitiveness and performance has improved, reflecting the end of the marked currency appreciation. *Second*, adjustment in the housing sector has been limited, with year-on-year price increases of new houses easing off and starts stabilising at a lower level. Renovation and new construction intentions are sending mixed signals for the future, but so far the risk of a serious downturn in the housing sector is not large. *Third*, the inventory correction in the motor vehicle sector has now been largely completed, and production plans are tracking stable sales more closely.

... and fundamentals remain sound

Other components of domestic demand continue to experience relatively robust growth although decelerating slightly. Non-residential investment has expanded at a rapid, though declining pace, underpinned by strong corporate profits, together with low import prices for capital goods. Business investment has been concentrated in non-conventional oil and gas extraction, particularly in the Alberta oil sands. Sizeable increases in labour income and social transfers as well as cuts in personal

Canada



Source: Statistics Canada; OECD, Economic Outlook 81 database.

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Canada: Employment, income and inflation

Percentage changes from previous period

	2004	2005	2006	2007	2008
Employment	1.8	1.4	2.0	2.2	1.6
Unemployment rate[1]	7.2	6.8	6.3	6.1	6.0
Compensation of employees	5.0	5.6	6.1	5.4	5.4
Unit labour cost	1.6	2.6	3.3	2.8	2.4
Household disposable income	4.7	4.2	6.1	5.0	5.5
GDP deflator	3.0	3.2	2.1	2.5	2.0
Consumer price index	1.8	2.2	2.0	2.0	2.1
Core consumer price index[2]	1.6	1.6	1.9	2.2	2.0
Private consumption deflator	1.5	1.7	1.3	1.5	1.9

1. As a percentage of labour force.
2. Consumer price index excluding the eight more volatile items.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034610550112

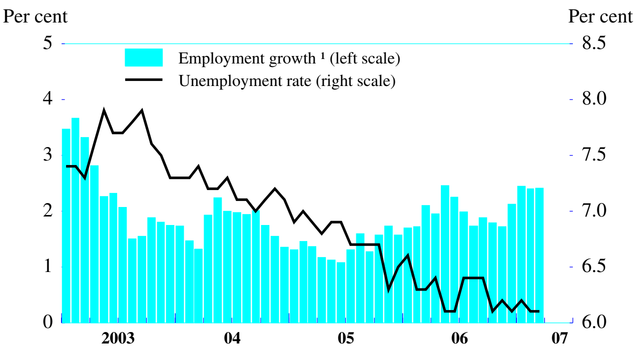
income taxes have supported private consumption. In addition, rising house prices, though decelerating recently, have provided further support to household spending. The national accounts measure of the household savings ratio edged up last year from its previously very low level.

Labour markets have performed well

Despite last year's slowdown in economic activity, labour markets have been extremely resilient. Employment has continued to grow rapidly, and the unemployment rate has declined to a historically low level. This has encouraged labour force participation. Labour productivity growth has accordingly been poor, particularly in the manufacturing sector, and unit labour costs have picked up, despite moderating wage growth. The terms of trade receded last year following a cumulative increase of around 15% since 2002, but they have started to rise again recently. Headline consumer price inflation was held down by a one-off cut in the Goods and Services Tax and has been quite variable, reflecting developments in energy prices and the

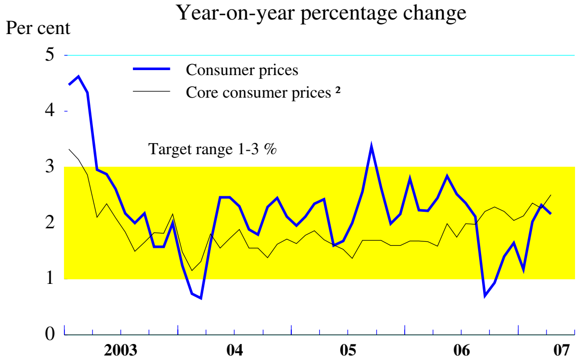
Canada

Employment growth has been strong



Consumer price inflation has picked up

Year-on-year percentage change



1. Year-on-year.
2. Bank of Canada definition.
Source: Statistics Canada; OECD, Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/031617440216

Canada: Financial indicators

	2004	2005	2006	2007	2008
Household saving ratio[1]	2.6	1.2	1.8	2.1	2.7
General government financial balance[2]	0.5	1.4	0.8	0.8	0.7
Current account balance[2]	2.1	2.3	1.7	1.9	2.0
Short-term interest rate[3]	2.3	2.8	4.2	4.3	4.3
Long-term interest rate[4]	4.6	4.1	4.2	4.2	4.4

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034653550423

exchange rate. Core inflation has drifted up to 2.5% in April 2007 – the highest in four years – following last year's currency depreciation, some lessening of the disinflationary pressures associated with imports and the recent surge in the prices of grains and oilseeds. Nevertheless, overall, inflation pressures remain limited, and market expectations point to future inflation rates staying close to the mid-point of the monetary policy target range.

Interest rates have been held constant...

Against this background, the Bank of Canada has kept its policy rate constant since May 2006 at 4¼ per cent. It has indicated that the current level of that rate, which is marginally below the estimated neutral rate, is

Canada: Demand and output

	2003	2004	2005	2006	2007	2008
	Current prices CAD billion	Percentage changes, volume (1997 prices)				
Private consumption	686.5	3.3	3.9	4.1	3.0	2.7
Government consumption	239.4	3.0	2.7	3.4	2.6	2.8
Gross fixed investment	237.7	8.0	7.1	6.7	3.3	3.8
Public[1]	29.8	3.4	6.9	6.7	3.5	4.1
Residential	73.1	7.7	3.2	2.3	-2.0	-0.1
Non-residential	134.9	9.1	9.4	9.2	6.2	5.8
Final domestic demand	1 163.6	4.2	4.3	4.5	3.0	3.0
Stockbuilding[2]	4.6	0.1	0.4	-0.4	-0.8	0.0
Total domestic demand	1 168.3	4.3	4.8	4.1	2.1	3.0
Exports of goods and services	461.7	5.2	2.1	1.3	3.7	4.1
Imports of goods and services	416.5	8.2	7.1	5.2	2.7	4.2
Net exports[2]	45.1	-0.8	-1.6	-1.3	0.4	0.1
GDP at market prices	1 213.4	3.3	2.9	2.7	2.5	3.0

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

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034677377207

Canada: External indicators

	2004	2005	2006	2007	2008
			$ billion		
Goods and services exports	380.6	429.4	463.4	506	545
Goods and services imports	339.5	386.3	429.8	460	495
Foreign balance	41.1	43.1	33.6	46	50
Invisibles, net	- 20.0	- 16.7	- 12.2	- 21	- 21
Current account balance	21.1	26.5	21.4	25	29
			Percentage changes		
Goods and services export volumes	5.2	2.1	1.3	3.7	4.1
Goods and services import volumes	8.2	7.1	5.2	2.7	4.2
Export performance[1]	- 5.2	- 4.1	- 4.9	0.6	- 1.4
Terms of trade	4.1	4.0	0.7	1.1	0.2

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034700172046

consistent with achieving inflation stability, despite a slight tilt to the upside on the Bank's inflation forecasts. Inflation is projected to recede once the effects of the rise in energy prices have dissipated. The estimated small negative output gap should also contribute to some downward pressure on inflation. The long-term interest rate differential with the United States should remain negative over the projection period, consistent with the healthy Canadian fiscal and external positions and its persistent inflation advantage.

... and fiscal policy is broadly neutral

The federal government announced a Tax Fairness Plan at the end of last year, with significant cuts in personal income tax. Further tax cuts for low-income workers and families were also legislated in the March federal Budget, so that in total households should benefit from tax relief of around 0.2% of GDP per year in 2007 and 2008. Modest corporate tax cuts will also be granted. In addition, the federal Budget includes a number of new spending initiatives, encompassing very large transfers to provinces to finance post-secondary education, infrastructure and environmental measures. At the same time, fiscal drag is likely to generate substantial tax revenues. Overall, the general government's cyclically-adjusted net lending is expected to remain stable over the projection period, but only on the assumption that the provinces will use some of the additional federal transfers to pay down their debt.

Activity should expand at near the rate of potential

The economy is projected to grow at rates close to potential during most of this year and next. Activity would mostly be supported by strength in private consumption, spurred by robust labour income and cuts in personal income tax. Business investment should also remain dynamic, boosted by strong profits and historically low interest rates. Both core and headline inflation are expected to stabilise around the mid-point of the monetary target band. The unemployment rate should decline slightly in the next two years. The current account surplus is projected to increase gradually over the projection period.

The main risks are external

The main risk to the outlook is that the current weakness in the US economy lasts longer than expected. This could happen if the collapse in the US housing sector were to spill over to other segments of the economy, if energy prices rise sharply or if global imbalances trigger disruptive financial market adjustments. On the domestic side, the current tightness in labour markets, as well as some persistence in food price increases, could delay the downward trend in inflation. Developments in the Canadian housing sector remain uncertain, but the risks are evenly balanced.

AUSTRALIA

After being restricted to 2½ per cent in 2006 by the negative impact of a severe drought, the increase in activity could reach 3¼ per cent in 2007 and 2008, which is close to potential growth. Stronger exports should offset slowing domestic demand and unemployment is likely to remain low.

The upturn in non-farm output means that monetary policy may have to be tightened again to ward off inflationary pressures. Maintaining a prudent fiscal stance would avoid fuelling demand, with the economy close to full capacity. Close co-operation between the different levels of government would be beneficial in numerous sectors, including the electricity, rail, gas industries and water management, ensuring more efficient resource utilisation and stimulating productivity.

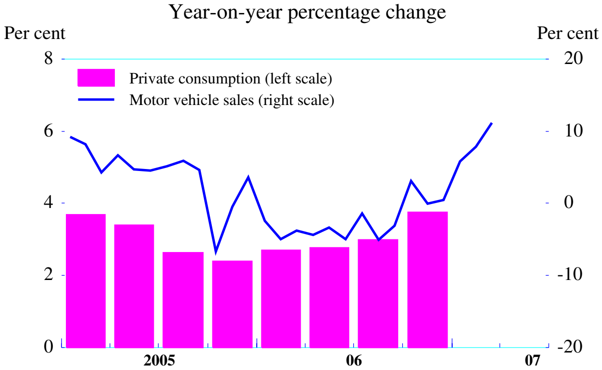
Demand has picked up since end-2006

The slowdown in activity which began in mid-2005 following the tightening of monetary policy, came to an end in late 2006. Growth accelerated to over 4% in the final quarter with a marked rebound in most components of domestic demand. The negative contribution of foreign trade to growth increased as imports picked up, while export growth was hampered by the drought and capacity and transport constraints. Activity remained vigorous in early 2007, with lending to the private sector and retail sales expanding rapidly. Strong profits, boosted by the improved terms of trade and record capacity utilisation, stimulated investment projects. Employment, which rose by 3.1% in April (year-on-year), should remain buoyant over the coming months while the unemployment rate is at its lowest level (4.4% in April) in 32 years. Despite these developments, wage increases have remained moderate at around 4% since the first quarter of 2005. Consumer price inflation slowed to 2.4% (year-on-year) in the first quarter of 2007 thanks to the downturn in the prices of certain fruits and the moderate increase in import prices, while underlying inflation eased somewhat to 2.5%.

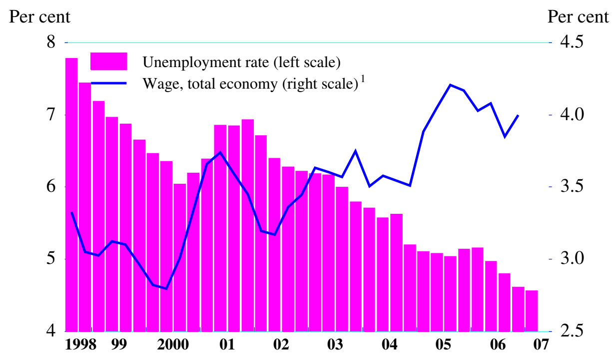
Australia

Domestic demand has strengthened

Year-on-year percentage change



The labour market is getting tighter



1. Wage price index (WPI), year-on-year percentage change.

Source: Reserve Bank of Australia and ABS(2006), Australian National Accounts: National Income, Expenditure and Product (cat. No. 5206.0).

StatLink http://dx.doi.org/10.1787/031472213530

Australia: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices AUD billion	Percentage changes, volume (2004/2005 prices)				
Private consumption	475.1	5.7	3.0	3.1	3.5	3.2
Government consumption	145.7	3.9	3.4	3.7	3.2	3.5
Gross fixed capital formation	204.2	7.5	7.8	6.1	5.0	4.0
Final domestic demand	825.0	5.8	4.3	4.0	3.8	3.5
Stockbuilding[1]	4.8	-0.5	0.3	-0.7	0.1	0.0
Total domestic demand	829.8	5.3	4.5	3.2	3.9	3.5
Exports of goods and services	144.7	4.6	2.4	3.4	4.1	7.7
Imports of goods and services	165.2	15.3	8.5	7.7	7.9	8.0
Net exports[1]	- 20.5	-2.3	-1.3	-1.0	-0.9	-0.1
GDP at market prices	809.2	3.2	3.0	2.4	3.3	3.3
GDP deflator	_	3.9	4.4	4.9	3.5	3.0
Memorandum items						
Consumer price index	_	2.3	2.7	3.5	2.2	2.7
Private consumption deflator	_	1.3	1.8	2.7	2.0	2.4
Unemployment rate	_	5.5	5.1	4.9	4.6	4.6
Household saving ratio[2]	_	-2.2	-0.8	-0.9	-0.8	-0.4
General government financial balance[3]	_	1.0	1.4	1.5	1.4	1.0
Current account balance[3]	_	-6.1	-5.7	-5.4	-5.0	-5.2

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.
Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034761081258

Further monetary tightening may be necessary

The Reserve Bank has kept its key rate at 6.25% since last November, after raising it by 0.25 of a percentage point three times in 2006. However, these increases and the Australian dollar's real appreciation since early 2006 have not prevented the recent upturn in activity which, according to the leading indicators, is set to continue. Although price pressures have been more subdued recently, further monetary tightening, as incorporated in the projections, may be necessary to reduce the inflationary risks stemming from the tight labour market.

The budget surplus is likely to diminish slightly

The government surplus of 1¼ per cent of GDP for fiscal 2006-07 was slightly stronger than anticipated despite growth falling short of expectations because of the drought. Thanks to terms of trade gains and strong employment creation, government revenues have exceeded expectations while spending has been kept under control. The surplus should shrink to around 1% of GDP according to the 2007-08 budget, which includes further personal income tax cuts and substantial additional investment in education along with increases in childcare subsidies and supplementary funding for transport and water infrastructure. The fiscal stance is therefore likely to be slightly expansionary during the projection period, even though the proposed measures should enhance the economy's supply potential in the longer term.

The outlook is favourable, but risks exist

Output growth could reach 3¼ per cent in 2007 and 2008, the likely rebound in agricultural production in the second half of 2007 being offset by the slowdown in the rest of the economy. Possible monetary tightening would curb business investment and consumption by households, whose saving ratio could pick-up somewhat in response to the tax cut. However, with the external environment remaining favourable, normal conditions being progressively restored in agriculture and major transport infrastructure projects being completed, exports will be boosted. This more balanced expansion should be compatible with some acceleration in productivity gains. With unemployment close to its structural level and an output gap which is gradually closing, inflation could stabilise at around 2½ per cent by 2008, once the effect of energy and fruit price fluctuations has dissipated. The risks to the projections seem evenly balanced. Domestic demand, bolstered by household and business confidence, could be more vigorous than projected, reinforcing labour market tensions and raising inflationary pressures. But there are also negative risks: the external environment could weaken or the expected upturn in exports could be slow to materialise.

AUSTRIA

After accelerating to almost 3½ per cent in 2006, GDP growth is expected to decelerate over the next two years, with a slowdown in net exports and investment. Inflation may move close to 2% towards the end of the projection period as output approaches its full capacity level.

Although the fiscal deficit is projected to decline over this year and next, the cyclically adjusted balance is expected to deteriorate marginally. The government should make use of the buoyant economic situation and introduce structural measures to achieve a more ambitious fiscal target. The adoption of a medium-term expenditure framework would help with these efforts.

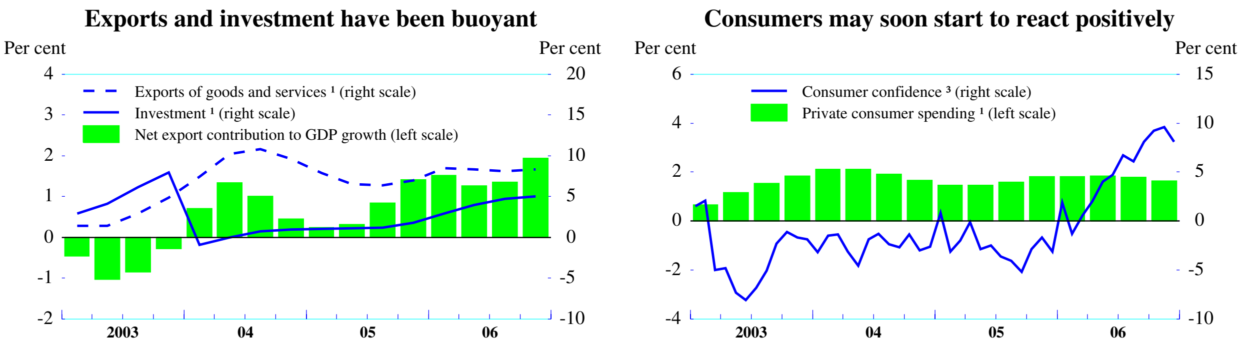
The economy enjoyed robust growth in 2006

The economy grew at a rapid pace in 2006, with the main engine of growth continuing to be robust external demand, particularly from non-EU member countries. Investment activity – notably in the construction sector – also picked up strongly, boosted by healthy corporate earnings, rising capacity utilization and strengthening sales prospects. However, private consumption growth continued to be weak, reflecting fairly modest increases in household real disposable income and a trend rise in the household savings ratio. Nevertheless, consumer confidence picked up steadily during the course of 2006 and growth in retail sales volumes accelerated in the final quarter of the year. The manufacturing sector grew strongly but the services sectors did less well. Unemployment has been continuously on a decreasing trend since 2005 despite the ongoing increase in labour supply.

No improvement in the cyclically adjusted fiscal balance

The fiscal outturn was better than had been projected in the 2006 budget, with a general government deficit of 1.2% of GDP (compared with the budget projection of 1.7%). The strong cyclical upturn contributed to much higher than expected government receipts from personal and corporate income tax and the value added tax. This more than offset the costs associated with new employment and growth initiatives adopted by the previous government. However, the new government is adopting a

Austria



1. Volume, year-on-year percentage change.
2. Per cent of disposable income.
3. % balance.
Source: Statistics Austria; OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/031486640322

Austria: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption	128.2	2.0	1.6	1.8	2.1	2.3
Government consumption	41.4	1.4	1.9	0.9	0.9	1.0
Gross fixed capital formation	48.1	0.2	1.3	4.1	4.1	2.7
Final domestic demand	217.7	1.5	1.6	2.1	2.3	2.2
Stockbuilding[1]	- 0.6	0.3	0.0	-0.3	-0.2	0.0
Total domestic demand	217.1	1.6	2.0	1.9	2.1	2.2
Exports of goods and services	109.8	9.5	6.9	8.3	7.0	7.7
Imports of goods and services	100.7	8.4	6.1	6.2	5.2	7.7
Net exports[1]	9.1	0.9	0.7	1.5	1.3	0.5
GDP at market prices	226.2	2.3	2.6	3.4	3.2	2.6
GDP deflator	_	1.7	1.5	1.4	1.9	2.3
Memorandum items						
Harmonised index of consumer prices	_	2.0	2.1	1.7	1.6	1.9
Private consumption deflator	_	1.7	1.6	1.7	1.8	1.9
Unemployment rate[2]	_	5.7	5.8	5.5	5.3	5.3
Household saving ratio[3]	_	8.8	9.1	9.1	9.0	8.9
General government financial balance[4]	_	-1.3	-1.7	-1.2	-0.8	-0.6
Current account balance[4]	_	1.7	2.1	3.2	4.1	4.5

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

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034765108363

slower pace of fiscal consolidation compared with the previous administration. The general government balance is expected to remain in deficit until at least 2010, instead of moving to balance in 2008, partly reflecting the one-off cost of the purchase of military aircraft. With the cyclically adjusted general government fiscal balance expected to remain in deficit and not improve over the next two years, achieving a balanced budget over the business cycle is likely to require further efforts at fiscal consolidation, in particular concerning transfers and subsidies as well as fiscal federal relations.

Inflationary pressures limited despite closing of output gap

Inflation was subdued in 2006 due to restrained consumer spending, muted wage pressures and a sharp decline in oil prices during the second half of the year. Inflationary pressures may start to build up towards the end of the projection period as the output gap closes and productivity growth decelerates, particularly in the services sectors. Nevertheless, with the unemployment rate remaining above the estimated non-accelerating inflation rate of unemployment (NAIRU) of under 5% throughout the projection period, moderate wage growth and the strength of the euro are likely to limit any further buildup of inflationary pressures.

The economy is set for a soft landing

Cyclical deceleration in the euro zone and in the United States, will dampen export growth somewhat during 2007 and 2008, and this is likely to feed through to slower investment, particularly in 2008. At the same time rising consumer confidence foreshadows a strong pickup in consumer demand in 2007. Overall the economy is expected to slow down in 2007 and 2008, with GDP growth at about 3¼ and 2½ per cent respectively, unemployment falling to around 5¼ per cent and inflation picking up to just under 2% towards the end of projection period.

External and domestic uncertainties likely to be offsetting

The main downside risks to growth stem from a stronger-than-anticipated easing of growth in Europe and the United States, while the main upside risk stems from a stronger-than-anticipated improvement in consumer confidence. On inflation, the main uncertainties relate to developments in world oil prices and in domestic wages. If the euro continues to appreciate against the US dollar and other major currencies, this would put downward pressure on inflation, but also weaken exports.

BELGIUM

After a robust expansion of 3% in 2006, the pace of growth should moderate in 2007-08, but remain sufficiently strong to close the output gap by the end of the projection period. Domestic demand is underpinned by higher employment and real incomes. Recent improvements in competitiveness should help enhance export market performance. Inflation is expected to be only gradually affected by rising cost pressures.

The government aims at increasing the budget surplus by about 0.2 percentage point of GDP per year, so as to further reduce the debt ratio and achieve fiscal sustainability. To this end, a greater degree of expenditure restraint will be necessary at all levels of government. Increasing incentives to participate in the labour market and better targeting of public employment subsidies to low income workers would also help long-term fiscal trends.

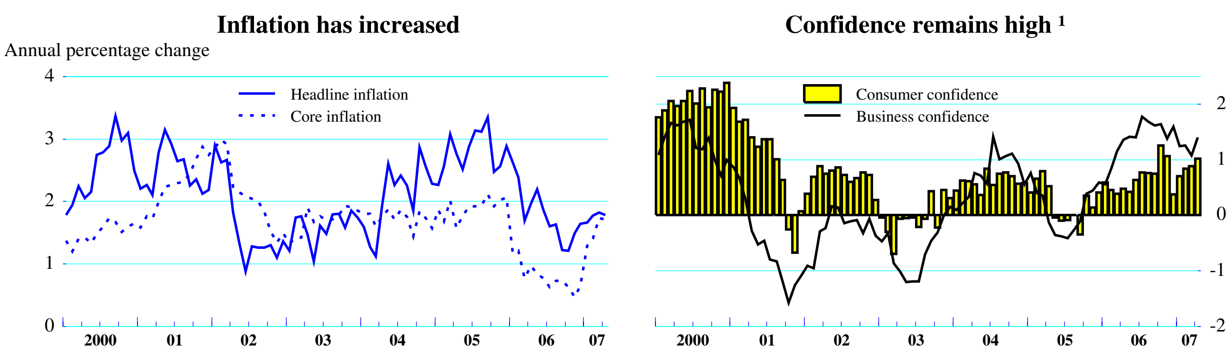
Growth has slowed, but remains above potential

The pace of economic growth moderated in the second half of 2006, reflecting offsetting factors. Private consumption decelerated somewhat in the second half of the year, but continued to be sustained by high consumer confidence and increasing real incomes on the back of strong employment creation as well as by the completion of the multi-year tax reform. At the same time, public infrastructure investment fell sharply after the municipal elections in the autumn. In contrast, business fixed investment accelerated towards the end of the year. Moreover, exporters clawed back some of the substantial market share losses they experienced in the first half of the year. Since mid-2006, employment has been growing more rapidly than labour supply, allowing the standardised unemployment rate to decline by nearly 1 percentage point to 7.6% in the first quarter of 2007.

Cost competitiveness has begun to improve

Both core and headline inflation fell in the second half of 2006, although higher food prices prevented headline inflation from falling as much as core inflation. During the first quarter of 2007, the two inflation rates once again rose to 1¾ per cent year-on-year. In 2006, hourly wages grew by around 2½ per cent. As labour productivity also gathered pace,

Belgium



1. The series have been normalised at the average for the period and are presented in units of standard deviation.
Sources: OECD Analytical Database, Main Economic Indicators.

StatLink http://dx.doi.org/10.1787/031508046125

Belgium: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices € billion	Percentage changes, volume (2004 prices)				
Private consumption	146.9	1.5	1.1	2.5	2.1	2.1
Government consumption	63.2	2.1	-0.6	1.4	2.2	2.2
Gross fixed capital formation	51.6	8.1	4.3	5.7	4.8	4.0
Final domestic demand	261.7	2.9	1.3	2.9	2.7	2.5
Stockbuilding[1]	0.8	0.1	0.5	0.7	0.1	0.0
Total domestic demand	262.6	3.1	1.9	3.6	2.8	2.5
Exports of goods and services	222.1	5.9	3.1	3.6	5.9	4.9
Imports of goods and services	210.1	6.3	3.8	4.6	6.4	5.2
Net exports[1]	12.0	-0.1	-0.4	-0.8	-0.2	-0.1
GDP at market prices	274.6	2.8	1.4	3.0	2.5	2.3
GDP deflator	_	2.4	2.1	1.9	1.6	1.6
Memorandum items						
Harmonised index of consumer prices	_	1.9	2.5	2.3	1.1	1.8
Private consumption deflator	_	2.4	2.9	2.0	1.5	1.8
Unemployment rate	_	8.4	8.4	8.2	7.4	7.1
Household saving ratio[2]	_	11.0	10.7	10.7	11.2	11.0
General government financial balance[3]	_	-0.1	0.0	0.1	0.2	0.0
Current account balance[3]	_	3.5	2.6	2.0	2.5	2.1

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

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034771415238

there was an improvement in competitiveness as measured by unit labour costs in manufacturing. For the next two years, annual wage increases of about 2½ per cent have again been agreed to by the social partners, which is slightly below the wage norm's reference value of expected hourly labour cost trends in the main trading partners. This implies that further improvement in competitiveness will mostly depend on relative productivity developments.

Reaching medium term fiscal objectives requires additional measures

After achieving a small general government surplus in 2006, fiscal policy aims at increasing the surplus by around 0.2 percentage point of GDP each year over the projection period. Reaching this objective will be facilitated by the continuous fall in interest charges (amounting to some 0.2 percentage point of GDP per year) and the completion of the multi-year tax reform. However, realizing the 2007 objective will also rely on using one-off measures amounting to nearly 0.4% of GDP. This has allowed the government to postpone structural consolidation measures to the following year, when there will also be some self-reversing one-off measures to be financed. As a consequence, the new government coming in after the general election this June will need to implement fiscal measures of nearly ½ per cent of GDP to reach the 2008 fiscal objective. This is best achieved by securing expenditure restraint at all levels of government as this would preserve the beneficial effects of the recently completed tax reform.

Growth should be sufficiently strong to close the output gap

Output is projected to grow above its potential rate, leading to a closing of the output gap by the end of the projection period. The main risk to these projections is related to the tightening of the labour market, which may induce faster-than-projected increases in wage and price inflation. On the upside, export market losses may be lower than projected.

CZECH REPUBLIC

Economic activity is expected to ease further, but it will remain robust with real GDP growth slightly below 5% by the end of the projection period. Inflation will be pushed up towards the upper limit of the Central Bank's target band, though this will have more to do with increases in excise duty and price deregulation than demand pressure.

Progress on the structural reforms needed for sustainable deficit reduction risks remaining slow due to the lack of a parliamentary majority. Little concrete headway is being made in either pensions or healthcare and weaknesses in budgeting processes remain to be addressed.

GDP growth was over 6% in 2006

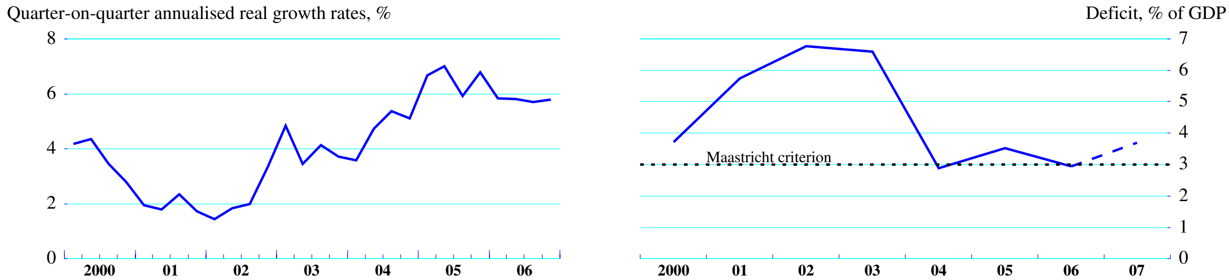
Annual real GDP growth was 6.1% in 2006, the same as the previous year and again one of the highest growth rates on record. However, quarterly figures show the pace of economic activity slowed somewhat over the course of the year. Export-oriented manufacturing continues to be the main driving force of economic activity. Most notably, car production increased significantly in 2006. The rapid pace of GDP growth has boosted employment, incomes and household consumption and a small positive output gap has developed, generating a degree of demand-driven inflation. However, price developments are being more strongly influenced by the combined effects of increases in the excise duty on cigarettes, further deregulation in energy markets and a series of hikes in housing rentals as part of an ongoing liberalisation programme. Indeed, inflation has fallen since the third quarter of 2006, mainly due to a temporary reduction in these effects.

Commitments on welfare spending are pushing up the deficit

The general government deficit turned out at 2.9% in 2006 but is expected to be 3.7% this year. Pre-election spending commitments, notably in welfare benefits, are driving the deficit increase. The fiscal outlook prompted abandonment of the 2010 target date for euro entry in June 2006 and, as yet, no new official target date has been set. This was closely followed by the announcement that as of January 2010 the Central Bank's inflation target will be 2% with a tolerance band of ± 1%, one percentage point lower than the current target of 3 ± 1%.

Czech Republic

GDP growth has eased off | **The government deficit is set to increase**[1]



1. General government deficit according to the European System of Accounts (ESA95). OECD estimate for 2007.

Source: OECD, Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/031628378365

Czech Republic: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices CZK billion	Percentage changes, volume (2000 prices)				
Private consumption	1 332.6	2.6	2.8	4.6	5.2	4.0
Government consumption	603.2	-3.2	1.0	0.3	1.0	1.0
Gross fixed capital formation	687.5	4.7	1.3	7.3	7.4	8.0
Final domestic demand	2 623.3	1.8	2.0	4.3	4.8	4.4
Stockbuilding[1]	12.2	0.9	0.1	1.3	-0.3	0.0
Total domestic demand	2 635.5	2.7	2.1	5.6	4.4	4.3
Exports of goods and services	1 594.9	20.6	10.5	15.2	13.2	12.0
Imports of goods and services	1 653.2	17.8	4.8	14.7	12.0	11.4
Net exports[1]	- 58.4	1.3	4.0	0.6	1.1	0.8
GDP at market prices	2 577.1	4.2	6.1	6.1	5.5	5.0
GDP deflator	_	3.5	0.7	1.7	2.6	3.0
Memorandum items						
Consumer price index	_	2.8	1.9	2.6	2.5	3.4
Private consumption deflator	_	3.0	1.7	2.4	2.3	3.3
Unemployment rate	_	8.3	8.0	7.2	6.5	6.1
General government financial balance[2]	_	-2.9	-3.5	-2.9	-3.7	-3.5
Current account balance[2]	_	-6.0	-2.6	-4.2	-2.9	-2.5

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

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034816146646

Growth will slowdown but remain robust

Real GDP growth is projected to ease further with annual increases of 5.5 and 5% in 2007 and 2008, respectively. This projected slowdown reflects both export and consumption growth coming off the high rates seen at the end of 2006. Increases in excise duty, notably on tobacco products, and continuing price deregulation will remain the dominant influences on price developments though a small degree of demand pressure will remain. Headline inflation is expected to be in the upper half of the current inflation target band by the end of the projection period.

Lack of action on structural reforms remain a key risk

The current position on euro entry presents little pressure for fiscal consolidation over the projection period. In addition, political stalemate following the election has meant little progress in implementing structural reforms. The general election held in June 2006 failed to deliver a clear majority to coalition groupings headed by either of the main political parties and a new government was not appointed until January 2007. The narrow majority of the governing coalition means progress on structural reforms, for example in pensions and healthcare, is likely to remain slow.

DENMARK

Despite the ending of the house price boom and the recent slowdown in consumer spending, GDP is growing faster than its potential rate, driven by export and investment demand. Capacity constraints and labour shortages are becoming ever more pronounced, accentuating the risk of overheating.

Although short-term interest rates are rising, the combination of monetary conditions and fiscal policy has failed to contain aggregate demand. Public service improvements must be implemented gradually and, for 2008, spending increases in one area must be mirrored by savings elsewhere. Efforts to expand labour supply should continue.

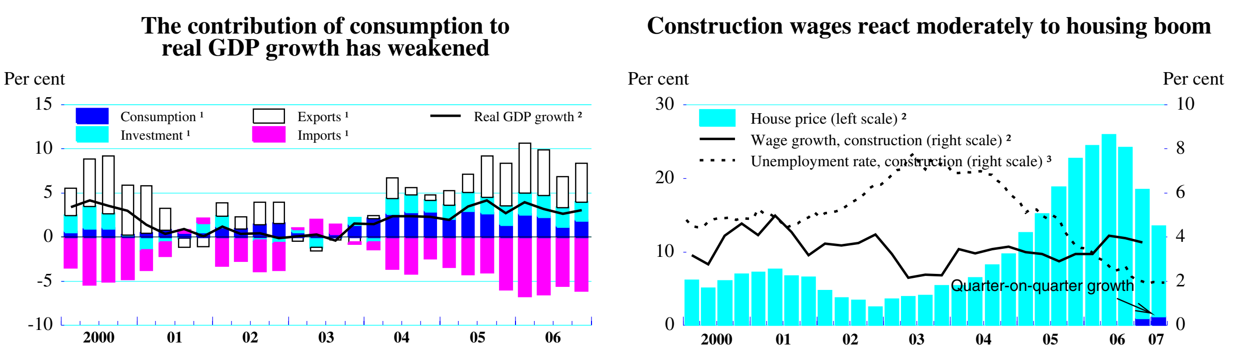
Wages are now responding to capacity shortages

After expanding by 3% annually in 2005-06, the economy has started to slow down. Private consumption growth, which has led the recovery since late 2003, weakened in autumn 2006, and retail sales indicate that this trend is continuing in spring 2007. Meanwhile, housing and particularly business investment are growing vigorously. Industrial exports rose strongly in 2006, keeping pace with market growth. However, with over half of the additional total demand being met *via* imports, net exports are contributing negatively to GDP growth, and the trade surplus fell below 1% of GDP in late 2006. The labour force has increased more than in previous cycles, helped by immigration. Unemployment reached a three-decade low in mid-2006, and continued to fall rapidly until early this year. Despite these capacity pressures, wage and price inflation has been benign for a relatively long period. However, with the new collective agreements concluded in the spring, hourly pay is expected to grow by around 4% annually in the private sector in 2007-09, up from around 3% since 2004.

The housing boom is coming to an end

The spectacular surge in house prices – peaking at a 26% annual increase in mid-2006 – is now coming to an end. In the first quarter of 2007, the national average increased by only 1% for one-family houses while declining by 2% for apartments. The frequency of purchases made in the housing market has declined, but not collapsed. Despite house

Denmark



1. Contributions to real GDP growth, in percentage of previous year's GDP.
2. Year-on-year percentage change.
3. Among persons with unemployment insurance. This tends to be higher than the Labour Force Survey concept used for the aggregate economy.
Sources: Statistics Denmark, Association of Danish Mortgage Banks and OECD Analytical database.

StatLink http://dx.doi.org/10.1787/031675847581

Denmark: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices DKK billion	Percentage changes, volume (2000 prices)				
Private consumption	666.9	4.7	4.2	3.4	1.9	1.6
Government consumption	371.2	1.6	1.1	1.2	1.6	1.1
Gross fixed capital formation	269.8	5.6	9.6	11.1	6.7	3.6
Final domestic demand	1 308.0	4.0	4.4	4.5	2.9	2.0
Stockbuilding[1]	5.1	0.1	-0.1	0.4	0.1	0.0
Total domestic demand	1 313.1	4.1	4.3	4.9	3.1	1.9
Exports of goods and services	635.7	2.2	7.2	9.6	5.8	5.3
Imports of goods and services	548.1	6.9	10.7	14.0	8.2	5.9
Net exports[1]	87.5	-1.7	-1.0	-1.5	-1.0	-0.2
GDP at market prices	1 400.7	2.1	3.1	3.2	2.2	1.7
GDP deflator	_	2.0	3.2	2.2	2.4	3.0
Memorandum items						
Consumer price index	_	1.2	1.8	1.9	1.8	2.6
Private consumption deflator	_	1.5	2.2	2.1	2.5	2.6
Unemployment rate[2]	_	5.5	4.8	3.9	3.4	3.5
Household saving ratio[3]	_	1.1	-2.5	1.9	3.0	3.4
General government financial balance[4]	_	1.9	4.6	4.2	4.3	3.7
Current account balance[4]	_	2.4	3.8	2.4	1.8	1.8

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

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. Based on the Labour Force Survey, being 0-¾ percentage point below the registered unemployment rate.
3. As a percentage of disposable income, net of household consumption of fixed capital.
4. As a percentage of GDP.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034827163138

prices seeming overvalued, this indicates that average prices might not be set for an outright fall as long as labour market conditions remain healthy. Nevertheless, the ending of wealth effects, in addition to the direct effect on household budgets from gradually rising mortgage interest rates, may explain a large part of recent sluggishness in consumption expenditure, with the savings rate coming back to its historic average in late 2006. By contrast, an adjustment is yet to come in construction. In 2006, the ratio of residential investment to household disposable income reached 14%, well above the 9% average seen over the previous quarter century.

Fiscal policy is not helping to contain demand

With severe labour shortages and an estimated positive output gap of 1½ per cent at the beginning of this year, the risk of overheating is strengthening. Already the recent pay deals entail loss of competitiveness and thereby stem job creation. Despite the recent slowdown, the strong macroeconomic capacity pressures are likely to persist throughout 2007-08. The budget surplus continued above 4% of GDP in 2006, reflecting buoyancy of tax revenues, including from oil production, but also a decline in real transfers to households as unemployment fell. But adjusting for the cyclical position, fiscal stimulus added ¼ percentage point to GDP growth in 2006 and discretionary fiscal policy will be at best neutral in 2007. Fiscal tightening would have been more appropriate.

For 2008 it is very important to avoid any further fiscal stimulus; spending increases, in particular, must be limited as they immediately add to domestic demand.

GDP growth is set to slow while cost pressures rise

Despite continued strong export and investment demand, GDP is set to slow down gradually to its potential rate of 1½ to 2% in 2008. From having been ahead of the European recovery, Denmark thereby slows relative to the euro area. With strong capacity constraints already binding, the additional export demand generated by the improving economic conditions in the rest of Europe can hardly be met. Inflation is expected to rise above 2½ per cent in 2008.

The risk of overheating is pertinent

The main risk is that local wage settlements will drive cost pressures beyond what is included in this projection. The resulting loss of competitiveness and rising unemployment could then trigger a correction of house prices and perhaps lead to a prolonged recession.

OECD ECONOMIC OUTLOOK 81 – ISBN 978-92-64-03449-5 – © OECD 2007

FINLAND

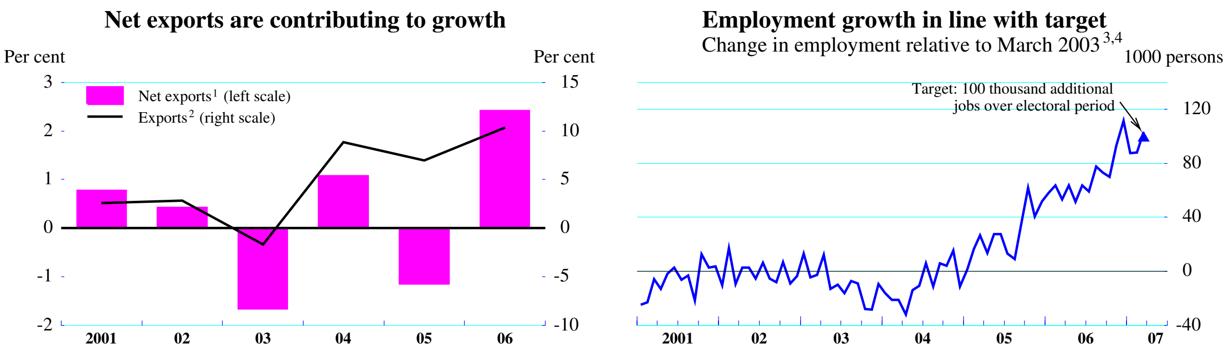
Real GDP surged by 5.5% in 2006, driven largely by exports, although consumption growth was sustained and private investment picked up. Output is expected to expand at close to its trend rate of 3% this year and next. While unemployment remains high, it is expected to continue to decline over the coming year. Inflation is expected to remain moderate.

To facilitate swift job creation and to reduce looming labour shortages due to the ageing of the population, the remaining pathways to early retirement should be phased out, while greater wage flexibility should be provided in future national wage agreements. Incentives for municipalities to provide land for housing in fast-growing regions need to be strengthened to reduce the risks of a house price boom.

Activity was strong in 2006

GDP grew by 5.5% in 2006, partly explained by special factors, such as the rebound in exports following a labour dispute in the forestry industry in 2005. But other export components also rose swiftly, and growth in private consumption was sustained, despite sluggish growth in real disposable income, as households increased their borrowing. Private investment improved markedly, responding to favourable demand conditions and strong profitability. Output grew much faster than labour input, with labour productivity advancing by 4%. This rapid increase in productivity, coupled with moderate wage increases, resulted in a decline in unit labour cost that bolstered Finland's competitiveness. The labour force increased by 1% in 2006, largely due to older workers remaining in the labour force for longer. At the same time, however, employment rose by 1.8% and the unemployment rate fell to 7.7%. Despite strong economic activity, consumer price inflation is low, running at only 1.6% through the year to March 2007. The general government surplus rose to 3.8% of GDP boosted by corporate taxes and one-off dividends. The surplus is generated by the social security system and the central government while the local governments remained in deficit.

Finland



1. Contribution to real GDP growth.
2. Annual percentage change.
3. Employment seasonally adjusted by OECD.
4. The previous government's goal was to raise employment by 100 000 between March 2003 and March 2007.
Source: Statistics Finland and OECD, Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/031737333467

Finland: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption	75.3	2.8	4.0	3.0	2.9	2.7
Government consumption	31.5	1.8	1.7	1.0	0.8	0.8
Gross fixed capital formation	26.4	3.0	3.8	5.8	4.5	3.7
Final domestic demand	133.2	2.6	3.4	3.1	2.8	2.5
Stockbuilding[1,2]	0.8	0.5	0.7	0.1	-0.2	0.0
Total domestic demand	134.1	3.1	4.2	3.1	2.5	2.4
Exports of goods and services	56.3	8.9	7.0	10.4	5.0	5.7
Imports of goods and services	44.1	7.8	12.3	5.3	4.9	5.5
Net exports[1]	12.2	1.1	-1.1	2.4	0.4	0.5
GDP at market prices	146.2	3.5	3.0	5.5	3.0	2.7
GDP deflator	_	0.5	0.3	1.3	2.0	1.3
Memorandum items						
GDP without working day adjustments	_	3.7	2.9	5.5	..	..
Harmonised index of consumer prices	_	0.1	0.8	1.3	1.4	1.7
Private consumption deflator	_	0.9	0.3	1.8	1.7	1.7
Unemployment rate	_	8.9	8.4	7.7	7.0	6.8
General government financial balance[3]	_	2.1	2.5	3.8	3.5	3.2
Current account balance[3]	_	7.8	5.1	5.8	6.3	6.1

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

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034847855037

Structural imbalances in the labour market persist

Job creation continued at a vigorous pace early this year, particularly in private services and construction. Despite this, high unemployment persists, while labour shortages, especially in construction and the metal industry, have increased. In addition, regional mis-matches of labour demand and supply are growing. In January there were 45 000 job vacancies, and over half of them were difficult to fill. The previous government introduced a package to promote regional and occupational mobility to alleviate structural imbalances in the labour market and cut the value-added tax rate on some labour-intensive services during 2007-10. The robust employment growth sustained over 2006 meant that the previous government's target of increasing employment by 100 000 persons between March 2003 and March 2007 has been met.

GDP is likely to grow close to its trend rate

GDP is projected to grow by around 3% this year and next, which is close to the trend rate. At the same time, the unusually strong growth in labour productivity is expected to tail off while labour bottlenecks in certain industries may hinder further growth. Robust foreign trade is expected to continue to fuel growth, although at a slower pace, as the growth in world trade slows. Investment is projected to edge down slightly as industrial production, particularly in forestry and electronics industry, is projected to ease off during 2007. Strong household confidence, good job prospects, wage increases and tax cuts are expected to improve consumers' purchasing power and sustain private consumption over the projection period. However, despite the higher income, consumption is still expected to outstrip household budgets so the saving rate will remain negative. House prices are likely to continue to rise, especially in metropolitan Helsinki. Employment and labour force growth are both likely to slow and the unemployment rate is projected to fall below 7% by the end of 2008. The current wage agreement expires in September 2007 and wage inflation is expected to pick up somewhat afterwards. Inflation pressures should remain moderate, while import price inflation is likely to slow down. During the projection period the government surplus may decline as a consequence of proposed personal income tax cuts and the reduced value-added tax.

Higher wage demands may cause a stronger pick-up in inflation

A key risk in the projections is that strong economic growth and labour shortages may prompt higher wage demands in this autumn's wage negotiations. If so, inflation pressures could be stronger, with adverse effects for competitiveness.

GREECE

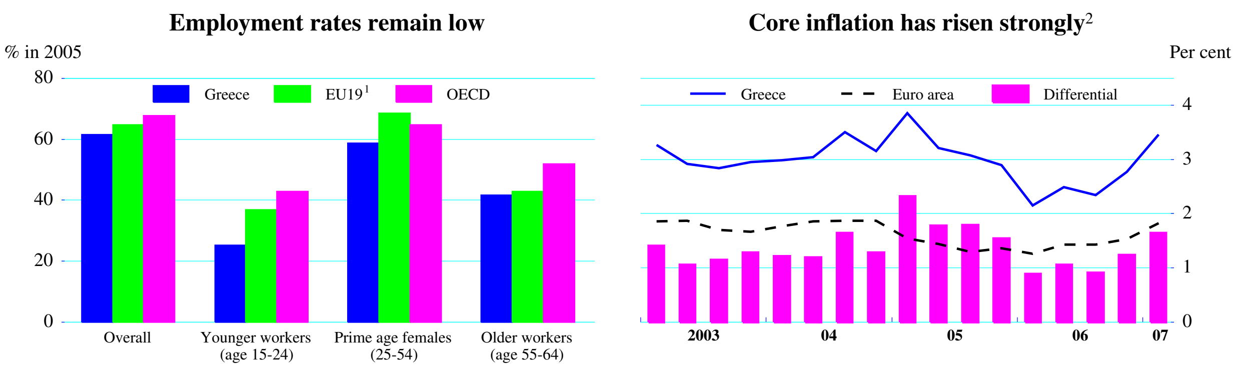
Buoyed by vigorous domestic demand, real GDP grew strongly in 2006 and is expected to continue to expand at close to 4% over this year and next. With the output gap remaining positive and unit labour costs growing relatively strongly, inflationary pressures are likely to persist, eroding competitiveness. The current account deficit is expected to remain large.

Given strong economic growth and large future costs from population ageing, fiscal consolidation should continue, possibly at a more rapid pace than planned. Spending restraint and further efforts to broaden the tax base remain critical. Long-run fiscal sustainability can be assured only by wide-ranging reforms of the pension and health-care systems. Competition should be fostered in network industries while labour market rigidities need to be reduced to sustain strong growth.

Growth momentum has been maintained and core inflation has risen

Output growth of 4¼ per cent in 2006 was underpinned by buoyant investment spending, on the back of a sharp increase in residential construction activity and a rebound in public investment. Building permits surged in 2005, prior to the introduction of tax measures in 2006. Consumption growth remained robust, boosted by favourable financing conditions and rising incomes. Net exports, on the other hand, made a negative contribution to growth, due to strong import growth. The current account deficit widened considerably to 9¾ per cent of GDP. Recent indicators of activity, such as retail sales, new car registrations and manufacturing production, send positive signals for the coming quarters. Economic sentiment indicators also point to a continuation of strong growth, though the construction index has slid from its peak in September 2006. The unemployment rate fell to 8½ per cent in 2006, which is below the estimated structural rate. However, employment rates of the young, old and women are still low by international standards. After rising to 3.9% in July 2006, consumer price inflation (harmonised) trended down, largely reflecting a decline in prices of oil products and the ending of base effects from an increase in indirect taxes in April 2005.

Greece



1. All EU members that are also OECD members.
2. Measured by the harmonised consumer price index excluding food and energy; the euro area also excludes tobacco and alcohol. Year-on-year percentage change.
Source: OECD (2006), Labour Force Statistics Database and OECD (2007), Main Economic Indicators.

StatLink http://dx.doi.org/10.1787/032123348170

Greece: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption	135.8	4.6	3.7	3.5	3.3	3.3
Government consumption	29.5	2.5	-0.5	2.0	1.3	1.0
Gross fixed capital formation[1]	47.9	5.8	0.2	14.6	6.3	5.7
Final domestic demand	213.2	4.6	2.4	5.8	3.8	3.6
Stockbuilding[2,3]	2.4	-0.1	-0.1	-1.1	0.4	0.0
Total domestic demand	215.6	4.5	2.3	4.8	4.1	3.6
Exports of goods and services	35.2	7.5	3.7	5.0	5.2	7.2
Imports of goods and services	54.2	5.6	-2.1	6.9	6.3	5.3
Net exports[2]	- 19.0	-0.3	1.3	-1.0	-0.8	-0.2
GDP at market prices	196.6	4.7	3.7	4.2	3.9	3.8
GDP deflator	_	3.3	3.4	3.1	3.2	3.3
Memorandum items						
Harmonised index of consumer prices	_	3.0	3.5	3.3	2.8	3.0
Private consumption deflator	_	2.6	3.7	3.3	2.9	3.0
Unemployment rate	_	10.0	9.4	8.4	8.1	7.9
General government financial balance[4]	_	-6.2	-4.5	-2.3	-1.9	-2.2
Current account balance[5]	_	-5.0	-6.3	-9.7	-9.4	-8.9

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/034866802057

Core inflation, on the other hand, has risen strongly, due to higher unit labour costs, demand pressures, and the second round effects from the oil price increase, although it eased somewhat in March 2007. Core inflation was 1 percentage point higher than the euro area average in 2006.

The pace of fiscal consolidation has eased

The general government deficit has been brought down close to 2¼ per cent of GDP in 2006 from a peak of more than 6% in 2004 (on the basis of revised GDP data). The 2007 budget targets only a modest deficit reduction of ¼ percentage point. The budget includes reductions in the personal income tax, on top of the cut in corporate taxes already announced. The revenue loss due to these measures will be compensated by indirect tax increases, including higher excise taxes on fuel and mobile phones, and further progress in curtailing tax evasion. On present policies, the general government deficit will decline from 2.3% of GDP in 2006 to close 2% of GDP in 2007 (including the recently introduced temporary revenue measures and permanent initiatives for expenditure restraint). In the absence of further corrective measures, the deficit could deteriorate again to around 2¼ of GDP in 2008. The OECD projections do not incorporate the permanent increase of Greece's contribution to the European Union, as a result of the revision of GDP, nor a one-off payment of arrears on such contributions, that would impact the fiscal outcome for 2007. Information on the magnitude of this expenditure will be available upon approval of the revisions to the GDP data by Eurostat.

Activity is set to remain robust, with higher inflation being a risk

Real output is set to grow by around 4% over the next two years, close to its trend rate. Less accommodative monetary conditions are expected to contribute to a slowing of domestic demand growth. However, activity should be supported by lower personal income taxation and a number of investment-boosting initiatives. Investment spending will receive further support from the implementation of projects funded by the European Union. Exports are set to remain strong, thanks to buoyant global markets, despite the trend deterioration in cost competitiveness. Inflation is expected to hover around 3% in 2007 and 2008 because the output gap remains positive and labour market conditions are tightening. Given the strength of the economy, inflationary pressures could be greater than predicted, which would further weaken competitiveness.

HUNGARY

Austerity measures to redress public finances are having a significant impact on the economy. Reflecting weakening domestic demand, activity in 2007 and 2008 is projected to grow at a rate well below its trend (about 4%), despite the strong expansion of exports. After a temporary boost due to changes in value-added taxes and regulated prices, inflation is expected to fall.

With the immediate steps of fiscal consolidation in place, success requires implementation of measures in the government's programme that reduce public spending. A strong commitment to improve fiscal balances on a permanent basis would not only reduce short-term risks but also help growth prospects over the longer term.

Growth slowed in the second half of 2006

Output growth was 3.9% in 2006, the lowest increase in the past ten years, reflecting the effects of the ambitious fiscal austerity measures that began in autumn 2006. Investment showed a sharp decline, including in the export sector, notwithstanding strong external demand. Private consumption stagnated at the end of the year with the phasing in of several revenue raising measures (notably, increases in value-added tax (VAT) rates, energy prices and social security contributions). By contrast, robust external demand and moderate wage growth made for buoyant exports. Given weakening demand for imports from households, the role of net exports as the main contribution to economic activity strengthened further.

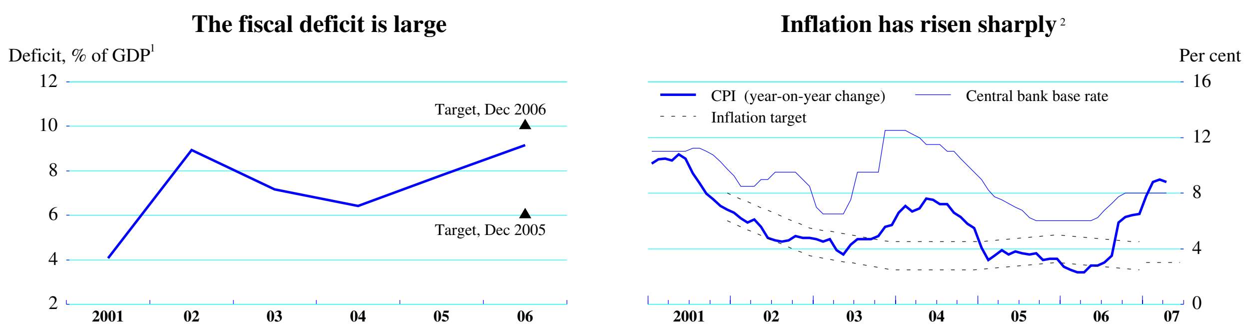
Indicators point to a further weakening in activity

There are signs that growth will continue to slow in the near future. In particular, retail sales have weakened sharply, in large part because consumer price inflation picked up to a high of about 9% in March and April, eroding real incomes. Output data show a sharp slowdown in construction growth, largely due to a fall in housing starts and a softening in public investment. On the other hand, export prospects remain reasonably good.

The fiscal and monetary policy mix is tight

Following the announcement of the austerity package last summer, the fiscal stance was tightened sharply. The general government deficit reached 9.2% of GDP on an accruals basis in 2006. The government

Hungary



1. General government deficit according to the European System of Accounts (ESA95). Deficit targets as in the Convergence Programmes, December 2005 and December 2006.
2. CPI is consumer price index. From January 2007 the medium-term inflation target is 3%.
Source: Hungarian Central Statistical Office; Magyar Nemzeti Bank; Ministry of Finance; OECD, Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/032137520814

Hungary: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices HUF billion	Percentage changes, volume (2000 prices)				
Private consumption	10 513.6	3.1	3.9	1.6	-0.2	1.2
Government consumption	4 402.9	1.9	1.9	-2.6	-1.5	-2.8
Gross fixed capital formation	4 156.0	7.7	5.6	-1.8	1.0	4.1
Final domestic demand	19 072.5	3.8	3.8	-0.1	-0.2	1.0
Stockbuilding[1]	601.3	0.5	-2.4	0.7	0.1	0.0
Total domestic demand	19 673.7	4.2	1.0	1.0	0.0	1.0
Exports of goods and services	11 496.6	15.7	11.6	18.0	13.1	10.9
Imports of goods and services	12 234.7	14.1	6.8	12.6	8.3	8.7
Net exports[1]	- 738.1	0.5	2.8	3.4	3.8	2.1
GDP at market prices	18 935.7	4.9	4.2	3.9	2.5	3.1
GDP deflator	_	4.3	2.0	2.9	6.4	3.4
Memorandum items						
Consumer price index	_	6.7	3.6	3.9	7.2	3.7
Private consumption deflator	_	4.5	3.6	3.2	5.9	3.7
Unemployment rate	_	6.2	7.3	7.5	7.6	7.5
General government financial balance[2]	_	-6.4	-7.8	-9.2	-6.7	-4.8
Current account balance[2]	_	-8.4	-6.9	-5.8	-3.6	-2.2

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

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035001751784

estimates that this is 2½ percentage points below the expected level in the absence of corrective measures. For 2007, further progress in fiscal consolidation will come from continued use of revenue measures, while a freeze of public sector wages and cuts in operational outlays and pharmaceutical subsidies will also play an important role. The OECD deficit projection is broadly in line with the government's target of 6.6% of GDP. Although progress in deficit reduction is expected to continue, the projected deficit for 2008 (4.8%) implies a slippage of about half a percentage point of GDP, reflecting uncertainties in savings from structural reforms. With monetary policy rates having increased by 200 basis points since mid-2006 and with the recent strengthening of the currency, monetary conditions are now tighter than appears necessary to meet the medium term inflation target of 3%. Thus the projections assume base rate cuts in the course of 2007, although this will not result in a marked easing of real interest rates.

Real GDP growth is expected to be well below trend

Annual real GDP growth is set to slow markedly in the projection period and to remain well below its trend average of recent years (around 4%). The consolidation programme implies that household consumption will be hit particularly hard. Thanks to the supportive effects of strong export demand, the contribution of the external sector is expected to further increase, resulting in continued improvements of the current account balance. Wage inflation is seen to remain moderate due to the weaknesses in aggregate demand. Declining inflation due to the fade out of the impact of the VAT and regulated prices increases will bring about some real income gains. These will help support private consumption somewhat at the end of the projection period.

Fiscal risks remain in the medium-term

The main risk is that the structural reforms to permanently cut public spending are delayed or diluted. This would likely mean temporary measures, notably public-sector employees' wage freezes and stops on previously scheduled cuts to tax and social security contributions, would have to be extended. This would boost future spending pressure and undermine the credibility of policy. Externally, the main risk is that economic activity in the European Union turns out to be weaker than expected, which would impact export and investment growth.

ICELAND

Economic growth has slowed markedly, but inflationary pressures and a large external deficit persist. A tight monetary stance is projected to curb domestic demand despite fiscal policy moving towards expansion. While inflation should converge towards the official target, the external deficit is likely to remain uncomfortably high over the projection period. Renewed financial market nervousness and downward pressure on the exchange rate could therefore complicate the adjustment process and make for a hard landing of the economy.

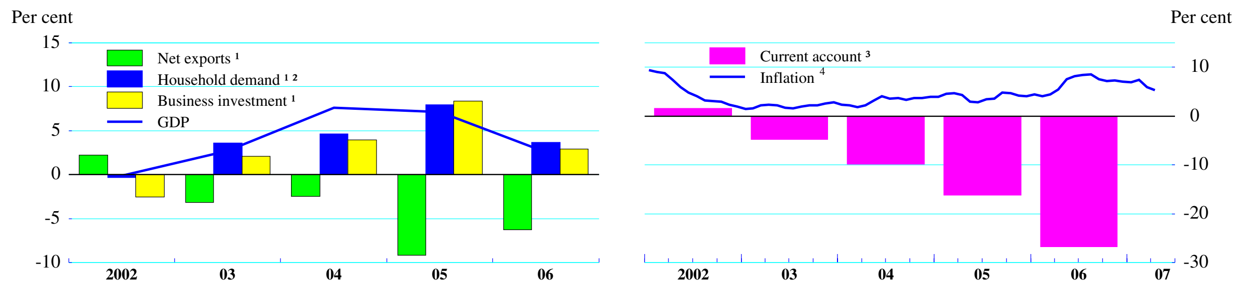
The monetary stance will have to remain tight until there are clear signs that excess demand is eliminated and inflation expectations are anchored at the official target. Fiscal policy should shoulder some of the stabilisation burden by curbing public expenditure growth. Measures that facilitate housing financing should be avoided, as should a premature launch of new major investment projects.

Economic growth has eased, but tensions and imbalances remain

Activity has decelerated significantly. In 2006, the economy expanded by 2½ per cent both on average and through the year. Business investment slowed as the major aluminium-related investment projects near completion. The monetary tightening since mid-2004 finally reined in private consumption, although residential investment remained strong. At the same time, despite a decline in the real effective exchange rate, exports contracted due to a poor fish catch. This contributed to a further rise in the current account deficit to more than one-quarter of GDP, although rising marine-product and aluminium prices made for a significant improvement in Iceland's terms of trade, and import growth subsided. One-fifth of the deficit reflects reinvested earnings of foreign companies in Iceland, while about one-third derives from recent investments in the power and aluminium sectors. But this still leaves an external deficit that is far too high to be considered sustainable. Headline inflation has fallen to below 5½ per cent. However, excluding the effect of recent indirect-tax reductions, it is still running at more than 7%, reflecting strong wage and housing-price increases.

Iceland

Growth has slowed | **But substantial imbalances remain**



1. Contribution to GDP growth.
2. Private consumption and residential investment.
3. As a percentage of gross domestic product.
4. Annual increase in the consumer price index.
Source: Statistics Iceland.

StatLink http://dx.doi.org/10.1787/032141081782

Iceland: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices ISK billion	Percentage changes, volume (2000 prices)				
Private consumption	481.8	6.9	12.9	4.6	-0.1	-2.1
Government consumption	217.4	2.0	3.7	2.9	3.0	3.0
Gross fixed capital formation	167.9	28.0	34.3	13.0	-18.0	-21.1
Final domestic demand	867.1	9.7	15.5	6.4	-4.3	-5.4
Stockbuilding[1]	- 1.5	0.1	0.0	1.1	-0.1	0.0
Total domestic demand	865.7	9.8	15.5	7.4	-4.4	-5.4
Exports of goods and services	288.6	8.4	7.2	-5.6	8.3	14.2
Imports of goods and services	314.5	14.4	29.3	8.8	-4.7	-3.6
Net exports[1]	- 26.0	-2.5	-9.2	-5.7	5.1	6.7
GDP at market prices	839.7	7.6	7.2	2.6	0.8	0.8
GDP deflator	_	2.5	2.9	8.9	5.2	3.3
Memorandum items						
Consumer price index	_	3.2	4.0	6.7	3.3	2.7
Private consumption deflator	_	3.0	1.9	7.5	3.8	2.5
Unemployment rate	_	3.1	2.6	2.9	2.9	3.8
General government financial balance[2]	_	0.2	5.2	5.3	1.8	-0.3
Current account balance[2]	_	-9.8	-16.1	-26.7	-19.9	-13.5

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

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035024646433

Monetary policy remains tight but fiscal constraint is lessening

The Central Bank has made further changes to its communication policy, publishing an interest-rate path that the Bank's staff considers optimal for bringing inflation to the official 2½ per cent target within an acceptable timeframe and stabilising it there afterwards. The Bank thereby intends to facilitate monetary policy transmission through the interest-rate channel by providing a credible anchor for inflation expectations. Indeed, forecasts showing inflation above target without an interest-rate response may have contributed to a rise in inflation expectations in recent years. In its latest baseline forecast the Bank considers that, with a broadly stable effective exchange rate, attaining its objective would require its policy rate to remain at around its current level of 14¼ per cent for most of the current year before easing gradually. In contrast, the government has begun to reverse its previous fiscal tightening. With significant cuts in direct and indirect taxes (in January and March, respectively) and an end to public investment restraint, the general government surplus, which exceeded 5% of GDP in 2006, is projected to decline markedly this year and give way to a deficit in 2008. Moreover, the government has reversed the tightening in the Housing Financing Fund's lending conditions implemented in mid-2006.

Avoiding a hard landing will be a challenge

The broad stagnation of the economy over the projection period reflects countervailing influences. Private domestic demand is expected to contract in response to high interest rates and the completion of investment projects, while exports are benefiting from increased aluminium-production capacity and government spending accelerates. Inflation is projected to move toward the official target, and the current account deficit is likely to narrow substantially. There are considerable risks to this scenario of gradual adjustment, however. With significant public support to disposable income and borrowing for housing, household demand could retrench more slowly than assumed. This would slow the adjustment process and could lead to renewed sharp downward pressure on the currency, especially in a context of deteriorating global financial market conditions. The unwinding of economic imbalances would also be delayed by a premature launch of new aluminium-related investment projects, although this would underpin the exchange rate in the short run. In both cases, higher interest rates than otherwise would be required to achieve the official target within an acceptable timeframe. A protracted period of high interest rates would increase the risk of a full-blown recession rather than a steady, orderly adjustment.

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IRELAND

Output expanded by 6.0% in 2006, the fastest pace since 2002. It was driven by strong consumption and business investment, but the housing boom is over. The rate of growth of GDP is expected to slow to 5.5% in 2007 and 4.1% in 2008 as consumption weakens and housing investment falls.

Fiscal policy should avoid excessive increases in spending that would further add to demand or reduce the scope to respond to a downturn in revenues. To reduce the risks to competitiveness from relatively high inflation, any increases in public spending should contribute to reducing supply-side constraints. Regulatory reforms, particularly in network industries such as electricity and natural gas supply, also have the potential to lower prices.

Growth is strong

Economic activity accelerated further in 2006, expanding faster than in any year since 2002. Consumption has remained the main source of growth due to strong income gains, the pay-out of government-sponsored savings accounts (SSIA) and increases in welfare benefits. Government spending, private investment and net exports also supported growth. Labour force and employment growth have remained strong, helped by inward migration. Unemployment is at low levels.

The housing market is cooling

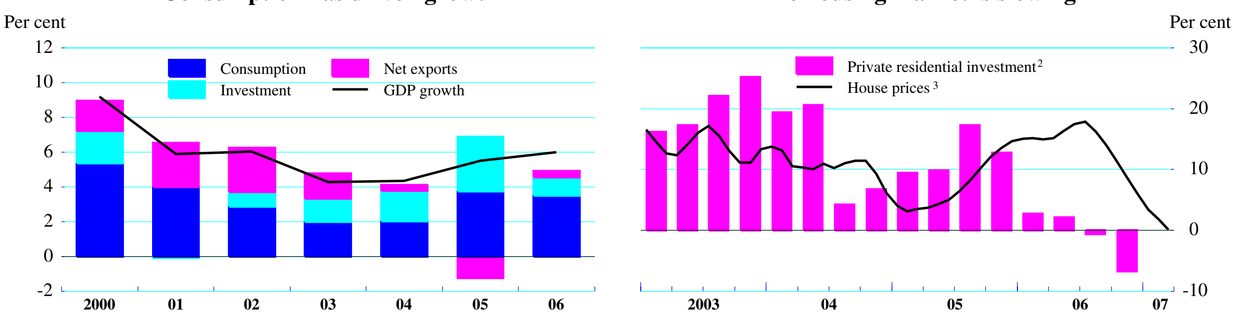
The housing market has begun to cool after more than a decade of strong growth in demand: house price inflation decelerated sharply during 2006 and prices stopped rising around the turn of the year. Residential investment has fallen sharply. Planning applications for new dwelling units fell by nearly a quarter over 2006. Given the large share of GDP accounted for by housing construction, this will have a substantial negative effect on output growth going forward.

Migration may ease as demand pressures weaken

Ireland has experienced strong inward migration flows in recent years, contributing 4.9 percentage points to population growth over the period 2002-06. Inward migration has been concentrated among those of working age, and has boosted potential output and eased labour-market

Ireland

Consumption has driven growth [1] — **The housing market is slowing**



1. Contribution to GDP growth for all series except GDP itself. GDP growth can deviate from the sum of the components shown because of stock building, chain linking and the statistical discrepancy in the national accounts.
2. Year-on-year percentage change.
3. National house price index, three-month moving average, percentage growth relative to previous three months, annual rate.
Source: OECD, Economic Outlook 81 database and Permanent TSB/ESRI.

StatLink http://dx.doi.org/10.1787/032144741541

Ireland: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices € billion	Percentage changes, volume (2004 prices)				
Private consumption	63.0	3.8	6.6	6.2	6.9	5.4
Government consumption	21.0	2.0	4.9	4.3	5.3	5.4
Gross fixed capital formation	31.9	7.5	12.8	4.0	2.8	2.7
Final domestic demand	115.8	4.5	8.1	5.2	5.3	4.6
Stockbuilding[1]	0.7	-0.7	-0.1	1.0	0.2	0.0
Total domestic demand	116.5	3.6	8.0	6.3	5.5	4.5
Exports of goods and services	116.3	7.3	3.9	5.0	6.1	6.0
Imports of goods and services	94.0	8.6	6.5	5.4	7.5	6.8
Net exports[1]	22.3	0.3	-1.2	0.4	-0.2	0.1
GDP at market prices	138.9	4.3	5.5	6.0	5.5	4.1
GDP deflator	_	1.8	3.5	3.2	2.4	3.1
Memorandum items						
Harmonised index of consumer prices	_	2.3	2.2	2.7	2.4	2.8
Private consumption deflator	_	1.4	1.2	3.2	2.7	3.0
Unemployment rate	_	4.4	4.4	4.4	4.3	4.3
General government financial balance[2]	_	1.4	1.0	2.9	2.0	1.7
Current account balance[2]	_	-0.6	-2.6	-3.3	-1.5	-1.1

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

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035055533161

bottlenecks in fast growing sectors such as services and construction. With expansion in those sectors set to slow, inward migration and population growth are expected to ease.

Activity is set to remain robust

GDP growth is likely to remain strong in 2007, but could then slow to somewhat below trend. Consumption will continue to grow at a fast pace in the short-run but weaken as the payouts from the SSIA savings accounts end, the effect of the increase in social security transfers fades, house prices stabilise, lower consumer confidence reduces expenditure and households respond to higher interest rates. Housing investment is expected to continue to fall towards more sustainable levels, leading to weak growth in investment overall. Fiscal policy will support growth through large increases in government expenditure. Export growth is likely to recover after weakness at the end of 2006. Inflation is projected to remain high as a result of demand pressures from above-trend economic growth in 2007, despite the modest falls in oil prices and the moderation in house prices. It is then expected to moderate somewhat as the positive output gap narrows.

The main risk is from the housing market

The main risk is that the slowing housing market will have a more severe impact on the economy than anticipated. Housing investment could fall more sharply or house price developments might have a larger effect on consumer spending than forecast. A weaker housing market would also substantially reduce government revenues from stamp duty and capital gains tax, putting pressure on public finances, where there is already limited room for manoeuvre. There is a further downside risk to activity from the strength of the euro against the dollar, to which Ireland may be particularly exposed.

Inflationary risks remain

In addition to the direct downside risks to activity, the relatively high level of inflation leaves the economy vulnerable to a loss of competitiveness. This underlines the importance of fiscal restraint and emphasises the benefits of addressing price pressures in sectors where competition is weak.

KOREA

The slowdown in the pace of economic activity during 2006 is likely to be gradually reversed in 2007, boosting output growth from around 4¼ per cent in 2007 to 4¾ per cent in 2008. Buoyant demand from other Asian countries is sustaining export growth at a double-digit rate, despite the marked appreciation of the won, which has helped keep inflation below the Bank of Korea's target zone.

Monetary policy should aim at keeping inflation in the target zone over the medium term, while concern over rising housing prices should be addressed through measures to increase supply, particularly in the private sector. Korea should maintain a flexible exchange rate policy, while fiscal policy focuses on achieving a balanced budget over the medium term. Implementing the free trade agreement with the United States is likely to lead to significant efficiency gains.

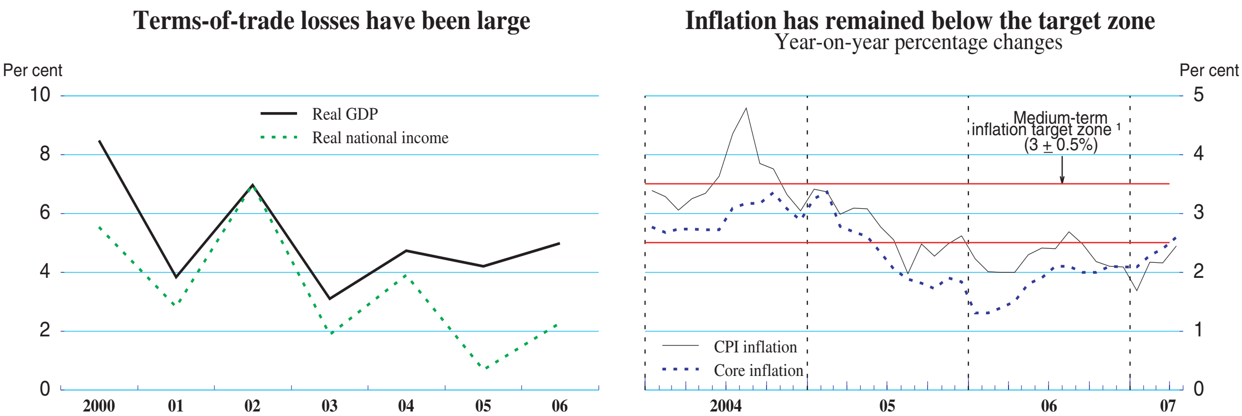
There are a number of positive trends in early 2007…

Following a slowdown in domestic demand in the latter part of 2006, the economy is expected to rebound in mid-2007. The worsening of the terms of trade – which limited the growth of national income in 2006 to only 2.3%, less than half of the 5% rise in GDP – has eased, in part due to the decline in oil prices. Faster gains in national income are easing the squeeze on corporate profit margins and helping to sustain the growth of wages and employment. Indeed, the unemployment rate fell to 3¼ per cent (on a seasonally-adjusted basis) in the first quarter of 2007. Both household and business confidence have improved in recent months, in part due to robust export growth led by China and other Asian countries. Strong external demand prompted an acceleration in facilities investment in 2006.

… despite changes in housing policies and interest rate hikes

However, residential construction declined in 2006 for the first time since 2000, primarily due to five major policy packages introduced since August 2005 to stabilise the real estate market. Housing prices on a nation-wide basis rose by 9% in real terms in 2006, while larger increases were recorded in parts of the capital region. In response, the government

Korea



1. In 2007, the target was changed from core CPI to the overall CPI.
Source: OECD, Economic Outlook 81 Database and Bank of Korea.

StatLink http://dx.doi.org/10.1787/032324480784

Korea: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices KRW trillion	Percentage changes, volume (2000 prices)				
Private consumption	389.2	-0.3	3.6	4.2	4.4	3.6
Government consumption	96.2	3.7	5.0	5.8	5.0	5.0
Gross fixed capital formation	216.8	2.1	2.4	3.2	4.2	3.0
Final domestic demand	702.2	1.0	3.4	4.1	4.4	3.6
Stockbuilding[1]	5.2	0.5	-0.2	-0.3	-0.6	0.0
Total domestic demand	707.4	1.5	3.2	3.7	3.8	3.6
Exports of goods and services	275.0	19.6	8.5	12.4	10.0	12.2
Imports of goods and services	257.7	13.9	7.3	11.3	10.3	11.6
Net exports[1]	17.3	3.3	1.3	1.6	0.9	1.6
GDP at market prices	724.7	4.7	4.2	5.0	4.3	4.8
GDP deflator	_	2.7	-0.2	-0.4	1.1	0.7
Memorandum items						
Consumer price index	_	3.6	2.8	2.2	2.5	3.0
Private consumption deflator	_	3.5	2.6	2.1	2.5	3.0
Unemployment rate	_	3.7	3.7	3.5	3.4	3.4
Household saving ratio[2]	_	6.3	4.3	4.3	3.9	3.9
General government financial balance[3]	_	2.5	2.5	2.6	2.4	2.4
Current account balance[3]	_	4.2	1.9	0.7	-0.0	-0.4

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.
Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035065465545

is boosting the planned increase in housing construction in the capital region between 2007 and 2010, with the public sector taking the lead. In addition, it has introduced price controls on new houses, raised property-related taxes and taken steps to reduce bank lending for mortgages. Housing construction permits fell 20% (year-on-year) in the fourth quarter of 2006 and nation-wide housing prices have been stable in real terms since February 2007. Meanwhile, monetary policy has tightened in part due to concern about housing prices. The Bank of Korea raised the reserve requirement in December 2006 for the first time since 1990, following five interest rate hikes since October 2005, even though inflation has been below its 2.5 to 3.5% target zone since mid-2005. In contrast to the tightening of monetary conditions, fiscal policy has been broadly neutral.

Growth is projected to pick up to around 4¾ per cent in 2008

Output growth is projected to gradually accelerate from the 3.6% recorded in the first quarter of 2007, boosting annual growth rates to 4¼ per cent in 2007 and 4¾ per cent in 2008, a rate roughly consistent with Korea's potential growth rate. The recent decline in oil prices and the stabilisation of the effective exchange rate since mid-2006 are likely to have a positive impact on the corporate sector, sustaining business investment and wages, which will help support private consumption. Inflation is projected to rise to the mid-point of the central bank's target zone in 2008 in the context of stronger output growth and a stable exchange rate. Continued terms of trade losses and a rising deficit in the service account are projected to shift the current account into deficit in 2007 for the first time in a decade.

Although there are risks related to housing, exports may be stronger

However, there are a number of risks to both domestic demand and exports. The main risk is a hard landing in the housing market, with a negative wealth effect and a continued decline in housing construction. In addition, the marked rise in household debt, from 57% of GDP in 2000 to 77% in 2005, coupled with the fall in the saving rate from 11% to 4%, creates concern about the household sector and the outlook for private consumption. On the positive side, Korea's increasing concentration in information and communication technology (ICT) products, growing trading links with other Asian countries, notably China, and the implementation of the free trade agreement with the United States may result in a faster-than-expected rise in exports.

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LUXEMBOURG

Real GDP growth accelerated to 6.2% in 2006. Exports of financial services continued to be the main driving force, thanks to positive international financial market developments, confirming that the economy has weathered well the introduction of taxes on interest income. Stronger activity in the business services sector also contributed to the recovery. Improved employment trends for resident workers have gradually lowered the unemployment rate. Following slower growth of export markets, the recovery is set to weaken temporarily but should strengthen again in 2008 on the back of robust international financial markets and stronger domestic demand.

In order to further boost employment among residents, job search incentives should be strengthened and the wage indexation mechanism should be phased out. With output growing above potential, fiscal consolidation should be more audacious, focusing on expenditure restraint.

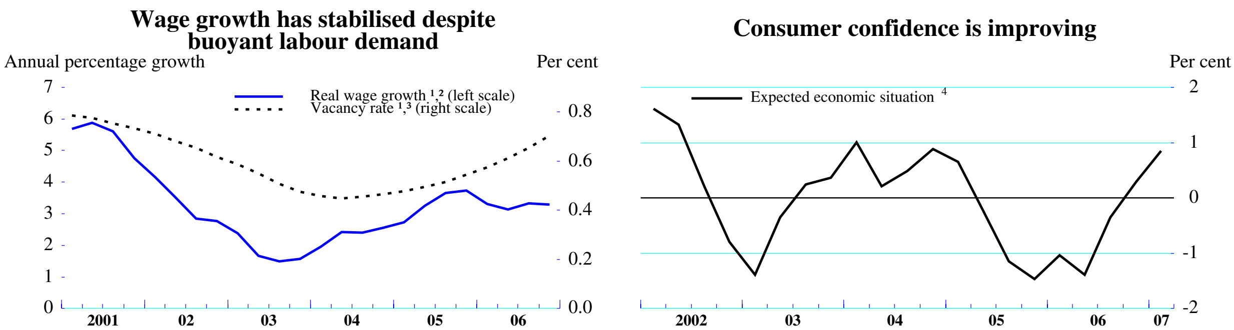
The financial sector drives economic growth

The rate of economic expansion reached 6.2% in 2006, boosted by a strong contribution from the financial sector and an acceleration of activity in the business services sector (together accounting for one-third of the economy). Financial services were boosted by favourable international financial market developments and by the continued participation of international investors, despite the introduction of a withholding tax on interest income. Moreover, private consumption recovered as employment increased and consumer confidence improved. Unemployment began to come down as job creation increasingly benefited residents. The current account surplus increased further on the back of accelerating exports of financial services.

Strong activity continues to feed wage growth

Due to falling energy prices, headline annual consumer price inflation fell to 1.8% at the beginning of 2007, from 3.9% a year earlier. On the other hand, core inflation increased mildly to 2.3%, partly driven by faster wage growth. The rate of unfilled vacancies continues to increase, implying further upward pressures on wages, which currently are held

Luxembourg



1. Both series are represented as moving averages over 8 quarters.
2. Real wage growth is measured using the private consumption deflator.
3. The vacancy rate is measured as the number of unfilled vacancies over total employment.
4. The data are shown in terms of standard deviations from the mean.
Source: OECD, Main Economic Indicators.

StatLink http://dx.doi.org/10.1787/032345866834

Luxembourg: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption	10.5	2.8	3.4	4.1	2.3	3.0
Government consumption	4.2	3.2	4.8	2.3	2.5	2.2
Gross fixed capital formation	5.5	0.5	2.2	2.9	5.1	4.5
Final domestic demand	20.2	2.3	3.4	3.4	3.1	3.2
Stockbuilding[1]	0.1	0.0	1.4	-2.6	1.6	0.0
Total domestic demand	20.3	2.2	5.1	0.0	5.3	3.2
Exports of goods and services	34.3	9.9	8.1	15.0	9.3	8.7
Imports of goods and services	29.0	10.0	9.5	13.0	9.8	8.5
Net exports[1]	5.3	1.9	-0.1	6.0	1.8	3.0
GDP at market prices	25.6	3.7	3.9	6.2	4.8	5.2
GDP deflator	_	1.7	4.8	5.9	4.9	3.0
Memorandum items						
Harmonised index of consumer prices	_	3.2	3.8	3.0	2.0	2.4
Private consumption deflator	_	2.5	3.6	3.0	2.2	2.8
Unemployment rate	_	4.2	4.6	4.4	4.2	3.7
General government financial balance[2]	_	-1.2	-0.3	0.1	0.5	1.1
Current account balance[2]	_	11.8	11.1	10.6	8.8	9.7

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

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035075856027

back by the government's decision to temporarily replace the automatic wage indexation by discretionary changes.

The general government surplus is projected to increase gradually

The government was able to balance the public finances in 2006 (compared with a deficit of 0.3% of GDP in 2005), in part thanks to faster-than-expected GDP growth. As well, the improvement reflected the change in the indexation mechanism that curbed government expenditure through lower growth of government wages and social transfers (representing 21% of GDP). Moreover, the government enacted additional fiscal measures on the revenue side through higher gasoline taxes and higher health care contributions. Further consolidation measures have been planned, including a deceleration of public investment. Measures to curb the growth in pension expenditure have also been implemented. Other measures, however, have yet to be enacted or will only show their full effect beyond the projection period, without improving the structural balance in the near term. More restraint in public employment would help keep government spending at a more moderate pace of growth.

Growth is set to weaken, but only temporarily

GDP growth is likely to weaken somewhat in 2007 reflecting lower growth of export markets. In addition, private consumption should expand less rapidly as disposable income is affected by more modest growth in transfers and higher indirect taxes. Growth prospects should become brighter in 2008 as the past deceleration of real wage growth improves employment prospects for residents which, together with lower volatility in the international financial environment, should support growth. Despite the increasing contribution of domestic demand to the recovery, the current account surplus is expected to remain close to its historical high. Headline inflation has bottomed out and is projected to accelerate again in line with core inflation, fuelled by higher wage drift as the unemployment rate comes down towards its structural level in 2008.

Risks are on the downside

A reversal of sentiment on international financial markets would lower growth substantially. Moreover, if job creation fails to benefit residents, the domestic economy may not provide the expected stimulus to growth.

MEXICO

GDP slowed in the second half of last year, as a result of weaker external demand and a deceleration in public spending. Private investment continued to be buoyant, however, and is projected to remain strong in 2007 and 2008, underpinning GDP growth between 3½ and 4%. Inflation should remain around 4% until after mid-2007, easing thereafter to reach 3.3% by the end of 2008. The current account deficit is expected to widen gradually.

With inflation at the top of the confidence interval around the Central Bank's target, a tight monetary stance should be maintained. The Central Bank took action to raise interest rates in April, which is appropriate. The fiscal stance is expected to be tighter this year than last, as a balanced budget is being targeted; in this framework, public spending will be constrained by lower oil revenue. Because of the need to finance essential spending programmes, the reform to broaden the tax base and increase revenue should not be delayed.

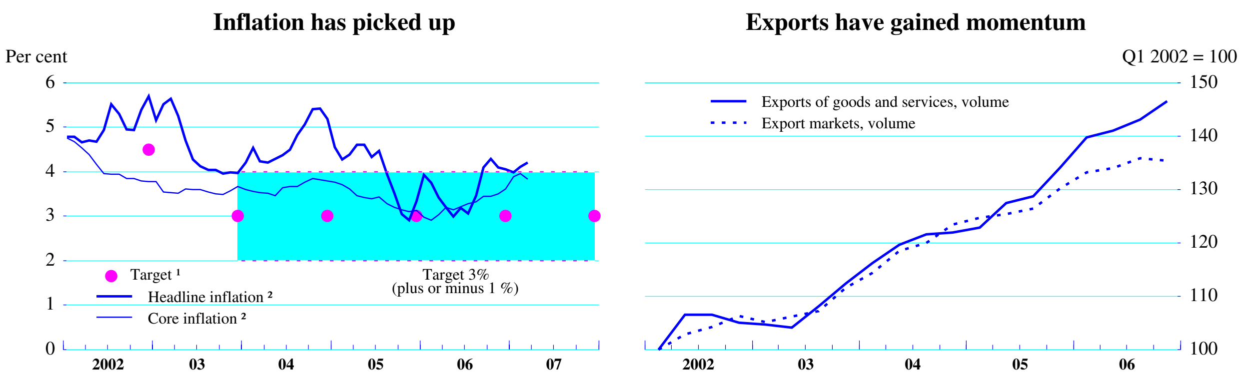
Buoyant exports and investment underpinned economic activity in 2006

GDP growth in 2006 was quite robust, at 4.8%, despite a slowdown in the second half of the year. Private investment, in particular, was an important driver of growth, as solid export volume growth and reduced political uncertainties after the elections boosted business confidence. Formal employment also grew strongly, including in the construction, commerce and service sectors. The current account was close to balance in 2006, reflecting a spike in automobile exports, high oil revenue and continued high migrants' remittances. Foreign direct investment (FDI) inflows again reached a solid US$19 billion (or 2% of GDP) in 2006. The peso remained broadly stable *vis-à-vis* the dollar over the year, with a slight depreciation in the latter part of the year reversing an earlier appreciation.

