OECD ECONOMIC OUTLOOK

DECEMBER 1999

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66

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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

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FOREWORD

The *OECD Economic Outlook* analyses prospective economic developments in OECD countries over the next two years and provides recommendations on the economic policies needed to ensure sustained economic growth. In addition, this edition reports alternative scenarios on the medium-term consequences for the OECD outlook of specific risks to the US economy, such as the occurrence of a boom and bust cycle, a significant weakening of the dollar or a stock market correction. It also looks in some detail at medium-term fiscal priorities as well as at progress made in a wide range of structural reforms over the 1990s, highlighting a number of issues with an important international dimension in need of effective multilateral response.

The detailed country notes provide an assessment of the economic situation and the outlook for each Member country and certain non-member countries. The projections on which the policy assessments presented in this edition are based were finalised on 3 November 1999 and published in a preliminary edition in mid-November.

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

– *The size and role of automatic fiscal stabilisers.* This chapter assesses to what extent some components of government budgets affected by the macroeconomic situation operate to smooth the business cycle in individual OECD countries. It is shown that these automatic fiscal stabilisers have generally reduced cyclical volatility in the 1990s. However, in some countries the need to undertake fiscal consolidation in order to improve public finances has forced governments to take discretionary actions that have reduced, or even offset, the effect of automatic fiscal stabilisers. This chapter also shows that, by preventing sharp economic fluctuations, fiscal stabilisers may raise long-term economic performance and avoid frequent changes in spending or tax rates. However, they should be employed symmetrically over the cycle in order to avoid costly debt accumulation.

– *Making work pay.* This chapter reviews policy measures to improve the employment and income situation of people with low earnings capacity. The review suggests that targeted payroll tax cuts and in-work financial support for low paid workers have been successful in stimulating employment of the targeted groups and that they have often proved to be effective in redistributing income towards those with low pay. However, these policies may also risk weakening work incentives for those already in work. Furthermore, the overall labour utilisation effect depends importantly on the structure of earnings and on the stance of other labour and social policies. To maximise their effectiveness, making work pay policies need to be tailored to specific framework conditions in each country.

– *Public debt management at the cross-roads.* This chapter reviews some of the difficult challenges facing debt managers in the years to come. In countries experiencing a rapidly diminishing gross debt, particularly the United States, this raises the issue of whether private-sector securities can serve as a substitute to the traditionally important government debt market. In the euro area, following the creation of the common currency, the issue is how to avoid that independent debt management strategies hamper the creation of a more efficient euro-area financial market. Turning to Japan, the level of debt is projected to rise rapidly and there is a need to improve the liquidity of the Japanese Government Bond market. To this end, a number of measures could be introduced to make debt management more efficient, yielding significant cost saving.

– *Cross-country patterns of product market regulation*. This chapter reports the results of an effort to collect and analyse comparative data on regulatory environments in the product market in 1998. Its main purpose is to describe the variability of regulatory approaches across countries and to analyse the interrelations between various sets of regulatory provisions. Increased integration in the OECD area has been associated with a convergence across countries of relatively liberal international trade and investment policies, but domestic regulations still differ significantly across OECD countries in their scope and in their potential effects on product market competition. Economic regulations that restrict competition are often matched by burdensome administrative environments and public ownership appears to be often associated with legal limitations to the number of competitors. Given the interactions between different regulatory interventions, the benefits from regulatory reform are likely to be maximised if both privatisation and liberalisation are pursued at the same time, along with the simplification of administrative procedures.

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TABLE OF CONTENTS

Boxes

Tables

Figures

Conventional signs

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

Summary of projections[a]

Seasonnaly adjusted at annual rates

	1999	2000	2001	1999 I	1999 II	2000 I	2000 II	2001 I	2001 II
	Percentage changes from previous period								
Real total domestic demand									
United States	4.8	3.4	2.3	5.0	4.7	3.2	2.6	2.3	1.9
Japan	1.5	1.2	1.1	4.3	0.3	1.4	1.4	0.8	1.5
Euro area	2.6	2.6	2.7	2.5	2.7	2.5	2.8	2.7	2.7
European Union	2.8	2.7	2.7	2.7	2.8	2.6	2.8	2.7	2.6
Total OECD	3.6	3.0	2.6	4.4	3.4	2.9	2.7	2.6	2.6
Real GDP									
United States	3.8	3.1	2.3	3.8	3.8	2.9	2.6	2.3	2.0
Japan	1.4	1.4	1.2	3.3	1.2	1.5	1.4	0.9	1.6
Euro area	2.1	2.8	2.8	1.7	3.2	2.6	2.8	2.8	2.9
European Union	2.1	2.8	2.8	1.6	3.1	2.6	2.8	2.7	2.8
Total OECD	2.8	2.9	2.6	3.2	3.2	2.8	2.7	2.5	2.5
	Per cent								
Inflation[b]									
United States	1.4	1.9	2.3	1.6	1.1	2.2	2.1	2.4	2.4
Japan	–0.6	–0.5	–0.3	0.3	–1.3	–0.1	–0.4	–0.1	–0.5
Euro area	1.3	1.5	1.6	1.4	1.1	1.7	1.6	1.6	1.6
European Union	1.5	1.7	1.8	1.5	1.4	1.8	1.8	1.9	1.8
Total OECD *less* high inflation countries[c]	1.1	1.5	1.8	1.4	0.9	1.8	1.7	1.8	1.7
Total OECD	2.6	2.7	2.4	2.9	2.5	3.0	2.5	2.4	2.2
	Per cent of labour force								
Unemployment									
United States	4.2	4.2	4.6	4.3	4.2	4.1	4.3	4.5	4.8
Japan	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Euro area	10.2	9.6	9.1	10.4	10.1	9.8	9.5	9.2	8.9
European Union	9.4	8.8	8.4	9.5	9.2	9.0	8.7	8.5	8.3
Total OECD	6.7	6.4	6.3	6.7	6.6	6.5	6.4	6.4	6.3
	Per cent of GDP								
Current account balances									
United States	–3.7	–4.2	–4.2	–3.3	–4.0	–4.3	–4.2	–4.2	–4.1
Japan	2.7	2.8	3.0	2.7	2.8	2.8	2.9	3.0	3.0
Euro area	0.8	0.7	0.8	0.9	0.6	0.7	0.7	0.7	0.9
European Union	0.3	0.3	0.4	0.4	0.2	0.2	0.3	0.3	0.5
Total OECD	–0.8	–1.0	–0.9	–0.6	–0.9	–1.0	–1.0	–1.0	–0.9
	Per cent								
Short-term interest rates[d]									
United States	4.6	5.7	6.1	4.4	4.8	5.4	6.1	6.1	6.1
Japan	0.3	0.3	0.8	0.3	0.2	0.3	0.4	0.5	1.0
Euro area	2.9	3.3	4.3	2.8	3.0	3.0	3.5	4.0	4.5
	Percentage changes from previous period								
World trade[e]	4.9	7.1	6.3	4.4	8.1	6.8	6.5	6.3	6.1

a) Assumptions underlying the projections include:
– no change in actual and announced fiscal policies;
– unchanged exchange rates from 25 October 1999; in particular $1 = ¥ 106.0 and 0.937 euro;
– the cut-off date for other information used in the compilation of the projections was 3 November 1999.

b) GDP deflator, percentage changes from previous period.

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

d) United States: 3-month Treasury bills; Japan: 3 month CD; Euro area: 3-month interbank rates. See box on Policy and other assumptions underlying the projections.

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

EDITORIAL

The world economic outlook has improved…

The outlook for world and OECD-wide output growth has improved substantially over the past few months. The slowdown which occurred late in 1998 has ended and growth in the OECD area is expected to average nearly 3 per cent in 1999 and 2000, before slowing to around 2½ per cent in 2001. The projections for 1999-2000 represent a cumulative upward revision of around 1½ percentage points compared with the projections published last May in *OECD Economic Outlook* 65. These changes reflect mainly unexpected near-term momentum of the US economy, a stronger and more rapid resumption of growth in Japan and, particularly, Korea, as well as a slightly better outlook for the European Union. Area-wide inflation is expected to pick up somewhat although, excluding high inflation countries, it should remain below 2 per cent over the next two years. Overall OECD unemployment is projected to edge down, with substantial job creation in the European Union resulting in a drop in unemployment of about 2½ million people between 1998 and 2001. Current account imbalances are likely to persist, with the US deficit rising above 4 per cent of GDP. Outside the OECD area, economic activity appears to be recovering earlier and more sharply than expected in most of the Dynamic Asian economies, while the economic situation in Russia and South America remains fragile. At the world level, output is projected to rise by 3 per cent this year and then accelerate to about 3½ per cent in both 2000 and 2001.

… but downside risks still remain

This new set of projections implies that, for the first time in several years, output levels in all the major OECD regions might be moving towards their respective potential over the projection period, albeit marginally so in Japan. Yet, despite this favourable and more balanced picture for OECD prospects, a number of downside risks to the global outlook, mostly originating in financial markets, still remain:

– Further pronounced yen appreciation could derail the Japanese recovery with consequences for other economies in the region. Similarly, further increases in long-term real interest rates, beyond those consistent with the improved growth outlook, may weaken the recovery process in the euro area and particularly in Japan.

– The earlier unbalanced pattern of growth among the three major OECD regions has resulted in large current account imbalances. Faster demand growth in the United States than elsewhere over the past several years, while beneficial from the point of view of general world economic conditions, has generated a substantial widening in the US current account deficit. In addition, US equity prices remain at high levels and concerns about over-valuation still persist. In these circumstances, any sudden rise in inflation in the United States could trigger an abrupt change in investor sentiment towards dollar-denominated assets. As a result, the US economy could face a hard-landing scenario, with potentially major consequences for the rest of the world.

– In Korea and other Asian emerging market economies, while substantial progress has been achieved, financial and corporate restructuring is far from complete. There is a risk that with the rebound in activity, governments become more complacent and delay the reform process. In this context, the return of capital flows to these countries in recent months may be vulnerable to any negative reassessment of the outlook for the region.

– The economic situation remains fragile in South America and recoveries in most countries in the region are particularly sensitive to rises in OECD interest rates.

– Mounting tensions in trade discussions between major world trading partners at the start of the Millenium Round negotiations might also negatively affect the outlook.

– Finally, despite some very recent rises in interest rates related to the millenium bug, Y2K does not appear to pose a major risk to the outlook as authorities have already put in place lending facilities and adopted contingency plans. However, short-term disruptions around the turn of the century cannot be excluded as a result of the lack of preparedness in some emerging market economies, as well as unpredictable private agents' behaviour.

In the United States, monetary policy will need to be tightened…

Authorities in major OECD regions will have to balance these negative risks in the short run against concerns that have emerged regarding inflationary pressures in a number of countries. In the United States, the economy has now grown at a 4 per cent pace for three years in an economic upswing that started eight and a half years ago. Recent indicators point to continued strength in activity in the near term. The US economy still appears to be operating above potential – notwithstanding some possible recent improvements in its supply side, in part reflecting strong investment in technology – and labour markets remain very tight. In these circumstances, there appear to be no clear forces currently acting to induce an endogenous slowdown in the short term. Furthermore, the favourable temporary factors that had contributed to the good inflation performance thus far may now be working in the other direction. Hence, a further tightening of monetary policy, probably in several steps over the coming year, appears to be called for. Exactly when such moves should take place is a matter of judgement, but the Federal Reserve's decision to increase policy-controlled interest rates by 25 basis points on 16 November appears appropriate. An important challenge will be to manage upward moves in such a way as to minimise risks of excessive reactions in equity, bond and exchange markets, thereby promoting the sort of soft-landing of the US economy embodied in the OECD projections.

… and fiscal policy should not be relaxed

With regard to US fiscal policy, it seems unlikely that the discretionary spending limits for the current fiscal year will be achieved. Hence, proposals for tax cuts appear premature, not least because they would add to the already strong domestic demand growth. Before addressing the issue of tax cuts, the path of future expenditures should be put on a sounder footing, the more so as fundamental problems remain with the financing of the health care system which could risk undermining fiscal stability in the medium term. By sticking to ambitious near-term fiscal targets, the authorities could prepare themselves for such pressures.