The monetary stance has been tightened

Reflecting erratic movements in food prices and a series of supply shocks, consumer price index headline inflation turned up in the course of 2006 and has been hovering just over 4% (year-on-year) since

Mexico



1. The target is based on the consumer price index headline inflation.
2. Year-on-year percentage change. Core inflation excludes food and other items which move erratically.
Source: Bank of Mexico; OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/032381488440

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Mexico: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices MXN billion	Percentage changes, volume (1993 prices)				
Private consumption	4 736.8	4.1	5.1	5.0	3.4	4.2
Government consumption	855.7	-0.4	0.4	6.0	-0.1	0.3
Gross fixed capital formation	1 304.9	7.5	7.6	10.0	6.4	6.5
Final domestic demand	6 897.5	4.3	5.2	6.1	3.7	4.3
Stockbuilding[1]	111.2	0.1	-1.6	-0.7	0.1	0.0
Total domestic demand	7 008.6	4.4	3.5	5.4	3.8	4.4
Exports of goods and services	1 916.8	11.6	7.1	11.1	5.3	5.8
Imports of goods and services	2 030.0	11.6	8.6	12.2	6.1	7.1
Net exports[1]	- 113.3	-0.3	-0.8	-0.8	-0.6	-0.8
GDP at market prices	6 895.4	4.2	2.8	4.8	3.4	3.7
GDP deflator	_	7.4	5.5	4.5	2.0	3.7
Memorandum items						
Consumer price index	_	4.7	4.0	3.6	4.2	3.5
Private consumption deflator	_	6.5	3.3	3.4	4.1	3.5
Unemployment rate[2]	_	3.0	3.5	3.6	3.9	3.7
Current account balance[3]	_	-0.9	-0.6	-0.1	-0.8	-1.3

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. Based on National Employment Survey.
3. As a percentage of GDP.
Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035081363070

September, above the Central Bank's target of 3% and at the top of its variability interval of plus or minus 1 percentage point. Core inflation has also been increasing, reaching close to 4% in March. Even so, inflation expectations for the end of 2008 remain broadly unchanged at 3½ per cent, and contractual wage increases are still moderate at around 4.3%. Short-term interest rates were unchanged from mid-2006 to the first quarter of 2007, implying a decline in real interest rates. At its April meeting, given inflationary pressures, the Bank tightened monetary conditions, raising its interest rate by a quarter of a point. The projections are based on the assumption that short-term interest rates will not decline before the end of 2007, falling by a quarter of a point in the course of 2008.

The fiscal stance is also tighter in 2007 than in recent years

The 2007 budget targets a balanced budget and a public sector borrowing requirement (PSBR) at 1.6% of GDP. Given the budget assumption of a slowdown in activity and lower oil-related revenue, this target implies a tightening of the fiscal stance. In case of revenue windfalls, the rules in place will insure that part of the windfall is saved, part is invested and part goes to the oil stabilisation fund. Because of prevailing uncertainties concerning world oil prices and the on-going decline in Mexico's production capacity, the projections incorporate stable government consumption in volume terms and a very moderate increase in public investment.

Activity is expected to slow to rates around potential

Private domestic demand is expected to maintain its strong momentum, while exports are likely to slow in line with external markets.

After a slight slowdown this year, GDP next year is expected to resume growth at around potential, estimated to be between 3½ and 4%. As the terms of trade turn negative, the current account deficit is projected to widen to around 1.3% of GDP in 2008, while FDI inflows continue on the scale of recent years.

Risks to the outlook appear to be balanced

The main uncertainty in the outlook is related to developments in the United States and the demand for Mexican exports. Whether the recent improvement in Mexico's export performance can be maintained over the period ahead, allowing faster growth than projected, is unclear. On the domestic front, if a fiscal reform is passed to establish a reliable revenue basis for the financing of development needs and if progress is made in increasing effective competition in product markets, then this would boost confidence and underpin higher GDP growth.

NETHERLANDS

The economy grew robustly in 2006, by almost 3%. Exports benefited from faster demand in the euro area and improved price competitiveness. Private consumption was fuelled by higher real wages and employment gains. Growth is expected to remain well above potential, closing the output gap already this year. Rising labour market tensions will cause wages and prices to accelerate over the projection horizon.

The emergence of a positive output gap points to the risks of an overheating economy. A more restrictive fiscal policy should be put in place to reduce demand pressure. At the same time, policies to increase labour supply should be intensified. With unemployment declining rapidly and no further growth in the working age population, the government should aim at policies to encourage increased participation and hours worked.

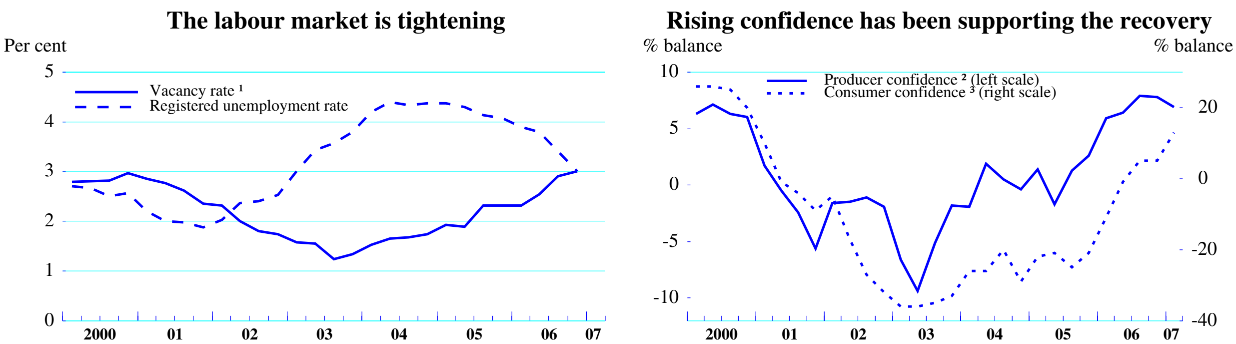
Growth is strong and broadly based…

The pace of economic recovery was strong throughout 2006, slightly exceeding that in the rest of the euro area. The sharp expansion of exports was driven by increased international trade and an improvement of relative unit labour costs in manufacturing. In addition, domestic demand recovered. Private consumption grew by 2.4% (adjusted for the accounting effect of the health care reform)[1] on the back of higher employment growth and higher real wages. Business fixed investment accelerated as producer confidence improved and capacity utilisation climbed close to its ten-year average. Residential investment remained strong.

… and labour market slack is disappearing rapidly

With the economy growing above potential the registered unemployment rate fell to 3% in the final quarter of 2006, down from 4.1% a year earlier. Moreover, at the end of 2006 the vacancy rate reached 3%, its highest level since 2000. Nonetheless, wage growth has so far remained stable with contractual wages growing by only 2% in 2006. There

Netherlands



1. Vacancies as a percentage of total labour force.
2. Weighted balance of positive and negative replies, manufacturing sector.
3. Seasonally adjusted balance of positive and negative replies.
Source : Statistics Netherlands.

StatLink http://dx.doi.org/10.1787/032400347328

1. The introduction of a new health insurance system on 1 January 2006 led to a statistical shift of health care expenditure from the private to the government sector, which had a substantial effect on consumption growth that year.

Netherlands: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption[1]	238.1	0.6	0.7	-1.2	2.3	2.8
Government consumption[1]	116.8	0.1	0.3	8.6	1.6	1.9
Gross fixed capital formation	92.8	-0.8	3.7	6.7	6.0	5.0
Final domestic demand	447.7	0.2	1.2	3.0	2.9	3.0
Stockbuilding[2]	- 0.8	0.4	-0.3	-0.2	0.1	0.0
Total domestic demand	447.0	0.6	0.9	2.8	3.0	3.0
Exports of goods and services	300.5	8.0	5.5	7.4	6.1	6.1
Imports of goods and services	270.5	6.4	5.1	7.9	6.6	6.5
Net exports[2]	30.0	1.4	0.7	0.3	0.1	0.2
GDP at market prices	476.9	2.0	1.5	2.9	2.9	2.9
GDP deflator	_	0.7	1.7	1.5	1.8	2.0
Memorandum items						
Harmonised index of consumer prices	_	1.4	1.5	1.7	1.4	1.8
Private consumption deflator	_	0.8	1.6	1.9	1.4	1.8
Unemployment rate	_	4.9	5.0	4.5	3.7	2.8
Household saving ratio[3]	_	7.4	6.5	6.6	7.0	8.0
General government financial balance[4]	_	-1.8	-0.3	0.5	-0.7	0.3
Current account balance[4]	_	8.5	7.7	9.0	8.1	7.6

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

1. The introduction of a health care insurance reform in 2006 caused, in national accounts, a shift of health care spending from private consumption to public consumption.
2. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
3. As a percentage of disposable income, including savings in life insurance and pension schemes.
4. As a percentage of GDP.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035115261045

was even a slight slowdown during the first quarter of this year. Headline inflation was also moderate although it started to accelerate during the final quarter of 2006 and reached 1.8% year-on-year in March 2007.

Public finances improved in 2006

The government reached a higher-than-expected budget surplus of 0.5% of GDP in 2006 driven by strong corporate and energy tax revenues, in combination with past consolidation measures. In 2007, a budget deficit should re-emerge as the effects of robust growth are more than offset by lower energy tax revenues due to the warm winter, higher-than-expected expenditures (notably on health) and additional spending under the new government's coalition agreement. Over the medium term, the coalition agreement aims at modest improvements in the structural surplus, implying a mildly restrictive fiscal policy for 2008, leading to a small budget surplus.

The economy will continue to grow above potential

Growth is expected to stay above potential over the projection horizon, closing the output gap this year. Domestic demand should remain strong. Private consumption provides an important stimulus as employment and real wages are increasing further. Favourable developments on export markets should continue to fuel export growth.

Business investment will be stimulated further by capacity constraints and still favourable financing conditions. Likewise, residential investment should continue to grow, as judged by the increase in building permits issued this past year. Tensions in the labour market are likely to emerge, leading to a pick-up in wage inflation, which in turn puts upward pressures on consumer prices. Productivity is currently growing close to its trend rate, but should fall back as lower skilled workers are increasingly pulled into employment.

Risks are mostly related to the inflation outlook

The main risks are that the overheating of the economy leads to faster-than-projected wage and price increases with negative consequences for export performance later on. The likelihood of such adverse inflation developments will increase if fiscal consolidation is not sufficiently ambitious in 2008.

NEW ZEALAND

Activity accelerated in the second half of 2006, while currency appreciation has set back the return to a more balanced growth path and underlying inflationary pressures have not yet dissipated. Recent further monetary tightening should gradually rein in household spending, and wages are expected to slowly moderate as the unemployment rate rises: growth may be modest over the projection period.

Once excess demand has been eliminated and underlying inflation pressures have been tamed, there should be room to start easing monetary policy early next year. This would reduce the attractiveness of New Zealand dollar assets and facilitate a shift to export-led growth. Additional budgetary stimulus beyond present plans would delay the economy's adjustment to a more sustainable level of domestic demand and should be avoided.

Activity has picked up pace

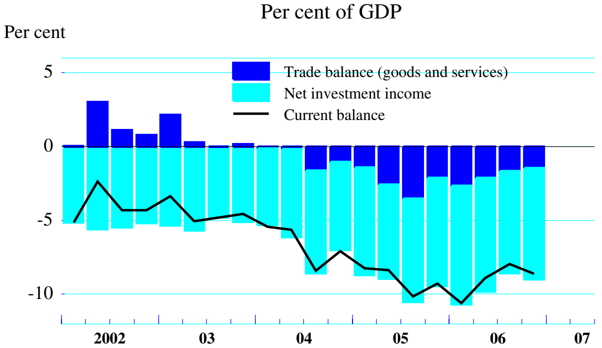
Domestic demand accelerated in the second half of 2006, with ongoing increases in government consumption and a surge in private consumption in the fourth quarter. Household incomes remain buoyant, with real wage growth running at around 2% and higher government transfers. The housing market has regained momentum, with house prices continuing to move up by around 10% per year. Business fixed investment showed considerable volatility over the course of the year, but remained weak overall. There was also significant inventory accumulation in the final quarter of the year. Imports rose considerably, reflecting not only these demand pressures but also the appreciating exchange rate. Currency movements also curbed exports, offsetting extremely favourable dairy prices. As a result, the current account deficit has diminished only slightly, and the internal and external rebalancing required to return to a sustainable growth path has been postponed.

But underlying inflationary pressures persist

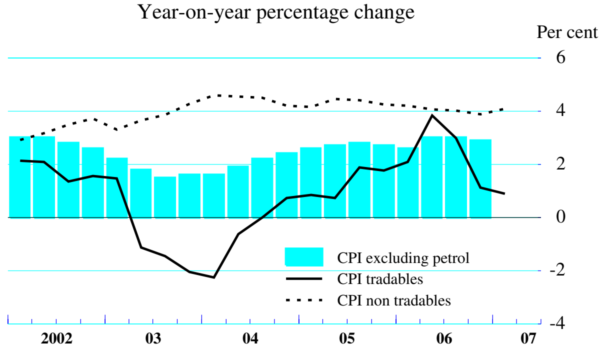
Resource constraints remain tight. Capacity utilisation in the fourth quarter of 2006 was once more above its five-year average. Employment shrank in the third and fourth quarters of 2006, but this was more than offset by labour market withdrawal, reducing the unemployment rate and leaving it well below the OECD's estimated structural rate. These labour

New Zealand

The current account deficit remains large
Per cent of GDP



Inflationary pressures persist
Year-on-year percentage change



Source: Reserve Bank of New Zealand and OECD, Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/032478581042

New Zealand: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices NZD billion	Percentage changes, volume (1995/1996 prices)				
Private consumption	80.4	6.0	4.7	2.0	2.5	1.3
Government consumption	23.6	5.7	4.1	4.2	4.5	4.0
Gross fixed capital formation	30.4	10.9	3.3	-3.4	-0.2	1.4
Final domestic demand	134.4	7.1	4.2	1.1	2.3	1.8
Stockbuilding[1]	0.0	0.1	-0.2	-0.6	0.4	0.0
Total domestic demand	135.6	7.2	4.0	0.4	3.0	1.8
Exports of goods and services	40.4	5.8	-0.6	2.0	1.7	5.8
Imports of goods and services	39.5	15.8	5.5	-2.5	4.6	6.4
Net exports[1]	0.9	-2.9	-1.8	1.3	-0.9	-0.3
GDP at market prices	136.4	4.0	2.5	1.7	2.1	1.6
GDP deflator	_	3.7	2.2	2.2	3.3	2.1
Memorandum items						
GDP (production)	_	4.5	2.2	1.5	1.5	1.6
Consumer price index	_	2.3	3.0	3.4	2.0	2.3
Private consumption deflator	_	1.2	1.9	2.9	2.0	2.0
Unemployment rate	_	3.9	3.7	3.7	3.9	4.4
General government financial balance[2]	_	3.7	4.4	3.9	3.2	2.3
Current account balance[2]	_	-6.7	-9.0	-9.0	-8.4	-9.1

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

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035115651617

market pressures have fed into strong wage growth. Headline inflation fell back at the end of last year, largely as a result of petrol price movements and the rebasing of the consumer price index, and now lies within the Reserve Bank's target range. But non-tradable inflation has barely diminished and remains close to 4% per year. Inflation expectations have eased but remain relatively high.

Monetary policy has been tightened further

Against this backdrop, in March and April the Reserve Bank raised the official cash rate by another ½ percentage point to 7¾ per cent. At the same time, fiscal policy is providing a stimulus to domestic demand, both through higher Working for Families and New Zealand Superannuation transfers and rising government consumption. A period of slow output growth will be needed before inflation pressures dissipate and the Reserve Bank can ease monetary policy: on current projections, there should be room to start lowering the official cash rate in early 2008.

Output growth may be modest…

Given the technical assumption of a high exchange rate, the path to restoring internal and external imbalance is likely to be slow, although the present restrictive stance of monetary policy will eventually rein in household spending and lead to more stable house prices. But the adjustment is expected to involve a further squeeze on exporters' profits, despite recent terms-of-trade gains. Unemployment may rise to its structural level next year, thereby allowing wage growth to gradually moderate. In this climate, fixed investment is likely to remain anaemic. Government transfers are projected to continue contributing to the expansion of private consumption, while government consumption is set to continue absorbing a growing share of GDP.

… and the adjustment path might be bumpy

Monetary policy decisions at the current point in the cycle will require careful judgements about the strength of competing forces. A stronger pick-up in activity before there are clear signs that inflationary pressures have been extinguished would require a tighter monetary response. A shift in foreign investor sentiment about the external balance could induce a period of heightened financial volatility and a more difficult adjustment path.

NORWAY

Mainland Norway is enjoying one of its longest periods of above potential growth. The pace of real GDP growth reached 4½ per cent in 2006. It is projected to slow to a still robust 4% in 2007 and then to 2½ per cent in 2008, as household demand and investment moderate under the impact of an assumed tightening of monetary conditions.

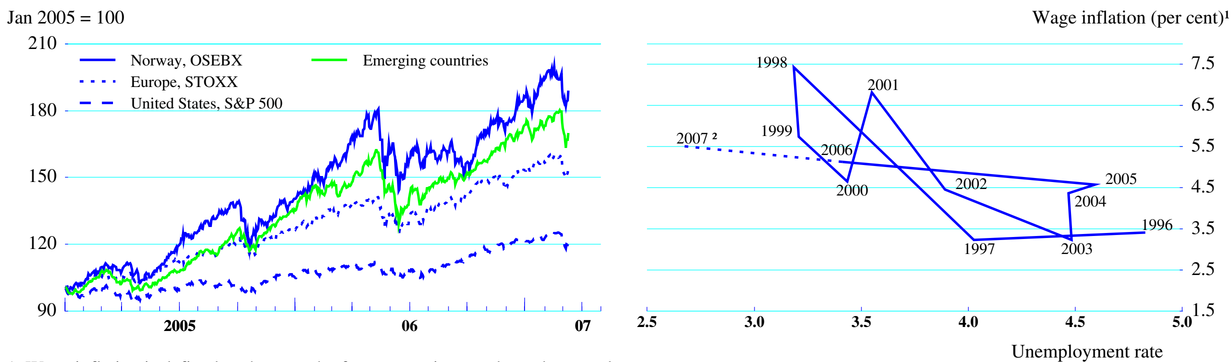
Fiscal policy is slightly expansionary, but monetary policy is turning less supportive. Risks of overheating call for continued tightening of monetary policy and a containment of public spending growth. To respond to rising labour shortages, new reforms boosting labour utilisation should be a priority.

Growth remains exceptionally strong

Recent upward revisions of the national accounts confirmed that the Norwegian economy expanded sharply over the past three years. The positive output gap has widened further and capacity utilisation is close to historical peaks. Gross operating margins have improved sharply, especially in the service sector, supporting an ebullient stock market. Private consumption has remained buoyant, reflecting high real income growth and record terms of trade gains, while housing investment has been equally strong. Underlying inflation remains nonetheless moderate. There is evidence that cheap imports from China and intensified competition on the domestic product market – due to new entrants – have restrained inflation and boosted the purchasing power of consumers. Private and public job creation has accelerated over the past few quarters at an unprecedented pace, pushing the unemployment rate down to 2¾ per cent by end-2006, well within the historical danger zone for wage inflation. Unfilled vacancies have also surged in all sectors adding to the risk of a sharp drift above wage settlements. New reforms tightening sickness absence and disability schemes, and measures boosting hours worked, would be helpful to cool such a stretched labour market.

Norway

Stock prices have surged | **So far, wage growth remains moderate**



1. Wage inflation is defined as the growth of compensation per dependent employee.
2. Projections.
Source: Norges Bank and OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/032414173082

Norway: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices NOK billion	Percentage changes, volume (2004 prices)				
Private consumption	738.9	5.6	3.3	4.3	3.4	2.9
Government consumption	358.7	1.5	1.8	2.2	2.6	2.9
Gross fixed capital formation	276.1	10.2	11.2	8.9	8.1	2.6
Final domestic demand	1 373.7	5.4	4.6	4.8	4.3	2.8
Stockbuilding[1]	13.5	1.2	1.0	0.9	0.0	0.0
Total domestic demand	1 387.2	6.7	5.6	5.7	4.1	2.7
Exports of goods and services	642.2	1.1	0.7	1.5	3.8	3.1
Imports of goods and services	435.6	8.8	8.6	9.1	7.3	3.6
Net exports[1]	206.6	-2.0	-2.2	-1.9	-0.3	0.4
GDP at market prices	1 593.8	3.9	2.7	2.9	3.1	2.6
GDP deflator	_	5.3	8.5	7.4	0.8	2.9
Memorandum items						
Mainland GDP at market prices[2]	_	4.4	4.5	4.6	4.0	2.7
Consumer price index	_	0.5	1.5	2.3	1.1	2.4
Private consumption deflator	_	0.7	1.0	2.1	1.4	2.5
Unemployment rate	_	4.5	4.6	3.4	2.7	2.7
Household saving ratio[3]	_	7.5	8.8	1.3	4.4	5.1
General government financial balance[4]	_	11.1	15.2	19.3	19.0	18.8
Current account balance[4]	_	12.6	15.5	16.7	15.4	16.9

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

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035165330838

Macro policies should respond to the risks of overheating

Since last autumn, the Norges Bank has stepped up the pace of normalisation of interest rates, and its forecasts imply interest rates reaching 5% by end–2007. To respond to overheating risks, the projections have assumed a slightly faster pattern, with short term interest rates reaching 5¼ per cent by autumn 2007. The revised budget for 2007 continues to adhere to the fiscal rule. Due to the growing size of the Government Pension Fund, the fiscal rule will allow a dynamic increase in public spending. Therefore, a significant undershooting of the 4% deficit rule should now be envisaged, so as to limit the injection of oil revenue into the economy and to compensate for past deviations.

Robust household demand

The cyclical upturn is expected to continue in 2007, with mainland real GDP expanding by around 4%, well above the potential growth rate. The assumed withdrawal of monetary stimulus should hold back private consumption and housing investment by the end of 2007, and growth is therefore projected to slow toward 2½ per cent in 2008. Oil and business investments are expected to continue expanding, but at a slower pace. Employment growth should fall back to trend. With the unemployment rate significantly below the estimated structural rate, wage growth has picked up recently. This is likely to continue, and wage growth is expected to average 5½ per cent annually over the projection period. Higher wage growth should eventually feed through into domestic prices, pushing inflation towards 2½ per cent in 2008.

Imbalances are rising further in Mainland Norway

The main uncertainties still relate to the domestic front. Macro policies remain too lax at this stage of the cycle, accentuating imbalances in Mainland Norway and increasing risks of overheating. On the downside, highly indebted households, at mostly floating rates, might be more vulnerable than expected to the current tightening in interest rates. As well, house prices are perilously high.

POLAND

Poland's economic performance improved further in 2006. The pace of the expansion strengthened, with a GDP growth rate close to 6%, driven mainly by private consumption and investment. The dynamism of job creation and probable renewed emigration have led to a pronounced decline in the unemployment rate. Productivity gains have offset wage increases until now, but inflation has nevertheless ticked up recently.

Strong domestic demand, falling unemployment and accelerating unit labour costs suggest that monetary policy should be tightened in 2007. The fiscal outcome expected for 2007 is improving, mainly because of a cyclical increase in revenues. The government should take advantage of the upswing to pursue structural reforms and fiscal consolidation.

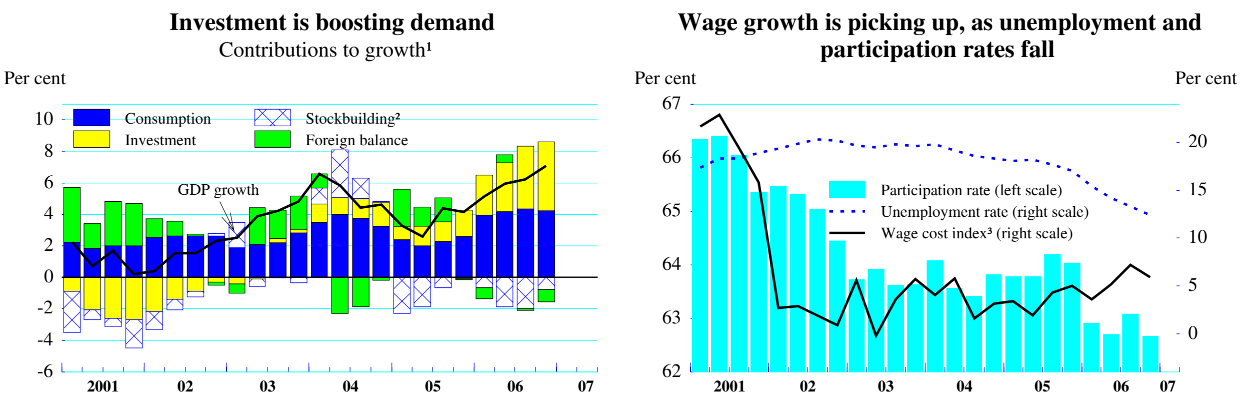
Economic growth accelerated in 2006

Economic activity has gained momentum. GDP accelerated throughout 2006, reaching nearly 7% (year-on-year) in the fourth quarter. The latest data for industrial production seem to indicate a continuation of this trend in the first quarter of 2007. Stimulated partly by European Union funds and foreign direct investment, investment has been the main contributor to demand growth. Household expenditure has also been gathering steam, due to rising wages, higher employment, remittances of Poles working abroad and favourable credit conditions. Exports and imports have both been growing rapidly, but the contribution of net exports to growth became slightly negative in 2006, and there was a sudden deterioration in the fourth quarter.

Unemployment fell and wages accelerated

Unemployment fell rapidly during 2006, and this downward trend continued in the first quarter of 2007, in response to both job creation and a further decrease in the labour force, probably due to renewed emigration. This has increased the bargaining power of employees. Indeed, wage growth has picked up and may have reached more than 5% (year-on-year) at the end of 2006, and the proportion of permanent

Poland



1. Percentage change from same period of previous year.
2. Including statistical discrepancy.
3. Industry and services. Year-on-year change.
Source: Polish Central Statistical Office; Eurostat database; and OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/032506752622

Poland: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices PLZ billion	Percentage changes, volume (2000 prices)				
Private consumption	553.9	4.3	2.0	5.1	5.0	5.0
Government consumption	152.8	3.1	5.2	3.9	2.9	2.7
Gross fixed capital formation	153.8	6.4	6.5	16.5	14.8	10.0
Final domestic demand	860.5	4.4	3.3	7.0	6.6	5.7
Stockbuilding[1]	4.3	1.6	-0.9	-0.3	-0.2	0.0
Total domestic demand	864.7	6.0	2.4	6.6	6.3	5.6
Exports of goods and services	280.9	14.0	8.0	15.1	11.0	10.1
Imports of goods and services	302.5	15.2	4.7	15.4	12.0	10.2
Net exports[1]	- 21.6	-0.8	1.1	-0.2	-0.5	-0.1
GDP at market prices	843.2	5.3	3.6	6.1	6.7	5.5
GDP deflator	_	4.1	2.6	1.5	2.1	2.5
Memorandum items						
Consumer price index	_	3.4	2.2	1.3	1.8	2.3
Private consumption deflator	_	3.0	2.1	1.0	1.3	2.3
Unemployment rate	_	19.0	17.7	13.8	11.2	9.7
General government financial balance[2,3]	_	-5.7	-4.3	-3.9	-3.2	-2.4
Current account balance[2]	_	-4.3	-1.7	-2.3	-2.6	-2.5

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

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of GDP.
3. With private pension funds (OFE) classified inside the general government sector.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035214804707

contracts has increased. At the same time, although labour productivity has outpaced wage growth in the industrial sector, unit labour costs have accelerated when considering the economy as a whole.

Inflation has picked up

The nominal effective exchange rate of the zloty has slightly appreciated over the past year. Yet consumer price inflation has risen, reaching 2.5% (year-on-year) in March, close to the mid-point of the official target range, though it is expected to decline temporarily in coming months. The interest rate differential with respect to the euro area narrowed from 1.75% in early March 2006 to as little as 0.25% by the end of March 2007. These projections embody a progressive increase in this differential to a full percentage point by the end of 2008. This has already begun.

Fiscal reforms are still needed

The latest information indicates a decline in the general government deficit from 4.3% of GDP in 2005 to 3.9% in 2006. The improvement in 2006 appears to be mainly due to an increase in revenues resulting from buoyant economic growth. However, public final consumption expenditure has continued to rise rapidly, even if it may have fallen as a percentage of GDP. The government has announced saving plans amounting 1% of GDP over this year and next by reorganising its finances. The current upswing provides the opportunity to implement more fundamental reforms to control public expenditure and to pursue structural reforms.

Growth should remain strong

GDP is expected to continue to grow at a rate of more than 5%, above consensus estimates of potential. Investment should still be an important engine of this expansion, supported by vigorous demand increases, high profitability of firms and a better use of EU resources. Private consumption is also expected to remain dynamic, with buoyant disposable income, due to considerable improvements in the labour market, EU transfers for farmers and remittances from Poles working abroad. Exports and imports are both likely to continue to grow rapidly, but the current account expressed as a percentage of GDP is expected to deteriorate somewhat. The downward trend in the unemployment rate should continue, reaching 9% by end-2008, while unit labour costs are projected to pick up in 2008. The inflation rate will drift upwards but should remain within the central bank's target band (1½ to 3½ per cent); some monetary tightening will help to ensure this.

Wages and the external balance remain concerns

The main risk surrounding the projections relates to inflation: more pronounced growth in wages in excess of productivity gains could feed through to headline inflation and then into inflation expectations. Although export growth should remain strong, continued robust expansion of domestic demand could result in faster import increases and thus a sharper decline in the external balance.

PORTUGAL

GDP advanced by 1.3% in 2006, led by stronger export growth. The expansion is expected to strengthen and become more broad-based in 2007 and 2008. The large negative output gap should drive inflation down to the euro area average. Unemployment, though gradually declining, remains high and is expected to translate into some wage moderation.

There was a notable improvement in the budget balance in 2006. It is important that the government continues to implement its programme of structural reforms to ensure further consolidation. This will help to underpin growth in the long-run. Lifting the level of human capital and increasing competition in the domestic market are also essential for raising productivity.

Led by exports, growth has picked up

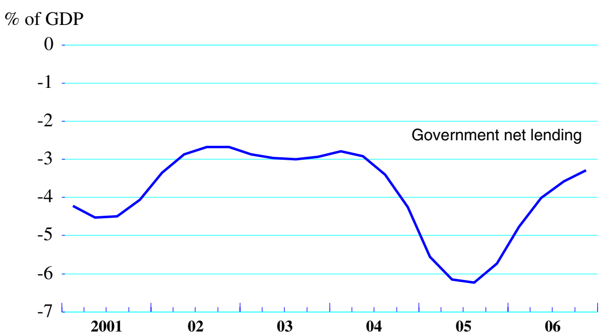
The mild expansion, which began in 2005, has strengthened with GDP growing 1.3% in 2006. Stronger growth in Europe flowed into higher export growth. Market share losses were again recorded although they were smaller than in 2005. Investment continued to contract, construction in particular. Employment growth weakened in the course of the year. As a result, unemployment reached 8.2% in the fourth quarter. Inflation (based on the harmonised index of consumer prices) averaged 3% in 2006.

Fiscal consolidation is occurring faster than expected

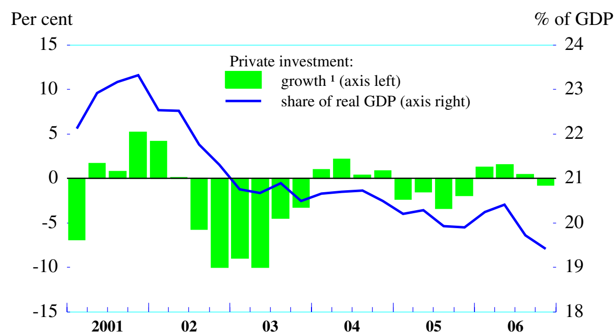
The fiscal deficit dropped from 6% of GDP in 2005 to 3.9% in 2006, below the Stability and Growth Programme target (4.6% of GDP for 2006). The government has been successful in restricting wage expenditure, through freezing automatic career progression and reducing personnel numbers. The new stricter hiring policy has had a substantial impact and the number of public servants declined by 1.5% in 2006. Other measures taken on the expenditure side include further reforms of the public service and structural changes to curb both social security and health expenditure. On the revenue side, after increasing the value-added tax rate in 2005, efforts are being made to improve tax administration, including by allocating more resources for tax inspection and publishing a tax debtors list. Given recent achievements and the package of specific measures being implemented or already announced to reduce the deficit, it is assumed that the government's deficit targets

Portugal

The fiscal position improves



Private investment is weak



1. Year-on-year percentage change.
Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/032520453758

Portugal: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption	87.8	2.5	2.2	1.1	1.4	1.8
Government consumption	28.1	2.5	2.3	-0.3	-1.0	-1.1
Gross fixed capital formation	31.7	1.2	-3.2	-1.6	0.8	5.2
Final domestic demand	147.7	2.2	1.0	0.2	0.8	2.0
Stockbuilding[1]	0.0	0.2	-0.2	0.0	0.0	0.0
Total domestic demand	147.7	2.4	0.9	0.2	0.8	2.0
Exports of goods and services	38.8	4.4	1.1	8.8	6.3	6.3
Imports of goods and services	47.9	6.6	1.9	4.3	3.0	5.5
Net exports[1]	- 9.1	-1.3	-0.5	1.0	0.9	-0.1
GDP at market prices	138.6	1.3	0.5	1.3	1.8	2.0
GDP deflator	_	2.7	2.8	2.9	2.8	1.8
Memorandum items						
Harmonised index of consumer prices	_	2.5	2.1	3.0	2.0	2.2
Private consumption deflator	_	2.6	2.5	3.3	2.0	2.1
Unemployment rate	_	6.7	7.7	7.7	7.6	7.1
Household saving ratio[2]	_	10.1	9.9	9.3	9.2	9.4
General government financial balance[3]	_	-3.3	-5.9	-3.9	-3.3	-2.4
Current account balance[3]	_	-7.7	-9.7	-9.4	-8.8	-9.5

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035245188421

for 2007 (3.3%) and 2008 (2.4%) will be achieved. Public consumption is expected to continue to decline in real terms in 2007 and 2008.

Activity is expected to accelerate…

GDP growth is likely to pick up, reaching around 2% in 2008, somewhat above potential growth, but the output gap remains wide. Solid export growth is projected to continue, although losses in export market shares are expected to persist, owing to a still heavy trade specialisation in labour intensive products (such as clothing and footwear). Now that private investment as a share of GDP has come back down to the levels in the mid-1990s, a recovery in investment is expected in response to export growth and positive confidence effects from fiscal consolidation. In the longer run, the negative output gap is expected to drive a moderation in inflation and convergence to the euro area average. Unemployment is expected to decline only slowly and labour market slack is expected to translate into some decline in wage growth.

… but risks remain

Portugal has suffered continuous export market share losses for the past ten years and there are some uncertainties regarding the response of exports to market growth. However, if the structure of the economy is able to adapt to changes in world trade more rapidly than in the past, export performance could be more robust than projected. Another key uncertainty is the strength of private investment growth in response to the export recovery and fiscal consolidation. A prerequisite for a durable economic expansion is a turnaround in the downward trend in investment that began in 2000.

SLOVAK REPUBLIC

Economic growth is projected to rise to around 8¾ per cent in 2007 supported by production at new automobile plants but to ease to 7½ per cent in 2008. Such production also underpins a large reduction in the current account deficit. Unemployment should continue to fall on the back of strong employment expansion. Disinflation is set to resume because of lower energy prices, high productivity growth and appreciation of the koruna.

Fiscal policy may need to be more restrictive both to facilitate exit from the Excess Deficit Procedure and to pre-empt a possible post-euro entry overheating. Automatic stabilisers should be allowed to work fully and windfalls from higher than expected growth should be used to reduce the deficit. Further structural reforms are needed for maintaining high growth, notably to bring the long-term unemployed back into employment and to make participation more attractive for older workers and young women.

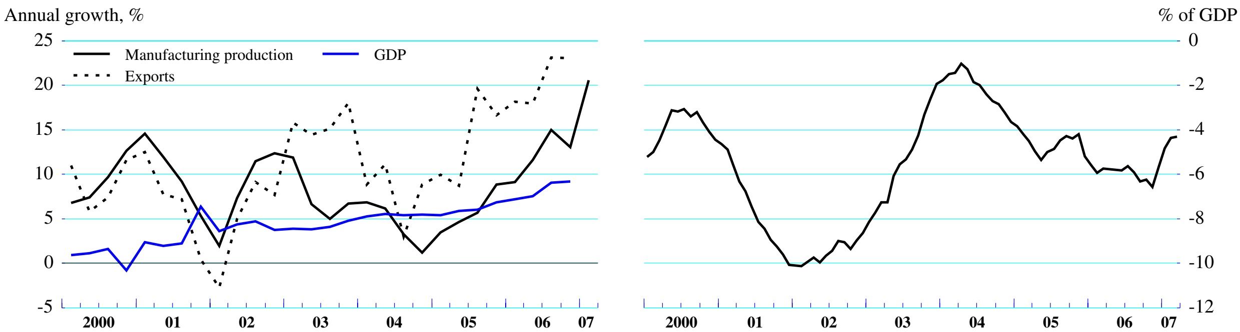
Growth has soared as new car plants have entered into production

Real GDP growth soared to 9% in the year to the second half of 2006 as new export-oriented manufacturing plants (automobiles and, to a lesser extent, electronics) entered into production. Private consumption remained robust in 2006 as did investment adjusting for the timing of completion of these plants. Economic sentiment has stabilised in recent months at levels well above the historical average, pointing to continued solid growth. A small positive output gap is estimated to have emerged in 2006. Potential GDP should be boosted by some 7% over 2006-08 as production at these plants builds. Domestic employment growth has remained solid, at 2.2% in the year to the fourth quarter of 2006, and with many Slovaks taking jobs in neighbouring countries, national employment growth has been even higher (3.4%) over the same period. Such growth has driven the unemployment rate (Labour Force Survey) down sharply, to 12.0% in the fourth quarter of 2006, three percentage points less than a year earlier. Long-term unemployment has also fallen, albeit more slowly, to around 10% of the labour force. Headline inflation fell to 2.7% (year-on-year) in early 2007 supported by lower energy prices, exchange rate appreciation and low growth in unit labour costs; HICP

Slovak Republic

Manufacturing is boosting exports and GDP growth

The foreign trade deficit is being reduced
(12-month cumulative basis)



Sources: OECD Analytical database, Economic Outlook n°81 and Main Economic Indicators.

StatLink http://dx.doi.org/10.1787/032664822880

Slovak Republic: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices SKK billion	Percentage changes, volume (2000 prices)				
Private consumption	687.6	4.2	7.0	6.1	6.0	6.4
Government consumption	249.1	2.0	-0.6	4.1	3.0	2.1
Gross fixed capital formation	302.8	5.0	17.5	7.3	7.4	7.1
Final domestic demand	1 239.5	3.9	8.1	6.1	5.9	5.8
Stockbuilding[1]	- 4.3	2.3	0.6	0.3	-1.4	0.1
Total domestic demand	1 235.2	6.2	8.6	6.2	4.4	5.8
Exports of goods and services	927.7	7.9	13.8	20.7	23.4	13.7
Imports of goods and services	950.3	8.8	16.6	17.8	18.6	12.2
Net exports[1]	- 22.5	-0.9	-2.8	1.7	4.2	1.8
GDP at market prices	1 212.7	5.4	6.0	8.3	8.7	7.6
GDP deflator	_	6.0	2.4	2.7	2.7	1.7
Memorandum items						
Consumer price index	_	7.5	2.7	4.5	2.3	2.1
Private consumption deflator	_	7.4	2.6	5.1	2.7	2.1
Unemployment rate	_	18.1	16.2	13.3	11.5	10.3
General government financial balance[2]	_	-2.4	-2.8	-3.4	-2.7	-2.1
Current account balance[2]	_	-3.5	-8.7	-8.3	-3.1	-2.5

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035254827315

inflation, which does not take into account owner-occupier housing costs, fell to 2.1% in early 2007. The entry into production of the new manufacturing plants has contributed to a sharp improvement in the current account balance, to a deficit of 7.2% of GDP in early 2007 on a previous 12-month basis.

Macroeconomic policies are leaning against demand growth

The budget adopted by the government provides for a 0.8 percentage point reduction in the general government deficit (including the costs of pension reform) to 2.9% of GDP in 2007 and a further reduction to 2.3% of GDP in 2008. Government ministries are required to make deep cuts in operating costs by the end of 2007 to make room for increased social expenditures within these budget envelopes. The government's budget estimates are based on conservative growth assumptions. In view of substantial upward pressure on the exchange rate since the second half of last year, it was agreed in mid-March 2007 to revalue the central rate for the Slovak koruna against the euro by 8.5% to SKK 35.4424 under the Exchange Rate Mechanism. In addition, the central bank cut the policy interest rate by 25 basis points at the end of March and by a further 25 basis points at the end of April to 4.25%.

Net exports will boost growth and slash the current account deficit

Economic growth is projected to rise to around 8¾ per cent in 2007 supported by production at the new car plants and carryover effects, but to ease to 7½ per cent in 2008. Unemployment should continue to decline but more slowly than in recent years as short-term unemployment falls to low levels and the growth in cross-border employment eases. Headline inflation should fall to 2% in 2008 supported by weaker energy prices and exchange rate appreciation. The general government deficit is projected to fall to 2.7% of GDP in 2007 and 2.1% in 2008. With the start of production in the new manufacturing plants, the current account deficit should fall sharply, from 8.3% of GDP in 2006 to 2½ per cent in 2008.

Uncertainty about energy prices and economic slack are the main risks

The main risks to these projections are that energy prices (they have a relatively large, albeit declining impact on production costs and inflation) turn out higher than in the central projection and that there is less economic slack than estimated (such estimates are particularly uncertain owing to the current expansion in manufacturing capacity), resulting in higher inflation and lower growth.

SPAIN

Activity is likely to remain buoyant in 2007 before slowing in 2008. Although rising interest rates will curb domestic demand, it should remain the main driver of growth, led by non residential investment and public consumption. Headline inflation may fall in 2007, reflecting the negative albeit waning effects of lower oil prices, but is expected to rebound in 2008.

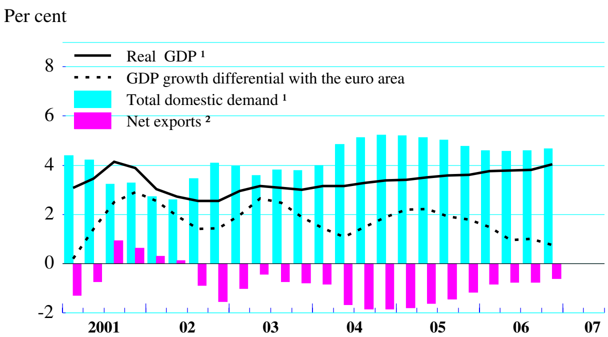
Fiscal policy should remain tight to help moderate the substantial domestic demand pressures and to prepare for the long-term burden on public finances stemming from population ageing. Fostering competition in product markets, for instance in retail distribution, would reduce the inflation differential with the euro area, preventing further erosion of competitiveness. Reforming employment protection legislation would aid in enhancing productivity growth.

Growth remains strong, driven by domestic demand

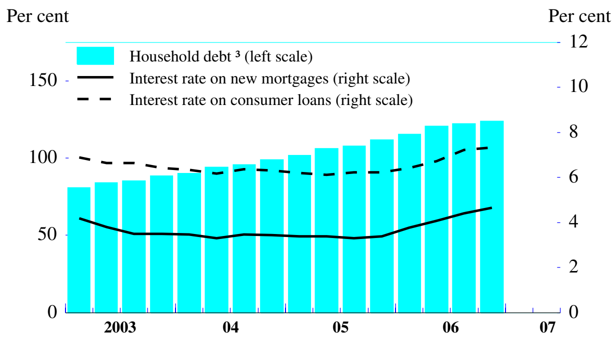
GDP growth accelerated at the end of 2006, reaching 4% (year on year) in the final quarter, supported by private consumption, investment in machinery and equipment, and vigorous public consumption. Part of the strength of domestic demand was absorbed by rapidly growing imports. Exports also grew considerably, led by the recovery of Spain's European trading partners, thus helping to reduce the negative contribution from net exports to growth. Reflecting the fall in oil prices, inflation has continued to moderate, as the year-on-year headline rate in March edged down to 2.5%. The differential with the euro area stood at 0.6 percentage point, continuing the downward trend observed since the second half of 2006. The unemployment rate has remained at around 8¼ per cent, as robust employment creation has been met by a rapidly expanding labour force. Real compensation growth has moved into positive territory, although gains remain modest. Recent indicators suggest that economic activity is still strong in the first months of 2007. However, a decline in the rate of house-price appreciation and in purchases of land and a recent fall in the number of new building permits suggest that a slowdown in residential construction is

Spain

Growth remains strong



Household's debt burden has increased



1. Year-on-year percentage changes.
2. Contribution to GDP growth.
3. As a percentage of disposable income.
Source: INE; Bank of Spain; OECD, Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/031685303811

OECD ECONOMIC OUTLOOK 81 – ISBN 978-92-64-03449-5 – © OECD 2007

Spain: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption	450.7	4.2	4.2	3.7	3.6	2.8
Government consumption	135.9	6.3	4.8	4.4	5.5	3.9
Gross fixed capital formation	212.8	5.0	7.0	6.3	4.8	2.7
Final domestic demand	799.4	4.8	5.1	4.5	4.3	3.0
Stockbuilding[1]	1.7	0.0	0.0	0.1	-0.1	0.0
Total domestic demand	801.1	4.8	5.0	4.6	4.2	2.9
Exports of goods and services	206.1	4.1	1.5	6.2	6.3	6.3
Imports of goods and services	224.7	9.6	7.0	8.4	7.9	6.5
Net exports[1]	- 18.5	-1.7	-1.7	-1.0	-0.9	-0.5
GDP at market prices	782.5	3.2	3.5	3.9	3.6	2.7
GDP deflator	_	4.0	4.1	3.8	2.8	3.2
Memorandum items						
Harmonised index of consumer prices	_	3.1	3.4	3.6	2.5	2.7
Private consumption deflator	_	3.5	3.4	3.6	2.5	2.7
Unemployment rate[2]	_	10.5	9.2	8.5	8.2	8.1
Household saving ratio	_	11.4	10.6	10.1	10.1	9.5
General government financial balance[3]	_	-0.2	1.1	1.8	1.5	1.5
Current account balance[3]	_	-5.3	-7.4	-8.7	-10.1	-10.5

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

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. Pre-2005 labour market data are OECD estimates which were made consistent with posterior data by correcting for the methodological break that took place in 2005.
3. As a percentage of GDP.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035258147662

underway. Fears of the fall-out from such a downturn have led to a sharp drop in stock prices for many firms in the sector.

The fiscal stance is now slightly expansionary

In 2006, the general government surplus reached 1.8% of GDP. While preliminary information suggests that revenues are still growing significantly, the announced tax reductions, amounting to 0.4% of GDP, should induce a small fall in the structural balance in 2007. Overall, the fiscal stance, which was restrictive in 2006, is projected to shift to slightly expansionary in 2007 and broadly neutral in 2008. On the other hand, monetary conditions are likely to become progressively less accommodating, as interest rates in the euro area are expected to continue to increase. As mortgage interest rates are indexed to short-term rates and the debt service burden on households is relatively high, the resulting higher mortgage obligations should in turn weigh on consumption growth.

Growth will moderate as interest rates increase

Although private consumption may slow, the negative effect of rising interest rates might be attenuated by the increase in disposable income due to still strong employment creation and the personal income tax cuts. Construction investment is expected to decelerate significantly as the housing market cools off, which should be only partly offset by investment in machinery and equipment, supported by healthy business financial results. The foreign balance will act as a drag on growth, as rising import penetration and competitiveness losses continue to dominate the positive effect of dynamic foreign demand. The current account will continue to deteriorate, with the deficit reaching more than 10% of GDP by 2008. Overall, the increase in real GDP should moderate to around 3.5% in 2007 and slow to some 2¾ per cent in 2008. Ongoing robust employment creation will continue to drive down the unemployment rate. The increasing tightness of the labour market, due also to declining potential employment growth, should translate into faster real wage growth. As productivity gains are likely to remain modest, unit labour costs should stay on an increasing trend. Core inflation may rise slightly due to growing pressures on product and labour markets. In the absence of further oil price increases, the average yearly inflation rate will dip to around 2½ per cent in 2007 and should then trend upwards. The inflation differential with the euro area is likely to persist at below 1 percentage point *per annum*.

The housing market remains a source of concern

The main risk surrounding the projection lies in a more pronounced adjustment in the housing market, given that residential construction represents such a high share of GDP.

SWEDEN

The Swedish economy continues to grow rapidly without showing signs of weakening. Growth in 2007 is projected to be 4.3%, only slightly lower than in 2006. Private consumption will be particularly strong, reflecting the significant improvement in the labour market. As the output gap is clearly positive, underlying inflation will continue to increase from previously very low levels.

The labour market reforms implemented this year will increase potential employment. Given the strength of the economy, it is an excellent time to pursue further labour supply reforms as that will prolong the current expansion. It is also important that fiscal policy does not add further stimulus, and the Central Bank will need to raise policy rates further.

Domestic demand grows rapidly…

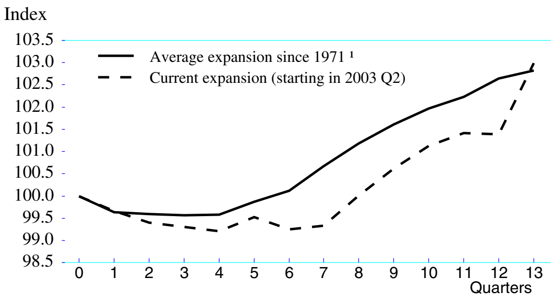
Sweden continues to be one of the most rapidly growing economies in Europe. At 4.7%, growth in 2006 was at its highest level for over three decades. Net exports contributed significantly and were complemented by robustly growing domestic demand. Household consumption grew at its fastest rate since 2000 and residential investment continued to rise at double-digit growth rates, benefiting from the dynamic housing market. Historically high capacity utilisation fuelled business investment. Recent data suggest that the expansion has continued into 2007, albeit at a slightly slower pace. While business confidence remains buoyant, retail sales and industrial production were somewhat weaker at the start of the year.

… and the labour market improves further

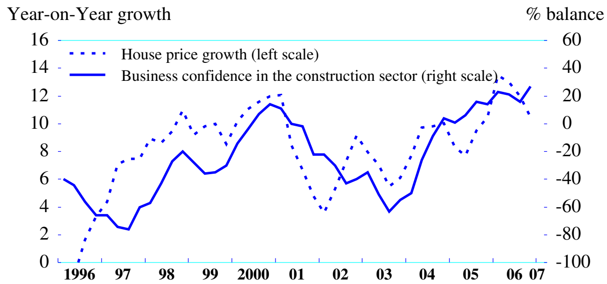
At the early stages of the recovery, employment was sluggish, but recently it has grown briskly by 2% in 2006. This has been accompanied by a strong increase in the labour force, reflecting both an increase in the working-age population, as immigration flows were at a multi-year high, and a higher participation rate, as more outsiders were drawn into the labour market. Meanwhile, the new government has recently implemented a labour market reform programme. By lowering the tax burden, in particular for low income workers, and reducing the level and duration of unemployment benefits, the incentives to take up work will

Sweden

Employment growth is picking up



House price growth slowed down recently



1. The start of an expansion is defined by when GDP accelerates. Q0 is the last quarter of negative annual growth, followed by positive growth rates. The expansions included in the average are dated with Q0 in 1971:4, 1977:2, 1982:4, 1986:2, 1993:1, 1996:4 and 2001:3.

Source: OECD Analytical database.

StatLink http://dx.doi.org/10.1787/032708668713

Sweden: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices SEK billion	Percentage changes, volume (2000 prices)				
Private consumption	1 203.2	2.2	2.4	2.8	3.6	3.7
Government consumption	691.1	0.4	0.3	1.8	1.5	1.7
Gross fixed capital formation	392.8	6.4	8.1	8.2	6.6	4.4
Final domestic demand	2 287.2	2.4	2.7	3.5	3.6	3.2
Stockbuilding[1]	9.9	-0.4	-0.1	0.0	-0.4	0.0
Total domestic demand	2 297.1	2.0	2.7	3.5	3.1	3.3
Exports of goods and services	1 070.2	11.1	7.0	8.8	8.6	7.5
Imports of goods and services	907.9	7.5	6.2	7.9	8.9	7.8
Net exports[1]	162.3	2.1	0.8	1.0	0.6	0.5
GDP at market prices	2 459.4	3.6	2.9	4.7	4.3	3.5
GDP deflator	_	0.6	1.2	1.5	1.2	2.4
Memorandum items						
Consumer price index	_	0.4	0.5	1.4	1.6	2.0
Private consumption deflator	_	0.8	1.3	1.3	2.1	2.5
Unemployment rate[2]	_	5.5	5.8	5.3	4.8	4.3
Household saving ratio[3]	_	9.6	8.8	8.3	7.4	6.5
General government financial balance[4,5]	_	0.6	1.8	2.1	2.6	2.5
Current account balance[4]	_	6.9	7.1	6.7	7.1	6.8

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

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. Based on monthly Labour Force Surveys. The 2005 unemployment rate is based on quarterly statistics and deviates from the annual rate published by Statistics Sweden.
3. As a percentage of disposable income.
4. As a percentage of GDP.
5. Maastricht definition.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035266674570

increase. The reforms will gradually reduce the natural rate of unemployment and lead more people to participate in the workforce. Reflecting these measures, as well as cyclical forces, employment is projected to rise by 2% in 2007 and over 1% in 2008, bringing the unemployment rate down to 4.3% in 2008.

Monetary policy is tightening…

With economic growth continuing well above potential, the Swedish Central Bank has tightened its monetary policy stance by 1 percentage point in 2006 and signalled its intention to raise rates further. While headline inflation moved up towards the inflation target of 2% over the course of 2006, measures of underlying inflation increased only slowly. However, with the output gap now in positive territory and labour shortages spreading from construction to several other service sectors, price pressures will gradually increase. First signs are already visible in the wage agreements of the current negotiation round which affects more than two-thirds of employees.

… while taxes are cut

In contrast to the withdrawal of the monetary stimulus, fiscal policy will at best be neutral in 2007 and 2008. In addition to income tax cuts, property taxes have been frozen in 2007 and will probably be replaced by a uniform real estate fee and higher capital gains taxes from 2008 onwards. This could give significant stimulus to the housing market in the metropolitan areas where the reform implies a substantial reduction of housing taxation. How much this might affect construction, consumption and the aggregate economy is hard to predict.

Growth to return towards potential in 2008

Growth is projected to reach 4.3% in 2007 and to ease slightly towards its potential rate of 3-3½ per cent in 2008. Private consumption in particular will support growth as incomes are projected to rise strongly, reflecting higher employment, rising wages and income tax reductions. A declining savings rate reinforces this consumption surge. Corporate investment, on the other hand, is expected to lose some of its steam as interest rates are raised. While this is also likely to weigh on residential investment growth, the decrease in effective property taxes will counter this. Exports should continue to underpin the recovery this year, mainly on account of dynamic growth of the main European trading partners. Going forward, the contribution of net exports will decrease, also reflecting high import demand as the economy is operating near domestic capacity limits.

Risk of supply bottlenecks

Notwithstanding the supply-side reforms on the labour market, there remains some uncertainty about the extent of spare capacity in the economy. In this context, supply bottlenecks in construction require particular attention.

SWITZERLAND

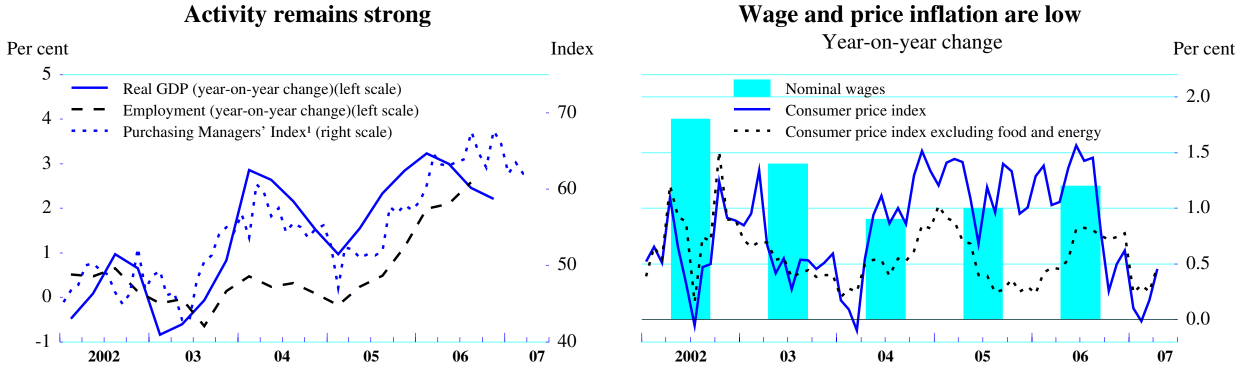
Economic growth is expected to decelerate somewhat, to about 2% in 2007 and 2008. Expansion at this pace will allow employment to continue growing, roughly in line with rising labour supply, and wage growth should remain moderate. Inflation is projected to stay low throughout the projection period, though pushing up somewhat in 2008.

Withdrawal of remaining monetary policy stimulus may be necessary as the output gap is closing steadily. Reforming regulation sheltering domestic enterprises from competition – for example by further strengthening competition law, removing non-tariff trade barriers and facilitating market entry in network industries – would raise medium-term growth prospects.

The economy has continued to expand without overheating

Economic growth remained strong in the second half of 2006, albeit with somewhat less momentum, as investment activity decelerated from its very dynamic performance in previous quarters. Residential investment, in particular, peaked, reflecting the impact of monetary policy tightening over the past year. Exports of goods and services were buoyant, with Swiss exporters gaining market shares, benefiting from the impact of a somewhat depreciated exchange rate, as well as from strong demand from Germany, Switzerland's main trading partner. Private consumption accelerated on the back of rising labour incomes, as employment continued to increase vigorously, supported by an expansion of labour supply, mostly reflecting strong immigration flows. The growing labour force helped to keep wage and price inflation subdued. As has been the case in recent years, value added in the banking sector grew particularly strongly, benefiting from sharp increases in stock market turnover and lending activity. It accounted for almost one half of all economic growth in 2006, considerably above the sector's share in GDP, and contributed significantly to services exports, further pushing up the current account surplus. While goods export growth appears to be moderating early this year, business sector surveys point to continued solid expansion, with some acceleration later this

Switzerland



1. A forward looking indicator based on the response of 200 managers at Swiss industrial companies about their performance in the current month compared with the prior month. An index below 50 indicates that industrial production is falling.
Source: Swiss National Bank; Crédit Suisse; Federal Statistical Office; OECD, Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/031626157802

Switzerlands: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices CHF billion	Percentage changes, volume (2000 prices)				
Private consumption	262.7	1.5	1.3	1.9	2.0	1.7
Government consumption	52.1	-0.8	-1.6	-0.5	-0.1	0.3
Gross fixed capital formation	89.9	4.5	3.2	3.7	3.1	2.0
Final domestic demand	404.6	1.9	1.4	2.1	2.0	1.6
Stockbuilding[1]	1.1	-0.4	-0.2	0.1	0.6	0.0
Total domestic demand	405.7	1.5	1.1	2.2	2.6	1.6
Exports of goods and services	188.5	8.4	6.4	9.9	7.5	6.4
Imports of goods and services	159.5	7.4	5.3	9.9	9.5	5.8
Net exports[1]	29.0	0.8	0.8	0.6	-0.5	0.7
GDP at market prices	434.8	2.3	1.9	2.7	2.1	2.2
GDP deflator	_	0.6	-0.1	1.4	0.9	1.2
Memorandum items						
Consumer price index	_	0.8	1.2	1.1	0.2	1.2
Private consumption deflator	_	0.9	0.8	1.4	0.5	1.1
Unemployment rate	_	4.2	4.3	3.8	3.3	2.9
General government financial balance[2]	_	-1.1	0.0	1.1	1.0	1.0
Current account balance[2]	_	13.6	16.4	17.2	17.3	18.0

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

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/035271230562

year, and firms plan to continue investing in order to further expand their production capacity.

Monetary policy has been tightened further

The Central Bank has continued to withdraw monetary stimulus since October last year, raising the target band for short-term interest rates by ¾ percentage point through March. Core inflation is expected to remain very low, with prices in some sectors which have been opened to a larger extent to competition – in particular telecommunications – likely to fall, and collective bargaining settlements suggest that wage growth will remain moderate this year. Withdrawal of remaining monetary stimulus may be warranted if inflationary pressures emerge when output rises above potential as projected for 2008. The fiscal policy stance will be neutral, keeping the general government balance close to a surplus of about 1% of GDP throughout 2007 and 2008. The ongoing impact of consolidation measures taken in recent years, generating savings in subsidies and in administrative spending, will be offset by rising social transfer outlays and a pick-up in public investment expenditure. Cantons will be required to lower personal income taxes to offset the impact of inflation in recent years on personal income tax burdens.

Economic growth is expected to continue at a steady pace

Economic growth is expected to fall to just above 2% in 2007 and 2008, still slightly above potential rates. The contribution of the financial services sector to economic growth is likely to be more modest than in recent years, as stock market turnover and credit expansion are likely to moderate. Domestic demand is expected to remain strong in 2007, weakening somewhat in 2008. Net exports will contribute significantly to output increases in 2008, boosted by expanding demand in major trading partners and favourable price competitiveness of Swiss exporters, keeping the current account surplus at an exceptionally high level. The sustained expansion will allow the unemployment rate to fall further. Inflation will remain low, though picking up slightly towards the end of the projection period as the output gap is closed.

Risks to the outlook appear balanced

An easing of "carry trade" could lead to a significant appreciation of the exchange rate which would damp the contribution of exports to economic growth. The ongoing expansion of labour supply could raise economic growth beyond the projected rate.

TURKEY

Growth should remain close to 6% in 2007 and 2008, absent any further shocks. But the economy is not yet fully resilient to domestic and international turbulence. Disinflation will resume but at a slower pace than officially projected.

Turkey has greatly improved its economic fundamentals and weathered some strong political tensions in April. After dual-elections (for the president and for parliament) in 2007, further structural and institutional reforms should help to improve competitiveness and external balances, as well as enhance resilience to shocks. Shrinking informality in the business sector is the key requirement to make rapid growth sustainable.

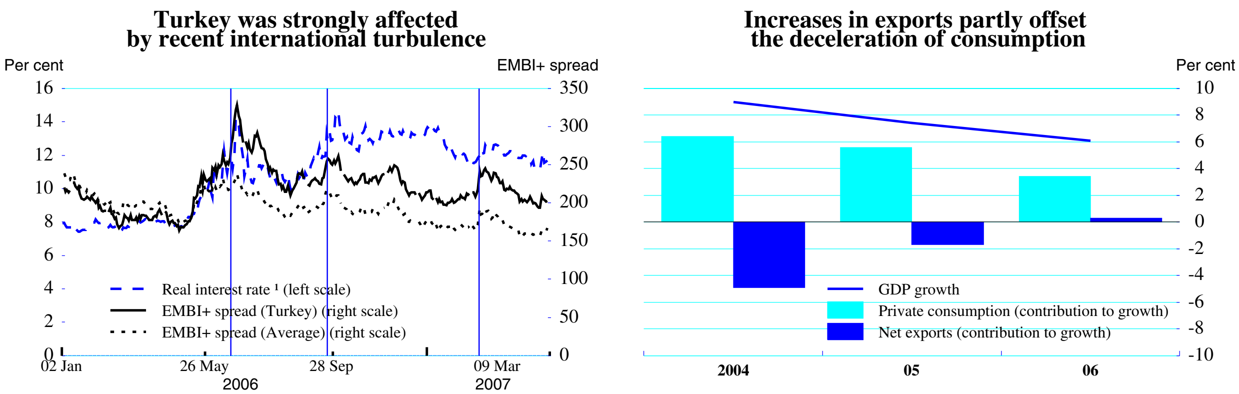
The economy has recently faced a number of shocks

The international turbulence in May-June and September 2006, and again in February-March 2007, has affected Turkey more than other OECD countries, partly reflecting the fragility of the country's external balances. The Emerging Market Bond Index (EMBI) risk premia and interest rates increased significantly and the exchange rate depreciated. After the largest of these shocks in May-June, business confidence was not noticeably dented but household confidence weakened, although it has since recovered. Declines in private consumption were partly offset by competitiveness gains and increases in exports. Despite these shocks, GDP growth remained strong at above 6% in 2006 as a whole and seemed to be robust in the first quarter of 2007. The economy also weathered some strong political tensions in April, which have so far had only a temporary impact on exchange and interest rates.

The large current account deficit was easily financed

The increase of exports and the deceleration of imports in volume terms did not prevent the current account deficit from widening to 7.8% of GDP in 2006, mainly due to higher oil prices. Yet the acceleration of foreign direct investment inflows, which reached 4.8% of GDP, and long-term private loans amounting to 7% of GDP, more than funded the deficit and the Central Bank increased its reserves to above 15% of GDP.

Turkey



1. According to ISE benchmark interest rate and 12-month inflation expectations.
Source: ISE; CBRT; JP Morgan; TURKSTAT.

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Turkey: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices TRL billion	Percentage changes, volume (1987 prices)				
Private consumption	239.6	10.1	8.8	5.2	4.7	5.2
Government consumption	49.0	0.5	2.4	10.0	9.2	4.5
Gross fixed capital formation	55.6	32.4	24.0	14.3	7.3	7.7
Final domestic demand	344.2	14.1	12.1	8.1	5.8	5.9
Stockbuilding[1]	27.4	1.1	-2.5	-2.2	-0.4	0.0
Total domestic demand	371.6	14.1	8.8	5.6	5.2	5.7
Exports of goods and services	98.5	12.5	8.5	8.3	8.8	9.1
Imports of goods and services	110.3	24.7	11.5	6.9	7.1	8.1
Net exports[1]	- 11.8	-4.9	-1.7	0.3	0.5	0.2
GDP at market prices	359.8	8.9	7.4	6.0	5.7	6.2
GDP deflator	_	9.9	5.4	11.0	8.1	6.1
Memorandum items						
Consumer price index	_	8.6	8.2	9.6	9.6	7.2
Private consumption deflator	_	7.9	6.1	10.5	8.1	6.2
Unemployment rate	_	10.1	10.0	9.8	9.7	9.6
Current account balance[2]	_	-5.1	-6.3	-7.8	-7.5	-7.2

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 81 database.

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Disinflation has slowed down

The hitherto very successful disinflation process slowed down and was partly reversed at the end of 2006. Increases in energy and unprocessed food prices and sticky service prices contributed to this and were compounded by pass-through from the exchange rate depreciation shock in the middle of the year (which was gradually reversed through subsequent appreciation). Inflation approached 10% in December, double the explicit target of 5% (with an uncertainty band of ± 2%), and expectations remained well above the ambitious objective of 4% (with the same uncertainty band) for end-2007 and end-2008.

Employment is growing slowly amid exits from agriculture

Despite strong job creation in industry and services, total employment is growing slowly (amid continuing exits from agriculture) and wage growth remains very moderate. Unemployment was still high at 9.8% in 2006, reaching 12.6% in urban areas.

Resilience to fluctuations in investor risk appetite remains fragile

Business and consumer confidence remain strong, even if their evolution after the political tensions in April is not yet measured. Resilience to fluctuations in international risk appetite remains less robust than in other OECD countries, as reflected in high risk premiums and real interest rates and the still high degree of dollarisation in the economy. Macroeconomic and fiscal monitoring by the International Monetary Fund through frequent regular reviews plays a major role in anchoring investor expectations. Remaining weaknesses in the transparency and predictability of fiscal performance has made this close review process particularly important.

Despite slippages, authorities remain committed to fiscal and monetary prudence

Fiscal policy is subject to conflicting forces. There were shortfalls in regular revenues and signs of overspending in the first months of 2007, notably in the social security system. Government efforts to stabilise energy prices (despite rising prices for imported inputs) and agricultural support policies have also apparently involved higher spending since mid-2006. Additional pressures may build up in an election year. Nonetheless, the government asserts its determination to maintain a primary surplus of above 6½ per cent of GNP in 2007; this represents a primary surplus of above 6% for a fifth year in a row. The monetary authorities remain committed to their ambitious inflation targets and are keeping policy interest rates high at 17½ per cent. However, these targets will be difficult to attain if inflation expectations do not improve.

Growth will remain strong in the absence of shocks

Baseline growth projections remain about 6% for 2007 and 2008 in the absence of further domestic and international shocks, and provided that the Presidential and Parliamentary elections do not create additional uncertainties and macroeconomic policies remain on track. The current account deficit should decline slightly but will remain above 7% of GDP. Disinflation is expected to resume but at a lower pace than official projections. However, any deterioration in international liquidity conditions or in domestic political and fiscal stability (or any serious disruption in European Union negotiations) may exert negative effects. After 2007, risks will become more balanced. If, following the elections, macroeconomic policy institutions are further strengthened and additional structural reforms further enhance business sector's competitiveness, confidence and investment could improve further and growth could come closer to its underlying long-term potential estimated at above 7%.

BRAZIL

GDP grew by 3.7% in 2006, with activity gathering considerable momentum in the final quarter, when investment rebounded vigorously. Private consumption is underpinning growth, due to improving labour market conditions, rising real earnings and robust credit growth. The trade surplus remains sizeable, predominantly on the back of higher export prices and despite a recovery -driven surge in imports. Headline inflation is well below the mid-point of the target range, and inflation expectations are well anchored.

The policy mix may become exceedingly expansionary. Ongoing disinflation and lukewarm growth have prompted continued monetary easing, albeit at a moderating pace. A pro-growth policy package (Programme for Growth Acceleration, PAC) was announced in January combining a planned expansion in federal infrastructure investment with tax relief for selected sectors. The PAC may lead to a reduction this year in the consolidated primary budget surplus target by up to 0.45% of GDP to accommodate the investment hike, making fiscal policy considerably more expansionary than in 2006.

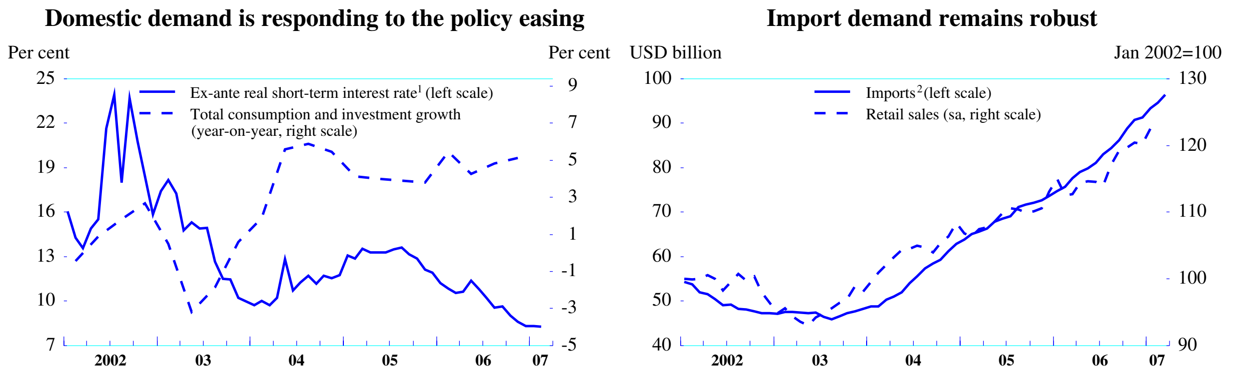
GDP growth picked up in the last quarter

GDP growth in 2006 was driven by continued robust private consumption and a strong turnaround in investment towards year-end. Output readings were particularly favourable in the final quarter. Export performance was strong, predominantly owing to price gains. The recovery-driven expansion in imports nevertheless outpaced that of exports. The current account surplus therefore began to decline gradually from mid-year, but remains sizeable. Labour market conditions improved throughout the year. Job creation has been vigorous, outpacing a steady increase in labour force participation and leading to a modest fall in unemployment. Consumer credit continued to expand at a fast clip. Retail sales and other coincident indicators suggest that the impetus of the on-going expansion has been sustained in the first half of 2007.

Output has been revised upwards

Methodological improvements in the national accounts statistics resulted in an upward revision of nominal GDP by about 11% in 2005. The revisions stem from the use of more up-to-date benchmarks provided by

Brazil



1. Defined as the difference between the 360-day Pre-DI swap rate and 12-month-ahead expected inflation.
2. 12-month moving average.
Source : IBGE and Central Bank of Brazil.

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Brazil: Macroeconomic indicators

	2005	2006	2007	2008
Real GDP growth	2.9	3.7	4.4	4.5
Inflation (CPI)	5.7	3.1	3.5	3.7
Fiscal balance (per cent of GDP)	-3.0	-3.0	-2.0	-1.3
Primary fiscal balance (per cent of GDP)	4.4	3.9	3.6	3.6
Current account balance (per cent of GDP)	1.6	1.3	0.9	0.5

Note: Real GDP growth and inflation are defined in percentage change from the previous period. Inflation refers to the end-year consumer price index (IPCA).
Source: Figures for 2005-06 are from national sources. Figures for 2007-08 are OECD projections.

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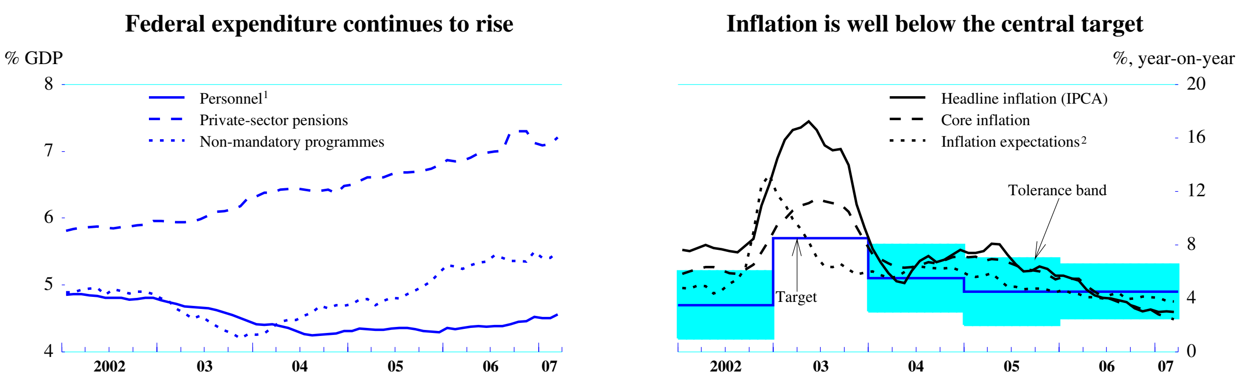
surveys on enterprises, agriculture and households. Improvements in the measurement of government consumption have also contributed. The most noticeable changes are for the level of output and its growth rate during the period 2002-06. On the supply side, the share of services in output rose considerably relative to manufacturing and agriculture. On the demand side, the investment ratio was revised sharply downwards.

The pace of monetary easing is moderating

Headline, core and expected inflation have continued to retreat and remained below the mid-point of the target range during most of 2006 and into 2007. This inflation performance has allowed for successive cuts in the policy interest rate totalling 725 basis points since mid-2005. The pace of monetary easing was nevertheless reduced in February 2007. Capital inflows have been substantial, underpinned by a still sizeable interest-rate differential and strong trade performance, putting upward pressure on the exchange rate. The central bank continues to accumulate reserves, which are now above 10% of GDP, a historical high. Sovereign interest spreads are narrowing, supported by auspicious global financing conditions and sustained improvements in Brazil's external financial vulnerability indicators. Brazil's sovereign credit has recently been upgraded by two rating agencies to one notch below investment grade.

Brazil



1. Includes pensions to retired civil servants.
2. 12 months ahead.
Source : National Treasury and Central Bank of Brazil.

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Brazil: External indicators

	2005	2006	2007	2008
		$ billion		
Goods exports	118.3	137.5	152.2	163.9
Goods imports	73.6	91.4	110.4	128.6
Trade balance	44.7	46.1	41.8	35.2
Services, net	- 8.3	- 9.4	- 8.9	- 8.8
Invisibles, net	- 22.4	- 23.1	- 22.3	- 20.5
Current account balance	14.0	13.5	10.5	6.0
		Percentage change		
Goods export volumes	9.3	3.3	3.5	3.5
Goods import volumes	5.4	16.1	14.0	12.0
Terms of trade	0.9	5.1	0.9	0.0

Source: Figures for 2005-06 are from national sources. Figures for 2007-08 are OECD projections.

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Fiscal policy is on track, supported by rising revenue…

The end-year consolidated primary surplus target was met by a narrow margin, although it turned out to have been lower than the announced 4¼ per cent of GDP owing to the upward revision to nominal output. This fiscal outturn occurred despite rising expenditure, especially social security benefits, which have been offset by recovery-led and, to a lesser extent, one-off revenue gains. Due to the national accounts revisions, the 2007 primary budget surplus target has now been set at 3.8% of projected GDP. But the target may be adjusted downwards by as much as 0.45% of GDP to accommodate a planned expansion in federal infrastructure investment. This is in the context of the comprehensive four-year fiscal package announced in January to spur medium-term growth (PAC), which also introduces tax relief for private investment.

… but efforts to curb expenditure growth remain timid

The pro-growth package goes some way in containing the rise in current spending. It introduces a cap on real increases in the minimum wage, which affects social security expenditure, and on payroll outlays at the federal level. Structural measures to improve the business environment are also being considered. Complementary measures, including pension reform, are deemed essential for stemming the rise in current spending and therefore improving the quality of fiscal adjustment, but are not included in the policy package. Additional fiscal measures (yet to be legislated) include the renewal of the bank debit tax (CPMF) and the mechanism currently in place allowing the federal government to withhold part of its sharable revenue with the regional governments (DRU). Both provisions have been instrumental in sustaining overall fiscal performance but are due to be phased out by end-2007.

Activity will benefit from the fiscal expansion

The growth momentum is set to be sustained by the planned fiscal expansion and ongoing, although moderating, monetary easing. Ongoing dynamism in the labour market and rising investment will underpin the domestic demand-based expansion over the projection period. The external accounts are set to remain solid, although the growth of imports is likely to continue to outpace that of exports. Inflation is poised to remain comfortably below 4.5%, the mid-point of the target range, but the fiscal stimulus expected from the PAC may well restrict the pace of further monetary easing. While undoubtedly adding to demand in the short term, the pro-growth package will need to be complemented by other structural measures to ensure a sustained increase in the economy's growth potential.

The planned fiscal expansion will slow the pace of debt reduction

The fiscal expansion planned under the PAC is consistent with a continued gradual – albeit less pronounced – fall in the debt-to-GDP ratio over the medium term. The benign outlook for public debt dynamics is predicated on the ongoing monetary easing, ushering in a fall in real interest rates, coupled with the improvement in the composition of public debt. The government debt management programme for 2007 continues to build on previous achievements and is likely to yield further increases in the share of fixed-rate instruments in the traded debt stock. Although the higher nominal GDP has brought Brazil's public debt ratio down from about 50 to 45% of GDP, closer to emerging-market benchmarks, a swifter reduction in net indebtedness would likely yield dividends by allowing for a faster reduction in real interest rates and further improvements in the country's sovereign credit ratings towards investment grade.

An accommodating fiscal stance may pose risks

The risks to this otherwise favourable outlook continue to arise predominantly from domestic sources. The global economic environment is expected to remain supportive of emerging-market asset prices. On the domestic front, inflation outcomes may continue to surprise favourably, strengthening the macroeconomic backdrop. But an increasingly accommodating fiscal stance may raise concern about policy sustainability over the longer term.

CHINA

Output growth moderated slightly in the second half of 2006, after a very strong first half, as the restrictive measures that were put in place in the middle of the year took effect. Despite this slowdown, growth averaged 10¾ per cent in 2006. Domestic demand is projected to accelerate as rural consumption increases and construction recovers from the administrative measures taken in 2006. Although the currency appreciated against the dollar, it depreciated in effective terms during 2006 and has only appreciated modestly in 2007. Easing of world demand and the slight appreciation of the currency is likely to result in the some easing of export growth, with only part of the acceleration of domestic demand offset by faster import growth, leaving the growth of GDP at 10.4% in 2007 and 2008. The current account surplus reached 9.5% of GDP in 2006 and is expected to continue its increase, reaching over 10½ per cent of GDP ($368 billion) by 2008. Inflation is projected to be slightly higher this year due to the acceleration in food prices, but ease to 1.5% in 2008.

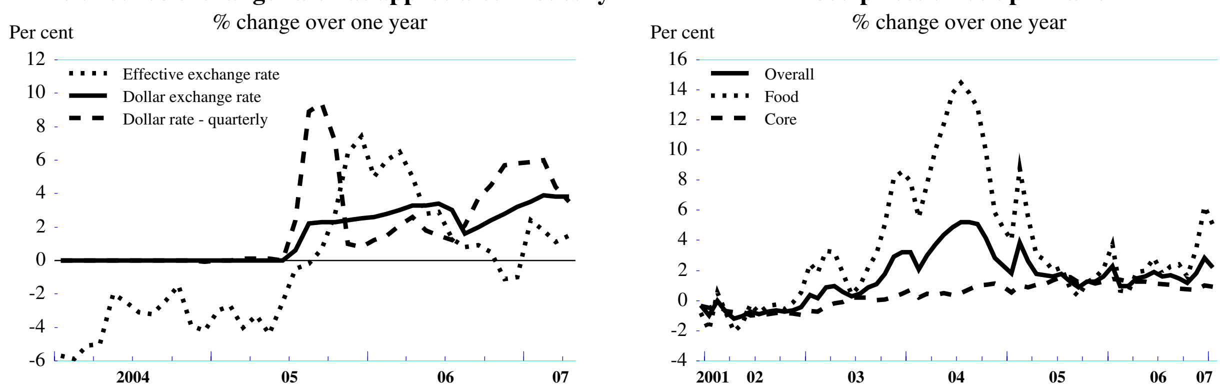
There are large social needs for public expenditure, as evidenced by the new Five Year Plan, and yet during most of 2006 the growth of public spending has been held well below that of revenue. The fiscal position could withstand faster growth of public spending, lower growth in tax receipts and a somewhat wider central government fiscal deficit. Any inflationary consequences of such a policy could be offset by an appreciation of the currency which would, eventually, help moderate the increase in the current account surplus, reduce the pace at which foreign exchange reserves are increasing and help limit the recourse to increases in the reserve ratios of banks.

Output growth has remained buoyant

The pace of the expansion slowed slightly in the second half of 2006 but the underlying factors driving demand were still in place. As a result, growth picked up to over 11% in the first quarter of 2007. In particular, the profitability of industrial enterprises has continued to rise: the growth of nominal profits (at 44% in the first two months of 2007) was well above the growth in the value of their net assets, bringing a further increase in the rate of return on equity. Expectations of further strong rises in profits have boosted share prices, with the average price-earnings ratio being above 40. Strong profitability has also ensured that companies have funds

China

The effective exchange rate has appreciated modestly / **Food prices drive up inflation**



Source: OECD, CEIC.

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China: Macroeconomic indicators

	2004	2005	2006	2007	2008
Real GDP growth	10.1	10.4	10.7	10.4	10.4
Inflation[1]	6.9	3.8	2.8	2.5	2.5
Consumer price index[2]	3.9	1.8	1.6	1.8	1.5
Fiscal balance (per cent of GDP)[3]	0.0	0.2	1.0	2.0	1.8
Current account balance (per cent of GDP)	3.6	7.2	9.5	10.2	10.6

Note: The figures given for GDP and inflation are percentage changes from the previous year.
1. Percentage change in GDP deflator from previous period.
2. Change in Laspeyres fixed base year index (base year 2005).
3. Consolidated budgetary and extrabudgetary accounts on a national accounts basis. Revised in September 2006.

Source: National sources and OECD projections.

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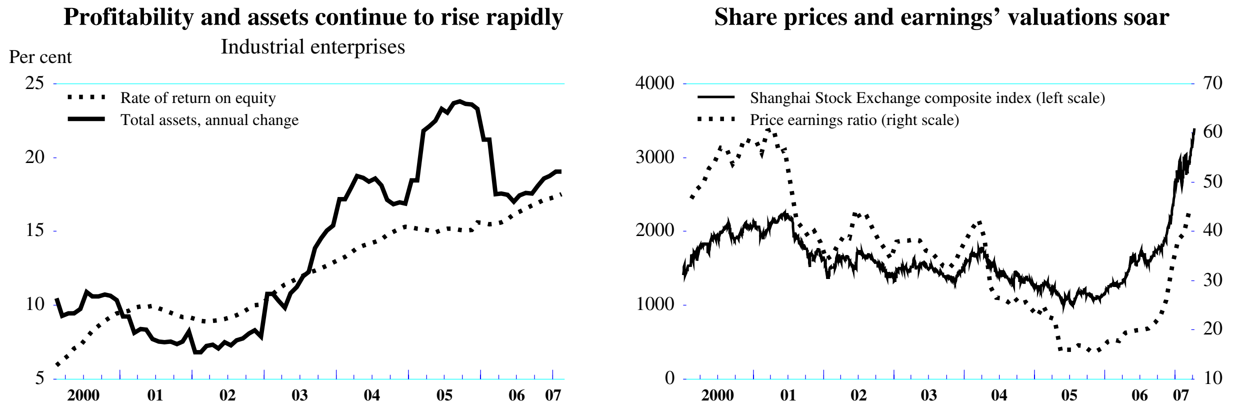
to finance a continued rapid increase in their assets, even if the pace of expansion was somewhat slower than in 2005, as fixed investment was held back by administrative controls.

Domestic demand accelerated but the current account surplus rose

Domestic demand has also been helped by the increase in rural incomes. For the second year running, real incomes in rural areas have risen faster than in urban areas and indeed their growth rate is now at a 10-year high. The increase appears to have been driven by increasing employment income rather than changes in tax and transfer policy as well as better harvests that boosted incomes in 2005. Overall, incomes in rural areas rose some four percentage points faster than in urban areas. Retail sales also accelerated in 2006. In the absence of official data for the expenditure components of GDP, domestic demand is estimated to have increased by about 7½ per cent in 2006, somewhat faster than in 2005, and to have resulted in faster growth of imports. However, the continued strength of exports, which rose by close to a quarter for the second year running, resulted in a further increase in the current account surplus to 9.5% of GDP in 2006.

China



Source: OECD, CEIC.

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China: External indicators

	2004	2005	2006	2007	2008
			$ billion		
Goods and services exports	655.8	836.9	1 061.9	1 305.3	1 566.7
Goods and services imports	606.5	712.1	853.0	1 035.7	1 246.6
Foreign balance	49.3	124.8	208.9	269.6	320.0
Net investment income and transfers	19.4	36.0	41.0	45.0	48.0
Current account balance	68.7	160.8	249.9	314.6	368.0
			Percentage changes		
Goods and services export volumes	24.1	23.8	23.7	21.1	18.8
Goods and services import volumes	21.3	13.6	16.6	18.1	18.5
Export performance[1]	10.5	15.2	15.4	13.9	10.3
Terms of trade	- 2.2	- 0.3	- 0.2	- 1.3	- 0.6

1. Ratio between export volume and export market of total goods and services.

Source: OECD Economic Outlook 81 database.

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Food prices have boosted inflation

By the end of 2006, inflation had increased to 2.8% as a result of a sharp jump in food prices. In particular, grain prices increased by 9%, though this was less than the increase in world prices as intervention stocks were released onto the market. As the jump only occurred at the end of the 2006, the average inflation rate for the year was considerably lower. Indeed, the estimated core inflation rate was only slightly over 1%.

Government finances may move into surplus

Public finances continued to be run conservatively in 2006; government receipts rose some six percentage points faster than expenditure, improving the fiscal balance of the government by almost one percentage point of GDP. Some re-orientation of spending towards social areas has taken place, with outlays on pensions, relief funds and social security rising faster than average. However, spending on education and health continues to grow less rapidly than overall spending and only slightly faster than nominal GDP. The growth of tax revenue has been driven by corporate tax receipts that were up nearly 40% after a similar increase the previous year. Such buoyancy has enabled the government to announce a lowering of the standard corporate tax rate coupled with the ending of lower tax rates for companies funded by foreign direct investment. In the budget for 2007, the government announced that spending would rise faster than revenue. However, in the first quarter of the year, tax receipts grew 10 percentage points faster than the budget estimates, suggesting that there would be a further significant increase in the general government surplus in 2007.

Sterilisation is starting to prove costly

The combined inflows from the current account and foreign direct investment are estimated to have risen to over $330 billion in 2006. Despite some liberalisation of controls over capital outflows and higher direct investment outflows, foreign exchange reserves rose by $237 billion. A further increase of $137 billion occurred in the first quarter of the year and this brought an acceleration in the growth of the money supply. The authorities allowed an almost 4% appreciation of the currency against the dollar in the year to April 2007, but the effective exchange rate of the currency rose by only 1½ per cent in the same period, after falling in 2006. The growth of the money supply has been contained to a rate only slightly faster than nominal GDP through sales of central banks bills and bonds. The Central Bank now appears to be moving towards using increases in bank reserve ratios as a sterilisation instrument. In part this may be designed to lower the cost of sterilising the increase in foreign exchange reserves, which could be significant in 2007, as the Central Bank pays a lower interest rate on bank reserves than on market-based instruments.

Growth should continue apace and the current account surplus rise further

Domestic demand is projected to accelerate progressively in 2007 and 2008, growing by over 9% at the end of the period. The impact of administrative constraints on investment is likely to wear off and as profitability remains extremely strong there may be some rebound in capital formation. In addition, rural incomes are likely to still benefit from higher grain prices, while in a tighter urban labour market, price increases are expected to be reflected in higher wages that may slow the growth of profits. Both of these developments would support consumption. However, the growth of domestic demand may remain well below the growth of potential output due to the tightness of fiscal policy. A slowing of export growth should make the economy less dependent on foreign demand in 2007 and 2008, but the contribution to growth will still be significant and the current account may still rise to slightly over 10½ per cent of GDP by 2008.

High share prices pose a risk to stability

The existing level of share prices appears to carry the risk of a marked correction should it appear that the current growth of profits cannot be maintained. Such a situation might arise in the context of slower export growth stemming from a slowdown in world trade. There are some reports that individuals are funding their growing purchases of shares through bank borrowing and, while the portion of the stock market wealth held by individuals is small, such loans could turn sour if there were a fall in prices, thereby adversely impacting bank balance sheets.

INDIA

Recent rapid economic growth is expected to continue and be close to 9% in fiscal year 2006, despite a poor performance from the agricultural sector. Investment has been particularly buoyant during this expansion, contributing to a substantial increase in the economy's potential growth rate. Monetary and fiscal policies have both become tighter, which will lead to slower growth in the non-agricultural sector. A return to a normal harvest, however, should limit the extent of the slowdown in the whole economy. Inflation, as measured by the GDP deflator, is expected to remain stable at 5%, in line with official objectives. The current account has moved back into a deficit of 1.3% of GDP in 2006 and seems likely to reach 2.0% of GDP in fiscal year 2008.

The central government and nearly all states have enacted fiscal responsibility laws that are likely to result in a combined fiscal deficit of 6% of GDP by 2008, which is in line with targets. Further fiscal consolidation is needed to ensure an adequate supply of domestic savings. A general government deficit target of 3% of GDP over the five-year period beginning in 2008 would lay a sound foundation for faster growth. More broadly, with a wide-ranging programme of structural reform, it would be possible to increase potential growth above its current pace of 8 to 8½ per cent.

The upswing continues despite poor harvests...

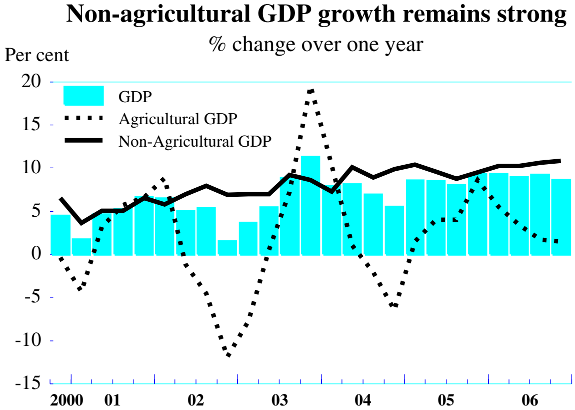
After registering extremely strong growth in the first three quarters of 2006, the pace of expansion showed some signs of slowing in the final quarter of the calendar year. Growth slackened to 8.6% in the year to the fourth quarter of 2006, mainly as the result of weak agricultural output. The non-agricultural sector, however, showed no signs of slowing, registering growth of almost 11% over the same period.

... driven by investment which has boosted potential growth...

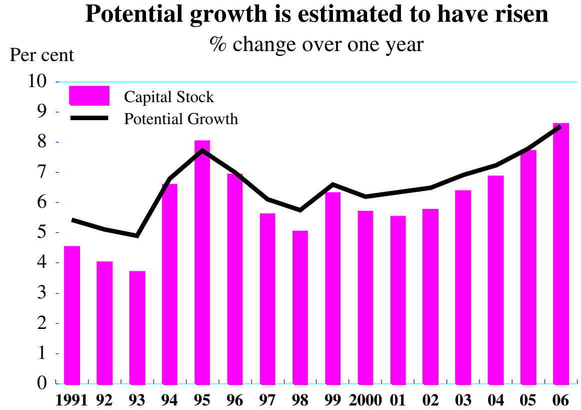
In 2005, capital formation rose more than three times as fast as consumption and investment has been the most dynamic source of domestic demand for three years running. Private business investment was particularly strong, jumping by 35%, and bringing its level to double that seen at the beginning of the decade. Demand data is not yet available for 2006, but the output of capital goods has remained strong and imports have also been buoyant, suggesting further strength in investment spending. Together with a smaller acceleration of the working population, the surge in the growth of

India

Non-agricultural GDP growth remains strong



Potential growth is estimated to have risen



Source: Centre for Monitoring the Indian Economy (CMIE).

StatLink http://dx.doi.org/10.1787/033741658626

India: Macroeconomic indicators

	2004	2005	2006	2007	2008
Real GDP growth	8.5	8.5	9.0	8.5	8.0
Inflation[1]	4.2	4.1	4.8	5.3	5.0
Consumer price index[1]	3.8	4.4	6.8	6.4	5.2
Short-term interest rate[3]	5.3	6.6	8.1	8.7	8.0
Long-term interest rate[4]	6.2	7.1	7.7	8.1	7.9
Fiscal balance (per cent of GDP)[5]	-7.7	-7.7	-6.7	-6.3	-6.0
Current account balance (per cent of GDP)	-0.1	-1.3	-1.3	-1.8	-2.0

Note: Data refer to fiscal years starting in April.
1. Percentage change in GDP deflator from previous period.
2. Consumer price index for industrial workers.
3. Mumbai three month offered rate.
4. 10 year government bond.
5. Gross fiscal balance for central and state governments, includes net lending.

Source: CMIE and OECD projections.

StatLink http://dx.doi.org/10.1787/035587653052

the capital stock has increased the estimated potential growth rate of the economy, which would now appear to be in the region of 8 to 8½ per cent. In 2006, the actual level of output appears to have been close to potential.

…. that is helping keep inflation in check…

Inflation indicators present a mixed picture. The consumer price index for industrial workers and the wholesale price index increased by 7.6% and 6.4% respectively in February 2007, markedly above the government's objective of 5%. These indices have been distorted by rapid increases in food and commodity prices. The non-agricultural GDP deflator, which is a wider measure of inflation, increased by a moderate 4½ per cent in the final quarter of 2006 with no trend evident over the past four years. The wholesale price for manufactured products (excluding metals) also shows little sign of acceleration.

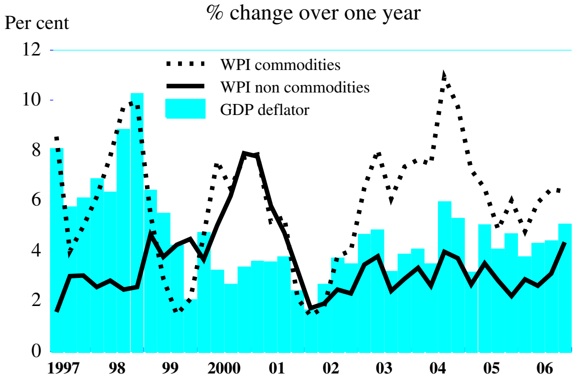
… but has widened the current account deficit

The current account deficit stabilised at 1.3% of GDP in calendar year 2006, which is a similar level to that experienced in the 1990s. Rapid increases in imports have been balanced by a strong rise in exports of

India

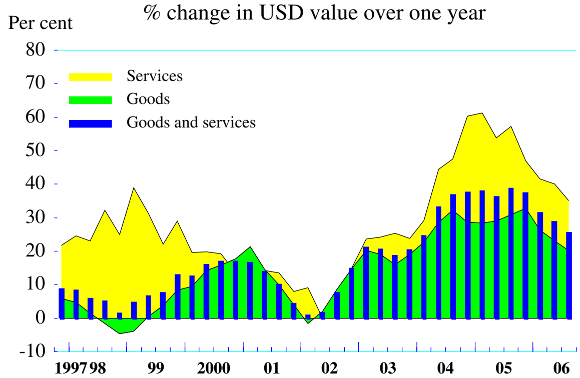
Broad measures of inflation are stable

% change over one year



Export growth moves to a higher plateau

% change in USD value over one year



Source: Centre for Monitoring the Indian Economy (CMIE).

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India: External indicators

	2004	2005	2006	2007	2008
			$ billion		
Goods and services exports	128.2	165.3	208.4	241.3	279.4
Goods and services imports	146.7	194.1	242.0	282.9	326.7
Foreign balance	-18.5	-28.8	-33.6	-41.6	-47.3
Net investment income	-2.7	-5.6	-5.3	-6.0	-6.5
Transfers	20.7	24.3	27.0	28.5	30.0
Current account balance	-0.5	-10.1	-11.9	-19.1	-23.8
			Percentage changes		
Goods and services export volumes	39.3	24.9	13.7	13.5	13.2
Goods and services import volumes	54.5	19.4	11.1	13.5	13.2
Terms of trade	8.9	-4.6	-2.2	-1.0	0.3

Source: National sources and OECD projections.

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goods and services, especially those of business services which rose by 36% in 2006. Exports of software and business services now represent one-quarter of total exports. Inflows of foreign direct investment also picked up significantly and were almost equivalent to the current account deficit.

Public spending has overshot but the budget deficit continues to fall

In the fiscal year 2006, central government expenditure increased in line with GDP growth but was significantly above budgeted targets. The overrun was almost entirely due to an underestimate of the cost of the new Employment Guarantee Programme that offers rural people 100 days work in public construction projects. Tax revenues overshot by more than spending, with the result that the central government's fiscal deficit fell slightly more than planned to 3.7% of GDP. The 2007 budget foresees a further reduction in the central government fiscal deficit to 3.2% of GDP. State governments have also reduced their deficits, and the target of a combined fiscal deficit of 6% in 2008, set in the fiscal responsibility laws, appears achievable.

As interest rates and the exchange rate have risen...

Monetary policy has moved steadily towards a less expansionary stance. Policy rates have been increased, with the repurchase rate reaching 7.75% at the end of March. Cash reserve ratios have also increased with further increases programmed in for April. Moreover, the rate of interest paid on reserves has been reduced. With strong demand for credit – non-food lending was up 29% in year to March – these moves have resulted in a steep increase in the 90-day interest rate to 10½% by May 2007. Higher interest rates have been associated with an appreciation of the currency, both in effective terms and against the dollar, though intervention by the Central Bank has limited the movement. Reserves have increased quite rapidly in the two months to March but only slightly faster than the growth of imports over the year to March. Against a background of tighter monetary conditions, share prices have been flat since November 2006 and have become more volatile.

... some moderation in growth seems likely

Tighter monetary conditions and continued fiscal consolidation are likely to result in a slight slowing of non-agricultural GDP in 2007 and 2008. The rate of investment growth seems likely to slacken given interest rate increases, even if the recent jump in 90-day rates moderates. Export growth may also slacken, especially in the goods sector, although export-oriented projects in special economic zones may add to sales and the export of IT-enabled services seems likely to remain strong. Against this, some increase in agricultural output is likely, assuming a normal harvest. Overall growth is expected to slow to 8.5% and 8% in 2007 and 2008 respectively, which is around the growth rate of potential. A slight increase in the current account deficit to 2% of GDP is projected. Inflation should ease back to 5% as food prices stabilise.

But there is a risk of inflationary expectations rising

Although, broad-based measures of inflation are stable, the longer the more publicised measures of inflation continue to be above the government's target, the more likely it is that inflation expectations will increase, making the eventual slowdown in the economy even greater.

RUSSIAN FEDERATION

Real GDP growth in 2007 is likely to remain close to the levels of 2005-06, before moderating in 2008 as the impulse from recent terms-of-trade improvements dissipates. Growth will still be primarily consumption-driven, but the contribution of fixed investment to growth should increase. Inflation is likely to fall further, owing mainly to shrinking external surpluses, further de-dollarisation and slower growth of utilities tariffs and other regulated prices.

The easing envisaged by the revised medium-term fiscal plan will limit the speed of disinflation. It will also make it harder for the authorities to hold down the rate of real effective exchange-rate appreciation. Nevertheless, this short-term relaxation of fiscal policy has accompanied steps to create a better rules-based fiscal framework. In the medium-to-long term, the key will be the effective implementation of plans to improve the management of oil windfalls and reduce the non-oil budget deficit.

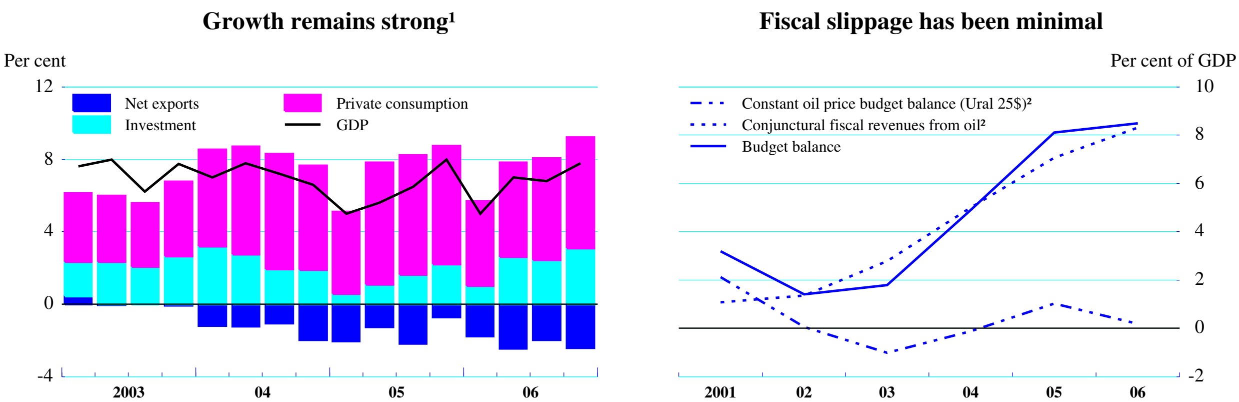
The economy continues to grow strongly

GDP growth reached 6.7% in 2006, slightly higher than in 2005. Fixed investment rebounded strongly, compensating for a moderate slowdown in the still-robust growth of household consumption and the increased negative contribution of net exports. On the production side, market services accounted for somewhat over half of the increase in real GDP. Resource-extraction sectors grew modestly, recovering from the sharp slowdown of 2005, but non-resource tradables continue to struggle with the pressures generated by rouble appreciation. Manufacturing growth slowed for the third year running, falling to 4.9%. Investment gains were concentrated in resource extraction, services, the public sector and agriculture, which benefited from an influx of federal support under the "Priority National Project" for the sector. Fixed investment in manufacturing grew relatively slowly. This may reflect forward-looking assessments of the profitability of domestic manufacturing in Russia.

Inflation has fallen further

Despite money-supply growth far in excess of central bank guidelines, headline inflation has continued its gradual decline and is

Russian Federation



1. Year-on-year percentage change.
2. The constant-oil-price budget balance and oil windfalls are estimated on the basis of the average dollar price of Urals crude in 1992-2006 ($ 25/bbl).
Source: Economic Expert Group and Russian Federal Service for State Statistics.

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Russian Federation: Macroeconomic indicators

	2005	2006	2007	2008
Real GDP growth	6.4	6.7	6.5	5.8
Inflation	10.9	9.0	7.5	6.5
Fiscal balance (per cent of GDP)[1]	8.1	8.5	4.0	2.0
Current account balance (per cent of GDP)	10.9	9.8	6.2	3.8

1. Consolidated budget.
Source: Data for 2005-06 are from national sources. Data for 2007-08 are OECD estimates and projections.

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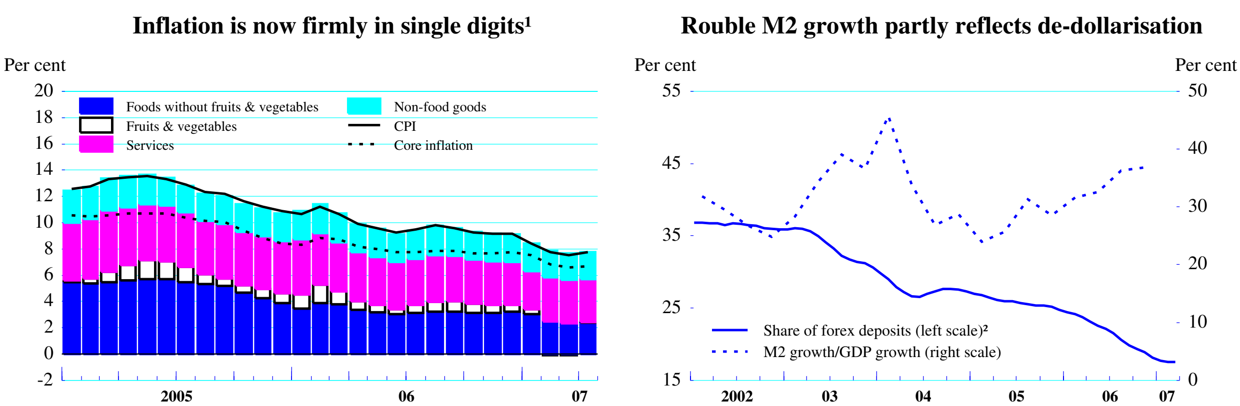
now firmly in single digits. This outcome owes much to continuing de-dollarisation, lower regulated price hikes and moderate food-price increases over the winter. The central bank's decision to allow a small appreciation of the nominal exchange rate in early 2006 also played a role, but the bank has since stuck to its policy of trying to hold the nominal effective exchange rate roughly constant. Declining inflation therefore brought with it a slowdown in the rate of real rouble appreciation and reduced the pressure on the bank to alter its stance. Disinflation was also facilitated by the fact that budgetary spending was significantly below the level set in the revised budget for 2006. Thus, the non-oil budget balance deteriorated by only about 1% of GDP.

Medium-term fiscal rules are being strengthened

The most important policy developments of recent months concern the framework for fiscal policy. Russia has this year begun the transition to budgeting within a medium-term (three-year) framework, in an effort to reduce uncertainty about future policy and raise the efficiency of budget execution. The government is also proceeding with the development of a promising new framework for governing the Stabilisation Fund. The Fund is to be split in two. A fiscal "reserve", probably totalling around 10% of GDP, is to be maintained in order to insure the budget against an oil-price drop, while the balance of surplus

Russian Federation



1. Year-on-year percentage change.
2. Share of foreign deposits in total deposits (6-m MA).
Source: Central Bank of Russia, Economic Expert Group and OECD calculations.

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Russian Federation: External indicators

	2004	2005	2006	2007	2008
			$ billion		
Goods and services exports	204	268	332	364	394
Goods and services imports	131	165	209	260	305
Foreign balance	72	104	124	104	88
Invisibles, net	-14	-20	-28	-35	-42
Current account balance	59	83	96	69	46
			Percentage changes		
Goods and services export volumes	11.8	6.4	7.0	5.8	6.3
Goods and services import volumes	22.0	17.0	20.3	18.5	15.2
Terms of trade	16.0	15.4	10.2	-1.5	-0.1

Source: National sources and OECD projections.

StatLink http://dx.doi.org/10.1787/035570230510

hydrocarbon revenues are to be invested in an income-generating "Fund for Future Generations". Russia will continue to finance a good deal of current expenditure from oil revenues, but the transfer of oil and gas revenues to the budget is to peak at 6.1% of GDP before falling to a long-run level below 4% by 2011. The current plan represents an important attempt to create an institutional basis for sustaining fiscal discipline and the prudent management of oil windfalls over the long run. However, the new proposals have coincided with a revision of the three-year budget plan to allow for substantially faster spending growth than previously envisaged, particularly this year.

Structural reform has been modest

The last half-year has seen little movement on major structural policy issues. The authorities are not expected to press ahead with major reforms before the parliamentary and presidential elections of December 2007 and March 2008; moreover, there are few indications to suggest that the post-election period will see a major reinvigoration of structural reform efforts. Perhaps the most significant recent development was the adoption of the long-awaited Part IV of the Civil Code, which aims to bring Russia's intellectual property legislation into line with international norms and thus to facilitate accession to the World Trade Organisation (WTO). Some recent tax changes will have a positive effect on the business climate, and March 1 marked the beginning of a ten-month income-tax amnesty. However, the amnesty will probably have only a limited effect, and the major problem for entrepreneurs is in any case tax administration. The rules governing tax inspections have recently been revised, but the new rules leave the tax authorities with much the same arbitrary power as before.

Growth is projected to moderate slightly in 2007 and slow further in 2008

Very high year-on-year industrial output growth in January-February was largely the product of a base effect: activity in many sectors was depressed in early 2006 as a result of exceptionally cold weather and power-supply problems. Assuming that oil prices do not move much from their current levels, the terms of trade are likely to stabilise this year, but the absence of any further impulse from commodity prices will be partly offset by an increase in public spending. The growth of household incomes and consumption is therefore likely to decelerate only slightly. The degree of fiscal easing in 2007-08 will, however, be much smaller than the reduction in the consolidated surplus, which will result mainly from lower oil windfalls. Investment growth is likely to remain strong, particularly in services and resource extraction. Real GDP growth is therefore expected to be close to last year's level, although it is likely to slow further in 2008, as the momentum generated by the terms-of-trade shifts of 2003-06 should be largely dissipated by then and the medium-term fiscal plan envisages a less expansionary stance next year. Smaller current-account surpluses and lower increases in regulated prices should make disinflation somewhat easier, although the former will be partly offset by rising net capital inflows.

Electoral politics constitute the major source of uncertainty

Apart from oil-price movements, the electoral cycle of 2007-08 is the major source of uncertainty. Whatever the outcome of the elections, the contest could lead to actions by various political groupings that would damage the investment environment and undermine confidence. On the upside, WTO accession could provide a boost to both domestic and foreign investor confidence, as would the speedy implementation of a credible medium-term fiscal framework along the lines described above.

ISBN 978-92-64-03449-5
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Chapter 3

MAKING THE MOST OF GLOBALISATION

Globalisation creates benefits and challenges for public policy

This chapter provides a synthesis of the work undertaken by the Economics Department on the economic effects of globalisation, while also drawing on other OECD and non-OECD research.[1] It begins with an overview of the main trends that have characterised the globalisation process. The second section then describes its potential effects on employment and wages. Globalisation also has had an impact on inflation and has been accompanied by distinctive trends in international capital flows, which are discussed in the third section. The chapter concludes by examining the benefits and challenges that globalisation creates for economic policy.

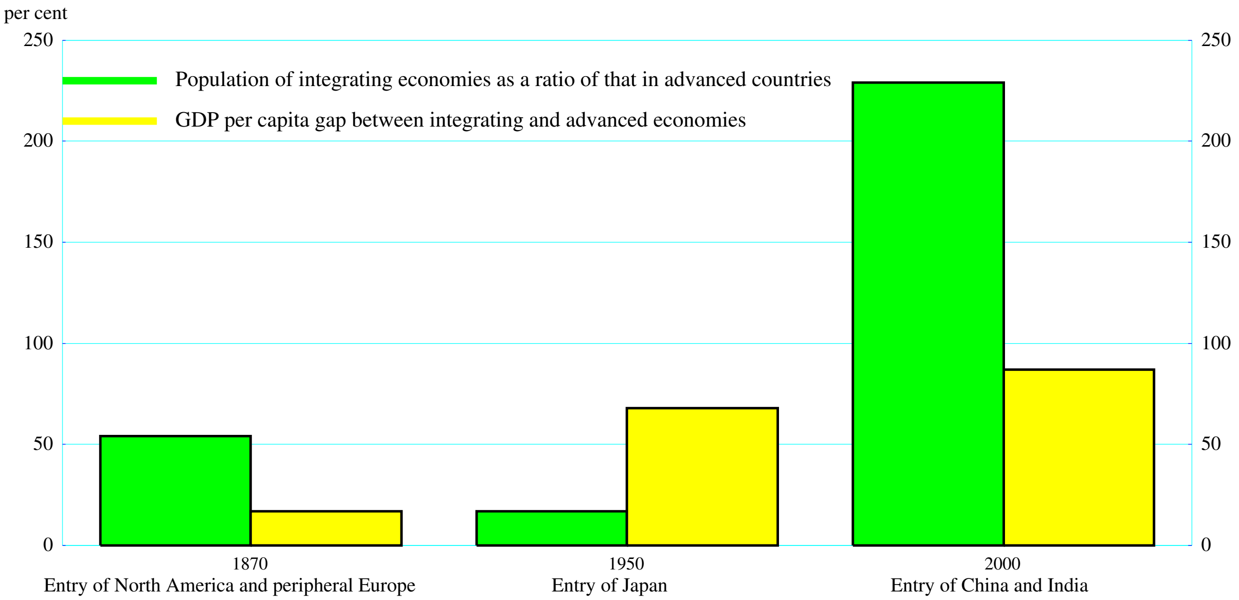
Drivers of globalisation

International integration has historical roots but has entered a new stage...

Globalisation may be defined as the process whereby domestic product, capital and labour markets become more integrated across borders. It is a process that has deep historical roots. Indeed, an early manifestation was the integration of markets for goods, labour and capital in Europe, the Middle East and Northern Africa during Roman times (Temin, 2006). However, a distinguishing feature of the current period is

Figure 3.1. **The current episode of globalisation is historically large**

Episodes of countries entering the internationalised economy compared



Source: Maddison (2007).

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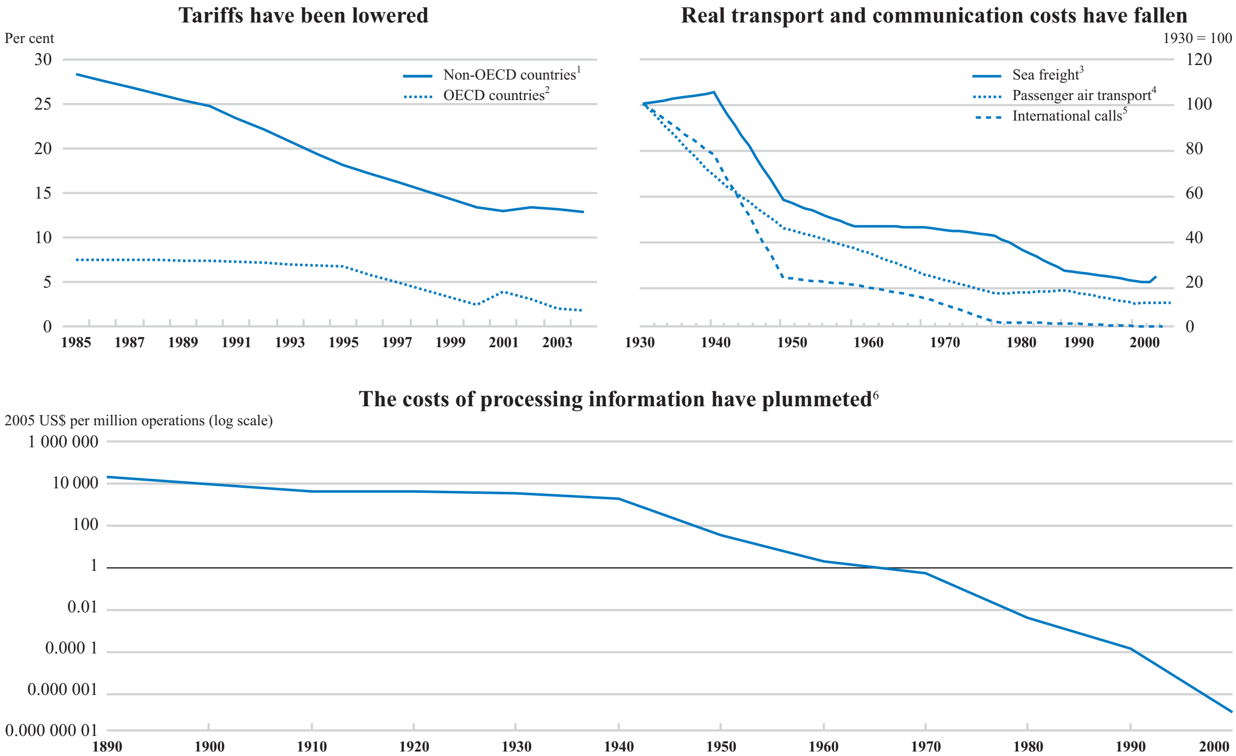
1. This chapter has been prepared in the context of the mandate given by OECD Ministers in May 2005 on Globalisation and Structural Adjustment.

the size of the ongoing "globalisation shock". In comparison with earlier phases of globalisation, the countries now coming in have relatively larger populations and lower incomes (Figure 3.1).

... spurred by advances in transport and communication

In addition to lower tariff barriers, key forces behind globalisation have been technological progress and the induced fall in transport and communication costs (Figure 3.2). Over the past 50 years, passenger air travel costs, measured by the ratio of airline revenues to miles flown, have been reduced fourfold in real terms. The decline in international communication costs has been even more dramatic. For instance, expressed in 2005 US dollars, the charge for a three-minute New York-London call has dwindled from $80 in 1950 to $0.23 in 2007. Moreover, advances in computing power and the emergence of the internet have drastically cut the costs of processing and transmitting information, thereby further facilitating international transactions and trade.

Figure 3.2. **Trade and transaction costs have diminished**



1. Median across non-OECD countries of national mean bound tariffs.
2. Median across OECD countries of national mean bound tariffs.
3. Average international freight charges per tonne.
4. Average airline revenue per passenger mile until 2000 spliced to US import air passenger fares afterwards.
5. Cost of a three-minute call from New York to London.
6. The chart shows the cost of computing an average operation (sum and multiplication). It is based on calculations made by hand in 1890, with electro- mechanical calculators from 1900 to 1940, and with computers thereafter.

Sources: World Bank, World Development Indicators; Fraser Institute; Busse, M. (2003); Hummels, D. (2006); US Bureau of Labour Statistics; Nordhaus (2001); OECD calculations.

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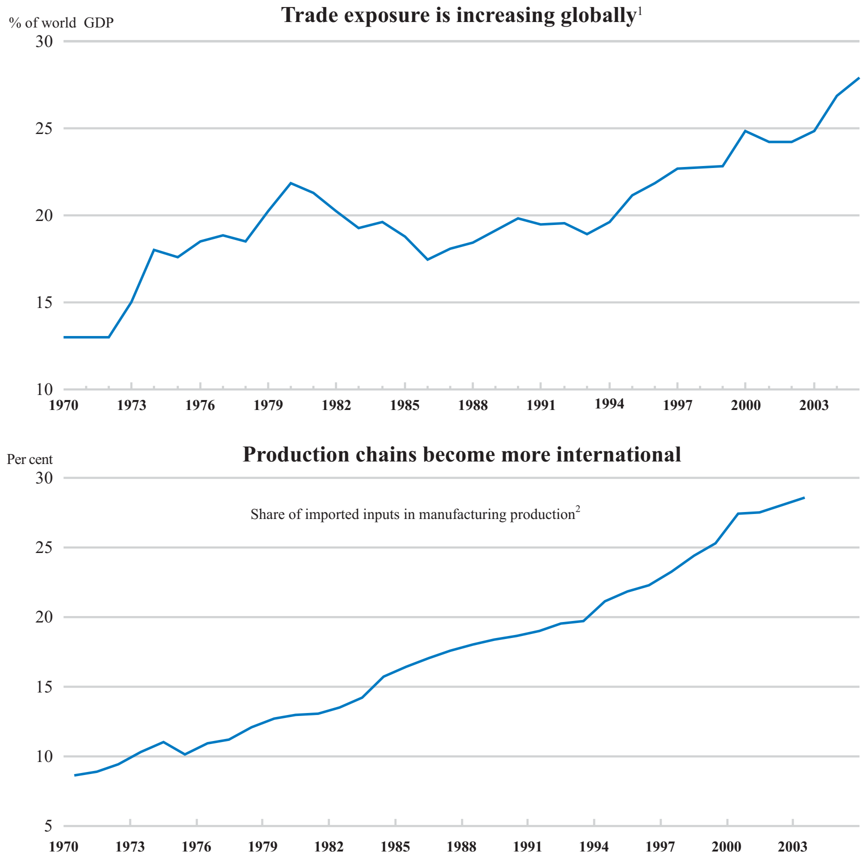
Production has been internationalised...

Falling costs of trade and communication have encouraged not just strong trade in final products but also the greater internationalisation of production (Figure 3.3). To a large extent, trade now occurs within industries and firms, as producers "trade in tasks" and develop global supply chains. Countries specialise in activities that cut across industries rather than focusing on producing certain categories of final goods.

Figure 3.3. **Trade links are strengthening**



1. Imports of good and services.
2. Based on a weighted average of major OECD economies.
Source: World Bank, World Development Indicators database; OECD Structural Analysis database

StatLink http://dx.doi.org/10.1787/033001548807

... and localised services can now be provided across borders

Another recent trend, facilitated in particular by the internet, is that services that had long been considered of a local nature can now be provided across borders. Recent research indicates that in the OECD area nearly one in five workers carry out service tasks that are now potentially internationally footloose (van Welsum and Vickery, 2005).[2] So far these possibilities have materialised only to a limited extent. Despite a rapid

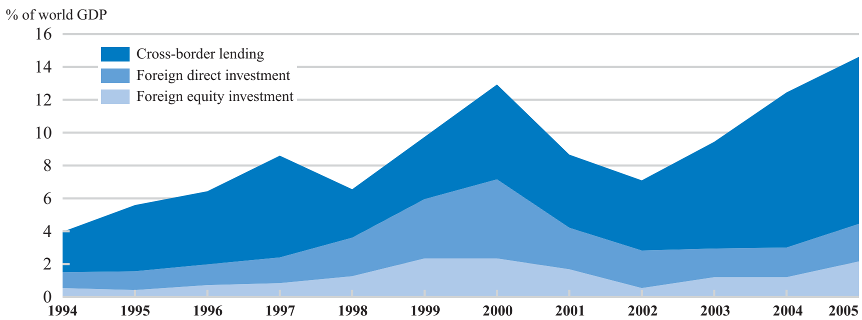
2. The reported figure is an estimate of the share of service workers whose products are potentially exposed to international sourcing in total employment. In addition, most workers in industry and, especially, manufacturing, which accounts for 16% of total employment in the OECD area, produce goods that could be imported from abroad.

rise, in the United States the international outsourcing of services still accounts for less than 1% of intermediate service inputs (Amiti and Wei, 2005a). Moreover, the United States and many other OECD countries are net *exporters* of intermediate service inputs (Amiti and Wei, 2005b).

Financial markets have become global

Increased trade in products implies that factor markets have become more integrated, a strengthening of direct international links being especially evident for capital (OECD, 2005a). Over the past decade cross-border capital flows have been growing strongly, tripling as a ratio to world GDP (Figure 3.4). The composition of cross-border investment flows has been changing markedly. Foreign direct investment and international equity flows, which were very strong in the late 1990s, have been comparatively muted in the aftermath of the stock market decline in 2000-01. In contrast, international transactions in more liquid assets have surged in recent years, accounting for most of the increase in global capital movements.

Figure 3.4. **Global capital flows are rising much faster than GDP**[1]



1. Inward foreign direct investment, portfolio investment (equity and debt securities), financial derivatives and other investments (including cross-border bank lending).
Source: IMF, *Balance of Payments Statistics*.

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Labour has become more internationally mobile

A strengthening of international labour market links has also been evident, resulting from increased immigration (OECD, 2006a). Foreign workers have become a more important component of the workforce in most OECD countries since the mid-1990s (Figure 3.5, upper panel). Migration of highly skilled workers has been part of this trend (Figure 3.5, lower panel).

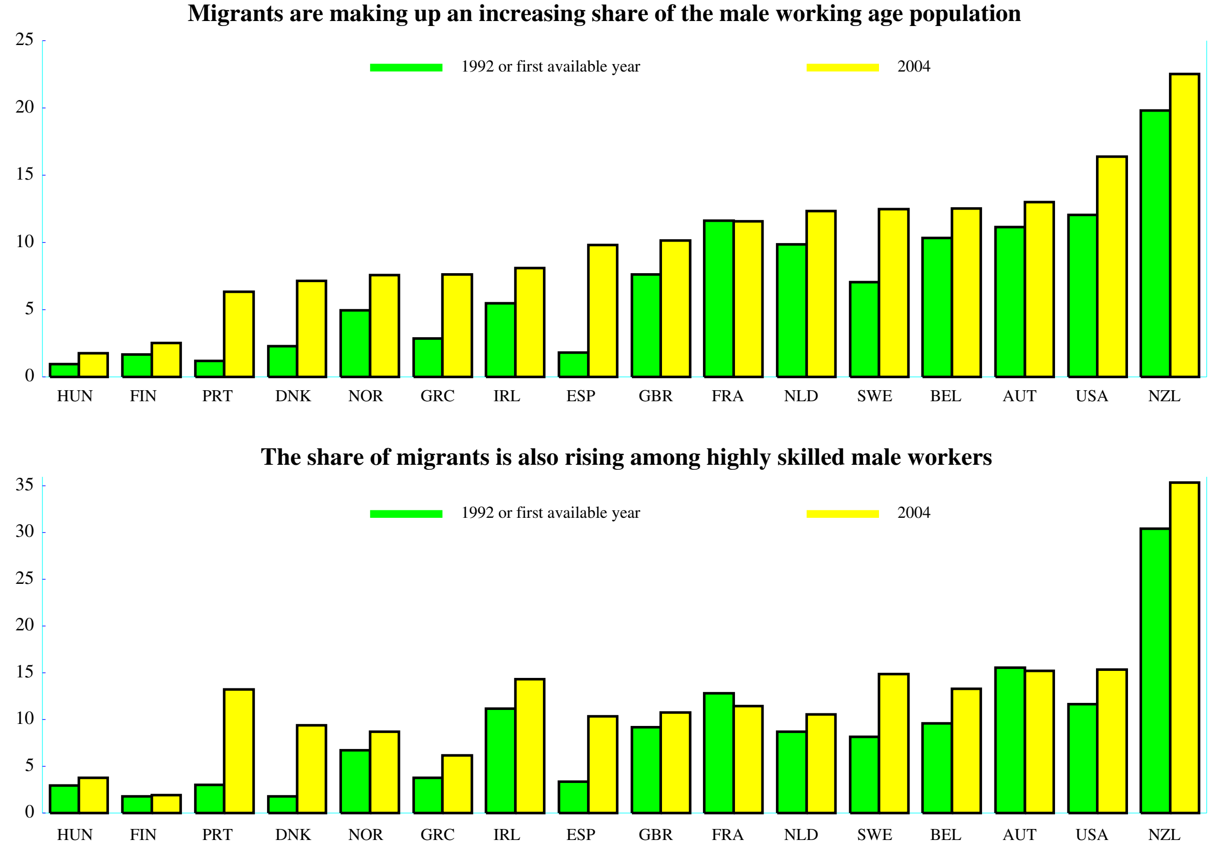
Effects on material living standards

Trade contributes to a more efficient use of resources

Material living standards have increased with trade openness (Figure 3.6). Openness to cross-border product and factor flows boosts growth and income because it contributes to an efficient allocation of resources through various channels.[3] First, trade enhances the division of labour as countries specialise in their areas of comparative advantage. Second, integrated markets enable producers and consumers to reap the full benefits of economies of scale. Third, stronger competitive pressure

3. The causality also runs in the other direction as growth spurs trade (Rodrik *et al.*, 2004).

Figure 3.5. **Migration has intensified**



Note : The figures relate to men only for reasons of data availability. Workers are counted as migrants when they are foreign-born.
Working age population is defined as people aged 16-64. The first year is 1992 except for Australia 1995, Finland 1996, France 1993, Hungary 1997, Netherlands 1996, Norway 1996, Sweden 1995, New Zealand 1997, United States 1994.
Source: OECD (2006b).

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prompts producers to reduce their mark-ups, tackle sources of inefficiency and invest in productivity-enhancing capital and innovation, leading to lower prices and higher output and employment. There is ample empirical evidence that the overall impact of trade on growth is positive and strong.[4] The OECD Growth Project found that a 10 percentage-point increase in trade exposure was associated with a 4% rise in income per capita (OECD, 2003).

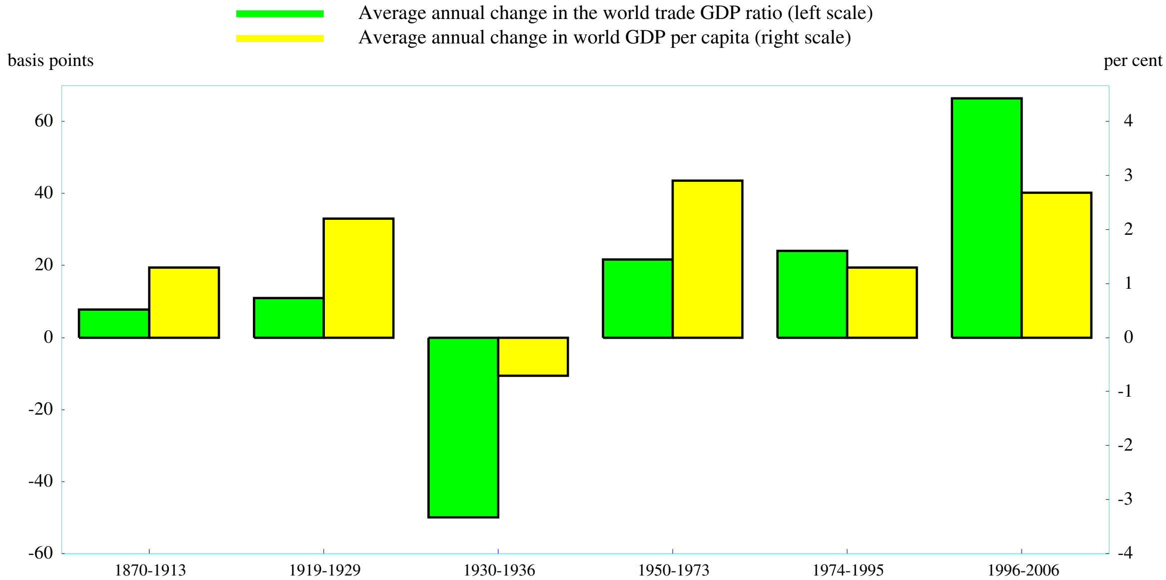
Capital flows can spur productivity growth

Openness to capital inflows and outflows can further boost productivity growth in at least three ways.

- First, countries with financial sectors which are fully open to international capital inflows and to foreign ownership can benefit from global best practice in financial intermediation and corporate governance (Mishkin, 2006; Kose *et al.*, 2006). Improved financial systems enable a more efficient allocation of capital to its most

4. Winters (2004) reviews a wide body of literature and concludes that trade openness raises incomes.

Figure 3.6. **Material living standards have increased with trade openness**



Sources : Maddison (2006,2007); IMF, Balance of Payment Statistics.

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productive uses, making for stronger productivity growth (Levine, 2005; de Serres *et al.*, 2006).

- Second, inward FDI is often associated with the transfer of technology to improve efficiency in foreign affiliates, with significant effects on economy-wide productivity growth (de Mello, 1999). More generally, increased trade, capital, labour and information flows quicken the pace of innovation diffusion, stimulating productivity growth, especially in countries that are behind the technological frontier (World Bank, 2007).
- Third, capital outflows enable firms to increase their productivity at home by relocating some tasks to other countries where they can be accomplished more efficiently (Grossman and Helpman, 1991; Amiti and Wei, 2005a; Molnar *et al.*, 2007).

Effects on labour markets

Trade openness does not undermine aggregate employment...

Contrary to the fear expressed in some quarters that rising imports might threaten the overall number of jobs in advanced economies, trade openness has not undermined aggregate employment (OECD, 2005c; EC, 2005). From the demand side, emerging-market countries offer an expanding export market for OECD producers.[5] From the supply side, a number of factors, summarised in the next paragraph, work to increase employment.

5. In effect, job creation in areas of comparative advantage offsets job losses in domestic production displaced by imports, leaving aggregate employment unchanged once the reallocation has occurred.

... and can even reduce structural unemployment

More competition in product markets, as a result of globalisation, implies greater demand for labour at a given real wage. And increased exposure of jobs to competition reduces wage pressures at a given employment level (Boulhol *et al.*, 2006). Both effects reduce unemployment. Experience shows that the effect can be large. Despite very little progress in easing rigid labour market policy settings, the structural unemployment rate has fallen by one percentage point in the European Union over the past ten years. This improvement appears to have been primarily driven by the intensification of competitive pressures in European product markets (OECD, 2007b), even though it was not exclusively due to globalisation. However, the full gains from greater competition will only emerge if labour is successfully reallocated from disappearing to new jobs.

Labour reallocation has not implied greater insecurity...

The reallocation of labour to more productive jobs is required in response to globalisation and other factors. However, the number of job losses due to trade-related adjustment is small compared with the overall rate of job destruction in the economy (Mankiw and Swagel, 2006). Moreover, despite the accelerating pace of globalisation, the rate of change in sectoral employment patterns has been fairly stable in the OECD area (OECD, 2005d). Average job tenure has even increased in most OECD countries since the early 1990s, belying the perception that jobs have generally become more insecure. The longer average tenure has been paralleled by a rising incidence of temporary employment in a majority of OECD countries, driven to a large extent by changes in labour market regulation that have unfortunately favoured the emergence of a two-tier labour market. Despite fears of offshoring, the data show no systematic link between outward investment and lower domestic employment (Molnar *et al.*, 2007). Nor does more employment in foreign affiliates necessarily mean slower employment growth at home.[6]

... and migrant labour can reduce structural unemployment

While also often mentioned as a cause for concern in the globalisation debate, the impact of inward labour flows on the employment of non-migrants has in practice proved very limited. Empirical evidence suggests that, while immigrant workers may displace a few native workers temporarily, the effect is small and short-lived (Jean *et al.*, 2007).[7] Nevertheless, when immigrants tend to find employment, it does weaken the bargaining position of native workers. In addition, migrants may target regions and sectors where labour demand is strong, thereby alleviating the pressure. As a result, immigration may "grease the wheels of the labour market" and reduce the structural rate of

6. Molnar *et al.* (2007) found that the effect of employment in foreign affiliates on domestic employment growth is not significant in Germany, slightly negative in Japan and clearly positive in the United States.
7. By expanding labour supply, immigration puts downward pressure on real wages in the transition period before the capital stock adjusts. If barriers hamper the temporary downward adjustment of real wages, immigration can result in higher unemployment instead.

unemployment (Borjas, 2001; Blanchflower *et al.*, 2007). However, the opposite may happen where high minimum labour costs and generous social transfers conspire with low productivity of immigrants to generate unemployment traps.

International competition may be affecting the wage distribution…

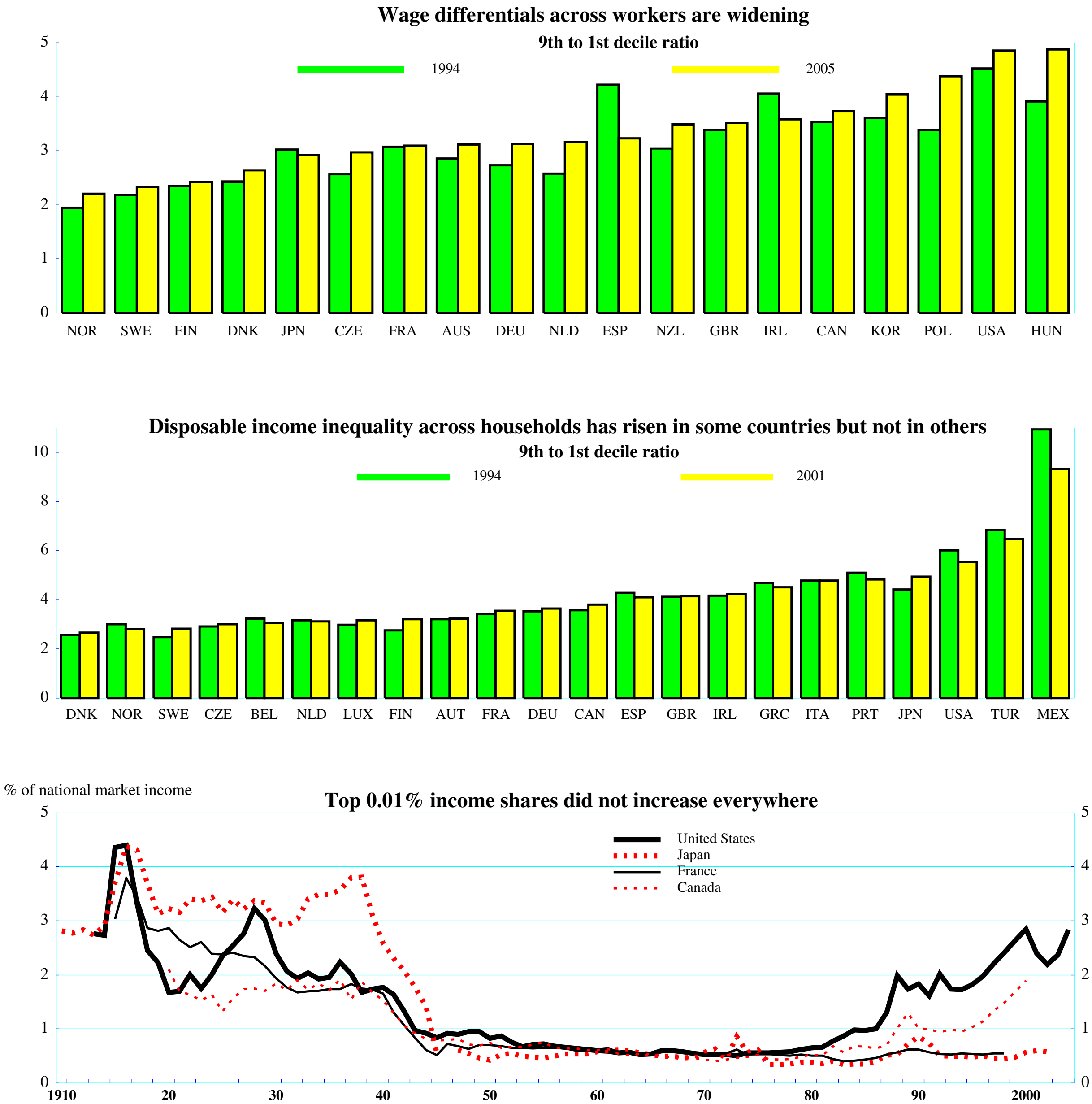
Political concerns with equity focus on the distribution of disposable incomes. One of the determinants of income inequality that may be affected by globalisation is wage distribution. Globalisation can have an effect on wage differentials, which have widened in a large majority of OECD countries (Figure 3.7, top panel). On the one hand, conventional trade theory indicates that increased integration should boost the wages of the highly skilled relative to the less skilled in advanced countries and compress wage dispersion in developing countries. In addition, by expanding effective market size, globalisation increases the competition and the reward for scarce talent (Cuñat and Guadalupe, 2006). As such, increased international economic integration can be among the drivers of the strong rise in the income share going to the very top earners in some countries.[8] On the other hand, some aspects of globalisation may tend to uphold the wages of low-skilled workers relative to those with intermediate skills (Baldwin, 2006). Many low-skilled workers are providing services that cannot be imported. At the same time, tasks that can now be sourced internationally involve many jobs with intermediate skill levels (Levy and Murnane, 2006; van Welsum and Reif, 2006). Globalisation may therefore have some role in explaining why the rise in wage dispersion has been occurring mainly at the top, while inequality remained broadly stable in the lower half of the wage distribution in most OECD countries over the past decade (OECD, 2006d).[9]

… with technical progress accentuating wage dispersion…

However, globalisation is not the only factor affecting the wage distribution. Technical progress, changes in unionisation and trends in the skill profiles of the labour force are often mentioned as important influences. The balance of empirical evidence indicates that technical change is a significantly more powerful driver of increased wage dispersion than increased trade (Berman *et al.*, 2003; Feenstra, 2007). Moreover, international experience suggests that the sharp increase in the before-tax market income share of top earners in some countries cannot be seen only as a consequence of globalisation. For example, the increase observed in Canada and the United States has not been mirrored

8. The increase in size of the largest corporations, which probably owes much to globalisation, can explain much of the rise in the relative earnings of managing directors according to Gabaix and Landier (2007).
9. Developments in minimum wages and wage floors created by social transfers also influenced the lower part of the wage distribution. The composition of the labour supply may have been another force contributing to supporting the wages of low-skilled workers, whose share in the workforce has declined in many countries over the past ten years, relative to those with intermediate skills, whose share increased (Delozier and Montout, 2007).

Figure 3.7. **Wage dispersion is rising but income inequality shows no general trend**



Top panel : For full-year, full-time workers.
1994-1999 for Netherlands, 1994-2000 for Hungary and Ireland, 1994-2002 for France, Germany, Korea and Poland, 1995-2002 for Spain, 1996-2003 for Czech Republic and Denmark, 1997-2002 for Norway, 1997-2003 for Canada.
Middle panel :
1994-2000 for Japan, 1994-2002 for Mexico and Turkey, 1995-2000 for Canada and Norway, 1995-2001 for Belgium, Finland, Italy, Portugal and Sweden, 1996-2002 for Czech Republic.
Bottom panel : For tax units: households in France and the United States; individuals in Canada and Japan.
Sources: OECD Employment Outlook (2006); Burniaux et al. (2006); Saez and Piketty (2007); Moriguchi and Saez (2006); Piketty (2001); Saez (2005).

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in France or Japan (Figure 3.7, bottom panel) even though the trade share is higher in both France and Japan and FDI penetration is stronger in France.[10]

10. See for instance Saez (2006) for a recent survey of the evidence on top income shares.

... but disposable income inequalities have not necessarily increased

Despite wider wage distribution and, in some countries, rising shares of market income at the top, disposable income distribution has shown no general trend since the mid-1990s (Figure 3.7, middle panel).[11] Indeed, OECD countries are nearly equally split between those where disposable income inequality has increased and those where it has diminished (Förster and Mira d'Ercole, 2005). Taxes and transfers, which have an equalising effect in OECD countries (Burniaux *et al.*, 1998), are likely to have played a role in helping to keep disposable income inequality in check so far. Moreover, at the world level, accelerating economic growth has reduced global income inequality and lifted hundreds of millions of people out of poverty (Sala-í-Martin, 2006).[12]

Effects on inflation and capital flows

Globalisation has influenced OECD-area inflation...

Globalisation affects inflation in OECD countries through a number of channels, both favourable and unfavourable, including the following.

- Increased sourcing from low-cost producers holds back import prices and therefore inflation.
- Competition from low-cost foreign suppliers puts pressure on local firms to reduce the mark-ups of prices on costs, thereby keeping a lid on inflation. Consistent with this effect, imports have been found to exert a greater influence on inflation than their share in domestic demand (Pain *et al.*, 2007).
- Working in the opposite direction, strong GDP growth in non-OECD countries has been an important factor underlying the inflationary impulses from energy and other commodity prices.

... the net effect being favourable

OECD research indicates that the net effect has been slightly favourable. Globalisation has reduced inflationary pressures in net terms by between 0 to ¼ percentage point per annum since 2000 (Pain *et al.*, 2007).[13] The estimates may be conservative because they do not take account of the damping effects globalisation is likely to have on domestic

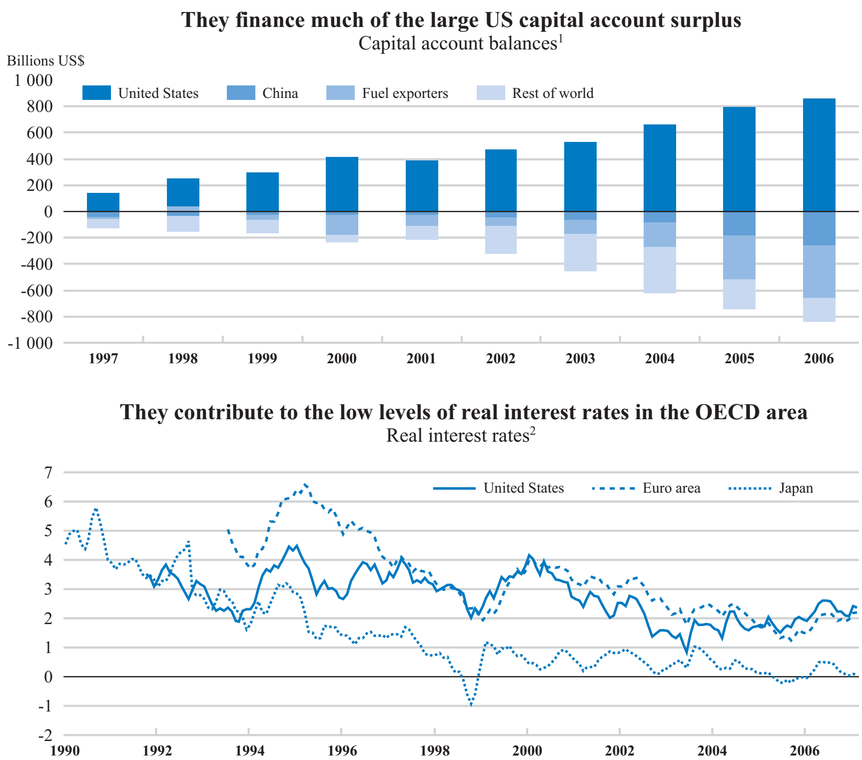
11. The available data stop in 2001. The Directorate for Employment, Labour and Social Affairs is collecting more recent data from member countries. Corresponding figures are still preliminary and cover only half the OECD membership, but they suggest that the conclusions drawn in the main text on the basis of the latest official dataset still hold.
12. A large study by the World Bank (2005) found that income dispersion among households across the world has been on a firm downward trend since the early 1980s on all three reported measures of relative inequality (Gini index, Theil index, mean logarithmic deviation). Global growth also helped cut the number of individuals living in absolute poverty by about 400 hundred million between 1981 and 2001, while the world population increased by more than 1½ billion people. Population-weighted measures of income inequality across countries produces a clear downward trend, although this is, misleadingly, not evident from unweighted measures (Sala-í-Martin, 2006).
13. This calculation is an *ex ante* one and assumes monetary stance is unaffected; in practice reduced inflationary pressures allowed the monetary authorities to run the economy at a higher level of output, meaning that the effect on inflation was less *ex post*.

costs. As noted above and discussed further below, globalisation may be helping to restrain real labour and capital costs in OECD countries.

Developing economies have been exporting capital…

The way in which globalisation has evolved has probably played a role in the build-up of capital account positions. *A priori*, fast-growing less-developed countries would be expected to offer high-return investment opportunities and exhibit a propensity to borrow from richer countries. Such a situation would imply a general pattern of capital account surpluses in emerging market countries and deficits in advanced countries. The opposite pattern prevails: most developing and emerging countries are running (sometimes fairly large) capital account deficits while some advanced countries show large surpluses (Figure 3.8). This pattern of capital flows, emanating from saving-investment behaviour, has been intrinsically associated with low long-term real interest rates in OECD countries (Bernanke, 2005; Ahrend *et al.*, 2006).

Figure 3.8. **Fuel exporters and China are saving abroad**



1. Figures are based on current account data. Due to statistical discrepancies, the sum of surpluses and deficits is not equal to zero.
2. Nominal rates less inflation expectations. Expected average rate of CPI inflation over the next 10 years for the United States, based on the Survey of Professional Forecasters (SPF) by the Federal Reserve Bank of Philadelphia. Expected HICP inflation rate 5 years ahead for the euro area based on the SPF by the ECB. Expected average rate of CPI inflation 6-10 years ahead for Japan based on Consensus Forecasts.

Source: IMF, *World Economic Outlook*, April 2007; OECD, *Main Economic Indicators*; US Bureau of Economic Analysis; Federal Reserve Bank of Philadelphia; European Central Bank; Consensus Forecasts.

StatLink http://dx.doi.org/10.1787/033086075876

... reflecting specific features of the globalisation process

The direction of capital flows has been shaped by some of the distinctive characteristics of the current phase of globalisation.

- Following the crises of the late 1990s, a number of emerging market countries have been building up large amounts of foreign reserves, as a precaution against future vulnerability.
- In China and many other developing countries, structural factors have led to a propensity to invest a large part of their savings abroad. Weak property rights and a lack of efficient financial intermediation have limited private investment possibilities (Rajan, 2006; Bini Smaghi, 2007) and may have been responsible for a marked increase in corporate saving. And the near absence of social safety nets, together with underdeveloped banking, insurance and fund management markets (partly due to restrictions on foreign providers), contributes to high desired household saving rates.
- Several developing Asian countries (including China) have had to assimilate large numbers of migrants from rural areas in the urban workforce (Eichengreen, 2004; IMF, 2005). These population shifts in part explain why low inflation has remained consistent with pegged exchange rates and relatively easy monetary conditions, leading to strong export growth.
- The sharp increase in the oil price (which has been partly driven by the emergence of a number of non-OECD economies) has brought in substantial revenues for fuel exporters. It would appear that these windfall revenues are not spent as fast as in the past and that a large share of them is saved abroad. This trend may continue to the extent that fuel exporters rely more on reserve funds (such as in Mexico and Norway) to manage the proceeds from non-renewable resources.
- In the United States, sound framework conditions for investment and faster trend productivity growth have provided an attractive environment for capital inflows. A continued albeit recently declining public deficit has also contributed to the large capital account surplus by exacerbating the need for the US economy to rely on foreign financing.

Capital account adjustment will not necessarily be disorderly

Going forward, the emerging constellation of current and capital balances will continue to be influenced by globalisation. As regards the sustainability of a continued large US current account deficit, the effect of globalisation involves two counteracting forces. On the one hand, rapid growth and financial integration increases the global pool of funds that can be invested, including in US liabilities. On the other hand, the US economy is set to decline as a share of the world economy tending to reduce the share of portfolios that investors would wish to hold in US liabilities. Given that US financial markets currently enjoy an advantage in terms of depth and efficiency, the first of these forces may have a stronger influence in the near to medium term. In any case, OECD model simulations suggest that under a number of assumptions a continued large US current account deficit could be consistent with the United States retaining broadly the same share of world foreign liability holdings in 2025 as in 2005 despite continued large capital inflows (Hervé *et al.*, 2007). However, faced with persistent low returns on their foreign assets,[14] and because the US weight in the world economy is gradually diminishing, China and other developing countries running current account surpluses may at some point choose to reduce the share of US liabilities in their portfolios. Such a rebalancing would require a lower US capital account surplus, which may be achieved in an orderly or disorderly manner.

The transmission of shocks is intensified by international links...

Increased integration implies that shocks in one area have greater effects on the rest of the world. OECD model-based simulations provide estimates of the extent to which the transmission of shocks will intensify if current globalisation trends persist (Hervé *et al.*, 2007). Because of greater trade and financial integration, a given increase in domestic demand in the non-OECD region will have twice as large an effect on OECD output in 2015 as in 2005. Simulations of financial shocks also show that developments in one area will have a greater effect on the rest of the world than currently is the case. For example, the effect on OECD economies of higher risk premia in the rest of the world is expected to be 50% larger in 2015 than in 2005.

... but international diversification reduces financial risk

At the same time as it magnifies the transmission of output shocks across countries, globalisation reduces exposure to financial risk by facilitating international diversification. The fact that returns vary more across countries than within them implies that, by diversifying their portfolios internationally, investors can achieve higher returns for the same level of risk. Emerging market countries, especially, offer diversification possibilities which have not been fully exploited in the past.

Implications for macroeconomic policies

Globalisation creates challenges for monetary policy

Globalisation affects the conduct of macroeconomic policies. Borrowing capacity is enhanced to the extent that government bond markets become more global, while fiscal discipline is increased because of heightened financial market scrutiny. Globalisation may thus offer opportunities to borrow at lower cost so long as discipline is maintained. However, perhaps the greatest impact is on the conduct of monetary policy. First, increased international links imply that monetary policy will have to react more to external influences (Hervé *et al.*, 2007). Second, insofar as globalisation puts persistent downward pressure on inflation,

14. The simulations imply a continuation of current trends in that China and other developing countries running current account surpluses would get very low returns on their foreign assets. Taking the example of China, net foreign assets as a ratio to GDP would as a result fall from a simulated 47% of GDP in 2015 to 39% in 2025.

monetary policy objectives can be achieved with lower policy rates than would otherwise be necessary (Bean, 2006). However, it may in practice be difficult to distinguish temporary from permanent price effects and to separate favourable external effects on inflation from domestic influences stemming from deficiencies in demand. These difficulties pose a challenge for monetary authorities. If below-target inflation were to be erroneously interpreted as resulting from a large amount of economic slack, the central bank might be led to adopt an unduly easy stance with the risk of fuelling asset price inflation. Conversely, if in times of slack low inflation is incorrectly ascribed to a benign global supply shock, monetary policy may end up being too tight, biasing the economy towards deflation.

Inflation is less responsive to domestic activity...

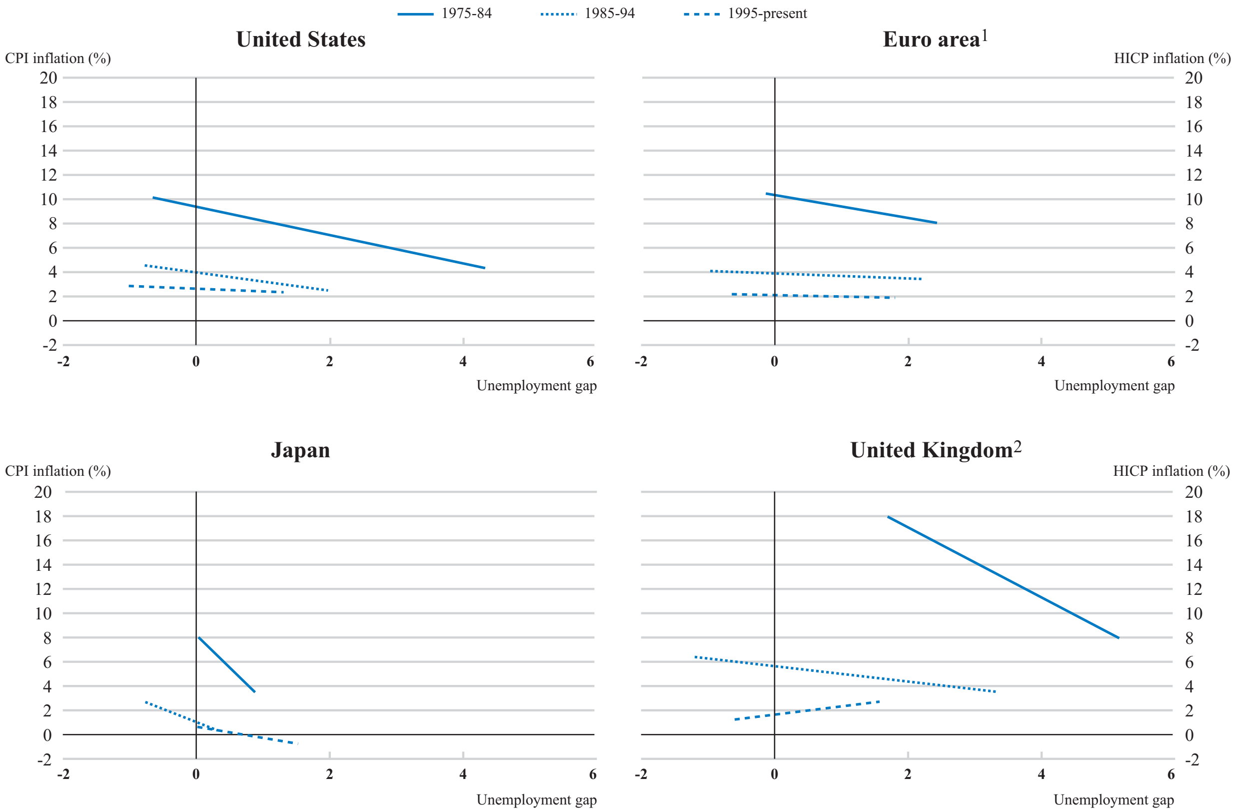
The short-run trade-off between inflation and activity (the Phillips curve) is subject to opposite effects from globalisation,[15] and the sign of the net effect is an empirical question. The data indicate that inflation has become less responsive to domestic demand pressures (Pain *et al.*, 2006 and Figure 3.9), but while globalisation may have been one of the drivers, the importance of its role is difficult to ascertain. In most countries the Phillips curve flattened before globalisation accelerated. This timing suggests that improvements in monetary policy frameworks, leading to better anchored inflation expectations, may have been the most critical factor behind the changing trade-off between inflation and activity. Nevertheless, globalisation does seem to have played a role, and to the extent that it lowers the sensitivity of prices to domestic output conditions and makes inflation more stable, it should help central banks to meet their inflation targets at higher levels of resource utilisation. At the same time, the flatter short-run Phillips curve makes it more difficult to determine where the economy is related relative to its potential. At the point when this is revealed by either rising or falling inflation, it could be costly or difficult to bring inflation back to target.

... but identifying inflation trends has become more complicated

Globalisation may also complicate the identification of underlying trends in the price level because it implies large shifts in relative prices. Headline inflation measures remain affected by the noise that their volatile components generate. However, core inflation measures that were built to remedy this problem by excluding a number of volatile items such as food and energy may have become less useful. They suffer from

15. The higher frequency of price changes in competitive sectors suggests that, by subjecting large parts of the economy to more intense competition, globalisation makes prices more responsive to activity (Altissimo *et al.*, 2006). This effect should result in a steeper Phillips curve. On the other hand, increased specialisation weakens the effect of domestic demand pressures on inflation and makes it more responsive to the balance between supply and demand in the rest of the world (Borio and Filardo, 2006). Stronger competition, in part due to globalisation, may make it more difficult for producers to increase their prices when domestic demand strengthens (Batini *et al.*, 2005). To the extent that globalisation reduces workers' bargaining power (Dumont *et al.*, 2005), low unemployment can become compatible with a smaller increase in wage claims. These three effects should result in a flatter Phillips curve (Bean, 2006).

Figure 3.9. **The short-term trade-off between inflation and unemployment has flattened**



Note: The unemployment gap is the difference between the unemployment rate and the NAIRU (as estimated by the OECD). The chart shows simple regression lines on quarterly data.

1. For the euro area, CPI is shown prior to 1991. Western Germany is used in place of total Germany to calculate the aggregate euro area prior to 1991.
2. The slope of the trend line in the United Kingdom in the 1995 to present period should not be interpreted as indicating that more economic slack is associated with higher inflation. The granting of operational independance to the Bank of England in May 1997 has noticeably modified the relationship between UK inflation and unemployment. This change implies that the regression line on data covering the 1995-to-present period is biased.

Source: OECD Economic Outlook database.

StatLink http://dx.doi.org/10.1787/033141530317

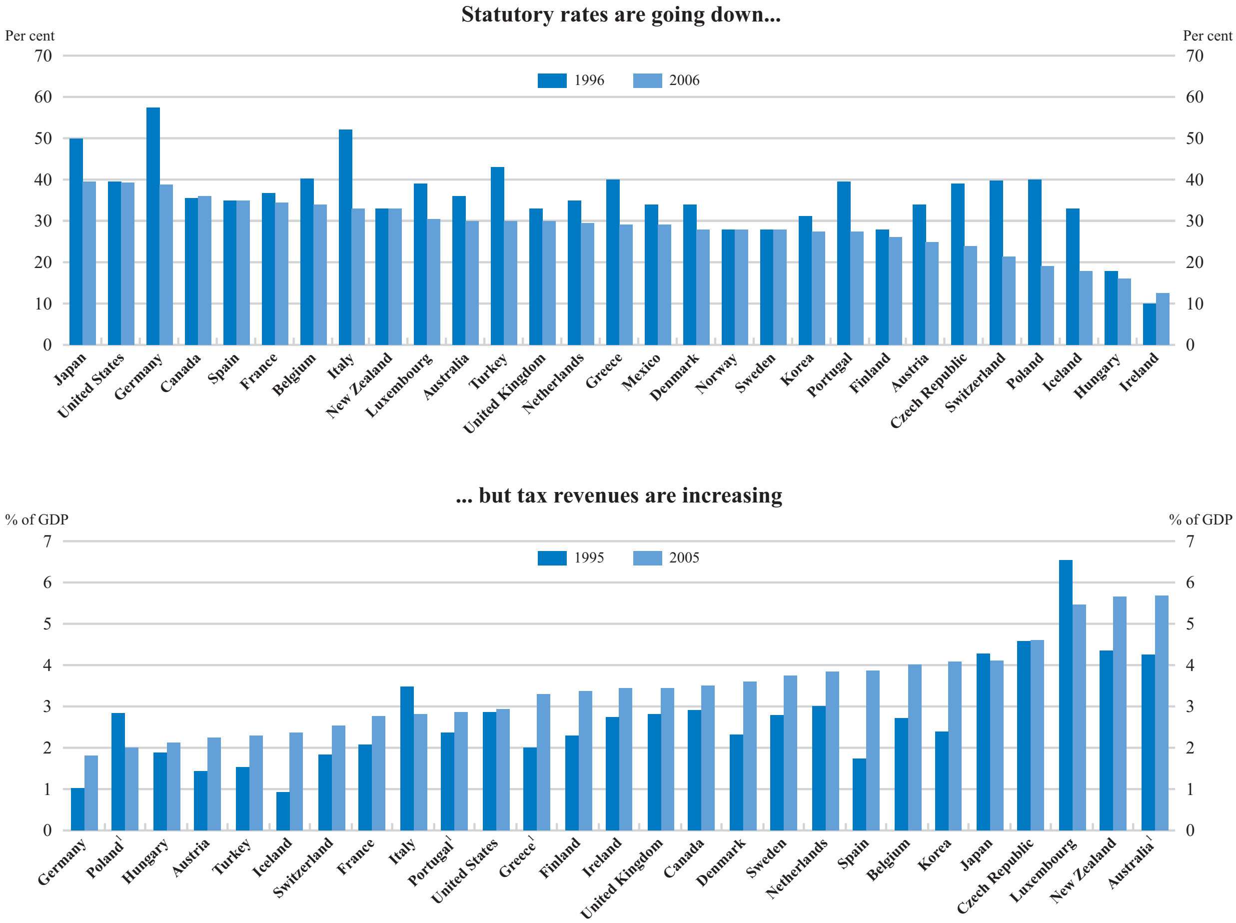
the shortcoming that they reflect the systematic downward impact of globalisation on manufactured goods prices but not the possibly systematic, though volatile, upward impact on commodity prices.

Globalisation and progress in structural reform

Globalisation fosters tax competition…

Globalisation, especially the increased mobility of capital and highly-skilled labour, fosters greater tax competition. While corporation tax is only one among many factors that shape firms' location decisions, it has a significant impact (Nicoletti *et al.*, 2007 and OECD, 2007c). Most OECD countries have cut their corporate tax rates over the past decade, some by a considerable amount (Figure 3.10). Similarly, empirical evidence indicates that lower income tax rates can be attractive to highly skilled migrants (Liebig and Sousa-Poza, 2005; Eichler *et al.*, 2006). Many governments have also reduced the top marginal rate of income tax, which is an important determinant of the effective tax rate for highly skilled workers. On average across OECD countries, the top marginal income tax rate fell from 45% in 1995 to 37% in 2005. In both cases,

Figure 3.10. **Corporation tax has become more broad-based**



1. Data refer to 2004 instead of 2005.
Source: Yoo (2003); OECD Tax Database; OECD, *Revenue Statistics*.

StatLink http://dx.doi.org/10.1787/032842825785

however, considerations other than the wish to attract or retain mobile factors probably also played an important role in shaping tax trends. Indeed, in the case of corporate tax, rate cuts were compensated by base broadening, suggesting that concerns about domestic distortions created by high rates may have been more important drivers of tax changes than globalisation.[16]

... which helps create more efficient tax systems

Globalisation also encourages the pursuit of efficiency gains in tax systems. To the extent that globalisation encourages a move to less elastic tax bases, it should improve the efficiency of tax systems. In practice, this has included shifting the tax burden away from capital and labour and towards property and consumption.[17] On the other hand, tax competition

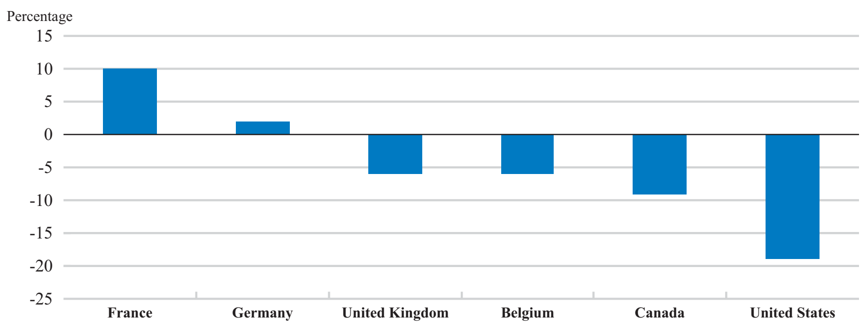
16. The rise in corporate tax revenues in many countries reflected not just base broadening but also increases in the share of profits in value added.
17. There are however limits to the extent to which consumption taxes can be increased since globalisation makes it easier to buy from abroad.

could potentially reduce the ability of the tax system to contribute to the achievement of income redistribution objectives.

Flexible labour markets are needed to benefit from globalisation…

Globalisation calls for greater emphasis on labour market flexibility, at the same time as the feeling of job insecurity often associated with globalisation fuels the demand for income protection. When they become re-employed, trade-displaced workers typically receive lower pay, sometimes significantly so, as the returns to job-specific skills and previously available economic rents are eroded (Figure 3.11). An implication is that in countries with high unemployment benefits, trade-displaced workers can receive very high replacement incomes compared with their earning prospects if re-employed. Long spells of unemployment and slower structural adjustment may result when income transfers are primarily given passively (OECD, 2005d). But a number of countries which are generally regarded as having successfully dealt with the challenges of globalisation were able to maintain relatively high levels of unemployment benefits. They have balanced relatively high replacement incomes with a close monitoring of job-search efforts and strict enforcement of availability-to-work requirements. (*e.g.* Denmark, Netherlands, Norway, Sweden). In contrast, assistance programmes specifically targeted at displaced workers have not proved effective in terms of labour market outcomes (OECD, 2005c). However, they may serve a useful "political economy" role inasmuch as they alleviate opposition to globalisation.

Figure 3.11. **Trade-displaced workers must often accept large pay cuts to get a new job**[1]



1. Average wage changes for workers who previously had more than 10 years of job tenure. Refers to total layoffs for Canada, United Kingdom and United States, and to mass layoffs only for Belgium, France and Germany.
Source: OECD, *OECD Employment Outlook 2005*.

StatLink http://dx.doi.org/10.1787/032865364262

… the design of social protection being important

Where health and retirement insurance is provided at the firm level, the hardship caused to workers who lose such benefits when they are forced out of their jobs may fuel protectionist sentiment. Protectionist pressures have been relatively well contained in countries where unemployed workers benefit from stronger social protection. Guaranteeing that laid off workers retain some health coverage and ensuring full occupational pension portability might ease fears of globalisation and improve its political economy. Fully portable pensions would also bring sizeable economic gains by facilitating the allocation of labour to its most productive uses. Strict employment protection legislation reduces the chances of finding another job and may be associated with greater fear of the consequences of globalisation (OECD, 2006b).

Education policies are key

Globalisation magnifies the benefits of education policies that equip workers with general skills which enable them to work in a wide range of high value-added activities (EC, 2005; Trefler, 2005). However, education finance can no longer be based on the premise that recipients will stay in the same country (OECD, 2006c). The greater mobility of highly skilled workers has increased the deadweight costs of free higher education. Tuition fees coupled with income-contingent loans reduce these deadweight costs. They also reduce public spending on higher education, which is regressive in its impact because tertiary students disproportionately come from or will form families with above-average income.

Globalisation helps solve local environmental problems

While global output growth has put pressure on some environmental resources, it has helped a number of the problems of *localised* pollution by generating higher incomes and thereby fuelling the demand for higher environmental standards in OECD and emerging economies. As a result, the rapid expansion of the global economy has not translated into a proportional increase in the pressure on *local* environmental resources. Globalisation has also facilitated the transfer of environmentally friendly technology. In the OECD area, emissions of sulphur and nitrous oxides – two major categories of local air pollutants – came down by 41% and 17% over the 1990-2002 period (OECD, 2005b). In China, starting from the high levels inherited from the era of central planning, emissions of nitrous oxides and sulphur dioxides remained broadly stable between 1990 and 2004 – a period during which economic output nearly quadrupled (OECD, 2007a).

Global environmental challenges require coordinated responses

Environmental problems related to high growth have proved more difficult to tackle when they involve *global* public goods such as fish stocks and the climate. However, the example of the 1987 Montreal protocol on ozone-depleting substances shows that implementing a co-ordinated response is possible. In the area of climate change, the emission targets adopted by industrialised countries under the 1997 Kyoto protocol can be regarded only as a first step towards a global response. Nonetheless, OECD countries cannot solve the problem on their own since they are expected to account for less than 40% of global emissions in 2030.[18] Hence, the international community needs to work towards a framework that covers all important emitters.[19] In terms of policy instruments, tradeable caps or

18. The projection is taken from the IEA (2006a) reference scenario and is about energy-related CO_2 emissions.
19. There is a strong case for integrating international air and sea transport in such a framework as these two sectors currently benefit from tax-exempt fuel and are not subject to emission caps. They account for 3½ per cent of global CO_2 emissions from fossil fuel combustion (IEA, 2006b).

a minimum tax rate on greenhouse gas emissions offer cost-efficient options (OECD, 2004).

Reaping the full benefits of globalisation depends on policies

Realising the full net benefits of globalisation involves establishing the right framework conditions and there is a risk that, faced with the negative aspects of globalisation, policy makers could attempt to slow down the changes needed to enjoy the full benefits. Ultimately, such restrictive measures would magnify the adjustment costs, without halting the globalisation process itself. There is some way to go, in terms of policy settings, before the full benefits of globalisation are achieved.

OECD ECONOMIC OUTLOOK 81 – ISBN 978-92-64-03449-5 – © OECD 2007

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ISBN 978-92-64-03449-5
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Chapter 4

FISCAL CONSOLIDATION: LESSONS FROM PAST EXPERIENCE

Introduction and main results

Fiscal consolidation remains a challenge in many OECD countries

Fiscal consolidation is required in most OECD countries. This is especially so in view of medium and long-term spending pressures on public finances related, *inter alia,* to ageing. Countries that are successful in consolidating will then face the challenge of locking in the gains achieved. Against that background, this chapter presents evidence on the factors that in the past were associated with successful consolidation and with the preservation of those gains.

This chapter identifies factors that helped start and sustain consolidation

Based on a dataset covering a large number of OECD fiscal consolidation episodes starting in the late 1970s, the chapter first presents descriptive evidence on the features of these experiences and factors that may have affected the way they unfolded. Subsequently, regression analysis is used to identify the policy set-ups and institutional features that have proven to be effective in starting and sustaining these efforts.[1] Particular attention is given to the role of fiscal rules and their effective design is discussed in the final section. The main findings are.

Consolidations were larger when the initial situation was difficult

- Large initial deficits and high interest rates have been important in prompting fiscal adjustment and boosting the overall size of consolidation. These results may reflect that public awareness of fiscal problems and needs can help in overcoming resistance to consolidation, a hypothesis which is also supported by the observation that qualification for euro area membership significantly increased the probability of starting consolidation. The policy implication would be that consolidation may be helped by the provision of transparent information and analysis of the fiscal situation.

Expenditure based consolidations tended to be larger and last longer

- An emphasis on cutting current expenditures has been associated with overall larger consolidation and a large weight on social spending cuts increased the chances of stabilising the debt-to-GDP ratio. This could be because expenditure cuts, as opposed to revenue increases, are more likely to trigger lower interest rates and a sympathetic response of private saving, helping to bolster activity. But it could also reflect that governments more determined to consolidate are more willing to cut current expenditures, including social spending, possibly thereby also demonstrating a commitment that makes substantial consolidation more feasible.

1. The analysis underlying the current chapter is described in greater detail in Guichard *et al.* (2007).

Countries with fiscal rules achieved better results

- Fiscal rules with embedded expenditure targets tended to be associated with larger and longer adjustments, and higher success rates. This could in principle reflect that well designed fiscal rules are effective or, alternatively, that governments committed to prudent fiscal management are more likely to institute a rule.

Designing effective rules raises several issues

- Fiscal rules need to be adapted to country specific institutions and political systems, but, based on experience across countries, certain common design features seem important for their effectiveness. These include the need to combine transparency with sufficient flexibility to face cyclical (and other) shocks, a wide coverage across various budget items and effective enforcement mechanisms.

Stylised features of fiscal consolidation episodes

Descriptive evidence on consolidation episodes shows that…

Using the definition presented in Box 4.1, since 1978, there were 85 fiscal consolidation episodes in the 24 countries under review. These episodes include only those that, once started, resulted in a noticeable improvement in the measure used of the underlying budget position, the cyclically adjusted primary balance (CAPB). A number of stylised patterns emerge from these episodes, as discussed below.

Box 4.1. **Defining consolidation episodes**

The sample comprises all episodes of fiscal consolidation – as defined below – among 24 OECD member countries since 1978 for which reliable data on key fiscal variables are available.[1] To identify episodes the same definitions were applied as in Ahrend *et al.* (2006). According to this definition, a fiscal consolidation episode:

- *Starts* if the cyclically adjusted primary balance (CAPB) improves by at least one percentage point of potential GDP in one year or in two consecutive years with at least ½ percentage point improvement occurring in the first of the two years.[2]
- *Continues* as long as the CAPB improves. An interruption is allowed without terminating the episode as long at the deterioration of the CAPB does not exceed 0.3% of GDP and is more than offset in the following year (by an improvement of at least 0.5 % of GDP).
- *Terminates* if the CAPB stops increasing or if the CAPB improves by less than 0.2% of GDP in one year and then deteriorates.

The results of this mechanical definition were checked with OECD country experts and minor adjustments were made. Eleven episodes that commenced in 2003 or later were excluded from the sample because they were not completed in 2005. Overall, the sample covers 85 consolidation episodes.

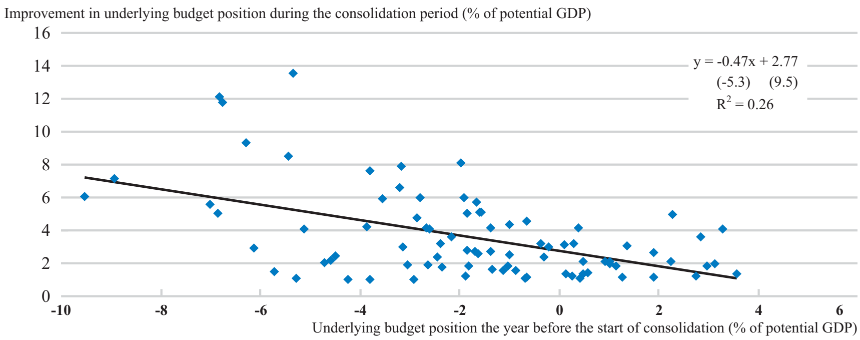
1. Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.
2. The cyclically adjusted primary balance is an imperfect measure of discretionary policy actions. It can be affected for instance by asset price cycles (Girouard and Price, 2004) and one-off measures (Koen and van den Noord, 2005) that do not reflect the policy stance. It is also affected by the measurement issues surrounding the output gap. However, given that only large changes qualify as consolidation spells, this problem is reduced. Debt-interest payments (as well as interest incomes) are excluded as they are largely outside the control of the fiscal authorities and thereby do not reflect directly the policy stance.

Initial conditions for consolidation

… large imbalances were associated with large subsequent adjustments

In line with findings from earlier analysis,[2] fiscal conditions prevailing just before the beginning of a consolidation episode seem to have had an impact on the size of subsequent efforts (Figure 4.1). The more negative was the underlying budget position, the larger was the size of ensuing fiscal consolidation. This may reflect that large deficits made it more necessary to consolidate and, at the same time, raised public awareness of the extent of the problem, making it easier to act.

Figure 4.1. **Initial fiscal positions and subsequent adjustment**



Note: The budget concept referred to is the cyclically-adjusted primary budget balance. The total change during the episode is defined as the value in the last year of the episode minus the value in the year before the start of the episode.
Source: OECD calculations.