In Japan, the pace of structural reform should be accelerated and, as the recovery becomes firmly established, the increasing public debt problem will need to be addressed…

The recovery that has been underway in Japan since the beginning of 1999 has been mainly driven by policy actions to boost domestic demand. As yet, however, there has not been much response from the private sector. The outlook is for more broad-based growth over the next couple of years, although the pace of the expansion is likely remain sluggish with growth of about 1½ per cent and unemployment at around 4¾ per cent. The durability and strength of the recovery will to a large extent depend on private agents' confidence in the sustainability of the current policy framework. In such circumstances, speedy implementation of planned structural reforms is a necessity, especially as the challenges of restructuring the corporate sector and of assuring the profitability of the financial sector are still substantial and weigh heavily on future growth prospects. Moreover, earlier counter-cyclical fiscal measures have led to a rapid and worrisome deterioration in public finances, with gross and net debt reaching historically high levels. Thus, once the incipient recovery demonstrates firm signs of being sustained, an early start should be made to addressing the rapidly increasing medium-term public debt problem, the more so as demographic trends will put further pressures on Japan's fiscal position over the longer term. In this context, it would be helpful if budgets were framed in the context of credible medium-term fiscal objectives and spending decisions were systematically based on an overall assessment of economic returns.

… but in the short run macroeconomic policies should remain supportive of growth

In the short run, however, radical changes in the macroeconomic policy stance should be averted to allow the economy to withstand the adjustment burden from restructuring or any relapse in confidence without falling back into recession. Specifically, the current easy stance of monetary policy should be maintained and, given the persistence of overall deflationary pressures, monetary authorities should work against any potential contractionary forces such as further appreciation of the yen. In addition, the announced sizeable second supplementary budget should provide some insurance against any renewed weakness in private spending and help maintain some short-term momentum in economic activity.

In the European Union, high job creation partly reflects progress in structural reform

In the European Union, evidence that activity is strengthening has become increasingly evident and unemployment has declined markedly. In many euro area countries the growth in employment relative to output has been stronger than expected by most observers. This improved labour market performance may at least partly reflect the implementation of more comprehensive labour and product market reforms in an increasingly large number of countries. However progress has been uneven across countries and in some much remains to be done. Hence, the improved outlook should be seized as an occasion to accelerate the reform process.

Further increases in interest rates are unlikely to be necessary in the near term in the euro area

Thus far, euro area-wide inflation has remained subdued, but with the expansion projected to gather pace, monetary policy will have to move towards a more neutral stance. However, following the increase in policy-controlled interest rates by 50 basis points, announced by the ECB on 4 November 1999, further moves are unlikely to be necessary in the near term. This is the more so since a still significant output gap in the area as a whole would suggest that rates of growth approaching 3 per cent, such as those projected by the OECD for the next two years, might be sustained for some time without generating significant area-wide inflation pressures. Achieving such non-inflationary growth over the longer term might however require some further rises in interest rates in the latter part of 2000 and 2001. Nevertheless, some euro area countries already face, or will soon be facing, pressures on capacity with a risk that prices could accelerate, leading to competitiveness losses, if they do not undertake sufficient structural reform or fiscal tightening.

Much of the improvement in euro area countries' fiscal positions is cyclical and further consolidation is necessary

Improved cyclical conditions have generated unexpectedly strong budgetary revenue growth in a number of euro area countries. Such prospects run the risk that, in some countries, improvements due to better-than-expected economic growth might be considered as improvements in underlying budgetary positions and therefore form the basis for a relaxation of the fiscal stance. Such a situation would represent a repeat of the policy mistakes made in the late 1980s and early 1990s which led to a rapid deterioration in fiscal positions. This would be unfortunate, as in many countries, further fiscal consolidation is necessary in order to provide greater scope for automatic stabilisers to operate symmetrically over the cycle – *i.e.* allow them to work fully in a downswing – and to provide scope, within the context of sound public finances, for some discretionary counter-cyclical fiscal policy to meet adverse shocks.

Most countries experiencing fiscal surpluses should reduce high public debt levels

In a number of other countries in the euro area and elsewhere already experiencing fiscal surpluses, prospects of further improvements in budgetary positions may weaken governments' commitment towards expenditure control. Increases in spending might be warranted to the extent they yield substantial and identifiable improvements in economic performance. However, in most cases, prospective surpluses might be better used to reduce public debt. In countries where tax burdens are high, there may be scope for lowering taxes as well. But in order to maximise their effectiveness, such cuts should be contemplated in the context of further progress over a broad range of structural reforms.

19 November 1999

I. GENERAL ASSESSMENT OF THE MACROECONOMIC SITUATION

The global economic situation and the outlook for the OECD area

The outlook for the world economy has improved

Global economic activity has proved to be stronger than appeared likely six months ago, and the outlook for the world economy has improved (Table I.1). The recovery in the euro area is gathering strength along the lines projected last June and growth for both 1999 and 2000 has been revised upwards in most other regions. In the United States the economy has continued to expand robustly and in Japan the recovery has come earlier and been much stronger than had been anticipated. While the situation outside the OECD remains fragile, most emerging market economies in Asia hit by the crisis of 1997-98 are recovering strongly and developments in Russia and Brazil have been less bad than feared. Output growth in the OECD area now seems likely to have rebounded to 2¾ per cent in 1999, and in the world economy to 3 per cent. Two especially favourable features of the situation in the OECD area are continued low inflation nearly everywhere and falls in unemployment in Europe.

Bond yields have risen in all main regions…

With the prospect of a stronger recovery than earlier expected, long-term interest rates have risen across the OECD area (Figure I.1) in anticipation of eventual monetary policy responses to avoid rising inflationary tensions and expectations.

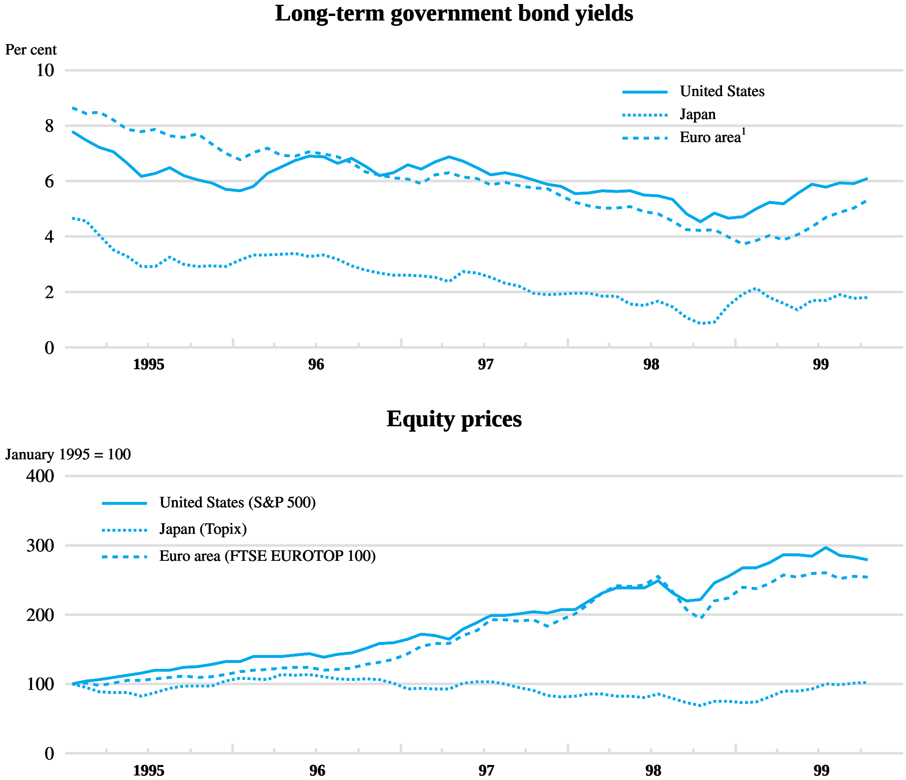
Table I.1. **Output growth projections**

Percentage increase in real GDP over previous period

	Current projection				Revisions since May 1999[a]		
	1998	1999	2000	2001	1999	2000	Cumulative revision 1999-2000
United States	4.3	3.8	3.1	2.3	0.2	1.1	1.3
Japan	–2.8	1.4	1.4	1.2	2.3	1.4	3.7
Euro area	2.8	2.1	2.8	2.8	0.0	0.2	0.2
European Union	2.7	2.1	2.8	2.8	0.2	0.4	0.6
OECD	2.4	2.8	2.9	2.6	0.6	0.8	1.4
Memorandum items:							
Non-OECD area[b]	1.9	3.3	4.3	4.4	0.6	0.2	0.8
World[b]	2.2	3.0	3.5	3.4	0.6	0.6	1.2

a) See *OECD Economic Outlook* 65, June 1999. Revisions are mainly due to a reassessment of recent developments and growth prospects. Only a minor part of the revisions for the United States and a number of European Union countries reflect changes to methodology in compiling national accounts. See Box I.3 "Overhaul of the national accounts in OECD countries" and the box in the Country Note on the United States in Chapter II "Developments in individual OECD countries".
b) The outlook for regions for which the OECD does not make projections is based on IMF and World Bank assessments, using 1997 GDP weights in world GDP based on 1997 purchasing power parities.

Figure I.1. **Bond yields and equity prices**



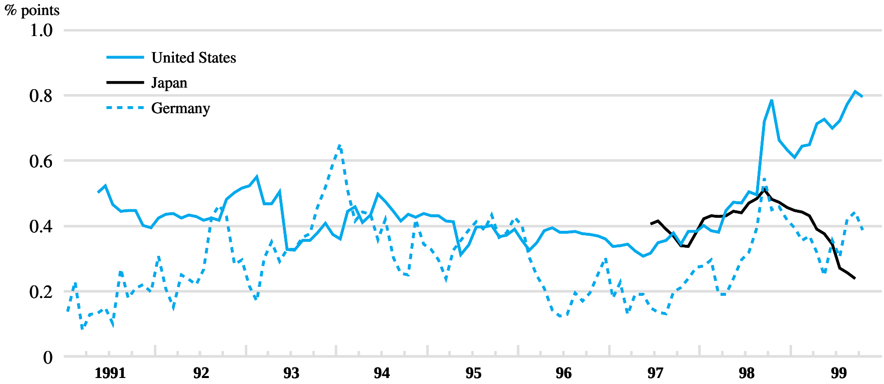
1. The benchmark bonds used for the euro area are mostly German bonds.
Source: Bloomberg.

However, a part of the hike in bond yields since the turn of the year appears to reflect a reversal of the "flight-to-quality" that took place in connection with the Russian crisis of August 1998 and the subsequent turmoil in international financial markets. In the United States, spreads between corporate and government bonds have remained exceptionally high since the Russian crisis (Figure I.2). This partly reflects large new issues of corporate bonds, some of which appear to be intended to build liquidity before the turn of the year as a precaution against disruptions that might arise from the "millennium bug". Against this background, equity prices have been volatile but generally firm as the global recovery has raised earnings expectations for corporations.

… and policy rates have begun to follow suit

Monetary authorities in many countries have already begun to adjust their policy stances to prevent the emergence of inflationary tensions as recoveries take hold (Box I.1). Policy-controlled interest rates have been raised on two occasions in the United States and the United Kingdom since June, and the European Central Bank increased its policy rates in early November by 50 basis points. The projected continued strength of the US and euro area economies is assumed to prompt a further significant increase in policy rates over the projection period. The fragility of the recovery in Japan implies that short-term interest rates are likely to stay very low, but the "zero-interest-rate" policy is assumed to end in 2001 as the pick-up in activity becomes better established. In all regions, short-term market rates appear to incorporate a premium related to uncertainty about the "millennium bug" which should dissipate in the new

Figure I.2. **Spread between corporate and government long-term bond yields**[1]



1. United States: AAA-rated paper; Japan: AAA bonds; Germany: 9-10 year bonds issued by banks. Government bond yields are for 10-year benchmark bonds.

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

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

Fiscal policy assumptions are based on measures taken and stated policy intentions, where these are embodied in well-defined programmes. Details of assumptions for individual countries are provided in the corresponding country notes in Chapter II "Developments in Individual OECD Countries". For the OECD area as a whole, the outlook is for fiscal stances, as measured by changes in structural budget balances, to be fairly neutral in 2000 with some marginal tightening in 2001. In Japan, where fiscal policy has been highly expansionary in 1999, it should provide a somewhat higher level of support to the economy in 2000, on the assumption that a supplementary budget calling for ¥ 5.5 trillion (slightly above 1 per cent of GDP) of public expenditure is introduced later this year. However, the net increase in public spending is assumed to be offset somewhat by cuts in investment spending by local authorities. Fiscal policy in Japan is assumed to be tightened somewhat in 2001.

Policy-controlled interest rates are set in line with the stated objectives of the relevant monetary authorities with respect to inflation (and, in some cases, to supporting activity) or exchange rates. In the case of the United States, this is interpreted to imply that the federal funds rate will be increased in several steps to 6½ per cent by the end of 2000 as the economy, though slowing, continues to grow above potential and inflation picks up. The stated primary objective in the euro area[1] is the maintenance of price stability over the medium term, where price stability is defined as an annual increase of the harmonised index of consumer prices below 2 per cent. With inflation pressures starting to build up over the next two years, the European Central Bank is assumed to raise its key policy rates starting in the latter part of 2000, with three-month market rates reaching around 4½ per cent by the end of 2001. In Japan, where the scope for further easing of nominal short-term interest rates is exhausted, money market rates should begin to rise slowly during the course of 2000 as the recovery takes hold, although remaining very low.