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Size and length of fiscal adjustment

Most episodes were short and of limited magnitude

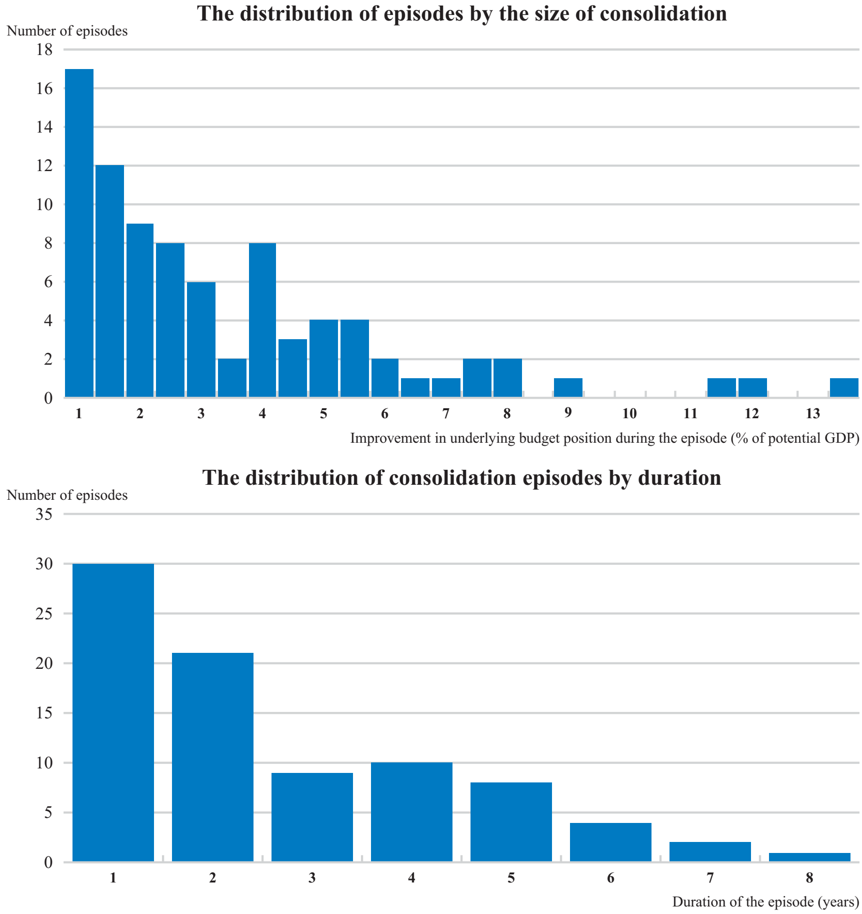
Most of the consolidation episodes were of short duration and involved only modest gains (Figure 4.2). The median improvement of the underlying budget position was 2.8% of GDP and the median duration was two years. There were, however, a number of large efforts, amounting to more than 8% of GDP, as well as a few episodes lasting from six to eight years.[3]

It takes time to achieve large gains

In general, sizeable consolidation episodes also lasted for long periods, and *vice versa* (Figure 4.3, upper panel). On the other hand, long consolidation episodes tended to involve a lower "intensity" of effort, measured as total size of the consolidation per year (Figure 4.3, lower panel). Intense efforts are likely difficult to maintain over time either because of adjustment fatigue or because large, easy-to-implement measures ("the low hanging fruit") tend to be done first. At the same time,

2. Ahrend *et al.* (2006) and references cited therein.
3. Among large consolidation efforts in terms of per cent of GDP were: Canada in the 1990s (8.1%); Portugal in the 1980s (8.5%); Sweden in the 1980s (9.4%) and in the 1990s (11.7%); Greece in the 1990s (12.1%); and Denmark in the 1990s (13.5%). As to duration, fiscal consolidation was sustained for six years in Australia in the second half of the 1990s as well as in Belgium in the 1980s and 1990s, and in the United Kingdom and the United States in the 1990s. Consolidation lasted for seven years in Sweden in the 1980s and 1990s and for eight years in Japan in the 1980s.

Figure 4.2. **Strength and duration of consolidation episodes**



Note: The budget concept referred to is the cyclically-adjusted primary budget balance.
Source: OECD calculations.

StatLink http://dx.doi.org/10.1787/033646448117

large improvements obviously reduce the need for continued consolidation.

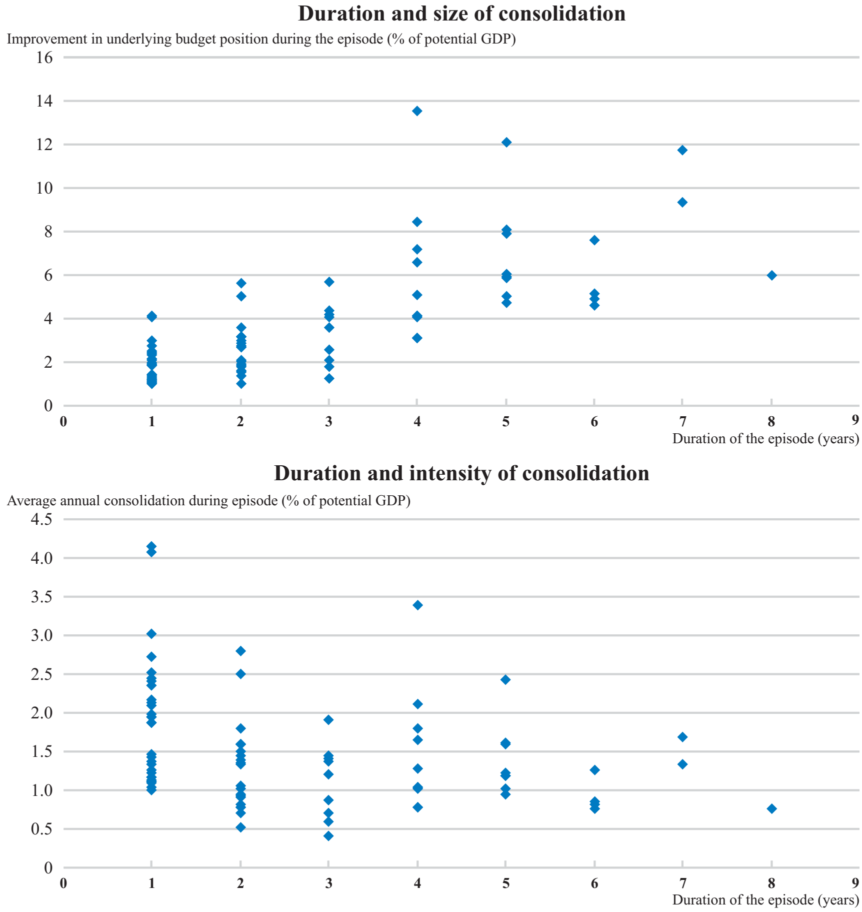
Quality of the adjustment

While spending restraint seems more effective...

A number of arguments and empirical studies suggest that spending restraint (notably with respect to government consumption and transfers) is more likely to generate lasting fiscal consolidation and better economic performance.[4] Indeed, both policy and long-term interest rates are more likely to fall when consolidation relies on current expenditure cuts rather than on tax increases, possibly reflecting the effects of the latter on costs and prices.[5] Moreover, there is evidence that the composition of fiscal

4. Alesina and Perotti (1996); Alesina and Ardagna (1998); and Alesina and Bayoumi (1996). Von Hagen *et al.* (2002) also find that the likelihood of sustaining consolidation efforts seems to rise when governments tackle politically sensitive items on the budget such as transfers, subsidies and government wages.
5. Ahrend *et al.* (2006).

Figure 4.3. **The relationship between duration, size and intensity of consolidation**



Note: The budget concept referred to is the cyclically-adjusted primary budget balance.
Source: OECD calculations.

StatLink http://dx.doi.org/10.1787/033686412578

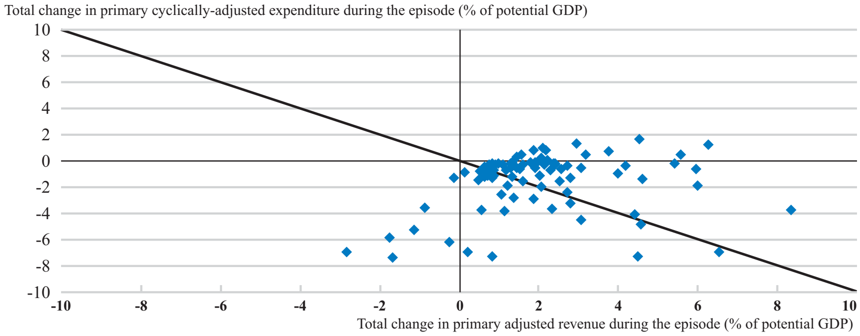
consolidation is important for saving and growth, with spending based consolidation resulting in lower household saving and higher GDP growth.[6]

... countries have largely relied on revenue increases

Despite the case in favour of spending-based efforts, on average across the consolidation episodes studied here, revenue increases accounted for a larger fraction of the total reduction in the underlying budget position. About three quarters of the episodes under review involved both expenditure cuts and revenue increases and almost two thirds of the episodes involved larger contributions from revenue increases than from expenditure cuts (Figure 4.4). Reductions in capital expenditures usually played a smaller role in the total spending adjustment but in a few cases they compensated for increases in current spending.

6. Bassanini *et al.* (2001), Ardagna (2004) and de Mello *et al.* (2004). Cournède and Gonand (2006), in the context of a dynamic general equilibrium model with overlapping generations, argue that tax increases are a much more costly way of achieving fiscal sustainability compared with spending restraint.

Figure 4.4. **The role of spending and revenue in consolidation episodes**



Source: OECD calculations.

StatLink http://dx.doi.org/10.1787/033713668666

Successful consolidation

Success in reaching debt sustainability has been uneven

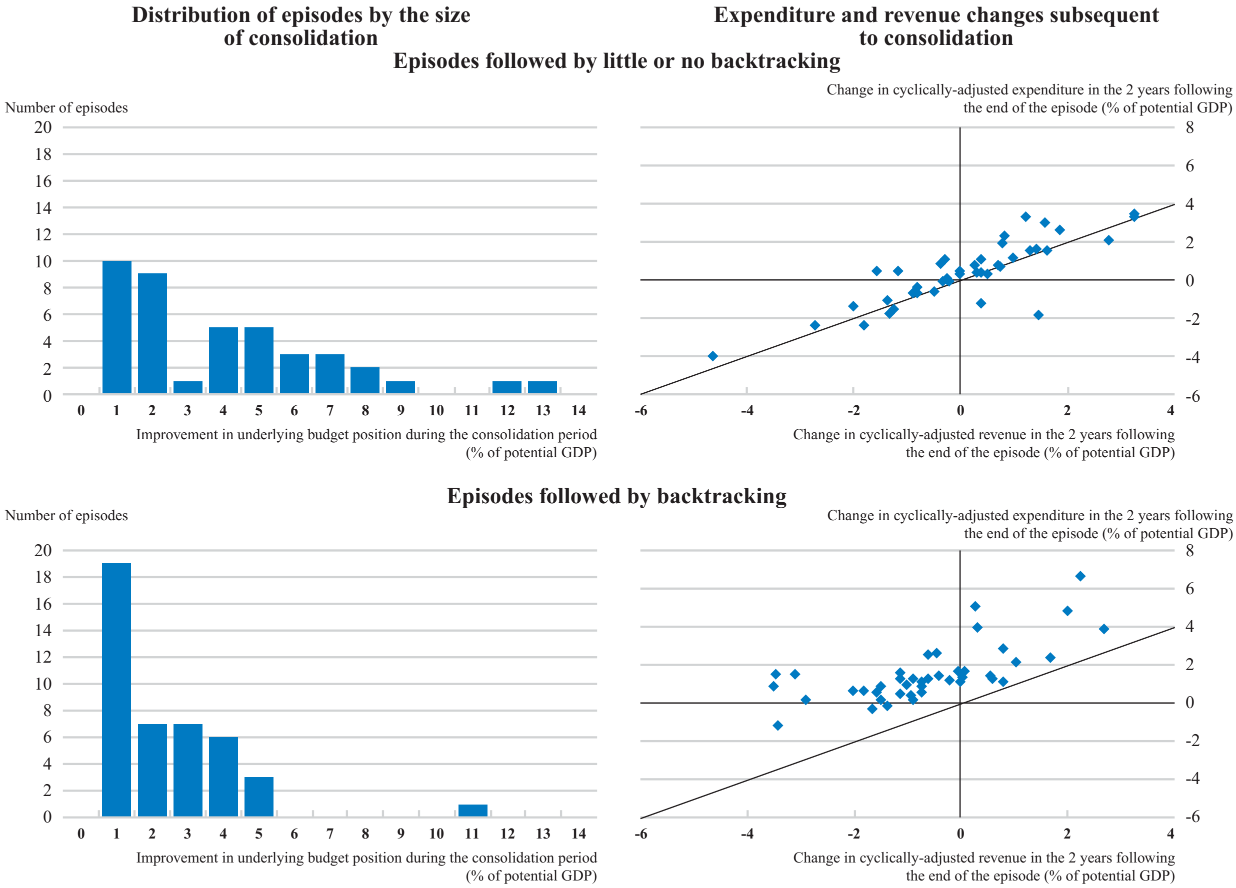
As noted above, the success of consolidation policies might be judged according to whether fiscal adjustment is large enough to stabilise the debt-to-GDP ratio.[7] According to this criterion, slightly more than half of the consolidation episodes were successful. Moreover, in some 80% of these cases the sustainable position was maintained for at least two years. These successful episodes involved larger improvements in the underlying budget position (by almost ¾ percentage point of potential GDP compared with the median episode size) and lasted for longer (about twice as long as the median episode length of two years) than in the other cases.

Backtracking usually is brought about by spending increases

On the other hand, half of the episodes under review were not successful in the sense that one third or more of the total reduction in the underlying budget position achieved during the consolidation phase was unwound in the two following years. For one-fifth of all episodes, the underlying budget position deteriorated by more (as a per cent of potential GDP) than it improved during the consolidation phase. Perhaps not surprisingly, backtracking – defined as the loss of a third in the consolidation gains or more within two years – is more likely to occur when improvements in the underlying budget position during the preceding consolidation episode were small (Figure 4.5).[8] In addition,

7. Looking directly at the debt-to-GDP ratio has the disadvantage of including stock-flow adjustments that affect the level of debt but might be unrelated to discretionary consolidation policies and even reflect fiscal gimmickry designed to reduce debt levels in the short-term without improving the underlying government balance sheet. Considering the gap between the actual primary balance and what is necessary to stabilise the debt-to-GDP ratio during the episode and its immediate aftermath (typically in the following two years), as is done here, avoids this difficulty. This approach has been followed by Baldacci *et al.* (2004).
8. Consolidation episodes relying on tax increases that were partially offset by higher spending during the episode were on average characterised by smaller improvements in the underlying budget position, shorter duration and more backtracking.

Figure 4.5. **Comparison of consolidation episodes with and without backtracking**



Note: The budget concept referred to is the cyclically-adjusted primary budget balance. An episode is followed by backtracking if more than 30% of the improvement in the cyclically-adjusted primary budget balance during the episode is lost in the two years following the end of the episode.
Source: OECD calculations.

StatLink http://dx.doi.org/10.1787/033731737102

backtracking is almost always associated with spending increases (Figure 4.5, lower panel).

The role of fiscal rules

The role of fiscal rules is not obvious at first sight

Over the past decade and a half, a large number of countries have introduced fiscal rules with the aim of containing the political mechanisms leading to excessive spending and deficits (often referred to as "deficit bias").[9] Rules can focus on spending, deficits or revenues and may, in part, be seen as tool to better communicate to the public fiscal objectives and outcomes. Using simple bivariate analysis, however, there is no clear relationship across consolidation episodes between the existence of a fiscal rule and a number of fiscal indicators (the total change in the underlying fiscal position, the change in revenues or the

9. For an overview on the sources of "deficit bias" see von Hagen (2002). Also relevant are Rogoff and Silbert (1988); Persson and Tabellini (2000); Shi and Svensson (2002); and Alesina and Tabellini (2005).

amount of backtracking). This suggests that the relationship may be weak or that it can only be detected by controlling for the other aspects of the consolidation process already mentioned.

Identifying factors that support fiscal consolidation

Econometric analysis can identify factors that have influenced consolidation

The econometric evidence presented in this section is aimed at identifying the influence of various factors (notably macroeconomic and fiscal conditions, the composition of the fiscal adjustments and the existence of fiscal rules) on several dimensions of the consolidation process.[10] These include: the initiation of a consolidation spell; the size of consolidation; the duration of consolidation; and success in reaching debt sustainability. Fiscal rules have made a contribution to these various dimensions of consolidation.[11] The following sub-sections cover each of these four aspects in turn and Table 1, where the econometric results are synthesized, will be used as a guide to the discussion.[12]

Factors that prompt and influence the size of consolidations

Consolidation was more likely to start when deficits were large…

Econometric analysis confirms that the initial budget balance has played a significant role in kicking off consolidation (Table 4.1, column marked "probability to start"). For example, a cyclically adjusted primary deficit of 2% of (potential) GDP is associated with a 13 percentage point higher probability of initiating consolidation than a balanced primary budget (Figure 4.6).[13]

… and when interest rate spreads were high and after general elections

There is weak econometric evidence that this effect can be compounded by higher long-term interest rates (relative to an international reference level). Indeed, the fall in interest spreads through the 1990s in a number of cases appears to have led to a more relaxed primary budget stance.[14] Elections, on the other hand, have played a significant role: the probability of undertaking consolidation rose just after a general election suggesting that governments are more ready to start consolidation once a full legislative term lies ahead.

Adjustments were larger when started in difficult times…

Turning to the size of fiscal consolidation (column labelled "size of adjustment" in Table 4.1) the analysis confirms again the significant role of initial budgetary conditions. The higher the initial primary deficit, the larger was the overall consolidation that was achieved over an episode. Similarly, the size of fiscal consolidation was also larger when interest

10. Guichard *et al.* (2007) provide details on the econometric techniques used.
11. In the estimated equations, fiscal rules are accounted for by three dummy variables, representing the existence of a budget rule supplemented by an expenditure rule; euro area countries during the qualification phase to the euro; and euro area countries under the Stability and Growth Pact.
12. The results presented in Table 4.1 represent the final specifications following a general-to-specific procedure to identify the relevant explanatory variables.
13. All other variables are evaluated at their mean.
14. More details are given in the Appendix 2 in Guichard *et al.* (2007).

Table 4.1. **Summary of the main results: parameter estimates**

	Probability to start	Size of the adjustment	Intensity of the adjustment	Probability to stop the episode	Probability to reach a primary balance that stabilises debt
Year before the episode started					
Cyclically adjusted primary balance	-0.046**** (-6.54)	-0.567**** (-4.92)	-0.594** (-1.78)	0.187**** (4.14)	
Gap to primary balance sufficient to stabilise debt (actual-target)					0.195**** (3.47)
Long term interest rates (domestic rate - foreign reference)	0.010* (1.88)	0.199** (2.43)	0.078*** (3.41)		
Output gap (actual-potential)		-0.113* (-1.66)	0.061** (2.54)	0.079* (1.89)	-0.127** (-2.37)
Elections (dummy taking the value 1 on election years)	0.140*** (3.12)				
Composition of the adjustment[1]					
Share of primary current expenditure cuts		2.289**** (4.42)			
Share of social spending cuts					1.191*** (3.09)
Share of public investment cuts			-0.919** (-2.23)	-0.758** (-2.56)	
Share of direct tax increases				-0.180** (-2.27)	
Other					
Duration of the episode[2]				1.952**** (8.13)	0.261**** (3.47)
Policy rules					
Expenditure rule and budget balance rule		1.493** (2.07)		-1.001**** (-3.35)	0.586** (2.08)
Euro countries 1992-97	0.2556**** (3.57)				
Euro countries 1998-2005			0.979* (1.84)		
Observations	372	73	73	225	64
R2	0.192	0.487	0.267	..	0.560

Note: Pseudo R2 for probit; adjusted R2 for pooled regressions.
Reported coefficients for the probit equations (col 1 and 5) are the marginal effects (*i.e* ., impact of the change of the explanatoty variable by one unit).
Numbers in brackets are the t-statistics. Significance levels: * 10%, ** 5%, *** 1%, **** 0.1%.
Constants are not reported. Coefficients of the inverse Mills ratio (used to account for the sample selection biais in the size and intensity regressions) are not reported.
1. Share of each budget item in the improvement of the primary balance over the entire episode or time-varying with duration in the probability-to-stop regression.
2. Elapsed time of consolidation in the probability-to-stop regression (a parameter value exceeding one indicates that the likelihood that the episode ends increases with its duration). Total length of the episode in the probability-to-reach regression.
Source: OECD calculations.

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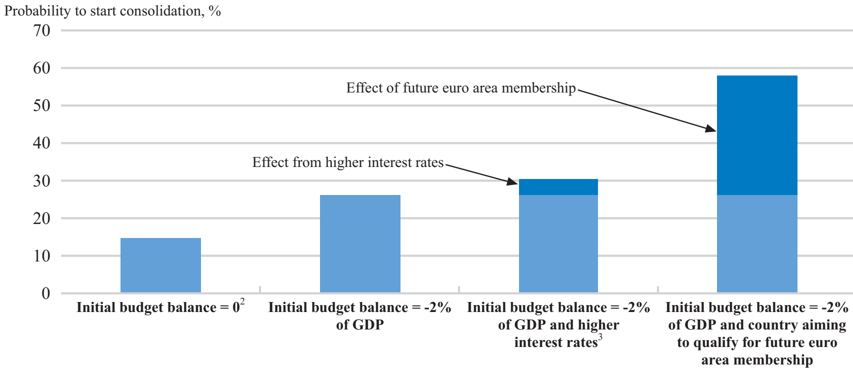
rates were relatively high to begin with. There is some suggestive evidence that this was also the case when initial activity was weak.

... and when relying heavily on spending cuts

More relevant for policy design are the respective roles played by expenditure – as against revenue-based consolidation. The size of the fiscal adjustment increased when episodes were driven by cuts in primary current expenditures. In alternative specifications (not shown here), a heavy weight on individual current expenditure items (public

Figure 4.6. **Factors affecting the probability of starting fiscal consolidation**[1]

Probability of starting fiscal consolidation in different past circumstances



1. Based on pooled probit analysis across 24 OECD countries and over the period 1978-2003 (equation shown in the first column of Table 4.1). Probabilities are evaluated at sample means for all other variables entering the estimated equation.
2. Measured by the cyclically-adjusted primary balance.
3. Interest rate gap to international reference is 300 basis point higher.

Source: OECD calculations.

StatLink http://dx.doi.org/10.1787/033563146102

consumption and social transfers) was also found to have a significant positive impact on the magnitude of the consolidation achieved. The analysis presented here cannot distinguish freezes or cuts across the board from spending restraint resulting from public spending reform.

Consolidations were less intense when activity was weak

The "intensity of the adjustment" (consolidation *per* year) was affected by various macroeconomic developments. A larger initial deficit and higher long-term interest rates were associated with an increased intensity of adjustment. A weak activity at the outset, while increasing the size of consolidation, seems to reduce the intensity of effort: intense efforts are difficult when the economy is weak, making the adjustment more drawn out. Consolidation efforts based on public investment cuts have also tended to be less intense.

Factors that affect the length of consolidation episodes

Initial conditions also affected the duration of consolidation

A larger initial deficit was associated with a longer consolidation period (column labelled "probability to stop the episode" in Table 4.1). As suggested above, the probability of ending a consolidation period was also lower if it was initiated at time of a large negative output gap. Not surprisingly, the longer a period of consolidation had been underway, the more likely it was to come to an end. Long efforts are likely to lead to adjustment fatigue. Perhaps another interpretation is that the longer an episode lasts the larger the likely cumulated adjustment and accordingly the chance that successful consolidation will have been achieved.

Tax increases and public investment cuts played a role

As concerns the instruments of consolidation, a large share of direct tax increases and public investment cuts raised the likelihood that a consolidation period would *continue*. These results are open to different interpretations. One such, suggested in previous research, is that it may reflect that some countries relied on "switching strategies",[15] meaning that the government starts fiscal consolidation by raising taxes and/or cutting investment and then, subsequently, moves on to a broader strategy which would involve reducing current spending (which is more politically sensitive and takes more time to implement).

Factors that contribute to success in reaching debt sustainability

Initial conditions also influence the chances of success…

An episode of consolidation begun under weak economic activity had a higher probability of success in the sense of reaching debt sustainability (Table 4.1, last column). This may reflect the effect of weak initial conditions in terms of boosting the overall size of consolidation, as discussed above.

… as do cuts to social transfers…

Turning to the composition of consolidation, a greater weight on cuts in social spending tended to increase the chances of success. A reason for this could be that governments more committed to achieving fiscal sustainability may also be more likely to reform politically sensitive areas. As a by-product of doing so, they may at the same time bolster the credibility of the consolidation strategy, thereby improving its chances of success.

… and the length of time consolidation lasts

The longer an episode lasted the higher was the probability that it would achieve success. Taken together with the previously discussed positive relationship between stopping consolidation and duration this is consistent with the interpretation that long episodes are frequently terminated because they have achieved success.

Quantifying the effect of fiscal rules

Expenditures rules can play an important role…

Fiscal rules, in particular those that include a focus on expenditures (Table 4.2), are estimated to have affected several dimensions of fiscal consolidation. Differentiating budget balance rules according to whether they are combined with expenditure rules or not, it appears that the combined rules have a favourable effect on consolidation outcomes. The size of fiscal consolidation was significantly larger and the consolidation efforts sustained for longer when such rules were present. The results also indicate that combined spending and budget balance rules helped achieving and maintaining a primary balance that was sufficient to stabilise the debt-to-GDP ratio.

… although the causality is not clear

The finding that expenditure rules were an important ingredient in the success of a consolidation episode has intuitive appeal given the fact that most backtrackings in the sample studied here occurred on the spending side. The estimates may, however, also just reflect that countries supplementing the objective to achieve fiscal balance with expenditure rules are in general more committed to pursuing fiscal consolidation, and in particular to addressing issues regarding spending control.

15. Von Hagen *et al.* (2002), among others, make this argument.

Table 4.2. **Main fiscal rules currently applied in OECD countries**

Country	Date and name	Characteristics of the set of rules: Budget target	Expenditure target	Rule to deal with windfall revenues	Golden rule
Australia	Charter of Budget Honesty (1998)	yes	no	no	no
Austria	Stability and Growth Pact (1997) Domestic Stability Pact (2000)	yes	no	no	no
Belgium	Stability and Growth Pact (1997) National budget rule (2000)	yes	no	yes	no
Canada	Debt repayment plan (1998)	yes	no	yes	no
Czech republic	Stability and Growth Pact (2004) Law on budgetary rules (2004)	yes	yes	no	no
Denmark	Medium term fiscal strategy (1998)	yes	yes	no	no
Finland	Stability and Growth Pact (1997) Spending limits (1991, revised in 1995 and 1999)	yes	yes	no	no
France	Stability and Growth Pact (1997) Central government expenditure ceiling (1998)	yes	yes	Since 2006	no
Germany	Stability and Growth Pact (1997) Domestic Stability Pact (2002)	yes	yes	no	yes
Greece	Stability and Growth Pact (1997)	yes	no	no	no
Hungary	Stability and Growth Pact (2004)	yes	no	no	no
Ireland	Stability and Growth Pact (1997)	yes	no	no	no
Italy	Stability and Growth Pact (1997) Nominal ceiling on expenditure growth (2002)	yes	yes	no	no
Japan	Cabinet decision on the Medium term fiscal perspective (2002)	yes	yes	no	no
Luxembourg	Stability and Growth Pact (1997) Coalition agreement on expenditure ceiling (1999, 2004)	yes	no	no	no
Mexico	Budget and fiscal responsibility law (2006)	yes	no	yes	no
Netherlands	Stability and Growth Pact (1997) Coalition agreement on multiyear expenditure targets (1994, revised in 2003)	yes	yes	yes	no
New Zealand	Fiscal responsibility act (1994)	yes	yes	no	no
Norway	Fiscal Stability guidelines (2001)	yes	no	yes	no
Poland	Stability and Growth Pact (2004) Act on Public Finance (1999)	yes	no	no	no
Portugal	Stability and Growth Pact (1997)	yes	no	no	no
Slovak Republic	Stability and Growth Pact (2004)	yes	no	no	no
Spain	Stability and Growth Pact (1997) Fiscal Stability Law (2001, revised in 2006)	yes	no	no	no
Sweden	Fiscal budget act (1996, revised in 1999)	yes	yes	no	no
Switzerland	Debt containment rule (2001, but in force since 2003)	yes	yes	yes	no
United Kingdom	Code for fiscal stability (1998)	yes	no	no	yes

Source: OECD calculations.

StatLink http://dx.doi.org/10.1787/036205311858

The euro area provides some helpful lessons on the role of rules

Developments in the euro area illustrate a couple of important points about the rules and their relationship to the consolidation process. During the run up to the introduction of the euro (1992 to 1997), countries were found to have been much more likely to initiate consolidation. Indeed, the probability of consolidating appears to have more than doubled with the prospect of membership (see Figure 4.6 above). The Maastricht Treaty's well-publicised requirements made very clear the need for fiscal consolidation at the same time as the benefits of adopting the euro were perceived to be very significant, both by policymakers and the public, as were the disadvantages in the case of failure. In the period since the introduction of the single currency, membership in the euro area appears to have had a weakly significant positive effect on intensity.

Experience regarding the design and implementation of fiscal rules

A number of issues are important to make rules effective

To pursue further the discussion of the extent to which key features of fiscal rules influence their effectiveness, this section reviews specific cases in which fiscal rules did – or did not – work. Particular attention is paid to issues of design, implementation, and the degree of flexibility to deal with shocks or changing macroeconomic conditions.

Issues in designing fiscal rules

Combining budget and spending rules is effective…

On design, it is useful to start the discussion with a simple comparison between budget balance rules that are combined with expenditure rules and those which are not. Historical observation is consistent with the regression results in suggesting that in general budget-balance rules that are not combined with expenditure rules are less effective. A striking example of this is the United States experience: neither the Gramm-Rudman-Hollings (GRH) Act of 1985 nor its revised version in 1987 succeeded in significantly reducing the fiscal deficit.[16] A further example is the Stability and Growth Pact (SGP), which has not so far led to sustainable positions being attained, notably in large EU countries. On the other hand, when the United States turned to an expenditure-based rule, the Budget Enforcement Act (1990-2002),[17] a surplus was achieved and maintained for a time. Some EU countries (*e.g.* Netherlands, Spain, Sweden, Finland and Czech Republic) supplemented the SGP by national rules (in most cases including some expenditure ceilings) and also enjoyed success. There were, however, some failures.

16. The GRH act was a budget balance rule (which targeted a balanced budget within six years). A key feature of GRH was that, in the absence of an agreement on how to reach the deficit targets, the rule was to be enforced by sequestration in spending programmes. It was abandoned in 1990 when the combination of the absence of *ex ante* consensus on spending cuts and overly optimistic budgetary projection resulted in sequestrations that were very large and politically not feasible.
17. The Budget Enforcement Act consisted of caps on discretionary spending (in nominal terms) and pay-as-you-go rules stating that new discretionary spending, excluding social security or revenue laws had to be budget neutral.

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For instance, after France introduced multi-year objectives for real government expenditure in 1998, its structural fiscal position deteriorated continuously until 2003, at which time it came under the European excessive deficit procedure.[18]

... provided they are clear, transparent and take account of the cycle

There is no one-size-fits-all rule applicable to every country but there seems to be a consensus that, to be effective, rules should have several features. In particular, they should be simple to manage, understand and monitor, while flexible enough to respond to the cycle. Against this background, there are several features of expenditure rules that can explain why they have often been associated with success: not only do they exclude cyclically volatile revenues but they can be (and often are) designed to let economic stabilisers work in a downturn and to save windfall gains during an upturn;[19] they are typically more transparent than all but the simplest budget balance rule; they allow spending ministers/ministries to be held accountable;[20] and they make the availability of financial resources predictable for policymakers and programme managers.

The items covered by the rule...

An important issue in designing fiscal rules is their possible impact on the quality of public expenditure. Both expenditure rules covering total spending and budget balance rules can potentially cause allocative inefficiencies by biasing spending towards items that are politically sensitive and difficult to cut.[21] Typically governments have responded by excluding some capital items from overall spending (as done notably by Golden rules in the United Kingdom and Germany), but this may make the rule more difficult to monitor as well as easier to circumvent. Moreover, there is an element of arbitrariness in excluding physical investment from the rule but not current spending with investment attributes, such as spending on education.

... and the time horizon affect its effectiveness

The time period over which the target is to be met is also important, not least in providing flexibility to deal with cyclical fluctuations. Although enforcing the rule on a year-by-year basis appears strict, many countries do just that, with varying degrees of success. Switzerland is an example of a country combining year-by-year enforcement with cyclical flexibility by targeting a balanced budget in cyclically adjusted terms. The United Kingdom pursues another approach: its budget-balance rule[22] holds over the business cycle. Such a procedure, however, provides less

18. Most of the slippage came from the social security and government sectors (Moulin , 2004). France was subsequently able to reduce its deficit to below 3% in 2005 and the excessive deficit procedure against France was abrogated in January 2007.
19. Anderson and Minarik (2006).
20. Atkinson and van den Noord (2001).
21. Sutherland, *et al.* (2005).
22. There are two rules, one stating that government borrowing will fund only net fixed investment, not current expenditures; and one that requires that the ratio of net debt to GDP be held stable at a prudent level.

accurate short-term guidance. As well, rules defined over the cycle or embodying some kind of cyclical adjustment require a subjective[23] assessment to be made about the cycle's start and end dates and/or the size of the output gap, which (together with data revisions) creates a degree of uncertainty about whether or not the rule was (or will be) met. The same objections apply to rules such as the SGP that allow normal procedures to be waived in conditions of pronounced cyclical weakness.

Sub-national rules can complement national ones

National fiscal rules are, in most countries, complemented by a wide variety of rules at sub-national levels. Such rules have a long history in several countries. With the trend to greater decentralisation of fiscal responsibilities in most OECD countries, rules for sub-national government have been seen as an important mechanism to reap the efficiency gains accruing from local autonomy while maintaining or establishing fiscal rectitude. As a result, rules have been set or strengthened at sub-national levels in most countries.[24] In particular, several European countries have aligned domestic fiscal rules for sub-national governments with their supra-national commitments by setting up domestic stability pacts.

Implementing rules

Observance of rules has been uneven

To be effective rules must be enforced, but experience gives conflicting examples of the rigour with which rules should be implemented.[25] The Stability and Growth Pact, the 1997 fiscal consolidation programme in Japan, and the Gramm-Rudman-Hollings Act in the United States all reached a stage where the economic and political costs of following the rule rigidly were perceived as too high. However, Sweden, the Netherlands as well the United States (under the Budget Enforcement Act 1990-2002)[26] are cases where rigid rules were quite effective in supporting consolidation and without negative economic consequences. New Zealand, Canada and Australia, on the other hand,

23. While it would be possible to put in place an objective rule for dating the cycle, the method that the UK Treasury uses is a subjective "broad assessment of the available information". At present there is no requirement for the Treasury's assumptions about the timing of the economic cycle to be audited.
24. Sutherland *et al.* (2005) provide a description of these rules and a discussion of the issues related to their design.
25. The European Commission has built some indicators of rules characteristics that focus on their "strength"; see European Commission (2006) and Ayuso-i-Casals *et al.* (2006). The strongest rules have a constitutional base with no margin for adjusting the objectives, are monitored and enforced by independent authorities, include automatic correction and sanction mechanisms in case of non compliance and are closely monitored by the media. This work shows that, in Europe at least, strong national rules are usually associated with better fiscal outcomes and the characteristics that seem to matter most are the statutory base of the rule, the body in charge of enforcement (independent authority, government, etc.) and the enforcement mechanism (including the role of sanctions).
26. It included escape clauses, however, which were used extensively at the turn of the century.

provide examples where governments achieved fiscal consolidations under quite flexible rules.[27]

There should be costs to breaching rules

In many successful cases, rules were reinforced by establishing a framework which had a strong reporting system and mechanisms that increased the political cost of breaching the rules (New Zealand, Australia and the United Kingdom, in particular). *ex post* assessment is very important in the United Kingdom, Belgium,[28] the Netherlands, Sweden, Australia and New Zealand. Most successful frameworks also stress the need to rely on prudent budget assumptions. As well, there are several cases in which successful rules followed the setup of new budgeting frameworks and changes to public-sector management that fostered increased accountability and efficiency (New Zealand, Australia, Sweden and the United Kingdom). More generally, and more difficult to influence, there seems to be differences across countries in the weight electorates give to the respect of rules and the extent of private-sector monitoring and discussion of fiscal performances.

Adapting rules to changing circumstances

Rules also have to be adapted to changing circumstances

Allowing rules to evolve in the light of progress in consolidation or a changing macroeconomic environment is often a necessary but tricky condition of success. For instance, in Canada (the only country among the major seven to have been able to keep net debt on a sustained downward trend), fiscal consolidation started in 1993 under legislation capping programme spending (self-financing programmes were excluded). As spending always remained below the ceilings, the rule was abandoned in 1995 and replaced by a contingency reserve within a prudent budget that could be used for debt reduction if not needed; this framework was replaced in 1998 by the "balanced or better budget policy" combined with a debt repayment plan: surpluses are used to pay down debt and associated reductions in interest payments to lower taxes. Switzerland was successful in improving its fiscal position from 1999 to 2001, using a budget balance rule. Later on, however, the framework was modified to include expenditure targets. In attempting to make the SGP more effective, the European Commission and the Council have focused on cyclically adjusted balances in order to permit more flexibility in the enforcement mechanisms;[29] the jury is still out on the outcomes. Spain

27. In New Zealand, for instance, principles of responsible fiscal management are legislated but not the targets; the government is required to set its short-term targets (usually revised from one year to the next) as well as its long-term intentions for a range of fiscal variables. In this country there are no legislated mechanisms of sanction and correction in case of non compliance.
28. The Federal Planning Bureau in Belgium has played a key role in fiscal consolidation by producing independent, politically neutral short-term macroeconomic projections (Bogaert *et al.* 2006).
29. This provides flexibility to the excessive deficit procedure if the excess of the budget deficit over the threshold of 3% of GDP appears small and temporary. Account will then be taken of any factor deemed relevant, including cyclical conditions, debt sustainability and implementation of structural policies that enhance growth potential and long-term sustainability of public finance.

has also recently reformed its Fiscal Stability Law to take into account the cyclical position of the economy.

Mechanisms to deal with revenue windfalls play a supporting role

Countries whose revenues are sensitive to terms-of-trade changes (not least oil producers like Mexico and Norway) have found it useful to establish stabilisation funds to deal with the windfall gains. These funds serve a number of purposes, including transmitting resource wealth to future generations, stabilising the exchange rate and shielding the economy from overheating due to excessive spending. Even countries that are less endowed with natural resources have found it helpful to set up similar mechanisms to deal with revenue windfalls such as "rainy day funds" or *ex-ante* rules establishing the share of revenue windfall to be used to reduce debt or saved (Belgium or more recently France).[30] Such mechanisms can usefully complement fiscal rules by securing surpluses that arise during good times.[31]

Transparency is critical to the process

Transparency is a crucial feature of any successful rule. If the public understands why an action is being taken (and is convinced of its necessity), that greatly increases the likelihood of the associated rule being successful and sustained. As well, temporary departures from a rule need not be damaging if they can be explained convincingly.[32] This could be reinforced where rules are subject to independent verification.

30. In Belgium unexpected tax revenues or surplus from lower than expected spending have been used to pay down national debt. In France, since 2006, the government has been required to define how possible differences between actual and predicted revenues would be allocated in the annual budget law.
31. Mills and Quinet (2001).
32. Hemming and Kell (2001).

APPENDIX 4.A1

Definition of the main variables

Macroeconomic and fiscal variables

Macroeconomic and fiscal variables all come from the *Economic Outlook 80* database (see OECD *Economic Outlook Database Inventory www.oecd.org/dataoecd/47/9/36462096.pdf*). For the purpose of this project the following variables were calculated.

- The primary balance that stabilises the debt to GDP ratio (PBO) is defined as:

  $$PBO(t)/GDP(t) = -Debt(t-1)/GDP(t-1)*[1-(1+i)/(1+g)];$$

  where g = GDPt/GDP(t – 1) – 1 and *i* is defined as a moving average of the implicit interest rates on debt, in particular

  $$i = (1/3)*[ggintp(t-1)/ggfl(t-2) + ggintp[t]/ggfl(t-1) + ggintp(t+1)/ggfl(t)];$$

  with *ggfl* the general government gross financial liabilities and *ggintp* the gross government interest payments.
- In defining the spread between the long-term interest rates and those in the reference country, Germany is used for European countries and the United States for the other countries.
- The share of a budget expenditure item in the fiscal adjustment is defined as minus the difference of the relevant item as a percentage of GDP between the last year of the episode and the first year before the start of the episode divided by the difference in the primary balance as a percentage of GDP over the same period. For the duration analysis (the probability of stopping consolidation), a time series of the cumulative contribution over the duration of the episode was constructed.
- The share of a budget revenue item in the fiscal adjustment is defined as the difference of the relevant item as a percentage of GDP between the last year of the episode and the year before the start of the episode, all divided by the difference in the primary balance as a percentage of GDP over the same period. For the duration analysis, a time series of the cumulative contribution over the duration of the episode was built.
- For total and current primary expenditures and revenues, and for direct and indirect taxes, cyclically adjusted variables as a percentage of

potential GDP (for both the numerator and the denominator) were used; for expenditure items where cyclically adjusted variables are not available the non-adjusted ones (both for the numerator and the denominator) were used.

Dummy variables to capture fiscal rules

Two dummy variables were tested that reflect the existence, at least for some significant part of the general government sector, of *i)* a budget balance rule defined as rules and targets for the fiscal deficit (cyclically adjusted or not) and *ii)* a budget balance rule supplemented by an expenditure rule, defined as a rule and/or target that binds and controls expenditures in annual budgeting, such as expenditure ceilings and caps, and pay-as-you-go principles. These variables are rudimentary indicators as possible changes in the definition of the rule, obedience to the rule, or any characteristic of the rule (such as its legal base, sanctions implied, etc.) are not taken into account. Hence, the fact that the modalities of rules vary from one country to the other and change over time is not accounted for. The dummies are based on the cross-checking of several sources,[33] as well as on OECD country analysts' expertise. When working on episodes, the dummies take the value 1 if the rule exists when the episode starts or is introduced very soon thereafter. There is no dummy reflecting debt rules or revenue rules (*i.e.* rules that establish *ex ante* the share of revenue windfalls to be saved or rainy-day funds or rules that set a cap on tax rates). Finally, two dummies are used to account for respectively the euro qualification contest (1992-97)[34] and the SGP period.

The electoral cycle dummy takes a value 1 when there is an election (early elections are also in the sample). The information comes from *wikipedia.org*; the International Institute for Democracy and Electoral Assistance (IDEA); and national sites on elections results.

33. Deroose *et al.* (2006); European Commission (2003 and 2006) ; Fischer (2005); Gruen and Sayegh (2005); von Hagen (2006); IMF (2005); Janssen (2001); Joumard *et al.* (2004); Kennedy *et al.* (2001); Moulin (2004); Poterba (1997); and Tanaka (2005).
34. For Greece since 1999.

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Statistical Annex

This annex contains data on some main economic series which are intended to provide a background to the recent economic developments in the OECD area described in the main body of this report. Data for 2006 to 2008 are OECD estimates and projections. The data on some of the tables have been adjusted to internationally agreed concepts and definitions in order to make them more comparable as between countries, as well as consistent with historical data shown in other OECD publications. Regional totals and sub totals are based on those countries in the table for which data are shown. Aggregate measures contained in the Annex, except the series for the euro area (see below), are computed on the basis of 2000 GDP weights expressed in 2000 purchasing power parities (see following page for weights). Aggregate measures for external trade and payments statistics, on the other hand, are based on current year exchange for values and base year exchange rates for volumes.

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

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

Corrigenda for the current and earlier issues, as applicable, can be found at *www.oecd.org/document/53/0,2340,en_2649_33733_37352309_1_1_1_1,00.html*.

NOTE ON NEW FORECASTING FREQUENCIES

OECD is now making quarterly projections on a seasonal and working day-adjusted basis for selected key variables. This implies that differences between adjusted and unadjusted annual data may occur, though these in general are quite small. In some countries, official forecasts of annual figures do not include working-day adjustment. Even when official forecasts do adjust for working days, the size of the adjustment may in some cases differ from that used by the OECD. The cut-off date for information used in the compilation of the projections is 15 May 2007.

Country classification

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

Weighting scheme for aggregate measures

Per cent

Australia	1.87	Mexico	3.29
Austria	0.84	Netherlands	1.65
Belgium	1.00	New Zealand	0.29
Canada	3.19	Norway	0.60
Czech Republic	0.56	Poland	1.50
Denmark	0.56	Portugal	0.69
Finland	0.49	Slovak Republic	0.21
France	5.77	Spain	3.11
Germany	7.69	Sweden	0.88
Greece	0.84	Switzerland	0.80
Hungary	0.46	Turkey	1.68
Iceland	0.03	United Kingdom	5.51
Ireland	0.40	United States	35.92
Italy	5.40	Total OECD	100.00
Japan	11.88	Memorandum items:	
Korea	2.81	Euro area	27.96
Luxembourg	0.08		

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

Irrevocable euro conversion rates

National currency unit per euro

Austria	13.7603	Ireland	0.787564
Belgium	40.3399	Italy	1936.27
Finland	5.94573	Luxembourg	40.3399
France	6.55957	Netherlands	2.20371
Germany	1.95583	Portugal	200.482
Greece	340.750	Spain	166.386

Source: European Central Bank.

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

In the present edition of the OECD Economic Outlook*, the status of national accounts in the OECD countries is as follows :*

	Expenditure accounts	Household accounts	Government accounts	Use of chain weighted price indices	Benchmark/ base year
Australia	SNA93 (1959q3-2006q4)	SNA93 (1959q3-2006q4)	SNA93 (1959q3-2006q2)	NO	2004/2005
Austria	ESA95 (1988q1-2006q4)	ESA95 (1995-2005)	ESA95 (1976-2006)	YES	2000
Belgium	ESA95 (1995q1-2007q1)	ESA95 (1995-2005)	ESA95 (1985-2006)	YES	2004
Canada	SNA93 (1961q1-2006q4)	SNA93 (1961q1-2006q4)	SNA93 (1961q1-2006q1)	YES	1997
Czech Republic	SNA93 (1996q1-2006q4)	SNA93 (1995-2005)	SNA93 (1995-2006)	YES	2000
Denmark	ESA95 (1990q1-2006q4)	ESA95 (1990-2005)	ESA95 (1990-2006)	YES	2000
Finland	ESA95 (1975q1-2006q4)	ESA95 (1975-2006)	ESA95 (1975-2006)	YES	2000
France	ESA95 (1978q1-2006q4)	ESA95 (1978q1-2006q4)	ESA95 (1978-2006)	NO	2000
Germany[1]	ESA95 (1991q1-2006q4)	ESA95 (1991-2006)	ESA95 (1991-2006)	YES	2000
Greece	ESA95 (2000q1-2006q4)	..	ESA95 (2000-2006)	YES	2000
Hungary	SNA93 (2000q1-2006q4)	..	SNA93 (2000-2006)	YES	2000
Iceland	SNA93 (1997q1-2006q4)	..	SNA93 (1993-2006)	YES	2000
Ireland	ESA95 (1997q1-2006q4)	SNA93 (1995-2003)	ESA95 (1990-2006)	YES	2004
Italy	ESA95 (1981q1-2006q4)	ESA95 (1999-2005)	ESA95 (1980-2006)	YES	2000
Japan	SNA93 (1994q1-2006q4)2	SNA93 (1980-2005)	SNA93 (1980-2005)	YES	2000
Korea	SNA93 (1970q1-2007q1)	SNA93 (1975-2005)	SNA93 (1975-2004)	NO	2000
Luxembourg	ESA95 (1995q1-2006q4)	..	ESA95(1990-2006)	YES	2000
Mexico	SNA93 (1980q1-2006q4)	..	..	NO	1993
Netherlands	ESA95 (1995q1-2006q4)	ESA95 (1987-2005)	ESA95 (1987-2006)	YES	2000
New Zealand	SNA93 (1987q2-2006q4)	..	SNA93 (1986-2003)	YES	1995/1996
Norway	SNA93 (1978q1-2006q4)	SNA93 (1999-2006)	SNA93 (1995-2006)	YES	2004
Poland	SNA93 (1995q1-2006q4)	SNA93 (1995-2005)	SNA93 (1999-2006)	YES	2000
Portugal	ESA95 (1995q1-2006q4)	ESA95(2000-2003)	ESA95 (1999-2006)	NO	2000
Slovak Republic	SNA93 (1993q1-2006q4)	SNA93 (1995q1-2006q4)	SNA93 (1993-2006)	NO	2000
Spain	ESA95 (1995q1-2007q1)	ESA95 (2000-2006)	ESA95 (1995-2006)	YES	2000
Sweden	ESA95 (1993q1-2006q4)	ESA95 (1993q1-2006q4)	ESA95 (1993-2006)	YES	2000
Switzerland	SNA93 (1981q1-2006q4)	SNA93 (1990-2004)	SNA93 (1990-2004)	YES	2000
Turkey	SNA68 (1987q1-2006q4)	..	..	NO	1987
United Kingdom	ESA95 (1955q1-2007q1)	ESA95 (1987q1-2006q4)	ESA95 (1987q1-2006q4)	YES	2003
United-States	NIPA (SNA93) (1960q1-2007q1)	NIPA (SNA93) (1960q1-2007q1)	NIPA (SNA93) (1960q1-2006q4)	YES	2000

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

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

Annex Tables

Demand and Output

Wages, Costs, Unemployment and Inflation

Key Supply-Side data

Saving

Fiscal Balances and Public Indebteness

Interest Rates and Exchange Rates

External Trade and Payments

Other background Data

Annex Table 1. **Real GDP**

Percentage change from previous year

	Average 1982-92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Fourth quarter 2006	Fourth quarter 2007	Fourth quarter 2008
Australia	2.9	3.9	5.0	4.0	4.0	3.8	5.2	4.3	3.5	2.2	3.9	3.4	3.2	3.0	2.4	3.3	3.3	2.5	3.6	3.2
Austria	2.6	0.4	2.4	2.6	2.6	2.2	3.7	3.7	2.8	0.6	0.5	0.8	2.3	2.6	3.4	3.2	2.6	3.6	2.9	2.4
Belgium	2.3	-1.0	3.2	2.4	1.1	3.5	1.7	3.3	3.9	0.7	1.4	1.0	2.8	1.4	3.0	2.5	2.3	3.0	2.3	2.3
Canada	2.6	2.3	4.8	2.8	1.6	4.2	4.1	5.5	5.2	1.8	2.9	1.8	3.3	2.9	2.7	2.5	3.0	2.3	3.0	3.0
Czech Republic	..	..	2.6	5.9	4.2	-0.7	-0.8	1.3	3.7	2.5	1.9	3.6	4.2	6.1	6.1	5.5	5.0	5.8	5.2	4.9
Denmark	2.1	-0.1	5.5	3.1	2.8	3.2	2.2	2.6	3.5	0.7	0.5	0.4	2.1	3.1	3.2	2.2	1.7	3.1	2.2	1.4
Finland	1.6	-1.0	3.6	4.0	3.6	6.1	5.2	3.9	5.3	2.5	1.6	1.9	3.5	3.0	5.5	3.0	2.7	5.3	2.4	3.0
France	2.3	-0.8	1.5	1.8	1.0	2.1	3.3	3.0	4.0	1.8	1.1	1.1	2.0	1.2	2.1	2.2	2.2	2.3	2.3	2.1
Germany	3.0	-0.8	2.7	2.0	1.0	1.9	1.8	1.9	3.5	1.4	0.0	-0.2	0.8	1.1	3.0	2.9	2.2	3.9	2.4	1.9
Greece	1.3	-1.6	2.0	2.1	2.4	3.6	3.4	3.4	4.5	4.5	3.9	4.9	4.7	3.7	4.2	3.9	3.8	4.3	4.6	3.8
Hungary	..	..	2.9	1.5	1.2	4.7	4.9	4.2	5.0	4.1	4.3	4.1	4.9	4.2	3.9	2.5	3.1	3.4	2.3	3.4
Iceland	1.7	1.3	3.6	0.1	4.8	4.9	6.3	4.1	4.3	3.9	-0.1	2.7	7.6	7.2	2.6	0.8	0.8	3.1	-0.8	2.2
Ireland	3.6	2.7	5.8	9.6	8.3	11.7	8.6	10.7	9.2	5.9	6.0	4.3	4.3	5.5	6.0	5.5	4.1	5.1	5.7	4.1
Italy	2.5	-0.9	2.3	2.9	0.6	2.0	1.3	1.9	3.8	1.7	0.3	0.1	1.0	0.2	1.9	2.0	1.7	2.8	1.5	1.4
Japan	3.8	0.2	1.1	2.0	2.7	1.6	-2.0	-0.1	2.9	0.2	0.3	1.4	2.7	1.9	2.2	2.4	2.1	2.5	2.0	2.2
Korea	8.9	6.1	8.5	9.2	7.0	4.7	-6.9	9.5	8.5	3.8	7.0	3.1	4.7	4.2	5.0	4.3	4.8	4.0	4.6	4.6
Luxembourg	6.0	4.2	3.8	1.4	1.6	5.9	6.5	8.4	8.3	2.5	3.8	1.4	3.7	3.9	6.2	4.8	5.2	..	..	..
Mexico	1.9	1.9	4.5	-6.2	5.1	6.8	4.9	3.9	6.6	-0.2	0.8	1.4	4.2	2.8	4.8	3.4	3.7	4.3	3.5	3.9
Netherlands	2.8	0.7	2.9	3.0	3.4	4.3	3.9	4.7	3.9	1.9	0.1	0.3	2.0	1.5	2.9	2.9	2.9	2.9	3.0	2.7
New Zealand	1.5	4.7	6.2	4.2	3.4	3.0	0.7	4.7	3.8	2.5	4.5	4.2	4.0	2.5	1.7	2.1	1.6	2.9	1.2	1.6
Norway	3.0	2.8	5.1	4.2	5.1	5.4	2.7	2.0	3.3	2.0	1.5	1.0	3.9	2.7	2.9	3.1	2.6	3.2	2.9	2.5
Poland	..	..	5.3	7.0	6.2	7.1	5.0	4.5	4.3	1.2	1.4	3.9	5.3	3.6	6.1	6.7	5.5	..	..	..
Portugal	3.4	-2.0	1.0	4.3	3.6	4.2	4.8	3.9	3.9	2.0	0.8	-0.7	1.3	0.5	1.3	1.8	2.0	1.7	2.0	2.0
Slovak Republic	..	..	6.2	5.8	6.9	5.7	3.7	0.3	0.7	3.2	4.1	4.2	5.4	6.0	8.3	8.7	7.6	9.2	7.9	7.5
Spain	3.2	-1.0	2.4	2.8	2.4	3.9	4.5	4.7	5.0	3.6	2.7	3.0	3.2	3.5	3.9	3.6	2.7	4.0	3.1	2.5
Sweden	1.9	-2.0	3.8	4.1	1.4	2.5	3.6	4.3	4.4	1.2	2.0	1.8	3.6	2.9	4.7	4.3	3.5	4.9	4.0	3.0
Switzerland	2.1	-0.2	1.1	0.4	0.5	1.9	2.8	1.3	3.6	1.0	0.3	-0.2	2.3	1.9	2.7	2.1	2.2	2.2	2.3	2.0
Turkey	5.1	8.0	-5.5	7.2	7.0	7.5	3.1	-4.7	7.4	-7.5	7.9	5.8	8.9	7.4	6.0	5.7	6.2	..	..	..
United Kingdom	2.5	2.3	4.3	2.9	2.8	3.0	3.3	3.0	3.8	2.4	2.1	2.7	3.3	1.9	2.8	2.7	2.5	3.0	2.6	2.4
United States	3.5	2.7	4.0	2.5	3.7	4.5	4.2	4.4	3.7	0.8	1.6	2.5	3.9	3.2	3.3	2.1	2.5	3.1	2.1	2.6
Euro area	2.7	-0.7	2.4	2.4	1.4	2.6	2.7	2.9	4.0	1.9	0.9	0.8	1.8	1.5	2.8	2.7	2.3	3.3	2.5	2.2
Total OECD	3.3	1.5	3.3	2.5	3.0	3.6	2.6	3.3	4.0	1.1	1.6	1.9	3.2	2.6	3.2	2.7	2.7	3.2	2.6	2.7

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

These numbers are working-day adjusted and hence may differ from the basis used for official projections.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050107100108

Annex Table 2. **Nominal GDP**

Percentage change from previous year

	Average 1982-92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Fourth quarter 2006	2007	2008
Australia	9.0	5.3	5.9	5.5	6.3	5.4	5.4	4.9	8.0	6.1	7.0	6.4	7.2	7.6	7.4	6.9	6.4	7.1	6.5	6.3
Austria	5.9	3.3	4.8	4.5	3.4	2.1	3.7	4.0	5.3	2.6	2.2	2.4	4.0	4.2	4.9	5.2	4.9	5.2	5.0	4.9
Belgium	6.0	3.0	5.4	3.6	1.8	4.6	3.8	3.6	5.9	2.8	3.3	2.6	5.2	3.5	5.0	4.1	4.0	5.0	4.0	4.0
Canada	6.3	3.8	6.0	5.1	3.3	5.5	3.7	7.4	9.6	2.9	4.0	5.2	6.4	6.2	4.9	5.1	5.1	2.8	6.0	5.0
Czech Republic	..	..	13.9	16.8	14.8	7.6	10.2	4.2	5.2	7.4	4.8	4.6	7.9	6.8	7.9	8.2	8.2	8.5	7.7	8.4
Denmark	6.3	0.6	7.1	4.4	4.9	5.3	3.4	4.3	6.6	3.2	2.8	2.0	4.2	6.3	5.5	4.6	4.8	4.8	5.8	4.6
Finland	7.0	0.8	5.2	8.9	3.2	8.6	8.8	4.7	7.9	5.7	3.0	1.5	4.1	3.4	6.9	5.1	4.1	8.1	3.8	4.5
France	6.8	0.9	3.5	3.5	2.8	3.3	4.5	3.0	5.6	3.8	3.5	3.0	3.8	3.1	4.2	4.1	4.0	4.4	4.3	3.7
Germany	5.8	2.9	5.2	3.9	1.5	2.2	2.4	2.2	2.8	2.6	1.4	0.8	1.6	1.7	3.2	4.8	3.5	4.1	4.4	3.6
Greece	19.8	12.6	13.4	12.1	9.9	10.7	8.8	6.5	8.0	7.3	7.7	8.6	8.2	7.2	7.5	7.2	7.3	7.5	6.4	7.6
Hungary	..	..	23.0	28.6	22.8	23.9	18.1	12.9	15.6	12.9	12.6	10.1	9.4	6.3	7.0	9.1	6.6	6.6	9.4	5.5
Iceland	26.3	3.2	6.3	3.1	7.4	8.0	11.5	7.5	8.1	12.9	5.5	3.4	10.3	10.3	11.8	6.1	4.1	14.1	2.7	5.2
Ireland	8.1	8.0	7.5	13.0	10.6	15.8	16.3	15.1	15.4	11.7	11.3	6.9	6.3	9.2	9.4	8.0	7.3	6.6	9.5	6.5
Italy	10.9	3.0	5.9	8.0	5.8	4.6	3.9	3.2	5.9	4.8	3.7	3.2	3.9	2.5	3.7	4.0	3.8	4.1	3.6	3.5
Japan	5.9	0.8	0.5	1.4	2.2	2.2	-2.0	-1.4	1.1	-1.0	-1.3	-0.2	1.6	0.6	1.3	2.1	2.3	1.9	1.7	2.6
Korea	16.5	12.9	17.0	17.2	12.5	9.5	-1.4	9.4	9.3	7.5	10.0	5.9	7.5	4.0	4.6	5.4	5.6	3.5	6.0	5.1
Luxembourg	9.0	10.4	7.5	3.8	4.5	4.0	6.1	14.1	10.6	2.6	6.7	6.3	5.4	8.9	12.4	9.9	8.4	..	..	..
Mexico	59.4	10.7	13.3	29.3	37.5	25.7	21.0	19.5	19.5	5.7	7.8	10.0	11.9	8.5	9.4	5.4	7.6	4.2	9.2	7.2
Netherlands	4.3	2.5	5.2	5.1	4.7	7.0	5.9	6.5	8.2	7.1	3.9	2.5	2.7	3.2	4.4	4.8	5.0	4.3	4.9	5.0
New Zealand	9.1	7.7	7.4	6.5	6.0	3.4	1.6	5.1	6.4	6.8	5.6	5.6	7.8	4.7	4.0	5.5	3.7	5.4	4.6	3.3
Norway	7.2	5.1	4.8	7.4	9.5	8.3	1.9	8.8	19.4	3.8	-0.3	4.0	9.4	11.5	10.6	3.9	5.6	5.8	5.4	5.7
Poland	..	..	44.5	36.9	25.3	22.0	16.6	10.8	11.8	4.7	3.7	4.3	9.7	6.3	7.6	8.9	8.2	..	..	..
Portugal	19.6	5.2	8.3	7.9	6.3	8.2	8.7	7.3	7.1	5.8	4.7	2.3	4.1	3.3	4.2	4.7	3.8	4.8	3.8	3.9
Slovak Republic	..	..	20.5	16.3	11.9	10.6	9.0	7.9	10.5	8.4	8.9	9.1	11.8	8.5	11.2	11.7	9.4	11.6	10.8	9.5
Spain	11.6	3.5	6.4	7.8	6.0	6.3	7.1	7.5	8.7	8.0	7.1	7.3	7.4	7.8	7.8	6.5	5.9	7.8	5.5	6.5
Sweden	8.8	0.8	6.7	7.6	2.3	4.1	4.3	5.5	5.8	3.2	3.6	3.7	4.3	4.1	6.3	5.5	6.0	6.5	5.8	5.5
Switzerland	5.4	2.1	2.6	1.2	0.5	1.8	2.5	2.0	4.4	1.7	1.9	1.0	2.9	1.9	4.2	3.0	3.4	4.4	3.1	3.4
Turkey	59.1	81.3	95.2	100.7	90.3	95.2	81.1	48.2	60.9	43.2	55.6	29.6	19.7	13.2	17.7	14.3	12.6	..	..	..
United Kingdom	8.2	5.0	6.0	5.7	6.3	6.0	6.1	5.3	5.1	4.6	5.2	5.9	6.0	4.2	5.2	5.6	4.9	5.6	5.1	4.8
United States	6.9	5.0	6.2	4.6	5.7	6.2	5.3	6.0	5.9	3.2	3.4	4.7	6.9	6.3	6.3	4.7	4.8	5.7	4.8	4.9
Euro area	7.9	2.8	5.3	5.3	3.4	4.1	4.4	3.8	5.5	4.4	3.5	2.9	3.7	3.4	4.6	4.8	4.3	4.9	4.6	4.3
Total OECD	10.4	5.4	8.1	8.0	7.6	7.5	5.9	5.9	7.0	4.2	4.2	4.3	5.7	4.8	5.4	4.8	4.7	5.1	4.9	4.7

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050143856607

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

Percentage change from previous year

	Average 1982-92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Fourth quarter 2006	Fourth quarter 2007	Fourth quarter 2008
Australia	2.5	1.3	3.8	4.8	2.8	3.7	4.4	5.2	3.9	2.9	3.9	3.6	5.7	3.0	3.1	3.5	3.2	3.8	3.3	3.1
Austria	2.9	-0.3	2.9	0.7	1.3	1.8	1.8	2.3	3.6	1.2	0.0	1.3	2.0	1.6	1.8	2.1	2.3	1.6	2.5	2.3
Belgium	2.1	-1.3	1.6	0.9	1.2	1.9	2.8	2.1	3.8	1.1	0.7	0.9	1.5	1.1	2.5	2.1	2.1	2.3	2.2	2.0
Canada	2.8	1.8	3.0	2.1	2.6	4.6	2.8	3.8	4.0	2.3	3.6	3.0	3.3	3.9	4.1	3.0	2.7	4.3	2.6	2.8
Czech Republic	..	..	5.3	5.9	8.9	2.2	-0.8	2.7	1.3	2.2	2.2	6.0	2.6	2.8	4.6	5.2	4.0	5.3	4.7	3.8
Denmark	1.8	-0.5	6.3	1.6	2.2	3.0	2.3	-0.4	0.2	0.1	1.5	1.0	4.7	4.2	3.4	1.9	1.6	3.1	2.3	1.5
Finland	2.0	-3.4	2.5	4.2	3.5	3.7	4.2	3.1	2.3	2.8	2.3	4.7	2.8	4.0	3.0	2.9	2.7	2.2	3.4	2.6
France	1.9	-0.4	0.9	1.6	1.4	0.2	3.6	3.3	3.5	2.5	2.4	2.2	2.5	2.1	2.6	2.2	2.6	2.5	2.5	2.5
Germany	3.0	0.9	2.0	2.3	1.2	1.0	1.4	2.9	2.5	1.9	-0.8	-0.1	-0.3	0.3	1.0	0.9	1.7	1.9	0.9	1.8
Greece	2.5	-1.0	1.4	2.7	2.4	2.7	3.5	2.5	2.2	4.8	3.8	4.2	4.6	3.7	3.5	3.3	3.3	..	..	..
Hungary	..	..	0.2	-7.1	-3.6	1.9	4.8	5.6	5.5	6.2	10.5	8.4	3.1	3.9	1.6	-0.2	1.2	0.0	0.0	1.9
Iceland	1.6	-4.6	2.9	2.2	5.7	6.3	10.2	7.9	4.2	-2.8	-1.5	6.2	6.9	12.9	4.6	-0.1	-2.1	1.2	-0.8	-2.0
Ireland	3.0	2.9	4.4	3.4	6.6	7.5	7.2	8.3	8.6	5.4	3.8	3.2	3.8	6.6	6.2	6.9	5.4	6.4	7.6	4.5
Italy	2.8	-3.1	1.6	1.5	1.0	3.2	3.4	2.6	2.4	0.7	0.2	1.0	0.7	0.6	1.5	1.5	1.8	1.7	1.6	1.5
Japan	3.6	1.4	2.7	1.9	2.5	0.7	-0.9	1.0	0.7	1.6	1.1	0.4	1.6	1.6	0.9	1.5	1.5	0.5	1.6	1.6
Korea	8.2	6.0	8.4	9.9	6.7	3.3	-13.4	11.5	8.4	4.9	7.9	-1.2	-0.3	3.6	4.2	4.4	3.6	3.6	4.6	3.2
Luxembourg	3.1	2.0	4.0	1.9	3.0	3.9	5.7	3.6	5.0	3.4	6.1	2.1	2.8	3.4	4.1	2.3	3.0	..	..	..
Mexico	2.3	1.5	4.6	-9.5	2.2	6.5	5.4	4.3	8.2	2.5	1.6	2.2	4.1	5.1	5.0	3.4	4.2	3.1	4.8	4.2
Netherlands	2.0	0.3	1.4	2.9	4.3	3.5	5.1	5.3	3.7	1.8	0.9	-0.2	0.6	0.7	-1.2	2.3	2.8	-1.9	3.5	2.2
New Zealand	1.6	2.7	5.9	4.3	5.0	2.4	2.6	3.8	1.7	2.2	4.4	5.7	6.0	4.7	2.0	2.5	1.3	1.8	2.2	1.1
Norway	2.1	2.3	3.4	3.6	6.3	3.1	2.8	3.7	4.2	2.1	3.1	2.8	5.6	3.3	4.3	3.4	2.9	5.4	3.1	2.8
Poland	..	..	3.9	3.7	8.8	7.2	5.0	5.7	3.1	2.2	3.4	1.9	4.3	2.0	5.1	5.0	5.0	..	..	..
Portugal	3.2	1.2	1.0	0.6	3.4	3.6	5.3	5.2	3.7	1.3	1.3	-0.1	2.5	2.2	1.1	1.4	1.8	1.2	1.8	1.9
Slovak Republic	..	..	1.0	5.4	9.3	7.3	4.8	1.1	0.9	5.2	5.2	0.2	4.2	7.0	6.1	6.0	6.4	6.0	6.5	5.8
Spain	3.1	-1.9	1.1	1.7	2.3	3.2	4.8	5.3	5.0	3.4	2.8	2.8	4.2	4.2	3.7	3.6	2.8	3.7	2.9	2.8
Sweden	1.6	-3.5	1.8	0.9	1.7	2.5	3.0	3.8	5.0	0.4	1.5	1.8	2.2	2.4	2.8	3.6	3.7	2.7	4.1	3.4
Switzerland	1.8	-0.6	1.0	0.7	1.0	1.5	2.4	2.3	2.3	2.0	0.0	0.8	1.5	1.3	1.9	2.0	1.7	1.9	1.9	1.6
Turkey	3.8	8.6	-5.4	4.8	8.5	8.4	0.6	-2.6	6.2	-9.2	2.1	6.6	10.1	8.8	5.2	4.7	5.2	..	..	..
United Kingdom	3.2	3.0	3.0	1.8	3.8	3.5	3.9	4.5	4.6	3.0	3.5	2.9	3.4	1.4	2.0	2.4	2.2	2.7	1.9	2.2
United States	3.6	3.3	3.7	2.7	3.4	3.8	5.0	5.1	4.7	2.5	2.7	2.8	3.9	3.5	3.2	3.1	2.4	3.6	2.7	2.5
Euro area	2.6	-0.7	1.6	1.9	1.6	1.8	3.0	3.3	3.1	2.0	0.9	1.2	1.5	1.6	1.9	2.0	2.3	2.1	2.1	2.2
Total OECD	3.3	1.8	2.9	2.1	3.0	3.0	2.9	4.0	3.9	2.2	2.2	2.0	2.9	2.7	2.7	2.7	2.5	2.7	2.6	2.5

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050151254652

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

Percentage change from previous year

	Average 1982-92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Fourth quarter 2006	Fourth quarter 2007	Fourth quarter 2008
Australia	3.8	0.6	3.5	4.1	3.3	3.0	3.2	3.2	4.4	1.7	3.0	3.7	3.9	3.4	3.7	3.2	3.5	2.6	3.9	3.5
Austria	1.7	3.2	2.9	2.9	2.6	2.5	2.3	1.8	0.9	-1.0	1.6	1.3	1.4	1.9	0.9	0.9	1.0	0.5	1.2	0.8
Belgium	1.3	-0.2	1.4	1.5	1.6	0.4	0.9	3.3	2.9	2.4	2.9	2.2	2.1	-0.6	1.4	2.2	2.2	2.0	2.2	2.2
Canada	2.5	0.0	-1.2	-0.6	-1.2	-1.0	3.2	2.1	3.1	3.9	2.5	3.5	3.0	2.7	3.4	2.6	2.8	2.9	2.8	2.8
Czech Republic	..	..	-2.3	-4.3	1.5	3.0	-1.6	3.7	0.7	3.6	6.7	7.1	-3.2	1.0	0.3	1.0	1.0	1.4	0.5	1.0
Denmark	0.5	4.2	2.2	2.4	3.6	0.7	3.5	2.4	2.3	2.2	2.1	0.7	1.6	1.1	1.2	1.6	1.1	1.5	1.1	1.1
Finland	2.3	-4.3	0.1	1.9	2.7	2.8	1.7	1.3	0.3	1.3	2.6	1.6	1.8	1.7	1.0	0.8	0.8	1.1	0.5	1.0
France	2.6	3.4	0.3	0.0	2.0	1.3	-0.6	1.4	2.0	1.1	1.9	2.0	2.2	1.1	1.9	1.7	1.0	2.4	1.2	1.0
Germany	1.4	0.1	2.7	1.9	2.1	0.5	1.8	1.2	1.4	0.5	1.5	0.4	-1.3	0.6	1.8	1.3	1.8	2.0	2.0	1.7
Greece	0.5	2.6	-1.1	5.6	0.9	3.0	1.7	2.1	14.8	0.4	6.5	-1.3	2.5	-0.5	2.0	1.3	1.0	..	..	..
Hungary	..	..	-7.4	-5.7	-2.3	3.1	1.8	1.5	1.9	2.4	6.0	5.4	1.9	1.9	-2.6	-1.5	-2.8	-3.7	-1.1	-4.5
Iceland	4.0	2.5	4.0	1.7	1.0	2.6	4.2	4.5	3.9	4.7	5.3	2.1	2.0	3.7	2.9	3.0	3.0	2.8	3.2	3.0
Ireland	0.3	0.1	4.1	3.9	3.4	5.0	5.6	6.6	8.2	9.4	6.8	3.2	2.0	4.9	4.3	5.3	5.4	4.3	6.3	5.4
Italy	2.5	-1.5	-1.7	-3.3	0.4	0.1	0.4	1.3	2.3	3.6	2.1	2.0	1.6	1.5	-0.3	0.8	0.8	-0.3	1.2	0.6
Japan	3.2	3.0	3.2	3.9	2.9	0.8	1.8	4.2	4.3	3.0	2.4	2.3	1.9	1.7	0.3	1.3	1.7	1.4	1.3	1.7
Korea	6.8	5.6	4.1	5.0	8.0	2.6	2.3	2.9	1.6	4.9	6.0	3.8	3.7	5.0	5.8	5.0	5.0	6.9	4.3	5.0
Luxembourg	4.8	5.2	1.0	4.7	6.5	3.2	1.6	8.3	4.7	6.1	4.2	4.4	3.2	4.8	2.3	2.5	2.2	..	..	..
Mexico	2.1	2.4	2.9	-1.3	-0.7	2.9	2.3	4.7	2.4	-2.0	-0.3	0.8	-0.4	0.4	6.0	-0.1	0.3	3.2	0.9	0.2
Netherlands	2.8	1.6	1.5	1.5	-0.7	2.5	2.5	2.8	2.0	4.6	3.3	2.9	0.1	0.3	8.6	1.6	1.9	8.5	2.0	1.5
New Zealand	1.5	0.9	1.0	4.5	2.4	6.8	-0.4	6.7	-2.4	3.9	1.8	2.4	5.7	4.1	4.2	4.5	4.0	4.1	4.8	3.5
Norway	3.1	2.6	1.5	0.6	2.7	3.3	3.4	3.1	1.9	4.6	3.1	1.7	1.5	1.8	2.2	2.6	2.9	2.0	3.9	2.2
Poland	..	..	1.2	4.8	2.2	3.1	1.9	2.5	2.1	2.7	1.4	4.9	3.1	5.2	3.9	2.9	2.7	..	..	..
Portugal	4.9	-0.2	4.3	1.0	3.3	2.2	4.3	5.6	3.5	3.3	2.6	0.2	2.5	2.3	-0.3	-1.0	-1.1	-1.0	-0.8	-1.3
Slovak Republic	..	..	-10.7	3.6	11.1	0.2	6.0	-7.4	3.6	5.2	5.2	3.9	2.0	-0.6	4.1	3.0	2.1	3.7	2.8	2.0
Spain	5.1	2.7	0.5	2.4	1.3	2.5	3.5	4.0	5.3	3.9	4.5	4.8	6.3	4.8	4.4	5.5	3.9	4.9	4.0	3.9
Sweden	1.9	0.1	-0.8	-0.4	0.6	-0.8	3.5	1.7	-1.3	0.9	2.3	0.7	0.4	0.3	1.8	1.5	1.7	2.4	0.9	2.1
Switzerland	3.8	-0.7	2.0	1.0	0.9	-0.1	-0.9	0.3	2.6	4.2	1.7	2.6	-0.8	-1.6	-0.5	-0.1	0.3	-0.2	0.0	0.4
Turkey	6.5	8.6	-5.5	6.8	8.6	4.1	7.8	6.5	7.1	-8.5	5.4	-2.4	0.5	2.4	10.0	9.2	4.5	..	..	..
United Kingdom	1.1	-0.7	1.0	1.3	0.7	-0.5	1.1	3.7	3.1	2.4	3.5	3.5	3.2	3.0	2.4	2.3	2.1	2.4	2.1	2.1
United States	2.5	-0.3	0.3	0.2	0.4	1.8	1.6	3.1	1.7	3.1	4.3	2.5	2.1	0.9	1.6	2.5	2.5	2.5	2.6	2.2
Euro area	2.3	0.9	1.0	0.7	1.6	1.1	1.2	1.8	2.4	2.0	2.3	1.8	1.3	1.3	2.1	1.8	1.6	2.3	1.8	1.5
Total OECD	2.7	0.9	1.0	1.2	1.5	1.4	1.7	2.9	2.5	2.4	3.2	2.3	1.9	1.5	2.2	2.2	2.1	2.4	2.5	1.9

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050153530850

Annex Table 5. **Real total gross fixed capital formation**

Percentage change from previous year

	Average 1982-92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Fourth quarter 2006	2007	2008
Australia	1.5	5.0	12.2	3.4	5.8	10.5	6.0	5.7	1.2	-4.5	17.0	8.8	7.5	7.8	6.1	5.0	4.0	4.0	4.8	3.9
Austria	3.6	2.1	2.9	0.8	1.8	1.7	2.9	3.3	5.6	-0.8	-6.4	5.2	0.2	1.3	4.1	4.1	2.7	5.0	3.4	2.3
Belgium	4.0	-2.5	0.4	3.4	0.9	7.4	3.6	5.1	3.7	0.2	-2.1	-0.9	8.1	4.3	5.7	4.8	4.0	7.9	4.7	3.7
Canada	2.7	-2.0	7.5	-2.1	4.4	15.2	2.4	7.3	4.7	4.0	1.6	6.5	8.0	7.1	6.7	3.3	3.8	5.0	3.4	3.9
Czech Republic	..	..	17.3	19.8	7.6	-5.7	-0.9	-3.3	5.1	6.6	5.1	0.4	4.7	1.3	7.3	7.4	8.0	7.9	8.0	8.0
Denmark	4.0	-3.7	8.5	11.9	5.8	10.3	8.1	-0.1	7.6	-1.4	0.1	-0.2	5.6	9.6	11.1	6.7	3.6	9.5	5.8	2.3
Finland	-0.7	-15.7	-2.6	14.8	5.4	13.7	11.3	2.3	6.3	4.1	-2.8	3.9	3.0	3.8	5.8	4.5	3.7	5.2	4.5	3.5
France	2.5	-6.8	1.7	1.7	0.3	0.1	6.9	7.9	7.5	2.3	-1.7	2.3	2.6	3.7	4.0	3.9	2.0	4.3	2.7	2.0
Germany	3.9	-4.4	4.6	0.1	-0.6	0.7	3.8	4.5	3.8	-3.5	-6.3	-0.7	-1.4	1.0	6.4	4.9	2.7	6.8	3.7	2.3
Greece	0.5	-4.0	-3.1	4.1	8.4	6.8	10.6	11.0	8.0	3.2	5.6	13.3	5.8	0.2	14.6	6.3	5.7	..	..	..
Hungary	..	..	12.5	-4.3	6.8	9.2	13.2	5.9	7.7	5.1	10.1	2.1	7.7	5.6	-1.8	1.0	4.1	-4.4	2.5	5.1
Iceland	-0.2	-9.8	-0.2	-1.7	25.0	9.3	34.4	-4.1	11.8	-4.5	-14.9	12.5	28.0	34.3	13.0	-18.0	-21.1	2.6	-30.4	-10.6
Ireland	-0.4	-5.1	11.8	15.8	17.4	18.1	15.0	14.8	7.2	-0.4	3.5	5.6	7.5	12.8	4.0	2.8	2.7	..	..	..
Italy	2.7	-11.5	0.7	7.1	1.6	1.8	4.0	3.5	6.7	2.3	4.0	-1.5	1.3	-0.2	2.4	3.2	2.8	3.8	3.0	2.4
Japan	4.8	-2.6	-1.6	0.9	4.6	-0.3	-7.2	-0.8	1.2	-0.9	-4.9	-0.5	1.4	2.4	3.5	3.0	1.4	5.5	1.0	1.7
Korea	13.1	7.7	12.5	13.1	8.4	-2.3	-22.9	8.3	12.2	-0.2	6.6	4.0	2.1	2.4	3.2	4.2	3.0	4.3	2.4	3.7
Luxembourg	4.6	20.6	0.0	-1.5	4.9	10.4	6.1	22.0	-4.7	8.8	4.7	1.9	0.5	2.2	2.9	5.1	4.5	..	..	..
Mexico	1.4	-2.5	8.4	-29.0	16.4	21.0	10.3	7.7	11.4	-5.6	-0.6	0.4	7.5	7.6	10.0	6.4	6.5	7.3	6.8	6.6
Netherlands	3.6	-3.2	2.1	4.1	8.5	8.5	6.8	8.7	0.6	0.2	-4.6	-1.5	-0.8	3.7	6.7	6.0	5.0	10.5	3.0	6.7
New Zealand	-0.7	14.5	14.9	12.4	7.2	1.2	-3.4	6.7	8.7	-1.0	10.0	11.0	10.9	3.3	-3.4	-0.2	1.4	-4.2	0.3	1.4
Norway	-1.4	6.3	5.3	3.9	10.2	15.8	13.6	-5.4	-3.5	-1.1	-1.1	0.2	10.2	11.2	8.9	8.1	2.6	4.6	3.5	2.3
Poland	..	..	9.2	16.6	19.7	21.8	14.0	6.6	2.7	-9.7	-6.3	-0.1	6.4	6.5	16.5	14.8	10.0	..	..	..
Portugal	3.0	-5.5	2.7	6.6	5.6	14.3	11.7	6.2	3.5	1.0	-3.5	-7.4	1.2	-3.2	-1.6	0.8	5.2	-2.6	5.5	5.0
Slovak Republic	..	..	-2.5	0.6	30.1	14.0	9.4	-15.7	-9.6	12.9	0.3	-2.3	5.0	17.5	7.3	7.4	7.1	7.1	6.6	7.0
Spain	5.1	-8.9	1.9	7.7	2.6	5.0	11.3	10.4	6.6	4.8	3.4	5.9	5.0	7.0	6.3	4.8	2.7	6.4	3.2	2.7
Sweden	2.2	-14.6	6.6	9.9	4.5	-0.3	7.8	8.2	5.7	-1.0	-2.6	1.1	6.4	8.1	8.2	6.6	4.4	8.8	5.5	3.9
Switzerland	2.8	-2.9	6.5	4.4	-1.7	2.0	6.5	1.2	4.3	-3.1	0.3	-1.4	4.5	3.2	3.7	3.1	2.0	5.0	2.4	1.6
Turkey	8.6	26.4	-16.0	9.1	14.1	14.8	-3.9	-15.7	16.9	-31.5	-1.1	10.0	32.4	24.0	14.3	7.3	7.7	..	..	..
United Kingdom	3.6	0.3	4.7	3.1	5.5	6.5	14.0	2.8	2.7	2.5	3.7	0.4	6.0	3.0	6.5	7.6	5.3	8.2	6.7	4.6
United States	3.8	6.0	7.3	5.7	8.1	8.0	9.1	8.2	6.1	-1.7	-3.5	3.2	6.1	6.4	3.1	-2.9	1.8	-0.3	-1.2	2.9
Euro area	3.2	-6.4	2.6	2.9	1.3	2.7	5.9	6.1	5.3	0.5	-1.5	1.2	1.8	2.7	5.1	4.3	3.0	5.8	3.3	2.9
Total OECD	3.9	0.6	4.8	3.3	6.0	6.0	5.0	5.4	5.4	-1.3	-1.6	2.2	4.8	5.0	4.8	2.0	2.9	3.8	2.0	3.3

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050164105466

Annex Table 6. **Real gross private non-residential fixed capital formation**

Percentage change from previous year

	Average 1982-92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Fourth quarter 2006	2007	2008
Australia	1.1	1.0	13.0	11.0	14.2	9.1	4.0	5.2	-0.2	-2.6	15.0	11.8	9.6	13.1	8.8	4.5	4.4	2.0	6.4	4.0
Austria	5.3	-0.1	1.1	-1.6	3.0	10.4	6.5	6.4	11.5	3.1	-8.1	9.2	0.7	1.1	4.3	4.1	2.5	5.4	3.1	2.4
Belgium	5.7	-5.8	-1.7	4.1	6.0	7.0	5.5	3.4	4.7	3.3	-2.8	-2.6	8.5	3.4	6.6	6.9	4.4	12.8	3.0	4.1
Canada	2.0	-1.4	9.4	4.8	4.4	22.6	5.3	7.2	4.7	0.2	-4.1	7.0	9.1	9.4	9.2	6.2	5.8	8.1	5.7	5.8
Denmark	6.2	-5.7	7.5	12.3	4.8	11.9	11.8	-1.7	6.7	-0.3	0.6	-3.3	1.2	7.5	13.0	6.8	5.3	8.8	8.5	3.5
Finland	-0.5	-18.3	-3.7	30.0	4.4	9.5	15.6	0.0	10.1	10.3	-6.9	0.2	0.0	6.7	6.7	5.3	3.9	7.5	4.0	3.9
France	3.8	-8.6	0.7	3.4	0.3	1.6	9.9	8.7	8.5	3.4	-3.1	1.3	2.4	3.5	4.9	5.0	2.6	5.6	3.2	2.5
Germany	4.0	-8.6	1.5	2.1	-0.3	2.7	6.1	5.8	8.0	-2.6	-7.1	0.0	0.7	4.2	7.2	5.5	3.5	6.3	5.0	2.7
Greece	5.9	14.6	12.7	3.9	25.8	5.3	13.6	23.0	17.1	2.8	-0.1	12.3	11.8	5.5	2.1	3.2	3.8	..	..	..
Iceland	-0.9	-23.4	-0.1	9.6	49.2	17.7	46.2	-7.4	11.1	-11.5	-20.0	20.9	33.8	57.5	13.8	-27.1	-33.3	0.4	-43.8	-18.6
Ireland	-0.3	-5.5	7.8	18.5	18.6	21.0	20.9	15.1	3.8	-10.1	2.8	-0.3	7.6	18.5	8.9	12.2	10.0	..	..	..
Italy	3.4	-14.2	5.0	11.4	0.8	2.9	4.5	3.7	8.0	2.1	5.2	-3.6	0.9	-2.5	2.3	3.2	3.4	4.3	3.1	3.1
Japan	7.0	-10.3	-5.7	3.0	1.6	8.4	-6.5	-4.3	7.5	1.3	-5.2	4.4	5.6	6.6	7.6	5.6	3.3	11.4	3.0	3.5
Korea	13.3	6.8	17.0	15.7	8.5	-3.4	-29.2	13.8	18.9	-4.7	7.6	2.1	1.9	0.7	4.2	4.6	3.0	6.2	2.2	4.1
Netherlands	5.0	-4.9	-0.2	5.4	10.3	13.5	8.4	11.3	-2.0	-3.0	-7.6	-1.0	-2.3	2.7	8.4	7.6	5.7	18.4	0.2	8.0
New Zealand	0.5	22.4	16.3	15.5	6.5	-6.0	-1.1	6.7	20.0	-2.8	-1.5	14.6	13.8	9.3	-6.2	-0.9	0.2	-5.0	-3.0	0.8
Norway	-1.9	12.2	3.3	2.3	13.1	16.1	16.0	-8.3	-3.9	-4.3	-1.9	-2.9	10.3	13.0	9.9	9.3	2.5	5.8	3.4	2.1
Spain	6.3	-13.8	3.8	12.5	5.0	6.1	11.8	12.4	8.6	5.3	2.4	6.7	4.4	7.4	6.9	5.4	3.3	7.8	3.7	3.3
Sweden	2.7	-11.6	17.9	20.8	8.0	4.4	9.3	8.5	8.2	-2.9	-7.1	1.2	5.9	8.8	6.1	5.2	4.8	4.6	6.2	4.2
Switzerland	..	-4.3	5.1	8.5	1.3	3.1	9.7	0.9	4.8	-2.1	2.1	-4.2	5.4	3.7	5.1	4.4	2.7	..	..	..
United Kingdom	4.4	-3.7	4.8	7.8	10.5	9.8	20.1	4.0	4.5	1.3	1.2	-2.2	2.3	17.2	-4.7	9.6	5.6	13.5	5.9	5.4
United States	2.7	8.7	9.2	10.5	9.3	12.1	11.1	9.2	8.7	-4.2	-9.2	1.0	5.9	6.8	7.2	2.6	4.0	6.0	3.1	4.3
Euro area	4.1	-9.6	1.9	5.5	2.1	4.8	7.9	7.3	7.5	1.1	-2.3	0.6	2.1	3.0	5.4	5.0	3.5	6.8	3.5	3.5
Total OECD	4.1	-1.1	5.2	7.9	6.1	8.9	6.6	6.3	7.9	-1.3	-4.6	1.6	4.6	6.9	6.5	4.5	3.9	7.4	3.5	4.0

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. Some countries, United States, Canada and France use hedonic price indices to deflate current-price values of investment in certain information and communication technology products such as computers. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex. National account data do not always have a sectoral breakdown of investment expenditures, and for some countries data are estimated by the OECD. See also *OECD Economic Outlook* Sources and Methods, *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050167472727

Annex Table 7. **Real gross private residential fixed capital formation**

Percentage change from previous year

	Average 1982-92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Fourth quarter 2006	2007	2008
Australia	1.6	12.7	12.3	-7.5	-9.6	16.5	11.6	5.7	1.5	-10.8	25.4	5.6	2.9	-3.8	-1.4	2.6	2.1	3.3	0.6	2.4
Austria	1.7	5.6	7.1	9.1	2.7	-1.6	-3.1	-1.9	-4.6	-6.5	-5.4	-4.0	-0.3	1.2	5.6	4.7	3.3	6.3	3.7	3.2
Belgium	6.5	1.8	5.5	4.3	-8.5	10.0	-0.3	5.0	1.1	-4.4	-0.8	3.6	9.0	3.4	4.7	5.1	3.6	5.7	4.7	3.0
Canada	3.6	-3.8	3.9	-14.9	9.7	8.2	-3.6	3.6	5.2	10.5	14.1	6.0	7.7	3.2	2.3	-2.0	-0.1	0.1	-1.0	0.1
Denmark	-0.3	-2.8	11.7	14.5	6.7	9.7	1.9	4.3	10.3	-9.3	0.8	11.8	14.4	16.7	8.1	6.5	0.7	9.9	1.6	0.1
Finland	-2.5	-8.9	-6.1	-2.9	6.6	22.8	8.7	9.7	4.2	-9.7	1.2	9.9	8.8	6.1	5.9	3.9	4.2	2.5	5.9	3.6
France	-0.5	-5.1	4.4	2.2	0.5	1.0	3.7	7.0	2.5	1.4	1.3	2.1	3.3	4.1	2.5	0.7	0.5	1.8	0.5	0.6
Germany	4.7	4.6	12.5	0.9	-0.5	-0.1	0.5	1.6	-1.6	-6.1	-6.2	-0.8	-3.6	-3.9	5.1	3.3	1.0	5.6	1.1	1.2
Greece	-1.5	-10.5	-11.3	2.6	-1.2	6.6	8.8	3.8	-4.3	3.9	15.0	12.2	-0.7	-1.3	32.3	9.7	7.4	..	..	..
Iceland	-0.8	-5.2	4.1	-8.7	7.1	-9.3	1.0	0.6	12.7	12.1	12.4	3.9	14.1	11.9	17.2	2.0	-6.6	14.3	-3.8	-6.5
Ireland	2.4	-11.9	24.0	14.5	18.3	15.9	6.4	12.9	7.4	3.3	5.5	20.3	12.3	12.3	-0.7	-5.5	-5.1	..	..	..
Italy	1.1	-2.1	-1.8	0.6	-1.9	-2.6	-1.2	1.1	3.8	1.0	0.6	2.3	2.0	5.5	4.1	4.1	1.5	4.8	2.8	1.0
Japan	2.5	1.1	7.2	-4.8	11.8	-12.1	-14.3	0.2	0.9	-5.3	-4.0	-1.0	1.9	-1.3	1.0	1.1	0.4	0.9	0.0	0.7
Korea	14.6	12.9	-0.2	9.9	2.8	-4.9	-13.4	-6.1	-9.3	12.9	11.4	9.0	4.7	2.2	-2.4	2.6	1.7	-2.1	0.9	2.0
Netherlands	1.9	1.2	7.6	1.3	3.9	5.6	2.9	2.8	1.6	3.2	-6.5	-3.7	6.5	5.3	5.3	5.2	5.1	2.0	8.0	7.0
New Zealand	1.9	17.4	13.0	3.5	5.2	6.8	-12.8	7.5	0.4	-11.5	19.8	20.0	4.3	-4.1	-3.7	2.4	0.1	-0.2	-0.3	0.2
Norway	-5.6	-0.8	24.5	10.5	2.8	12.1	7.7	3.0	5.6	8.1	-0.7	1.9	16.3	14.5	6.4	4.6	2.1	5.2	3.2	1.6
Spain	1.3	-3.9	0.1	7.4	8.7	3.4	10.0	9.7	8.6	2.2	3.7	5.7	11.7	6.4	2.9	2.5	0.2	1.5	1.0	0.1
Sweden	1.9	-33.5	-34.1	-23.9	8.9	-11.5	-0.6	10.8	10.0	4.2	10.5	5.4	15.4	14.0	16.5	10.3	5.1	17.6	6.1	4.7
Switzerland	..	2.5	12.3	-2.2	-8.5	-0.1	2.8	-5.5	-2.7	-4.0	-3.7	14.4	7.1	4.7	0.8	-0.9	-0.2	..	..	..
United Kingdom	1.7	4.5	9.5	-11.3	-1.9	6.8	4.0	1.7	0.6	0.3	6.9	0.7	13.0	-1.2	4.1	4.7	4.3	0.4	6.6	3.3
United States	5.5	8.2	9.6	-3.2	8.0	1.9	7.6	6.0	0.8	0.4	4.8	8.4	9.9	8.6	-4.2	-16.0	-3.4	-12.8	-12.2	0.2
Euro area	1.7	-0.3	6.3	2.0	0.4	1.3	2.1	3.7	1.2	-1.7	-1.3	2.3	2.7	2.5	5.0	2.9	1.4	4.0	2.1	1.5
Total OECD	3.8	3.7	7.6	-2.4	5.0	0.5	1.7	3.8	1.0	-0.5	2.8	4.8	6.7	4.3	0.4	-5.0	-0.4	-3.6	-3.8	1.0

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050171060218

Annex Table 8. **Real total domestic demand**

Percentage change from previous year

	Average 1982-92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Fourth quarter 2006	2007	2008
Australia	2.5	2.7	5.2	4.7	3.5	3.6	6.0	5.2	2.8	0.6	6.3	6.0	5.3	4.5	3.2	3.9	3.5	3.3	3.6	3.5
Austria	2.8	2.2	1.9	2.0	2.2	1.2	2.5	3.2	2.1	-0.2	-0.7	1.3	1.6	2.0	1.9	2.1	2.2	1.8	2.5	2.0
Belgium	2.6	-0.9	2.6	2.3	0.8	2.6	2.7	2.4	4.1	0.0	0.8	0.9	3.1	1.9	3.6	2.8	2.5	3.4	2.7	2.4
Canada	3.0	1.5	3.2	1.8	1.3	6.1	2.5	4.2	4.7	1.3	3.3	4.6	4.3	4.8	4.1	2.1	3.0	3.1	2.7	3.0
Czech Republic	..	..	6.3	8.2	7.8	-1.0	-1.3	1.1	3.8	3.7	3.8	4.2	2.7	2.1	5.6	4.4	4.3	5.3	4.6	4.2
Denmark	1.8	-0.9	6.8	4.5	2.5	4.7	3.7	-0.6	3.2	0.0	1.7	0.2	4.1	4.3	4.9	3.1	1.9	4.6	2.8	1.6
Finland	1.3	-5.3	3.2	5.0	2.2	5.9	5.5	1.6	3.6	2.1	1.4	3.8	3.1	4.2	3.1	2.5	2.4	2.7	2.9	2.4
France	2.2	-1.5	1.6	1.5	0.9	0.9	3.9	3.5	4.5	1.7	1.2	1.9	2.8	2.1	2.4	2.0	2.2	2.2	2.2	2.1
Germany	3.1	-0.8	2.8	2.0	0.4	0.9	2.2	2.6	2.4	-0.4	-2.0	0.7	-0.4	0.6	1.9	1.9	1.9	0.9	3.1	1.9
Greece	1.7	-1.1	0.7	3.6	3.3	3.5	4.6	3.8	5.5	3.6	4.5	5.1	4.5	2.3	4.8	4.1	3.6	..	..	..
Hungary	..	..	0.8	-5.8	0.4	4.8	8.2	5.0	4.8	2.2	6.4	6.1	4.2	1.0	1.0	0.0	1.0	-0.4	0.3	1.2
Iceland	1.6	-3.4	2.2	1.9	6.9	5.6	13.8	4.3	5.9	-2.1	-2.5	6.1	9.8	15.5	7.4	-4.4	-5.4	3.5	-8.2	-2.6
Ireland	1.8	1.2	5.5	6.8	8.1	9.8	9.2	8.6	8.7	3.6	4.3	4.4	3.6	8.0	6.3	5.5	4.5	6.7	4.7	4.8
Italy	2.9	-4.6	1.7	1.9	0.3	3.0	3.0	3.1	2.9	1.6	1.3	0.9	0.8	0.5	1.7	2.2	1.8	2.7	1.8	1.5
Japan	3.9	0.2	1.2	2.6	3.3	0.5	-2.4	0.0	2.4	1.0	-0.4	0.8	1.9	1.7	1.4	1.7	1.5	2.0	1.3	1.7
Korea	9.3	5.0	10.2	9.9	8.1	0.4	-17.2	13.2	8.5	3.5	7.4	0.6	1.5	3.2	3.7	3.8	3.6	3.1	4.2	3.6
Luxembourg	3.8	4.8	1.7	1.3	4.4	6.5	6.5	8.0	3.6	5.1	2.6	3.7	2.2	5.1	0.0	5.3	3.2	..	..	..
Mexico	2.3	1.1	5.6	-14.0	5.6	9.6	6.0	4.4	8.4	0.5	0.9	0.7	4.4	3.5	5.4	3.8	4.4	3.7	4.9	4.4
Netherlands	2.6	-1.8	2.3	3.6	3.9	4.5	5.1	4.8	2.7	2.3	-0.4	0.4	0.6	0.9	2.8	3.0	3.0	2.6	3.1	3.0
New Zealand	1.1	4.9	7.0	5.7	4.5	2.6	0.4	5.9	1.9	1.7	5.6	5.9	7.2	4.0	0.4	3.0	1.8	2.4	2.0	1.6
Norway	1.5	3.3	3.9	4.4	4.4	6.8	5.8	0.4	2.9	0.6	2.3	1.7	6.7	5.6	5.7	4.1	2.7	5.0	3.3	2.5
Poland	..	..	4.0	7.4	9.6	9.3	6.4	5.2	3.1	-1.3	0.9	2.7	6.0	2.4	6.6	6.3	5.6	..	..	..
Portugal	3.6	-2.1	1.5	4.1	3.6	5.5	6.9	5.8	3.3	1.7	0.0	-2.0	2.4	0.9	0.2	0.8	2.0	0.1	2.0	1.9
Slovak Republic	..	..	-3.7	9.6	17.0	6.2	4.7	-5.9	0.4	8.0	4.1	-1.3	6.2	8.6	6.2	4.4	5.8	4.8	5.8	5.5
Spain	3.8	-2.7	1.1	3.1	2.1	3.4	6.2	6.4	5.3	3.8	3.2	3.8	4.8	5.0	4.6	4.2	2.9	4.7	3.2	2.9
Sweden	1.9	-4.9	3.2	2.2	0.9	1.2	4.3	3.4	3.8	-0.2	0.8	1.7	2.0	2.7	3.5	3.1	3.3	3.4	3.5	3.1
Switzerland	2.2	-0.8	2.8	1.6	0.2	0.5	4.0	0.3	2.1	2.3	-0.5	0.4	1.5	1.1	2.2	2.6	1.6	2.5	1.6	1.4
Turkey	5.0	14.2	-12.5	11.4	7.6	9.0	0.6	-3.7	9.8	-18.5	9.3	9.3	14.1	8.8	5.6	5.2	5.7	..	..	..
United Kingdom	2.8	2.0	3.3	1.8	3.0	3.3	5.0	4.2	3.9	2.9	3.2	2.7	3.8	1.9	3.0	2.8	2.7	3.3	3.0	2.6
United States	3.6	3.2	4.4	2.4	3.8	4.8	5.3	5.3	4.4	0.9	2.2	2.8	4.4	3.3	3.2	1.7	2.4	2.5	2.0	2.5
Euro area	2.8	-1.9	2.2	2.2	1.1	2.1	3.5	3.5	3.5	1.2	0.4	1.5	1.7	1.8	2.6	2.5	2.3	2.4	2.6	2.2
Total OECD	3.4	1.3	3.2	2.3	3.2	3.5	3.0	4.0	4.1	0.9	1.8	2.3	3.4	2.8	3.0	2.4	2.5	2.7	2.5	2.6

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050176060830

Annex Table 9. **Foreign balance contributions to changes in real GDP**

As a per cent of real GDP in the previous period, seasonally adjusted at annual rates

	Average 1982-92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Fourth quarter 2006	2007	2008
Australia	0.2	0.7	-1.0	-0.6	0.4	0.3	-1.3	-1.0	0.3	1.4	-2.3	-2.6	-2.3	-1.3	-1.0	-0.9	-0.1	-4.9	-0.1	-0.1
Austria	-0.2	-1.5	0.5	0.3	0.1	1.5	1.1	0.4	0.5	1.0	1.4	-0.6	0.9	0.7	1.5	1.3	0.5	3.4	0.5	0.6
Belgium	-0.1	-0.1	0.9	0.4	0.5	0.8	-0.6	0.9	0.0	0.7	0.5	0.1	-0.1	-0.4	-0.8	-0.2	-0.1	2.3	-0.2	0.0
Canada	-0.3	0.9	1.4	1.0	0.3	-1.7	1.7	1.4	0.6	0.7	-0.1	-2.6	-0.8	-1.6	-1.3	0.4	0.1	1.9	0.1	0.1
Czech Republic	..	..	-3.9	-2.7	-3.9	0.4	0.6	0.1	0.1	-1.4	-2.0	-0.6	1.3	4.0	0.6	1.1	0.8	3.5	0.8	0.8
Denmark	0.2	0.7	-0.8	-1.2	0.5	-1.3	-1.4	3.2	0.5	0.7	-1.1	0.2	-1.7	-1.0	-1.5	-1.0	-0.2	-3.4	-0.3	0.0
Finland	-0.1	3.9	0.7	0.6	0.3	1.8	1.2	3.3	1.7	0.8	0.4	-1.6	1.1	-1.1	2.4	0.4	0.5	-0.5	0.5	0.5
France	0.1	0.7	-0.1	0.3	0.1	1.2	-0.5	-0.4	-0.4	0.2	-0.1	-0.8	-0.7	-0.9	-0.4	0.1	-0.1	0.9	-0.2	0.0
Germany	0.3	0.0	0.0	0.0	0.6	0.9	-0.3	-0.6	1.1	1.8	2.0	-0.8	1.2	0.5	1.2	1.2	0.4	8.3	0.5	0.1
Greece	-0.4	-0.5	0.7	-1.4	-1.0	-0.3	-1.4	-0.9	-1.7	0.4	-1.0	-0.7	-0.3	1.3	-1.0	-0.8	-0.2	..	..	..
Hungary	..	..	0.5	5.0	1.0	-0.2	-3.1	-0.8	0.5	1.8	-2.2	-2.1	0.5	2.8	3.4	3.8	2.1	11.9	1.9	2.4
Iceland	0.2	4.3	1.9	-1.9	-1.7	-0.8	-7.5	-0.3	-1.9	6.2	2.5	-3.3	-2.5	-9.2	-5.7	5.1	6.7	-4.9	8.3	3.1
Ireland	1.9	1.9	1.4	4.1	1.4	2.6	-0.1	4.1	1.7	2.5	2.5	1.4	0.3	-1.2	0.4	-0.2	0.1	-11.4	0.0	-0.4
Italy	-0.3	3.7	0.6	1.0	0.3	-0.9	-1.5	-1.1	0.9	0.2	-1.0	-0.8	0.2	-0.3	0.3	-0.2	-0.2	2.6	-0.2	-0.2
Japan	0.0	0.1	-0.2	-0.5	-0.5	1.0	0.4	-0.1	0.5	-0.8	0.7	0.7	0.8	0.3	0.8	0.8	0.6	0.5	0.6	0.5
Korea	-0.7	0.7	-2.4	-1.5	-1.8	4.2	11.3	-2.9	0.3	0.5	-0.2	2.5	3.3	1.3	1.6	0.9	1.6	2.3	1.7	1.2
Luxembourg	2.5	0.4	2.2	1.2	-2.0	0.9	1.1	1.7	5.3	-1.4	1.8	-1.6	1.9	-0.1	6.0	1.8	3.0	..	..	..
Mexico	-0.5	0.8	-1.4	8.5	-0.3	-2.5	-1.1	-0.6	-1.9	-0.6	-0.1	0.7	-0.3	-0.8	-0.8	-0.6	-0.8	5.4	-1.0	-0.7
Netherlands	0.3	2.5	0.6	-0.4	-0.2	0.0	-0.9	0.1	1.3	-0.2	0.5	-0.1	1.4	0.7	0.3	0.1	0.2	-0.5	0.4	-0.2
New Zealand	0.3	-0.1	-0.7	-1.3	-1.0	0.5	0.1	-1.2	2.2	0.5	-0.9	-1.9	-2.9	-1.8	1.3	-0.9	-0.3	-5.1	-0.3	0.0
Norway	1.7	-0.3	1.4	0.0	1.0	-0.8	-2.6	1.6	0.6	1.5	-0.4	-0.5	-2.0	-2.2	-1.9	-0.3	0.4	0.4	0.4	0.5
Poland	..	..	0.5	0.2	-3.1	-2.3	-1.7	-1.0	0.9	2.6	0.5	1.1	-0.8	1.1	-0.2	-0.5	-0.1	..	..	..
Portugal	-0.3	0.2	-0.6	-0.1	-0.2	-1.6	-2.6	-2.5	0.3	0.2	0.7	1.5	-1.3	-0.5	1.0	0.9	-0.1	4.2	-0.2	0.0
Slovak Republic	..	..	10.1	-3.3	-9.9	-0.9	-1.5	6.8	0.3	-5.0	-0.3	5.5	-0.9	-2.8	1.7	4.2	1.8	7.7	1.5	2.2
Spain	-1.1	2.3	0.9	-0.3	0.3	0.5	-1.7	-1.7	-0.4	-0.2	-0.6	-0.8	-1.7	-1.7	-1.0	-0.9	-0.5	-1.9	-0.4	-0.6
Sweden	0.0	2.8	0.9	1.7	0.5	1.2	-0.4	1.5	0.7	1.4	1.2	0.0	2.1	0.8	1.0	0.6	0.5	-0.4	0.8	-0.2
Switzerland	0.1	0.5	-1.5	-1.2	0.2	1.3	-1.1	1.0	1.5	-1.2	0.7	-0.6	0.8	0.8	0.6	-0.5	0.7	-10.0	0.7	0.7
Turkey	-0.2	-6.2	8.6	-4.7	-0.6	-1.9	2.6	-0.9	-3.0	12.4	-0.9	-3.1	-4.9	-1.7	0.3	0.5	0.2	..	..	..
United Kingdom	-0.2	0.2	0.7	0.9	0.0	-0.2	-1.4	-1.0	-0.1	-0.5	-1.1	-0.1	-0.6	0.0	-0.4	-0.3	-0.4	-0.2	-0.5	-0.3
United States	-0.1	-0.6	-0.4	0.1	-0.1	-0.4	-1.2	-1.0	-0.8	-0.2	-0.7	-0.4	-0.6	-0.2	0.0	0.3	0.0	1.6	0.0	0.0
Euro area	-0.1	1.2	0.2	0.2	0.3	0.5	-0.8	-0.6	0.5	0.7	0.5	-0.7	0.1	-0.3	0.3	0.3	0.0	2.5	0.1	-0.1
Total OECD	-0.1	0.2	0.0	0.3	-0.2	0.1	-0.4	-0.6	-0.1	0.3	-0.2	-0.4	-0.2	-0.2	0.1	0.3	0.1	1.4	0.1	0.1

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050187725238

Annex Table 10. **Output gaps**

Deviations of actual GDP from potential GDP as a per cent of potential GDP

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	0.2	-1.5	-5.3	-5.6	-4.5	-2.6	-2.0	-1.7	-1.3	0.3	1.2	1.2	-0.2	0.5	0.5	0.4	0.1	-0.7	-0.5	-0.2
Austria	-0.6	0.8	1.5	1.0	-1.1	-1.0	-0.6	-0.2	-0.2	1.1	2.3	2.6	0.6	-1.4	-3.0	-3.2	-2.7	-1.6	-0.7	-0.1
Belgium	0.1	1.3	0.7	0.2	-2.7	-1.7	-1.3	-2.2	-0.9	-1.3	-0.4	1.3	0.0	-0.8	-1.7	-1.1	-1.7	-1.0	-0.5	-0.1
Canada	3.2	1.2	-3.0	-4.1	-4.1	-2.0	-2.0	-3.3	-2.2	-1.3	1.0	3.0	1.6	1.4	0.2	0.5	0.4	0.0	-0.4	-0.3
Czech Republic	..	..	..	..	..	..	..	..	..	..	0.1	0.6	-0.1	-1.6	-2.0	-2.0	-0.5	0.6	1.2	1.7
Denmark	-0.6	-0.7	-1.1	-1.1	-3.3	-0.7	-0.4	-0.1	0.5	0.1	0.2	1.6	0.4	-0.8	-2.0	-1.6	-0.3	1.1	1.6	1.7
Finland	6.0	3.8	-4.1	-9.4	-12.0	-10.5	-8.7	-7.1	-3.6	-1.4	-0.4	1.8	1.1	-0.4	-1.4	-0.8	-0.8	1.6	1.6	1.4
France	0.9	1.8	1.0	1.0	-1.5	-1.8	-1.8	-2.7	-2.6	-1.6	-0.8	0.9	0.5	-0.6	-1.5	-1.4	-1.9	-1.6	-1.3	-1.0
Germany	1.7	3.9	1.7	1.5	-1.6	-1.0	-0.5	-1.2	-1.0	-0.8	-0.4	1.8	1.8	0.2	-1.4	-2.0	-2.4	-0.9	0.4	1.0
Greece	2.5	0.9	1.9	0.8	-2.6	-2.7	-2.7	-2.8	-2.0	-1.4	-1.5	-0.8	-0.2	-0.3	0.6	1.2	0.9	0.9	0.7	0.5
Hungary	..	..	..	..	5.3	4.6	2.7	0.4	1.6	2.8	3.0	3.6	3.0	2.5	1.8	1.6	0.8	-0.2	-1.8	-2.5
Iceland	-0.2	-1.0	-2.8	-7.1	-6.7	-4.3	-5.5	-2.9	-0.9	1.0	0.9	0.8	1.5	-0.8	-0.7	3.0	5.3	0.9	-2.3	-3.6
Ireland	-0.8	3.2	0.2	-2.1	-4.7	-5.3	-3.4	-2.9	0.4	1.0	3.8	5.4	4.4	3.6	1.9	0.7	0.6	0.8	1.1	0.5
Italy	1.7	1.4	0.8	-0.3	-2.9	-2.3	-0.9	-1.6	-1.1	-1.2	-0.7	1.6	1.8	0.6	-0.8	-1.2	-2.4	-1.8	-0.9	-0.5
Japan	1.5	3.7	4.2	2.8	0.9	0.3	0.5	1.8	2.1	-1.2	-2.4	-0.8	-1.8	-2.9	-2.8	-1.6	-1.2	-0.6	0.3	0.7
Luxembourg	5.2	4.2	6.8	3.0	2.2	1.3	-1.7	-4.6	-3.5	-2.1	0.9	3.4	0.8	0.2	-2.4	-2.6	-2.7	-0.4	0.5	1.9
Netherlands	1.2	2.7	2.3	0.7	-1.6	-1.8	-1.8	-1.3	0.0	0.8	2.3	3.5	2.5	-0.3	-2.1	-2.2	-2.5	-1.4	-0.2	1.2
New Zealand	-0.4	-1.7	-4.8	-5.8	-3.2	-0.3	0.8	1.8	0.8	-1.9	-0.3	0.4	0.2	1.4	1.1	2.2	1.4	-0.1	-1.3	-2.2
Norway[1]	-5.7	-6.2	-6.2	-5.4	-4.3	-3.2	-2.4	-1.2	0.9	2.3	2.1	2.1	1.6	0.3	-1.3	0.2	1.5	2.7	3.1	2.3
Portugal	1.8	2.9	4.2	2.3	-2.6	-4.5	-3.2	-2.5	-1.3	0.5	1.7	3.1	2.5	0.9	-2.0	-2.1	-3.2	-3.5	-3.4	-2.9
Spain	3.4	4.3	3.8	1.6	-2.5	-3.1	-3.3	-4.1	-3.4	-2.0	-0.6	0.9	1.0	-0.1	-0.7	-0.9	-0.8	-0.4	-0.1	-0.1
Sweden	2.1	0.9	-1.8	-4.1	-7.3	-5.6	-3.7	-4.0	-3.3	-1.8	0.0	1.5	-0.1	-0.9	-1.9	-1.1	-1.0	0.4	1.2	1.2
Switzerland	3.1	4.5	1.1	-0.8	-2.2	-2.0	-2.4	-2.8	-1.8	-0.1	-0.5	1.4	0.8	-0.5	-2.4	-1.8	-1.6	-0.6	-0.3	0.0
United Kingdom	3.2	1.7	-1.9	-3.6	-3.5	-1.7	-1.4	-1.3	-1.0	-0.4	-0.3	0.8	0.5	-0.1	0.0	0.6	-0.1	-0.2	-0.2	-0.2
United States	1.9	1.0	-2.0	-1.7	-2.2	-1.5	-2.3	-2.0	-1.0	-0.1	1.2	1.9	-0.2	-1.3	-1.5	-0.4	0.1	0.7	0.1	-0.1
Euro area	1.9	2.8	1.6	0.8	-2.2	-1.9	-1.5	-2.0	-1.5	-1.0	-0.2	1.6	1.4	0.0	-1.3	-1.5	-2.0	-1.2	-0.4	0.0
Total OECD	1.9	1.9	-0.1	-0.7	-2.0	-1.5	-1.6	-1.5	-0.8	-0.6	0.1	1.4	0.2	-0.8	-1.4	-0.8	-0.7	-0.2	-0.1	0.1

Note: Potential output for all countries except Portugal is calculated using the "production function method" described in Giorno et al, "Potential Output, Output Gaps, and Structural Budget Balances", *OECD Economic Studies,* No. 24, 1995/I. Using this methodology, two broad changes have been made to the calculation of potential output since the last *OECD Economic Outlook.* First, the "smoothing parameters" applied in the calculations have been standardised across the OECD countries. Second, as was previously the case for the major seven economies only, the calculations now incorporate trend working hours for other Member economies also, excepting Austria and Portugal where the data span is insufficient. Potential output for Portugal is calculated using a Hodrick-Prescott filter of actual output. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

1. Mainland Norway.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050215833375

Annex Table 11. **Compensation per employee in the private sector**

Percentage change from previous period

	Average 1979-1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	8.4	7.5	2.7	4.4	2.6	2.2	2.8	5.2	4.0	3.1	2.7	2.6	4.4	2.9	3.0	6.5	4.1	4.9	4.9	4.9
Austria	5.3	5.2	6.1	5.7	4.4	3.5	1.7	1.3	1.7	2.6	1.6	2.2	2.1	2.6	1.9	2.4	1.5	3.0	2.6	3.1
Belgium	7.3	6.9	6.1	4.8	4.0	3.7	1.9	1.2	3.2	1.1	3.7	1.8	3.7	3.4	1.3	2.2	1.8	3.1	2.7	2.4
Canada	7.2	4.4	5.0	3.6	2.3	0.5	2.4	3.0	6.1	3.0	3.2	4.9	2.2	1.0	2.2	3.8	4.8	3.7	3.6	3.6
Czech Republic	..	..	..	..	..	..	..	16.5	9.2	9.7	7.9	7.4	7.2	7.0	8.7	6.4	3.7	7.1	6.6	7.0
Denmark	7.8	4.8	3.8	5.3	1.9	1.7	2.5	4.0	3.8	4.0	3.7	3.2	4.2	3.7	3.4	2.4	3.6	3.4	3.9	4.2
Finland	10.3	9.0	4.8	1.7	1.1	4.6	4.2	2.4	2.4	5.1	2.4	4.3	5.3	1.2	2.3	3.5	3.4	3.2	3.0	3.5
France	8.4	5.5	3.7	3.7	2.1	1.1	1.4	1.4	1.4	1.4	1.9	2.3	2.3	3.4	2.9	3.8	2.4	3.7	3.1	3.3
Germany	3.6	4.6	5.6	10.3	3.6	2.9	3.4	1.0	0.6	0.8	1.0	2.0	1.6	1.3	1.6	0.1	-0.1	0.6	1.3	2.6
Greece	19.1	16.7	16.1	12.5	8.9	11.5	12.7	10.6	11.9	4.8	6.7	5.7	9.5	7.5	5.5	4.0	4.7	6.1	5.8	6.2
Hungary	..	..	..	..	..	..	24.2	21.4	18.7	12.4	1.7	15.6	15.1	9.5	7.0	13.9	6.2	6.9	7.4	4.9
Iceland	38.3	15.0	16.2	0.6	-3.7	3.7	4.9	5.1	3.9	9.4	7.8	10.0	5.5	8.8	1.2	9.3	13.2	11.0	10.5	5.0
Ireland	10.3	1.8	3.3	7.9	4.8	1.5	3.4	4.2	4.2	4.9	4.1	8.6	6.6	3.9	4.1	6.1	5.4	4.5	4.6	4.6
Italy	12.6	7.8	7.2	5.8	4.3	4.4	5.1	4.5	3.6	-1.0	1.9	1.9	2.2	2.1	1.8	3.2	2.3	1.8	2.6	2.8
Japan	3.8	4.7	4.5	0.7	0.5	1.4	1.0	-0.2	1.1	-1.2	-1.6	0.1	-1.2	-2.1	-1.2	-0.9	0.1	0.1	0.5	1.7
Korea	13.5	16.3	16.2	11.8	12.9	12.0	15.0	12.0	4.0	4.4	2.1	3.2	6.6	4.8	7.0	4.2	2.6	4.3	4.5	5.0
Luxembourg	5.4	3.1	5.6	6.5	5.5	4.1	0.1	1.1	2.0	1.4	4.7	6.0	3.5	3.1	1.4	4.0	3.6	2.5	4.0	3.1
Mexico	..	..	..	20.5	10.1	9.2	4.1	21.6	19.5	19.1	17.2	13.1	9.0	3.6	3.2	2.1	5.0	4.3	3.9	3.9
Netherlands	2.6	2.9	3.9	4.1	2.8	1.7	0.3	1.7	2.8	3.8	3.8	4.9	5.2	4.4	3.2	3.1	0.7	1.0	2.4	4.0
Norway	9.0	3.9	6.2	4.3	2.6	3.1	3.2	2.6	2.5	7.6	6.2	4.5	7.0	3.9	2.5	4.4	4.6	5.7	5.8	5.6
Poland	..	..	..	..	..	..	..	29.0	20.5	14.7	12.6	10.2	9.5	0.5	0.3	4.7	0.7	4.9	5.9	6.8
Portugal	17.4	17.4	18.7	16.2	7.2	6.0	6.8	7.1	4.9	2.0	2.3	5.3	3.0	2.8	5.2	3.3	3.3	2.6	2.2	2.2
Slovak Republic	..	..	..	..	..	..	3.2	5.8	17.0	13.2	6.7	14.3	5.1	8.4	7.3	10.2	6.2	5.5	7.3	6.3
Spain	11.0	10.0	10.3	10.4	8.3	4.0	3.5	5.2	3.6	1.3	1.9	2.9	4.1	3.5	2.7	1.8	1.7	2.3	2.7	2.9
Sweden	8.9	9.7	6.3	1.7	6.4	6.8	2.4	7.3	5.5	3.1	1.2	7.2	4.6	2.5	2.4	4.2	3.3	1.7	3.9	4.3
Switzerland	4.6	5.4	6.6	4.3	3.1	3.1	2.2	0.3	3.2	0.2	2.1	2.6	3.2	1.5	-0.6	-0.5	0.4	1.1	1.6	1.9
United Kingdom	8.9	9.8	7.4	4.9	2.3	3.4	2.6	2.2	4.0	7.2	4.6	5.8	4.8	2.8	4.6	4.2	4.4	3.7	4.5	4.3
United States	5.5	4.6	4.0	6.2	2.0	1.8	2.3	3.0	4.0	5.4	4.5	6.7	2.6	3.3	3.3	4.4	3.6	4.6	4.5	4.5
Euro area	7.5	6.4	6.5	7.6	4.1	2.9	3.0	2.0	1.7	0.9	1.5	2.5	2.6	2.4	2.2	1.6	1.0	1.7	2.1	2.9
Total OECD	6.5	5.7	5.0	6.3	3.1	2.8	2.9	3.8	3.9	3.9	3.3	4.7	2.9	2.3	2.5	2.9	2.5	3.1	3.3	3.7

Note: The business sector is in the OECD terminology defined as total economy less the public sector. Hence business sector employees are defined as total employees less public sector employees. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050220468221

Annex Table 12. **Labour productivity for the total economy**

Percentage change from previous period

	Average 1979-1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	0.9	-0.3	1.0	3.0	3.4	1.9	-0.2	2.7	2.9	3.4	2.7	0.8	0.9	1.9	1.2	1.3	-0.2	0.4	1.0	1.8
Austria	2.0	2.0	2.2	1.7	1.2	2.3	2.7	2.2	1.4	2.4	2.2	1.7	0.1	0.6	1.0	2.6	2.3	2.4	2.3	1.9
Belgium	2.1	2.0	1.5	1.7	-0.3	3.6	1.7	0.8	3.1	0.2	2.0	1.9	-0.7	1.6	1.0	2.1	0.4	1.9	1.4	1.4
Canada	1.0	-0.5	-0.4	1.9	1.8	2.7	1.0	0.7	2.1	1.6	2.9	2.7	0.6	0.5	-0.5	1.5	1.5	0.8	0.3	1.4
Czech Republic	..	..	..	..	..	1.3	5.2	3.2	-0.9	0.8	4.9	3.8	2.0	1.3	5.0	4.1	4.4	4.4	3.9	4.2
Denmark	1.5	2.0	1.9	3.1	1.4	3.8	2.1	1.8	2.0	0.7	1.6	3.1	-0.1	0.5	1.7	2.1	2.3	1.3	0.9	1.9
Finland	2.7	0.6	-0.6	3.4	5.3	5.1	2.2	2.2	2.8	3.2	1.3	3.0	1.1	0.6	1.8	3.1	1.6	4.0	2.2	2.3
France	2.0	1.9	1.1	2.3	0.5	1.4	0.9	0.7	1.6	1.7	1.0	1.3	0.0	0.5	1.0	2.0	0.7	1.2	1.3	1.3
Germany	1.0	2.3	2.3	3.4	0.5	2.8	1.7	1.3	2.0	0.6	0.5	1.6	0.9	0.6	0.8	0.4	1.2	2.2	1.7	1.3
Greece	-0.3	-1.3	5.6	-0.8	-2.4	0.1	1.2	2.8	4.2	-0.7	3.4	4.6	5.2	1.9	2.3	3.6	2.1	1.8	2.2	2.3
Hungary	..	..	..	..	..	..	5.1	1.6	4.5	3.1	0.7	3.7	3.8	4.3	2.8	5.6	4.3	3.2	2.4	2.5
Iceland	1.1	1.1	-0.2	-3.4	1.5	2.8	-2.9	4.8	4.9	2.1	0.4	2.3	2.2	1.4	2.6	8.1	3.8	-2.4	-0.3	0.8
Ireland	3.4	3.9	2.2	2.8	1.2	2.4	4.5	4.5	5.8	0.0	4.2	4.3	2.8	4.2	2.2	1.2	0.9	1.7	1.9	1.6
Italy	2.0	0.4	-0.3	1.4	1.8	4.0	3.1	0.0	1.6	0.3	0.8	1.8	-0.4	-1.2	-1.4	0.6	-0.1	0.2	0.9	0.8
Japan	2.6	3.2	1.4	-0.1	0.0	1.0	1.9	2.3	0.5	-1.4	0.7	3.1	0.7	1.6	1.6	2.5	1.5	1.8	2.2	2.3
Korea	4.9	6.0	6.1	3.9	4.9	5.2	6.1	4.7	2.9	-0.9	7.6	4.0	1.8	4.1	3.2	2.8	2.8	3.7	3.2	3.8
Luxembourg	3.1	1.1	4.3	-0.7	2.4	1.2	-0.9	-1.0	2.8	1.9	3.3	2.6	-2.8	0.9	-0.4	1.3	1.0	2.4	1.0	1.5
Mexico	..	..	..	0.0	-1.6	0.9	-7.6	1.5	0.6	2.2	2.8	4.7	-0.3	-1.6	0.2	0.2	3.5	2.7	1.1	1.3
Netherlands	1.0	1.0	0.5	0.1	0.3	2.2	0.7	0.9	0.9	-0.1	0.8	0.8	-0.7	-0.4	0.8	2.9	1.5	1.7	1.5	1.7
New Zealand	1.8	-0.6	-0.1	0.4	3.1	1.5	-0.2	0.7	1.5	0.4	2.7	1.8	0.1	1.7	1.0	1.1	-0.6	-0.6	0.2	1.5
Norway	2.0	2.9	4.1	3.8	2.8	3.5	1.9	2.5	2.4	0.2	1.6	2.8	1.6	1.1	1.8	3.6	2.1	-0.3	0.7	1.9
Poland	..	..	..	..	..	7.0	6.0	5.0	5.6	3.8	8.8	5.9	3.5	4.6	5.1	4.0	1.3	2.6	3.6	3.5
Portugal	1.9	1.7	1.4	0.2	0.0	1.1	4.9	3.1	2.3	2.2	2.5	1.6	0.2	0.1	-0.3	1.3	0.4	0.6	1.0	1.0
Slovak Republic	..	..	..	..	..	..	4.0	4.5	7.1	4.1	3.1	2.6	2.6	4.7	2.3	5.8	4.6	5.8	6.4	6.1
Spain	2.3	0.0	1.4	2.4	1.9	2.9	0.9	0.7	0.3	0.0	0.2	0.0	0.5	0.3	-0.1	-0.2	-0.3	0.5	0.6	0.2
Sweden	1.5	0.1	0.4	3.4	3.4	4.8	2.5	2.2	3.9	2.0	2.2	2.0	-0.7	1.8	2.2	4.3	2.5	2.9	2.1	2.1
Switzerland	0.5	0.6	-2.6	0.4	0.6	1.7	0.3	0.5	1.9	1.4	0.5	2.5	-0.6	-0.1	0.0	2.0	1.5	0.5	0.7	1.1
Turkey	2.5	7.4	-2.9	5.1	13.5	-12.4	4.2	4.0	7.5	0.4	-5.8	9.6	-7.3	8.8	6.8	5.8	6.2	4.8	4.4	4.7
United Kingdom	1.7	0.3	1.3	2.7	3.2	3.5	1.7	1.8	1.2	2.3	1.6	2.6	1.5	1.3	1.7	2.2	1.0	1.9	1.7	1.3
United States	1.2	0.4	0.6	3.3	0.7	1.0	0.2	1.8	2.1	1.9	2.4	1.9	0.9	2.8	2.5	2.8	1.6	1.5	1.0	2.1
Euro area	1.7	1.5	1.5	2.3	1.1	2.6	1.7	0.9	1.6	0.6	0.8	1.5	0.3	0.2	0.4	0.9	0.5	1.2	1.2	1.1
Total OECD	1.7	1.3	0.9	2.4	1.3	1.7	1.1	1.7	1.9	1.1	1.8	2.4	0.6	1.7	1.7	2.1	1.4	1.6	1.4	1.9

Note: See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*
Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050235726470

Annex Table 13. **Unemployment rates: commonly used definitions**

Per cent of labour force

	2003 Unemployment thousands	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Fourth quarter 2006	Fourth quarter 2007	Fourth quarter 2008
Australia	611	10.6	9.4	8.2	8.2	8.2	7.7	6.9	6.3	6.8	6.4	6.0	5.5	5.1	4.9	4.6	4.6	4.6	4.6	4.7
Austria	243	5.4	5.3	5.3	5.6	5.6	5.7	5.2	4.6	4.7	5.4	5.6	5.7	5.8	5.5	5.3	5.3	5.3	5.3	5.4
Belgium	374	8.6	9.8	9.7	9.5	9.2	9.3	8.5	6.9	6.6	7.5	8.2	8.4	8.4	8.2	7.4	7.1	7.8	7.3	6.9
Canada	1 288	11.4	10.4	9.5	9.6	9.1	8.3	7.6	6.8	7.2	7.6	7.6	7.2	6.8	6.3	6.1	6.0	6.2	6.1	6.0
Czech Republic	399	4.4	4.3	4.1	3.9	4.8	6.5	8.8	8.9	8.2	7.3	7.8	8.3	8.0	7.2	6.5	6.1	6.6	6.5	5.9
Denmark	155	9.5	7.6	6.7	6.3	5.2	4.8	5.0	4.3	4.5	4.5	5.3	5.5	4.8	3.9	3.4	3.5	3.5	3.4	3.6
Finland	234	17.6	17.9	16.7	15.9	12.7	11.4	10.3	9.8	9.2	9.1	9.0	8.9	8.4	7.7	7.0	6.8	7.4	6.9	6.6
France	2 692	11.7	12.1	11.5	12.1	12.1	11.5	10.8	9.4	8.7	9.0	9.8	10.0	9.8	9.0	8.4	8.0	8.6	8.3	7.9
Germany	3 703	6.9	7.3	7.1	7.7	8.6	8.1	7.5	6.9	6.9	7.6	8.7	9.2	9.1	8.1	6.9	6.3	7.7	6.6	6.0
Greece	460	8.6	8.6	8.1	8.8	8.7	10.4	11.4	10.8	10.3	9.8	9.3	10.0	9.4	8.4	8.1	7.9	..	..	..
Hungary	244	12.1	11.0	10.4	10.1	8.9	7.9	7.1	6.5	5.8	5.9	5.9	6.2	7.3	7.5	7.6	7.5	7.7	7.5	7.5
Iceland	5	5.3	5.3	4.7	3.7	3.9	2.7	2.0	2.3	2.3	3.3	3.4	3.1	2.6	2.9	2.9	3.8	2.5	3.4	3.8
Ireland	88	16.1	15.1	12.5	12.0	10.9	7.6	5.6	4.3	3.9	4.4	4.6	4.4	4.4	4.4	4.3	4.3	4.2	4.1	4.3
Italy	2 043	9.9	10.9	11.3	11.3	11.4	11.5	11.1	10.2	9.2	8.7	8.6	8.1	7.8	6.9	6.3	6.0	6.6	6.0	6.0
Japan	3 502	2.5	2.9	3.1	3.4	3.4	4.1	4.7	4.7	5.0	5.4	5.3	4.7	4.4	4.1	3.8	3.6	4.1	3.7	3.6
Korea	818	2.9	2.5	2.1	2.0	2.6	7.0	6.6	4.4	4.0	3.3	3.6	3.7	3.7	3.5	3.4	3.4	3.4	3.5	3.3
Luxembourg	8	2.1	2.7	3.0	3.3	3.6	3.1	2.9	2.6	2.5	2.9	3.7	4.2	4.6	4.4	4.2	3.7	4.5	3.9	3.6
Mexico[1]	1 034	3.2	3.5	5.8	4.3	3.4	2.9	2.1	2.2	2.1	2.4	2.5	3.0	3.5	3.6	3.9	3.7	3.7	3.9	3.5
Netherlands	349	6.3	7.2	6.8	6.3	5.4	4.2	3.5	3.0	2.5	2.9	4.1	4.9	5.0	4.5	3.7	2.8	4.1	3.4	2.5
New Zealand	95	9.5	8.1	6.2	6.1	6.6	7.5	6.8	6.0	5.3	5.2	4.7	3.9	3.7	3.7	3.9	4.4	3.7	4.0	4.7
Norway	106	6.0	5.4	4.9	4.8	4.0	3.2	3.2	3.4	3.5	3.9	4.5	4.5	4.6	3.4	2.7	2.7	2.7	2.7	2.8
Poland	3 329	14.0	14.4	13.3	12.3	11.2	10.6	14.0	16.1	18.2	19.9	19.6	19.0	17.7	13.8	11.2	9.7	..	..	..
Portugal	342	5.5	6.8	7.2	7.3	6.7	5.0	4.4	4.0	4.0	5.0	6.3	6.7	7.7	7.7	7.6	7.1	8.2	7.4	6.9
Slovak Republic	459	..	13.7	13.1	11.3	11.9	12.6	16.4	18.8	19.3	18.6	17.5	18.1	16.2	13.3	11.5	10.3	12.3	11.1	9.9
Spain[2]	2 161	17.2	19.1	18.7	17.5	16.3	14.6	12.2	10.8	10.1	11.0	11.0	10.5	9.2	8.5	8.2	8.1	8.3	8.1	8.0
Sweden	218	8.2	8.0	7.7	8.0	8.0	6.5	5.6	4.7	4.0	4.0	4.9	5.5	5.8	5.3	4.8	4.3	4.9	4.8	3.9
Switzerland	176	3.8	3.7	3.3	3.8	4.0	3.4	2.9	2.5	2.5	3.1	4.1	4.2	4.3	3.8	3.3	2.9	3.6	3.2	2.8
Turkey[3]	2 494	8.7	8.4	7.5	6.5	6.7	6.7	7.5	6.3	8.2	10.1	10.3	10.1	10.0	9.8	9.7	9.6	..	..	..
United Kingdom	1 486	10.4	9.5	8.6	8.1	7.0	6.2	6.0	5.5	5.1	5.2	5.0	4.7	4.8	5.5	5.5	5.5	5.5	5.5	5.5
United States	8 771	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.8	5.8	6.0	5.5	5.1	4.6	4.6	4.8	4.5	4.7	4.9
Euro area	12 698	9.8	10.5	10.3	10.4	10.4	9.8	9.1	8.1	7.7	8.1	8.7	8.8	8.5	7.8	7.1	6.7	7.5	6.9	6.6
Total OECD	37 887	7.4	7.3	7.1	6.9	6.6	6.5	6.3	5.9	6.1	6.7	6.9	6.7	6.5	5.9	5.6	5.5	5.7	5.6	5.4

Note: Labour market data are subject to differences in definitions across countries and to many series breaks, though the latter are often of a minor nature. For information about definitions, sources, data coverage, break in series and rebasings, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Based on National Employment Survey. Data not comparable with previous issues of the *OECD Economic Outlook*; see *OECD Economic Outlook* Sources and Methods.
2. Spanish data on unemployment are revised since 1976 using the methodology to be applied by the LFS as from 2002. Revisions are OECD calculations based on information from INE in Spain.
3. The figures incorporate important revisions to Turkish data; see *OECD Economic Outlook* Sources and Methods.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050250871612

Annex Table 14. **Standardised unemployment rates**

Per cent of civilian labour force

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	7.0	6.0	6.7	9.3	10.5	10.6	9.5	8.2	8.2	8.3	7.7	6.9	6.3	6.8	6.4	6.1	5.5	5.1	4.9
Austria	..	..	..	..	..	3.9	3.8	3.9	4.4	4.4	4.5	3.9	3.7	3.6	4.2	4.3	4.8	5.2	4.8
Belgium	8.8	7.4	6.6	6.4	7.1	8.6	9.8	9.7	9.6	9.2	9.3	8.5	6.9	6.6	7.5	8.2	8.4	8.4	8.2
Canada	7.8	7.5	8.1	10.3	11.2	11.4	10.4	9.5	9.6	9.1	8.3	7.6	6.8	7.2	7.7	7.6	7.2	6.8	6.3
Czech Republic	..	..	..	..	..	4.4	4.3	4.1	3.9	4.8	6.4	8.6	8.7	8.0	7.3	7.8	8.3	7.9	7.2
Denmark	5.7	6.8	7.2	7.9	8.6	9.5	7.7	6.8	6.3	5.2	4.9	5.1	4.4	4.5	4.6	5.4	5.5	4.8	3.9
Finland	4.1	3.1	3.2	6.7	11.7	16.4	16.8	15.4	14.7	12.6	11.3	10.2	9.7	9.1	9.1	9.0	8.9	8.4	7.7
France	9.4	8.9	8.5	9.0	9.9	11.1	11.7	11.1	11.6	11.5	11.1	10.5	9.1	8.4	8.7	9.5	9.6	9.7	9.4
Germany[1]	6.2	5.6	4.8	6.0	6.4	7.7	8.3	8.0	8.6	9.2	8.8	7.9	7.2	7.4	8.2	9.1	9.5	9.4	8.4
Greece	6.9	6.7	6.3	6.9	7.8	8.6	8.8	9.0	9.7	9.6	11.0	12.0	11.2	10.7	10.3	9.7	10.5	9.9	8.9
Hungary	..	..	..	..	10.0	12.1	11.0	10.4	9.6	9.0	8.4	6.9	6.4	5.7	5.8	5.9	6.1	7.2	7.5
Ireland	16.2	14.7	13.4	14.7	15.4	15.6	14.4	12.3	11.6	9.9	7.6	5.7	4.3	4.0	4.5	4.7	4.5	4.3	4.4
Italy	9.7	9.7	8.9	8.5	8.8	9.8	10.6	11.2	11.2	11.3	11.4	10.9	10.1	9.1	8.6	8.4	8.0	7.7	6.8
Japan	2.5	2.3	2.1	2.1	2.2	2.5	2.9	3.1	3.4	3.4	4.1	4.7	4.7	5.0	5.4	5.3	4.7	4.4	4.1
Korea	..	2.6	2.4	2.4	2.5	2.9	2.5	2.1	2.0	2.6	7.0	6.6	4.4	4.0	3.3	3.6	3.7	3.7	3.5
Luxembourg	2.0	1.8	1.7	1.6	2.1	2.6	3.2	2.9	2.9	2.7	2.7	2.4	2.3	2.0	2.7	3.7	5.1	4.5	4.8
Netherlands	7.2	6.6	5.9	5.5	5.3	6.2	6.8	6.6	6.0	4.9	3.8	3.2	2.9	2.2	2.8	3.7	4.6	4.7	3.9
New Zealand	5.6	7.1	7.8	10.3	10.4	9.5	8.1	6.3	6.1	6.6	7.4	6.8	6.0	5.3	5.2	4.6	3.9	3.7	3.8
Norway	3.3	5.4	5.8	6.0	6.5	6.6	6.0	5.5	4.8	4.0	3.2	3.2	3.4	3.6	3.9	4.5	4.4	4.6	3.5
Poland	..	..	..	..	..	16.3	16.9	15.4	14.1	10.9	10.2	13.4	16.1	18.3	19.9	19.6	19.0	17.7	13.8
Portugal	5.8	5.2	4.8	4.2	4.3	5.6	6.9	7.3	7.3	6.8	5.1	4.5	4.0	4.0	5.0	6.3	6.7	7.6	7.7
Slovak Republic	..	..	..	..	..	..	13.7	13.1	11.3	11.9	12.6	16.3	18.8	19.3	18.7	17.6	18.2	16.2	13.4
Spain	15.8	13.9	13.0	13.1	14.7	18.3	19.5	18.4	17.8	16.7	15.0	12.5	11.1	10.4	11.1	11.1	10.6	9.2	8.5
Sweden	1.8	1.6	1.7	3.1	5.6	9.1	9.4	8.8	9.6	9.9	8.2	6.7	5.6	4.9	5.0	5.6	6.3	7.3	7.0
Switzerland	..	..	..	1.9	3.0	3.9	3.9	3.5	3.9	4.2	3.6	3.0	2.7	2.6	3.2	4.2	4.4	4.5	4.0
United Kingdom	8.5	7.1	6.9	8.6	9.8	10.2	9.3	8.5	7.9	6.8	6.1	5.9	5.4	5.0	5.1	4.9	4.7	4.8	5.3
United States	5.5	5.3	5.6	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.7	5.8	6.0	5.5	5.1	4.6
Euro area	..	..	..	7.8	8.5	10.0	10.7	10.5	10.6	10.5	10.0	9.1	8.2	7.8	8.2	8.7	8.8	8.6	7.9
Total OECD	6.7	6.2	6.1	6.8	7.4	7.8	7.6	7.2	7.2	6.9	6.8	6.6	6.2	6.4	6.9	7.1	6.9	6.6	6.0

Note: In so far as possible, the data have been adjusted to ensure comparability over time and to conform to the guidelines of the International Labour Office. All series are benchmarked to labour-force-survey-based estimates. In countries with annual surveys, monthly estimates are obtained by interpolation/extrapolation and by incorporating trends in administrative data, where available. The annual figures are then calculated by averaging the monthly estimates (for both unemployed and the labour force). For countries with monthly or quarterly surveys, the annual estimates are obtained by averaging the monthly or quarterly estimates, respectively. For several countries, the adjustment procedure used is similar to that of the Bureau of Labor Statistics, U.S. Department of Labor. For EU countries, the procedures are similar to those used in deriving the Comparable Unemployment Rates (CURs) of the Statistical Office of the European Communities. Minor differences may appear mainly because of various methods of calculating and applying adjustment factors, and because EU estimates are based on the civilian labour force. See technical notes in OECD Quarterly Labour Force Statistics.

1. Prior to July 1991 data refers to Western Germany.

Source: OECD Main Economic Indicators.

StatLink http://dx.doi.org/10.1787/050256324774

Annex Table 15. **Labour force, employment and unemployment**

Millions

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Labour force																			
Major seven countries	312.4	322.9	324.8	325.8	328.3	330.0	332.8	336.9	339.6	342.6	347.1	349.1	350.9	353.5	355.2	357.8	360.8	363.2	365.2
Total of smaller countries[1]	106.4	138.5	140.5	167.8	173.9	176.9	179.3	182.4	184.8	186.8	188.6	190.8	193.8	195.2	199.4	201.5	204.2	207.3	210.0
Euro area	123.0	132.3	132.2	132.0	132.8	133.3	134.3	135.6	137.5	139.2	141.1	142.7	144.3	145.9	147.4	148.5	149.6	150.8	152.0
Total OECD[1]	418.8	461.4	465.2	493.6	502.2	506.9	512.1	519.3	524.4	529.4	535.7	539.9	544.7	548.7	554.6	559.3	565.0	570.5	575.2
Employment																			
Major seven countries	295.1	302.6	302.4	302.7	305.7	308.3	310.9	315.4	318.6	322.1	327.7	328.8	328.4	330.0	332.7	336.2	340.6	344.1	346.1
Total of smaller countries[1]	99.8	130.3	131.4	154.2	159.6	162.6	165.9	169.6	171.7	173.8	176.4	177.9	179.8	180.8	184.6	186.9	190.7	194.4	197.5
Euro area	113.8	122.4	121.3	119.1	118.9	119.6	120.3	121.5	123.9	126.6	129.7	131.7	132.6	133.2	134.4	135.8	138.0	140.1	141.8
Total OECD[1]	394.9	432.9	433.8	457.0	465.3	470.9	476.7	485.0	490.3	495.8	504.1	506.7	508.2	510.8	517.3	523.0	531.4	538.5	543.7
Unemployment																			
Major seven countries	17.3	20.3	22.4	23.1	22.5	21.6	22.0	21.6	21.0	20.5	19.3	20.3	22.5	23.5	22.6	21.6	20.1	19.1	19.1
Total of smaller countries[1]	6.6	8.2	9.1	13.5	14.3	14.4	13.4	12.8	13.1	13.1	12.2	12.9	14.0	14.4	14.8	14.6	13.5	12.9	12.5
Euro area	9.2	9.9	10.9	12.9	13.9	13.7	14.0	14.1	13.5	12.6	11.5	11.0	11.7	12.7	13.0	12.7	11.6	10.7	10.2
Total OECD[1]	24.0	28.5	31.4	36.6	36.8	36.0	35.4	34.4	34.1	33.5	31.6	33.1	36.5	37.9	37.3	36.2	33.6	32.0	31.5

1. The aggregate measures include Mexico as of 1991. There is a potential bias in the aggregates thereafter because of the limited coverage of the Mexican National Survey of Urban Employment.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050258545570

Annex Table 16. **GDP deflators**

Percentage change from previous year

	Average 1982-92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Fourth quarter 2006	Fourth quarter 2007	Fourth quarter 2008
Australia	5.9	1.4	0.8	1.5	2.2	1.5	0.2	0.5	4.3	3.8	2.9	2.8	3.9	4.4	4.9	3.5	3.0	4.5	2.8	3.0
Austria	3.2	2.9	2.4	1.9	0.8	-0.1	0.0	0.3	2.5	2.1	1.7	1.5	1.7	1.5	1.4	1.9	2.3	1.6	2.0	2.4
Belgium	3.6	4.0	2.1	1.2	0.6	1.0	2.1	0.3	1.9	2.0	1.9	1.6	2.4	2.1	1.9	1.6	1.6	1.9	1.6	1.6
Canada	3.6	1.4	1.1	2.3	1.6	1.2	-0.4	1.7	4.1	1.1	1.1	3.4	3.0	3.2	2.1	2.5	2.0	0.5	2.9	1.9
Czech Republic	..	..	11.0	10.2	10.2	8.4	11.1	2.8	1.5	4.9	2.8	0.9	3.5	0.7	1.7	2.6	3.0	2.6	2.3	3.3
Denmark	4.1	0.7	1.5	1.3	2.0	2.0	1.2	1.7	3.0	2.5	2.3	1.6	2.0	3.2	2.2	2.4	3.0	1.7	3.5	3.1
Finland	5.3	1.8	1.5	4.7	-0.3	2.3	3.4	0.8	2.5	3.1	1.3	-0.4	0.5	0.3	1.3	2.0	1.3	2.7	1.4	1.5
France	4.4	1.7	2.0	1.7	1.7	1.1	1.2	0.0	1.5	2.0	2.4	1.8	1.7	1.8	2.1	1.9	1.8	2.1	2.0	1.6
Germany	2.7	3.7	2.4	1.9	0.5	0.3	0.6	0.3	-0.7	1.2	1.4	1.0	0.9	0.6	0.3	1.8	1.3	0.2	2.0	1.7
Greece	18.2	14.4	11.2	9.8	7.4	6.8	5.2	3.0	3.4	2.7	3.7	3.6	3.3	3.4	3.1	3.2	3.3	3.1	1.7	3.7
Hungary	..	..	19.5	26.7	21.4	18.3	12.6	8.4	10.1	8.4	7.9	5.7	4.3	2.0	2.9	6.4	3.4	..	..	..
Iceland	24.1	1.8	2.6	3.0	2.5	2.9	4.9	3.2	3.6	8.6	5.6	0.6	2.5	2.9	8.9	5.2	3.3	10.7	3.5	3.0
Ireland	4.3	5.2	1.7	3.0	2.2	3.6	7.1	4.0	5.6	5.5	5.0	2.6	1.8	3.5	3.2	2.4	3.1	1.5	3.6	2.3
Italy	8.1	3.9	3.6	5.0	5.2	2.5	2.6	1.3	2.0	3.0	3.4	3.1	2.9	2.2	1.8	2.0	2.1	1.2	2.0	2.1
Japan	2.0	0.5	-0.6	-0.5	-0.6	0.6	0.0	-1.3	-1.7	-1.2	-1.5	-1.6	-1.1	-1.3	-0.9	-0.4	0.2	-0.5	-0.3	0.4
Korea	7.0	6.3	7.8	7.4	5.1	4.6	5.8	-0.1	0.7	3.5	2.8	2.7	2.7	-0.2	-0.4	1.1	0.7	-0.5	1.3	0.4
Luxembourg	2.9	6.0	3.5	2.3	2.9	-1.8	-0.4	5.3	2.2	0.0	2.7	4.9	1.7	4.8	5.9	4.9	3.0	..	..	..
Mexico	56.5	8.6	8.5	37.9	30.7	17.7	15.4	15.1	12.1	5.9	7.0	8.6	7.4	5.5	4.5	2.0	3.7	-0.1	5.5	3.1
Netherlands	1.4	1.9	2.3	2.0	1.3	2.6	1.9	1.8	4.1	5.1	3.8	2.2	0.7	1.7	1.5	1.8	2.0	1.4	1.9	2.2
New Zealand	7.5	2.8	1.1	2.3	2.5	0.5	0.9	0.3	2.5	4.2	1.1	1.3	3.7	2.2	2.2	3.3	2.1	2.4	3.3	1.7
Norway	4.0	2.3	-0.2	3.0	4.2	2.8	-0.8	6.6	15.7	1.7	-1.8	3.0	5.3	8.5	7.4	0.8	2.9	2.6	2.4	3.1
Poland	..	..	37.2	28.0	17.9	13.9	11.1	6.0	7.3	3.5	2.2	0.4	4.1	2.6	1.5	2.1	2.5	..	..	..
Portugal	15.6	7.4	7.3	3.4	2.6	3.8	3.7	3.3	3.0	3.7	3.9	3.1	2.7	2.8	2.9	2.8	1.8	3.1	1.8	1.8
Slovak Republic	..	..	13.4	9.9	4.6	4.6	5.1	7.5	9.7	5.0	4.6	4.7	6.0	2.4	2.7	2.7	1.7	2.2	2.7	1.8
Spain	8.2	4.5	3.9	4.9	3.5	2.4	2.5	2.6	3.5	4.2	4.3	4.1	4.0	4.1	3.8	2.8	3.2	3.6	2.4	3.8
Sweden	6.8	2.8	2.8	3.4	1.0	1.6	0.7	1.1	1.3	2.0	1.6	1.9	0.6	1.2	1.5	1.2	2.4	1.4	1.7	2.4
Switzerland	3.3	2.4	1.5	0.8	-0.1	-0.1	-0.3	0.6	0.8	0.6	1.6	1.2	0.6	-0.1	1.4	0.9	1.2	2.1	0.8	1.3
Turkey	51.5	67.8	106.5	87.2	77.8	81.5	75.7	55.6	49.9	54.8	44.1	22.5	9.9	5.4	11.0	8.1	6.1	..	..	..
United Kingdom	5.6	2.7	1.6	2.7	3.5	2.9	2.7	2.2	1.3	2.2	3.1	3.1	2.6	2.2	2.4	2.8	2.4	2.6	2.4	2.3
United States	3.3	2.3	2.1	2.0	1.9	1.7	1.1	1.4	2.2	2.4	1.7	2.1	2.8	3.0	2.9	2.6	2.2	2.5	2.6	2.2
Euro area	5.1	3.5	2.8	2.8	2.0	1.5	1.6	0.9	1.4	2.4	2.6	2.1	1.9	1.9	1.7	2.0	2.0	1.6	2.0	2.1
Total OECD	6.9	3.9	4.7	5.3	4.4	3.8	3.2	2.5	2.8	3.0	2.6	2.3	2.4	2.2	2.2	2.1	2.0	1.8	2.3	2.0

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050271837788

Annex Table 17. **Private consumption deflators**

Percentage change from previous year

	Average 1982-92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Fourth quarter 2006	2007	2008
Australia	6.7	2.4	0.8	2.2	2.1	1.7	1.3	0.5	2.9	3.7	2.7	2.2	1.3	1.8	2.7	2.0	2.4	2.3	2.3	2.3
Austria	2.8	3.4	2.7	2.1	1.9	1.4	0.4	0.8	2.4	1.8	1.3	1.6	1.7	1.6	1.7	1.8	1.9	1.7	1.9	1.9
Belgium	3.6	3.2	2.8	2.1	1.0	1.5	1.2	0.1	3.3	2.4	1.3	1.6	2.4	2.9	2.0	1.5	1.8	1.8	1.8	1.9
Canada	4.3	2.3	1.1	1.3	1.6	1.6	1.2	1.7	2.2	1.8	2.0	1.7	1.5	1.7	1.3	1.5	1.9	0.9	2.1	1.9
Czech Republic	..	..	10.7	9.2	7.7	9.0	8.9	1.9	3.2	3.9	1.2	-0.4	3.0	1.7	2.4	2.3	3.3	1.7	3.3	3.1
Denmark	3.8	1.1	2.7	1.8	1.6	2.0	1.4	1.9	2.7	2.3	1.7	1.3	1.5	2.2	2.1	2.5	2.6	1.7	2.4	2.7
Finland	5.2	4.0	0.3	0.9	0.9	1.9	2.2	1.4	4.1	2.8	2.1	-0.3	0.9	0.3	1.8	1.7	1.7	2.1	1.9	1.7
France	4.5	2.0	1.7	1.2	1.9	1.0	0.5	-0.3	2.4	1.7	0.9	1.7	1.6	1.8	1.2	1.0	1.7	0.6	1.7	1.6
Germany	2.2	3.4	2.5	1.3	0.9	1.4	0.5	0.3	0.9	1.8	1.2	1.5	1.6	1.3	1.3	1.7	1.7	1.0	1.8	1.9
Greece	18.1	14.2	11.1	9.0	8.2	5.6	4.5	2.3	3.1	2.8	2.7	3.0	2.6	3.7	3.3	2.9	3.0	..	..	..
Hungary	..	..	19.5	28.3	22.9	18.0	13.6	10.2	9.0	8.1	3.9	4.0	4.5	3.6	3.2	5.9	3.7	..	..	..
Iceland	24.3	3.7	1.6	2.2	2.5	0.8	1.5	2.8	5.0	7.8	4.8	1.3	3.0	1.9	7.5	3.8	2.5	9.5	1.5	2.6
Ireland	4.4	2.2	2.7	2.8	2.5	2.5	4.0	3.2	4.7	4.0	5.0	3.8	1.4	1.2	3.2	2.7	3.0	2.7	3.6	3.0
Italy	7.7	5.4	5.1	6.0	4.1	2.3	1.8	1.8	3.4	2.6	2.9	2.8	2.6	2.4	2.7	1.9	2.1	2.3	2.1	2.1
Japan	1.8	1.0	-1.5	-0.2	0.0	1.3	0.2	-0.5	-1.1	-1.1	-1.4	-0.9	-0.7	-0.8	-0.3	-0.5	0.3	-0.3	-0.3	0.4
Korea	5.8	7.0	9.6	6.6	6.2	6.0	6.7	3.3	4.8	4.8	2.8	3.4	3.5	2.6	2.1	2.5	3.0	1.9	2.8	3.0
Luxembourg	3.7	4.0	2.6	2.0	1.3	1.4	1.7	2.4	4.0	2.0	0.3	2.3	2.5	3.6	3.0	2.2	2.8	..	..	..
Mexico	58.0	7.9	7.6	34.0	30.7	16.5	20.5	14.0	10.4	7.2	5.3	7.1	6.5	3.3	3.4	4.1	3.5	4.0	3.7	3.5
Netherlands	1.9	2.1	2.9	1.4	2.0	2.3	2.0	1.9	3.8	4.5	3.0	2.4	0.8	1.6	1.9	1.4	1.8	1.5	1.6	1.9
New Zealand	7.8	1.1	1.3	2.4	2.3	1.8	2.0	0.5	2.3	2.2	2.0	0.3	1.2	1.9	2.9	2.0	2.0	2.7	2.1	1.9
Norway	5.7	2.5	1.0	2.3	1.3	2.4	2.5	2.0	2.9	2.2	1.4	3.0	0.7	1.0	2.1	1.4	2.5	2.4	1.0	2.8
Poland	..	..	37.9	27.2	18.7	14.6	10.6	6.1	10.0	3.8	3.3	0.4	3.0	2.1	1.0	1.3	2.3	..	..	..
Portugal	15.2	6.8	5.6	4.3	2.9	2.9	2.3	2.2	3.4	3.4	3.0	2.9	2.6	2.5	3.3	2.0	2.1	3.0	1.9	2.1
Slovak Republic	..	..	13.4	9.2	4.7	4.4	6.1	9.9	8.9	5.6	3.3	6.6	7.4	2.6	5.1	2.7	2.1	5.2	1.7	2.0
Spain	7.7	5.3	4.9	4.8	3.2	2.7	1.9	2.3	3.7	3.4	2.8	3.1	3.5	3.4	3.6	2.5	2.7	3.0	2.9	2.7
Sweden	7.0	5.9	2.8	3.0	1.0	1.6	0.6	1.4	1.2	2.1	1.7	1.8	0.8	1.3	1.3	2.1	2.5	1.2	2.5	2.5
Switzerland	3.2	3.1	0.5	1.6	0.6	0.7	-0.4	0.3	0.6	0.4	1.7	0.5	0.9	0.8	1.4	0.5	1.1	1.1	0.6	1.2
Turkey	52.5	65.9	108.9	92.4	67.8	82.1	83.0	59.0	50.0	58.8	40.6	21.8	7.9	6.1	10.5	8.1	6.2	..	..	..
United Kingdom	5.6	3.4	2.1	3.3	3.3	2.5	2.6	1.7	1.1	2.3	1.6	1.9	1.7	2.5	2.3	2.3	2.1	2.2	2.1	2.1
United States	3.7	2.3	2.1	2.1	2.2	1.7	0.9	1.7	2.5	2.1	1.4	2.0	2.6	2.9	2.7	2.4	2.2	1.9	2.9	2.1
Euro area	5.0	3.9	3.2	2.7	2.2	1.8	1.2	0.9	2.5	2.4	1.8	2.1	2.0	2.0	2.0	1.7	2.0	1.6	2.0	2.0
Total OECD	7.1	4.1	4.8	5.3	4.5	4.0	3.4	2.7	3.2	3.1	2.1	2.2	2.2	2.1	2.2	1.9	2.0	1.8	2.3	2.0

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

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050314221035

Annex Table 18. **Consumer price indices**

Percentage change from previous year

	Average 1982-92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Fourth quarter 2006	Fourth quarter 2007	Fourth quarter 2008
Australia	6.4	1.8	1.9	4.6	2.6	0.3	0.9	1.5	4.5	4.4	3.0	2.8	2.3	2.7	3.5	2.2	2.7	3.3	2.6	2.4
Austria	..	3.2	2.7	1.6	1.8	1.2	0.8	0.5	2.0	2.3	1.7	1.3	2.0	2.1	1.7	1.6	1.9	1.5	1.9	1.9
Belgium	..	2.5	2.4	1.3	1.8	1.5	0.9	1.1	2.7	2.4	1.6	1.5	1.9	2.5	2.3	1.1	1.8	1.9	1.3	1.9
Canada	4.3	1.9	0.2	2.2	1.6	1.6	1.0	1.7	2.7	2.5	2.2	2.8	1.8	2.2	2.0	2.0	2.1	1.3	2.8	2.0
Czech Republic	..	..	10.0	9.1	8.8	8.5	10.7	2.1	3.9	4.7	1.8	0.1	2.8	1.9	2.6	2.5	3.4	1.5	3.4	3.4
Denmark	4.2	1.3	2.0	2.1	2.1	2.2	1.8	2.5	2.9	2.4	2.4	2.1	1.2	1.8	1.9	1.8	2.6	1.7	2.4	2.7
Finland	..	3.3	1.6	0.4	1.1	1.2	1.3	1.3	2.9	2.7	2.0	1.3	0.1	0.8	1.3	1.4	1.7	1.2	1.6	1.8
France	..	2.2	1.7	1.8	2.1	1.3	0.7	0.6	1.8	1.8	1.9	2.2	2.3	1.9	1.9	1.3	1.7	1.5	1.5	1.6
Germany	..	..	..	..	1.2	1.5	0.6	0.6	1.4	1.9	1.4	1.0	1.8	1.9	1.8	1.8	1.7	1.3	1.8	1.9
Greece	18.0	14.4	10.9	8.9	7.9	5.4	4.5	2.1	2.9	3.7	3.9	3.4	3.0	3.5	3.3	2.8	3.0	3.2	2.8	3.1
Hungary	..	..	18.9	28.3	23.5	18.3	14.2	10.0	9.8	9.1	5.2	4.7	6.7	3.6	3.9	7.2	3.7	6.4	5.8	3.2
Iceland[1]	24.5	4.0	1.6	1.7	2.3	1.8	1.7	3.2	5.1	6.4	5.2	2.1	3.2	4.0	6.7	3.3	2.7	7.2	1.9	2.6
Ireland	..	..	..	..	2.2	1.3	2.1	2.5	5.3	4.0	4.7	4.0	2.3	2.2	2.7	2.4	2.8	2.5	2.8	2.7
Italy	..	4.5	4.2	5.4	4.0	1.9	2.0	1.7	2.6	2.3	2.6	2.8	2.3	2.2	2.2	2.0	2.1	2.0	2.0	2.1
Japan	1.8	1.3	0.7	-0.1	0.0	1.7	0.7	-0.3	-0.5	-0.8	-0.9	-0.2	0.0	-0.6	0.2	-0.3	0.3	0.3	-0.2	0.4
Korea	5.1	4.8	6.3	4.5	4.9	4.4	7.5	0.8	2.3	4.1	2.7	3.6	3.6	2.8	2.2	2.5	3.0	2.1	3.0	2.8
Luxembourg	..	..	..	..	1.2	1.4	1.0	1.0	3.8	2.4	2.1	2.5	3.2	3.8	3.0	2.0	2.4	1.5	2.7	2.5
Mexico	59.3	9.8	7.0	35.0	34.4	20.6	15.9	16.6	9.5	6.4	5.0	4.5	4.7	4.0	3.6	4.2	3.5	4.1	3.5	3.8
Netherlands	..	1.6	2.1	1.4	1.4	1.9	1.8	2.0	2.3	5.1	3.9	2.2	1.4	1.5	1.7	1.4	1.8	1.5	1.4	1.9
New Zealand	7.9	1.3	1.7	3.8	2.3	1.2	1.3	-0.1	2.6	2.6	2.7	1.8	2.3	3.0	3.4	2.0	2.3	2.6	2.3	2.2
Norway	5.7	2.3	1.4	2.4	1.2	2.6	2.3	2.3	3.1	3.0	1.3	2.5	0.5	1.5	2.3	1.1	2.4	2.5	1.0	2.5
Poland	..	..	33.0	28.0	19.8	14.9	11.6	7.2	9.9	5.4	1.9	0.7	3.4	2.2	1.3	1.8	2.3	1.2	2.1	2.6
Portugal	14.9	5.9	5.0	4.0	2.9	1.9	2.2	2.2	2.8	4.4	3.7	3.3	2.5	2.1	3.0	2.0	2.2	2.5	2.3	2.1
Slovak Republic	..	..	13.4	9.8	5.8	6.1	6.7	10.6	12.0	7.3	3.1	8.6	7.5	2.7	4.5	2.3	2.1	4.0	1.7	2.0
Spain	7.6	4.9	4.6	4.6	3.6	1.9	1.8	2.2	3.5	2.8	3.6	3.1	3.1	3.4	3.6	2.5	2.7	2.6	2.9	2.7
Sweden	6.7	4.7	2.2	2.5	0.5	0.7	-0.3	0.5	0.9	2.4	2.2	1.9	0.4	0.5	1.4	1.6	2.0	1.5	1.6	2.0
Switzerland	3.2	3.3	0.9	1.8	0.8	0.5	0.0	0.8	1.6	1.0	0.6	0.6	0.8	1.2	1.1	0.2	1.2	0.5	0.6	1.2
Turkey	52.0	66.1	105.2	89.1	80.4	85.7	84.6	64.9	54.9	54.4	45.0	21.6	8.6	8.2	9.6	9.6	7.2	9.8	8.8	6.4
United Kingdom[2]	5.1	2.5	2.0	2.7	2.5	1.8	1.6	1.3	0.8	1.2	1.3	1.4	1.3	2.0	2.3	2.4	2.0	2.7	2.1	2.0
United States[3]	3.8	3.0	2.6	2.8	2.9	2.3	1.5	2.2	3.4	2.8	1.6	2.3	2.7	3.4	3.2	2.6	2.6	1.9	3.4	2.3
Euro area	..	3.7	3.2	3.0	2.3	1.7	1.2	1.1	2.1	2.4	2.3	2.1	2.2	2.2	2.2	1.8	2.0	1.8	1.9	2.0

Note: Consumer price index. For the euro area countries, the euro area aggregate and the United Kingdom: harmonised index of consumer prices (HICP).

1. Excluding rent, but including imputed rent.
2. Known as the CPI in the United Kingdom.
3. The methodology for calculating the Consumer Price Index has changed considerably over the past years, lowering measured inflation substantially.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050330353583

Annex Table 19. **Oil and other primary commodity markets**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Oil market conditions[1]	Million barrels per day																	
Demand																		
OECD[2]	41.8	42.9	43.2	44.4	44.8	45.9	46.7	46.9	47.8	47.9	47.9	48.0	48.9	49.5	49.6	49.2	49.6	..
of which: North America	20.5	20.8	21.1	21.7	21.6	22.2	22.7	23.1	23.8	24.1	24.0	24.1	24.6	25.3	25.5	25.3	25.8	..
Europe[3]	14.0	14.2	14.2	14.3	14.6	14.9	15.0	15.3	15.2	15.1	15.3	15.2	15.5	15.6	15.5	15.5	15.4	..
Pacific	7.4	7.9	7.9	8.4	8.6	8.8	9.0	8.5	8.8	8.7	8.7	8.6	8.8	8.5	8.6	8.5	8.4	..
Non-OECD[4]	25.2	24.7	24.8	24.3	25.2	26.0	27.0	27.5	28.2	28.7	29.4	29.9	30.9	33.1	33.9	35.0	36.2	..
Total	67.0	67.6	67.9	68.7	70.0	71.9	73.7	74.4	76.0	76.6	77.3	77.9	79.7	82.6	83.5	84.2	85.7	..
Supply																		
OECD[2]	19.5	19.8	20.0	20.8	21.1	21.7	22.1	21.9	21.4	21.9	21.8	21.8	21.6	21.3	20.3	20.0	20.1	..
OPEC total	25.3	26.5	26.9	27.6	27.9	28.7	30.2	31.0	29.6	30.9	30.4	28.8	30.7	32.8	34.2	34.3	..	..
Former USSR	10.4	8.9	7.9	7.2	7.1	7.1	7.2	7.3	7.5	7.9	8.6	9.4	10.3	11.2	11.6	12.1	12.6	..
Other non-OECD[4]	11.6	12.1	12.6	13.4	14.5	15.0	15.4	15.7	16.0	16.2	16.4	16.9	17.1	17.6	18.3	18.7	..	..
Total	66.8	67.2	67.5	69.1	70.6	72.5	74.9	75.9	74.5	76.9	77.2	76.9	79.7	82.9	84.5	85.1	..	..
Trade																		
OECD net imports[2]	22.3	23.1	23.4	23.8	23.4	24.2	25.0	25.3	25.6	26.2	26.4	25.9	27.5	28.4	29.5	29.5	29.2	..
Former USSR net exports	2.2	2.0	2.0	2.7	2.8	3.1	3.4	3.6	3.9	4.3	4.9	5.9	6.7	7.5	7.8	8.1	8.6	..
Other non-OECD net exports[4]	20.1	21.1	21.4	21.0	20.6	21.1	21.5	21.8	21.7	21.9	21.5	20.0	20.8	21.0	21.7	21.4	20.6	..
Prices[5]	cif, $ per bl																	
Brent crude oil import price	20.0	19.3	17.0	15.8	17.0	20.7	19.1	12.7	17.9	28.4	24.5	25.0	28.8	38.2	54.4	65.1	63.2	65.0
Prices of other primary commodities[5]	$ indices																	
Food and tropical beverages	111	109	113	146	151	156	159	133	108	100	93	104	112	125	126	139	154	156
Agricultural raw materials	116	114	99	120	141	118	113	97	94	100	86	85	104	114	115	129	147	152
Minerals, ores and metals	103	99	87	103	122	108	110	93	89	100	91	89	102	140	172	248	275	257
Total[6]	112	111	109	128	139	143	139	116	100	100	92	99	111	128	127	148	167	167

1. Based on data published in in varoius issues of International Energy Agency, Oil Market Report and Annual Statistical Supplement, August 2006.
2. Excluding Czech Republic, Hungary, Korea, Mexico and Poland.
3. European Union countries and Iceland, Norway, Switzerland and Turkey.
4. Including Czech Republic, Hungary, Korea, Mexico and Poland.
5. Indices through 2005 are based on data compiled by International Energy Agency for oil and by Hamburg Institute for Economic Research for the prices of other primary commodities; OECD estimates and projections for 2007 and 2008.
6. OECD calculations. The total price index for non-energy primary commodities is a weighted average of the individual HWWA non-oil commodities indices with the weights drawn from the commodities' share in total non-energy commodities world trade.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050346708605

Annex Table 20. **Employment rates, participation rates and labour force**

	Employment rates						Labour force participation rates						Labour force					
	Average 1985-87	Average 1995-97	2005	2006	2007	2008	Average 1985-87	Average 1995-97	2005	2006	2007	2008	Average 1985-94	Average 1995-04	2005	2006	2007	2008
	Per cent						*Per cent*						*Percentage change*					
Australia	65.7	69.0	73.2	73.6	74.4	74.6	71.4	75.1	77.1	77.4	78.0	78.3	2.0	1.4	2.8	1.8	2.0	1.5
Austria	73.0	73.8	73.8	74.2	74.6	75.0	76.0	78.1	78.4	78.5	78.8	79.2	0.8	0.6	0.4	0.6	0.7	0.7
Belgium	55.9	58.6	62.2	62.2	62.6	62.9	62.2	64.8	67.9	67.8	67.6	67.7	0.5	0.7	1.0	0.9	0.3	0.5
Canada	68.2	68.6	73.9	74.4	75.1	75.4	75.5	75.7	79.2	79.4	80.0	80.2	1.3	1.8	0.9	1.4	2.0	1.5
Czech Republic	..	69.4	65.4	66.0	66.7	67.2	..	72.5	71.1	71.1	71.3	71.6	..	0.0	1.0	0.4	0.7	0.4
Denmark	77.9	75.1	77.3	78.5	79.3	79.1	82.3	79.9	81.2	81.7	82.1	82.0	0.1	0.3	0.0	0.9	0.8	-0.1
Finland	72.4	61.5	68.4	69.4	70.2	70.4	76.4	72.5	74.6	75.2	75.5	75.5	-0.5	0.5	1.1	1.0	0.6	0.1
France	58.9	59.1	62.7	62.8	63.0	63.2	65.8	67.0	69.5	69.0	68.8	68.8	0.5	1.0	0.4	-0.1	0.2	0.5
Germany	65.7	67.5	71.1	71.9	72.9	73.6	70.0	73.2	78.3	78.2	78.3	78.6	1.0	0.6	-0.2	-0.4	-0.1	0.3
Greece	61.4	60.3	64.9	66.3	67.3	68.1	65.7	66.0	71.5	72.4	73.2	74.0	0.8	1.1	0.9	1.3	1.2	1.2
Hungary	..	51.1	55.6	56.1	56.3	56.6	..	56.6	60.0	60.7	60.9	61.2	..	0.3	1.2	1.0	0.4	0.4
Iceland	87.8	81.8	82.4	83.2	83.1	82.4	89.1	85.3	84.6	85.7	85.5	85.6	1.0	0.9	2.8	5.4	1.1	0.9
Ireland	53.0	57.5	69.3	70.3	71.0	71.3	63.9	65.1	72.5	73.5	74.2	74.5	0.8	3.0	4.6	4.5	3.3	2.4
Italy	54.4	51.3	57.7	59.0	60.1	60.7	60.2	57.9	62.6	63.4	64.2	64.6	-0.1	0.8	0.4	1.2	1.0	0.6
Japan	70.3	74.6	74.6	75.5	76.3	76.7	72.2	77.2	78.0	78.7	79.3	79.6	1.2	0.0	0.1	0.1	-0.1	-0.5
Korea	57.0	64.4	66.2	66.7	67.0	67.3	59.1	65.9	68.8	69.1	69.3	69.6	3.0	1.3	1.4	1.0	0.9	1.0
Luxembourg	59.7	60.5	65.9	66.6	67.2	68.2	60.7	62.5	69.1	69.7	70.1	70.8	1.1	2.1	2.3	1.7	1.4	1.8
Mexico	..	61.9	62.1	62.3	..	..	..	64.8	64.3	64.6	..	..	..	2.2	-0.2	2.1	2.6	2.2
Netherlands	60.6	69.0	74.4	75.0	76.0	76.9	66.0	73.5	78.3	78.5	78.9	79.2	1.6	1.3	0.1	0.5	0.5	0.3
New Zealand	75.8	71.1	76.2	76.9	..	..	78.9	75.9	79.1	79.9	..	..	0.5	1.7	2.5	2.2	1.4	0.7
Norway	77.2	75.5	75.4	76.8	77.6	77.5	79.0	79.1	79.1	79.5	79.7	79.6	0.4	1.0	0.7	2.0	1.5	0.8
Poland	..	58.2	52.6	54.2	55.5	56.6	..	66.4	63.9	62.9	62.6	62.6	..	0.0	0.8	-1.3	-0.1	0.3
Portugal	63.4	68.0	71.6	72.1	72.5	73.2	69.1	73.1	77.5	78.1	78.5	78.8	1.0	1.1	1.2	0.7	0.6	0.5
Slovak Republic	..	60.9	57.6	59.5	61.2	62.7	..	69.3	68.7	68.6	69.2	69.9	..	0.8	-0.3	0.4	0.9	1.0
Spain	47.0	49.6	64.7	66.2	67.3	68.3	56.8	60.2	71.3	72.4	73.3	74.3	1.3	3.0	3.2	3.3	3.0	2.5
Sweden	80.8	71.5	73.7	74.5	75.5	76.1	83.0	77.7	78.3	78.7	79.4	79.5	-0.3	0.4	1.3	1.5	1.6	0.6
Switzerland	79.7	82.8	82.9	84.1	84.6	84.9	80.3	86.0	86.5	87.4	87.5	87.4	1.8	0.7	0.5	1.7	0.9	0.6
Turkey	58.5	53.8	47.6	47.4	47.1	46.9	63.3	57.7	53.0	52.5	52.2	51.9	2.1	0.9	1.1	1.0	1.2	1.3
United Kingdom	66.8	69.4	72.3	72.1	72.3	72.8	75.1	75.3	76.0	76.3	76.5	77.1	0.2	0.6	1.0	1.4	1.0	1.1
United States	68.8	71.9	71.2	..	..	..	73.8	76.0	75.1	..	..	..	1.4	1.2	1.3	1.4	1.1	0.8
Euro area	58.8	59.9	65.8	66.6	67.4	68.0	64.8	66.9	71.9	72.2	72.5	72.9	0.7	1.1	0.7	0.8	0.8	0.8
Total OECD	60.3	65.9	67.1	66.3	67.4	67.8	64.9	70.7	71.8	70.9	71.9	72.1	1.3	1.0	0.8	1.0	1.0	0.8

Note: Employment rates are calculated as the ratio of total employment to the population of working age. The working age population concept used here and in the labour force participation rate is defined as all persons of the age 15 to 64 years (16 to 64 years for Spain and Sweden). This definition does not correspond to the commonly-used working age population concepts for Mexico (15 years and above), the United States and New Zealand (16 years and above). Hence for these countries no projections are available. For information about sources and definitions, see *OECD Economic Outlook* Sources and Methods . *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 81 database and OECD Main Economic Indicators.