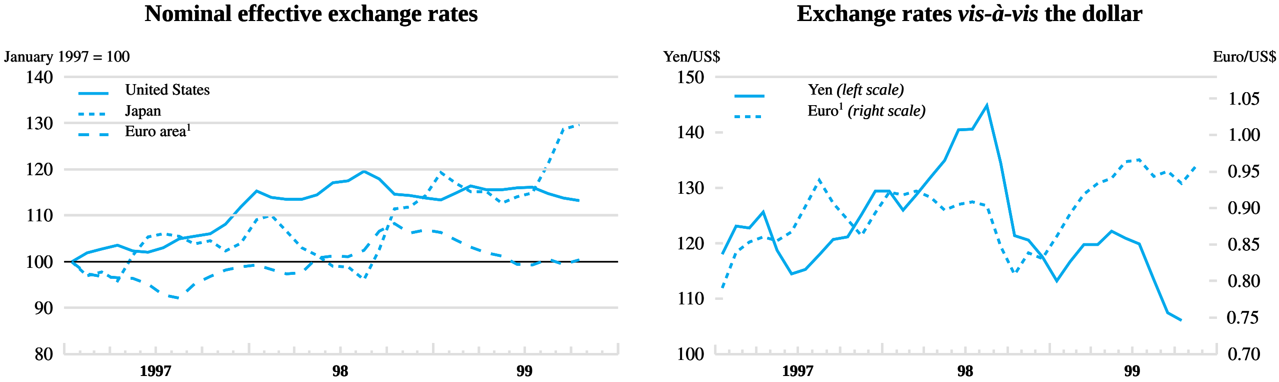
The projections assume unchanged exchange rates from those prevailing on 25 October 1999; in particular, one US dollar equals ¥ 106 and 0.937 euro. The fixed exchange rate assumption is modified for Hungary, Poland and Turkey to allow for continuous depreciation, reflecting the OECD interpretation of "official" exchange rate policies.

Following the rise in oil prices since March, the dollar price of OECD oil imports (cif) is estimated to average $21.50 per barrel in the second half of 1999 on the assumption that the rise in spot market prices is fully reflected in the prices of oil imports in OECD countries. After reaching a peak in early 2000, oil prices may start to fall back somewhat in line with futures prices (as reported in late October 1999), leaving the average price at $22 for the first half-year. Non-oil commodity prices declined by nearly 8 per cent in dollar terms in the first half of 1999, and they are projected to rise slightly on average in the second half of 1999 and first half of 2000, mainly due to increases in prices of metals and, to a lesser extent, agricultural raw materials. During the second half of 2000 and in 2001, both oil and non-oil commodity prices are assumed to move in line with prices of OECD manufactured exports.

The cut-off date for information used in the projections was 3 November 1999.

1. Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain, which have been participating in European Economic and Monetary Union since 1 January 1999.

Figure I.3. **Exchange rates**



1. The euro exchange rate before January 1999 is based on a theoretical euro constructed as a weighted average of the exchange rates of the currencies currently in the euro area.
Source: Bloomberg.

year. Bond yields are likely to continue to rise in all main regions up to the second half of 2000, but by less than short-term interest rates so that yield curves could flatten somewhat towards the end of the projection period.

A stronger yen will operate to restrain the recovery in Japan

Foreign exchange markets have been calm and only in Japan do recent currency movements appear large enough to affect the outlook significantly in the OECD area. Driven by unexpectedly strong output and demand indicators, the appreciation of the yen in the six months to late October of close to 12 per cent in effective terms (Figure I.3) will operate to restrain the recovery, and any additional appreciation

Table I.2. **General government financial balances**[a]

Per cent of GDP

	1997	1998	1999	2000	2001
United States					
Actual balance	–0.9	0.4	1.0	0.9	0.9
Structural balance	–1.2	–0.2	0.3	0.4	0.6
Japan					
Actual balance	–3.4	–6.0[b]	–7.6	–7.9	–7.2
Structural balance	–3.6	–5.1	–6.7	–7.0	–6.3
Euro area					
Actual balance	–2.6	–2.0	–1.6	–1.2	–0.8
Structural balance	–1.9	–1.6	–1.1	–0.9	–0.7
European Union[c]					
Actual balance	–2.5	–1.6	–1.1	–0.8	–0.5
Structural balance	–1.9	–1.3	–0.7	–0.6	–0.4
OECD[c]					
Actual balance	–1.7	–1.3	–1.2	–1.1	–0.8
Structural balance	–1.7	–1.3	–1.1	–1.1	–0.8

a) Actual balances are as a per cent of nominal GDP and structural balances are as a per cent of potential GDP.
b) Excludes the budgetary impact of the debt take-over of Japan National Railways Settlement Corporation and National Forest Special Account (5.4 percentage points of GDP).
c) Euro area and European Union figures exclude Luxembourg. Total OECD figures for the actual balance exclude, in addition, Mexico, Switzerland and Turkey and those for the structural balance further exclude the Czech Republic, Hungary, Iceland, Korea and Poland.

would pose a risk to the outlook. The dollar and the euro have been broadly stable in effective terms since the spring, their falls *vis-à-vis* the yen being largely offset by some firming *vis-à-vis* other trading partner currencies.

Fiscal policy will be broadly neutral in most countries

Fiscal policy is likely to be fairly neutral over the projection period. For the OECD area as a whole, the general government financial deficit may narrow somewhat (by around ½ per cent of GDP over the two years to 2001), reflecting a slight discretionary tightening in all major areas (Table I.2). In the United States, the actual financial surplus could remain broadly unchanged, as structural improvements are likely to be offset by a cyclical deterioration. Though the structural budget deficit in the European Union may fall only marginally, the recovery should allow for some more significant reduction in the actual deficit. For Japan, the supplementary budget expected to be introduced toward the end of 1999 should result in a modest easing of fiscal policy in 2000. However, some fiscal restraint is assumed to begin in 2001 as the recovery becomes more firmly established.

The recovery in the non-OECD area will stimulate OECD exports

Import demand in the non-OECD area will strengthen over the projection period (Table I.3). The strong recovery underway in most of the Dynamic Asian Economies has been accompanied by buoyant import demand, as companies have sought to rebuild import-intensive inventory stocks, but import growth could fall back somewhat when this stock adjustment has run its course. As the recoveries proceed in Russia and begin in Latin America in 2000, some pick-up in imports from these regions can also be expected. With only a small strengthening projected for trade between OECD countries, total world trade could expand by close to 7 per cent in 2000 before its growth eases to 6¼ per cent in 2001.

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

Percentage changes from previous period

	1998	1999	2000	2001
Merchandise trade volume				
World trade[a]	5.1	4.9	7.1	6.3
of which: Manufactures	5.8	5.7	7.4	6.5
OECD exports	5.4	3.9	6.7	6.4
OECD imports	7.6	7.2	7.0	6.3
Non-OECD exports	4.0	5.0	7.4	5.9
Non-OECD imports	–1.0	1.1	7.7	6.6
Memorandum items:				
Intra-OECD trade[b]	7.9	6.0	6.7	6.4
OECD exports to non-OECD[b]	–1.5	2.7	7.9	6.4
OECD imports from non-OECD[b]	3.8	5.3	7.2	5.6
Trade prices[c]				
OECD exports	0.1	–1.7	1.4	1.1
OECD imports	–1.6	–1.3	2.7	1.0
OECD terms of trade with rest of the world[d]	4.2	–1.5	–2.7	0.2

a) Growth rates of the arithmetic average of world import volumes and world export volumes.
b) Arithmetic average of the intra-OECD import and export volumes implied by the total OECD trade volumes and the estimated trade flows between the OECD and the non-OECD areas based on the 1994 structure of trade values.
c) Average unit values in local currency.
d) The OECD terms of trade is calculated as the ratio of OECD export to OECD import prices, excluding intra-OECD trade.

Table I.4. **Oil and non-oil commodity prices**

Percentage changes

	1998	1999	2000	2001
OECD import oil price (cif)	–34.2	37.2	27.8	0.8
Non-oil commodity prices[a]	–13.7	–7.7	2.3	0.7
Memorandum item:				
OECD import oil price (cif, $/barrel)[b]	12.6	17.3	22.1	22.2

a) Total commodity price index, excluding energy, Hamburg Institute for Economic Research. OECD estimate for 1999 and OECD projections for 2000 and 2001.

b) The data for the OECD crude oil import prices are average cif unit prices, that is, they include cost, insurance and freight but exclude import duties. Weighted average unit prices, taken from the *Monthly Oil Report* from the International Energy Agency (IEA), are obtained by dividing the total value of IEA imports by volume, using import volumes as current weights (for further information see the quarterly IEA publication *Energy Prices and Taxes*). Data are computed from the monthly crude oil import register reports submitted by national authorities to the IEA.

The oil price hike has increased headline inflation

The sharp rise in oil prices since the turn of the year (Table I.4) has reversed one of the factors that contributed to low inflation throughout the OECD area in 1998. The doubling of the oil price since last January, despite high world stocks, reflects close adherence to production cuts agreed among OPEC and some non-OPEC producers. This, in turn, has been supported by stronger demand, especially from Asia. While the rise in oil prices has worked to raise headline inflation somewhat, it is unlikely that oil market developments will have the large macroeconomic impact that they had in the 1970s and 1980s (see Box I.2). Prices of non-oil commodities have been mixed: food and beverages have continued to weaken throughout 1999 while industrial materials have rebounded. They are assumed to firm slightly in the near future and to remain unchanged in real terms from the second half of 2000.

Growth is set to slow in the United States but it will strengthen for the world as a whole

Output growth will vary considerably across the main OECD regions over the projection period. A gradual reduction in growth is projected in the United States from 3¾ per cent in 1999 to around 2¼ per cent in 2001, as business investment and consumer demand slow in response to further monetary tightening, continued easing of wealth effects and slower growth of real incomes. In the European Union, the rise in growth from around 2 per cent in 1999 to around 2¾ per cent in 2000 and 2001 is expected to take place against the backdrop of still comparatively favourable financial conditions and a rebound in export growth as world trade picks up. In Japan, improved consumer confidence and healthy household balance sheets could lead to moderate growth in household spending. Given this prospect and the recovery in emerging Asia, business spending, especially on inventories, may be less of a restraining force than in the recent past. Consequently, the exceptionally strong recovery in the first half of this year is projected to be followed by more steady growth around its potential rate, averaging somewhat less than 1½ per cent in 2000 and 2001. Given continued improvements outside the OECD area, world growth is projected to strengthen, averaging close to 3½ per cent in 2000 and 2001.

Unemployment could fall sharply in the European Union

A striking feature of the projections is the sharp decline in unemployment that is in prospect in the European Union. Despite the recent period of sluggish growth, unemployment has continued to decline. As the recovery gathers pace the unemployment rate may fall to around 8½ per cent of the labour force by the end of the projection period (Table I.5). This would be the lowest rate since the early 1990s and close to the estimated structural rate. Both unusually strong employment

Table I.5. **Unemployment and inflation**

	1998	1999	2000	2001
		Per cent		
Employment growth				
United States	1.5	1.5	0.8	0.4
Japan	–0.6	–0.9	0.2	0.3
Euro area	1.5	1.5	1.2	1.1
European Union	1.4	1.3	1.1	1.1
Total OECD	1.0	1.1	1.1	1.0
		Percentage of labour force		
Unemployment rate				
United States	4.5	4.2	4.2	4.6
Japan	4.1	4.7	4.7	4.7
Euro area	11.1	10.2	9.6	9.1
European Union	10.1	9.4	8.8	8.4
Total OECD	6.9	6.7	6.4	6.3
		Millions		
Unemployment levels				
United States	6.2	5.9	5.9	6.6
Japan	2.8	3.2	3.2	3.2
Euro area	14.3	13.3	12.5	11.9
European Union	17.0	15.9	15.1	14.4
Total OECD	34.4	33.4	32.5	32.4
		Per cent		
Inflation[a]				
United States	1.2	1.4	1.9	2.3
Japan	0.4	–0.6	–0.5	–0.3
Euro area	1.6	1.3	1.5	1.6
European Union	1.9	1.5	1.7	1.8
Total OECD less high inflation countries[b]	1.4	1.1	1.5	1.8
Total OECD	3.2	2.6	2.7	2.4

a) Percentage change in the GDP deflator from previous period.
b) High inflation countries are defined as countries which have had on average 10 per cent or more inflation in terms of the GDP deflator during the 1990s on the basis of historical data. Consequently, Greece, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

growth – partly related to earlier real wage moderation, labour market reforms and government job-creation measures – and the small size of increases in the labour force have contributed to the improvement. As the impact of reforms and special measures wanes, employment growth could decelerate slightly from around 1½ per cent in 1998-99, though remaining around 1 per cent throughout the projection period. In the United States, unemployment is projected to increase somewhat as the economy slows down, but the unemployment rate could still be below its estimated structural rate in 2001. The unemployment rate in Japan is expected to remain stable – at a level which is the highest since the 1950s.

Inflation is starting to rise in many countries but will remain low

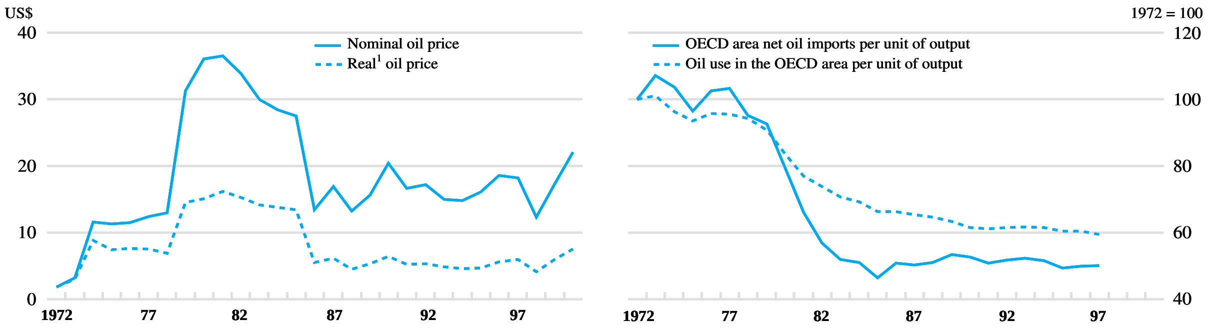
With the global upswing gathering momentum and pressure on resources rising, the long period of disinflation appears to be coming to an end in most of the OECD area. Nevertheless, inflation will generally remain low. In the United States, several factors that have helped to restrain price increases in the face of high capacity utilisation, such as falling oil prices, have weakened or reversed. As a result, the inflation rate is projected to rise somewhat from just under

Box I.2. The rise in oil prices: a cause for concern?

In recent years, the price of crude oil[1] has fluctuated quite sharply: from nearly $25 in early 1997, the price per barrel fell to below $11 in early 1999, and since then it has bounced back steeply to stand at about $22 in late-October. For 1999 as a whole, the oil price is estimated to average $17.3 per barrel, up 37 per cent from 1998. The reasons for the recent price increase are twofold. Most importantly, oil production has been reduced following the agreements between OPEC and some non-OPEC producers to restrict supplies in order to achieve a sustained increase in prices.[2] In addition, growth of world demand for oil, after having virtually stagnated in 1998, is estimated to have increased by 1.1 million barrels per day (mbd) this year (according to the International Energy Agency), as growth of economic activity has regained strength globally. The projected path of oil prices – see the figure below and Box I.1 – would leave the nominal oil price over the projection period some $6 above the average for the preceding decade. However, the real oil price would barely attain the level reached immediately after the first oil price shock in 1974.

A change in the oil price affects the world economy through several channels. A higher oil price implies an income loss for oil importing countries. Thus, if late-October prices, around $22 per barrel, were to be sustained for a full year and the volume of trade in oil was unchanged, oil importing countries would experience a rise

Trends in oil prices and oil dependence



1. Nominal oil import price deflated by the export price of OECD manufactures.
Sources: International Energy Agency, OECD.

1. The price of oil used here is the average OECD import price (unit value) per barrel including cost, insurance and freight. For comparison, the OECD import price (cif) averaged $12.6 per barrel in 1998 while spot prices (fob) for Brent averaged $12.8 per barrel, West Texas Intermediate $14.4 per barrel and Dubai Light $12.2 per barrel.
2. The participating OPEC and non-OPEC oil producers have pledged to reduce the supply of oil by a cumulated 5¼ mbd from its February 1998 level, representing a reduction of some 7 per cent of world oil output. Compliance with the production cut-back has been high, reaching about 90 per cent in the third quarter of 1999, well above the 70 per cent compliance achieved in earlier rounds of production cut-backs. See "Oil: Refining the Views", *Global Weekly Economic Monitor*, 17 September 1999, pp. 4-5.

1½ per cent in 1999 to around 2¼ per cent in 2001. Given the slack in the major euro area countries, inflation in the European Union will remain below 2 per cent on average, though it could exceed this rate in the United Kingdom and many smaller members of the European Union. In Japan, the large negative output gap will keep prices under intense downward pressure, but deflationary tendencies could become less strong towards the end of the projection period.

1. It should be noted that the global statistical discrepancies in trade and current account data have changed rapidly since 1997 in ways that suggest increased under-recording of exports. See below for more elaboration.

Box I.2. The rise in oil prices: a cause for concern? *(cont.)*

in their import bill of about $80 billion or ¼ to ½ per cent of GDP. Such a terms of trade loss would be somewhat smaller relative to GDP compared to that incurred during the Gulf crisis a decade ago (½ per cent of GDP), and only one sixth of what occurred in 1980 and one third to one fourth of what happened in 1974. The small impact compared to past experience reflects the large reduction in oil-dependence of OECD economies (figure).

A rise in oil prices operates to increase inflation and to lower output in most OECD countries as adjustments to the real income and terms of trade losses work their way through the economy, although the effect on output will be mitigated to the extent that exports to oil-producing countries are higher. In order to illustrate the orders of magnitude involved, the INTERLINK model has been used to simulate the effect of oil prices being $10 higher per barrel than in a baseline scenario, an absolute rise which corresponds roughly to the increase in OECD average import prices between the second half of 1998 and the second half of 1999. The usual caveats applying to this type of exercise should be borne in mind. In particular, the results presented here cannot be scaled up to obtain a picture of the effects of a price change markedly higher than $10 per barrel. The main assumptions underlying the simulations are:

- Non-OECD oil exporting countries are assumed to increase their imports by 80 to 90 per cent of the hike in export revenues after two years.
- Nominal exchange rates remain constant while real interest rates and real government spending are held at their baseline levels.

The key features of the economy-wide effects for the three main regions of the OECD area are the following:

- The inflation impact is largest in the European Union because the United States and Japan are estimated to have greater short-term real wage flexibility.
- The output effect is largest for Japan reflecting high dependence on imported oil, while in the European Union higher negative income effects (because of higher inflation) are offset by a larger share of the higher exports to OPEC countries.

The effects of a $10 oil price increase

Deviations from baseline, per cent

	One year after shock	Two years after shock
GDP level		
United States	–0.2	–0.2
Japan	–0.4	–0.5
European Union	–0.2	–0.2
Consumer price level		
United States	0.4	0.6
Japan	0.5	0.7
European Union	0.6	1.1
Current external account (% of GDP)		
United States	–0.1	–0.1
Japan	–0.2	–0.2
European Union	–0.1	0.0

Current account imbalances are set to persist

Current account imbalances of the major OECD regions are expected to persist over the projection period[1] (see Table I.6). Indeed, the current account deficit in the United States is projected to rise to above 4 per cent of GDP in 2000 and 2001, a higher level than reached in the 1980s. This reflects continuing strong domestic demand as well as rising servicing costs on the rapidly growing net foreign debt. The current account surplus in Japan is also set to rise somewhat, to around 3 per cent of GDP, as the strengthening of export markets acts to offset the impact of the rise in the yen. In the European Union, the current account surplus appears to have fallen to a fairly modest level in 1999, below ½ per cent of GDP, and is projected to remain unchanged. Elsewhere, large current account deficits, exceeding 4 per cent of GDP, are projected to persist throughout 2000 and 2001 in Australia, Hungary, Iceland, New Zealand and Poland.

Table I.6. **Current account balances**

	1998	1999	2000	2001
	Per cent of GDP			
United States	–2.5	–3.7	–4.2	–4.2
Euro area	1.3	0.8	0.7	0.8
European Union	1.0	0.3	0.3	0.4
Japan	3.2	2.7	2.8	3.0
Korea	12.6	6.2	3.6	2.4
	$ billion			
United States	–220.6	–337.5	–411.6	–421.8
Euro area	82.8	49.4	45.3	56.5
European Union	83.1	27.5	22.8	37.1
Japan	120.6	119.7	134.7	143.4
Korea	40.0	25.2	16.1	11.5
Dynamic Asian economies[a]	50.9	50.4	43.4	37.6

a) Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore; and Thailand.

Risks to the projections come from inside the OECD area…

There are important risks and uncertainties attached to these central projections coming from both inside and outside the OECD area. As discussed below, there are unusually large question marks surrounding the data which serve as the starting point for the projections and the underlying strength of the world economy in 1999 may be understated. This could point to a general upside risk to the projections. Shifts in sentiment in financial markets could also influence the outlook, generally for the worse. In this regard, three major risks stand out: equity valuations remain high in the United States and Europe, and may be vulnerable to sharp and disruptive corrections; continuing deterioration of the US current account position could undermine the dollar and aggravate emerging inflation pressures in the United States; and further rises in the yen would threaten the recovery in Japan. Finally, estimates of the level and rate of growth of productive potential, and hence the extent to which economies can accommodate stronger demand before inflationary tensions begin to emerge, are uncertain everywhere. In particular, strong employment growth in Europe could lead to rising inflation pressures earlier than projected.

… and from non-OECD economies

Although the situation outside the OECD area is improving, and there is a possibility that the recent experience of upside surprises may continue, recoveries are fragile. The need for continued structural reform and, in some countries, more sustainable macroeconomic policies points to a number of downside risks that could have important domestic and regional consequences if they were to materialise. These include:

– Recoveries in some of the Asian crisis countries could have a serious setback if efforts to restructure their banking and corporate sectors were to falter, and tighter financial conditions internationally could have adverse effects;

– The Chinese authorities might be unable to achieve their growth objectives if households were to cut back spending significantly due to heightened uncertainty and deflation, or if the financial condition of non-state enterprises were to worsen more than currently anticipated;

– The macroeconomic situation in Russia remains very fragile and the establishment of an efficient market economy continues to be undermined by weak governance structures;

– Failure to make public finances sustainable in Brazil, further pressure on the currency board system in Argentina as the economy slumps, or any aggravation of trade conflicts within the Mercosur trade area could result in renewed financial turbulence.

Finally, with regard to the very near future, the projections incorporate a judgement that the "millennium bug" will have no sustained macroeconomic effects that are not already apparent in the standard indicators and other available information on which the projections are based.[2] This judgement could prove to be too optimistic. Any major imbalance, beyond what is reflected in currently available information, between expenditures brought forward due to concerns about the bug and those delayed could impact on spending during 2000 in ways not envisaged here. In addition, any widespread malfunctioning that cannot be repaired quickly, either in OECD countries or in emerging market economies, could have negative effects on activity due to supply constraints. However, monetary authorities have put contingency plans in place to deal with any financial disruptions that might emerge, and action is being intensified to minimise the probability of significant effects on activity.

Current macroeconomic policy requirements in major OECD regions

Monetary stimulus will need to be withdrawn at some stage in most areas

In the near term, the challenge for macroeconomic policy management is to ensure that the recovery of the world economy takes hold while inflation remains low. With regard to monetary policy, the issue in most areas is the timing, and extent, of increases in interest rates. In Japan, where there is no reason to withdraw monetary ease in the near future, the issue with regard to fiscal policy is similarly how to manage the reduction of the unsustainably large stimulus now being provided. Elsewhere, fiscal decisions should largely be based on medium-term considerations discussed below; in the current context, it is important to avoid a pro-cyclical swing.

Unusual uncertainty exists about some economic data

The formulation of both fiscal and, especially, monetary policies must have regard to unusual uncertainty about the quality of some of the economic data which serve as an important part of policymakers' information base. The nature of the problems which changing classifications and revisions can create, as with national accounts, are well known and well understood even if their extent is not widely appreciated (see Box I.3). Of more immediate concern is that since the Asia crisis broke in 1997 identified imports have been rising substantially faster than recorded exports. As a result:

– The global current account discrepancy has risen from –$9 billion in 1997 to –$160 billion during the first half of 1999 at an annual rate. This figure is

2. See Box I.1 "The implications of the millennium bug for the macroeconomic outlook", *OECD Economic Outlook* 64, December 1998, p. 6.