StatLink http://dx.doi.org/10.1787/050351007163

Annex Table 21. **Potential GDP, employment and capital stock**

Percentage change from previous period

	Potential GDP						Employment						Capital stock[1]					
	Average 1985-94	Average 1995-04	2005	2006	2007	2008	Average 1985-94	Average 1995-04	2005	2006	2007	2008	Average 1985-94	Average 1995-04	2005	2006	2007	2008
Australia	3.2	3.5	3.3	3.3	3.1	3.0	1.8	1.7	3.3	2.0	2.3	1.4	3.2	4.0	4.0	3.8	3.7	3.7
Austria	2.3	2.4	2.1	2.2	2.2	2.0	0.6	0.5	0.3	1.0	0.9	0.7	3.3	3.0	2.7	2.7	2.7	2.7
Belgium	2.2	2.1	2.0	2.3	2.0	1.9	0.6	0.8	1.0	1.1	1.1	0.9	3.2	2.5	1.9	1.9	1.9	2.0
Canada	2.4	3.1	3.0	3.1	3.0	2.9	1.3	2.0	1.4	2.0	2.2	1.6	4.9	4.6	4.3	4.2	4.3	4.3
Czech Republic	..	..	4.5	4.9	4.8	4.5	..	-0.5	1.4	1.3	1.5	0.8	..	..	..	..	..	..
Denmark	1.9	2.1	1.7	1.8	1.7	1.6	0.0	0.5	0.7	1.9	1.2	-0.2	3.3	4.2	4.0	3.9	3.9	3.8
Finland	2.2	2.8	3.0	3.0	3.0	2.9	-2.0	1.5	1.5	1.8	1.4	0.4	2.7	0.5	0.0	0.0	0.0	0.0
France	1.9	2.1	1.8	1.8	1.8	1.9	0.3	1.2	0.5	0.9	0.9	0.9	3.5	3.3	3.1	3.1	3.1	3.0
Germany	2.2	1.5	1.5	1.5	1.6	1.6	1.1	0.4	-0.1	0.7	1.2	0.8	3.0	2.2	1.6	1.6	1.6	1.6
Greece	1.6	3.5	4.1	4.2	4.1	4.0	0.6	0.9	1.6	2.4	1.6	1.4	2.3	5.1	5.9	5.9	5.9	5.9
Hungary	..	4.3	5.0	5.0	4.2	3.7	..	0.8	0.0	0.8	0.3	0.5	..	..	..	..	..	..
Iceland	2.2	3.3	4.8	7.1	4.0	2.2	0.5	1.1	3.3	5.1	1.1	0.0	..	..	..	..	..	..
Ireland	4.5	7.1	5.6	5.8	5.2	4.7	1.1	4.1	4.7	4.4	3.4	2.4	2.1	7.1	6.1	5.8	5.7	5.6
Italy	2.1	1.4	1.5	1.3	1.1	1.2	-0.4	1.2	0.7	2.2	1.6	0.9	3.2	3.5	3.7	3.6	3.6	3.4
Japan	3.0	1.3	1.5	1.5	1.5	1.6	1.2	-0.2	0.4	0.4	0.2	-0.3	4.8	2.6	2.5	2.6	2.6	2.7
Korea	..	..	..	..	..	..	3.2	1.1	1.3	1.3	1.0	1.0	..	..	..	..	..	..
Luxembourg	5.6	4.8	4.0	3.7	3.8	3.8	1.0	1.9	1.8	1.9	1.6	2.3	..	..	..	..	..	..
Mexico	..	..	..	..	..	..	..	2.5	-0.7	2.1	2.2	2.4	..	..	..	..	..	..
Netherlands	2.7	2.8	1.8	1.8	1.6	1.6	1.8	1.6	0.0	0.9	1.4	1.2	2.8	2.8	2.5	2.5	2.5	2.5
New Zealand	1.7	3.0	3.0	3.0	2.8	2.5	0.0	1.9	2.8	2.1	1.2	0.1	2.7	3.8	3.9	3.9	3.9	3.9
Norway	1.9	2.8	3.1	3.4	3.6	3.5	0.1	1.0	0.6	3.2	2.3	0.8	..	..	..	..	..	..
Poland	..	..	..	..	..	..	..	-0.8	2.3	3.4	3.0	2.0	..	..	..	..	..	..
Portugal	2.9	2.5	1.7	1.6	1.6	1.5	1.3	1.2	0.1	0.7	0.7	1.0	3.2	4.5	3.8	3.9	4.0	4.0
Slovak Republic	..	..	..	..	..	..	..	0.1	2.1	3.8	3.1	2.3	..	..	..	..	..	..
Spain	2.9	3.4	3.3	3.5	3.3	2.7	1.2	4.1	4.8	4.1	3.4	2.6	4.9	5.5	5.1	5.1	5.1	5.1
Sweden	1.9	2.4	2.8	3.2	3.5	3.4	-0.9	0.6	1.0	2.0	2.2	1.3	3.7	3.3	2.7	2.8	2.8	2.9
Switzerland	2.0	1.4	1.7	1.7	1.8	1.8	1.5	0.6	0.4	2.2	1.4	1.0	..	..	..	..	..	..
Turkey	..	..	..	..	..	..	1.9	0.6	1.1	1.2	1.3	1.4	..	..	..	..	..	..
United Kingdom	2.3	2.7	2.7	2.8	2.7	2.5	0.4	1.1	0.9	0.8	1.0	1.1	4.0	3.9	3.5	3.5	3.5	3.5
United States	3.0	3.0	2.8	2.7	2.7	2.7	1.6	1.2	1.8	1.9	1.1	0.6	4.2	4.8	3.9	3.9	3.9	3.9
Euro area	2.2	2.1	2.0	2.0	2.0	1.9	0.6	1.3	1.0	1.6	1.5	1.2	..	..	..	..	..	..
Total OECD	2.7	2.5	2.4	2.4	2.3	2.3	1.3	1.0	1.1	1.6	1.3	1.0	4.0	3.9	3.4	3.4	3.4	3.4

Note: Potential output is estimated using a Cobb-Douglas production function approach. For information about definitions, sources and data coverage, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Smooth value, total economy less housing.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050403643116

Annex Table 22. **Structural unemployment and unit labor costs**

	Structural unemployment rate									Unit labour costs[1]								
	Average 1982-84	Average 1992-94	2002	2003	2004	2005	2006	2007	2008	Average 1982-91	Average 1992-01	2002	2003	2004	2005	2006	2007	2008
	Per cent									*Percentage change*								
Australia	5.6	6.7	5.8	5.6	5.4	5.2	5.0	5.0	5.0	5.2	1.6	0.8	2.3	3.7	4.4	4.7	3.8	3.1
Austria	2.7	4.8	4.9	4.9	4.9	4.9	4.9	4.9	4.9	3.1	1.1	1.3	1.3	-0.2	0.3	0.9	0.4	1.1
Belgium	7.1	7.2	7.1	7.2	7.2	7.2	7.2	7.2	7.2	3.1	2.0	2.4	0.7	0.0	2.0	1.3	1.3	1.1
Canada	7.9	8.5	7.3	7.2	7.0	6.9	6.8	6.8	6.7	3.8	0.8	1.1	2.8	1.6	2.6	3.3	2.8	2.4
Czech Republic	..	..	..	..	..	..	..	..	..	..	6.9	5.0	2.4	2.2	0.5	2.3	2.2	2.2
Denmark	5.7	7.0	4.8	4.8	4.8	4.7	4.7	4.6	4.5	4.4	1.7	3.0	2.2	0.8	1.0	2.3	3.0	2.4
Finland	3.9	8.0	8.7	8.6	8.6	8.4	8.2	8.0	8.0	6.6	0.2	1.2	0.9	0.4	2.2	-0.9	1.3	1.9
France	7.6	10.0	8.9	8.7	8.6	8.6	8.5	8.5	8.5	3.7	1.5	3.0	1.8	1.3	1.8	2.0	1.7	1.9
Germany	4.6	6.0	7.4	7.4	7.4	7.3	7.3	7.2	7.1	1.9	1.1	0.7	0.5	-0.4	-1.7	-1.6	-0.5	1.1
Greece	4.4	7.4	9.6	9.5	9.5	9.5	9.3	9.1	9.0	18.0	8.4	7.3	3.0	5.6	2.2	3.8	3.7	3.9
Hungary	..	..	..	..	..	..	..	..	..	..	12.6	8.7	7.0	4.6	2.7	3.7	4.7	2.7
Iceland	1.3	3.5	2.8	2.8	2.8	2.8	2.8	2.8	2.8	27.1	4.2	8.6	3.0	-0.1	7.7	13.1	9.6	4.6
Ireland	11.0	13.3	5.9	5.7	5.5	5.4	5.2	5.0	5.0	3.2	2.4	1.5	3.0	5.4	5.0	3.6	2.8	3.0
Italy	6.5	9.2	8.7	8.3	7.8	7.3	7.2	7.2	7.2	7.6	2.0	4.3	3.8	2.5	4.4	2.6	1.3	2.1
Japan	2.2	2.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	1.6	0.0	-2.7	-2.8	-3.5	-1.0	-0.7	-0.9	-0.3
Korea	..	..	..	..	..	..	..	..	..	8.9	4.2	1.7	5.4	2.8	0.7	1.8	1.2	1.2
Luxembourg	..	..	..	..	..	..	..	..	..	1.9	2.9	2.8	2.4	2.9	2.9	0.7	2.6	1.0
Mexico	..	..	..	..	..	..	..	..	..	57.7	17.0	6.9	5.7	2.9	3.3	2.2	2.4	2.1
Netherlands	6.5	6.2	3.5	3.3	3.2	3.2	3.2	3.2	3.2	0.5	2.3	4.9	2.6	-0.2	-0.7	-0.8	0.9	2.4
New Zealand	3.5	7.7	5.7	5.4	5.0	4.7	4.5	4.4	4.4	2.2	1.4	1.9	3.7	2.8	4.7	8.7	4.3	2.8
Norway	2.5	4.5	4.0	4.1	4.1	4.1	4.1	4.1	4.1	4.6	2.5	3.5	1.2	0.9	2.5	4.3	4.5	3.3
Poland	..	..	..	..	..	..	..	..	..	..	12.9	-2.4	-2.1	1.4	2.2	3.5	2.0	2.9
Portugal	6.2	4.3	4.1	4.1	4.6	4.8	4.8	4.8	4.8	15.0	4.7	4.3	3.4	3.1	4.2	2.2	1.0	1.8
Slovak Republic	..	..	..	..	..	..	..	..	..	..	5.4	4.0	4.4	0.7	-0.3	1.8	0.8	0.2
Spain	9.6	14.3	11.3	10.6	10.2	9.7	9.1	8.8	8.5	8.2	3.7	3.3	3.4	2.6	2.5	2.8	2.6	2.9
Sweden	2.3	4.0	4.7	4.7	4.7	5.0	5.1	4.9	4.8	7.0	1.8	1.2	1.1	-0.6	0.7	-0.9	1.5	2.1
Switzerland	0.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	3.7	1.1	2.2	0.4	-1.9	-1.1	0.3	0.6	0.7
Turkey	..	..	..	..	..	..	..	..	..	57.0	69.3	33.6	21.8	10.6	6.7	10.2	9.5	6.7
United Kingdom	6.6	7.6	5.5	5.4	5.3	5.3	5.3	5.3	5.3	5.8	2.5	2.0	2.3	1.8	3.6	1.9	2.6	2.8
United States	6.3	5.5	4.9	4.8	4.7	4.6	4.6	4.6	4.6	3.0	2.2	0.9	1.1	1.7	2.2	2.9	3.5	2.4
Euro area	6.4	8.4	8.1	7.8	7.7	7.5	7.4	7.3	7.3	4.3	0.2	2.5	1.8	1.0	1.1	0.9	1.0	1.8
Total OECD	5.7	6.3	5.9	5.8	5.7	5.6	5.5	5.5	5.5	6.8	3.7	1.8	1.6	1.1	1.7	2.0	2.2	2.0

Note: The structural unemployment rate corresponds to "NAIRU". For more information about sources and definitions, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

1. Total economy.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050405463732

Annex Table 23. **Household saving rates**

Per cent of disposable household income

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net savings																				
Australia	7.5	8.4	4.9	5.0	5.4	6.9	6.4	7.0	4.5	1.8	1.5	2.5	1.6	-1.2	-3.2	-2.2	-0.8	-0.9	-0.8	-0.4
Austria	8.9	10.3	12.2	10.9	11.2	11.2	10.9	8.6	7.3	8.2	8.8	8.4	7.5	7.6	8.6	8.8	9.1	9.1	9.0	8.9
Canada	13.0	13.0	13.3	13.0	11.9	9.5	9.2	7.0	4.9	4.9	4.0	4.7	5.2	3.5	2.8	2.6	1.2	1.8	2.1	2.7
Czech Republic	..	..	..	..	9.4	6.4	10.0	6.1	6.0	4.1	3.4	3.3	2.2	3.0	2.4	0.2	0.5	0.3	0.2	0.2
Finland	-0.6	2.0	7.4	10.2	7.9	1.4	4.2	0.3	1.5	0.4	1.6	-1.8	-0.9	0.0	1.1	2.1	0.0	-1.5	-2.3	-2.6
France	8.8	9.5	10.6	11.6	12.3	11.7	12.9	11.9	12.9	12.5	12.2	12.0	12.7	13.9	12.8	12.7	11.9	11.9	12.5	12.0
Germany	12.5	13.7	12.9	12.7	12.1	11.4	11.0	10.5	10.1	10.1	9.5	9.2	9.4	9.9	10.3	10.4	10.6	10.5	10.1	9.2
Italy	24.9	25.3	24.2	22.6	21.8	20.3	19.4	20.2	16.7	13.6	11.0	9.2	11.2	12.0	11.0	11.5	12.1	11.9	11.6	11.5
Japan	13.6	13.9	15.0	14.2	13.7	12.6	11.9	10.6	10.3	11.3	10.0	8.6	5.0	4.9	3.9	3.5	3.0	3.1	2.9	3.0
Korea	23.6	22.5	24.6	23.4	21.8	20.7	17.5	17.5	16.1	24.9	17.5	10.7	6.4	2.2	3.9	6.3	4.3	4.3	3.9	3.9
Netherlands	14.7	16.8	13.4	15.6	13.6	14.0	14.3	12.7	13.3	12.2	9.0	6.9	9.7	8.7	7.6	7.4	6.5	6.6	7.0	8.0
Norway	0.7	1.7	2.4	4.5	5.4	4.1	3.8	1.6	2.1	5.2	4.7	4.3	3.1	8.2	8.9	7.5	8.8	1.3	4.4	5.1
Sweden	-1.2	3.4	5.6	9.7	11.4	10.0	9.8	7.6	5.2	4.3	4.1	5.1	9.8	10.6	10.5	9.6	8.8	8.3	7.4	6.5
Switzerland	..	9.6	10.0	10.7	11.2	11.1	11.6	11.3	10.5	10.7	10.0	11.8	11.9	9.1	9.1	8.5	8.0	7.6	8.0	8.1
United States	7.1	7.0	7.3	7.7	5.8	4.8	4.6	4.0	3.6	4.3	2.4	2.3	1.8	2.4	2.1	2.0	-0.4	-1.1	-1.2	-0.8
Gross savings																				
Belgium	10.7	13.1	13.2	14.4	15.6	15.5	18.9	17.4	16.3	15.6	15.8	14.0	14.7	14.1	12.5	11.0	10.7	10.7	11.2	11.0
Denmark	-0.5	1.9	1.8	1.5	2.6	-1.6	1.3	0.9	-1.6	0.0	-3.3	-1.9	3.7	4.1	4.3	1.1	-2.5	1.9	3.0	3.4
Poland	..	..	..	18.2	16.7	16.3	18.2	14.2	14.0	14.3	12.9	10.7	12.1	8.4	7.8	6.7	6.8	7.4	7.8	7.6
Portugal	..	..	..	..	..	..	14.7	12.5	10.2	9.4	7.5	10.0	10.9	10.5	10.9	10.1	9.9	9.3	9.2	9.4
Spain	10.2	12.3	13.4	11.9	14.4	11.9	16.4	16.6	15.9	14.0	12.4	11.2	11.1	11.4	11.9	11.4	10.6	10.1	10.1	9.5
United Kingdom	6.7	8.0	10.3	11.7	10.7	9.3	10.2	9.4	9.5	7.0	5.3	5.1	6.4	5.0	4.9	3.7	5.3	4.9	4.9	5.3

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Countries differ in the way household disposable income is reported (in particular whether private pension benefits less pension contributions are included in disposable income or not), but the calculation of household saving is adjusted for this difference. Most countries are reporting household saving on a net basis (i.e. excluding consumption of fixed capital by households and unincorporated businesses). In most countries the households' saving include saving by non-profit institutions (in some cases referred to as personal saving). Other countries (Czech Republic, Finland, France, Japan and New Zealand) report saving of households only.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050408736780

Annex Table 24. **Gross national saving**

Per cent of nominal GDP

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	22.7	23.8	22.8	18.6	16.2	18.0	19.6	18.5	18.7	19.9	20.1	19.4	20.3	19.7	20.4	20.1	20.7	20.1	21.0	..
Austria	21.9	23.4	23.7	23.9	23.5	22.3	21.6	21.2	20.8	20.6	21.3	22.2	22.2	22.4	22.2	23.3	23.2	23.3	23.9	24.8
Belgium	19.5	22.1	23.3	23.6	22.7	23.2	24.3	25.5	25.4	24.5	25.9	25.6	26.3	26.0	24.6	24.2	23.6	23.9	23.4	24.2
Canada	19.7	20.5	19.8	17.3	14.7	13.4	14.0	16.2	18.3	18.8	19.6	19.1	20.7	23.6	22.2	21.2	21.3	22.8	23.6	..
Czech Republic	..	..	..	..	..	28.6	28.7	28.4	29.0	27.0	24.4	26.3	24.6	24.8	24.2	22.4	20.7	21.2	23.4	..
Denmark	18.2	18.7	19.1	20.3	19.5	20.0	19.1	19.3	20.4	20.5	21.4	20.7	21.7	22.6	23.5	22.9	23.1	23.0	24.4	25.3
Finland	23.8	26.0	25.7	24.0	16.5	13.9	14.9	18.1	21.7	20.8	24.1	25.4	26.7	28.5	29.1	28.3	24.4	26.5	25.5	27.2
France	18.5	19.8	20.7	20.8	20.2	19.6	18.3	18.7	19.1	18.7	19.9	21.0	21.8	21.6	21.3	19.8	19.1	19.0	18.6	18.9
Germany	23.6	24.7	25.7	25.3	22.6	22.3	21.2	20.9	21.0	20.5	20.7	20.9	20.3	20.2	19.5	19.4	19.5	21.0	21.4	23.1
Greece	17.4	18.8	17.3	17.2	18.3	17.9	16.9	17.5	16.8	16.4	16.7	16.6	15.9	15.2	15.0	14.4	15.5	15.7	15.2	16.1
Iceland	17.4	17.4	17.5	16.9	16.0	15.7	17.6	17.9	17.1	17.2	17.9	17.1	14.6	12.7	16.7	19.3	14.8	13.2	12.3	..
Ireland	14.4	14.5	14.8	17.8	17.4	15.4	17.5	17.8	20.4	22.0	23.9	25.6	24.6	25.2	23.1	22.0	24.2	23.9	24.5	..
Italy	21.8	21.8	21.1	20.8	20.0	19.1	19.7	19.9	22.0	22.2	22.2	21.6	21.1	20.6	20.9	20.8	19.8	20.3	19.5	19.2
Japan	31.8	32.9	33.1	33.3	34.0	33.3	32.0	30.2	29.5	29.7	29.8	28.8	27.2	27.5	25.8	25.2	25.4	25.8	26.4	..
Korea	38.4	40.6	37.7	37.7	37.7	36.9	36.8	36.3	36.2	35.3	35.4	37.2	35.0	33.6	31.6	31.2	32.6	34.8	32.8	..
Mexico	24.5	21.3	20.3	20.3	18.7	16.6	15.1	14.8	19.3	22.4	24.0	20.5	20.6	20.6	18.0	18.6	19.2	21.0	..	..
Netherlands	24.5	25.8	27.1	26.0	25.6	24.8	25.0	26.1	27.2	26.7	28.1	25.2	27.1	28.4	26.7	25.8	25.4	27.9	26.5	29.8
New Zealand	18.7	19.1	18.3	16.9	13.8	14.6	17.2	18.0	18.0	16.9	16.5	16.1	15.9	17.1	19.2	18.6	18.6	17.0	15.0	..
Norway	25.1	24.6	25.6	25.2	24.4	23.4	23.5	24.5	26.1	27.9	29.6	26.3	28.5	35.4	35.1	31.5	30.5	32.7	36.8	39.2
Poland	..	..	..	..	4.0	4.0	4.2	5.6	6.0	5.7	6.4	7.7	6.6	5.7	4.4	2.5	2.9	2.6	3.8	..
Portugal	25.8	25.6	25.8	24.5	21.9	20.8	18.6	17.9	19.8	19.4	19.3	19.9	18.9	17.0	16.6	16.7	16.4	15.0	12.8	12.1
Slovak Republic	..	..	..	..	..	..	23.6	26.2	26.6	24.3	24.9	24.1	24.0	23.7	22.5	21.7	22.5	23.5	21.3	21.2
Spain	21.9	22.7	22.2	22.2	21.6	20.0	20.0	19.5	21.7	21.5	22.2	22.4	22.4	22.3	22.0	22.9	23.4	22.4	22.1	22.1
Sweden	21.5	22.2	22.9	21.4	18.4	15.5	13.9	17.5	20.5	20.1	20.4	21.1	21.5	22.4	22.1	21.9	23.0	22.8	23.0	24.9
Switzerland	31.1	33.2	34.0	33.7	31.6	29.1	30.0	29.6	29.9	29.4	31.3	32.3	33.1	35.0	31.8	29.0	33.2	33.8	36.1	..
Turkey	24.3	28.9	26.4	21.5	17.7	18.5	18.7	18.9	20.1	22.6	21.6	20.6	13.7	15.2	12.6	18.7	18.9	20.3	19.3	..
United Kingdom	17.3	17.2	17.0	16.1	15.2	14.1	14.0	15.5	15.8	15.9	16.9	17.8	15.5	14.9	15.1	15.3	15.1	15.3	14.7	14.5
United States	15.7	16.9	16.3	15.3	15.3	14.2	13.8	14.6	15.5	16.1	17.3	18.0	17.8	17.7	16.1	13.9	12.9	12.8	12.5	..

Note: Based on SNA93 or ESA95 except Turkey that reports on SNA68 basis.

Source: National accounts of OECD countries database.

StatLink http://dx.doi.org/10.1787/050432003545

Annex Table 25. **General government total outlays**

Per cent of nominal GDP

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	34.7	35.5	37.3	38.6	38.3	38.1	38.1	36.8	35.9	36.0	34.9	34.6	36.6	35.2	35.0	35.1	34.6	34.1	34.0	34.0
Austria	51.7	51.5	52.4	53.1	56.0	55.8	56.0	55.5	53.0	53.5	53.2	51.4	50.8	50.7	51.1	50.4	49.9	49.1	48.6	48.3
Belgium	52.2	52.2	53.4	53.6	54.7	52.4	51.9	52.2	51.0	50.2	50.1	49.0	49.1	49.9	51.1	49.4	49.8	49.0	48.5	48.3
Canada	45.8	48.8	52.3	53.3	52.2	49.7	48.5	46.6	44.3	44.8	42.7	41.1	42.0	41.2	41.2	39.9	39.3	39.5	39.1	39.0
Czech Republic	..	..	..	..	..	..	54.0	42.4	43.2	43.1	42.2	41.7	44.2	46.2	47.1	44.1	43.7	41.9	41.6	41.5
Denmark	56.0	55.9	56.5	57.5	60.6	60.4	59.5	59.1	57.1	56.8	55.8	53.9	54.5	54.9	55.3	55.1	52.8	51.1	50.5	49.9
Finland	44.4	48.0	56.7	62.2	64.8	63.8	61.5	60.1	56.2	52.5	51.5	48.3	47.7	48.8	49.9	50.2	50.4	48.5	48.2	48.3
France	48.6	49.4	50.7	51.9	54.4	54.2	54.4	54.5	53.7	52.6	52.6	51.6	51.6	52.6	53.3	53.3	54.0	53.7	53.4	52.9
Germany	43.1	43.6	46.1	47.3	48.3	47.9	48.3	49.3	48.3	48.1	48.2	45.1	47.5	48.0	48.4	47.3	46.9	45.6	44.7	44.3
Greece	35.4	39.1	36.4	38.6	40.6	39.0	39.8	38.4	39.2	38.6	38.6	40.7	39.5	39.0	39.2	39.4	37.5	36.7	36.4	36.3
Hungary	..	..	55.8	59.7	59.3	62.8	55.3	52.0	49.9	51.5	48.6	46.5	47.2	51.2	49.1	48.8	50.0	53.0	51.0	48.6
Iceland	43.5	41.6	42.9	43.8	43.6	43.4	42.7	42.2	40.7	41.4	42.2	42.0	42.7	44.5	45.7	44.2	42.4	41.4	42.3	43.7
Ireland	42.9	43.1	44.7	45.1	44.9	44.2	41.3	39.2	36.7	34.5	34.0	31.6	33.4	33.6	33.5	34.0	34.4	34.0	34.4	34.6
Italy	51.5	52.9	54.0	55.4	56.4	53.5	52.5	52.5	50.2	49.3	48.2	46.1	48.0	47.4	48.3	47.8	48.3	50.1	48.3	48.3
Japan	31.1	31.8	31.6	32.6	34.3	35.6	36.5	36.8	35.7	37.1	38.6	39.1	38.5	38.8	38.4	37.0	38.2	36.3	36.0	36.1
Korea	19.2	20.0	20.9	22.0	21.6	21.0	20.8	21.7	22.4	24.7	23.9	23.9	25.0	24.8	30.9	28.1	28.9	29.9	30.1	30.3
Luxembourg	..	37.8	38.4	40.0	39.8	39.0	39.7	41.1	40.7	41.0	39.2	37.6	38.1	41.4	42.1	43.2	42.9	40.4	38.7	38.0
Netherlands	54.7	54.8	55.0	55.9	56.1	53.6	51.6	49.4	47.5	46.7	46.0	44.2	45.4	46.2	47.1	46.3	45.5	46.7	47.2	47.0
New Zealand	52.2	53.2	50.2	49.4	45.6	42.9	42.0	41.1	41.8	40.9	40.5	39.6	38.4	38.6	38.8	38.1	38.3	39.5	39.8	40.7
Norway	51.4	53.3	54.5	55.7	54.6	53.7	50.9	48.5	46.9	49.2	47.7	42.3	44.2	47.1	48.3	45.6	42.3	40.6	41.0	41.4
Poland	..	..	..	..	..	..	47.7	51.0	46.4	44.3	42.7	41.1	43.8	44.2	44.6	42.6	43.4	43.3	42.3	41.5
Portugal	37.3	40.3	43.2	44.3	45.8	44.0	43.1	44.0	42.9	42.2	43.2	43.1	44.4	44.3	45.5	46.4	47.4	46.1	45.5	44.8
Slovak Republic	..	..	..	..	..	53.0	47.0	52.1	49.0	45.3	47.2	51.7	43.3	43.3	40.3	37.8	38.0	37.3	36.0	35.1
Spain	41.7	42.8	44.3	45.4	49.0	46.7	44.4	43.2	41.5	40.9	39.7	39.0	38.5	38.7	38.2	38.8	38.2	38.5	38.7	38.9
Sweden	61.5	61.3	62.7	71.1	72.4	70.3	67.1	64.9	62.6	60.4	60.0	57.1	56.7	58.1	58.3	56.9	56.6	55.5	54.1	53.6
Switzerland	..	30.0	31.7	33.8	34.7	34.7	34.5	35.2	35.6	36.1	34.6	33.9	34.8	35.7	36.7	36.3	35.8	35.0	35.0	34.8
United Kingdom	40.8	42.4	44.1	46.0	46.1	45.4	44.9	43.1	41.6	40.4	39.8	37.5	40.9	42.0	43.4	43.7	44.7	45.1	44.9	45.1
United States[1]	36.1	37.1	37.8	38.5	38.0	37.0	37.0	36.5	35.4	34.7	34.3	34.2	35.3	36.3	36.7	36.4	36.6	36.4	36.9	36.8
Euro area	49.5	50.4	49.3	50.4	52.1	50.8	50.5	50.5	49.1	48.4	48.0	46.1	47.1	47.4	47.9	47.4	47.3	47.1	46.4	46.2
Total OECD	40.1	41.0	41.4	42.4	42.9	42.2	42.2	41.8	40.6	40.2	39.9	39.1	40.1	40.7	41.2	40.6	40.8	40.4	40.3	40.2

Note: Data refer to the general government sector, which is a consolidation of accounts for the central, state and local governments plus social security. Total outlays are defined as current outlays plus capital outlays. One-off revenues from the sale of mobile telephone licenses are recorded as negative capital outlays for countries listed in the note to Table 27. Some other important one-offs have been accounted for prior to 2000 and are reported in *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. These data include outlays net of operating surpluses of public enterprises.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050441713851

Annex Table 26. **General government total tax and non-tax receipts**

Per cent of nominal GDP

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	34.0	33.6	33.1	32.8	33.3	33.7	34.4	34.9	35.6	36.8	37.1	35.7	36.0	36.0	36.3	36.1	36.0	35.5	35.4	34.9
Austria	48.6	48.9	49.5	51.1	51.6	50.9	50.3	51.5	51.1	51.1	50.9	49.7	50.7	50.0	49.3	49.1	48.3	47.8	47.7	47.8
Belgium	44.8	45.5	46.1	45.6	47.4	47.5	47.6	48.4	49.0	49.4	49.6	49.1	49.6	49.8	51.1	49.2	49.8	49.1	48.7	48.3
Canada	41.2	43.0	43.9	44.2	43.5	43.0	43.2	43.8	44.5	44.9	44.3	44.1	42.6	41.1	40.8	40.5	40.7	40.3	39.9	39.6
Czech Republic	..	..	..	..	..	..	40.5	39.1	39.4	38.1	38.5	38.0	38.5	39.4	40.5	41.2	40.1	39.0	37.9	38.0
Denmark	56.2	54.6	53.6	55.0	56.8	57.2	56.7	57.2	56.6	56.8	57.2	56.2	55.7	55.1	55.2	57.0	57.5	55.3	54.7	53.6
Finland	51.2	53.4	55.7	56.8	56.5	57.1	55.3	56.6	55.0	54.2	53.2	55.2	52.7	52.9	52.3	52.3	53.0	52.2	51.7	51.5
France	46.9	47.1	47.9	47.5	48.5	48.7	49.0	50.4	50.7	50.0	50.9	50.1	50.0	49.4	49.1	49.7	51.0	51.2	51.1	51.1
Germany	43.2	41.7	43.3	44.8	45.3	45.6	45.1	46.0	45.7	45.9	46.7	46.4	44.7	44.4	44.4	43.5	43.6	43.9	44.0	43.9
Greece	24.8	26.9	27.8	29.0	30.2	31.8	32.0	32.6	34.0	35.3	35.9	37.4	35.6	34.8	34.2	33.2	33.0	34.4	34.5	34.2
Hungary	..	..	52.7	52.3	52.6	51.4	47.6	46.0	42.5	43.1	43.3	43.6	43.1	42.2	41.9	42.4	42.2	43.7	44.4	43.8
Iceland	39.1	38.3	40.0	41.0	39.1	38.7	39.8	40.6	40.7	41.0	43.3	43.7	42.0	41.9	42.9	44.3	47.7	46.7	44.1	43.4
Ireland	40.2	40.3	41.8	42.1	42.2	42.2	39.3	39.2	38.4	36.8	36.6	36.2	34.2	33.2	33.9	35.5	35.5	36.8	36.4	36.3
Italy	40.1	41.5	42.6	45.0	46.3	44.4	45.1	45.5	47.6	46.2	46.5	45.3	44.9	44.4	44.7	44.3	44.0	45.6	45.8	45.9
Japan	32.8	33.9	33.4	33.3	32.0	31.4	31.4	31.7	31.7	31.3	31.2	31.4	32.2	30.8	30.5	30.9	31.7	33.9	33.4	33.1
Korea	22.3	23.1	22.7	23.4	23.9	23.8	24.6	25.1	25.6	26.4	26.6	29.3	29.6	30.2	31.3	30.6	31.5	32.5	32.5	32.7
Luxembourg	..	42.0	39.1	39.8	41.2	41.4	42.1	42.3	44.3	44.4	42.6	43.6	44.2	43.5	42.5	42.0	42.6	40.5	39.2	39.0
Netherlands	49.2	49.1	51.9	51.4	52.9	49.9	47.2	47.5	46.3	45.8	46.4	46.1	45.1	44.2	43.9	44.5	45.2	47.2	46.6	47.3
New Zealand	48.7	48.7	46.7	46.3	45.2	46.0	44.9	43.9	43.4	41.0	40.3	41.2	40.6	41.7	42.7	41.8	42.7	43.4	43.0	43.0
Norway	53.2	55.5	54.6	53.9	53.2	54.0	54.2	54.8	54.5	52.5	53.7	57.7	57.5	56.3	55.5	56.7	57.5	59.9	60.1	60.2
Poland	..	..	..	..	..	..	43.3	46.1	41.8	40.1	40.4	38.1	38.6	39.2	38.4	36.9	39.0	39.4	39.2	39.0
Portugal	34.3	34.0	36.0	39.8	38.1	36.6	37.9	39.4	39.5	39.2	40.5	40.2	40.1	41.4	42.5	43.1	41.4	42.2	42.3	42.4
Slovak Republic	..	..	..	..	..	46.1	45.2	43.5	42.3	40.5	40.8	39.8	36.8	35.7	37.5	35.4	35.2	33.9	33.3	32.9
Spain	38.8	38.7	39.5	41.4	41.7	40.0	38.0	38.4	38.2	37.8	38.4	38.1	38.0	38.4	38.2	38.6	39.3	40.3	40.2	40.4
Sweden	64.8	64.7	62.6	62.1	61.1	61.1	59.7	61.5	60.9	61.6	61.3	60.9	58.3	56.6	57.2	57.5	58.5	57.6	56.7	56.1
Switzerland	..	30.6	30.6	31.4	32.0	32.8	33.3	33.8	33.2	34.6	34.6	36.3	35.7	35.8	35.4	35.2	35.8	36.2	36.1	35.9
United Kingdom	41.5	40.6	40.9	39.6	38.2	38.7	39.1	39.0	39.5	40.4	41.0	41.5	41.8	40.2	40.1	40.4	41.5	42.2	42.2	42.5
United States[1]	32.9	32.8	32.9	32.8	33.0	33.4	33.8	34.3	34.6	35.1	35.2	35.8	34.9	32.5	31.9	31.9	32.9	34.1	34.2	34.0
Euro area	46.2	46.1	44.6	45.7	46.4	45.9	45.5	46.3	46.5	46.1	46.6	46.1	45.3	44.9	44.8	44.6	44.9	45.5	45.5	45.5
Total OECD	38.0	38.1	37.7	37.9	38.0	38.0	38.1	38.7	38.8	38.9	39.1	39.3	38.8	37.4	37.2	37.1	37.9	38.8	38.7	38.6

Note: Data refer to the general government sector, which is a consolidation of accounts for central, state and local governments plus social security. Non-tax receipts consist of property income (including dividends and other transfers from public enterprises), fees, charges, sales, fines, capital tranfers received by the general government, etc. Some other important one-offs have been accounted for prior to 2000 and are reported in *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

1. Excludes the operating surpluses of public enterprises.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050466757247

Annex Table 27. **General government financial balances**

Surplus (+) or deficit (-) as a per cent of nominal GDP

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	-0.7	-2.0	-4.2	-5.7	-5.0	-4.3	-3.7	-2.0	-0.3	0.8	2.2	1.1	-0.6	0.8	1.3	1.0	1.4	1.5	1.4	1.0
Austria	-3.1	-2.5	-2.9	-2.0	-4.4	-4.9	-5.7	-4.0	-1.8	-2.4	-2.3	-1.6	-0.1	-0.7	-1.8	-1.3	-1.7	-1.2	-0.8	-0.6
Belgium[1]	-7.5	-6.7	-7.3	-8.0	-7.3	-5.0	-4.4	-3.8	-2.1	-0.8	-0.5	0.1	0.5	0.0	0.0	-0.1	0.0	0.1	0.2	0.0
Canada	-4.6	-5.8	-8.4	-9.1	-8.7	-6.7	-5.3	-2.8	0.2	0.1	1.6	2.9	0.7	-0.1	-0.4	0.5	1.4	0.8	0.8	0.7
Czech Republic	..	..	..	..	..	..	-13.4	-3.3	-3.8	-5.0	-3.7	-3.7	-5.7	-6.8	-6.6	-2.9	-3.5	-2.9	-3.7	-3.5
Denmark	0.3	-1.3	-2.9	-2.6	-3.8	-3.3	-2.9	-1.9	-0.5	0.0	1.4	2.3	1.2	0.2	-0.1	1.9	4.6	4.2	4.3	3.7
Finland	6.8	5.4	-1.0	-5.5	-8.3	-6.7	-6.2	-3.5	-1.2	1.7	1.6	6.9	5.0	4.1	2.3	2.1	2.5	3.8	3.5	3.2
France	-1.7	-2.3	-2.8	-4.4	-5.9	-5.5	-5.5	-4.1	-3.0	-2.6	-1.7	-1.5	-1.6	-3.2	-4.1	-3.6	-3.0	-2.6	-2.3	-1.7
Germany	0.1	-1.9	-2.8	-2.5	-3.0	-2.3	-3.2	-3.3	-2.6	-2.2	-1.5	1.3	-2.8	-3.6	-4.0	-3.7	-3.2	-1.7	-0.7	-0.4
Greece	-10.6	-12.2	-8.6	-9.5	-10.4	-7.2	-7.9	-5.8	-5.1	-3.3	-2.7	-3.3	-3.9	-4.2	-5.0	-6.2	-4.5	-2.3	-1.9	-2.2
Hungary	..	..	-3.1	-7.3	-6.8	-11.4	-7.7	-6.0	-7.4	-8.4	-5.3	-3.0	-4.1	-8.9	-7.2	-6.4	-7.8	-9.2	-6.7	-4.8
Iceland	-4.4	-3.3	-2.9	-2.8	-4.5	-4.7	-3.0	-1.6	0.0	-0.4	1.1	1.7	-0.7	-2.6	-2.8	0.2	5.2	5.3	1.8	-0.3
Ireland	-2.7	-2.8	-2.8	-2.9	-2.7	-2.0	-2.0	0.0	1.6	2.2	2.6	4.6	0.8	-0.4	0.4	1.4	1.0	2.9	2.0	1.7
Italy	-11.4	-11.4	-11.4	-10.4	-10.1	-9.1	-7.4	-7.0	-2.7	-3.1	-1.8	-0.9	-3.1	-3.0	-3.5	-3.5	-4.3	-4.5	-2.5	-2.5
Japan	1.8	2.1	1.8	0.8	-2.4	-4.2	-5.1	-5.1	-4.0	-5.8	-7.4	-7.6	-6.3	-8.0	-7.9	-6.2	-6.4	-2.4	-2.7	-3.0
Korea	3.1	3.1	1.7	1.4	2.2	2.9	3.8	3.4	3.3	1.6	2.7	5.4	4.6	5.4	0.4	2.5	2.5	2.6	2.4	2.4
Luxembourg	..	4.3	0.7	-0.2	1.5	2.5	2.4	1.2	3.7	3.4	3.4	6.0	6.1	2.1	0.4	-1.2	-0.3	0.1	0.5	1.1
Netherlands	-5.5	-5.7	-3.0	-4.5	-3.2	-3.7	-4.3	-1.9	-1.2	-0.9	0.4	2.0	-0.3	-2.0	-3.1	-1.8	-0.3	0.5	-0.7	0.3
New Zealand	-3.4	-4.6	-3.5	-3.1	-0.4	3.1	2.9	2.8	1.6	0.1	-0.2	1.6	2.2	3.1	3.9	3.7	4.4	3.9	3.2	2.3
Norway	1.8	2.2	0.1	-1.9	-1.4	0.3	3.2	6.3	7.6	3.3	6.0	15.4	13.3	9.2	7.3	11.1	15.2	19.3	19.0	18.8
Poland	..	..	..	..	..	..	-4.4	-4.9	-4.6	-4.3	-2.3	-3.0	-5.1	-5.0	-6.3	-5.7	-4.3	-3.9	-3.2	-2.4
Portugal	-3.0	-6.3	-7.2	-4.5	-7.7	-7.4	-5.2	-4.5	-3.4	-3.0	-2.7	-3.0	-4.3	-2.9	-2.9	-3.3	-5.9	-3.9	-3.3	-2.4
Slovak Republic	..	..	..	..	..	-6.8	-1.8	-8.6	-6.7	-4.8	-6.4	-11.8	-6.5	-7.7	-2.8	-2.4	-2.8	-3.4	-2.7	-2.1
Spain	-2.9	-4.1	-4.8	-4.0	-7.3	-6.8	-6.5	-4.9	-3.3	-3.1	-1.3	-0.9	-0.5	-0.3	0.0	-0.2	1.1	1.8	1.5	1.5
Sweden	3.3	3.4	-0.1	-8.9	-11.3	-9.2	-7.4	-3.4	-1.7	1.2	1.2	3.8	1.7	-1.5	-1.1	0.6	1.8	2.1	2.6	2.5
Switzerland	..	0.6	-1.1	-2.4	-2.7	-1.9	-1.2	-1.4	-2.4	-1.5	0.0	2.4	0.9	0.1	-1.3	-1.1	0.0	1.1	1.0	1.0
United Kingdom	0.7	-1.8	-3.2	-6.4	-7.9	-6.8	-5.8	-4.1	-2.1	0.1	1.2	4.0	0.9	-1.7	-3.4	-3.3	-3.3	-2.9	-2.7	-2.6
United States	-3.2	-4.2	-4.9	-5.8	-4.9	-3.6	-3.1	-2.2	-0.8	0.4	0.9	1.6	-0.4	-3.8	-4.8	-4.6	-3.7	-2.3	-2.7	-2.9
Euro area	-3.3	-4.3	-4.6	-4.7	-5.6	-4.9	-5.0	-4.2	-2.6	-2.3	-1.4	0.0	-1.8	-2.5	-3.1	-2.8	-2.4	-1.6	-1.0	-0.7
Total OECD	-2.0	-2.9	-3.6	-4.5	-4.9	-4.2	-4.0	-3.1	-1.7	-1.3	-0.8	0.2	-1.3	-3.2	-4.0	-3.5	-2.9	-1.6	-1.6	-1.6
Memorandum items																				
General government financial balances excluding social security																				
United States	-4.2	-5.3	-5.8	-6.6	-5.6	-4.4	-3.9	-3.1	-1.9	-0.8	-0.6	0.1	-2.0	-5.4	-6.2	-5.9	-5.0	-3.7	-4.1	-4.3
Japan[2]	-1.4	-1.4	-0.9	-1.7	-4.6	-6.2	-7.0	-7.2	-5.9	-7.3	-8.5	-7.8	-6.7	-8.8	-8.3	-6.2	-6.4	-2.2	-2.2	-2.4

Note: Financial balances include one-off revenues from the sale of the mobile telephone licenses. These revenues are substantial in a number of countries including Australia (2000-2001), Austria (2000), Belgium (2001), Denmark (2001), France (2001-2002), Germany (2000), Greece (2001), Ireland (2002), Italy (2000), Netherlands (2000), New Zealand (2000), Portugal (2000), Spain (2000) and the United Kingdom (2000). As data are on a national account basis, the government financial balance may differ from the numbers reported to the European Commission under the Excessive Deficit Procedure for some EU countries. For more details see footnotes to Annex Tables 25 and 26 and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)* .

1. The data for 2005 do not include the assumption by the government of the debt of the railway company SNCB amounting to 2.5 percentage points of GDP.
2. Prior to 1991, when SNA93 was adopted, these data included private pension funds.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050468464123

Annex Table 28. **Cyclically-adjusted general government balances**

Surplus (+) or deficit (-) as a per cent of potential GDP

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	-0.6	-1.4	-2.3	-3.4	-3.0	-3.0	-2.8	-1.2	0.4	1.0	2.0	0.6	-0.6	0.7	1.2	0.9	1.3	1.6	1.5	1.0
Austria	-2.7	-2.7	-3.5	-2.5	-4.0	-4.3	-5.3	-3.7	-1.7	-2.6	-3.1	-3.2	-0.7	-0.3	-0.5	0.2	-0.3	-0.3	-0.3	-0.3
Belgium	-7.5	-7.5	-7.8	-8.1	-5.6	-3.6	-3.2	-2.3	-1.2	0.2	0.0	-0.6	0.2	0.4	1.1	0.7	1.1	0.8	0.5	0.0
Canada	-5.9	-6.5	-7.2	-7.1	-6.6	-5.5	-4.4	-1.5	1.2	0.7	1.4	2.0	0.0	-0.5	-0.5	0.4	1.3	0.7	0.8	0.7
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	-3.9	-5.7	-6.1	-5.8	-2.1	-3.3	-3.2	-4.2	-4.2
Denmark	0.4	-0.9	-2.3	-1.8	-2.0	-2.3	-2.5	-1.7	-0.7	-0.3	1.3	1.6	0.4	0.4	0.9	2.9	5.0	3.7	3.2	2.6
Finland	5.0	4.0	1.0	-0.4	-1.5	-0.6	-1.2	0.4	0.7	2.5	1.8	6.4	4.5	4.2	2.9	2.4	2.8	3.2	2.8	2.5
France	-1.9	-3.1	-3.4	-4.8	-5.2	-4.4	-4.5	-2.6	-1.5	-1.5	-1.1	-1.6	-2.0	-3.1	-3.4	-2.7	-2.0	-1.7	-1.7	-1.3
Germany	-0.8	-3.8	-3.7	-3.2	-2.2	-1.5	-2.7	-2.6	-1.9	-1.6	-1.2	-1.9	-3.7	-3.8	-3.2	-2.6	-1.9	-1.1	-0.8	-1.0
Greece	-11.4	-12.6	-9.2	-9.8	-9.4	-6.2	-6.9	-4.8	-4.4	-2.8	-2.1	-2.9	-4.2	-4.1	-5.2	-6.6	-4.8	-2.7	-2.2	-2.4
Hungary	..	..	..	..	-9.7	-13.9	-9.1	-6.3	-8.0	-9.7	-6.6	-4.5	-5.5	-10.2	-8.1	-7.2	-8.1	-9.1	-5.8	-3.6
Iceland	-4.4	-2.9	-2.0	-0.4	-1.9	-2.9	-1.1	-0.4	0.4	-0.6	0.8	1.4	-1.2	-2.4	-2.5	-0.6	3.7	4.7	2.3	0.9
Ireland	-2.1	-3.9	-3.1	-2.1	-0.8	0.4	-0.4	1.3	1.8	1.9	1.3	2.7	-1.0	-1.9	-0.4	1.0	0.7	2.5	1.5	1.4
Italy	-12.1	-12.2	-11.9	-10.4	-8.6	-7.6	-6.6	-6.1	-2.0	-2.4	-1.3	-2.5	-4.0	-3.4	-3.3	-3.0	-3.2	-3.4	-2.0	-2.3
Japan	1.4	1.0	0.8	-0.2	-2.8	-4.3	-5.2	-5.6	-4.6	-5.5	-6.5	-7.2	-5.6	-7.0	-6.8	-5.5	-5.9	-2.2	-2.7	-3.2
Luxembourg	..	2.5	-1.7	-1.7	0.5	1.9	2.9	2.9	5.4	4.5	3.4	4.9	5.4	1.9	1.3	0.1	1.1	0.7	0.5	0.6
Netherlands	-5.8	-7.1	-4.8	-5.7	-3.0	-2.5	-3.2	-1.0	-1.0	-1.2	-0.5	-0.3	-2.0	-2.6	-2.4	-0.5	1.1	1.8	-0.2	-0.1
New Zealand	-3.0	-3.6	-1.3	-0.5	0.9	3.3	2.5	2.1	1.3	0.8	-0.1	1.4	2.0	2.5	3.4	2.7	3.7	3.8	3.5	3.1
Norway[1]	0.4	-0.9	-3.2	-5.2	-5.5	-4.2	-1.1	-1.0	-0.6	-2.0	-0.9	1.1	0.1	-2.3	-4.1	-2.2	-1.1	0.1	-0.3	-0.3
Portugal	-3.6	-7.3	-8.8	-5.4	-6.5	-5.3	-3.7	-3.3	-2.6	-3.1	-3.3	-4.6	-5.4	-3.2	-1.9	-2.3	-4.2	-2.1	-1.5	-1.0
Spain	-4.3	-6.1	-6.8	-5.0	-6.4	-5.0	-4.6	-2.9	-1.6	-2.0	-1.0	-1.6	-1.1	-0.4	0.2	0.2	1.3	1.9	1.5	1.4
Sweden	1.9	2.7	0.9	-6.2	-6.5	-5.5	-5.0	-0.9	0.4	2.3	1.4	3.1	1.6	-1.2	-0.2	1.3	2.5	2.0	2.0	1.9
Switzerland	..	-1.4	-1.5	-1.9	-1.6	-1.1	-0.3	-0.3	-1.5	-1.2	0.3	2.1	0.7	0.5	-0.1	0.0	1.0	1.8	1.5	1.3
United Kingdom	-0.7	-2.7	-2.7	-4.9	-6.2	-5.7	-5.1	-3.5	-1.7	0.3	1.3	1.4	0.6	-1.8	-3.4	-3.5	-3.3	-2.8	-2.6	-2.5
United States	-3.8	-4.6	-4.4	-5.0	-4.1	-3.0	-2.4	-1.5	-0.4	0.5	0.5	1.0	-0.5	-3.4	-4.3	-4.3	-3.6	-2.5	-2.8	-2.8
Euro area	-4.3	-5.8	-5.4	-5.1	-4.5	-3.9	-4.3	-3.2	-1.9	-1.8	-1.2	-1.8	-2.5	-2.6	-2.4	-2.1	-1.5	-1.0	-0.8	-0.7
Total OECD	-3.0	-4.0	-3.9	-4.4	-4.3	-3.8	-3.6	-2.7	-1.5	-1.1	-0.9	-0.9	-1.7	-3.3	-3.6	-3.3	-2.8	-1.7	-1.8	-1.9

Note: Cyclically-adjusted balances exclude one-off revenues from the sale of mobile telephone licenses for those countries listed in the note to Table 27. Some other important one-offs have been accounted for prior to 2000 and are reported in OECD Economic Outlook Sources and Methods (http://www.oecd.org/eco/sources-and-methods) where details on the methodology used for estimating the cyclical component of government balances can also be found.

1. As a percentage of mainland potential GDP. The financial balances shown exclude net revenues from petroleum activities.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050471888863

Annex Table 29. **General government primary balances**

Surplus (+) or deficit (-) as a per cent of nominal GDP

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	3.1	1.6	-1.2	-2.6	-2.5	-0.7	0.0	1.1	2.2	2.8	4.1	2.8	1.1	2.3	2.7	2.3	2.5	2.4	2.3	1.8
Austria	-0.5	0.1	-0.1	0.9	-1.2	-1.8	-2.6	-0.7	1.3	0.6	0.6	1.2	2.7	1.8	0.6	0.9	0.5	0.9	1.2	1.5
Belgium	3.2	4.4	3.3	2.4	3.0	3.8	4.1	4.3	5.3	6.3	6.1	6.4	6.7	5.4	5.1	4.5	4.2	4.0	3.9	3.7
Canada	0.0	-0.7	-3.1	-3.8	-3.4	-1.5	0.4	2.5	5.0	4.9	5.9	6.0	3.6	2.5	1.5	2.1	2.5	2.0	2.0	1.7
Czech Republic	..	..	..	..	..	..	-13.5	-2.9	-3.5	-4.6	-3.3	-3.7	-5.8	-6.7	-6.4	-2.6	-3.1	-2.6	-3.3	-3.0
Denmark	5.0	3.3	1.8	1.5	0.6	0.8	1.1	1.8	3.1	3.4	4.6	5.0	3.6	2.5	2.0	3.7	6.0	5.3	4.9	4.2
Finland	5.4	3.5	-3.0	-7.5	-8.8	-5.7	-5.4	-2.1	0.6	3.3	3.1	7.9	5.6	4.2	2.4	2.1	2.5	3.7	3.5	3.1
France	0.2	-0.2	-0.5	-1.9	-3.2	-2.6	-2.5	-1.0	0.0	0.3	0.9	1.1	1.0	-0.6	-1.7	-1.1	-0.6	-0.2	-0.1	0.4
Germany	2.3	0.3	-0.9	-0.1	-0.5	0.2	-0.3	-0.4	0.2	0.8	1.3	4.0	-0.3	-1.2	-1.5	-1.3	-0.9	0.7	1.7	2.0
Greece	-4.9	-4.6	-1.3	-0.8	-0.8	3.3	1.6	3.2	2.1	3.3	3.2	2.6	1.4	0.3	-0.8	-2.2	-0.8	1.3	1.5	1.0
Iceland	-3.8	-2.2	-1.9	-1.9	-3.3	-3.5	-1.5	-0.2	1.1	0.6	2.0	2.4	-0.2	-2.2	-2.2	0.5	4.8	5.2	1.8	-0.1
Ireland	3.5	3.3	2.8	2.2	2.1	2.5	2.0	3.1	4.2	4.6	4.0	5.4	0.9	-0.3	0.6	1.5	1.1	2.8	1.9	1.6
Italy	-2.9	-2.0	-0.6	1.2	2.0	1.4	3.1	3.6	5.8	4.5	4.1	4.9	2.6	2.0	1.0	0.7	-0.3	-0.5	1.7	1.8
Japan	3.3	3.3	2.9	1.9	-1.2	-3.0	-3.8	-3.8	-2.7	-4.4	-5.9	-6.2	-4.9	-6.6	-6.6	-5.0	-5.6	-1.7	-1.9	-2.0
Korea	2.7	2.6	1.2	0.8	1.8	2.4	3.3	2.7	2.4	0.6	1.8	4.4	3.8	4.5	-0.5	1.6	1.6	1.5	1.4	1.5
Luxembourg	..	2.5	-1.0	-1.7	0.2	1.5	1.5	0.5	3.0	2.5	2.7	5.2	4.9	1.2	-0.4	-2.1	-1.1	-0.7	-0.2	0.4
Netherlands	-1.4	-1.6	1.2	-0.2	1.2	0.5	0.1	2.5	2.9	3.1	4.0	4.9	2.2	0.2	-1.1	0.1	1.6	2.3	1.1	1.9
New Zealand	0.4	-0.4	-0.7	-0.2	1.9	4.3	4.3	3.5	2.2	0.7	0.0	2.1	2.1	3.1	3.8	3.2	3.6	3.0	2.2	1.1
Norway	-1.5	-1.3	-3.5	-5.2	-4.2	-1.9	-0.2	1.5	2.0	-0.7	0.8	6.2	4.9	1.5	-0.6	2.6	5.9	8.6	8.3	8.1
Poland	..	..	..	..	..	..	0.7	-0.7	-0.8	-0.6	0.1	-0.7	-2.5	-3.1	-4.0	-3.8	-2.6	-2.5	-1.7	-1.0
Portugal	2.8	1.8	1.1	3.6	-0.4	-1.2	0.7	0.6	0.6	0.3	0.3	0.1	-1.3	0.0	-0.2	-0.7	-3.3	-1.1	-0.5	0.3
Slovak Republic	..	..	..	..	..	-5.7	-1.2	-7.9	-5.4	-3.3	-5.0	-9.9	-4.3	-4.9	-1.5	-1.9	-3.0	-3.8	-2.9	-2.1
Spain	-0.3	-1.4	-1.8	-0.5	-2.8	-2.4	-1.8	-0.1	0.9	0.7	1.9	2.0	2.1	2.0	2.0	1.5	2.5	3.1	2.7	2.6
Sweden	2.9	2.6	-0.8	-10.0	-11.8	-8.5	-6.0	-1.8	0.3	2.6	2.6	4.8	2.4	-0.3	-0.9	0.5	1.5	1.7	2.4	2.5
Switzerland	..	1.0	-0.7	-1.8	-2.1	-1.3	-0.5	-0.6	-1.6	-0.7	0.9	2.9	1.5	0.9	-0.6	-0.5	0.5	1.6	1.6	1.6
United Kingdom	3.4	0.9	-0.9	-4.1	-5.4	-4.1	-2.7	-1.1	1.0	3.1	3.7	6.4	2.9	0.0	-1.6	-1.5	-1.3	-1.0	-0.7	-0.6
United States	0.1	-0.8	-1.3	-2.2	-1.5	-0.2	0.4	1.2	2.4	3.5	3.6	4.1	1.9	-1.7	-2.9	-2.7	-1.6	-0.2	-0.5	-0.7
Euro area	0.6	-0.1	-0.4	-0.1	-0.7	-0.3	-0.2	0.6	1.7	1.8	2.2	3.4	1.4	0.5	-0.2	-0.1	0.1	0.9	1.5	1.7
Total OECD	1.0	0.3	-0.4	-1.2	-1.6	-0.9	-0.5	0.3	1.4	1.7	1.8	2.7	1.0	-1.1	-2.1	-1.6	-1.1	0.1	0.2	0.2

Note: The primary balance excludes the impact of net interest payments on the financial balance. For more details see footnotes to Annex Tables 27 and 31 and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)* .

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050478856646

Annex Table 30. **Cyclically-adjusted general government primary balances**

Surplus (+) or deficit (-) as a per cent of potential GDP

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	3.2	2.0	0.6	-0.4	-0.6	0.5	0.8	1.8	2.9	3.0	3.9	2.3	1.0	2.3	2.7	2.2	2.4	2.6	2.3	1.8
Austria	-0.2	-0.1	-0.7	0.5	-0.9	-1.2	-2.2	-0.4	1.4	0.4	-0.2	-0.3	2.0	2.2	1.8	2.4	1.9	1.8	1.7	1.7
Belgium	3.2	3.7	2.9	2.3	4.4	5.0	5.2	5.6	6.1	7.2	6.5	5.9	6.3	5.9	6.1	5.2	5.2	4.7	4.2	3.7
Canada	-1.2	-1.3	-2.0	-2.0	-1.5	-0.4	1.2	3.7	5.9	5.4	5.8	5.2	3.0	2.1	1.4	2.0	2.4	1.9	2.0	1.7
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	-3.9	-5.8	-6.1	-5.6	-1.8	-2.9	-2.9	-3.8	-3.7
Denmark	5.1	3.6	2.4	2.2	2.2	1.7	1.4	2.0	2.9	3.1	4.5	4.3	2.9	2.6	2.9	4.7	6.4	4.7	3.9	3.1
Finland	3.5	2.0	-0.9	-2.2	-1.9	0.3	-0.5	1.7	2.5	4.1	3.3	7.4	5.1	4.3	2.9	2.5	2.8	3.1	2.7	2.4
France	0.1	-0.9	-1.1	-2.3	-2.5	-1.6	-1.5	0.4	1.4	1.3	1.5	0.9	0.6	-0.5	-0.9	-0.3	0.4	0.6	0.6	0.9
Germany	1.5	-1.5	-1.6	-0.8	0.2	1.0	0.2	0.3	1.0	1.3	1.5	0.8	-1.1	-1.3	-0.7	-0.2	0.4	1.3	1.6	1.4
Greece	-5.6	-4.9	-1.8	-0.9	-0.1	4.0	2.3	3.9	2.7	3.8	3.7	2.9	1.1	0.4	-1.1	-2.6	-1.0	1.0	1.2	0.8
Iceland	-3.8	-1.8	-1.0	0.4	-0.8	-1.8	0.3	0.9	1.6	0.4	1.6	2.1	-0.7	-2.1	-1.9	-0.3	3.2	4.5	2.3	1.1
Ireland	4.0	2.5	2.5	2.9	3.8	4.7	3.5	4.3	4.4	4.2	2.7	3.6	-0.9	-1.8	-0.3	1.1	0.7	2.5	1.5	1.3
Italy	-3.4	-2.6	-1.1	1.2	3.1	2.7	3.8	4.3	6.4	5.1	4.6	3.4	1.8	1.6	1.3	1.3	0.8	0.5	2.2	2.0
Japan	2.9	2.3	1.9	0.9	-1.6	-3.1	-3.9	-4.2	-3.3	-4.1	-5.1	-5.7	-4.2	-5.6	-5.5	-4.4	-5.1	-1.5	-2.0	-2.3
Luxembourg	..	0.7	-3.5	-3.3	-0.8	0.9	2.0	2.2	4.7	3.7	2.7	4.0	4.2	1.0	0.4	-0.8	0.4	-0.1	-0.2	-0.1
Netherlands	-1.7	-2.9	-0.4	-1.3	1.3	1.5	1.1	3.3	3.2	2.8	3.2	2.7	0.5	-0.4	-0.4	1.5	3.0	3.5	1.6	1.6
New Zealand	0.9	0.4	1.4	2.2	3.2	4.5	3.9	2.8	1.9	1.4	0.1	1.8	2.0	2.5	3.3	2.2	3.0	2.8	2.5	1.9
Norway[1]	-3.2	-4.7	-7.3	-9.0	-8.6	-6.7	-5.1	-6.8	-7.5	-6.7	-7.2	-11.4	-11.1	-11.9	-13.9	-13.2	-13.8	-14.9	-15.1	-14.9
Portugal	2.3	1.0	-0.2	2.9	0.6	0.6	2.1	1.7	1.4	0.2	-0.2	-1.4	-2.3	-0.2	0.8	0.4	-1.6	0.6	1.1	1.6
Spain	-1.6	-3.2	-3.6	-1.5	-2.0	-0.8	-0.1	1.6	2.5	1.7	2.2	1.3	1.5	1.9	2.2	1.9	2.8	3.2	2.6	2.6
Sweden	1.6	1.9	0.1	-7.2	-6.9	-4.8	-3.6	0.6	2.2	3.7	2.7	4.1	2.3	-0.1	0.0	1.2	2.1	1.5	1.9	1.8
Switzerland	..	-1.0	-1.1	-1.3	-1.1	-0.4	0.4	0.5	-0.7	-0.4	1.2	2.7	1.4	1.3	0.6	0.6	1.5	2.2	2.0	1.9
United Kingdom	2.1	0.0	-0.4	-2.6	-3.8	-3.1	-2.0	-0.5	1.5	3.3	3.8	3.8	2.6	-0.1	-1.6	-1.8	-1.4	-0.9	-0.7	-0.5
United States	-0.5	-1.2	-0.8	-1.6	-0.8	0.3	1.1	1.8	2.8	3.6	3.3	3.6	1.8	-1.3	-2.4	-2.4	-1.6	-0.3	-0.6	-0.7
Euro area	-0.3	-1.4	-1.1	-0.5	0.3	0.6	0.5	1.6	2.4	2.2	2.3	1.6	0.8	0.4	0.4	0.6	1.0	1.4	1.7	1.7
Total OECD	0.3	-0.6	-0.6	-1.0	-0.9	-0.4	-0.1	0.8	1.8	2.1	1.9	1.6	0.6	-1.1	-1.7	-1.4	-1.0	0.1	0.0	0.0

Note: The cyclically-adjusted primary balance excludes the impact of net interest payments on the cyclically adjusted balance. On the exclusion of the one-offs see the note to the Annex table 28. The *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)* provide details on the methodology used for estimating the cyclical component of government balances.

1. As a percentage of mainland potential GDP. The financial balances shown exclude net revenues from petroleum activities.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050484546850

Annex Table 31. **General government net debt interest payments**

Per cent of nominal GDP

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	3.8	3.5	3.0	3.1	2.5	3.6	3.7	3.1	2.5	2.0	1.9	1.7	1.6	1.5	1.4	1.3	1.1	1.0	0.9	0.8
Austria	2.6	2.6	2.8	2.9	3.1	3.1	3.2	3.4	3.1	3.0	2.9	2.8	2.8	2.5	2.4	2.2	2.2	2.1	2.0	2.0
Belgium	10.7	11.1	10.7	10.4	10.3	8.8	8.5	8.1	7.4	7.1	6.6	6.4	6.1	5.5	5.1	4.6	4.2	3.9	3.7	3.7
Canada	4.6	5.2	5.3	5.3	5.3	5.2	5.7	5.3	4.8	4.8	4.3	3.1	2.9	2.6	1.9	1.6	1.1	1.1	1.2	1.0
Czech Republic	..	..	..	..	..	..	0.0	0.4	0.3	0.4	0.4	0.0	-0.1	0.0	0.2	0.3	0.4	0.3	0.4	0.5
Denmark	4.7	4.5	4.7	4.0	4.3	4.0	3.9	3.7	3.6	3.4	3.2	2.7	2.4	2.3	2.1	1.8	1.4	1.1	0.7	0.5
Finland	-1.4	-1.9	-2.0	-2.0	-0.4	1.0	0.8	1.4	1.9	1.6	1.5	1.0	0.6	0.1	0.0	0.1	0.0	0.0	-0.1	-0.1
France	1.9	2.2	2.3	2.5	2.7	2.8	3.0	3.1	3.0	2.9	2.6	2.5	2.6	2.6	2.5	2.5	2.4	2.3	2.3	2.2
Germany	2.3	2.2	2.0	2.4	2.5	2.5	2.9	2.9	2.9	2.9	2.7	2.7	2.6	2.5	2.5	2.5	2.4	2.4	2.4	2.4
Greece	5.7	7.7	7.3	8.8	9.6	10.5	9.5	9.0	7.2	6.6	5.9	5.8	5.2	4.5	4.1	4.0	3.7	3.6	3.4	3.1
Iceland	0.6	1.1	1.0	0.9	1.1	1.2	1.5	1.4	1.1	1.0	0.9	0.7	0.5	0.3	0.6	0.3	-0.4	-0.2	0.0	0.2
Ireland	6.2	6.1	5.6	5.1	4.8	4.5	3.9	3.1	2.6	2.3	1.4	0.8	0.1	0.1	0.2	0.1	0.1	0.0	0.0	-0.1
Italy	8.6	9.5	10.8	11.6	12.0	10.5	10.5	10.5	8.5	7.6	5.9	5.8	5.7	5.0	4.6	4.3	4.1	4.0	4.2	4.3
Japan	1.5	1.3	1.1	1.1	1.2	1.2	1.3	1.3	1.3	1.5	1.5	1.5	1.4	1.4	1.3	1.2	0.9	0.7	0.8	0.9
Korea	-0.4	-0.5	-0.6	-0.6	-0.4	-0.4	-0.5	-0.7	-0.8	-1.1	-0.9	-1.1	-0.8	-0.9	-0.9	-0.9	-1.0	-1.1	-1.0	-1.0
Luxembourg	..	-1.8	-1.7	-1.6	-1.2	-1.0	-0.9	-0.7	-0.7	-0.8	-0.7	-0.8	-1.2	-0.9	-0.9	-0.9	-0.8	-0.7	-0.7	-0.7
Netherlands	4.1	4.1	4.3	4.4	4.4	4.1	4.4	4.4	4.2	4.0	3.6	3.0	2.4	2.2	2.0	2.0	1.9	1.7	1.7	1.7
New Zealand	3.9	4.1	2.9	2.9	2.3	1.2	1.4	0.7	0.6	0.7	0.2	0.4	0.0	0.0	-0.1	-0.5	-0.7	-0.9	-1.1	-1.2
Norway	-3.3	-3.5	-3.6	-3.4	-2.8	-2.2	-3.5	-4.8	-5.7	-4.0	-5.2	-9.2	-8.4	-7.7	-7.9	-8.5	-9.4	-10.7	-10.7	-10.7
Poland	..	..	..	..	..	..	5.1	4.2	3.8	3.7	2.4	2.4	2.7	1.9	2.2	1.9	1.8	1.5	1.4	1.5
Portugal	5.8	8.1	8.3	8.1	7.3	6.2	5.9	5.1	4.0	3.3	3.0	3.1	3.0	2.9	2.8	2.7	2.7	2.8	2.8	2.7
Slovak Republic	..	..	..	..	..	1.1	0.6	0.7	1.3	1.5	1.5	1.9	2.2	2.8	1.3	0.5	-0.2	-0.4	-0.1	0.1
Spain	2.6	2.8	3.1	3.4	4.5	4.4	4.6	4.7	4.2	3.8	3.2	2.9	2.6	2.3	2.0	1.7	1.5	1.3	1.2	1.2
Sweden	-0.4	-0.8	-0.8	-1.0	-0.4	0.7	1.4	1.6	1.9	1.4	1.4	1.0	0.7	1.1	0.2	-0.1	-0.3	-0.4	-0.1	0.0
Switzerland	..	0.4	0.4	0.6	0.6	0.7	0.8	0.7	0.8	0.8	0.9	0.5	0.7	0.8	0.7	0.6	0.5	0.5	0.5	0.6
United Kingdom	2.8	2.7	2.4	2.4	2.5	2.7	3.1	3.1	3.2	3.0	2.5	2.4	2.0	1.7	1.8	1.7	1.9	1.9	2.0	2.0
United States	3.3	3.4	3.6	3.5	3.4	3.4	3.6	3.4	3.2	3.1	2.7	2.5	2.3	2.1	1.9	1.9	2.0	2.1	2.2	2.1
Euro area	3.9	4.2	4.2	4.6	4.9	4.6	4.8	4.9	4.3	4.1	3.5	3.4	3.2	3.0	2.8	2.7	2.6	2.5	2.5	2.4
Total OECD	3.1	3.2	3.2	3.3	3.3	3.3	3.5	3.4	3.1	3.0	2.6	2.4	2.2	2.1	1.9	1.8	1.8	1.7	1.8	1.8

Note: In the case of Ireland and New Zealand where net interest payments are not available, net property income paid is used as a proxy. For Denmark, net interest payments include dividends received. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050541780443

Annex Table 32. **General government gross financial liabilities**

Per cent of nominal GDP

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	23.1	21.9	23.2	27.4	30.6	40.1	41.9	39.1	37.4	32.3	28.0	25.0	22.1	20.2	18.8	17.1	16.8	16.1	15.1	14.3
Austria	57.7	57.2	57.2	57.0	61.7	64.9	69.2	69.6	66.0	67.4	70.0	69.3	70.2	71.7	69.8	69.5	69.6	68.9	67.6	66.4
Belgium	122.1	125.9	127.5	136.7	140.8	137.9	135.5	133.2	128.1	122.9	119.6	113.4	111.8	108.2	103.4	98.5	95.0	90.7	87.5	84.8
Canada	72.2	75.2	82.3	90.2	96.3	98.0	101.6	101.7	96.3	95.2	91.4	82.1	82.1	80.6	76.5	72.1	70.8	68.5	66.8	64.9
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	33.1	34.9	35.5	35.5	35.6	35.3	36.0
Denmark	65.5	66.4	67.2	71.1	85.0	78.9	79.3	76.6	72.1	69.7	64.1	57.1	55.0	55.4	53.6	50.1	42.0	34.7	30.6	27.0
Finland	16.5	16.3	24.6	44.6	57.8	60.8	65.3	66.2	64.5	60.9	54.7	52.3	49.7	49.3	51.2	51.4	48.4	46.2	47.9	50.5
France	38.9	38.6	39.7	43.9	51.0	60.2	62.6	66.3	68.4	69.9	66.5	65.2	63.8	66.8	71.0	73.3	76.1	75.0	73.7	71.9
Germany[1]	39.8	40.4	37.8	40.9	46.2	46.6	55.7	58.9	60.4	62.2	61.5	60.4	59.7	62.1	65.4	68.8	71.1	71.4	68.8	67.6
Greece	..	..	..	..	..	..	88.1	89.8	87.1	85.0	88.0	100.1	102.6	101.2	98.0	99.6	97.7	92.5	89.7	87.6
Hungary	..	..	79.1	80.9	91.8	91.5	88.2	76.0	66.5	64.7	65.9	59.9	59.5	60.6	61.2	65.1	68.6	73.2	74.2	74.3
Iceland	36.4	36.2	38.4	46.2	53.1	55.7	58.9	56.3	53.1	48.0	43.5	41.1	46.0	42.3	40.9	34.5	25.5	31.5	31.0	33.6
Ireland	..	..	..	..	..	..	..	..	..	61.4	50.7	40.7	37.9	35.9	34.7	33.5	32.5	30.4	30.2	29.5
Italy	91.5	94.5	97.9	105.3	115.6	121.4	121.8	128.1	129.7	132.0	125.7	121.0	120.1	119.0	116.9	117.3	120.0	119.9	118.9	118.2
Japan[2]	70.8	68.6	64.8	68.6	74.7	80.2	87.6	95.0	101.6	114.3	128.3	136.7	145.1	153.6	159.5	167.1	177.3	179.3	179.0	178.4
Korea	8.9	7.8	6.7	6.4	5.6	5.2	5.5	5.9	7.5	13.1	15.6	16.3	17.4	16.6	18.4	22.6	24.7	26.5	30.0	29.2
Luxembourg	..	..	..	..	..	..	9.5	10.1	10.2	11.2	10.0	9.2	8.2	8.4	7.9	8.8	7.9	9.8	12.8	11.9
Netherlands	87.8	86.9	88.0	91.8	96.7	86.6	89.6	88.1	82.2	80.8	71.6	63.9	59.4	60.3	61.4	61.9	61.4	59.7	59.2	57.7
New Zealand	..	..	..	..	..	57.4	51.3	44.9	42.3	42.2	39.6	37.4	35.4	33.6	31.6	27.1	24.5	24.8	23.4	23.0
Norway	32.8	29.4	27.8	32.4	40.8	37.3	40.9	36.3	31.9	30.8	31.1	34.0	32.9	40.2	49.0	52.7	49.0	41.3	40.7	36.9
Poland	..	..	..	..	..	..	51.6	51.4	48.3	43.8	46.6	42.4	37.4	50.3	50.8	49.7	50.2	49.8	48.1	46.3
Portugal	..	..	..	..	..	..	68.8	68.4	64.6	64.9	60.9	60.2	61.6	65.0	65.9	67.9	72.0	73.2	73.9	74.4
Slovak Republic	..	..	..	..	..	..	38.0	37.2	38.6	41.0	53.1	57.4	57.1	50.1	48.6	47.6	39.1	37.0	35.5	33.9
Spain	..	47.7	49.6	52.1	65.5	64.1	68.8	75.6	74.5	74.4	68.4	66.5	61.9	60.2	55.1	53.2	50.8	47.1	42.9	39.6
Sweden	50.9	46.7	55.4	73.9	79.0	83.3	82.0	85.5	84.2	83.5	74.7	65.7	64.4	61.7	61.1	60.9	61.3	53.9	50.2	46.7
Switzerland	32.8	31.4	33.5	38.6	43.1	45.7	47.8	50.4	52.6	55.5	52.5	53.4	52.2	57.7	57.4	58.5	59.6	59.1	58.8	58.3
United Kingdom	36.8	33.1	33.5	39.5	49.3	47.5	52.4	52.2	53.0	53.6	48.5	45.7	41.0	41.3	41.8	43.7	46.6	46.6	47.2	47.9
United States	61.4	63.0	67.7	70.2	71.9	71.1	70.7	70.0	67.6	64.5	61.0	55.2	55.2	57.6	61.0	61.8	62.2	61.5	62.4	63.2
Euro area	56.3	56.2	58.7	60.3	65.8	69.1	71.9	77.1	79.1	79.7	77.9	74.8	73.4	73.7	74.7	75.5	76.8	76.1	74.2	72.7
Total OECD	57.1	57.1	59.7	62.6	66.8	68.4	70.1	72.1	72.4	72.9	72.3	69.5	69.8	71.8	74.0	75.6	77.5	77.1	76.8	76.5

Note: Gross debt data are not always comparable across countries due to different definitions or treatment of debt components. Notably, they include the funded portion of government employee pension liabilities for some OECD countries, including Australia and the United States. The debt position of these countries is thus overstated relative to countries that have large unfunded liabilities for such pensions which according to ESA95/SNA93 are not counted in the debt figures, but rather as a memorandum item to the debt. Maastricht debt for European Union countries is shown in Annex Table 62. For more details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Includes the debt of the Inherited Debt Fund from 1995 onwards.
2. Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050542323082

Annex Table 33. **General government net financial liabilities**

Per cent of nominal GDP

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	11.0	10.4	11.3	15.7	21.4	25.8	26.5	21.1	21.2	16.1	15.0	8.8	6.4	4.4	2.7	0.6	-0.9	-4.1	-5.1	-5.9
Austria	34.1	33.7	33.6	34.7	39.1	41.3	45.5	47.2	43.0	41.3	41.7	39.3	40.0	41.6	40.5	42.2	41.8	41.0	39.8	38.5
Belgium	106.1	107.1	108.2	113.3	115.2	114.6	114.7	115.3	111.0	106.9	102.5	96.9	94.5	92.7	89.9	83.8	80.3	75.7	72.5	69.7
Canada	41.1	43.7	50.5	59.1	64.2	67.9	70.7	70.0	64.7	60.8	55.8	46.2	43.7	42.6	38.5	34.4	30.2	26.6	24.5	22.7
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	-15.9	-7.2	-4.3	-1.9	0.9	4.3	7.3
Denmark	22.7	22.5	25.7	28.1	31.1	31.5	36.0	36.2	33.8	36.3	30.6	25.7	21.9	20.4	17.7	12.9	9.9	2.6	-1.7	-5.4
Finland[1]	-32.7	-34.9	-33.5	-24.6	-16.0	-16.3	-4.0	-6.7	-7.5	-14.5	-50.1	-31.1	-31.5	-31.4	-39.5	-45.6	-57.5	-60.8	-61.4	-62.2
France	15.3	17.2	18.5	20.0	26.8	29.7	37.5	41.8	42.3	40.5	33.6	35.1	36.7	41.8	44.2	44.3	43.7	42.5	41.2	39.5
Germany[2]	19.9	20.5	10.3	16.6	20.0	20.9	32.3	35.1	34.7	38.4	37.2	36.3	38.6	42.7	45.3	49.3	51.5	51.9	50.2	48.9
Greece	..	..	..	..	..	..	70.8	71.2	67.1	63.4	61.3	77.4	81.2	81.9	76.5	76.6	73.0	66.8	64.3	62.1
Hungary	..	..	-59.6	-47.9	-19.8	3.1	24.1	25.1	24.8	31.6	33.4	31.8	31.9	36.6	37.2	41.6	46.1	50.8	51.8	52.0
Iceland	17.5	19.0	19.7	26.5	34.6	37.6	39.5	39.3	37.3	31.4	24.4	24.3	25.4	22.2	23.2	20.9	9.5	8.5	8.7	11.1
Ireland	..	..	..	..	..	..	..	..	..	42.9	28.1	17.3	13.8	14.9	12.3	9.7	7.0	3.4	1.0	-0.9
Italy	84.4	75.5	79.7	87.8	95.2	99.9	98.1	103.7	104.0	107.1	100.6	95.7	95.8	95.5	92.9	92.7	94.7	94.6	93.7	92.9
Japan[3]	40.7	26.1	13.3	14.7	18.1	20.8	25.0	29.3	34.8	46.2	53.8	60.4	66.3	72.6	76.5	82.7	84.0	85.4	86.3	87.3
Korea	-15.5	-16.5	-15.3	-14.7	-15.5	-16.1	-17.4	-19.0	-21.5	-23.1	-23.9	-27.0	-30.0	-31.8	-30.0	-29.8	-34.2	-35.3	-35.9	-36.4
Luxembourg	..	..	..	..	..	..	-37.7	-41.0	-41.6	-46.8	-47.8	-50.7	-58.2	-55.3	-57.2	-53.1	-50.0	-44.6	-41.0	-38.9
Netherlands	30.2	33.1	34.3	40.2	44.8	44.6	54.1	52.8	49.7	48.2	36.7	34.9	33.0	34.9	36.2	37.6	35.7	34.0	33.4	31.9
New Zealand	..	..	..	..	..	44.4	38.1	32.8	30.2	28.1	25.8	23.7	20.6	16.4	11.2	3.2	-4.8	-8.7	-9.7	-10.0
Norway	-39.4	-39.2	-35.9	-33.6	-30.6	-29.3	-34.6	-39.9	-48.2	-51.5	-58.5	-68.4	-86.4	-82.8	-98.0	-106.5	-125.1	-143.5	-167.8	-187.7
Poland	..	..	..	..	..	..	-15.0	-5.7	0.3	6.3	13.4	12.7	12.2	16.2	16.2	14.0	12.6	11.6	10.1	8.3
Portugal	..	..	..	..	..	..	25.1	27.3	27.2	32.9	29.6	29.9	30.5	34.6	37.1	40.9	44.0	45.5	46.7	47.4
Slovak Republic	..	..	..	..	..	..	-32.1	-19.2	-11.5	-4.4	0.3	8.9	8.4	-2.9	-2.2	6.9	3.7	1.8	0.0	-1.9
Spain	..	33.7	35.7	37.0	45.4	46.1	50.7	54.7	53.4	52.4	46.4	44.2	41.6	40.2	36.7	34.5	30.9	25.7	21.9	18.4
Sweden	-6.1	-8.0	-5.1	4.6	10.6	20.9	25.9	27.0	25.0	22.4	12.7	5.6	1.3	6.7	3.5	0.9	-3.9	-15.6	-17.4	-18.9
Switzerland	..	..	..	..	..	..	..	..	..	..	12.8	11.6	11.1	14.9	15.2	17.2	18.2	17.6	17.2	16.8
United Kingdom	15.3	14.6	15.2	22.2	32.0	32.7	38.5	40.6	42.8	44.3	39.6	36.4	33.1	33.8	34.3	36.5	39.9	39.7	40.3	41.0
United States	44.1	45.2	48.9	52.4	54.9	54.5	53.7	52.9	49.8	45.9	41.1	36.3	35.2	38.0	41.0	42.8	43.7	43.4	44.2	45.0
Euro area	35.8	35.1	35.5	36.5	40.5	42.8	46.7	52.1	53.4	53.7	50.6	47.8	48.1	50.0	51.0	51.4	51.5	50.3	48.5	46.9
Total OECD	35.6	33.9	33.7	36.6	40.3	41.7	42.6	44.5	44.3	44.2	41.6	38.9	38.7	40.9	42.6	44.0	44.3	43.5	43.1	42.8

Note: Net debt measures are not always comparable across countries due to different definitions or treatment of debt (and asset) components. First, the treatment of government liabilities in respect of their employee pension plans may be different (see note to Annex Table 32). Second, a range of items included as general government assets differs across countries. For example, equity holdings are excluded from government assets in some countries whereas foreign exchange, gold and SDR holdings are considered as assets in the United States and the United Kingdom. For details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. From 1995 onwards housing corporation shares are no longer classified as financial assets.
2. Includes the debt of the Inherited Debt Fund from 1995 onwards.
3. Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050608560283

Annex Table 34. **Short-term interest rates**

Per cent, per annum

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Fourth quarter		
																		2006	2007	2008
Australia	6.5	5.2	5.7	7.7	7.2	5.4	5.0	5.0	6.2	4.9	4.7	4.9	5.5	5.6	6.0	6.5	6.6	6.3	6.6	6.6
Austria	9.5	7.0	5.1	4.6	3.4	3.5	3.6													
Belgium	9.4	8.2	5.7	4.8	3.2	3.4	3.6													
Canada	6.7	5.0	5.5	7.1	4.5	3.6	5.1	4.9	5.7	4.0	2.6	3.0	2.3	2.8	4.2	4.3	4.3	4.3	4.3	4.3
Czech Republic	..	13.1	9.1	10.9	12.0	15.9	14.3	6.9	5.4	5.2	3.5	2.3	2.4	2.0	2.3	2.8	3.3	2.6	3.1	3.3
Denmark	11.0	10.4	6.1	6.1	3.9	3.7	4.1	3.3	4.9	4.6	3.5	2.4	2.1	2.2	3.1	4.3	4.5	3.7	4.5	4.5
Finland	13.3	7.8	5.4	5.8	3.6	3.2	3.6													
France	10.3	8.6	5.8	6.6	3.9	3.5	3.6													
Germany	9.5	7.3	5.4	4.5	3.3	3.3	3.5													
Greece	21.7	21.3	19.3	15.5	12.8	10.4	11.6	8.9	4.4											
Hungary	..	17.2	26.9	32.0	24.0	20.1	18.0	14.7	11.0	10.8	8.9	8.2	11.3	7.0	6.9	7.4	6.2	8.1	6.8	6.0
Iceland	10.5	8.8	4.9	7.0	7.0	7.1	7.5	9.3	11.2	12.0	9.0	5.3	6.3	9.4	12.4	14.4	10.5	14.2	13.4	8.4
Ireland	14.3	9.1	5.9	6.2	5.4	6.1	5.4													
Italy	14.0	10.2	8.5	10.5	8.8	6.9	5.0													
Japan	4.5	3.0	2.2	1.2	0.6	0.6	0.7	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.2	0.5	0.6	0.4	0.6	0.7
Korea	16.4	13.0	13.3	14.1	12.6	13.4	15.2	6.8	7.1	5.3	4.8	4.3	3.8	3.6	4.5	4.9	5.0	4.6	5.0	5.0
Luxembourg	9.4	8.2	5.7	4.8	3.2	3.4	3.6													
Mexico	15.9	15.5	14.6	48.2	32.9	21.3	26.2	22.4	16.2	12.2	7.5	6.5	7.1	9.3	7.3	7.3	7.0	7.2	7.4	6.8
Netherlands	9.4	6.9	5.2	4.4	3.0	3.3	3.5													
New Zealand	6.7	6.3	6.7	9.0	9.3	7.7	7.3	4.8	6.5	5.7	5.7	5.4	6.1	7.1	7.5	7.9	7.4	7.6	8.0	7.0
Norway	11.8	7.3	5.9	5.5	4.9	3.7	5.8	6.5	6.7	7.2	6.9	4.1	2.0	2.2	3.1	5.0	5.7	3.6	5.7	5.7
Poland	..	34.9	31.8	27.7	21.3	23.1	19.9	14.7	18.9	15.7	8.8	5.7	6.2	5.2	4.2	4.7	5.4	4.2	5.2	5.4
Portugal	16.1	12.5	11.1	9.8	7.4	5.7	4.3													
Slovak Republic	..	..	..	..	11.5	20.2	18.1	14.8	8.2	7.5	7.5	5.9	4.4	2.6	4.1	4.3	4.3	4.7	4.4	4.3
Spain	13.3	11.7	8.0	9.4	7.5	5.4	4.2													
Sweden	12.9	8.4	7.4	8.7	5.8	4.1	4.2	3.1	4.0	4.0	4.1	3.0	2.1	1.7	2.3	3.6	4.3	2.9	4.2	4.4
Switzerland	7.9	4.9	4.2	2.9	2.0	1.6	1.5	1.4	3.2	2.9	1.1	0.3	0.5	0.8	1.6	2.4	2.8	2.0	2.4	2.9
Turkey	..	..	..	..	..	..	..	..	38.9	92.4	59.5	38.5	23.8	15.6	17.9	17.0	13.3	20.5	15.0	12.0
United Kingdom	9.6	5.9	5.5	6.7	6.0	6.8	7.3	5.4	6.1	5.0	4.0	3.7	4.6	4.7	4.8	5.5	5.4	5.2	5.6	5.3
United States	3.8	3.2	4.7	6.0	5.4	5.7	5.5	5.4	6.5	3.7	1.8	1.2	1.6	3.5	5.2	5.3	5.0	5.3	5.2	4.9
Euro area	11.2	8.6	6.3	6.5	4.8	4.3	3.9	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.1	4.3	3.6	4.3	4.3

Note: Three-month money market rates where available, or rates on proximately similar financial instruments. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Individual euro area countries are not shown after 1998 (2000 for Greece) since their short term interest rates are equal to the euro area rate.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050610576455

Annex Table 35. **Long-term interest rates**

Per cent, per annum

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Fourth quarter 2006	2007	2008
Australia	9.2	7.4	8.9	9.2	8.2	7.0	5.5	6.0	6.3	5.6	5.8	5.4	5.6	5.3	5.6	5.8	5.9	5.7	5.9	5.9
Austria	8.1	6.7	7.0	7.1	6.3	5.7	4.7	4.7	5.6	5.1	5.0	4.2	4.2	3.4	3.8	4.2	4.3	3.8	4.3	4.3
Belgium	8.7	7.2	7.7	7.4	6.3	5.6	4.7	4.7	5.6	5.1	4.9	4.1	4.1	3.4	3.8	4.2	4.3	3.8	4.3	4.3
Canada	8.1	7.2	8.4	8.2	7.2	6.1	5.3	5.5	5.9	5.5	5.3	4.8	4.6	4.1	4.2	4.2	4.4	4.0	4.3	4.4
Czech Republic	..	..	..	..	..	..	..	..	..	6.3	4.9	4.1	4.8	3.5	3.8	3.9	4.3	3.8	4.1	4.3
Denmark	9.0	7.3	7.8	8.3	7.2	6.3	5.0	4.9	5.7	5.1	5.1	4.3	4.3	3.4	3.8	4.1	4.2	3.8	4.1	4.2
Finland	12.0	8.8	9.0	8.8	7.1	6.0	4.8	4.7	5.5	5.0	5.0	4.1	4.1	3.4	3.8	4.2	4.3	3.8	4.3	4.3
France	8.6	6.8	7.2	7.5	6.3	5.6	4.6	4.6	5.4	4.9	4.9	4.1	4.1	3.4	3.8	4.1	4.2	3.8	4.2	4.2
Germany	7.9	6.5	6.9	6.9	6.2	5.7	4.6	4.5	5.3	4.8	4.8	4.1	4.0	3.4	3.8	4.1	4.2	3.8	4.2	4.2
Greece	..	..	..	..	..	9.8	8.5	6.3	6.1	5.3	5.1	4.3	4.3	3.6	4.1	4.3	4.4	4.0	4.3	4.4
Iceland	13.1	13.4	7.0	9.7	9.2	8.7	7.7	8.5	11.2	10.4	8.0	6.7	7.5	7.7	9.3	9.3	7.7	9.6	8.7	7.3
Ireland	9.3	7.6	8.0	8.2	7.2	6.3	4.7	4.8	5.5	5.0	5.0	4.1	4.1	3.3	3.8	4.2	4.3	3.8	4.3	4.3
Italy	13.3	11.2	10.5	12.2	9.4	6.9	4.9	4.7	5.6	5.2	5.0	4.3	4.3	3.6	4.0	4.4	4.5	4.0	4.5	4.5
Japan	5.3	4.3	4.4	3.4	3.1	2.4	1.5	1.7	1.7	1.3	1.3	1.0	1.5	1.4	1.7	1.9	2.4	1.7	2.1	2.6
Korea	15.1	12.1	12.3	12.4	10.9	11.7	12.8	8.7	8.5	6.7	6.5	4.9	4.5	4.7	5.1	5.2	5.8	4.9	5.5	6.0
Luxembourg	..	..	7.2	7.2	6.3	5.6	4.7	4.7	5.5	4.9	4.7	3.3	2.8	2.4	3.3	3.7	3.8	3.7	3.8	3.8
Mexico	16.1	15.6	13.8	39.9	34.4	22.4	24.8	24.1	16.9	13.8	8.5	7.4	7.7	9.3	7.5	7.5	7.2	7.4	7.6	7.0
Netherlands	8.1	6.4	6.9	6.9	6.2	5.6	4.6	4.6	5.4	5.0	4.9	4.1	4.1	3.4	3.8	4.2	4.3	3.8	4.2	4.3
New Zealand	8.4	6.9	7.6	7.8	7.9	7.2	6.3	6.4	6.9	6.4	6.5	5.9	6.1	5.9	5.8	5.9	5.7	5.8	5.8	5.7
Norway	9.6	6.9	7.4	7.4	6.8	5.9	5.4	5.5	6.2	6.2	6.4	5.0	4.4	3.7	4.1	4.9	5.0	4.2	5.0	5.0
Portugal	..	..	10.5	11.5	8.6	6.4	4.9	4.8	5.6	5.2	5.0	4.2	4.1	3.4	3.9	4.3	4.4	3.9	4.4	4.4
Slovak Republic	..	..	..	..	9.7	9.4	21.7	16.2	9.8	8.1	6.9	5.0	5.0	3.5	4.4	4.2	4.3	4.3	4.2	4.3
Spain	11.7	10.2	10.0	11.3	8.7	6.4	4.8	4.7	5.5	5.1	5.0	4.1	4.1	3.4	3.8	4.1	4.2	3.8	4.2	4.2
Sweden	10.0	8.5	9.5	10.2	8.0	6.6	5.0	5.0	5.4	5.1	5.3	4.6	4.4	3.4	3.7	4.3	4.7	3.7	4.7	4.7
Switzerland	6.4	4.6	5.0	4.5	4.0	3.4	3.0	3.0	3.9	3.4	3.2	2.7	2.7	2.1	2.5	2.7	2.9	2.4	2.7	2.9
Turkey	..	..	..	..	..	..	..	..	37.7	99.6	63.5	44.1	24.9	16.2	18.0	17.3	14.0	21.5	15.3	13.0
United Kingdom	9.1	7.5	8.2	8.2	7.8	7.1	5.5	5.1	5.3	4.9	4.9	4.5	4.9	4.4	4.5	5.0	5.0	4.6	5.1	5.0
United States	7.0	5.9	7.1	6.6	6.4	6.4	5.3	5.6	6.0	5.0	4.6	4.0	4.3	4.3	4.8	4.7	4.8	4.6	4.8	4.9
Euro area	9.7	7.8	8.0	8.4	7.1	6.0	4.8	4.7	5.4	5.0	4.9	4.1	4.1	3.4	3.8	4.2	4.3	3.8	4.2	4.3

Note: 10-year benchmark government bond yields where available or yield on proximately similar financial instruments (for Korea a 5-year bond is used). See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050618421078

Annex Table 36. **Nominal exchange rates (*vis-à-vis* the US dollar)**

Average of daily rates

	Monetary unit	1996	1997	1998	1999	1999	2000	2001	2002	2003	2004	2005	Estimates and assumptions[1]		
													2006	2007	2008
Australia	*Dollar*	1.277	1.348	1.592	1.550	1.550	1.727	1.935	1.841	1.542	1.359	1.313	1.328	1.223	1.206
Austria	*Schilling*	10.58	12.20	12.38	12.91										
Belgium	*Franc*	30.98	35.76	36.30	37.86										
Canada	*Dollar*	1.364	1.385	1.483	1.486	1.486	1.485	1.548	1.570	1.400	1.301	1.212	1.134	1.124	1.105
Czech Republic	*Koruny*	27.15	31.70	32.28	34.59	34.59	38.64	38.02	32.73	28.13	25.69	23.95	22.59	20.97	20.850
Denmark	*Krone*	5.798	6.604	6.699	6.980	6.980	8.088	8.321	7.884	6.577	5.988	5.996	5.943	5.553	5.510
Finland	*Markka*	4.592	5.187	5.345	5.580										
France	*Franc*	5.116	5.837	5.899	6.156										
Germany	*Deutschemark*	1.505	1.734	1.759	1.836										
Greece	*Drachma*	240.7	272.9	295.3	319.8										
Hungary	*Forint*	152.6	186.6	214.3	237.1	237.1	282.3	286.5	257.9	224.3	202.6	199.5	210.4	184.8	182.3
Iceland	*Krona*	66.69	70.97	71.17	72.43	72.43	78.84	97.67	91.59	76.69	70.19	62.88	69.90	65.31	64.25
Ireland	*Pound*	0.625	0.660	0.703	0.739										
Italy	*Lira*	1543	1703	1736	1817										
Japan	*Yen*	108.8	121.0	130.9	113.9	113.9	107.8	121.5	125.3	115.9	108.1	110.1	116.4	119.6	119.7
Korea	*Won*	804.4	950.5	1 400.5	1 186.7	1 186.7	1 130.6	1 290.4	1 251.0	1 191.0	1 145.2	1 024.2	951.8	929.1	925.0
Luxembourg	*Franc*	30.98	35.76	36.30	37.86										
Mexico	*Peso*	7.601	7.924	9.153	9.553	9.553	9.453	9.344	9.660	10.790	11.281	10.890	10.903	10.882	10.815
Netherlands	*Guilder*	1.686	1.951	1.983	2.068										
New Zealand	*Dollar*	1.454	1.513	1.869	1.892	1.892	2.205	2.382	2.163	1.724	1.509	1.421	1.542	1.379	1.360
Norway	*Krone*	6.457	7.072	7.545	7.797	7.797	8.797	8.993	7.986	7.078	6.739	6.441	6.415	6.064	6.009
Poland	*Zloty*	2.695	3.277	3.492	3.964	3.964	4.346	4.097	4.082	3.888	3.651	3.234	3.103	2.818	2.763
Portugal	*Escudo*	154.2	175.2	180.1	188.2										
Slovak Republic	*Koruna*	30.7	33.62	35.23	41.36	41.36	46.23	48.35	45.30	36.76	32.23	31.04	29.65	25.12	24.765
Spain	*Peseta*	126.7	146.4	149.4	156.2										
Sweden	*Krona*	6.707	7.635	7.947	8.262	8.262	9.161	10.338	9.721	8.078	7.346	7.472	7.373	6.859	6.807
Switzerland	*Franc*	1.236	1.450	1.450	1.503	1.503	1.688	1.687	1.557	1.345	1.243	1.246	1.253	1.222	1.218
Turkey	*Lira*	0.081	0.152	0.260	0.419	0.419	0.624	1.228	1.512	1.503	1.426	1.341	1.430	1.362	1.386
United Kingdom	*Pound*	0.641	0.611	0.604	0.618	0.618	0.661	0.694	0.667	0.612	0.546	0.550	0.543	0.504	0.502
United States	*Dollar*	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Euro area	*Euro*	..	..	..	..	0.939	1.085	1.117	1.061	0.885	0.805	0.805	0.797	0.745	0.739
	SDR	0.689	0.726	0.737	0.731	0.731	0.758	0.785	0.773	0.714	0.675	0.677	0.680	0.660	0.657

Note: No rate are shown for individual euro area countries after 1999.

1. On the technical assumption that exchange rates remain at their levels of 9 May 2007, except for Turkey, where the exchange rate develops according to the inflation differential vis-à-vis the United States.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050623623074

Annex Table 37. **Effective exchange rates**

Indices 2000 = 100, average of daily rates

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Estimates and assumptions[1] 2006	2007	2008
Australia	99.5	107.2	103.9	113.9	115.4	107.4	107.6	100.0	93.7	97.2	108.6	117.1	120.0	118.3	124.0	125.2
Austria	95.6	97.8	102.5	101.5	99.6	101.6	102.3	100.0	100.4	101.0	104.4	105.5	104.7	104.8	105.2	105.3
Belgium	97.9	102.2	107.9	106.2	102.0	104.4	104.1	100.0	101.2	103.0	108.3	110.2	109.7	109.8	110.9	111.0
Canada	107.7	102.8	102.0	103.9	104.3	99.4	99.1	100.0	97.0	95.5	105.5	112.0	119.8	127.7	127.6	129.6
Czech Republic	94.7	98.1	98.8	100.4	97.4	99.1	98.7	100.0	105.0	117.0	116.7	117.0	124.3	130.5	131.2	131.0
Denmark	98.2	100.5	105.7	104.7	102.3	104.9	104.2	100.0	101.8	103.3	108.1	109.5	108.6	108.4	109.4	109.6
Finland	79.5	90.1	103.6	101.1	98.9	101.7	104.7	100.0	102.1	104.2	110.3	112.4	111.5	111.3	112.6	112.8
France	97.4	100.4	104.5	104.9	102.1	104.5	103.8	100.0	100.9	102.5	107.4	109.0	108.4	108.5	109.5	109.7
Germany	93.9	98.5	106.0	104.5	100.9	104.6	104.5	100.0	101.2	103.1	109.4	111.6	110.3	110.3	111.4	111.7
Greece	120.5	115.1	113.8	111.9	109.9	106.6	107.0	100.0	101.0	102.8	107.8	109.5	108.5	108.6	109.7	109.9
Hungary	214.4	192.8	153.0	130.3	120.7	109.3	105.4	100.0	101.9	108.9	108.3	110.4	111.1	104.0	111.3	112.0
Iceland	97.1	92.9	93.3	92.8	94.8	97.4	99.0	100.0	85.2	87.9	92.0	93.1	103.5	92.7	93.4	94.3
Ireland	107.4	109.2	111.2	114.1	113.9	110.5	107.3	100.0	101.2	103.6	112.6	115.1	114.9	115.1	117.2	117.5
Italy	99.2	99.1	91.3	100.5	101.8	104.0	103.8	100.0	101.3	103.2	108.3	110.1	109.2	109.3	110.3	110.6
Japan	74.4	86.4	92.5	80.6	77.1	80.0	91.9	100.0	92.3	88.4	91.5	95.3	92.4	85.4	79.8	79.3
Korea	117.8	119.1	119.5	121.4	112.4	81.3	93.3	100.0	92.4	95.4	94.8	94.8	105.6	113.9	114.4	114.5
Luxembourg	99.2	102.0	105.4	104.3	102.0	103.0	102.8	100.0	100.4	101.5	104.9	106.1	105.5	105.5	106.4	106.5
Mexico	272.4	263.8	138.6	117.7	115.5	102.6	97.9	100.0	102.8	99.7	87.1	81.9	84.3	83.8	83.0	83.4
Netherlands	97.2	101.8	108.8	107.3	102.1	105.7	105.4	100.0	101.4	103.7	110.8	113.4	112.7	112.6	114.2	114.4
New Zealand	102.0	109.4	116.9	124.3	127.3	114.3	110.3	100.0	98.7	106.8	121.5	129.7	135.8	125.4	133.9	134.9
Norway	100.0	100.8	104.5	104.6	105.6	102.4	102.2	100.0	103.3	112.1	109.7	106.0	110.6	109.9	109.6	109.9
Poland	170.5	139.2	122.7	114.4	106.3	104.0	97.0	100.0	110.2	105.4	94.8	92.7	103.6	106.8	110.2	111.6
Portugal	102.5	101.7	104.9	104.5	103.1	103.0	102.4	100.0	100.9	102.0	104.8	105.5	104.9	105.0	105.4	105.5
Slovak Republic	98.2	97.1	100.4	101.3	106.0	105.9	98.3	100.0	97.6	98.0	103.6	108.0	110.1	113.4	125.3	126.2
Spain	111.0	105.7	106.0	107.1	102.8	104.0	103.1	100.0	101.1	102.5	106.3	107.5	106.9	107.0	107.8	107.9
Sweden	92.5	93.6	94.0	103.5	100.2	99.9	99.7	100.0	91.9	94.1	99.5	101.3	98.7	99.1	100.4	100.5
Switzerland	86.8	95.6	104.0	102.7	96.9	101.0	101.8	100.0	104.0	109.3	111.1	111.5	110.6	108.9	105.9	105.4
Turkey	4239.0	1719.1	990.8	581.1	345.5	207.8	137.2	100.0	56.3	41.8	36.8	35.9	37.7	35.1	34.7	33.9
United Kingdom	76.6	79.0	76.4	78.1	91.1	97.0	97.4	100.0	99.0	100.2	96.3	100.8	99.3	99.8	102.2	102.1
United States	72.7	76.9	78.5	82.9	88.8	98.0	97.6	100.0	105.3	105.8	99.6	95.1	92.6	91.0	88.6	88.0
Euro area	94.2	100.8	109.5	111.7	104.6	110.8	109.9	100.0	102.5	106.4	119.3	123.8	121.8	121.9	124.6	125.2

Note: For details on the method of calculation, see the section on exchange rates and competitiveness indicators in *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. On the technical assumption that exchange rates remain at their levels of 9 May 2007, except for Turkey, where the exchange rate develops according to the inflation differential vis-à-vis the United States.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050632535470

Annex Table 38. **Export volumes of goods and services**

National accounts basis, percentage changes from previous year

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	2.8	8.4	13.1	5.5	8.4	9.3	5.0	10.7	12.0	0.1	4.4	10.2	2.2	0.2	-1.6	4.6	2.4	3.4	4.1	7.7
Austria	9.7	7.6	4.0	1.3	-1.5	5.3	5.9	4.7	11.8	8.4	6.2	10.5	7.1	3.7	2.6	9.5	6.9	8.3	7.0	7.7
Belgium	8.2	4.6	3.1	3.7	-0.4	8.3	5.0	2.8	6.3	5.8	5.3	8.6	0.8	0.8	2.9	5.9	3.1	3.6	5.9	4.9
Canada	1.0	4.7	1.8	7.2	10.8	12.7	8.5	5.6	8.3	9.1	10.7	8.9	-3.0	1.2	-2.4	5.2	2.1	1.3	3.7	4.1
Czech Republic	..	..	..	..	..	0.2	16.7	5.7	8.3	10.4	4.9	18.0	10.9	1.9	7.2	20.6	10.5	15.2	13.2	12.0
Denmark	4.7	6.7	6.5	0.5	1.0	8.4	3.2	4.2	4.9	4.1	11.6	12.7	3.1	4.1	-0.9	2.2	7.2	9.6	5.8	5.3
Finland	2.6	1.9	-7.3	9.7	16.6	13.3	8.2	5.9	14.1	9.5	11.3	16.4	2.6	2.8	-1.7	8.9	7.0	10.4	5.0	5.7
France[1]	10.6	4.6	5.7	5.4	-0.3	7.9	7.8	2.8	12.5	7.7	4.0	12.9	2.7	1.3	-1.1	3.3	3.3	6.2	4.0	5.9
Germany	10.7	12.4	11.1	-2.0	-4.8	8.1	6.6	6.2	11.8	7.5	5.6	14.1	6.8	4.3	2.3	8.8	7.1	12.9	9.4	7.2
Greece	2.0	-3.5	4.1	10.0	-2.6	7.4	3.0	3.5	20.0	5.3	18.1	14.1	-3.0	-7.7	4.0	7.5	3.7	5.0	5.2	7.2
Hungary	..	..	..	..	..	13.7	36.4	11.9	22.5	17.4	12.3	22.0	8.1	3.9	6.2	15.7	11.6	18.0	13.1	10.9
Iceland	2.9	0.0	-5.9	-2.0	6.5	9.3	-2.3	9.9	5.6	2.5	4.0	4.2	7.4	3.8	1.6	8.4	7.2	-5.6	8.3	14.2
Ireland	10.3	8.7	5.7	13.9	9.7	15.1	20.0	12.5	17.6	23.1	15.5	20.2	8.8	4.6	0.4	7.3	3.9	5.0	6.1	6.0
Italy	9.2	6.3	-2.1	6.0	8.9	10.2	12.7	-0.3	3.9	0.7	-1.8	9.6	0.3	-4.0	-2.2	2.7	0.0	5.5	4.0	5.1
Japan	9.3	6.7	4.1	3.9	-0.1	3.6	4.3	5.9	11.1	-2.7	1.9	12.7	-6.9	7.5	9.2	13.9	7.0	9.5	7.4	8.2
Korea	-4.0	4.5	11.1	12.2	12.2	16.3	24.4	12.2	21.6	12.7	14.6	19.1	-2.7	13.3	15.6	19.6	8.5	12.4	10.0	12.2
Luxembourg	12.6	5.6	9.2	2.7	4.8	7.7	4.6	2.3	11.1	10.9	14.2	13.3	4.1	2.1	3.5	9.9	8.1	15.0	9.3	8.7
Mexico	5.7	5.3	5.1	5.0	8.1	17.8	30.2	18.2	10.7	12.2	12.3	16.3	-3.6	1.4	2.7	11.6	7.1	11.1	5.3	5.8
Netherlands	7.5	5.6	5.6	1.8	4.8	9.7	8.8	4.4	10.9	6.8	8.7	13.5	1.9	0.9	1.5	8.0	5.5	7.4	6.1	6.1
New Zealand	-1.0	4.8	10.6	3.8	4.8	9.9	3.8	3.8	3.9	1.5	7.9	7.0	3.4	6.3	2.3	5.8	-0.6	2.0	1.7	5.8
Norway	10.9	8.6	6.1	4.8	3.1	8.4	5.0	10.0	7.8	0.7	2.8	3.2	4.3	-0.3	-0.2	1.1	0.7	1.5	3.8	3.1
Poland	..	..	..	..	..	13.1	22.9	12.0	12.2	14.4	-2.5	23.2	3.1	4.8	14.2	14.0	8.0	15.1	11.0	10.1
Portugal	12.2	9.5	1.2	3.2	-3.3	8.4	8.8	5.7	6.1	8.5	3.0	8.4	1.8	1.5	3.9	4.4	1.1	8.8	6.3	6.3
Slovak Republic	..	..	..	..	..	14.8	4.5	-1.4	10.0	16.4	12.2	8.9	6.8	4.7	15.9	7.9	13.8	20.7	23.4	13.7
Spain	1.4	4.7	8.3	7.5	7.8	16.7	9.4	10.3	15.0	8.0	7.5	10.2	4.2	2.0	3.7	4.1	1.5	6.2	6.3	6.3
Sweden	3.2	1.8	-1.9	2.2	8.3	13.9	11.3	4.5	13.2	8.5	7.7	11.4	0.7	0.9	4.4	11.1	7.0	8.8	8.6	7.5
Switzerland	6.1	2.8	-1.3	3.1	1.3	1.9	0.5	3.6	11.1	3.9	6.5	12.2	0.2	-0.7	-0.4	8.4	6.4	9.9	7.5	6.4
Turkey	-0.3	2.6	3.7	11.0	7.7	15.2	8.0	22.0	19.1	12.0	-7.0	19.2	7.4	11.1	16.0	12.5	8.5	8.3	8.8	9.1
United Kingdom	4.5	5.5	-0.1	4.4	4.4	9.2	9.5	8.9	8.2	3.0	3.8	9.1	2.9	1.0	1.7	4.9	7.9	11.6	-2.1	6.6
United States[1]	11.5	9.0	6.6	6.9	3.2	8.7	10.1	8.4	11.9	2.4	4.3	8.7	-5.4	-2.3	1.3	9.2	6.8	8.9	5.6	7.1
Total OECD	7.9	6.9	4.8	4.4	2.9	8.9	9.1	6.6	10.9	5.0	5.5	11.6	0.0	1.8	2.7	8.5	5.8	8.9	6.1	7.1

Note: Regional aggregates are calculated inclusive of intra-regional trade as the sum of volumes expressed in 2000 US$.

1. Volume data use hedonic price deflators for certain components.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050652734870

Annex Table 39. **Import volumes of goods and services**

National accounts basis, percentage changes from previous year

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	20.6	-4.0	-2.5	7.1	4.4	14.3	8.0	8.1	10.4	6.5	8.9	7.4	-4.2	10.9	10.7	15.3	8.5	7.7	7.9	8.0
Austria	9.4	7.3	4.9	2.0	2.9	3.5	5.0	4.3	7.4	5.7	5.4	9.7	5.1	0.8	4.3	8.4	6.1	6.2	5.2	7.7
Belgium	9.7	4.9	2.9	4.1	-0.4	7.3	4.7	2.2	5.4	7.1	4.4	9.0	0.0	0.2	2.9	6.3	3.8	4.6	6.4	5.2
Canada	5.9	2.0	2.5	4.7	7.4	8.0	5.7	5.1	14.2	5.1	7.8	8.1	-5.1	1.7	4.5	8.2	7.1	5.2	2.7	4.2
Czech Republic	..	..	..	..	..	7.8	21.2	12.2	6.7	8.3	4.5	17.4	12.5	4.9	8.0	17.8	4.8	14.7	12.0	11.4
Denmark	5.0	2.3	3.6	0.1	-1.1	12.8	7.4	3.3	9.5	8.5	3.5	13.0	1.9	7.5	-1.6	6.9	10.7	14.0	8.2	5.9
Finland	9.2	-0.7	-13.4	0.3	1.7	12.8	7.5	6.4	11.6	8.2	3.6	16.3	1.1	2.5	3.3	7.8	12.3	5.3	4.9	5.5
France[1]	8.2	4.6	2.3	1.0	-3.7	8.8	6.4	2.2	7.6	10.8	5.8	15.1	2.2	1.6	1.5	5.9	6.5	7.1	3.5	5.8
Germany	9.0	11.8	10.9	1.7	-4.6	8.3	6.8	3.7	8.3	9.0	8.3	10.7	1.5	-1.4	5.3	6.2	6.7	11.5	7.7	7.5
Greece	10.5	8.4	5.8	1.1	0.6	1.5	8.9	7.0	14.2	9.2	15.0	15.1	-3.3	-1.7	4.9	5.6	-2.1	6.9	6.3	5.3
Hungary	..	..	..	..	..	8.8	15.1	9.5	23.1	23.7	13.3	20.3	5.3	6.8	9.3	14.1	6.8	12.6	8.3	8.7
Iceland	-10.3	1.0	5.3	-6.0	-7.5	3.8	3.6	16.5	8.0	23.4	4.4	8.6	-9.1	-2.5	10.8	14.4	29.3	8.8	-4.7	-3.6
Ireland	13.5	5.1	2.4	8.2	7.5	15.5	16.4	12.5	16.7	27.6	12.4	21.6	7.2	2.5	-1.4	8.6	6.5	5.4	7.5	6.8
Italy	9.4	9.0	2.2	5.9	-11.5	8.5	9.6	-1.9	9.2	8.1	2.9	6.4	-0.3	-0.5	1.0	2.0	1.0	4.5	4.7	5.5
Japan	16.9	7.8	-1.1	-0.7	-1.4	7.9	13.3	13.4	0.5	-6.8	3.6	9.2	0.6	0.9	3.9	8.1	5.8	4.5	2.7	5.3
Korea	17.5	13.8	18.6	5.4	6.0	21.3	23.0	14.3	3.5	-21.8	27.8	20.1	-4.2	15.2	10.1	13.9	7.3	11.3	10.3	11.6
Luxembourg	9.1	5.0	9.1	-3.1	5.2	6.7	4.2	5.3	12.6	11.6	14.7	11.0	5.8	1.0	5.5	10.0	9.5	13.0	9.8	8.5
Mexico	18.0	19.7	15.2	19.6	1.9	21.3	-15.0	22.9	22.7	16.6	14.1	21.5	-1.6	1.5	0.7	11.6	8.6	12.2	6.1	7.1
Netherlands	7.7	3.8	4.9	1.5	0.3	9.4	10.5	5.3	11.9	9.0	9.3	12.2	2.5	0.3	1.8	6.4	5.1	7.9	6.6	6.5
New Zealand	14.4	3.6	-5.2	8.3	5.4	13.1	8.7	7.6	2.1	1.3	12.1	-0.4	2.0	9.6	8.4	15.8	5.5	-2.5	4.6	6.4
Norway	2.1	2.5	0.4	1.7	4.8	5.8	5.8	8.8	12.5	8.8	-1.6	2.0	1.7	1.0	1.4	8.8	8.6	9.1	7.3	3.6
Poland	..	..	..	..	..	11.3	24.2	28.0	21.4	18.6	1.0	15.5	-5.3	2.7	9.3	15.2	4.7	15.4	12.0	10.2
Portugal	5.9	14.5	7.2	10.7	-3.3	8.8	7.4	5.2	9.8	14.2	8.6	5.3	0.9	-0.7	-0.8	6.6	1.9	4.3	3.0	5.5
Slovak Republic	..	..	..	..	..	-4.7	11.6	17.3	10.2	16.5	0.4	8.2	13.5	4.6	7.6	8.8	16.6	17.8	18.6	12.2
Spain	17.7	9.6	10.3	6.8	-5.2	11.4	11.1	8.8	13.3	14.8	13.7	10.8	4.5	3.7	6.2	9.6	7.0	8.4	7.9	6.5
Sweden	7.7	0.7	-4.9	1.5	-2.2	12.3	7.4	3.8	12.0	11.3	4.9	11.4	-2.6	-1.9	5.1	7.5	6.2	7.9	8.9	7.8
Switzerland	5.8	3.2	-1.9	-3.8	-0.1	7.7	4.3	3.2	8.3	7.5	4.3	9.6	3.2	-2.6	1.0	7.4	5.3	9.9	9.5	5.8
Turkey	6.9	33.0	-5.2	10.9	35.8	-21.9	29.6	20.5	22.4	2.3	-3.7	25.4	-24.8	15.8	27.1	24.7	11.5	6.9	7.1	8.1
United Kingdom	7.4	0.5	-4.5	6.8	3.3	5.8	5.6	9.8	9.8	9.2	7.9	9.0	4.8	4.8	2.0	6.6	7.0	11.8	-1.1	7.0
United States[1]	4.4	3.6	-0.6	6.9	8.7	11.9	8.0	8.7	13.6	11.6	11.5	13.1	-2.7	3.4	4.1	10.8	6.1	5.8	2.0	4.7
Total OECD	8.8	5.9	2.4	4.1	1.3	9.5	8.2	7.5	10.0	7.4	8.5	11.9	-0.2	2.4	4.0	8.8	6.3	7.8	4.7	6.3

Note: Regional aggregates are calculated inclusive of intra-regional trade as the sum of volumes expressed in 2000 US$.

1. Volume data use hedonic price deflators for certain components.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050654521631

Annex Table 40. **Export prices of goods and services**

National accounts basis, percentage changes from previous year, national currency terms

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	6.0	1.1	-5.2	2.0	0.9	-4.0	5.9	-2.5	-0.2	2.4	-4.2	13.2	6.7	-1.8	-5.4	3.9	12.4	12.0	2.4	0.3
Austria	2.5	1.0	0.6	0.0	0.3	1.1	1.9	1.1	1.2	0.4	0.6	1.4	0.7	0.2	-0.4	1.0	2.7	2.3	1.3	1.2
Belgium	7.3	-1.7	-0.6	-1.1	-1.3	1.3	1.6	1.8	4.2	-1.0	-0.3	9.6	2.2	-0.4	-2.3	2.6	3.8	2.9	0.8	1.4
Canada	2.1	-0.7	-3.6	2.9	4.4	5.9	6.4	0.6	0.2	-0.3	1.1	6.2	1.3	-1.8	-1.3	1.9	2.9	-0.2	4.3	2.0
Czech Republic	..	..	..	..	..	5.2	6.4	4.9	5.6	3.9	1.1	3.2	-0.4	-5.5	0.1	2.5	-2.3	-1.1	1.0	2.0
Denmark	6.3	0.5	1.3	1.3	-1.7	-0.3	0.9	1.5	2.7	-2.1	-0.5	8.2	1.6	-1.3	-1.1	2.7	5.8	2.3	0.4	1.4
Finland	6.7	0.0	0.2	4.1	6.3	1.5	5.3	-0.2	-1.0	-1.1	-5.2	4.0	-1.8	-2.6	-1.3	-0.7	1.0	2.8	2.2	-0.2
France[1]	3.6	-2.0	-0.8	-2.0	-1.6	0.0	0.2	1.4	1.9	-1.0	-1.4	2.5	-0.3	-1.8	-1.7	0.7	1.4	1.3	0.5	0.4
Germany	2.5	0.1	1.4	1.0	0.1	0.8	1.2	-0.5	0.9	-0.9	-0.9	2.5	0.4	-0.2	-1.7	-0.1	1.1	0.9	0.9	0.4
Greece	13.9	15.9	14.0	10.1	9.1	8.6	8.7	5.6	3.6	4.1	1.9	8.0	6.4	2.5	2.4	3.0	4.0	3.7	-0.3	1.3
Hungary	..	..	..	..	..	18.5	45.5	19.2	15.0	12.9	4.5	9.9	3.0	-4.0	0.1	-1.0	-0.4	6.5	-1.4	0.7
Iceland	26.3	16.9	6.9	-1.3	4.8	6.2	4.8	-0.2	2.1	4.5	0.0	3.8	21.5	-1.7	-7.1	1.3	-4.5	21.5	6.6	2.3
Ireland	7.3	-8.1	-0.3	-2.0	6.8	0.2	1.9	-0.3	1.2	3.7	2.3	6.1	4.6	-0.4	-4.9	-0.7	1.6	2.0	1.6	1.5
Italy	6.6	3.1	3.9	0.7	10.4	3.4	8.2	1.7	2.9	2.8	2.1	7.2	4.5	2.6	0.9	4.2	5.6	5.2	3.2	1.7
Japan	3.3	1.7	-2.3	-2.5	-6.6	-3.1	-2.1	3.5	1.8	0.9	-8.8	-4.1	2.2	-1.2	-3.4	-1.2	1.4	3.7	2.6	0.5
Korea	-0.6	4.8	2.7	2.5	0.4	1.1	2.0	-3.1	4.7	24.7	-19.3	-4.2	2.4	-9.4	-1.4	4.3	-7.9	-4.8	1.0	-3.3
Luxembourg	4.3	0.1	1.2	1.8	5.7	3.1	1.5	6.5	1.8	0.6	5.2	9.7	-3.9	-0.5	-1.4	5.8	8.5	9.1	6.2	3.0
Mexico	17.1	26.7	5.0	2.3	0.9	5.9	79.6	22.8	7.1	9.4	6.6	3.4	-2.3	3.5	11.0	6.6	2.7	4.8	0.4	2.1
Netherlands	4.0	-0.8	0.1	-2.0	-2.1	0.5	0.9	0.8	2.5	-2.0	-1.2	6.0	0.9	-1.8	-0.8	0.3	2.9	3.1	-0.5	1.0
New Zealand	9.1	-0.3	-2.8	5.5	2.1	-2.6	-0.5	-2.5	-2.4	4.9	-0.1	14.3	7.2	-7.5	-7.7	0.0	1.1	6.8	1.1	-0.4
Norway	10.6	3.0	-1.2	-7.0	2.1	-2.8	1.8	6.9	2.0	-7.9	10.7	36.7	-2.2	-10.2	2.1	12.9	17.3	13.6	0.8	1.8
Poland	..	..	..	..	..	31.7	19.6	7.6	14.0	13.1	5.8	1.8	1.3	4.7	6.2	8.3	-2.6	1.8	4.0	2.7
Portugal	11.8	6.3	3.4	0.5	4.9	6.4	5.6	-0.9	3.4	1.6	0.3	5.3	0.8	-0.1	-1.4	1.3	2.5	4.5	1.9	1.2
Slovak Republic	..	..	..	..	..	10.7	8.4	4.3	6.5	-1.0	-1.1	17.3	4.9	1.6	1.5	1.8	-1.9	2.2	-1.4	-0.4
Spain	6.0	0.8	1.5	2.9	5.0	4.6	5.9	1.4	3.0	0.5	0.0	7.3	1.8	0.7	-0.2	1.6	4.3	3.9	2.8	1.8
Sweden	6.5	1.8	1.6	-2.8	8.9	3.6	6.8	-5.2	0.5	-1.6	-1.9	2.7	2.2	-1.4	-1.7	-0.4	2.7	2.9	0.7	1.1
Switzerland	5.9	0.5	3.3	1.6	1.7	0.0	-0.1	-0.8	0.7	-0.4	-0.7	2.1	0.2	-0.8	0.7	0.6	-0.2	2.1	0.8	0.5
Turkey	53.2	38.2	61.0	62.5	59.9	164.8	73.0	69.0	87.0	60.1	52.1	39.9	86.9	21.4	4.7	12.2	-1.0	11.6	7.6	6.1
United Kingdom	8.2	4.4	1.6	1.6	8.8	1.0	3.2	1.3	-4.0	-3.7	-0.4	2.3	-0.8	0.2	1.5	-0.2	1.2	1.7	1.0	1.1
United States[1]	1.7	0.7	1.3	-0.4	0.0	1.1	2.3	-1.3	-1.7	-2.3	-0.6	1.7	-0.4	-0.4	2.2	3.7	3.6	3.3	2.9	1.6
Total OECD	4.8	1.9	1.1	0.5	1.8	2.3	5.1	1.7	1.6	0.9	-1.1	3.6	1.4	-0.7	-0.1	1.9	2.4	2.7	1.8	1.0

Note: Regional aggregates are calculated inclusive of intra-regional trade. They are calculated as the geometric averages of prices weighted by trade volumes expressed in 2000 US$.

1. Certain components are estimated on a hedonic basis.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050680871087

Annex Table 41. **Import prices of goods and services**

National accounts basis, percentage changes from previous year, national currency terms

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	-1.4	4.1	1.3	4.2	5.7	-4.3	3.5	-6.5	-1.6	6.8	-4.6	7.5	5.6	-4.0	-8.5	-5.0	0.7	3.9	-2.1	0.3
Austria	3.1	0.5	1.1	0.6	0.7	1.2	1.0	2.3	1.8	0.3	0.6	2.8	0.6	-0.8	-0.7	1.2	3.3	2.9	1.4	0.6
Belgium	6.4	-1.4	-0.7	-2.8	-2.8	1.8	1.7	2.5	5.4	-1.8	0.4	11.5	2.2	-1.2	-2.0	2.8	4.7	2.3	-0.7	1.4
Canada	0.2	1.4	-1.6	4.4	6.4	6.6	3.4	-1.1	0.8	3.7	-0.2	2.1	3.0	0.6	-6.9	-2.2	-1.0	-0.9	3.2	1.8
Czech Republic	..	..	..	..	..	2.6	5.8	1.8	5.3	-1.8	1.7	6.1	-2.7	-8.4	-0.4	2.0	-0.6	-0.5	0.6	2.0
Denmark	5.3	-0.9	2.1	-1.1	-1.3	0.5	0.5	-0.1	2.4	-2.1	-0.5	7.2	1.5	-2.5	-2.0	1.6	3.8	2.9	0.4	0.6
Finland	4.8	1.3	3.2	8.1	7.9	-0.4	0.2	0.2	0.4	-2.7	-2.1	7.4	-3.0	-3.4	0.1	2.5	4.3	5.7	2.2	1.3
France[1]	6.8	-0.9	1.0	-3.2	-1.8	-0.5	0.2	0.7	1.3	-2.2	-1.2	5.9	-0.9	-4.3	-1.6	1.0	3.1	2.7	-0.5	0.3
Germany	5.2	-1.3	2.8	-2.1	-1.8	-0.1	-0.3	0.2	3.1	-2.4	-1.4	7.7	0.5	-2.2	-2.6	0.1	1.9	3.2	-0.6	0.3
Greece	14.7	13.7	12.3	12.3	7.4	5.6	7.5	5.0	2.8	3.8	1.7	9.3	5.8	-0.3	0.4	1.0	3.3	3.7	-0.9	0.4
Hungary	..	..	..	..	..	15.6	41.1	20.5	13.4	11.8	5.5	12.3	2.4	-5.4	0.3	-1.0	1.2	8.0	-1.8	0.5
Iceland	31.5	19.3	3.4	-0.7	8.7	5.9	3.7	3.1	0.0	-0.7	0.6	6.3	21.1	-2.3	-3.1	2.6	-5.4	17.3	2.5	1.3
Ireland	6.2	-3.7	2.4	-1.2	4.5	2.4	3.8	-0.5	0.8	2.8	2.6	7.3	3.8	-1.5	-4.3	-0.1	1.7	3.3	1.4	0.6
Italy	6.9	-0.5	0.0	1.7	15.4	4.8	11.4	-1.8	2.3	-0.8	2.5	15.4	3.4	0.4	-0.9	4.2	7.9	9.1	2.4	2.0
Japan	5.6	7.3	-5.1	-5.1	-8.3	-4.5	-1.8	8.4	6.5	-2.7	-8.5	1.5	2.4	-0.9	-0.8	2.9	8.3	11.0	4.1	1.1
Korea	-5.7	7.1	1.9	3.5	0.3	1.1	4.2	3.0	11.4	27.2	-16.8	5.9	5.8	-8.9	1.0	5.5	-2.6	-0.8	2.1	-1.6
Luxembourg	3.8	1.6	2.5	2.7	3.2	2.1	1.3	5.8	5.2	1.7	3.0	12.3	-3.2	-2.2	-4.3	7.3	8.0	8.0	5.0	2.8
Mexico	16.8	18.4	10.0	4.9	-0.3	5.3	95.2	21.2	3.6	12.2	3.3	0.1	-2.8	2.2	12.3	7.6	-0.4	2.7	1.8	2.4
Netherlands	4.6	-1.3	0.3	-1.1	-2.1	0.1	0.2	0.7	1.5	-2.4	-0.9	5.8	-0.4	-2.9	-0.9	0.9	3.1	3.3	-0.2	1.1
New Zealand	7.6	1.4	2.3	6.3	-1.6	-3.8	-1.8	-3.7	-0.4	5.7	0.7	15.4	2.2	-5.9	-11.4	-4.3	0.9	9.7	-4.0	0.6
Norway	7.0	1.2	-0.4	-1.8	1.6	0.7	0.6	0.8	0.3	1.2	-1.1	7.5	-0.1	-5.0	1.1	4.8	1.2	3.0	5.9	1.4
Poland	..	..	..	..	..	27.0	18.0	10.4	15.7	10.9	7.1	7.8	1.3	5.4	6.7	4.8	-3.7	2.5	2.5	2.5
Portugal	10.6	4.1	1.0	-4.2	4.4	4.3	3.9	1.5	2.6	-1.4	-0.7	8.5	0.3	-1.7	-1.8	2.2	4.1	4.6	1.2	1.7
Slovak Republic	..	..	..	..	..	12.3	7.3	9.4	3.6	-0.2	0.3	14.1	6.0	0.7	1.7	2.1	-1.6	3.6	-2.4	-0.4
Spain	1.9	-2.8	-1.5	1.2	6.1	5.8	4.4	0.4	3.4	-1.5	0.3	10.6	-0.2	-2.0	-1.5	2.2	3.8	4.0	2.7	1.7
Sweden	5.7	3.3	0.3	-2.4	13.5	3.4	4.8	-4.5	0.6	-1.2	1.0	4.6	4.1	0.1	-2.2	0.4	5.4	3.4	0.9	1.8
Switzerland	8.6	-1.1	0.9	2.3	-1.8	-4.5	-2.4	-0.1	3.5	-1.8	-0.2	5.7	0.6	-4.4	-1.6	0.9	2.9	2.9	1.0	0.3
Turkey	66.7	28.4	60.2	63.1	48.9	163.3	85.0	80.4	74.1	62.5	48.2	50.6	89.2	31.7	1.9	8.5	-0.6	16.3	8.3	5.5
United Kingdom	6.5	3.3	0.3	0.0	8.6	3.0	5.9	0.1	-7.1	-5.7	-1.1	3.1	-0.2	-2.2	0.4	-0.6	3.8	2.5	0.3	1.4
United States[1]	2.2	2.8	-0.4	0.1	-0.9	0.9	2.7	-1.8	-3.6	-5.4	0.6	4.2	-2.5	-1.2	3.5	5.0	6.3	4.3	2.0	2.4
Total OECD	5.0	2.5	0.9	0.4	1.5	2.5	5.6	1.8	1.4	-0.6	-0.7	6.1	0.9	-1.5	0.1	2.4	3.8	4.1	1.4	1.4

Note: Regional aggregates are calculated inclusive of intra-regional trade. They are calculated as the geometric averages of prices weighted by trade volumes expressed in 2000 US$.

1. Certain components are estimated on a hedonic basis.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050755055121

Annex Table 42. **Competitive positions: relative consumer prices**

Indices, 2000 = 100

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	126.5	124.7	122.0	110.1	101.6	106.7	104.9	114.8	113.8	104.1	104.7	100.0	96.2	101.5	114.8	124.3	128.1	127.7
Austria	103.0	105.3	103.6	105.0	106.3	106.4	109.4	107.0	103.4	103.7	102.6	100.0	100.2	100.5	103.3	104.2	103.5	102.9
Belgium	103.5	107.9	106.6	107.2	107.1	108.8	112.5	109.8	104.5	105.5	104.0	100.0	100.9	102.1	106.8	108.7	108.8	108.4
Canada	134.2	133.9	137.8	127.4	118.7	109.0	106.7	106.8	106.1	100.1	99.4	100.0	96.9	96.0	106.7	112.6	119.5	126.2
Czech Republic	..	..	..	..	77.0	80.9	83.6	89.1	90.7	99.4	98.0	100.0	106.7	118.5	115.9	116.7	123.6	130.3
Denmark	100.5	104.6	100.6	101.2	102.0	101.7	105.4	103.8	101.2	103.5	103.6	100.0	101.5	103.4	108.4	109.1	107.9	107.6
Finland	144.5	148.6	141.6	122.3	102.2	106.1	113.9	107.3	103.3	104.6	104.4	100.0	101.4	102.4	106.8	106.6	103.9	102.9
France	106.2	110.0	106.4	107.8	108.9	108.8	111.0	110.3	106.0	106.9	104.6	100.0	99.8	101.1	106.0	107.6	106.4	105.9
Germany	102.8	106.1	104.6	109.1	112.8	113.5	117.8	113.1	107.7	108.9	106.4	100.0	99.9	100.6	105.5	106.9	105.3	104.6
Greece	90.9	95.5	96.7	99.3	99.9	100.8	104.0	106.9	107.7	106.3	106.8	100.0	101.0	103.7	109.8	112.2	112.6	113.6
Hungary	..	..	..	..	95.7	93.4	88.7	89.6	95.1	95.8	98.6	100.0	108.2	119.2	121.8	129.7	132.2	126.0
Iceland	104.7	102.1	104.1	103.9	97.7	91.6	90.3	89.6	91.2	93.6	96.2	100.0	88.8	94.8	99.6	102.3	116.1	108.5
Ireland	112.1	118.2	113.6	116.9	108.1	108.0	109.2	111.0	109.9	107.1	103.8	100.0	103.8	109.4	120.8	123.7	123.6	125.9
Italy	118.7	123.5	124.1	121.9	102.9	100.1	92.9	102.8	103.4	104.9	103.9	100.0	101.2	103.2	108.9	110.6	109.4	109.2
Japan	82.4	74.8	80.5	82.9	96.1	103.7	105.5	88.2	83.4	84.2	94.5	100.0	89.5	83.9	85.0	86.3	81.3	73.4
Korea	120.3	117.6	117.0	110.0	106.9	108.1	109.4	113.3	106.9	81.5	92.8	100.0	94.6	99.5	101.2	102.8	115.6	125.2
Luxembourg	101.4	104.7	103.6	104.6	104.5	105.7	108.3	105.7	102.6	102.9	102.1	100.0	100.7	101.9	105.7	107.0	106.7	107.4
Mexico	75.1	77.7	86.0	93.2	99.6	95.2	64.5	72.0	83.4	84.2	92.1	100.0	106.5	106.7	95.3	91.6	95.0	95.1
Netherlands	105.5	108.0	105.6	107.4	107.8	107.9	112.0	109.0	103.3	106.3	105.6	100.0	102.9	106.7	114.2	115.9	114.3	113.0
New Zealand	122.2	120.8	114.5	103.7	106.1	111.8	119.8	127.0	129.5	115.7	110.1	100.0	98.9	108.2	123.0	131.7	139.0	129.4
Norway	113.0	111.4	107.5	107.3	103.2	100.6	103.0	101.8	103.1	100.6	101.1	100.0	103.9	112.0	110.2	105.2	109.5	109.3
Poland	..	..	..	..	73.3	74.0	79.1	84.8	87.8	93.3	90.7	100.0	112.9	107.7	95.6	94.6	105.7	107.9
Portugal	84.8	89.5	95.1	103.6	100.4	98.9	102.4	102.3	101.1	101.9	102.0	100.0	102.5	104.8	108.6	109.5	108.6	109.3
Slovak Republic	..	..	..	..	85.1	84.2	86.1	85.9	90.8	91.8	90.7	100.0	101.2	102.5	115.6	126.6	129.5	136.4
Spain	112.6	119.6	120.9	120.4	107.2	102.4	104.0	105.6	101.1	102.1	102.0	100.0	102.1	104.4	109.4	111.6	112.3	113.9
Sweden	118.8	123.5	129.2	129.2	106.1	104.6	103.8	111.7	106.3	103.3	101.4	100.0	91.7	94.0	99.4	99.5	95.4	94.9
Switzerland	97.0	103.9	103.6	101.7	103.5	108.3	114.8	110.7	102.3	104.1	102.9	100.0	102.2	105.8	106.2	105.2	103.2	100.4
Turkey	76.4	85.7	87.2	83.7	89.8	66.0	71.5	72.3	77.3	85.0	89.3	100.0	81.5	88.7	93.4	96.4	107.2	106.6
United Kingdom	91.9	93.0	96.4	93.4	84.0	83.9	80.3	81.6	94.3	99.6	99.2	100.0	97.4	97.6	93.2	96.7	95.1	95.5
United States	88.8	87.1	85.4	83.6	84.8	84.9	83.7	86.3	90.8	98.1	96.8	100.0	105.7	105.8	99.7	95.6	94.1	93.4
Euro area	115.9	127.2	122.9	127.4	119.5	119.1	123.5	122.3	111.8	114.9	110.9	100.0	101.8	105.7	118.4	122.5	120.3	119.9

Note: Competitiveness-weighted relative consumer prices in dollar terms. Competitiveness weights take into account the structure of competition in both export and import markets of the manufacturing sector of 42 countries. An increase in the index indicates a real effective appreciation and a corresponding deterioration of the competitive position. For details on the method of calculation see Durand, M., C. Madaschi and F. Terribile (1998), "Trends in OECD Countries' International Competitiveness: The Influence of Emerging Market Economies", *OECD Economics Department Working Papers,* No. 195. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050788414347

Annex Table 43. **Competitive positions: relative unit labour costs**

Indices, 2000 = 100

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	106.7	107.1	104.9	99.3	89.4	93.0	97.7	109.0	110.1	100.8	106.7	100.0	92.5	97.7	112.0	124.9	133.4	134.5
Austria	119.6	121.2	119.4	120.5	121.9	122.3	120.5	113.0	109.1	109.4	106.4	100.0	97.7	96.9	101.2	104.1	106.2	103.9
Belgium	96.5	103.1	105.4	107.1	108.6	110.8	112.9	108.6	100.6	102.9	105.7	100.0	100.6	102.5	108.5	112.1	113.0	111.3
Canada	125.6	127.7	132.9	122.4	110.4	102.7	105.5	109.9	109.7	104.6	104.4	100.0	101.0	103.0	118.8	131.7	141.1	155.7
Czech Republic	..	..	..	..	89.4	86.8	86.6	94.8	96.4	108.1	100.6	100.0	111.8	125.0	129.9	131.1	129.1	129.9
Denmark	90.5	96.9	95.5	97.2	99.0	95.4	100.7	102.3	98.5	102.5	103.9	100.0	102.5	107.3	114.5	115.1	114.7	117.8
Finland	164.9	175.4	171.4	136.3	103.5	108.0	123.8	118.1	111.7	111.4	111.5	100.0	98.8	96.9	99.0	99.2	97.4	92.9
France	117.2	122.1	117.5	115.9	115.7	116.1	117.5	115.1	109.6	106.6	104.8	100.0	98.8	100.5	103.5	104.3	102.5	103.3
Germany	91.8	94.9	92.9	101.3	105.1	104.5	114.4	112.9	104.2	106.8	106.5	100.0	98.7	101.0	105.3	104.7	98.5	95.2
Greece	83.2	90.7	88.5	90.2	98.4	100.2	105.1	107.7	115.2	110.6	107.4	100.0	96.0	100.4	106.8	123.9	120.9	124.7
Hungary	..	..	..	..	143.8	128.1	116.1	107.6	106.1	99.7	95.9	100.0	109.0	112.9	111.5	119.0	119.5	110.4
Iceland	74.5	71.8	79.9	81.0	74.1	71.4	72.5	72.4	76.1	82.9	92.2	100.0	87.4	93.0	98.0	101.5	118.3	115.3
Ireland	144.1	145.3	152.0	152.2	145.1	140.4	133.0	133.1	125.8	113.9	105.1	100.0	97.8	90.7	99.1	102.9	104.1	105.9
Italy	113.9	121.6	125.2	120.5	99.3	93.5	85.5	98.3	101.5	102.8	104.0	100.0	102.7	107.9	119.5	127.0	130.5	133.1
Japan	84.9	71.8	72.5	75.9	91.6	104.8	104.0	85.8	81.7	86.1	97.8	100.0	91.8	86.9	81.5	80.4	74.0	65.8
Korea	125.8	125.3	133.0	124.3	117.8	119.7	133.3	144.5	128.7	89.6	93.6	100.0	92.7	97.2	96.9	98.7	108.0	110.6
Luxembourg	120.8	120.7	119.9	118.4	113.2	113.3	117.7	114.5	110.7	106.6	101.6	100.0	105.8	108.0	113.1	115.1	120.6	125.0
Mexico	68.6	70.6	79.7	89.5	96.8	93.7	58.4	62.2	74.3	75.9	86.8	100.0	112.8	114.1	103.2	101.4	105.3	106.4
Netherlands	107.0	110.9	110.8	113.8	111.3	108.0	111.3	107.0	104.2	107.7	107.3	100.0	102.1	106.8	116.0	118.6	116.5	115.5
New Zealand	113.1	114.5	110.2	96.9	97.2	105.3	111.4	121.1	126.5	114.5	111.4	100.0	99.6	108.9	123.6	136.9	144.4	136.0
Norway	81.1	81.5	80.7	78.5	77.1	81.0	84.6	85.0	91.6	94.7	98.5	100.0	103.1	114.1	108.6	103.6	108.3	109.3
Poland	..	..	..	..	78.0	82.5	88.5	94.6	97.7	103.6	97.6	100.0	105.4	92.7	74.9	67.2	74.4	75.9
Portugal	78.8	83.0	94.4	105.1	101.5	100.2	101.8	98.7	97.5	99.6	102.1	100.0	100.2	102.2	103.1	101.4	101.7	101.5
Slovak Republic	..	..	..	..	70.2	84.3	88.0	87.7	96.1	98.8	92.4	100.0	95.2	102.6	114.0	114.0	105.3	106.8
Spain	89.9	101.2	104.4	105.9	96.6	94.8	97.0	98.5	96.6	99.5	100.0	100.0	101.1	103.4	110.3	114.4	116.7	118.0
Sweden	156.2	160.0	165.8	162.4	119.0	110.4	108.1	121.7	113.3	106.6	99.7	100.0	95.5	93.4	96.6	92.5	86.8	84.3
Switzerland	82.1	88.6	91.1	89.0	89.4	96.8	105.3	101.5	96.1	98.7	100.7	100.0	105.8	112.7	114.7	114.2	112.6	112.1
Turkey	75.1	93.8	113.1	99.9	99.1	65.9	57.5	57.0	68.8	75.7	89.0	100.0	78.2	76.0	74.8	78.1	87.4	83.9
United Kingdom	82.9	84.4	83.6	77.3	70.4	74.7	70.3	70.6	85.0	95.4	97.4	100.0	97.4	100.2	96.7	102.4	106.3	110.5
United States	95.1	95.1	95.5	93.1	92.2	90.0	85.5	86.7	89.9	95.9	95.0	100.0	101.4	97.9	91.6	83.1	80.3	77.1
Euro area	105.9	119.5	118.0	123.9	115.6	113.0	120.1	121.4	110.0	112.3	112.0	100.0	99.9	105.4	120.2	127.1	123.9	122.9

Note: Competitiveness-weighted relative unit labour costs in the manufactoring sector in dollar terms. Competitiveness weights take into account the structure of competition in both export and import markets of the manufacturing sector of 42 countries. An increase in the index indicates a real effective appreciation and a corresponding deterioration of the competitive position. For details on the method of calculation see Durand, M., C. Madaschi and F. Terribile (1998), "Trends in OECD Countries' International Competitiveness: The Influence of Emerging Market Economies", *OECD Economics Department Working Papers,* No. 195. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/050833847510

Annex Table 44. **Export performance for total goods and services**

Percentage changes from previous year

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	-7.4	1.9	8.4	-0.6	2.9	-1.1	-6.6	2.2	5.4	3.2	-4.0	-1.7	3.5	-5.3	-8.3	-7.5	-5.3	-3.9	-3.0	-1.2
Austria	1.8	2.0	2.4	2.5	-0.8	-2.4	-2.5	-0.5	2.1	0.5	-0.1	-1.3	4.7	1.8	-2.8	0.2	-0.4	-2.4	-1.1	-0.6
Belgium	0.1	-0.7	-0.4	1.2	-0.1	0.1	-2.9	-2.3	-3.0	-2.2	-1.8	-2.8	-0.9	-1.1	-1.1	-2.4	-3.8	-5.4	-0.4	-2.5
Canada	-4.1	0.8	1.5	0.8	2.9	1.1	0.0	-2.8	-3.8	-0.6	0.1	-3.6	-0.9	-2.2	-6.5	-5.2	-4.1	-4.9	0.6	-1.4
Czech Republic	..	..	..	..	..	-6.1	7.3	-0.9	-1.3	1.6	-0.4	5.5	7.8	0.0	1.1	10.2	2.0	3.1	3.5	2.8
Denmark	-2.7	2.4	5.2	-1.3	0.5	-0.5	-4.6	-1.8	-4.9	-3.9	4.9	1.4	2.4	2.6	-5.2	-6.0	0.1	0.6	-0.7	-1.7
Finland	-4.5	-0.5	-6.8	13.7	14.4	4.7	-0.8	-0.3	3.9	3.3	5.8	3.5	0.7	-0.7	-7.6	-1.8	-1.4	-0.4	-3.1	-3.1
France	2.3	-0.7	1.9	2.2	-0.5	0.2	-0.3	-2.9	2.6	0.6	-3.0	2.1	1.2	-0.9	-5.5	-5.4	-3.6	-3.0	-2.8	-1.8
Germany	2.7	8.0	10.5	-3.6	-6.4	0.1	-2.0	-0.1	1.7	0.3	-0.7	1.8	5.2	1.3	-2.4	-1.0	0.0	3.4	2.4	-0.6
Greece	-4.6	-6.6	3.6	11.8	-4.6	-0.1	-4.6	-2.5	8.9	-1.9	11.0	2.1	-4.2	-10.4	-1.2	-2.5	-3.9	-4.3	-1.3	-0.7
Hungary	..	..	..	..	..	5.8	26.1	6.6	12.4	9.3	6.1	9.0	5.3	2.2	0.7	6.3	3.9	6.8	4.9	2.4
Iceland	-5.2	-4.7	-7.3	-4.3	6.2	0.7	-9.7	2.6	-2.9	-3.9	-2.7	-5.7	6.0	1.5	-1.9	0.2	0.4	-13.2	3.3	7.1
Ireland	2.0	3.7	3.5	9.7	8.6	6.2	10.9	5.7	7.5	15.3	7.3	8.1	7.8	1.9	-3.3	-1.2	-2.6	-3.6	1.2	-0.9
Italy	1.2	1.6	-4.8	5.8	7.2	2.4	3.9	-6.3	-5.4	-5.9	-8.0	-2.4	-1.4	-6.5	-7.1	-6.7	-7.3	-4.1	-3.2	-2.8
Japan	0.5	0.3	-2.6	-4.2	-7.3	-7.5	-6.7	-1.3	1.6	-2.3	-7.5	-1.4	-4.4	1.8	1.7	0.7	-0.8	1.3	0.2	-0.5
Korea	-12.2	-0.8	5.9	5.2	5.0	5.5	11.4	3.3	12.2	12.8	5.9	5.1	-1.6	7.3	6.6	5.3	-0.2	3.2	1.5	2.3
Luxembourg	4.2	0.3	6.1	0.3	5.3	-0.7	-2.8	-2.5	1.6	2.1	6.9	1.7	2.6	0.8	0.1	2.1	1.5	5.8	3.4	1.8
Mexico	0.9	1.3	4.8	-1.9	-0.1	5.5	20.0	9.1	-2.3	1.2	1.8	3.2	-1.3	-1.4	-1.3	0.8	0.6	4.6	2.5	0.8
Netherlands	-0.8	-0.4	1.9	-0.7	5.6	1.5	1.1	-0.6	1.9	-0.8	1.9	2.1	0.7	-0.6	-2.6	-0.1	-1.1	-1.7	-0.2	-1.1
New Zealand	-11.6	1.2	7.9	-2.3	0.0	-1.3	-6.2	-4.1	-4.0	0.1	-0.6	-3.9	5.3	0.5	-4.4	-6.1	-8.0	-5.6	-4.7	-2.2
Norway	3.0	4.8	5.1	1.6	2.0	-0.5	-2.6	3.6	-2.2	-7.0	-4.1	-7.5	3.3	-2.6	-3.5	-6.5	-5.9	-7.0	-1.0	-3.5
Poland	..	..	..	..	..	5.2	13.0	6.7	3.1	7.4	-6.8	9.4	-0.7	2.1	7.5	3.4	-0.5	2.8	1.6	0.8
Portugal	2.9	3.4	-3.3	-0.6	-2.0	0.0	0.9	0.0	-3.6	-0.9	-4.6	-2.2	-0.4	-0.5	-0.2	-3.5	-5.5	-0.4	0.0	-0.6
Slovak Republic	..	..	..	..	..	6.7	-5.5	-7.2	0.7	7.8	7.1	-3.9	2.1	1.9	8.8	-3.1	6.3	7.8	12.9	3.9
Spain	-5.7	-1.4	4.7	3.7	8.8	8.2	1.5	5.2	4.7	-0.4	1.5	-0.5	2.8	0.8	0.4	-3.6	-4.8	-2.6	0.4	-0.8
Sweden	-3.9	-2.3	-3.7	0.2	6.6	5.0	2.8	-2.0	2.8	1.4	1.9	0.1	-0.4	-2.1	0.0	1.4	-0.9	-0.8	1.5	0.0
Switzerland	-2.2	-3.3	-5.3	0.0	0.9	-5.9	-7.5	-1.9	1.8	-2.0	-0.6	0.5	-0.3	-2.8	-5.1	-0.9	-0.7	0.9	0.8	-1.1
Turkey	-6.9	0.3	2.3	16.6	7.0	8.0	0.3	15.7	9.6	6.4	-12.1	6.7	3.9	7.3	9.5	1.4	-0.4	-2.7	-0.2	-0.3
United Kingdom	-3.2	0.4	-3.5	1.5	2.9	0.3	0.6	2.7	-1.5	-4.2	-3.5	-2.6	2.1	-1.3	-2.5	-4.5	0.5	3.0	-8.6	-0.8
United States	1.9	2.7	1.1	0.4	-1.2	-1.6	2.0	0.3	1.1	-0.6	-2.3	-3.1	-4.5	-4.5	-3.3	-1.6	-1.4	-0.1	-1.2	-0.6
Total OECD	-0.2	1.6	1.4	0.4	-0.1	-0.3	0.2	-0.2	0.8	-0.4	-1.8	-0.5	-0.1	-1.1	-2.3	-1.7	-1.6	0.0	-0.5	-0.6
Memorandum items																				
China	-6.9	5.0	3.2	12.8	5.7	18.1	-4.4	9.9	15.1	8.9	4.6	13.1	8.2	21.3	19.7	10.5	15.2	15.4	13.9	10.3
Dynamic Asia[1]	2.9	0.6	7.0	3.9	3.6	2.1	1.1	-3.6	-1.5	-1.3	-0.5	1.6	-5.1	0.5	1.4	1.1	0.2	4.1	0.0	-2.7
Other Asia	2.8	10.8	8.5	7.2	5.0	5.0	8.8	0.2	-3.5	7.2	3.8	4.4	5.4	9.2	1.6	4.7	7.4	0.8	4.1	2.7
Latin America	0.4	2.2	-1.7	2.1	6.2	-3.0	-4.2	-0.7	-3.3	0.2	-2.1	-5.0	4.0	2.1	2.7	0.5	1.1	-1.5	0.3	-1.4
Africa and Middle-East	-0.6	-3.5	-4.6	3.5	3.2	-3.8	-8.0	-2.3	-1.6	1.2	-0.8	-4.1	1.4	-2.9	2.4	-2.6	-2.4	-3.0	-1.2	-0.7
Central and Eastern Europe	..	..	..	..	..	..	..	-0.3	-3.1	-0.7	2.0	-1.8	2.1	4.3	0.5	-1.3	-1.7	-5.3	-1.9	-0.5

Note: Regional aggregates are calculated inclusive of intra-regional trade. Export performance is the ratio between export volumes and export markets for total goods and services. The calculation of export markets is based on a weighted average of import volumes in each exporting country's markets, with weights based on trade flows in 2000.

1. Dynamic Asia includes Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore and Thailand.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051010644727

Annex Table 45. **Shares in world exports and imports**

Percentage, values for goods and services, national accounts basis

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
A. Exports																	
Canada	3.3	3.6	3.6	3.5	3.5	3.6	3.7	4.0	4.2	4.1	3.8	3.5	3.4	3.4	3.2	3.0	3.0
France	6.2	5.7	5.6	5.7	5.5	5.3	5.7	5.4	4.8	5.0	4.9	5.0	4.7	4.3	4.1	4.0	3.9
Germany	10.4	9.4	9.3	9.6	9.1	8.6	9.2	8.8	8.0	8.7	9.0	9.4	9.2	8.9	8.9	9.2	9.1
Italy	4.9	4.6	4.5	4.6	4.7	4.4	4.5	4.1	3.8	4.0	3.9	4.0	3.9	3.6	3.5	3.6	3.5
Japan	7.9	8.4	8.1	7.6	6.8	6.7	6.2	6.4	6.5	5.7	5.6	5.5	5.4	5.1	4.8	4.5	4.5
United Kingdom	5.4	5.2	5.2	5.1	5.3	5.5	5.6	5.5	5.1	5.1	5.2	5.0	4.8	4.6	4.6	4.4	4.3
United States	13.4	13.9	13.5	12.8	13.0	13.8	14.0	14.0	13.9	13.5	12.5	11.2	10.4	10.2	10.0	9.6	9.5
Other OECD countries	25.2	24.3	24.6	25.6	25.6	25.1	26.2	26.3	25.5	26.2	26.5	27.1	27.1	26.5	26.1	26.6	26.4
Total OECD	76.7	75.0	74.5	74.5	73.5	73.0	75.1	74.4	71.9	72.2	71.4	70.5	69.0	66.6	65.2	64.9	64.1
Non-OECD Asia	12.2	13.7	14.6	14.9	15.3	15.9	14.9	15.2	16.3	16.0	16.9	17.2	17.8	18.6	19.3	19.9	20.6
Latin America	2.6	2.8	2.8	2.8	2.8	3.0	2.9	2.7	2.9	2.9	2.7	2.7	2.8	3.1	3.3	3.4	3.3
Other non-OECD countries	8.9	8.7	8.1	7.8	8.3	8.2	7.2	7.6	8.9	8.9	8.9	9.6	10.3	11.7	12.1	11.8	12.0
Total of non-OECD countries	23.1	24.9	25.4	25.5	26.5	27.0	24.9	25.6	28.1	27.8	28.6	29.5	31.0	33.4	34.8	35.1	35.9
B. Imports																	
Canada	3.3	3.6	3.5	3.2	3.2	3.5	3.6	3.7	3.7	3.5	3.4	3.2	3.0	3.0	3.0	2.8	2.7
France	6.2	5.5	5.5	5.4	5.2	4.8	5.2	4.9	4.7	4.7	4.6	4.8	4.7	4.5	4.4	4.3	4.2
Germany	10.6	9.5	9.4	9.5	8.9	8.4	8.8	8.6	7.9	8.1	7.9	8.4	8.1	7.8	7.9	8.0	7.9
Italy	4.9	3.9	3.9	4.0	3.8	3.8	4.0	3.8	3.6	3.7	3.8	3.9	3.8	3.6	3.7	3.7	3.7
Japan	6.1	6.4	6.4	6.5	6.6	6.1	5.2	5.4	5.6	5.3	4.9	4.7	4.7	4.6	4.5	4.1	4.0
United Kingdom	5.6	5.4	5.4	5.2	5.4	5.6	5.9	5.9	5.5	5.6	5.8	5.5	5.4	5.3	5.4	5.1	5.0
United States	14.1	15.3	15.5	14.5	14.7	15.6	16.5	17.7	18.7	18.2	17.8	16.6	15.9	15.9	15.3	14.1	13.8
Other OECD countries	25.3	23.9	24.1	24.7	25.0	24.6	25.4	25.5	24.8	25.0	25.4	26.1	26.2	25.8	25.7	26.5	26.3
Total OECD	76.1	73.7	73.8	73.1	72.9	72.3	74.6	75.6	74.5	74.2	73.7	73.3	71.8	70.7	69.8	68.6	67.5
Non-OECD Asia	12.1	14.2	15.0	15.6	15.7	15.9	13.8	14.2	15.4	15.0	15.6	16.0	17.0	17.4	17.6	18.0	18.7
Latin America	2.5	2.9	3.0	3.1	3.1	3.5	3.6	3.0	2.9	3.0	2.5	2.3	2.3	2.5	2.7	2.9	2.9
Other non-OECD countries	9.8	9.6	8.3	8.1	8.3	8.4	8.0	7.3	7.2	7.8	8.2	8.5	8.9	9.4	9.9	10.4	10.9
Total of non-OECD countries	23.6	26.3	26.2	26.9	27.1	27.7	25.4	24.4	25.5	25.8	26.3	26.7	28.2	29.3	30.2	31.4	32.5

Note: Regional aggregates are calculated inclusive of intra-regional trade.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051038737550

Annex Table 46. **Geographical structure of world trade growth**

Average of export and import volumes

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
A. Trade growth by main regions								percentage changes from previous year									
NAFTA[1]	7.2	6.5	11.1	8.3	8.9	12.8	7.9	8.9	11.5	-3.8	1.1	2.4	9.7	6.2	6.9	3.7	5.5
OECD Europe	3.2	0.1	8.4	8.2	5.3	10.1	8.1	6.0	11.7	2.7	1.5	2.7	7.0	5.7	9.1	5.9	6.8
OECD Asia & Pacific[2]	3.3	1.6	8.6	11.0	10.2	7.4	-4.0	7.2	12.7	-3.0	7.1	8.2	12.8	6.8	8.4	6.9	8.6
Total OECD	4.2	2.1	9.2	8.7	7.0	10.5	6.2	7.0	11.8	-0.1	2.1	3.3	8.6	6.0	8.4	5.4	6.7
Non-OECD Asia	14.4	12.6	15.2	14.9	6.8	8.0	-4.9	10.2	17.8	-3.7	11.3	13.9	18.0	12.1	12.9	12.2	12.0
Latin America	14.5	15.4	10.0	11.9	5.9	13.7	7.2	-4.8	6.7	2.8	-4.5	4.5	14.0	12.3	11.5	10.6	7.3
Other non-OECD countries	4.9	2.6	2.6	3.5	5.3	6.1	0.9	4.8	9.9	5.7	5.6	9.0	12.5	9.9	10.7	11.1	11.2
Non-OECD	11.3	9.9	10.9	11.4	6.2	8.0	-1.7	6.5	14.0	-0.2	7.8	11.5	16.0	11.5	12.1	11.8	11.3
World	5.9	4.0	9.6	9.4	6.8	9.8	4.0	6.9	12.4	-0.1	3.6	5.6	10.8	7.7	9.6	7.5	8.3
B. Contribution to World Trade growth by main regions								percentage points									
NAFTA[1]	1.4	1.3	2.3	1.7	1.8	2.7	1.7	2.0	2.6	-0.8	0.2	0.5	2.0	1.3	1.4	0.7	1.0
OECD Europe	1.4	0.1	3.5	3.3	2.1	4.0	3.2	2.5	4.8	1.1	0.6	1.1	2.8	2.2	3.4	2.2	2.5
OECD Asia & Pacific[2]	0.4	0.2	0.9	1.2	1.1	0.8	-0.4	0.7	1.3	-0.3	0.7	0.8	1.3	0.7	0.9	0.7	0.9
Total OECD	3.2	1.5	6.6	6.2	5.0	7.5	4.5	5.1	8.7	-0.1	1.6	2.4	6.1	4.2	5.7	3.6	4.4
Non-OECD Asia	1.8	1.7	2.2	2.3	1.1	1.3	-0.8	1.5	2.7	-0.6	1.7	2.3	3.2	2.3	2.5	2.5	2.5
Latin America	0.4	0.4	0.3	0.4	0.2	0.4	0.2	-0.2	0.2	0.1	-0.1	0.1	0.4	0.3	0.3	0.3	0.2
Other non-OECD countries	0.5	0.3	0.3	0.3	0.5	0.5	0.1	0.4	0.8	0.5	0.5	0.8	1.1	0.9	1.0	1.0	1.1
Non-OECD	2.8	2.6	3.0	3.2	1.8	2.3	-0.5	1.7	3.7	0.0	2.1	3.2	4.7	3.5	3.9	3.8	3.8
World	5.9	4.0	9.6	9.4	6.8	9.8	4.0	6.9	12.4	-0.1	3.6	5.6	10.8	7.7	9.6	7.5	8.3

Note: Regional aggregates are calculated inclusive of intra-regional trade as the sum of volumes expressed in 2000 $.

1. Canada, Mexico and United States.
2. Australia, Japan, Korea and New Zealand.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051083125555

Annex Table 47. **Trade balances for goods and services**

$ billion, national accounts basis

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	-7.7	-3.2	1.1	-0.9	-1.4	-4.3	-5.1	-0.4	2.0	-6.2	-9.6	-3.9	2.5	-4.3	-13.5	-17.6	-12.8	-8.8	-8.3	-9.7
Austria	0.9	1.6	0.9	0.1	-3.1	-2.2	-1.1	-1.8	1.0	3.4	4.1	3.5	5.4	9.6	10.3	13.5	15.1	19.3	25.2	29.2
Belgium	3.8	3.8	4.2	6.5	7.8	9.7	12.0	11.8	10.8	10.5	10.8	7.1	8.5	11.8	13.6	14.5	10.8	10.2	15.6	15.4
Canada	0.2	0.8	-3.4	-2.2	0.0	6.7	18.9	24.7	12.6	12.3	24.2	41.6	41.2	32.4	32.2	41.1	43.1	33.6	46.3	50.1
Czech Republic	..	..	..	..	0.0	-1.1	-2.4	-3.6	-3.0	-0.7	-0.7	-1.7	-1.5	-1.6	-2.1	-0.6	2.3	2.7	5.1	6.6
Denmark	2.9	6.3	7.5	9.4	9.4	8.1	7.4	9.1	6.3	3.7	8.8	9.6	10.7	10.2	13.3	12.0	12.3	8.0	5.6	6.3
Finland	-2.0	-1.9	-0.6	0.9	4.0	5.6	9.9	9.6	9.9	11.5	13.1	12.4	13.3	14.5	13.8	15.1	10.8	13.8	16.0	15.8
France	-11.3	-17.1	-13.2	2.6	11.8	12.2	18.9	23.6	40.5	37.6	30.4	12.1	15.9	25.5	17.4	5.3	-20.6	-36.9	-30.2	-31.4
Germany	56.8	60.2	-6.2	-9.2	-0.9	2.7	11.9	22.0	26.9	29.8	18.0	6.9	38.4	93.4	97.4	136.3	143.9	155.0	221.9	238.2
Greece	-7.3	-10.9	-11.3	-11.0	-10.2	-8.8	-11.7	-13.4	-12.4	-13.9	-14.2	-16.0	-15.7	-17.4	-21.5	-23.3	-20.3	-23.8	-27.1	-27.1
Hungary	..	..	..	..	-3.1	-2.7	-0.1	0.3	0.5	-0.6	-1.3	-1.7	-0.6	-1.3	-3.3	-3.2	-1.5	1.0	6.3	9.6
Iceland	0.1	0.1	-0.1	0.0	0.2	0.3	0.3	0.0	0.0	-0.4	-0.4	-0.6	-0.1	0.1	-0.3	-0.7	-2.0	-2.9	-2.0	-0.7
Ireland	2.1	2.1	2.3	4.0	5.2	5.3	7.5	8.5	10.1	10.4	13.5	13.0	16.4	21.0	25.2	27.3	25.5	25.1	26.9	29.4
Italy	-0.1	2.2	1.3	-1.3	31.3	35.7	42.7	59.0	46.0	37.3	22.4	10.5	15.3	11.6	8.5	12.6	-1.1	-15.2	-16.2	-21.9
Japan	45.5	28.5	56.2	82.2	97.0	96.5	74.8	23.4	47.4	72.3	69.4	68.0	26.1	51.2	69.3	89.0	63.4	54.3	79.6	101.5
Korea	4.7	-2.8	-8.2	-3.9	1.4	-3.1	-5.7	-19.2	-4.5	44.2	29.8	16.2	11.1	7.5	14.6	28.9	18.7	9.9	5.4	0.5
Luxembourg	1.4	1.7	1.7	2.5	2.9	3.6	4.4	4.2	3.2	3.2	4.0	4.3	3.6	4.6	6.0	7.0	7.8	11.6	14.9	17.1
Mexico	2.3	-0.4	-8.4	-19.9	-15.8	-20.3	7.6	6.9	-0.4	-8.9	-7.8	-11.6	-13.8	-11.8	-10.5	-13.9	-11.8	-10.9	-18.0	-24.3
Netherlands	5.4	10.2	11.1	10.7	17.5	20.7	23.8	22.1	21.9	18.9	17.4	21.3	23.2	28.8	33.9	43.8	48.5	51.1	53.8	55.7
New Zealand	0.2	0.1	1.3	0.7	1.2	1.1	0.7	0.3	0.3	0.2	-0.6	0.4	1.5	0.8	0.5	-0.7	-2.6	-2.0	-1.4	-2.2
Norway	3.6	7.7	9.4	8.7	7.6	7.6	9.2	14.3	13.0	2.8	11.6	28.6	28.9	25.9	29.2	35.1	49.4	59.7	57.0	60.2
Poland	..	..	..	..	0.8	2.1	3.0	-2.2	-6.1	-8.3	-9.9	-11.0	-7.0	-6.8	-5.5	-4.8	-1.0	-2.6	-2.4	-2.5
Portugal	-3.4	-5.1	-6.3	-7.7	-6.4	-6.7	-7.3	-8.2	-9.0	-10.6	-12.4	-12.3	-11.6	-10.6	-10.3	-13.9	-16.0	-15.1	-14.3	-15.2
Slovak Republic	..	..	..	..	-0.6	0.8	0.4	-2.3	-2.1	-2.4	-0.9	-0.5	-1.7	-1.8	-0.6	-1.1	-2.4	-2.5	-0.3	0.6
Spain	-13.1	-16.9	-17.2	-16.4	-3.2	0.1	0.0	3.3	4.9	-1.4	-11.3	-18.2	-15.4	-14.6	-21.0	-41.9	-60.4	-75.7	-95.0	-103.7
Sweden	0.3	0.1	3.2	3.5	6.6	9.1	16.3	17.0	17.8	15.6	15.6	14.2	14.3	16.3	20.2	27.9	27.3	31.6	35.9	37.3
Switzerland	1.8	3.2	5.5	10.9	14.3	14.9	16.2	15.5	14.6	13.2	14.9	14.1	10.9	17.7	21.6	26.3	24.8	26.3	25.5	28.9
Turkey	-1.6	-6.4	-4.1	-4.7	-10.2	0.5	-7.3	-11.4	-11.0	-7.4	-6.3	-14.9	3.1	-2.6	-8.0	-17.5	-23.8	-31.2	-36.7	-38.8
United Kingdom	-34.6	-25.2	-10.9	-13.1	-9.5	-7.1	-4.8	-3.8	2.9	-11.9	-25.0	-29.2	-38.6	-46.5	-48.3	-64.1	-80.7	-99.5	-109.6	-124.2
United States	-88.2	-78.0	-27.5	-33.3	-65.0	-93.6	-91.4	-96.3	-101.6	-160.0	-260.5	-379.5	-367.0	-424.4	-499.4	-613.2	-716.7	-762.5	-725.6	-752.8
Euro area	33.3	29.9	-33.3	-18.4	56.7	78.0	110.9	140.7	154.0	136.6	95.9	44.6	97.3	178.2	173.4	196.4	144.0	119.4	191.6	201.5
Total OECD	-37.1	-39.2	-11.8	19.2	89.5	93.6	148.9	113.0	142.6	94.0	-53.0	-217.4	-182.6	-160.9	-217.3	-281.0	-470.2	-576.4	-446.1	-451.9

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051121527745

Annex Table 48. **Investment income, net**

$ billion

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	-10.4	-13.2	-12.2	-10.1	-8.1	-12.4	-14.0	-15.2	-13.8	-11.4	-11.6	-10.8	-9.9	-11.5	-15.0	-21.0	-27.6	-31.5	-35.4	-39.5
Austria	-0.9	-0.9	-1.4	-1.4	-1.5	-1.7	-2.4	-0.9	-1.5	-2.0	-2.9	-2.5	-3.1	-1.6	-1.2	-1.2	-1.5	-1.9	-2.7	-3.4
Belgium[1]	4.0	4.8	5.7	6.4	6.9	7.4	7.3	6.8	6.3	6.9	6.7	6.3	4.6	4.5	6.5	5.7	5.3	6.1	6.2	5.9
Canada	-20.5	-19.4	-17.4	-17.5	-20.8	-18.9	-22.7	-21.5	-20.9	-20.0	-22.6	-22.3	-25.4	-19.3	-21.2	-19.1	-15.5	-11.5	-20.0	-19.6
Czech Republic	..	..	..	..	-0.1	0.0	-0.1	-0.7	-0.8	-1.1	-1.4	-1.4	-2.2	-3.5	-4.3	-6.1	-6.5	-8.2	-10.6	-12.5
Denmark	-3.8	-5.1	-5.1	-4.9	-3.8	-3.8	-3.8	-3.7	-3.4	-2.8	-2.6	-3.6	-3.6	-2.7	-2.6	-2.1	0.0	1.4	1.9	1.7
Finland	-2.7	-3.7	-4.7	-5.4	-4.9	-4.4	-4.4	-3.7	-2.4	-3.1	-2.0	-1.7	-1.0	-0.6	-2.6	0.2	0.0	0.3	0.5	1.1
France	-0.3	-1.6	-3.3	-6.0	-6.6	-6.0	-8.4	-1.9	7.1	8.7	22.8	19.4	19.5	8.7	14.9	22.2	25.8	24.7	26.8	29.5
Germany	14.8	15.3	18.0	18.2	11.5	1.5	-2.8	0.7	-2.7	-10.8	-12.4	-8.9	-9.9	-17.6	-17.9	0.2	11.2	15.9	18.5	20.3
Greece	-1.9	-2.0	-2.0	-2.4	-1.6	-1.4	-1.8	-2.1	-1.7	-1.6	-0.7	-0.9	-1.8	-2.0	-4.5	-5.4	-7.0	-8.9	-11.4	-12.3
Hungary	..	..	..	..	-1.5	-1.6	-1.7	-2.0	-2.7	-3.0	-2.9	-2.6	-2.9	-3.6	-4.2	-6.1	-6.9	-7.6	-10.3	-12.1
Iceland	-0.2	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	0.0	-0.2	-0.6	-0.6	-1.4	-1.7	-1.9
Ireland	-4.3	-5.0	-4.6	-5.6	-5.2	-5.4	-7.3	-8.2	-9.7	-10.5	-13.7	-13.5	-16.4	-22.4	-24.8	-28.0	-30.3	-30.9	-32.2	-33.6
Italy	-7.2	-14.6	-17.5	-21.9	-17.5	-16.8	-15.8	-15.5	-10.2	-11.2	-11.1	-11.8	-10.5	-14.6	-20.2	-18.5	-17.3	-15.0	-15.7	-15.5
Japan	22.9	22.7	26.0	35.5	41.0	40.5	44.1	53.3	58.1	54.7	58.4	60.4	69.3	66.0	71.6	86.2	102.9	117.6	128.3	139.5
Korea	-0.6	-0.1	-0.2	-0.4	-0.4	-0.5	-1.3	-1.8	-2.5	-5.6	-5.2	-2.4	-1.2	0.4	0.3	1.1	-1.6	-0.5	-1.7	-0.4
Luxembourg	..	..	..	..	..	..	1.6	1.3	0.5	0.2	-0.5	-1.3	-1.7	-3.1	-4.0	-4.3	-6.9	-10.5	-14.0	-15.4
Mexico	-8.3	-8.7	-8.6	-9.6	-11.4	-13.0	-13.3	-14.0	-12.8	-13.4	-12.9	-15.1	-14.0	-12.8	-12.2	-10.3	-13.2	-13.0	-13.2	-14.6
Netherlands	2.9	-0.6	0.4	-1.0	0.9	3.6	7.3	3.5	7.0	-2.7	3.5	-2.3	-0.2	0.0	1.1	15.1	6.4	15.4	16.1	15.7
New Zealand	-1.9	-1.6	-2.5	-2.5	-2.9	-3.4	-4.0	-4.7	-4.9	-2.6	-3.1	-3.4	-3.1	-3.2	-4.1	-5.9	-7.6	-7.9	-9.5	-10.2
Norway	-2.5	-2.7	-2.7	-3.4	-3.3	-2.2	-1.8	-1.9	-1.7	-1.5	-1.4	-2.4	0.3	0.3	1.3	0.1	-0.2	-2.3	2.2	8.7
Poland	..	..	..	..	..	-2.6	-2.0	-1.1	-1.1	-1.2	-1.0	-1.5	-1.4	-1.9	-3.6	-11.5	-11.2	-13.4	-16.4	-17.5
Portugal	-0.6	-0.1	0.2	0.7	0.3	-0.5	0.1	-0.9	-1.3	-1.5	-1.6	-2.4	-3.5	-3.0	-2.6	-3.6	-4.8	-6.8	-8.6	-9.9
Slovak Republic	..	..	..	..	0.0	-0.1	0.0	0.0	-0.1	-0.2	-0.3	-0.4	-0.3	-0.5	-0.1	-0.4	-2.0	-2.1	-2.3	-3.1
Spain	-2.8	-3.5	-4.3	-5.8	-3.6	-7.8	-5.4	-7.5	-7.4	-8.6	-9.5	-6.9	-11.3	-11.6	-11.7	-15.1	-21.3	-26.4	-36.8	-43.0
Sweden	-2.3	-4.5	-6.4	-10.0	-8.7	-5.9	-5.5	-6.3	-4.9	-3.2	-2.0	-1.4	-1.4	-1.8	3.9	-0.4	2.8	1.1	1.2	0.4
Switzerland	7.4	7.9	7.9	7.3	8.2	6.9	10.8	11.6	15.3	16.9	19.4	21.4	14.0	11.1	27.2	28.2	43.0	42.8	50.9	54.4
Turkey	-2.3	-2.5	-2.7	-2.6	-2.7	-3.3	-3.2	-2.9	-3.0	-3.0	-3.5	-4.0	-5.0	-4.6	-5.6	-5.5	-5.8	-6.6	-6.4	-6.5
United Kingdom	-1.2	-5.1	-5.9	0.2	-0.3	5.1	3.4	0.8	5.4	20.4	2.1	6.9	16.8	35.5	40.3	48.9	50.2	41.7	46.4	71.6
United States	19.8	28.5	24.1	24.2	25.3	17.1	20.9	22.3	12.6	4.3	13.9	21.1	25.1	12.2	36.6	27.6	11.3	-7.3	-30.1	-61.9
Euro area	1.1	-11.9	-13.4	-24.2	-21.4	-31.5	-32.1	-28.3	-16.3	-36.4	-21.5	-26.4	-35.1	-63.3	-67.2	-32.7	-40.3	-37.9	-53.2	-60.5
Total OECD	-2.9	-15.9	-19.2	-18.1	-11.2	-29.6	-26.5	-16.3	2.3	-9.1	1.7	11.9	19.8	-3.2	41.0	70.3	71.3	53.5	19.9	16.2

Note: The classification of non-factor services and investment income is affected by the change in reporting system to the International Monetary Fund, Fifth Balance of Payments Manual.

1. Including Luxembourg until 1994.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051133081854

Annex Table 49. **Total transfers, net**

$ billion

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	0.2	0.4	0.1	-0.1	-0.1	-0.2	-0.1	0.1	0.0	-0.3	0.0	0.0	0.0	-0.1	-0.2	-0.3	-0.4	-0.4	-0.4	-0.4
Austria	-0.1	0.0	-0.1	-1.0	-1.0	-1.1	-1.7	-1.8	-1.7	-1.9	-2.0	-1.3	-1.2	-1.8	-2.3	-1.4	-1.6	-1.4	-1.7	-2.4
Belgium[1]	-1.8	-2.1	-2.1	-2.5	-2.6	-3.3	-4.2	-4.1	-3.7	-4.3	-4.6	-3.9	-4.1	-4.4	-6.4	-6.5	-6.4	-7.2	-9.4	-10.1
Canada	-1.0	-0.8	-1.1	-0.9	-0.6	-0.3	-0.1	0.5	0.5	0.6	0.5	0.8	1.0	0.0	-0.3	-0.3	-0.4	0.1	-0.2	-0.2
Czech Republic	..	..	..	..	0.1	0.1	0.6	0.4	0.4	0.5	0.6	0.4	0.5	0.9	0.6	0.2	0.8	-0.3	0.8	1.4
Denmark	-1.2	-1.2	-1.6	-1.7	-1.7	-2.0	-2.4	-2.6	-1.8	-2.3	-2.9	-3.0	-2.6	-2.6	-3.7	-4.6	-4.1	-4.4	-4.3	-4.3
Finland	-0.7	-1.0	-1.0	-0.8	-0.4	-0.5	-0.4	-0.9	-0.7	-1.0	-1.0	-0.7	-0.7	-0.7	-1.1	-1.1	-1.5	-1.6	-1.4	-1.5
France	-7.7	-9.8	-9.3	-11.1	-8.2	-11.5	-5.9	-7.4	-13.2	-12.0	-13.2	-14.0	-14.8	-14.2	-19.2	-22.0	-27.6	-27.1	-31.1	-32.7
Germany	-17.0	-14.8	-35.4	-32.6	-33.2	-36.7	-38.8	-33.9	-30.3	-30.1	-26.4	-25.8	-24.0	-25.8	-31.8	-34.4	-35.4	-33.0	-32.9	-32.5
Greece[2]	4.0	4.7	6.2	6.5	6.5	6.9	8.0	8.0	8.3	7.9	3.9	3.3	3.4	3.6	4.3	4.5	3.9	4.3	4.9	5.3
Hungary	..	..	..	..	0.8	0.9	0.2	0.0	0.2	0.2	0.4	0.4	0.4	0.5	0.7	0.3	0.2	0.3	0.4	0.4
Iceland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ireland	1.5	2.3	2.6	2.1	1.9	1.7	1.8	2.2	2.0	1.5	1.3	0.9	0.3	0.7	0.5	0.5	0.7	-0.2	2.6	2.3
Italy	-3.9	-4.0	-7.6	-7.8	-7.3	-7.2	-4.2	-6.6	-4.2	-7.4	-5.4	-4.3	-5.8	-5.5	-8.1	-9.5	-10.3	-15.5	-19.8	-19.9
Japan	-3.0	-4.5	-11.1	-3.8	-5.2	-6.2	-7.8	-9.0	-8.8	-8.8	-12.1	-9.8	-7.9	-5.0	-7.5	-8.0	-8.4	-10.4	-9.6	-9.7
Korea	1.1	1.1	0.8	1.1	1.2	1.3	0.2	0.0	0.7	3.4	1.9	0.6	-0.4	-1.6	-2.9	-2.4	-2.5	-3.8	-4.0	-4.0
Luxembourg	..	..	..	..	..	..	-0.6	-0.6	-0.5	-0.4	-0.6	-0.5	-0.5	-0.3	-0.6	-1.1	-1.1	-1.7	-1.3	-1.4
Mexico	2.6	3.9	3.0	3.4	3.6	3.8	4.0	4.4	5.3	6.0	6.3	7.1	9.2	10.3	13.9	17.0	20.5	23.5	25.4	28.1
Netherlands	-1.9	-2.9	-4.1	-4.3	-4.5	-5.2	-6.4	-6.8	-6.1	-7.2	-6.4	-6.2	-6.7	-6.5	-7.2	-9.4	-10.5	-10.9	-14.1	-15.9
New Zealand	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.6	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.4	0.5	0.6	0.6
Norway	-1.1	-1.5	-1.5	-1.8	-1.4	-1.7	-2.1	-1.5	-1.4	-1.5	-1.4	-1.3	-1.6	-2.2	-2.9	-2.6	-2.9	-2.7	-2.7	-2.7
Poland	..	..	..	..	..	1.3	1.0	1.7	2.0	2.9	2.2	2.4	2.9	3.3	4.2	5.5	6.9	8.2	8.6	9.3
Portugal[2]	4.6	5.5	6.0	7.8	6.7	5.4	7.2	4.4	3.8	4.1	3.8	3.4	3.4	2.8	3.3	3.5	2.8	3.1	3.5	3.3
Slovak Republic	..	..	..	..	0.1	0.1	0.1	0.2	0.2	0.4	0.2	0.1	0.2	0.2	0.2	0.1	0.0	-0.1	0.3	0.3
Spain	4.6	2.7	2.7	2.1	1.3	1.2	4.8	3.2	3.0	3.2	3.0	1.6	1.3	2.4	-0.6	-0.1	-4.2	-7.3	-14.1	-14.8
Sweden	-0.4	-0.5	-0.5	-1.4	-1.2	-1.2	-2.6	-1.9	-2.4	-2.5	-2.7	-2.5	-2.5	-2.9	-2.1	-4.6	-4.3	-7.3	-6.1	-6.2
Switzerland	-1.9	-2.4	-2.6	-3.1	-3.0	-3.5	-4.4	-4.3	-4.0	-4.6	-5.2	-4.2	-5.2	-5.8	-5.4	-5.9	-9.0	-6.9	-10.9	-12.6
Turkey	3.5	4.5	5.1	3.9	3.7	3.0	4.4	4.1	4.5	5.5	4.9	4.8	3.0	2.4	1.0	1.1	1.5	1.7	1.9	2.1
United Kingdom	-7.2	-8.8	-2.1	-9.9	-7.9	-8.2	-11.9	-7.4	-9.7	-13.9	-12.2	-15.1	-9.7	-13.6	-16.5	-20.1	-22.1	-22.3	-23.8	-23.9
United States	-26.2	-26.7	9.9	-35.1	-39.8	-40.3	-38.1	-43.0	-45.1	-53.2	-50.4	-58.6	-51.3	-63.6	-69.2	-81.6	-86.1	-84.1	-83.4	-87.4
Euro area	-18.5	-19.2	-42.2	-41.7	-40.8	-50.3	-40.4	-44.3	-43.4	-47.7	-47.4	-47.5	-49.5	-49.8	-69.1	-77.1	-91.2	-98.4	-114.8	-120.2
Total OECD	-52.9	-55.4	-43.7	-90.9	-92.1	-103.1	-99.2	-102.1	-102.7	-115.0	-117.1	-125.3	-113.4	-129.5	-159.0	-183.2	-200.9	-206.7	-222.1	-229.4

1. Including Luxembourg until 1994.
2. Breaks between 1998 and 1999 for Greece and between 1995 and 1996 for Portugal, reflecting change in methodology to the International Monetary Fund, Fifth Balance of Payments Manual (capital transfers from European Union are excluded from the current account).