Box I.3. Overhaul of the national accounts in OECD countries

OECD Economic Outlook 65[1] called attention to significant changes taking place in the methodology and statistical sources used to compile national accounts (SNA93 and ESA95). While these changes will ultimately provide a more comprehensive picture of developments in OECD economies and better international comparability, the gradual phasing in of the new accounting procedures implies that national accounts data will have to be interpreted cautiously during the transition period. The main changes and the issues they raise include:

– The level of GDP is raised and its past growth record is altered. Individual components of demand, notably business investment and government consumption, are often raised substantially (see table), while private consumption declines in about half of the OECD countries.

– During the transition period to the new system, derived series constructed from subsets of the accounts may be based on a mix of data from the old and new systems that are not directly comparable. For example, household saving in many countries will be derived as the difference between household disposable income recorded in appropriation accounts based on the old system and consumer spending as recorded on SNA93 basis. Moreover, since progress in the transition to the new system is uneven across countries, area aggregates such as the euro area and the European Union are also based on a combination of the two systems.

– A number of countries have so far only published the new series for a short historical time period, and the short run of historical data makes it impossible, for the time being, to fully update econometric work. Moreover, much existing econometric work may require re-estimation since the new national accounts are likely to result in changes to the underlying economic relationships.

Magnitude and range of impacts from the shift to SNA93 and ESA95 on selected indicators for 1995[a]

Impact on levels at current prices, in per cent

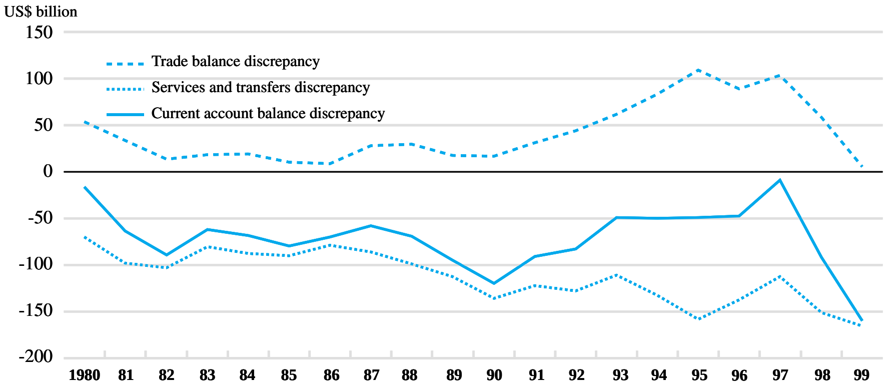
	Minimum		Maximum	
Gross domestic product	0.1	Mexico	7.2	Korea
Private consumption	–13.5	Belgium	10.7	Korea
Government consumption	–5.9	United Kingdom	47.4	Belgium
Business investment	–5.9	Mexico	30.0	Denmark
Government investment	–6.7	Denmark	42.2	Sweden
Household investment	–16.2	Australia	26.5	Denmark
Exports	–2.9	France	8.6	Italy
Imports	–1.1	Czech Republic	8.8	Denmark
Employment	–3.4	Czech Republic	4.5	Germany
Total compensation	–7.6	Finland	5.0	Denmark
Household transfers	–19.4	France	43.6	United Kingdom
Household direct taxes	–9.7	France	16.1	United Kingdom
Subsidies	–55.0	Sweden	4.6	Germany
General government financial balances[b]	–1.8	Australia	0.8	Finland
Total direct taxes	–9.9	France	18.0	United Kingdom
Indirect taxes	–10.4	Germany	9.2	France
Household savings ratio	–5.4	Norway	7.1	Denmark

a) In some cases, the comparison is distorted by simultaneous revisions to the underlying data.
b) Change in ratio to GDP, percentage points.

1. See Box I.2 "Shifting statistical grounds: overhaul of the national accounts in EU countries", *OECD Economic Outlook* 65, June 1999, pp. 6-7.

out of line with historical experience (Figure I.4) and implies that the recorded deterioration in the US deficit of around $150 billion during this period has no clear counterpart elsewhere.

Figure I.4. **Global trade and payments discrepancies**[1]

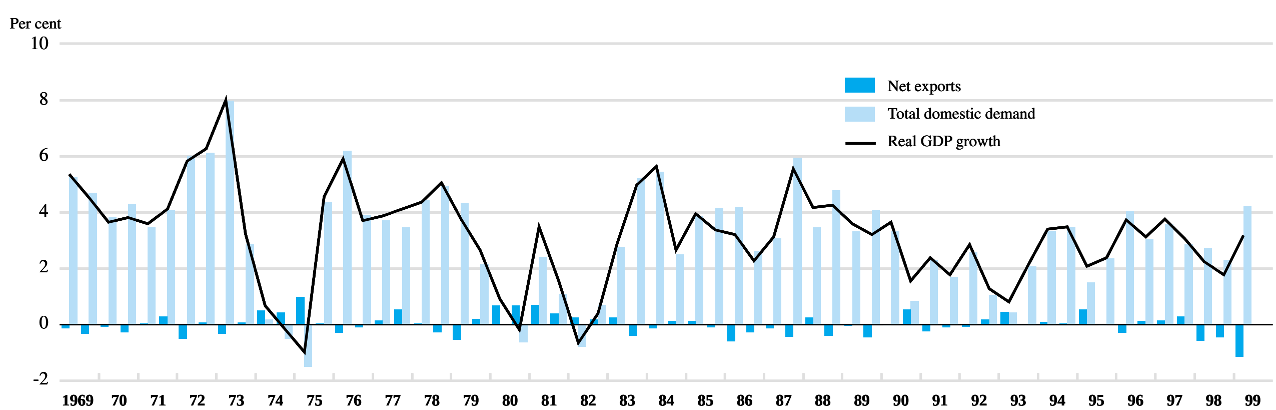


1. Figures for 1999 refer to the first half of the year at annual rates.
Source: OECD.

– During the first half of 1999 all major seven countries experienced negative contributions to growth from net exports. For the OECD area as a whole, the negative contribution is estimated to be 1.1 per cent of GDP, again far out of line with historical experience (Figure I.5). Taken at face value, the implication of this figure is that non-OECD countries enjoyed a positive contribution from net exports amounting to around $300 billion at an annual rate, a figure which seems implausible.

– While the OECD imposes reasonable global consistency on the projections, this has been implemented in terms of changes over time. No effort has been made to adjust available data or to compensate for its inconsistencies. The projections must be interpreted in this light.

Figure I.5. **Contribution to real GDP growth in the OECD area**



Source: OECD.

An immediate implication is that at the world level there is a large discrepancy between growth of total domestic demand and growth of output. This would appear to imply that policymakers collectively are assessing the economic situation on the basis of data that understate the growth of output in the world economy. In an environment of low interest rates in which most commodity prices have stopped falling and some, notably oil, have risen sharply, the risk of underestimating the strength of activity should be factored into policy formulation.

US monetary authorities face uncertainty about inflation pressures…

In the United States, the monetary authorities continue to be faced with considerable uncertainty about inflationary pressures in the economy. As discussed in the *OECD Economic Outlook* 65 published last June there is some evidence that trend labour productivity growth has risen as a result of capital deepening and that the structural unemployment rate has come down. Nonetheless, labour markets remain exceptionally tight and continued growth at recent rates will increase pressures on resources, even if potential growth rates have risen substantially. The rebound in oil prices and some other commodity prices also reverses one of the forces that have operated in recent years to push inflation down, and, as measured by the rise in the consumer price index or the GDP price deflator, inflation has risen slightly since 1998. On the other hand, evidence that underlying inflation is picking up remains mixed: core consumer price inflation and hourly earnings growth have been stable, and signs that employment costs and compensation per hour are accelerating remain scant (Figure I.6).

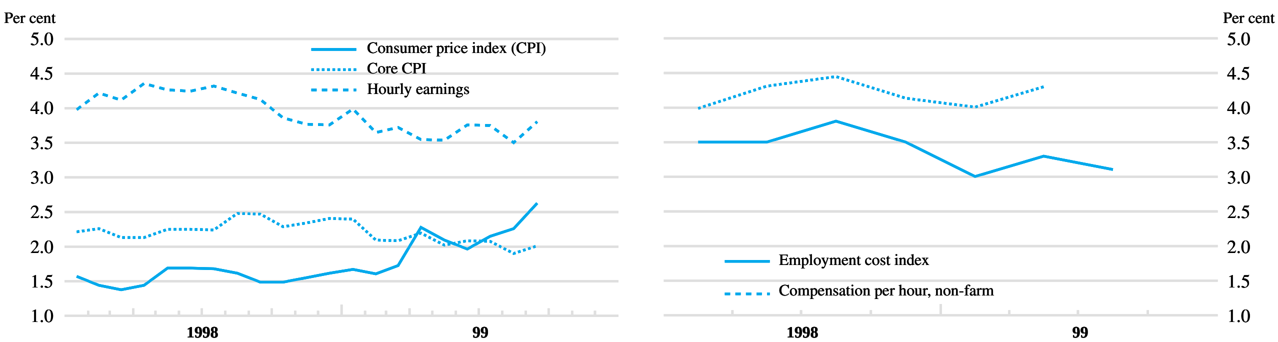
… but continuing strong demand calls for higher interest rates

At this point the strength of domestic demand appears likely to continue and, given improving export prospects, higher interest rates are likely to be necessary to slow the economy to a sustainable pace. The tightening during 2000 assumed in the projections, involving a rise in the federal funds rate to 6½ per cent, is expected to lead to a soft landing, in which growth falls to 2¼ per cent in 2001 while inflation rises only slightly. However, there are important tensions and imbalances in the US economy which point to risks that would require substantially different policy responses. A sharper rise in interest rates than assumed in the central projections might be called for if:

– Latent pressures implied by very tight labour markets were to manifest themselves as strongly rising inflation;

Figure I.6. **Inflation developments in the United States**

Year-on-year percentage changes



Source: Bureau of Labour Statistics.

– Fiscal policy were to turn pro-cyclical and expansionary, adding to the underlying inflation pressure; or

– The rising current account deficit and external indebtedness were to lead to a sharp decline in the dollar, thus reversing one of the forces that have worked to restrain inflation in recent years, even if exporters to the United States would probably allow their profit margins to absorb some of the effects.

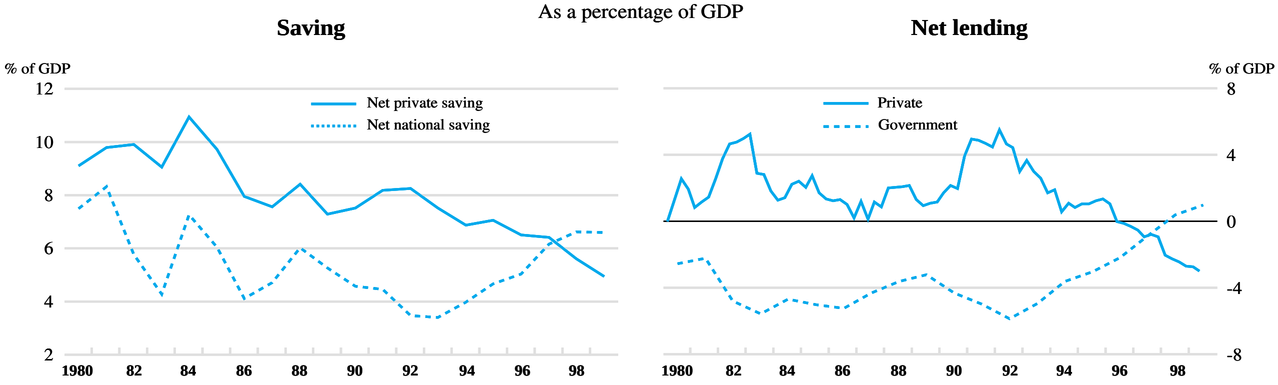
On the other hand, an easing of monetary policy might be warranted if:

– The private sector were to cut back spending significantly in order to reverse the substantial rise in indebtedness in the 1990s due to private saving lagging investment spending (Figure I.7); or

– A substantial correction of equity prices were to put strong downward pressure on private spending.

Figure I.7. **Saving and net lending in the United States**[1]

As a percentage of GDP



1. Data for 1999 refer to the first half of the year. Net saving is equal to gross saving minus depreciation of fixed assets. Net lending is the difference between total revenues and total spending.

Sources: Bureau of Economic Analysis and OECD, *Quarterly National Accounts.*

Tensions and imbalances could lead to an unfavourable outcome

Should one or more of these tensions and imbalances play a stronger role than assumed in the projections, the next few years could evolve less favourably. Box I.4 reports three scenarios designed to illustrate some of the possibilities, and the appendix to this chapter provides further elaboration. These scenarios prompt three observations:

– While none of these scenarios is highly probable, broadly similar episodes, or at least important elements of them, have happened before and other unfavourable possibilities exist. The Federal Reserve faces a wide range of uncertainties about prospective developments.

– Different scenarios could call for very different policy responses, so strong pre-emptive action could prove to be misdirected.

– All the scenarios reported would be worse for emerging markets than the soft landing envisaged in the central projections. Scenarios that warrant monetary tightening are likely to attract capital away from emerging markets and raise

Box I.4. The medium-term consequences of specific risks to the US economy

Three scenarios illustrating the wider consequences of specific risks to the US economy are compared below and in the figure opposite with the reference scenario reported in Box I.5. Further details of these risk scenarios, the underlying assumptions and mechanisms are given in the appendix to this chapter.

Boom-bust

In this scenario the US economy fails to slow and inflation accelerates steadily over the coming year. To bring it under control, the Federal Reserve has to raise interest rates sharply to around 8 per cent (compared with 6 per cent in the baseline), which in turn induces a marked slowdown in the domestic economy and a rise in the dollar. As a consequence, stock market prices fall by about 25 per cent in the US and by 12½ per cent in the other major OECD economies. Rather than a soft landing, the US economy follows a pronounced cycle over the period to 2005. In the short term, stronger than expected demand and tighter supply conditions lead to an acceleration of inflation to around 3½ per cent, whilst higher domestic demand and a higher real exchange rate (by 5 per cent in 2001) induce a further significant deepening of the external deficit, to around 4¾ per cent of GDP in 2000. With monetary tightening, a stronger dollar and stock market weakness, the economy slows abruptly in 2001 and contracts by about ¼ per cent in 2002. Beyond this period, a subsequent easing of monetary policy as inflation stabilises permits a progressive recovery in growth, with some reduction in the current account deficit. In the short term, the recoveries in Japan and the euro area benefit from stronger US growth and a stronger dollar which more than offset the negative effects from stock markets; but this is short lived as the impact of the US slowdown feeds through and monetary authorities in Europe raise interest rates to meet rising inflation. However, following the subsequent weakening of activity and inflation, a relaxation of monetary conditions is possible from 2003 on, which permits a resumption of steady low inflationary growth.

Significant weakening of the dollar

Driven by concerns about the worsening US external position, the US dollar falls in this scenario by 20 per cent in the first half of 2000. The Federal Reserve is assumed to tighten monetary policy to contain the inflation risk and, as in the boom-bust scenario, stock market prices fall by 25 per cent in the United States and by 12½ per cent in other major economies. Despite the stimulatory trade effects of dollar depreciation, the fall in financial wealth, inflation pressures and monetary tightening lead to a slowing of domestic demand growth in the short term. With inflation picking up to around 3½ per cent in the near term, short-term interest rates need to be maintained at 8 per cent or more in 2000 and 2001 to get inflation under control. Nonetheless, the fall of the dollar and slowdown in US domestic demand lead to a significant improvement in the US current account deficit, to around 2½ per cent of GDP. In the near term the recoveries in Japan and Europe are significantly weakened by currency appreciation and lower US demand. The effects are most pronounced in Japan, where room for monetary policy manœuvre is quite limited and, without supportive fiscal policy action, real GDP growth falls to ¾ per cent in 2000 and turns negative in 2001. In the euro area, the room for manœuvre is greater and reductions in short-term interest rates are sufficient to limit the consequences for growth. Beyond the short term, monetary relaxation and the progressive firming of growth in the United States and the euro area allow Japan to finally recover. The main counterpart to the improvement in the US current account position is seen in declines in the projected surpluses for the euro area and Japan.

Stock market correction

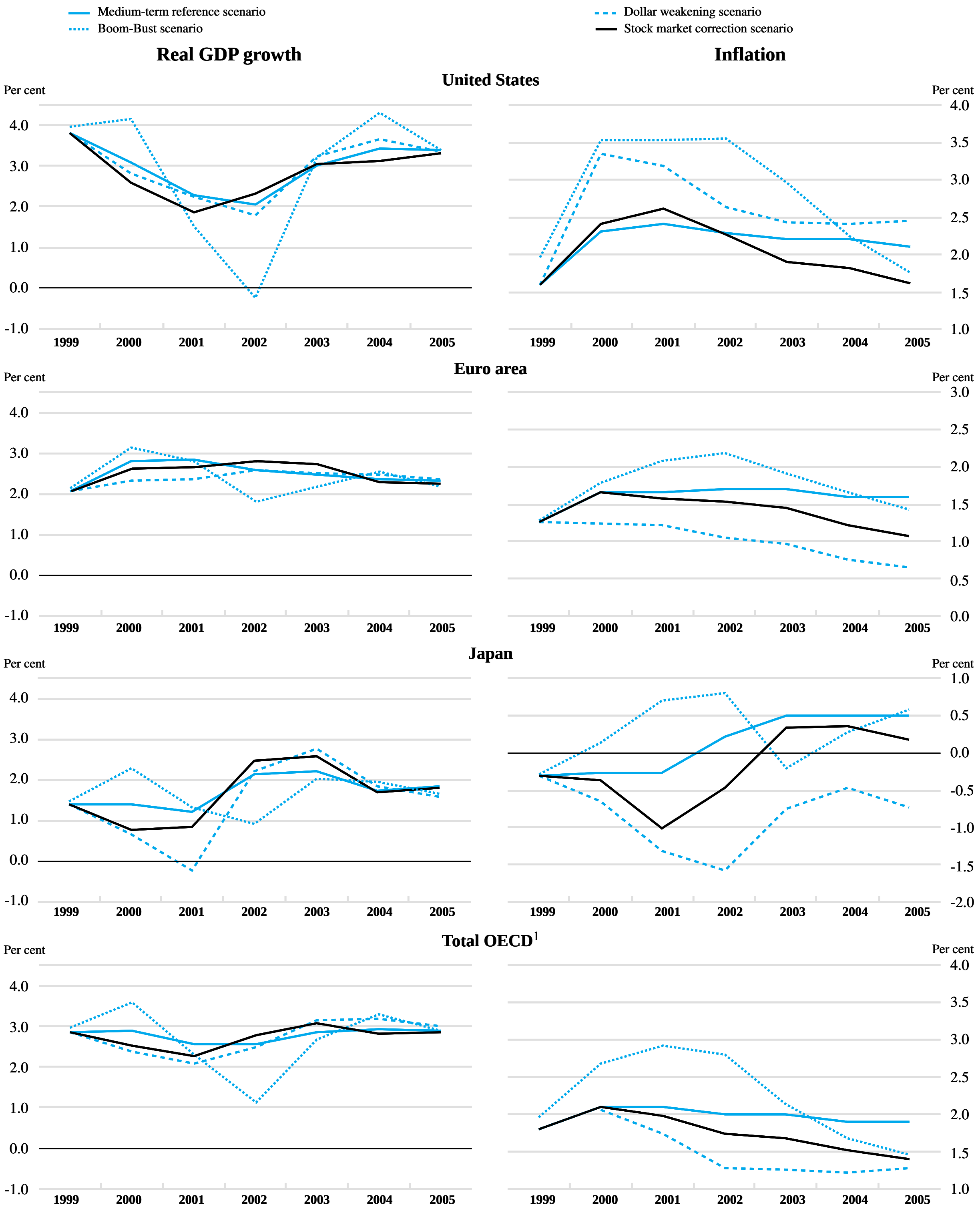
In this scenario, US stock market prices fall by 30 per cent at the beginning of 2000, and by 15 per cent in the other major OECD economies. In contrast to the previous scenarios, the Federal Reserve and the other main central banks are assumed to ease monetary policies significantly to support activity. In the United States, the weakening effect of the fall in stock market prices on domestic demand over the next two years is therefore partially offset by the effects of lower real interest rates and a lower US dollar, with growth reduced by about ½ percentage point in both 2000 and 2001 respectively. In spite of appreciation relative to the US dollar, the short-term slowdown in growth in the euro area is more limited, given a smaller impact of the fall of equity prices on consumption and investment. The overall impact in Japan is somewhat greater, because of the more limited room for monetary policy manœuvre, with the GDP growth rate falling to below 1 per cent in both 2000 and 2001. Over the longer-term horizon, the simultaneous reduction in interest rates in the main OECD regions nonetheless allows a recovery in growth, with low inflation.

debt servicing costs; those that call for lower interest rates may be similarly associated with a flight to quality, as bond markets in mature countries assume their traditional "safe haven" role in periods of turbulence.

In the euro area, inflation pressure is limited

The recovery now underway in the euro area faces the European Central Bank (ECB) with its first test of dealing with potential inflation pressures. At present, inflation tensions are very limited (Figure I.8), and the rise in the ECB's refinancing rate

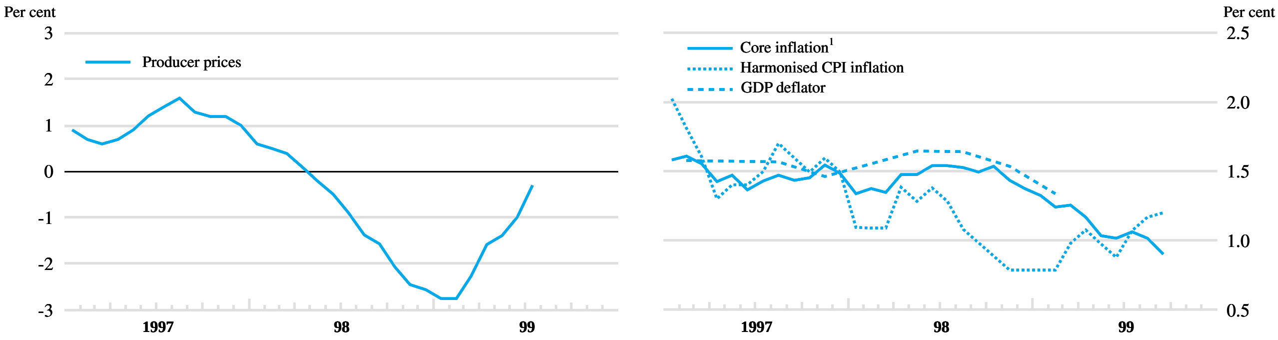
Box I.4. The medium-term consequences of specific risks to the US economy *(cont.)*



1. Excluding Turkey for inflation.

Figure I.8. **Inflation trends in the euro area**

Year-on-year percentage changes



1. Consumer prices excluding unprocessed food and energy.
Source: European Central Bank.

in early November must be seen as pre-emptive. Core inflation has continued to fall in the second half of the year, the year-on-year increase being less than 1 per cent in September, and available indicators on wage developments suggest only modest increases in labour costs. These developments should be considered against the significant slack still present in the euro area, even if the unemployment rate has come down sharply over the last year, and market liberalisation pushing down prices in some sectors. Furthermore, the deeper integration brought about by the creation of the single currency is likely to sharpen competition in the area, stimulating more efficient use of resources and allowing higher rates of resource utilisation while keeping inflation pressure in check.

Although there is no urgency, interest rates eventually must rise further

There is no urgency to raise interest rates further in the near future, but as the expansion gathers strength monetary policy will have to become steadily less accommodative. Should fiscal policy turn expansionary in response to surprisingly strong revenue growth in a number of countries (see below), further rises in interest rates might be needed earlier rather than later. Even with the broadly neutral fiscal stance and the moderate further rises in interest rates assumed in the projections, inflation is likely to drift up modestly over the coming two years as employment rises. The pace of tightening that will be necessary will depend on how well the structural reforms that have taken place in the euro area in recent years enable labour and product markets to respond without generating excessive wage and price increases. Even though the structural unemployment rate is projected to fall in a few countries as a result of already implemented reforms (notably in Finland, Ireland and Spain), the unemployment rate for the area as a whole could fall slightly below the estimated area-wide structural rate by 2001.