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051225808720

OECD ECONOMIC OUTLOOK 81 – ISBN 978-92-64-03449-5 – © OECD 2007

Annex Table 50. **Current account balances**

$ billion

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	-17.9	-15.9	-11.0	-11.1	-9.7	-17.1	-19.3	-15.5	-11.8	-17.8	-21.3	-14.7	-7.4	-15.8	-28.6	-38.8	-40.8	-40.6	-44.1	-49.6
Austria	0.1	1.1	-0.1	-1.0	-1.6	-3.1	-5.9	-5.4	-6.6	-5.4	-6.7	-4.5	-3.5	0.7	-0.6	5.0	6.4	10.4	14.8	17.3
Belgium[1]	5.2	6.1	7.2	9.9	13.0	14.2	15.3	13.8	13.8	13.3	12.9	9.4	7.9	11.6	12.9	12.6	9.6	7.9	11.1	9.9
Canada	-21.8	-19.8	-22.4	-21.1	-21.7	-13.0	-4.4	3.4	-8.2	-7.7	1.7	19.7	16.3	12.6	10.2	21.1	26.5	21.4	25.1	29.3
Czech Republic	..	..	..	..	0.5	-0.8	-1.4	-4.1	-3.6	-1.3	-1.5	-2.7	-3.3	-4.2	-5.8	-6.5	-3.2	-5.9	-4.8	-4.5
Denmark	-1.7	0.6	1.2	3.2	3.9	2.3	1.2	2.7	0.7	-1.5	3.4	2.5	4.2	5.0	7.3	5.7	9.7	6.5	5.4	6.0
Finland	-5.8	-7.0	-6.8	-5.1	-1.1	1.0	5.4	5.1	6.8	7.3	8.1	10.6	12.1	13.8	10.7	14.7	9.9	12.3	14.9	15.2
France	-4.6	-9.8	-5.7	4.8	9.7	7.4	11.0	20.8	37.2	38.9	45.5	22.0	26.3	18.9	15.4	2.3	-24.6	-27.7	-25.2	-25.2
Germany	52.8	33.2	-24.0	-22.1	-19.7	-31.0	-29.6	-13.8	-10.0	-17.0	-27.8	-33.8	0.4	40.9	48.6	117.2	129.2	147.9	218.2	236.9
Greece[2]	-3.3	-4.7	-2.6	-3.6	-1.9	-1.4	-4.5	-6.4	-5.3	-3.8	-7.4	-9.8	-9.5	-10.1	-12.7	-13.3	-17.8	-29.7	-33.1	-33.9
Hungary	..	..	..	..	-3.1	-3.5	-1.6	-1.7	-2.0	-3.4	-3.8	-4.0	-3.2	-4.7	-6.7	-8.6	-7.6	-6.5	-4.9	-3.4
Iceland	-0.1	-0.1	-0.3	-0.2	0.0	0.1	0.1	-0.1	-0.1	-0.6	-0.6	-0.9	-0.4	0.1	-0.5	-1.3	-2.6	-4.4	-3.7	-2.7
Ireland	-0.6	-0.5	0.3	0.5	1.8	1.5	1.7	2.0	1.9	0.7	0.3	-0.3	-0.7	-1.2	0.0	-1.1	-5.3	-7.3	-3.9	-3.1
Italy	-11.7	-16.4	-23.5	-28.9	7.4	12.6	24.8	39.5	33.4	22.6	7.9	-5.9	-0.8	-9.8	-19.8	-15.8	-27.9	-44.8	-50.8	-56.3
Japan	66.7	46.6	72.7	108.3	130.0	130.6	114.3	66.1	96.8	119.3	115.3	119.8	88.2	111.7	136.4	172.6	166.3	171.2	207.7	240.7
Korea	5.4	-2.0	-8.4	-4.1	0.8	-4.0	-8.7	-23.1	-8.3	40.4	24.5	12.3	8.0	5.4	11.9	28.2	15.0	6.1	-0.5	-4.1
Luxembourg	..	..	..	..	..	..	2.5	2.3	1.9	1.8	1.8	2.7	1.8	2.6	2.4	4.0	4.1	4.4	4.3	5.1
Mexico	-5.7	-7.6	-14.5	-24.4	-23.4	-29.6	-1.4	-2.6	-7.6	-16.1	-13.9	-18.4	-17.9	-14.0	-8.5	-6.4	-4.7	-1.2	-7.4	-12.6
Netherlands	9.4	8.1	7.4	6.9	13.2	17.3	25.8	21.5	25.0	13.0	15.7	7.3	9.8	11.0	29.8	52.0	49.0	59.6	60.1	59.7
New Zealand	-1.6	-1.4	-1.2	-1.7	-1.7	-2.0	-3.0	-3.9	-4.3	-2.1	-3.5	-2.7	-1.4	-2.4	-3.5	-6.5	-9.8	-9.4	-10.3	-11.8
Norway	0.2	4.0	5.0	3.0	2.2	3.8	5.3	10.9	10.0	-0.2	8.7	24.9	27.7	23.9	27.7	32.7	46.5	56.1	56.6	66.2
Poland	..	..	..	..	..	1.0	0.9	-3.3	-5.7	-6.9	-12.5	-10.0	-5.4	-5.0	-4.6	-10.7	-5.1	-7.9	-10.8	-11.4
Portugal[2]	0.2	-0.2	-0.7	-0.3	0.3	-2.3	-0.2	-4.9	-6.6	-8.4	-10.3	-11.6	-11.5	-10.3	-9.6	-13.8	-18.0	-18.3	-19.2	-21.6
Slovak Republic	..	..	..	..	-0.6	0.8	0.5	-2.0	-1.8	-2.0	-1.0	-0.7	-1.7	-1.9	-0.3	-1.4	-4.1	-4.6	-2.2	-2.1
Spain	-10.9	-18.1	-19.9	-21.6	-5.6	-6.5	-1.7	-1.4	-0.6	-7.2	-17.9	-23.0	-24.0	-22.5	-31.1	-54.9	-83.1	-106.6	-141.6	-157.1
Sweden	-1.8	-4.8	-3.1	-7.5	-2.6	2.5	8.4	9.8	10.3	9.7	10.7	9.4	8.5	9.8	22.6	24.1	25.4	25.9	31.1	31.7
Switzerland	6.9	8.3	10.2	14.8	19.0	17.0	20.5	21.4	24.6	25.1	29.4	30.7	20.0	23.8	43.4	49.0	60.2	65.3	69.2	74.5
Turkey	0.9	-2.6	0.2	-1.0	-6.4	2.6	-2.3	-2.4	-2.6	2.0	-1.3	-9.8	3.4	-1.5	-8.0	-15.5	-22.8	-31.3	-36.2	-38.3
United Kingdom	-43.1	-39.1	-19.0	-22.7	-17.7	-10.1	-13.4	-10.5	-1.4	-5.3	-35.2	-37.4	-31.5	-24.7	-24.5	-35.3	-52.6	-80.1	-87.0	-76.5
United States	-99.5	-79.0	2.9	-50.1	-84.8	-121.6	-113.6	-124.8	-140.4	-213.5	-299.8	-415.2	-389.0	-472.4	-527.5	-665.3	-791.5	-856.7	-841.9	-904.8
Euro area	30.7	-8.0	-68.4	-60.5	15.5	9.8	44.7	73.2	91.0	55.8	22.1	-36.9	8.2	45.6	45.9	108.7	31.7	8.1	49.7	46.9
Total OECD	-82.2	-120.9	-56.0	-75.0	0.2	-31.3	26.8	-6.5	35.4	-26.2	-178.4	-334.2	-276.6	-308.8	-313.1	-354.3	-563.5	-687.9	-609.1	-626.1

Note: The balance-of-payments data in this table are based on the concepts and definition of the International Monetary Fund, Fifth Balance of Payments Manual.

1. Including Luxembourg until 1994.
2. Breaks between 1998 and 1999 for Greece and between 1995 and 1996 for Portugal, reflecting change in methodology to the International Monetary Fund, Fifth Balance of Payments Manual (capital transfers from European Union are excluded from the current account).

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051245427361

Annex Table 51. **Current account balances as a percentage of GDP**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	-5.9	-5.0	-3.4	-3.6	-3.2	-4.9	-5.2	-3.7	-2.9	-4.8	-5.3	-3.7	-2.0	-3.8	-5.4	-6.1	-5.7	-5.4	-5.0	-5.2
Austria	0.1	0.6	-0.1	-0.5	-0.8	-1.5	-2.5	-2.3	-3.2	-2.5	-3.2	-2.3	-1.8	0.3	-0.2	1.7	2.1	3.2	4.1	4.5
Belgium[1]	3.2	3.0	3.5	4.2	5.9	5.9	5.4	5.0	5.5	5.2	5.1	4.0	3.4	4.6	4.1	3.5	2.6	2.0	2.5	2.1
Canada	-3.9	-3.4	-3.7	-3.6	-3.9	-2.3	-0.8	0.5	-1.3	-1.2	0.3	2.7	2.3	1.7	1.2	2.1	2.3	1.7	1.9	2.0
Czech Republic	..	..	..	..	1.2	-1.8	-2.5	-6.6	-6.2	-2.0	-2.4	-4.8	-5.3	-5.5	-6.2	-6.0	-2.6	-4.2	-2.9	-2.5
Denmark	-1.5	0.4	0.9	2.1	2.8	1.5	0.7	1.4	0.4	-0.9	1.9	1.6	2.6	2.9	3.4	2.4	3.8	2.4	1.8	1.8
Finland	-4.9	-5.0	-5.3	-4.6	-1.3	1.1	4.1	4.0	5.6	5.6	6.2	8.7	9.6	10.1	6.4	7.8	5.1	5.8	6.3	6.1
France	-0.5	-0.8	-0.4	0.4	0.8	0.5	0.7	1.3	2.6	2.6	3.1	1.6	2.0	1.3	0.8	0.1	-1.2	-1.2	-1.0	-1.0
Germany	4.6	3.0	-1.3	-1.1	-1.0	-1.4	-1.2	-0.6	-0.5	-0.8	-1.3	-1.8	0.0	2.0	2.0	4.3	4.6	5.1	6.7	7.0
Greece[2]	-3.8	-4.3	-2.2	-2.8	-1.7	-1.1	-3.0	-4.0	-3.4	-2.4	-4.8	-6.8	-6.3	-5.9	-5.7	-5.0	-6.3	-9.7	-9.4	-8.9
Hungary	..	..	..	..	-7.9	-8.2	-3.3	-3.8	-4.3	-7.0	-7.6	-8.4	-6.0	-6.9	-7.9	-8.4	-6.9	-5.8	-3.6	-2.2
Iceland	-1.9	-2.1	-4.0	-2.4	0.7	1.9	0.7	-1.8	-1.7	-6.7	-6.8	-10.2	-4.3	1.5	-4.8	-9.8	-16.1	-26.7	-19.9	-13.5
Ireland	-1.5	-0.8	0.7	1.0	3.6	2.7	2.6	2.7	2.4	0.8	0.3	-0.4	-0.6	-1.0	0.0	-0.6	-2.6	-3.3	-1.5	-1.1
Italy	-1.3	-1.4	-2.0	-2.3	0.8	1.2	2.2	3.1	2.8	1.9	0.7	-0.6	-0.1	-0.8	-1.3	-0.9	-1.6	-2.4	-2.5	-2.6
Japan	2.2	1.5	2.1	2.8	3.0	2.8	2.2	1.4	2.3	3.1	2.6	2.6	2.2	2.8	3.2	3.7	3.7	3.9	4.8	5.4
Korea	2.3	-0.8	-2.7	-1.2	0.2	-0.9	-1.7	-4.2	-1.3	11.8	5.5	2.4	1.7	1.0	1.9	4.2	1.9	0.7	0.0	-0.4
Luxembourg	..	..	..	..	..	..	12.1	11.2	10.4	9.2	8.4	13.2	8.8	11.6	8.0	11.8	11.1	10.6	8.8	9.7
Mexico	-2.5	-2.8	-4.6	-6.7	-5.8	-7.0	-0.5	-0.8	-1.9	-3.8	-2.9	-3.2	-2.9	-2.2	-1.3	-0.9	-0.6	-0.1	-0.8	-1.3
Netherlands	3.9	2.7	2.4	2.0	4.1	4.9	6.1	5.1	6.5	3.2	3.8	1.9	2.4	2.5	5.5	8.5	7.7	9.0	8.1	7.6
New Zealand	-3.8	-3.2	-2.8	-4.2	-3.9	-3.9	-5.0	-5.8	-6.4	-3.9	-6.2	-5.1	-2.8	-4.0	-4.4	-6.7	-9.0	-9.0	-8.4	-9.1
Norway	0.2	3.3	4.3	2.3	1.8	3.0	3.6	6.8	6.3	-0.1	5.5	14.9	16.2	12.4	12.3	12.6	15.5	16.7	15.4	16.9
Poland	..	..	..	..	..	0.9	0.6	-2.1	-3.7	-4.0	-7.4	-5.8	-2.8	-2.5	-2.1	-4.3	-1.7	-2.3	-2.6	-2.5
Portugal[2]	0.3	-0.2	-0.8	-0.2	0.4	-2.3	-0.1	-4.2	-5.9	-7.0	-8.5	-10.2	-9.9	-8.1	-6.1	-7.7	-9.7	-9.4	-8.8	-9.5
Slovak Republic	..	..	..	..	-4.6	4.8	2.6	-9.2	-8.3	-8.8	-4.8	-3.6	-8.3	-7.9	-0.9	-3.5	-8.7	-8.3	-3.1	-2.5
Spain	-2.7	-3.5	-3.6	-3.5	-1.1	-1.2	-0.3	-0.2	-0.1	-1.2	-2.9	-4.0	-3.9	-3.3	-3.5	-5.3	-7.4	-8.7	-10.1	-10.5
Sweden	-0.9	-2.0	-1.2	-2.8	-1.3	1.1	3.3	3.6	4.1	3.9	4.2	3.9	3.8	4.1	7.4	6.9	7.1	6.7	7.1	6.8
Switzerland	3.7	3.5	4.3	5.9	7.8	6.3	6.5	7.1	9.4	9.4	11.1	12.4	8.0	8.5	13.4	13.6	16.4	17.2	17.3	18.0
Turkey	0.8	-1.7	0.1	-0.6	-3.6	2.7	-1.6	-1.3	-1.4	1.2	-1.0	-4.9	2.4	-0.9	-3.4	-5.1	-6.3	-7.8	-7.5	-7.2
United Kingdom	-5.1	-4.0	-1.8	-2.1	-1.8	-1.0	-1.2	-0.9	-0.1	-0.4	-2.4	-2.6	-2.2	-1.6	-1.3	-1.6	-2.4	-3.4	-3.2	-2.7
United States	-1.8	-1.4	0.0	-0.8	-1.3	-1.7	-1.5	-1.6	-1.7	-2.4	-3.2	-4.2	-3.8	-4.5	-4.8	-5.7	-6.4	-6.5	-6.1	-6.2
Euro area	0.7	-0.2	-1.2	-0.9	0.3	0.2	0.6	1.0	1.4	0.8	0.3	-0.6	0.1	0.7	0.5	1.1	0.3	0.1	0.4	0.4
Total OECD	-0.5	-0.7	-0.3	-0.4	0.0	-0.1	0.1	0.0	0.1	-0.1	-0.7	-1.3	-1.1	-1.2	-1.0	-1.1	-1.6	-1.9	-1.5	-1.5

1. Including Luxembourg until 1994.
2. Breaks between 1998 and 1999 for Greece and between 1995 and 1996 for Portugal, reflecting change in methodology to the International Monetary Fund, Fifth Balance of Payments Manual (capital transfers from European Union are excluded from the current account).

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051261675300

Annex Table 52. **Structure of current account balances of major world regions**

$ billion

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Goods and services trade balance[1]																	
OECD	19	89	94	149	113	143	94	-53	-217	-183	-161	-217	-281	-470	-576	-446	-452
Non-OECD *of which:*	-32	-59	-29	-62	-19	-14	-11	89	206	139	187	272	332	549	710	696	705
Non-OECD Asia *of which:*	1	-18	-11	-29	-13	19	83	78	71	75	104	122	102	173	275	352	393
China	5	-12	7	12	18	40	42	31	29	28	37	36	49	125	209	270	320
Dynamic Asia[2]	7	6	0	-15	-2	4	62	69	61	62	80	98	91	98	132	160	159
Other Asia	-11	-12	-18	-25	-28	-25	-21	-22	-19	-15	-13	-13	-38	-50	-66	-78	-86
Latin America	3	-6	-7	-19	-17	-31	-45	-16	-3	-10	22	42	58	75	93	86	75
Africa and Middle-East	-37	-34	-11	-14	8	5	-43	6	92	48	38	78	120	224	250	190	178
Central and Eastern Europe	..	..	..	0	2	-7	-7	21	47	26	24	31	53	78	92	68	60
World[3]	-13	31	65	87	94	128	83	36	-11	-43	26	55	51	79	133	250	253
Investment income, net																	
OECD	-18	-11	-30	-26	-16	2	-9	2	12	20	-3	41	70	71	53	20	16
Non-OECD *of which:*	-32	-40	-41	-58	-69	-78	-82	-86	-96	-89	-96	-102	-118	-126	-146	-147	-146
Non-OECD Asia *of which:*	-9	-11	-9	-19	-24	-26	-27	-30	-34	-31	-32	-21	-20	-13	-11	-13	-15
China	0	-1	-1	-12	-12	-16	-17	-14	-15	-19	-15	-8	-4	11	12	15	18
Dynamic Asia[2]	-4	-4	-2	-2	-6	-4	-4	-10	-11	-4	-10	-4	-8	-12	-11	-16	-21
Other Asia	-6	-6	-6	-6	-6	-7	-7	-6	-9	-8	-8	-9	-9	-11	-11	-12	-12
Latin America	-21	-23	-24	-28	-29	-36	-38	-38	-39	-40	-40	-46	-57	-63	-75	-70	-64
Africa and Middle-East	-2	-5	-8	-6	-8	-6	-3	-7	-12	-10	-14	-17	-18	-19	-20	-20	-19
Central and Eastern Europe	..	..	..	-5	-7	-11	-14	-10	-11	-7	-10	-18	-24	-32	-40	-44	-48
World[3]	-50	-51	-71	-85	-85	-76	-91	-84	-84	-69	-99	-61	-48	-55	-93	-127	-130
Net transfers, net																	
OECD	-91	-92	-103	-99	-102	-103	-115	-117	-125	-113	-129	-159	-183	-201	-207	-222	-229
Non-OECD *of which:*	28	25	25	30	36	39	37	47	50	60	75	95	111	129	149	160	165
Non-OECD Asia *of which:*	14	14	17	15	20	22	19	28	30	37	46	58	63	74	87	92	92
China	1	1	1	1	2	5	4	5	6	8	13	18	23	25	29	30	30
Dynamic Asia[2]	2	1	1	-2	-2	-4	-4	1	1	1	2	3	2	4	7	7	7
Other Asia	11	12	15	16	21	21	19	22	23	27	31	37	38	45	51	55	55
Latin America	8	8	9	11	10	10	11	13	14	16	18	21	24	28	34	35	36
Africa and Middle-East	6	3	-1	-1	1	2	1	0	-1	0	2	5	9	10	9	10	12
Central and Eastern Europe	..	..	..	4	4	4	5	6	7	8	9	11	15	17	19	23	25
World[3]	-63	-67	-78	-70	-66	-64	-78	-70	-75	-53	-54	-64	-72	-72	-58	-62	-65
Current balance																	
OECD	-75	0	-31	27	-6	35	-26	-178	-334	-277	-309	-313	-354	-564	-688	-609	-626
Non-OECD *of which:*	-36	-73	-45	-91	-52	-54	-57	50	160	111	166	266	326	552	712	708	724
Non-OECD Asia *of which:*	5	-16	-2	-33	-17	15	74	75	67	80	117	159	145	234	351	430	469
China	6	-12	8	2	7	30	29	21	21	17	35	46	69	161	250	315	368
Dynamic Asia[2]	5	2	-2	-20	-10	-4	54	61	50	58	72	98	85	89	128	150	144
Other Asia	-6	-6	-9	-15	-14	-11	-8	-6	-4	4	10	15	-9	-16	-26	-34	-43
Latin America	-9	-22	-22	-36	-36	-57	-72	-41	-28	-34	0	17	26	40	51	51	47
Africa and Middle-East	-32	-36	-21	-21	1	1	-44	-1	79	38	27	66	111	215	239	180	170
Central and Eastern Europe	..	..	..	-1	0	-13	-15	17	42	26	23	24	44	62	70	46	37
World[3]	-111	-73	-77	-64	-58	-18	-83	-128	-174	-166	-142	-48	-29	-12	24	99	98

Note: Historical data for the OECD area are aggregates of reported balance-of-payments data of each individual country. Because of various statistical problems as well as a large number of non-reporters among non-OECD countries, trade and current account balances estimated on the basis of these countries' own balance-of-payments records may differ from corresponding estimates shown in this table.

1. National accounts basis for OECD countries and balance-of-payments basis for the non-OECD regions.
2. Dynamic Asia includes Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore and Thailand.
3. Reflects statistical errors and asymmetries. Given the very large gross flows of world balance-of-payments transactions, statistical errors and asymmetries easily give rise to world totals (balances) that are significantly different from zero.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051274551232

Annex Table 53. **Export market growth in goods and services**

Percentage changes from previous year

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	11.0	6.3	4.4	6.1	5.3	10.5	12.4	8.4	6.2	-3.0	8.7	12.1	-1.3	5.8	7.3	13.1	8.1	7.6	7.4	9.0
Austria	7.7	5.5	1.5	-1.2	-0.7	8.0	8.6	5.2	9.5	7.8	6.3	12.0	2.3	1.9	5.6	9.3	7.4	10.9	8.2	8.4
Belgium	8.0	5.3	3.5	2.4	-0.4	8.2	8.1	5.3	9.6	8.2	7.3	11.7	1.8	2.0	4.0	8.5	7.2	9.4	6.3	7.5
Canada	5.3	3.9	0.3	6.4	7.7	11.5	8.5	8.6	12.6	9.8	10.6	12.9	-2.1	3.5	4.4	10.9	6.5	6.6	3.1	5.5
Czech Republic	..	..	..	..	..	6.7	8.8	6.6	9.7	8.6	5.3	11.8	2.9	2.0	6.1	9.4	8.4	11.8	9.3	8.9
Denmark	7.6	4.3	1.2	1.8	0.5	9.0	8.2	6.1	10.3	8.3	6.4	11.1	0.7	1.5	4.4	8.7	7.1	9.0	6.5	7.2
Finland	7.4	2.4	-0.5	-3.6	2.0	8.3	9.0	6.1	9.8	6.0	5.2	12.5	1.9	3.5	6.4	10.8	8.5	10.9	8.4	9.0
France	8.1	5.3	3.7	3.2	0.2	7.7	8.2	5.8	9.6	7.1	7.1	10.6	1.5	2.3	4.6	9.2	7.1	9.4	7.1	7.8
Germany	7.8	4.1	0.5	1.7	1.7	8.0	8.9	6.3	9.9	7.1	6.3	12.1	1.5	3.0	4.8	9.9	7.2	9.2	6.9	7.9
Greece	6.9	3.3	0.5	-1.6	2.1	7.5	8.0	6.1	10.2	7.3	6.4	11.8	1.2	3.1	5.2	10.2	7.9	9.8	6.6	7.9
Hungary	..	..	..	..	..	7.5	8.1	4.9	9.0	7.5	5.9	11.9	2.6	1.6	5.4	8.9	7.4	10.5	7.8	8.3
Iceland	8.6	4.9	1.5	2.4	0.3	8.5	8.3	7.2	8.8	6.7	6.9	10.5	1.3	2.2	3.6	8.2	6.7	8.8	4.9	6.7
Ireland	8.1	4.8	2.1	3.8	1.0	8.4	8.1	6.4	9.4	6.8	7.7	11.2	0.9	2.6	3.9	8.6	6.7	8.8	4.8	7.0
Italy	7.9	4.6	2.8	0.2	1.5	7.7	8.4	6.3	9.8	7.1	6.7	12.3	1.7	2.6	5.3	10.1	7.9	10.0	7.5	8.1
Japan	8.8	6.3	6.9	8.4	7.8	11.9	11.9	7.3	9.4	-0.4	10.1	14.3	-2.7	5.6	7.4	13.2	7.9	8.1	7.3	8.7
Korea	9.4	5.3	4.9	6.7	6.8	10.2	11.6	8.5	8.4	-0.2	8.2	13.4	-1.1	5.6	8.4	13.6	8.7	8.9	8.3	9.6
Luxembourg	8.0	5.2	2.9	2.5	-0.5	8.5	7.6	4.9	9.3	8.6	6.8	11.5	1.5	1.2	3.4	7.7	6.4	8.7	5.7	6.8
Mexico	4.7	3.9	0.3	7.0	8.2	11.7	8.5	8.3	13.4	10.8	10.3	12.7	-2.4	2.9	4.1	10.7	6.4	6.3	2.7	5.0
Netherlands	8.4	5.9	3.6	2.5	-0.7	8.0	7.6	5.0	8.8	7.6	6.6	11.1	1.3	1.6	4.2	8.1	6.8	9.2	6.3	7.3
New Zealand	12.0	3.6	2.4	6.2	4.8	11.4	10.7	8.2	8.2	1.4	8.5	11.3	-1.8	5.8	7.0	12.7	8.0	8.0	6.7	8.2
Norway	7.7	3.6	0.9	3.1	1.1	9.0	7.8	6.2	10.2	8.3	7.3	11.5	1.0	2.3	3.5	8.1	7.0	9.1	4.9	6.9
Poland	..	..	..	..	..	7.5	8.7	4.9	8.8	6.5	4.6	12.6	3.9	2.7	6.3	10.3	8.5	12.0	9.2	9.2
Portugal	9.0	5.8	4.6	3.8	-1.3	8.4	7.8	5.7	10.1	9.5	7.9	10.8	2.2	2.0	4.1	8.2	6.9	9.2	6.2	7.0
Slovak Republic	..	..	..	..	..	7.5	10.6	6.2	9.2	8.0	4.8	13.4	4.6	2.7	6.5	11.4	7.0	12.0	9.3	9.4
Spain	7.5	6.2	3.4	3.7	-0.9	7.8	7.8	4.9	9.8	8.5	5.9	10.8	1.3	1.2	3.3	8.0	6.6	9.1	5.9	7.2
Sweden	7.3	4.2	1.8	1.9	1.6	8.5	8.3	6.6	10.1	6.9	5.7	11.2	1.2	3.1	4.4	9.6	8.0	9.7	7.0	7.4
Switzerland	8.5	6.3	4.3	3.2	0.4	8.4	8.7	5.6	9.2	6.0	7.1	11.6	0.6	2.2	4.9	9.3	7.1	8.9	6.7	7.6
Turkey	7.1	2.2	1.4	-4.8	0.6	6.7	7.6	5.4	8.7	5.3	5.7	11.7	3.3	3.6	5.9	10.9	9.0	11.3	9.0	9.5
United Kingdom	8.0	5.0	3.6	2.9	1.5	8.9	8.8	5.9	9.9	7.5	7.5	12.1	0.7	2.4	4.4	9.8	7.3	8.4	7.1	7.4
United States	9.4	6.1	5.4	6.5	4.4	10.4	8.0	8.1	10.6	3.0	6.8	12.3	-1.0	2.3	4.7	10.9	8.2	9.0	6.9	7.7
Total OECD	8.1	5.2	3.4	4.0	2.9	9.3	8.8	6.8	10.0	5.5	7.5	12.2	0.1	2.9	5.1	10.4	7.5	8.9	6.7	7.7
Memorandum items																				
China	10.6	6.9	5.1	4.9	5.2	10.6	12.2	7.1	7.1	-2.4	7.8	13.0	-2.5	4.0	5.7	12.2	7.5	7.2	6.3	7.7
Dynamic Asia[1]	10.2	5.8	5.8	8.1	7.5	11.5	12.6	8.6	8.0	-1.8	9.6	14.1	-1.6	6.7	9.1	13.9	8.6	8.7	8.5	9.9
Other Asia	8.7	4.7	3.7	4.8	4.3	9.5	10.1	7.5	8.5	2.4	8.3	12.0	-0.5	4.6	6.3	12.0	8.2	8.7	7.1	8.6
Latin America	6.1	5.1	3.5	6.9	6.3	10.6	10.3	7.4	12.2	7.2	5.0	11.4	-0.3	0.7	4.3	11.3	8.2	9.0	6.5	7.2
Africa and Middle-East	9.3	5.7	4.9	4.8	2.6	9.1	10.8	7.5	7.7	1.0	8.4	11.9	-0.1	4.6	6.3	11.6	8.1	8.9	7.8	8.9
Central and Eastern Europe	7.0	0.1	-4.9	-13.5	3.1	6.2	10.3	6.5	9.3	3.9	2.5	14.6	4.4	5.9	9.3	13.4	10.4	13.1	11.0	11.1

Note: Regional aggregates are calculated inclusive of intra-regional trade. The calculation of export markets is based on a weighted average of import volumes in each exporting country's market, with weights based on goods and services trade flows in 2000.

1. Dynamic Asia includes Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore and Thailand.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051347202031

Annex Table 54. **Import penetration**

Goods and services import volume as a percentage of total final expenditure, constant prices

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	11.4	10.9	10.6	11.1	11.2	12.1	12.5	12.9	13.6	13.7	14.2	14.7	14.0	14.7	15.6	17.1	17.8	18.5	19.2	19.9
Austria	24.9	25.5	25.7	25.7	26.5	26.5	27.0	27.5	28.3	28.7	29.2	30.4	31.2	31.3	32.0	33.2	34.1	34.7	35.2	36.3
Belgium	37.4	37.7	38.0	38.6	38.7	39.6	40.1	40.3	40.8	42.0	42.3	43.4	43.3	43.0	43.5	44.3	44.8	45.3	46.2	46.9
Canada	21.2	21.5	22.3	22.9	23.7	24.3	24.8	25.5	27.3	27.5	27.9	28.5	27.0	26.8	27.3	28.3	29.1	29.7	29.7	30.0
Czech Republic	..	..	..	..	27.7	28.6	31.3	32.8	34.3	36.3	37.0	40.0	42.2	43.0	44.1	47.4	47.1	49.3	51.0	52.7
Denmark	22.6	22.7	23.1	22.8	22.6	23.8	24.5	24.6	25.7	26.9	27.1	28.9	29.1	30.5	30.1	31.1	32.7	35.0	36.4	37.4
Finland	19.7	19.8	18.7	19.4	19.9	21.3	21.6	22.3	22.9	23.3	23.1	25.0	24.7	24.9	25.1	25.9	27.6	27.6	28.1	28.6
France	16.1	16.3	16.5	16.4	16.0	16.9	17.6	17.7	18.5	19.6	20.0	21.7	21.7	21.8	21.9	22.5	23.4	24.3	24.5	25.2
Germany	20.1	21.1	18.9	18.9	18.3	19.1	19.9	20.3	21.3	22.5	23.6	24.8	24.9	24.6	25.6	26.6	27.7	29.4	30.4	31.5
Greece	15.4	16.4	16.6	16.8	17.1	17.1	18.0	18.6	20.2	21.1	22.9	24.7	23.3	22.3	22.3	22.4	21.4	21.9	22.3	22.5
Hungary	..	..	..	..	24.7	26.0	29.1	30.6	34.1	37.9	39.8	43.1	43.4	43.9	45.2	47.6	48.3	50.6	51.9	53.4
Iceland	23.6	23.5	24.5	23.9	22.4	22.4	23.0	24.8	25.3	28.2	28.2	29.1	26.4	25.9	27.4	28.6	32.6	34.0	32.9	31.9
Ireland	29.6	29.2	29.2	30.0	30.9	32.5	33.7	34.4	35.4	39.0	39.1	41.6	41.9	41.1	39.6	40.8	41.0	40.9	41.5	42.2
Italy	16.5	17.4	17.5	18.3	16.6	17.5	18.4	18.0	19.1	20.1	20.3	20.7	20.4	20.3	20.4	20.6	20.7	21.1	21.5	22.2
Japan	6.9	7.0	6.7	6.6	6.5	7.0	7.7	8.4	8.3	8.0	8.2	8.7	8.7	8.8	9.0	9.4	9.7	9.9	9.9	10.2
Korea	18.9	19.5	20.8	20.7	20.7	22.6	24.8	26.0	25.8	22.6	25.4	27.4	25.8	27.2	28.6	30.3	30.9	32.2	33.4	34.8
Luxembourg	..	..	..	..	..	..	50.5	51.5	53.1	54.3	55.8	56.4	57.2	56.5	57.5	59.1	60.4	62.0	63.0	63.7
Mexico	11.7	13.1	14.2	16.1	16.1	18.2	16.8	19.1	21.3	23.1	24.8	27.4	27.1	27.2	27.1	28.4	29.6	31.0	31.6	32.3
Netherlands	30.3	30.2	30.7	30.7	30.6	31.9	33.4	33.8	35.3	36.4	37.4	39.2	39.3	39.4	39.8	40.8	41.7	43.0	43.9	44.8
New Zealand	19.1	19.6	18.8	20.2	20.2	21.2	21.9	22.6	22.4	22.5	23.8	23.0	23.0	23.8	24.6	26.7	27.3	26.4	27.0	27.9
Norway	19.7	19.8	19.4	19.1	19.4	19.5	19.8	20.3	21.3	22.2	21.6	21.4	21.4	21.3	21.4	22.2	23.2	24.3	25.0	25.2
Poland	..	..	..	..	14.2	15.0	16.9	19.6	21.7	23.8	23.2	25.1	23.9	24.1	25.0	26.7	26.9	28.5	29.7	30.6
Portugal	19.5	21.1	21.5	23.1	22.9	24.2	24.8	25.0	26.0	27.7	28.6	28.9	28.7	28.4	28.4	29.4	29.7	30.3	30.6	31.3
Slovak Republic	..	..	..	..	35.8	33.3	34.5	36.6	37.6	40.4	40.4	42.1	44.4	44.6	45.4	46.2	48.5	50.6	52.8	53.9
Spain	14.0	14.7	15.6	16.4	15.7	16.9	18.0	19.0	20.3	21.9	23.3	24.3	24.5	24.7	25.3	26.5	27.1	28.0	28.9	29.7
Sweden	22.0	21.9	21.3	21.8	21.7	23.1	23.7	24.1	25.8	27.2	27.3	28.6	27.8	27.1	27.7	28.4	29.0	29.7	30.8	31.6
Switzerland	23.4	23.3	23.1	22.4	22.4	23.6	24.3	24.8	25.9	26.8	27.4	28.6	29.0	28.4	28.6	29.7	30.4	31.8	33.4	34.2
Turkey	15.1	17.8	16.8	17.6	21.1	18.0	21.0	23.0	25.4	25.2	25.4	28.5	24.5	25.8	29.5	32.3	33.2	33.3	33.6	34.0
United Kingdom	16.0	16.0	15.5	16.3	16.5	16.7	17.1	18.0	19.0	19.8	20.6	21.4	21.8	22.2	22.1	22.6	23.5	25.1	24.4	25.2
United States	7.8	7.9	7.9	8.1	8.5	9.1	9.6	10.0	10.7	11.4	12.1	13.1	12.7	12.9	13.0	13.8	14.1	14.4	14.4	14.7
Total OECD	12.8	13.1	13.1	13.3	13.4	14.1	14.8	15.3	16.1	16.8	17.5	18.6	18.4	18.6	18.9	19.7	20.3	21.1	21.4	22.0

Note: Regional aggregate is calculated inclusive of intra-regional trade as the sum of import volumes expressed in 2000 $ divided by the sum of total final expenditure expressed in 2000 $.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051386458314

Annex Table 55. **Quarterly demand and output projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2006	2007	2008	2007			2008				Fourth quarter[1]		
				Q2	Q3	Q4	Q1	Q2	Q3	Q4	2006	2007	2008
Private consumption													
Canada	4.1	3.0	2.7	2.6	2.7	2.7	2.8	2.8	2.8	2.8	4.3	2.6	2.8
France	2.6	2.2	2.6	3.2	2.8	2.7	2.5	2.5	2.4	2.4	2.5	2.5	2.5
Germany	1.0	0.9	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.9	0.9	1.8
Italy	1.5	1.5	1.8	1.4	1.8	2.1	2.2	1.8	1.2	1.0	1.7	1.6	1.5
Japan	0.9	1.5	1.5	1.2	1.3	1.4	1.5	1.6	1.7	1.8	0.5	1.6	1.6
United Kingdom	2.0	2.4	2.2	1.7	2.3	2.3	2.2	2.2	2.2	2.2	2.7	1.9	2.2
United States	3.2	3.1	2.4	2.2	2.5	2.4	2.4	2.5	2.4	2.4	3.6	2.7	2.5
Euro area	1.9	2.0	2.3	2.5	2.4	2.4	2.3	2.2	2.1	2.1	2.1	2.1	2.2
Total OECD	2.7	2.7	2.5	2.4	2.5	2.5	2.5	2.5	2.4	2.4	2.7	2.6	2.5
Public consumption													
Canada	3.4	2.6	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.9	2.8	2.8
France	1.9	1.7	1.0	1.6	1.2	0.9	0.8	0.9	1.1	1.3	2.4	1.2	1.0
Germany	1.8	1.3	1.8	1.9	1.9	1.8	1.7	1.7	1.7	1.7	2.0	2.0	1.7
Italy	-0.3	0.8	0.8	1.5	1.3	0.9	0.6	0.5	0.6	0.7	-0.3	1.2	0.6
Japan	0.3	1.3	1.7	1.5	1.6	1.6	1.7	1.7	1.7	1.8	1.4	1.3	1.7
United Kingdom	2.4	2.3	2.1	2.0	2.0	2.2	2.0	2.2	2.0	2.0	2.4	2.1	2.1
United States	1.6	2.5	2.5	4.1	3.5	2.3	2.2	2.2	2.1	2.1	2.5	2.6	2.2
Euro area	2.1	1.8	1.6	2.0	1.8	1.8	1.5	1.5	1.5	1.6	2.3	1.8	1.5
Total OECD	2.2	2.2	2.1	3.1	2.7	2.2	1.9	1.9	1.9	1.9	2.4	2.5	1.9
Business investment													
Canada	9.2	6.2	5.8	5.5	5.8	5.8	5.8	5.8	5.8	5.8	8.1	5.7	5.8
France	4.9	5.0	2.6	2.8	2.5	2.5	2.5	2.5	2.5	2.5	5.6	3.2	2.5
Germany	7.2	5.5	3.5	3.9	4.3	4.9	3.1	3.0	2.4	2.3	6.3	5.0	2.7
Italy	2.3	3.2	3.4	2.9	3.3	3.9	3.7	3.3	2.9	2.5	4.3	3.1	3.1
Japan	7.6	5.6	3.3	3.0	3.0	3.0	3.5	3.5	3.5	3.5	11.4	3.0	3.5
United Kingdom	-4.7	9.6	5.6	5.7	6.1	5.5	5.7	5.7	5.0	5.0	13.5	5.9	5.4
United States	7.2	2.6	4.0	3.2	3.4	3.8	3.9	4.2	4.5	4.8	6.0	3.1	4.3
Euro area	5.4	5.0	3.5	3.2	3.5	3.7	3.6	3.5	3.4	3.4	6.8	3.5	3.5
Total OECD	6.5	4.5	3.9	3.2	3.7	3.8	3.9	4.0	4.0	4.1	7.4	3.5	4.0
Total investment													
Canada	6.7	3.3	3.8	3.3	3.7	3.9	3.9	3.9	4.0	4.0	5.0	3.4	3.9
France	4.0	3.9	2.0	2.1	2.0	2.0	2.0	2.0	2.0	2.0	4.3	2.7	2.0
Germany	6.4	4.9	2.7	2.7	3.1	3.6	2.6	2.5	2.2	2.2	6.8	3.7	2.3
Italy	2.4	3.2	2.8	3.0	3.1	3.3	2.9	2.6	2.3	2.1	3.8	3.0	2.4
Japan	3.5	3.0	1.4	0.7	1.1	1.1	1.6	1.6	1.7	1.7	5.5	1.0	1.7
United Kingdom	6.5	7.6	5.3	7.3	7.3	5.8	4.9	4.5	4.2	4.7	8.2	6.7	4.6
United States	3.1	-2.9	1.8	-2.4	-0.8	2.1	2.1	2.8	3.2	3.6	-0.3	-1.2	2.9
Euro area	5.1	4.3	3.0	2.8	2.9	3.0	3.0	3.0	2.9	2.9	5.8	3.3	2.9
Total OECD	4.8	2.0	2.9	1.2	2.0	2.9	3.0	3.2	3.4	3.5	3.8	2.0	3.3

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

1. Year-on -year growth rates in per cent.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051422732412

Annex Table 55. **Quarterly demand and output projections *(cont'd)***

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2006	2007	2008	2007 Q2	Q3	Q4	2008 Q1	Q2	Q3	Q4	Fourth quarter[1] 2006	2007	2008
Total domestic demand													
Canada	4.1	2.1	3.0	2.8	3.0	3.0	3.0	3.0	3.1	3.1	3.1	2.7	3.0
France	2.4	2.0	2.2	3.1	2.6	2.2	2.0	2.1	2.0	2.1	2.2	2.2	2.1
Germany	1.9	1.9	1.9	1.9	2.0	2.1	1.9	1.9	1.8	1.8	0.9	3.1	1.9
Italy	1.7	2.2	1.8	1.7	2.0	2.1	2.0	1.7	1.3	1.2	2.7	1.8	1.5
Japan	1.4	1.7	1.5	1.1	1.3	1.4	1.6	1.6	1.7	1.8	2.0	1.3	1.7
United Kingdom	3.0	2.8	2.7	2.7	3.1	2.9	2.6	2.6	2.5	2.6	3.3	3.0	2.6
United States	3.2	1.7	2.4	1.9	2.1	2.4	2.4	2.5	2.6	2.6	2.5	2.0	2.5
Euro area	2.6	2.5	2.3	2.5	2.4	2.4	2.3	2.3	2.2	2.2	2.4	2.6	2.2
Total OECD	3.0	2.4	2.5	2.3	2.5	2.5	2.5	2.6	2.6	2.6	2.7	2.5	2.6
Export of goods and services													
Canada	1.3	3.7	4.1	2.6	3.9	4.2	4.2	4.2	4.2	4.2	0.5	3.9	4.2
France	6.2	4.0	5.9	5.3	5.7	5.9	5.9	5.9	5.9	5.9	4.2	5.7	5.9
Germany	12.9	9.4	7.2	7.4	7.5	7.5	7.2	7.0	6.9	6.9	16.7	5.1	7.0
Italy	5.5	4.0	5.1	5.9	4.9	4.9	5.1	5.2	5.2	5.1	6.3	3.2	5.1
Japan	9.5	7.4	8.2	9.0	9.0	9.0	8.0	8.0	7.0	7.0	6.0	9.0	7.5
United Kingdom	11.6	-2.1	6.6	6.0	6.0	6.0	7.0	7.0	7.0	7.0	-1.0	6.0	7.0
United States	8.9	5.6	7.1	8.0	7.0	7.0	7.0	7.0	7.0	7.0	9.4	5.1	7.0
Total OECD[2]	8.9	6.0	7.1	7.2	7.1	7.2	7.1	7.1	6.9	6.9	8.1	6.1	7.0
Import of goods and services													
Canada	5.2	2.7	4.2	2.8	4.1	4.3	4.3	4.3	4.3	4.3	2.8	3.1	4.3
France	7.1	3.5	5.8	6.3	6.3	6.1	5.8	5.5	5.5	5.7	3.7	5.2	5.6
Germany	11.5	7.7	7.5	6.5	7.0	7.4	7.7	7.7	7.8	7.8	10.7	7.1	7.8
Italy	4.5	4.7	5.5	6.3	5.3	5.3	5.5	5.5	5.6	5.5	5.6	4.0	5.5
Japan	4.5	2.7	5.3	5.0	6.0	6.0	5.0	5.0	5.0	5.0	2.6	5.0	5.0
United Kingdom	11.8	-1.1	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	0.6	7.0	7.0
United States	5.8	2.0	4.7	2.0	4.0	5.0	5.0	5.0	5.0	5.0	3.3	3.3	5.0
Total OECD[2]	7.3	4.2	5.9	4.6	5.8	6.2	6.1	6.0	6.0	6.0	5.1	5.3	6.0
GDP													
Canada	2.7	2.5	3.0	2.7	2.9	3.0	3.0	3.1	3.0	3.0	2.3	3.0	3.0
France	2.1	2.2	2.2	2.8	2.3	2.0	2.0	2.1	2.1	2.1	2.3	2.3	2.1
Germany	3.0	2.9	2.2	2.6	2.6	2.5	2.1	2.0	1.8	1.8	3.9	2.4	1.9
Italy	1.9	2.0	1.7	1.6	1.8	2.0	1.9	1.5	1.1	1.0	2.8	1.5	1.4
Japan	2.2	2.4	2.1	1.8	1.9	2.0	2.1	2.2	2.1	2.2	2.5	2.0	2.2
United Kingdom	2.8	2.7	2.5	2.3	2.7	2.5	2.5	2.5	2.4	2.4	3.0	2.6	2.4
United States	3.3	2.1	2.5	2.5	2.3	2.5	2.5	2.6	2.7	2.7	3.1	2.1	2.6
Euro area	2.8	2.7	2.3	2.6	2.5	2.4	2.3	2.2	2.1	2.1	3.3	2.5	2.2
Total OECD	3.2	2.7	2.7	2.7	2.6	2.7	2.7	2.7	2.7	2.7	3.2	2.6	2.7

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

1. Year-on -year growth rates in per cent.
2. Includes intra-regional trade.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051425550012

Annex Table 56. **Quarterly price, cost and unemployment projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2006	2007	2008	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4	Fourth quarter[1] 2006	Fourth quarter[1] 2007	Fourth quarter[1] 2008
Consumer price index[2]													
Canada	2.0	2.0	2.1	3.2	2.0	2.0	2.0	2.0	2.0	2.0	1.3	2.8	2.0
France	1.9	1.3	1.7	1.8	1.6	1.7	1.7	1.7	1.6	1.6	1.5	1.5	1.6
Germany	1.8	1.8	1.7	1.6	1.5	1.5	1.7	1.9	1.9	2.0	1.3	1.8	1.9
Italy	2.2	2.0	2.1	2.8	1.9	2.0	2.0	2.1	2.1	2.1	2.0	2.0	2.1
Japan	0.2	-0.3	0.3	-0.1	0.0	0.1	0.3	0.4	0.5	0.6	0.3	-0.2	0.4
United Kingdom	2.3	2.4	2.0	2.0	1.6	2.4	1.8	1.8	1.9	2.4	2.7	2.1	2.0
United States	3.2	2.6	2.6	4.7	2.5	2.5	2.4	2.4	2.3	2.3	1.9	3.4	2.3
Euro area	2.2	1.8	2.0	2.1	1.9	1.9	2.0	2.0	2.0	2.1	1.8	1.9	2.0
GDP deflator													
Canada	2.1	2.5	2.0	2.9	2.1	1.9	1.9	1.9	1.9	1.9	0.5	2.9	1.9
France	2.1	1.9	1.8	2.2	2.2	2.2	1.7	1.6	1.6	1.6	2.1	2.0	1.6
Germany	0.3	1.8	1.3	-2.0	1.4	1.4	1.5	1.7	1.7	1.7	0.2	2.0	1.7
Italy	1.8	2.0	2.1	2.3	2.2	2.1	2.0	2.1	2.1	2.1	1.2	2.0	2.1
Japan	-0.9	-0.4	0.2	-0.4	0.0	0.1	0.2	0.3	0.4	0.6	-0.5	-0.3	0.4
United Kingdom	2.4	2.8	2.4	2.4	2.4	2.5	2.3	2.3	2.3	2.3	2.6	2.4	2.3
United States	2.9	2.6	2.2	2.3	2.0	2.2	2.4	2.2	2.1	2.1	2.5	2.6	2.2
Euro area	1.7	2.0	2.0	1.0	2.0	2.0	2.0	2.1	2.2	2.2	1.6	2.0	2.1
Total OECD	2.2	2.1	2.0	1.9	2.0	2.0	2.0	2.0	2.0	2.0	1.8	2.3	2.0
Unit labour cost (total economy)													
Canada	3.3	2.8	2.4	2.3	2.5	2.5	2.2	2.4	2.4	2.3	3.2	2.5	2.3
France	2.0	1.7	1.9	1.3	1.7	2.0	2.0	1.9	1.9	1.9	1.8	1.6	1.9
Germany	-1.6	-0.5	1.1	0.0	0.1	0.5	1.4	1.6	1.9	1.9	-1.7	0.7	1.7
Italy	2.6	1.3	2.1	5.7	5.2	3.0	0.8	0.4	1.1	2.1	-2.2	4.4	1.1
Japan	-0.7	-0.9	-0.3	-0.2	0.4	0.0	-0.5	-0.7	-0.5	-0.7	-1.2	0.2	-0.6
United Kingdom	1.9	2.6	2.8	4.3	3.8	3.2	2.5	2.3	2.4	2.5	1.1	3.6	2.4
United States	2.9	3.5	2.4	2.3	2.5	2.3	2.5	2.4	2.4	2.3	2.5	3.7	2.4
Euro area	0.9	1.0	1.8	1.8	1.9	1.9	1.7	1.8	2.0	2.3	0.1	1.8	1.9
Total OECD	2.0	2.2	2.0	2.0	2.1	2.0	2.0	1.9	2.0	2.0	1.7	2.5	2.0
	Per cent of labour force												
Unemployment													
Canada	6.3	6.1	6.0	6.2	6.1	6.1	6.1	6.0	6.0	6.0	6.2	6.1	6.0
France	9.0	8.4	8.0	8.5	8.4	8.3	8.2	8.1	8.0	7.9	8.6	8.3	7.9
Germany	8.1	6.9	6.3	7.0	6.8	6.6	6.6	6.5	6.2	6.0	7.7	6.6	6.0
Italy	6.9	6.3	6.0	6.4	6.2	6.0	6.0	6.0	6.1	6.0	6.6	6.0	6.0
Japan	4.1	3.8	3.6	3.8	3.7	3.7	3.6	3.6	3.6	3.6	4.1	3.7	3.6
United Kingdom	5.5	5.5	5.5	5.5	5.5	5.5	5.4	5.5	5.5	5.5	5.5	5.5	5.5
United States	4.6	4.6	4.8	4.5	4.6	4.7	4.8	4.8	4.8	4.9	4.5	4.7	4.9
Euro area	7.8	7.1	6.7	7.1	7.0	6.9	6.9	6.8	6.7	6.6	7.5	6.9	6.6
Total OECD	5.9	5.6	5.5	5.6	5.6	5.6	5.5	5.5	5.5	5.4	5.7	5.6	5.4

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

1. Year-on -year growth rates in per cent.
2. For the United Kingdom, the euro area countries and the euro area aggregate, the Harmonised Index of Consumer Prices (HICP) is used.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051452325182

Annex Table 57. **Contributions to changes in real GDP in OECD countries**

As a per cent of real GDP in the previous period, seasonally adjusted at annual rates

	2005	2006	2007	2008		2005	2006	2007	2008
Australia					**Germany**[1]				
Final domestic demand	4.3	4.1	4.0	3.6	Final domestic demand	0.5	2.0	1.6	1.8
Stockbuilding	0.3	-0.7	0.1	0.0	Stockbuilding	0.2	-0.2	0.1	0.0
Net exports	-1.3	-1.0	-0.9	-0.1	Net exports	0.5	1.2	1.2	0.4
GDP	3.0	2.4	3.3	3.3	GDP	1.1	3.0	2.9	2.2
Austria[1]					**Greece**				
Final domestic demand	1.5	2.0	2.2	2.0	Final domestic demand	2.6	6.3	4.1	4.0
Stockbuilding	0.0	-0.3	-0.2	0.0	Stockbuilding	-0.1	-1.1	0.4	0.0
Net exports	0.7	1.5	1.3	0.5	Net exports	1.3	-1.0	-0.8	-0.2
GDP	2.6	3.4	3.2	2.6	GDP	3.7	4.2	3.9	3.8
Belgium[1]					**Hungary**				
Final domestic demand	1.3	2.7	2.6	2.4	Final domestic demand	3.9	-0.1	-0.2	0.9
Stockbuilding	0.5	0.7	0.1	0.0	Stockbuilding	-2.4	0.7	0.1	0.0
Net exports	-0.4	-0.8	-0.2	-0.1	Net exports	2.8	3.4	3.8	2.1
GDP	1.4	3.0	2.5	2.3	GDP	4.2	3.9	2.5	3.1
Canada[1]					**Iceland**[1]				
Final domestic demand	4.2	4.5	3.0	3.0	Final domestic demand	16.1	7.1	-5.0	-6.0
Stockbuilding	0.4	-0.4	-0.8	0.0	Stockbuilding	0.0	1.1	-0.1	0.0
Net exports	-1.6	-1.3	0.4	0.1	Net exports	-9.2	-5.7	5.1	6.7
GDP	2.9	2.7	2.5	3.0	GDP	7.2	2.6	0.8	0.8
Czech Republic[1]					**Ireland**[1]				
Final domestic demand	2.1	4.3	4.7	4.3	Final domestic demand	6.9	4.5	4.6	4.0
Stockbuilding	0.1	1.3	-0.3	0.0	Stockbuilding	-0.1	1.0	0.2	0.0
Net exports	4.0	0.6	1.1	0.8	Net exports	-1.2	0.4	-0.2	0.1
GDP	6.1	6.1	5.5	5.0	GDP	5.5	6.0	5.5	4.1
Denmark[1]					**Italy**[1]				
Final domestic demand	4.2	4.3	2.9	1.9	Final domestic demand	0.6	1.3	1.7	1.8
Stockbuilding	-0.1	0.4	0.1	0.0	Stockbuilding	-0.1	0.4	0.5	0.0
Net exports	-1.0	-1.5	-1.0	-0.2	Net exports	-0.3	0.3	-0.2	-0.2
GDP	3.1	3.2	2.2	1.7	GDP	0.2	1.9	2.0	1.7
Finland					**Japan**[1]				
Final domestic demand	3.0	2.8	2.4	2.2	Final domestic demand	1.7	1.3	1.7	1.4
Stockbuilding	0.7	0.1	-0.2	0.0	Stockbuilding	-0.1	0.1	-0.1	0.0
Net exports	-1.1	2.4	0.4	0.5	Net exports	0.3	0.8	0.8	0.6
GDP	3.0	5.5	3.0	2.7	GDP	1.9	2.2	2.4	2.1
France					**Korea**				
Final domestic demand	2.2	2.7	2.5	2.2	Final domestic demand	3.1	3.7	4.0	3.2
Stockbuilding	0.0	-0.3	-0.4	0.1	Stockbuilding	-0.2	-0.3	-0.6	0.0
Net exports	-0.9	-0.4	0.1	-0.1	Net exports	1.3	1.6	0.9	1.6
GDP	1.2	2.1	2.2	2.2	GDP	4.2	5.0	4.3	4.8

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Totals may not add up due to rounding and/or statistical discrepancy.

1. Chain-linked calculations for stockbuilding and net exports.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051548375227

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Annex Table 57. **Contributions to changes in real GDP in OECD countries *(cont'd)***

As a per cent of real GDP in the previous period

	2005	2006	2007	2008
Luxembourg[1]				
Final domestic demand	2.7	2.7	2.4	2.4
Stockbuilding	1.4	-2.6	1.6	0.0
Net exports	-0.1	6.0	1.8	3.0
GDP	3.9	6.2	4.8	5.2
Mexico				
Final domestic demand	5.2	6.3	3.9	4.5
Stockbuilding	-1.6	-0.7	0.1	0.0
Net exports	-0.8	-0.8	-0.6	-0.8
GDP	2.8	4.8	3.4	3.7
Netherlands[1]				
Final domestic demand	1.1	2.8	2.7	2.8
Stockbuilding	-0.3	-0.2	0.1	0.0
Net exports	0.7	0.3	0.1	0.2
GDP	1.5	2.9	2.9	2.9
New Zealand[1]				
Final domestic demand	4.3	1.1	2.3	1.9
Stockbuilding	-0.2	-0.6	0.4	0.0
Net exports	-1.8	1.3	-0.9	-0.3
GDP	2.5	1.7	2.1	1.6
Norway[1]				
Final domestic demand	3.9	4.2	3.8	2.5
Stockbuilding	1.0	0.9	0.0	0.0
Net exports	-2.2	-1.9	-0.3	0.4
GDP	2.7	2.9	3.1	2.6
Poland[1]				
Final domestic demand	3.4	7.0	6.7	5.7
Stockbuilding	-0.9	-0.3	-0.2	0.0
Net exports	1.1	-0.2	-0.5	-0.1
GDP	3.6	6.1	6.7	5.5
Portugal				
Final domestic demand	1.1	0.3	0.9	2.1
Stockbuilding	-0.2	0.0	0.0	0.0
Net exports	-0.5	1.0	0.9	-0.1
GDP	0.5	1.3	1.8	2.0
Slovak Republic				
Final domestic demand	8.2	6.2	5.9	5.7
Stockbuilding	0.6	0.3	-1.4	0.1
Net exports	-2.8	1.7	4.2	1.8
GDP	6.0	8.3	8.7	7.6

	2005	2006	2007	2008
Spain[1]				
Final domestic demand	5.4	4.9	4.6	3.2
Stockbuilding	0.0	0.1	-0.1	0.0
Net exports	-1.7	-1.0	-0.9	-0.5
GDP	3.5	3.9	3.6	2.7
Sweden[1]				
Final domestic demand	2.5	3.2	3.2	2.9
Stockbuilding	-0.1	0.0	-0.4	0.0
Net exports	0.8	1.0	0.6	0.5
GDP	2.9	4.7	4.3	3.5
Switzerland				
Final domestic demand	1.3	1.9	1.8	1.5
Stockbuilding	-0.2	0.1	0.6	0.0
Net exports	0.8	0.6	-0.5	0.7
GDP	1.9	2.7	2.1	2.2
Turkey				
Final domestic demand	11.6	8.1	5.9	6.0
Stockbuilding	-2.5	-2.2	-0.4	0.0
Net exports	-1.7	0.3	0.5	0.2
GDP	7.4	6.0	5.7	6.2
United Kingdom				
Final domestic demand	2.1	2.9	3.3	2.8
Stockbuilding	-0.1	0.2	-0.4	0.0
Net exports	0.0	-0.4	-0.3	-0.4
GDP	1.9	2.8	2.7	2.5
United States[1]				
Final domestic demand	3.8	3.1	2.0	2.4
Stockbuilding	-0.3	0.2	-0.2	0.0
Net exports	-0.2	0.0	0.3	0.0
GDP	3.2	3.3	2.1	2.5
Euro area				
Final domestic demand	1.7	2.6	2.4	2.3
Stockbuilding	0.1	0.0	0.1	0.0
Net exports	-0.3	0.3	0.3	0.0
GDP	1.5	2.8	2.7	2.3
Total OECD				
Final domestic demand	3.0	3.1	2.5	2.5
Stockbuilding	-0.2	0.0	-0.1	0.0
Net exports	-0.2	0.1	0.3	0.1
GDP	2.6	3.2	2.7	2.7

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Totals may not add up due to rounding and/or statistical discrepancy.

1. Chain-linked calculations for stockbuilding and net exports.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051567871150

Annex Table 58. **Household wealth and indebtedness**[1]

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Canada												
Net wealth	476.5	493.3	501.2	498.4	507.0	502.2	503.2	513.1	513.6	515.6	520.7	529.4
Net financial wealth	219.0	232.4	237.3	233.7	239.1	240.1	235.5	231.9	223.7	217.7	215.8	216.8
Non-financial assets	257.6	260.9	263.9	264.7	267.9	262.0	267.7	281.3	289.9	297.9	304.9	312.6
Financial assets	322.4	339.3	346.9	345.6	353.2	352.7	349.6	348.9	343.9	340.5	342.0	344.2
of which: Equities	60.5	66.8	74.1	79.5	81.1	84.3	84.2	84.0	81.0	81.6	82.2	87.8
Liabilities	103.4	106.8	109.6	112.0	114.1	112.6	114.1	117.1	120.2	122.8	126.1	127.5
of which: Mortgages	68.8	70.8	71.6	71.8	71.8	69.6	69.6	71.2	73.1	74.4	76.4	77.2
France												
Net wealth	461.4	477.8	487.3	494.9	545.6	546.6	551.3	571.4	623.2	679.9	752.3	..
Net financial wealth	154.0	168.4	180.9	185.8	212.1	206.0	188.7	183.4	189.7	190.2	203.1	..
Non-financial assets	307.4	309.4	306.4	309.1	333.5	340.6	362.6	388.0	433.5	489.7	549.2	..
Financial assets	219.6	234.7	248.3	258.3	287.5	282.8	266.7	259.0	269.2	272.0	292.0	..
of which: Equities	53.3	58.8	60.9	67.6	87.0	83.9	70.2	63.5	70.0	71.2	81.7	..
Liabilities	65.6	66.3	67.4	72.5	75.4	76.7	78.0	75.6	79.5	81.8	88.9	..
of which: Long-term loans	49.6	50.1	50.7	51.4	53.8	53.4	53.6	54.5	57.0	60.3	64.8	..
Germany												
Net wealth	541.0	551.7	563.9	575.6	584.3	576.4	563.7	567.0	575.0	576.9	581.2	..
Net financial wealth	129.7	135.8	146.6	154.4	164.1	158.5	157.7	153.4	166.4	174.8	184.3	..
Non-financial assets	411.3	415.9	417.3	421.2	420.2	416.1	404.5	412.3	407.7	402.9	396.9	..
Financial assets	226.5	237.1	251.3	263.4	277.8	272.5	269.1	265.1	277.2	284.1	291.8	..
of which: Equities	41.2	45.4	54.7	61.8	74.3	74.3	70.4	56.6	62.4	63.7	69.2	..
Liabilities	96.8	101.3	104.7	109.0	113.7	114.1	111.3	111.7	110.8	109.3	107.5	..
of which: Mortgages	58.7	62.3	65.1	67.1	71.0	71.6	71.2	72.3	72.2	71.7	71.2	..
Italy												
Net wealth	703.2	703.6	742.9	767.6	801.1	819.5	814.6	851.2	895.5	945.8	..	..
Net financial wealth	213.9	220.6	243.2	269.5	303.2	309.4	286.4	276.7	275.9	279.8	288.8	..
Non-financial assets	488.5	482.0	498.5	497.1	495.8	508.7	525.2	572.7	614.5	652.9	..	..
Financial assets	245.5	253.1	277.9	307.7	346.1	354.4	331.6	323.9	325.8	333.5	346.5	..
of which: Equities	37.6	36.1	48.4	62.3	94.1	98.1	82.2	75.2	70.8	74.1	85.4	..
Liabilities	31.6	32.5	34.7	38.2	42.8	45.0	45.2	47.2	49.9	53.7	57.7	..
of which: Medium and long-term loans	18.7	18.9	20.0	22.0	25.3	27.1	27.5	29.6	32.3	36.2	40.4	..
Japan												
Net wealth	735.8	745.7	732.6	726.9	750.1	747.7	744.0	722.4	731.0	722.3	748.7	..
Net financial wealth	281.2	291.2	289.4	296.5	327.4	335.7	341.7	340.8	361.2	369.5	403.8	..
Non-financial assets	454.6	454.6	443.2	430.4	422.7	411.9	402.3	381.5	369.8	352.8	344.9	..
Financial assets	411.4	423.9	421.5	429.1	460.9	470.3	477.6	474.5	494.9	500.9	535.4	..
of which: Equities	45.9	40.1	28.8	27.0	45.6	41.5	31.8	29.8	42.1	49.0	77.7	..
Liabilities	130.2	132.8	132.1	132.6	133.5	134.6	136.0	133.7	133.7	131.4	131.6	..
of which: Mortgages[2]	49.6	53.7	55.4	56.0	58.9	61.1	63.2	62.8	63.9	63.5	63.3	..
United Kingdom												
Net wealth	568.7	583.1	633.0	670.9	755.8	750.1	688.6	692.6	727.3	768.0	787.9	..
Net financial wealth	288.5	292.1	337.9	349.1	405.0	372.3	308.7	250.5	255.7	258.6	290.9	296.7
Non-financial assets	280.1	291.0	295.1	321.8	350.9	377.8	379.9	442.1	471.6	509.4	502.4	..
Financial assets	394.8	396.7	442.7	456.4	515.9	486.5	426.8	380.6	397.1	411.7	446.2	461.1
of which: Equities	78.3	78.0	93.5	93.3	123.0	112.6	79.3	58.0	61.9	66.1	72.8	70.7
Liabilities	106.3	104.5	104.8	107.3	110.9	114.2	118.1	130.2	141.4	153.1	155.2	164.4
of which: Mortgages	78.3	77.6	76.7	78.2	80.9	83.2	86.0	94.4	104.4	114.4	116.6	125.5
United States												
Net wealth	509.6	529.9	564.1	581.2	628.6	575.2	539.3	495.5	538.5	552.7	573.2	584.1
Net financial wealth	302.0	323.4	357.6	371.9	411.7	355.5	312.1	259.0	290.8	293.5	295.1	302.7
Non-financial assets	207.6	206.6	206.5	209.4	217.0	219.7	227.2	236.5	247.7	259.2	278.1	281.5
Financial assets	395.4	418.4	453.7	468.9	513.1	458.2	418.9	371.2	411.0	420.4	430.3	442.2
of which: Equities	105.1	119.5	146.2	157.1	190.9	151.4	121.7	88.8	106.6	107.4	106.3	109.7
Liabilities	93.4	95.0	96.1	97.1	101.4	102.7	106.8	112.1	120.2	126.8	135.2	139.6
of which: Mortgages	63.2	63.8	64.1	64.9	67.8	68.5	72.6	78.4	85.7	92.2	100.8	104.3

1. Assets and liabilities are amounts outstanding at the end of the period, in per cent of nominal disposable income. Vertical lines between columns indicate breaks in the series due to changes in the definitions or accounting systems. Figures after the most recent breaks in the series are based on the UN System of National Accounts 1993 (SNA 93) and, more specifically, for European Union countries, on the corresponding European System of Accounts 1995 (ESA 95).
Households include non-profit institutions serving households. Net wealth is defined as non-financial and financial assets minus liabilities; net financial wealth is financial assets minus liabilities. Non-financial assets consist mainly of dwellings and land. For Canada, Germany, Italy and the United States, data also include durable goods. For Canada, France, Japan, the United Kingdom and the United States, data also include non-residential buildings and fixed assets of unincorporated enterprises and of non-profit institutions serving households, although coverage and valuation methods may differ. Financial assets comprise currency and deposits, securities other than shares, loans, shares and other equity, insurance technical reserves; and other accounts receivable/payable. Not included are assets with regard to social security pension insurance schemes. Equities comprise shares and other equity, including quoted, unquoted and mutual fund shares. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.
2. Fiscal year data.

Sources: Canada: Statistics Canada; France: INSEE; Germany: Deutsche Bundesbank; Italy: Banca d'Italia; Japan: Economic Planning Agency; United Kingdom: Office for National Statistics; United States: Federal Reserve.

StatLink http://dx.doi.org/10.1787/051570048170

Annex Table 59. **House prices**

Percentage change from previous year

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Nominal																	
United States	2.6	1.3	2.3	1.7	1.9	2.7	3.5	3.5	5.1	4.9	6.8	7.9	6.9	6.8	10.7	13.1	9.1
Japan	13.6	4.3	-3.9	-4.3	-2.4	-1.6	-1.9	-1.4	-1.6	-3.2	-3.7	-4.1	-4.6	-5.4	-6.1	-4.8	-3.3
Germany						1.0	-1.0	-2.0	-1.0	1.0	0.0	0.0	-2.0	-1.0	-2.1	-0.1	0.6
France							-0.6	0.1	1.9	7.1	8.8	7.9	8.3	11.7	15.2	15.3	12.1
Italy		12.1	6.2	0.2	-2.9	0.8	-3.3	-4.6	2.1	5.6	8.3	8.2	9.6	10.3	9.9	7.5	6.6
United Kingdom	-1.2	-1.4	-4.0	-1.7	2.6	0.7	3.7	8.8	11.5	10.9	14.9	8.1	16.1	15.7	11.9	5.5	6.3
Canada	-3.3	4.6	1.1	2.0	3.3	-4.5	0.1	2.5	-1.5	3.8	3.7	4.6	10.2	9.5	9.4	10.0	11.3
Australia	1.6	2.6	1.6	2.6	3.6	1.2	0.8	4.0	7.4	7.2	8.3	11.2	18.8	18.2	6.5	1.5	7.5
Denmark	-7.5	1.3	-1.6	-0.9	12.1	7.6	10.8	11.5	9.0	6.7	6.5	5.8	3.7	3.1	8.9	17.6	20.5
Spain	15.5	13.9	-0.7	-0.3	1.5	3.5	2.6	4.2	4.9	7.0	7.5	9.5	16.9	20.0	18.3	14.6	10.0
Finland											5.8	-0.9	10.5	5.9	6.1	5.9	9.8
Ireland	13.8	2.3	2.4	2.0	4.7	6.3	15.0	20.0	31.0	21.9	16.3	8.2	10.7	15.8	11.6	11.8	13.2
Korea	17.2	10.4	-6.5	-3.4	-1.6	-0.2	0.7	3.0	-9.3	-1.2	1.8	3.9	16.7	9.0	1.1	0.8	6.1
Netherlands	2.0	2.6	8.4	8.2	12.3	7.9	11.7	12.5	11.8	16.2	16.4	11.0	8.3	4.7	4.2	4.9	4.7
Norway			-5.1	1.0	13.3	7.2	9.3	11.8	11.1	11.2	15.7	7.0	4.9	1.7	10.1	8.2	13.3
New Zealand	5.5	-2.3	0.7	4.1	13.7	9.3	10.3	6.1	-1.7	2.1	-0.4	1.8	9.5	19.4	17.8	14.5	10.5
Sweden	11.8	6.9	-9.4	-11.0	4.6	0.3	0.8	6.6	9.5	9.4	11.2	7.9	6.3	6.6	9.3	9.0	12.2
Switzerland	-0.2	-1.7	-4.4	-5.2	-0.1	-3.9	-5.3	-3.5	-0.9	-0.1	0.9	1.9	4.6	3.0	2.4	1.1	2.5
Real																	
United States	-2.6	-2.9	-0.8	-1.2	-0.7	-0.1	0.6	1.1	3.5	2.7	3.3	5.0	5.2	4.5	7.8	9.5	5.7
Japan						-1.5	-1.9	-3.0	-2.3	-2.8	-3.2	-3.4	-3.8	-5.2	-6.1	-4.3	-3.5
Germany	4.4	1.3	1.9	1.0	1.4	-0.7	-2.1	-3.4	-1.6	0.4	-1.4	-1.9	-3.3	-2.0	-3.8	-2.0	-1.1
France						-4.4	-2.6	-1.2	1.3	6.5	6.8	6.0	6.2	9.4	12.6	13.2	10.0
Italy	14.1	5.6	1.2	-4.1	-6.8	-4.4	-7.0	-6.4	0.1	3.8	5.5	5.7	6.8	7.3	7.5	5.2	4.3
United Kingdom						-2.0	1.1	6.9	9.7	9.4	14.1	6.8	14.6	14.2	10.4	3.4	3.8
Canada	-7.7	-1.0	-0.4	0.1	3.1	-6.6	-1.5	0.9	-2.4	2.0	1.0	2.0	7.7	6.5	7.5	7.6	9.1
Australia						-3.3	-1.8	3.7	6.4	5.7	3.7	6.5	15.3	15.0	4.1	-1.1	3.9
Denmark	-9.9	-0.9	-3.5	-1.8	10.2	5.4	8.5	9.3	7.6	4.6	3.7	3.4	1.3	1.1	7.9	15.6	18.3
Spain						-1.0	-0.9	2.3	3.1	4.7	3.9	6.5	12.9	16.4	14.8	10.9	6.3
Finland	-10.9	-17.6	-19.7	-11.7	4.2	-4.0	4.4	16.1	8.8	7.5	2.8	-3.5	8.3	4.5	5.9	5.1	8.4
Ireland						3.6	12.6	18.5	28.2	19.0	10.5	4.1	5.6	11.4	9.1	9.4	10.2
Korea	7.9	1.1	-12.0	-7.9	-7.4	-4.5	-4.0	-1.4	-15.6	-2.0	-0.4	-0.2	13.6	5.2	-2.3	-1.9	3.8
Netherlands						6.5	10.1	10.4	9.8	13.9	13.7	5.6	4.3	2.4	2.8	3.4	3.0
Norway	-10.9	-9.3	-7.3	-1.3	11.7	4.6	7.9	9.0	8.7	8.7	12.2	3.9	3.6	-0.7	9.6	6.6	10.7
New Zealand						5.4	7.8	4.9	-3.0	2.3	-2.9	-0.8	6.6	17.3	15.2	11.1	6.9
Sweden	1.4	-1.8	-10.6	-15.1	1.6	-2.3	0.0	4.7	8.4	8.8	9.8	5.1	4.3	4.2	8.2	8.1	10.6
Switzerland						-5.6	-6.1	-4.0	-0.9	-0.9	-0.6	0.9	4.0	2.3	1.5	-0.1	1.4

Source: Various national sources and Nomisma, see table A.1 in Girouard, N., M. Kennedy, P. van den Noord and C. André, "Recent house price developments: the role of fundamentals", *OECD Economics Department Working Papers,* No. 475, 2006 and OECD estimates.

StatLink http://dx.doi.org/10.1787/051615807775

Annex Table 60. **House price ratios**

Long-term average = 100

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Price-to-rent ratio																	
United States	96.7	93.6	92.6	91.5	90.4	90.0	90.2	90.6	92.1	94.0	97.3	101.2	104.3	108.8	117.2	129.3	136.4
Japan	133.1	134.6	125.6	117.1	111.8	107.9	104.3	101.4	99.2	96.1	92.3	88.3	84.3	79.8	75.1	71.5	69.2
Germany						92.2	88.6	84.8	83.0	83.0	82.1	81.2	78.5	76.9	74.7	73.9	73.5
France							83.5	82.3	82.3	86.6	94.3	101.3	107.0	116.3	130.3	145.1	157.1
Italy							94.7	84.7	82.2	84.0	88.7	93.9	100.6	107.9	115.4	121.4	126.3
United Kingdom	108.0	96.5	87.9	84.7	83.0	80.5	80.9	86.5	95.2	103.3	117.1	123.9	140.2	159.3	171.8	170.6	166.0
Canada	104.7	104.2	105.6	109.1	114.3	106.8	106.8	111.0	109.7	113.0	114.3	116.7	127.9	138.4	150.3	163.7	179.4
Australia	92.9	92.2	92.8	94.8	97.5	97.1	94.9	95.9	99.9	104.4	109.6	118.2	137.1	159.0	165.3	164.1	170.9
Denmark	78.6	76.3	72.7	70.0	76.3	80.4	87.9	95.4	102.0	106.0	110.0	113.3	114.5	115.1	121.9	139.9	165.2
Spain	136.1	142.3	130.6	119.2	114.6	112.5	107.4	105.4	105.4	108.9	112.9	118.5	132.8	152.8	173.6	190.8	201.3
Finland											118.5	113.3	125.8	133.9	140.8	145.0	152.5
Ireland	46.4	45.3	43.2	46.6	51.8	52.3	60.2	69.0	87.8	122.1	129.5	120.3	134.1	160.6	174.2	181.8	174.8
Korea	134.0	132.6	115.5	105.4	99.3	94.9	92.2	91.9	81.6	83.6	85.2	85.3	94.6	99.5	98.4	99.1	104.2
Netherlands	71.7	70.6	72.6	74.6	79.8	82.0	88.0	95.4	102.9	116.1	131.4	141.7	149.1	151.4	153.0	156.6	160.0
Norway			69.9	68.6	76.7	80.3	86.3	94.1	102.2	110.0	122.3	125.7	126.3	123.7	133.2	141.0	156.3
New Zealand	92.5	88.1	88.9	89.3	94.9	97.4	102.5	105.4	101.3	104.1	101.7	104.2	110.5	125.3	138.7	150.5	158.3
Sweden	110.0	98.1	82.1	69.2	71.1	69.7	69.6	75.4	84.9	94.2	104.3	110.1	114.3	120.9	132.6	144.6	159.7
Switzerland	132.5	118.5	106.0	95.6	94.9	90.2	84.3	81.0	80.2	79.6	79.1	78.4	81.2	83.4	84.4	84.1	84.5
Price-to-income ratio																	
United States	94.7	93.1	90.8	90.5	89.0	88.1	87.8	87.3	86.9	88.2	88.6	93.0	96.0	99.3	104.1	113.9	118.8
Japan						95.7	94.8	92.0	90.5	88.6	87.0	86.3	82.5	79.4	74.0	70.3	67.7
Germany	89.2	88.5	89.0	91.0	91.8	90.4	88.0	85.0	82.7	81.5	79.4	76.5	74.5	72.4	69.7	68.5	67.7
France						88.2	86.1	84.5	83.5	87.5	90.4	93.2	96.9	105.9	117.6	131.9	142.4
Italy	100.8	104.0	104.7	103.8	96.9	91.7	83.2	78.5	79.3	82.4	86.3	88.6	93.4	100.2	105.9	110.2	113.0
United Kingdom						79.5	78.1	80.0	85.9	91.4	99.6	101.4	114.0	126.5	137.0	137.6	141.2
Canada	102.3	104.8	104.8	105.6	108.8	101.3	100.9	101.0	96.3	96.1	93.8	94.8	101.8	108.0	113.9	121.3	128.2
Australia						94.2	91.1	93.2	98.3	101.2	102.8	109.5	127.0	146.2	145.4	140.2	143.8
Denmark	82.1	79.4	75.9	75.3	81.8	81.4	88.1	96.5	101.2	109.5	113.4	113.5	114.4	114.2	118.9	135.6	150.3
Spain						100.2	97.4	96.7	97.3	99.1	99.9	103.5	115.5	132.2	145.5	155.9	160.4
Finland	118.9	95.9	78.0	73.0	81.2	72.6	76.5	84.5	88.9	91.9	94.1	87.5	92.2	92.8	93.9	98.0	104.0
Ireland						76.6	83.0	91.0	103.8	116.7	121.4	119.0	123.8	134.5	141.0	145.9	153.8
Korea	163.9	147.2	122.6	107.6	91.1	82.0	73.7	71.1	62.7	59.2	58.1	58.3	64.6	68.0	65.5	64.2	64.4
Netherlands						88.0	94.2	100.0	106.6	119.8	132.3	134.2	142.9	150.5	155.6	161.8	168.9
Norway	92.6	81.9	73.2	70.0	78.0	79.5	83.0	87.9	90.2	96.1	104.8	110.3	106.3	101.1	106.9	109.4	127.3
New Zealand						97.3	103.3	105.3	99.8	95.7	96.7	93.5	103.2	116.9	134.0	149.7	155.8
Sweden	101.4	95.5	82.6	72.3	74.5	73.2	73.9	77.9	83.2	87.7	92.4	92.1	93.4	97.0	104.0	110.3	119.8
Switzerland						89.6	84.5	81.3	79.0	77.3	74.6	72.9	77.6	79.4	80.2	80.0	79.8

Source: Various national sources and Nomisma, see table A.1 in Girouard, N., M. Kennedy, P. van den Noord and C. André, "Recent house price developments: the role of fundamentals", *OECD Economics Department Working Papers,* No. 475, 2006 and OECD estimates.

StatLink http://dx.doi.org/10.1787/051622201153

Annex Table 61. **Central government financial balances**

Surplus (+) or deficit (-) as a percentage of nominal GDP

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Canada	-2.0	0.7	0.8	0.9	1.9	1.1	0.8	0.0	0.4	0.1	0.5	0.4	0.4
France	-3.6	-2.8	-2.8	-2.3	-2.1	-2.1	-3.1	-3.6	-2.6	-2.7	-2.0	-1.7	-1.0
Germany	-1.9	-1.6	-1.8	-1.5	1.4	-1.3	-1.7	-1.8	-2.4	-2.1	-1.5	-0.7	-0.3
Italy	-6.9	-2.7	-2.5	-1.5	-1.2	-3.3	-3.2	-2.9	-2.8	-3.5	-4.0	-2.0	-2.0
Japan[1]	-4.4	-3.1	-5.1	-6.8	-5.5	-6.2	-5.9	-6.8	-6.4	-5.8	-1.2	-2.7	-2.6
United Kingdom	-4.3	-2.1	0.1	1.3	4.2	1.1	-1.8	-3.5	-3.2	-2.9	-2.9	-2.7	-2.6
United States	-1.9	-0.6	0.5	1.1	1.9	0.4	-2.6	-3.8	-3.7	-2.9	-1.5	-1.7	-1.8
excluding social security	-2.8	-1.6	-0.7	-0.4	0.4	-1.2	-4.2	-5.2	-5.0	-4.3	-2.9	-3.0	-3.3
Total of above countries	-3.0	-1.4	-1.1	-0.9	0.3	-1.2	-2.9	-3.8	-3.6	-3.2	-1.7	-1.7	-1.7

Note: Central government financial balances include one-off revenues from the sale of mobile telephone licenses. Some other important one-offs have been accounted for prior to 2000 and are reported in *OECD Economic Outlook* Sources and Methods (http://www.oecd.org/eco/sources-and-methods).

1. Data are only available for fiscal years beginning April 1 of the year shown.

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051677475507

Annex Table 62. **Maastricht definition of general government gross public debt**

As a percentage of nominal GDP

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	67.7	63.7	64.3	66.5	65.7	66.1	65.7	64.6	64.0	63.5	62.1	60.8	59.5
Belgium[1]	127.4	122.5	117.3	113.8	107.3	106.0	103.3	98.7	94.5	93.0	88.8	85.6	82.8
Czech Republic	..	12.0	12.6	13.1	17.9	25.9	28.5	30.1	30.7	30.4	30.4	30.1	30.7
Denmark	69.2	65.2	60.8	57.4	51.7	47.4	46.8	45.8	44.0	36.3	30.2	26.1	22.4
Finland	56.8	53.8	48.3	46.0	43.8	42.3	41.2	44.3	44.2	41.3	39.1	40.8	43.3
France	56.3	58.5	58.6	58.0	55.9	56.1	58.2	62.3	64.5	66.6	64.2	63.0	61.2
Germany	58.4	59.5	59.8	60.3	59.2	58.7	60.2	63.8	66.0	68.0	67.8	65.3	64.0
Greece	86.6	84.1	82.3	81.8	88.7	89.7	87.8	85.3	85.9	85.3	83.3	80.6	78.5
Hungary	..	62.5	60.2	59.6	53.9	50.7	54.0	58.0	59.4	61.7	66.0	67.1	67.2
Ireland	72.8	64.0	53.0	48.1	37.8	35.4	32.2	31.2	29.7	27.5	24.8	24.5	23.9
Italy	120.6	117.9	114.8	113.7	108.8	108.2	105.6	104.2	103.9	106.1	106.7	105.8	105.0
Luxembourg	6.3	6.4	6.2	5.6	5.3	6.5	6.5	6.3	6.6	6.1	6.8	9.7	8.9
Netherlands	74.1	68.2	65.2	61.1	53.8	50.7	50.5	52.0	52.6	52.7	48.7	48.1	46.6
Poland	..	43.0	38.3	39.5	35.8	35.8	39.8	47.1	45.7	47.1	47.8	43.8	40.4
Portugal	59.9	56.1	52.2	51.4	50.4	52.9	55.5	56.8	58.2	63.6	64.7	65.5	65.9
Slovak Republic	29.8	32.6	33.6	46.7	49.5	48.9	43.3	42.7	41.6	34.5	30.7	29.3	27.7
Spain	66.7	65.3	63.2	61.6	59.2	55.6	52.5	48.8	46.2	43.2	39.9	35.8	32.4
Sweden	73.0	70.0	67.6	62.2	52.3	53.8	52.0	53.5	52.4	52.2	46.9	43.1	39.6
United Kingdom	52.1	50.8	47.6	44.9	41.9	38.6	38.1	39.5	41.1	43.0	44.3	45.0	45.6
Euro area	74.7	73.1	72.2	71.3	68.7	67.8	67.8	68.9	69.5	70.3	68.7	66.8	65.1

Note: For the period before 2007, gross debt figures are provided by Eurostat, the Statistical Office of the European Communities, unless more recent data are available, while GDP figures are provided by National Authorities.This explains why these ratios can differ significantly from the ones published by Eurostat. The 2007 to 2008 debt ratios are in line with the OECD projections for general government gross financial liabilities and GDP. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Includes the assumption of debt for the Railways Company SNCB by the government from 2005 onwards (representing respectively 1.8 and 1.6 percentage point of GDP in 2005 and 2006).

Source: OECD Economic Outlook 81 database.

StatLink http://dx.doi.org/10.1787/051701687132

Annex Table 63. **Monetary and credit aggregates: recent trends**

Annualised percentage change, seasonally adjusted

		Annual change (to 4th quarter)					Latest twelve months	
		2001	2002	2003	2004	2005		
Canada	M2	6.1	5.9	5.9	5.6	8.7	7.8	(Apr 2007)
	BL[1]	5.5	4.8	7.9	8.7	7.6	7.8	(Mar 2007)
Japan	M2+CD	2.9	1.5	2.0	2.0	0.6	1.1	(Apr 2007)
	BL[1]	-3.1	-0.5	1.4	1.0	-0.2	-1.0	(Mar 2007)
United Kingdom	M2	8.4	10.1	9.1	8.9	7.9	6.8	(Mar 2007)
	M4	5.9	6.4	9.3	11.8	13.4	12.7	(Mar 2007)
	BL[1]	9.3	8.7	11.3	9.4	13.4	12.9	(Mar 2007)
United States	M2	6.7	5.6	5.3	4.1	5.0	6.5	(Apr 2007)
	BL[1]	5.1	6.0	10.3	11.7	11.8	9.8	(Apr 2007)
Euro area	M2	6.5	6.8	6.3	8.8	8.7	9.4	(Mar 2007)
	M3	6.7	7.0	6.0	8.2	8.9	10.9	(Mar 2007)
	BL[1]	3.8	5.6	5.8	9.1	7.9	7.5	(Mar 2007)

1. Commercial bank lending.

Source: OECD Main Economic Indicators; US Federal Reserve Board; Bank of Japan; European Central Bank; Bank of England; Statistics Canada.

StatLink http://dx.doi.org/10.1787/051713811057

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OECD PUBLICATIONS, 2, rue André-Pascal, 75775 PARIS CEDEX 16
PRINTED IN FRANCE
(12 2007 02 1 P) ISBN 978-92-64-03449-5 – No. 55633 2007

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Volume 2007/1
No. 81, June

OECD*publishing*

www.oecd.org/publishing

ISBN 978-92-64-03449-5
12 2007 02 1 P

9 789264 034495