In Japan, stimulative policies are succeeding but the economy faces headwinds

In Japan, highly stimulative macroeconomic policies (Table I.7) have been reinforced by the progress that has been made in recapitalising the banking system, by the extension of credit guarantees to small and medium-sized enterprises, and by the rebound in emerging market economies affected by the Asia crisis of 1997-98. These factors have contributed to an earlier and a stronger recovery than had been widely expected. Given the favourable outlook in the world economy, improved consumer confidence and stronger profits in the business sector, the recovery, even though modest, is projected to generate an increase in employment. Nevertheless, the economy faces strong headwinds in the form of the large appreciation of the yen since the

Table I.7. **Japan: policy measures to stimulate the economy in 1999**

Government spending on goods and services	The November 1998 fiscal package included 8 trillion yen (1.6 per cent of GDP) additional government spending, and further expansionary measures were included in the initial budget for FY 1999.
Tax cuts and measures to boost disposable income	Corporate taxes were cut, reducing government revenues by more than 2 trillion yen. Reductions in personal taxes implemented in 1998 were continued in 1999. The distribution of vouchers to households cost the budget 0.8 trillion yen.
Monetary policy stimulus	The Bank of Japan adopted a "zero" interest rate policy in March 1999, driving the call rate down to close to zero by an injection of liquidity into the money market.
Injection of public capital into the banking system	The bank recapitalisation bill of October 1998 included 25 trillion yen in public funds to strengthen the capital base of solvent banks. In March 1999, 7.5 trillion yen were injected into 15 large banks. In September, four regional banks received 0.3 trillion yen of public funds to strengthen their capital base.
Expanded credit guarantees	A new credit guarantee scheme was established in October 1998 in order to overcome the "credit crunch". A ceiling was set at 20 trillion yen (4 per cent of GDP) for the period to March 2000. By September 1999, nearly 90 per cent of the additional guarantees had been committed. In October, the government raised the ceiling by 10 trillion yen, extended the period to March 2001 and announced that the eligibility requirements for the scheme would be tightened as from April 2000.
Measures to strengthen residential investment	Housing loan rates at the public Housing Loan Corporation (HLC) have been kept lower than conventional rules would have implied, and the ceiling on loans carrying the most favourable terms has been doubled until March 2000. New housing starts supported by the HLC accounted for 38 per cent of total housing starts in the first three quarters of 1999. Tax credits have been greatly expanded for housing loans contracted over the period January 1999 to December 2000. This could eventually cost the budget 1.7 trillion yen.
Increased public lending	The outstanding stock of public loans for non-housing investment expanded by 5 per cent (s.a.a.r) in the first eight months of 1999.

middle of 1998, ongoing corporate restructuring efforts that often involve downsizing and capacity reduction in the short term, and risks to confidence arising from concerns about the pension system, the sustainability of government finances and the solvency of parts of the insurance industry. Moreover, some of the various policy measures used to stimulate the economy are programmed to be withdrawn in the course of 2000.

Only as the recovery becomes self-sustaining should macroeconomic stimulus be withdrawn…

The large fiscal stimulus now being provided risks an unsustainable public debt explosion if it persists and must at some stage be withdrawn. The current easy stance of monetary policy needs to be maintained until the economy is sufficiently strong to allow fiscal consolidation to commence without compromising the recovery. Evidence that monetary transmission mechanisms are operating normally, and that the economy continues to recover, would be a signal to restore positive interest rates in the money markets.

… but with judicious timing and at a pace that the economy can absorb

In view of the downside risks which the negative forces noted above imply for the durability of the recovery, the withdrawal of policy support will require careful management and judicious timing to ensure that it is not done prematurely or with more pace than the economy can absorb. With regard to fiscal policy it would be prudent not to withdraw existing stimulus over the next year. This will probably require, as assumed in the projections, that the supplementary budget likely this autumn provides for around ¥ 5.5 trillion, or around 1 per cent of GDP. As local authorities are likely to offset the stimulus by cutting their capital spending somewhat, the net increase in public expenditure could be less than this.

Should the yen continue to appreciate and/or government bond yields continue to drift up, the recovery could, however, prove to be weaker than currently expected. With short-term interest rates having been driven close to zero, further easing of monetary policy cannot be achieved by standard operations in the money market. However, options still remain in the form of more aggressive intervention in the foreign exchange and government securities markets to hold the yen and long-term interest rates down while accepting any resulting impact on bank liquidity. While this would be unorthodox, there may be no alternative if the economy shows signs of faltering from its recovery course.

Some monetary tightening will be required in most Member countries outside the main currency areas

Outside the main currency regions, the monetary authorities in most countries will have to shift the stance of policy towards restraint before inflation tensions become strong. Policy rates have already been raised twice in the United Kingdom to forestall inflation pressures and further increases may be required. Resource constraints and brisk demand growth have led Australia to start to tighten monetary conditions and these considerations may soon warrant similar moves in Canada and Sweden. In Korea, the rebound in activity has been far stronger than seemed likely or even possible a year ago and it is doubtful that higher interest rates in line with global trends can be avoided if domestic inflation starts rising. Existing slack in New Zealand suggests that a tightening of policy can be put off for some time, whereas the combination of a sizeable negative output gap and low demand growth in Switzerland would point to a need for sustained supportive conditions. Given the commitments within the European Exchange Rate Mechanism, interest rate developments in Denmark and Greece will be closely linked to the stance adopted by the ECB and, in the case of Greece, by prospects for membership in the currency union.

Monetary policy settings in many emerging market economies in the OECD will continue to be constrained by large budget deficits, and progress in budget consolidation is a prerequisite in most of these countries to reducing inflation. This is notably the case in Turkey, where improved market confidence which would allow lower real interest rates will require not only progress in bringing the budget deficit down from its present level of more than 10 per cent of GDP but also structural reforms to curb public sector spending and improve the functioning of the financial sector. The authorities' task has been made more difficult due to the budgetary costs related to the August earthquake (see Chapter II "Developments in individual OECD countries"). The programmed tightening of fiscal policy in Poland and Hungary should help to reduce internal and external imbalances. In the Czech Republic, as the recovery takes hold, cuts in transfer spending will be required to ensure longer-term fiscal stability. In Mexico, the relatively healthy fiscal position and the slack in the economy should permit a reduction in interest rates without compromising the disinflation process.

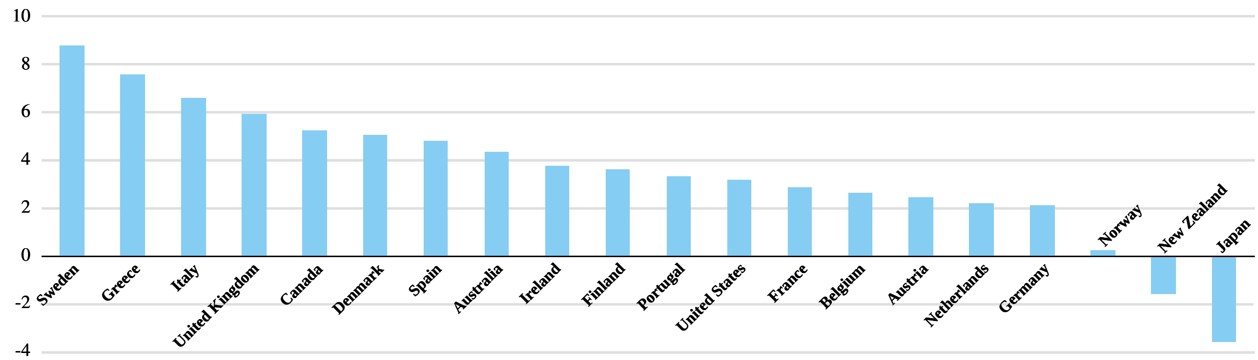
Medium-term fiscal priorities

Budget consolidation has progressed, although Japan is an exception

The latter part of the 1990s has been marked by a notable improvement in public finances in virtually all OECD countries. Through a combination of revenue increases, cuts in non-interest spending and lower debt-servicing costs, structural improvements in fiscal positions since the mid-1990s have amounted to more than 5 per cent of GDP in several cases (Figure I.9). Most "English-speaking" and Nordic countries have moved into a structural surplus, while structural budget deficits in many euro area countries were lowered significantly in preparation for monetary union. The major exception to the general fiscal improvement over the 1995-99 period has been Japan, where successive fiscal stimulus packages intended

Figure I.9. **Change in general government structural balance, 1995-99**

As a percentage of potential GDP



Source: OECD.

to revive a weak economy have already resulted in an alarming rise in government indebtedness, while contingent liabilities, arising from credit guarantees, risk aggravating this problem in the future.

In the medium term, debt ratios in most countries are likely to fall

With the progress that has already taken place and government commitments for the coming years, public debt ratios in most Member countries are expected to fall. According to the OECD's Medium-Term Reference Scenario, which incorporates official medium-term budget plans, gross public debt could fall by more than 15 per cent of GDP from 1999 to 2005 in a number of countries. Japan is a major exception where the gross debt-to-GDP ratio could rise by more than 40 per cent of GDP over the same period (see Box I.5). Substantial reductions in the debt-to-GDP ratio are likely to be recorded in countries already running sizeable budget surpluses. Thanks to declines in debt servicing costs and cyclical recoveries, debt-to-GDP ratios are expected to fall strongly in some highly indebted countries in the euro area (Italy, Belgium and Greece). However, the decline in the debt ratio for the euro area as a whole will be limited by comparatively modest ambition to reduce structural deficits in some of the other Member countries.

"Surprise" revenues do not form a sound basis for fiscal relaxation

Against the general background of improving public finances, recent strong growth in revenues has led to demands in some countries for fiscal relaxation. France, Canada, and Sweden have already announced tax cuts or spending increases and in other countries pressures are building up to make prompt use of surplus revenues. However, much of the improvement of public finances has been a surprise and, with the possible exception of Italy, largely reflects better-than-expected economic growth. It cannot therefore form a sound basis for a relaxation of the fiscal stance. If countries mistake cyclical improvements for a strengthening of the structural balance – as they have often done in the past – they will be throwing away part of the hard-won improvement achieved in public finances in the 1990s.

Over the medium term, policy issues differ across countries

In the medium term, the shifts that have taken place in public finances in the 1990s have changed the fiscal issues confronting policymakers. These issues differ significantly across three groups of countries:

– For most countries already running structural budget surpluses, the main issue is how to best use the strong fiscal position to improve economic performance;

Box I.5. The medium-term reference scenario

The OECD's medium-term reference scenario, which extends the short-term projections to 2005 (table below), is conditional on the following assumptions for the period beyond the short-term projection horizon:

- The gaps between actual and potential output are broadly eliminated by 2005;
- Commodity prices and most exchange rates remain broadly unchanged in real terms;
- Monetary policies are directed at keeping inflation low, or bringing it down in line with medium-term objectives;
- Fiscal policies (table on opposite page) are consistent with the stated medium-term objective of continued fiscal consolidation, achieved at fixed tax-to-GDP ratios via trend reductions in public consumption and social spending.

Medium-term reference scenario summary

Per cent

	Real GDP growth 2002-2005	Inflation rate[a]		Unemployment rate[b]		Current balance[c]		Long-term interest rate	
		2001	2005	2001	2005	2001	2005	2001	2005
United States	3.0	2.3	2.0	4.6	5.4	–4.2	–3.7	6.4	6.4
Japan	2.0	–0.3	0.2	4.7	4.0	3.0	2.9	2.6	4.5
Germany	2.0	1.3	1.4	8.3	8.1	0.5	1.1	5.8	5.6
France	2.3	1.3	1.5	9.6	9.1	2.4	2.4	5.9	5.7
Italy	2.7	1.5	1.5	10.7	10.0	0.9	1.4	5.9	5.7
United Kingdom	1.9	2.6	2.3	5.9	6.0	–1.2	–1.8	6.1	6.3
Canada	2.6	2.1	2.1	7.7	7.2	–0.1	0.4	6.1	6.2
Total of major countries	2.5	1.6	1.6	6.1	6.2	–1.1	–0.8	5.5	5.8
Australia	3.5	2.5	2.2	6.5	6.7	–4.3	–3.3	6.9	7.3
Austria	2.1	1.3	1.3	5.4	5.6	–2.9	–2.8	5.8	5.6
Belgium	2.2	1.4	1.7	9.8	9.8	3.6	4.3	5.9	5.8
Czech Republic	3.1	4.4	4.6	11.0	8.5	–1.4	–0.4	7.7[d]	8.0[d]
Denmark	2.5	3.0	2.6	6.0	6.3	0.0	0.6	6.2	6.3
Finland	4.1	2.4	2.2	8.6	8.0	6.0	6.6	6.0	5.8
Greece	3.9	2.6	2.0	10.2	8.2	–3.4	–2.6	4.3[d]	4.3[d]
Hungary	4.4	6.0	3.5	6.8	5.0	–5.3	–3.4	12.9[d]	8.0[d]
Iceland	2.3	5.7	4.6	2.4	3.7	–5.4	–3.6	11.5[d]	9.1[d]
Ireland	4.8	4.5	4.4	5.0	5.8	–2.3	–3.0	5.9	5.7
Korea	5.2	2.7	2.9	5.5	4.8	2.4	2.0	10.7	10.0
Mexico	4.8	8.5	6.8	2.7	2.7	–3.5	–3.5	14.2	11.4
Netherlands	2.4	2.5	2.4	3.4	3.8	4.0	4.4	5.9	5.7
New Zealand	2.7	1.7	1.9	6.1	5.8	–6.2	–3.5	6.9	6.5
Norway	2.5	1.7	1.8	3.9	4.0	10.2	10.5	6.3	5.6
Poland	5.2	5.0	3.5	10.3	8.2	–6.3	–4.8	12.3	8.6
Portugal	2.9	2.8	2.6	4.4	4.8	–8.0	–7.8	6.2	6.0
Spain	3.0	2.5	2.0	12.7	11.0	–2.9	–3.7	6.0	5.8
Sweden	2.0	2.2	1.9	4.0	5.1	1.9	2.8	6.2	6.2
Switzerland	1.7	1.1	1.3	2.3	2.0	7.2	7.5	4.1	4.2
Turkey	5.0	25.0	18.0	6.3	6.3	–2.3	–2.2	41.0	27.0
Total of above European countries	2.6	2.0[e]	1.9[e]	8.2	7.6	0.5	0.7	6.2[e]	5.9[e]
Euro area	2.4	1.6	1.7	9.1	8.6	0.8	1.1	5.8	5.7
Total of above OECD countries	2.8	2.0[e]	1.9[e]	6.3	6.2	–0.9	–0.7	6.1[e]	6.2[e]

Note: For further details see "Sources and methods: OECD Economic Outlook", which can be downloaded from the OECD Internet site (http://www.oecd.org/eco/out/source.htm).

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

Box I.5. The medium-term reference scenario *(cont.)*

The current version features a continuation of the short-term area-wide expansion, with medium-term growth of around 2¾ per cent and growth in world trade recovering to an average 7½ per cent. Area-wide inflation remains stable at around 2 per cent; the average unemployment rate falls over the period but remains high in a number of European countries. In spite of the closure of output gaps, the present levels of current account imbalances between major OECD countries and regions persist over the medium term, reflecting mostly underlying structural factors.

Fiscal trends in the medium term

As a percentage of nominal GDP

	Financial balances[a]		Gross financial liabilities[b]			Gross public debt (Maastricht definition)[c]	
	1999	**2005**	**1999**	**2005**	**Change etween 1999 and 2005**	**1999**	**2005**
United States	1.0	1.7	59.3	47.2	–12.1		
Japan	–7.6	–6.5	105.4	148.8	43.4		
Germany	–1.6	–0.3	62.6	56.0	–6.7	60.4	53.8
France	–2.2	0.0	65.2	56.8	–8.4	59.1	50.7
Italy	–2.3	0.5	117.7	97.5	–20.2	118.3	98.1
United Kingdom	0.7	0.4	54.0	40.9	–13.1	46.3	33.2
Canada	1.6	1.5	86.9	64.3	–22.6		
Total of above countries	–1.3	–0.3	73.4	71.0	–2.4	70.0	58.6
Australia	0.7	0.9	31.3	23.1	–8.2		
Austria	–2.1	–1.5	63.3	63.8	0.5	63.0	63.5
Belgium	–1.0	0.0	114.1	94.3	–19.8	116.0	96.2
Czech Republic	–5.1	–4.5					
Denmark	2.9	3.5	55.4	31.4	–24.1	53.8	29.7
Finland	3.0	5.8	44.9	19.2	–25.7	44.9	19.2
Greece	–1.6	0.4	103.8	88.1	–15.8	104.7	89.0
Hungary	–4.0	–3.6					
Iceland	1.3	1.8	39.8	21.3	–18.6		
Ireland	3.4	3.8	43.9	6.2	–37.7	40.8	3.1
Korea	–0.1	3.0	13.7	25.2	11.5		
Netherlands	–0.6	0.0	62.9	49.6	–13.3	65.4	52.1
New Zealand	0.0	2.3					
Norway	4.9	8.7	34.3	18.8	–15.5		
Poland	–3.0	–1.1					
Portugal	–1.8	–1.1	56.6	47.6	–9.0	56.7	47.7
Spain	–1.4	–0.5	70.4	61.9	–8.5	65.2	56.7
Sweden	2.3	2.1	68.3	42.3	–26.0	68.8	42.8
Total of above European countries	–1.2	0.1	72.5	60.2	–12.3	68.4	56.5
Euro area	–1.6	0.1	74.8	63.3	–11.5	72.9	61.4
Total of above OECD countries	–1.2	–0.1	70.2	66.8	–3.4		

Note: For further details see "Sources and methods: OECD Economic Outlook", which can be downloaded from the OECD Internet site (http://www.oecd.org/eco/out/source.htm).

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

b) 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.

c) The Maastricht definition of gross public debt is based on data provided by the Commission of European Communities up to 1998 and projected forward in line with the OECD projection for GDP and general government financial liabilities.

– For some of the euro area countries still planning to run budget deficits over the short and medium term and set to have high, albeit declining, debt ratios, the issue is whether more ambitious fiscal targets are called for to meet future challenges;

– For Japan, the issue is how to arrest the explosive growth of the debt ratio.

"Budget surplus countries" have a number of alternatives

The "budget surplus countries" have different plans to use their fiscal strength. In the United States, the administration has announced that it intends to preserve a large part of the prospective budget surpluses up to 2015 to repay outstanding public debt and that the remainder will be used both to fund spending increases and reduce taxes. Other surplus countries have not stated explicitly how they intend to use their strong fiscal position. Australia, where the structural surplus is relatively small, has a medium-term policy of keeping the budget in balance over the cycle and Denmark, Sweden and Finland aim at keeping a fiscal surplus over the cycle, allowing a steady reduction of debt. These goals limit the scope for spending increases or tax cuts, although any structural improvements beyond medium-term targets would be available for these purposes.

The alternative ways of employing prospective surplus revenues can be expected to yield significant economic benefits, and the best use will differ from one country to another:

– Reduction of government debt is likely to increase national saving and crowd in private investment. This would increase the productive potential of the economy and strengthen its capacity to meet future challenges, notably those related to the ageing of the population. While this would be useful employment of prospective surplus revenues in all countries, it would be particularly appropriate in those with low national saving and those facing exceptionnally strong demographic challenges in the future.

– Tax reductions, aimed at lowering the most distortionary effects of the government revenue-raising system, could increase economic efficiency. Notwithstanding tax reforms since the 1980s in most of the "budget-surplus countries", continued large ratios of government revenues to GDP in many of them suggest that the tax system may inflict sizeable efficiency losses on the economy. It might be particularly opportune for the Nordic countries to use some of the prospective revenue surpluses to fund a tax reform.

– Public expenditure may also yield significant benefits, particularly in areas that have been severely squeezed or that may be associated with positive externalities, but proposals should be subject to careful scrutiny to ensure that they offer clear value for money.

In the European Union, stronger consolidation would permit greater scope to deal with shocks…

In the European Union countries, the fiscal consolidation in recent years has increased the scope for automatic stabilisers to work without unduly compromising public finances. Indeed, when countries have completed the budget improvements in 2002 needed to achieve the goals set out in their Stability and Convergence Programmes (Table I.8), their automatic stabilisers will be able to operate freely during a normal downturn without taking deficits beyond the limit of 3 per cent of GDP stipulated in the Stability and Growth Pact. However, the target budget balance would leave countries with little scope for discretionary counter-cyclical fiscal policy to meet adverse shocks. Moreover, a deeper-than-normal recession could entail "excessive" deficits, and prompt destabilising fiscal contractions unless exemption clauses in the Pact were to be evoked. For

Table I.8. Government budget positions in EU countries: projections and targets

Per cent of GDP

	2001 projection	2002 target
Austria	–2.2	–1.4
Belgium	–0.9	–0.3
Denmark	2.4	2.6
Finland	5.1	2.3
France	–1.2	–1.0
Germany	–0.9	–1.0
Greece	–1.1	–0.8
Ireland	4.0	1.6
Italy	–1.3	–0.6
Netherlands	–0.1	–1.1
Portugal	–1.4	–0.8
Spain	–0.7	0.1
Sweden	2.5	2.0
United Kingdom	0.8	–0.1

Source: OECD projections for 2001; target for 2002 as reported by the European Commission.

these reasons, it seems prudent for EU countries to err on the side of caution and attempt to use the recovery under way to realise stronger fiscal positions than called for at present.

... and is appropriate to deal with future challenges due to ageing

Future spending pressures related to ageing reinforce the case for stronger fiscal positions. Although past pension reforms in some countries may have reduced or stabilised the ratio of pension outlays to GDP in the coming decade,[3] ageing-related public spending is set to increase substantially thereafter unless further deep reforms of pension and health systems are put in place. Until such reforms are introduced, future demographic developments risk undermining fiscal stability. By adopting more ambitious fiscal targets, the authorities could limit the risks of fiscal destabilisation.

Japan needs to arrest the alarming rise in public debt

In Japan, measures will have to be taken to arrest the explosive growth in public debt as soon as this can be done without compromising the recovery. The needed tightening of fiscal policy to make public finances sustainable is very large.[4] Much of this consolidation will have to come from cuts in public works programmes that have expanded massively during the 1990s. While these have proved useful to support demand during the recession, they have proved to be inefficient and cannot indefinitely be maintained on the same scale as before. However, cuts in public works programmes and other spending categories can only be expected to contribute a part of the required tightening. The remainder will have to involve revenue increases, and this calls for a broadening of the personal tax base and an increase in consumption taxes in order to minimise adverse effects on efficiency.

3. See D. Franco and T. Munzi (1996), "Public pension expenditure prospects in the European Union: A survey of national projections", *European Economy,* No. 3.
4. See *OECD Economic Surveys*, Japan, Paris, 1999.

Sustaining the momentum for structural reforms

Recoveries may slow structural reforms

The improving global outlook might invite the danger that governments will become complacent and slacken their resolve to push through structural reforms that improve adaptability and strengthen the capacity of their economies to deliver high living standards. However, failure to continue with reform efforts during good times often proves costly when poorer cyclical conditions subsequently highlight problem areas. This calls for perseverance in dealing with outstanding structural problems, even if for a time they appear less pressing, not least in order to be well placed to address the new issues that are coming onto the agenda.

In Europe, many countries need to improve labour market performance

Two particular areas stand out where continued reform and structural adjustment are urgent but may slow as cyclical conditions improve. One is labour markets, notably in many European countries. A recent evaluation[5] shows that a number of countries have made substantial progress in implementing the detailed and comprehensive country recommendations contained in the *OECD Jobs Strategy*, and that these same countries have also been successful in improving their labour market performance. Thus, policy measures pursued over a number of years in Denmark, Ireland, the Netherlands, New Zealand and the United Kingdom have had positive effects on several performance indicators for the labour market, while more recent actions in Australia, Canada and Spain appear to have succeeded in lowering structural unemployment rates in these countries. By contrast, a number of European countries have been slow to implement many of the recommendations of the Jobs Strategy. This is notably the case for three of the major European countries (Germany, France and Italy) that now have higher actual and estimated structural unemployment rates than in 1990. Particularly in France and Italy, the projected strength of demand will test the ability of labour markets to respond in a flexible and non-inflationary way, although in France the employment-intensive character of recent growth is an encouraging sign.

In Asia, progress in dealing with banking problems must continue…

Second, Japan and Korea, as well as most non-member Asian emerging market economies, now recovering from the recent crisis, must persist in their effort to strengthen financial markets and restructure their corporate sectors, even as their economic conditions continue to improve. One immediate task is to deal with remaining balance sheet problems in financial sectors. The Japanese authorities have made considerable progress in dealing with the backlog of non-performing loans in the banking system and recapitalising it, but restructuring and adjustment are likely to take several years to complete and ultimate success is still not assured. Potentially large problems in the life-insurance industry have also not yet been addressed and require urgent action. In Korea, banks remain exposed to continuing losses on loans to large customers, and further capital injections may be required to strengthen banks' balance sheets; government intervention may also be needed to deal with widespread insolvency in non-bank financial institutions.

… and corporate restructuring is proving to be slow

Less progress has been made in Japan and Korea with corporate restructuring, often involving debt reduction and capacity cut-backs. Despite evidence of excess capacity, management in large integrated companies has resisted asset sales, which would facilitate debt reduction, and the closure of unprofitable units. Furthermore, there has been little effective pressure for restructuring coming from banks, "weak"

5. OECD, *Implementing the OECD Jobs Strategy – Assessing Performance and Policy*, Paris, 1999.

banks being unlikely to resist credit demand from large customers or to take action that might make their own balance sheet problems more transparent in the short run. While in both Japan and Korea most of the necessary legislation to ensure market-driven restructuring has been passed, more needs to be done to make the adjustment processes operate better – for example, Japanese property markets continue to see too little turnover to facilitate better use of land and buildings. Furthermore, government involvement in recapitalisation and restructuring of financial institutions has reached the point where the authorities cannot avoid taking greater responsibility for the management of many of these institutions. They must play an active, even if indirect, role in putting pressure on banks' customers to adjust. Over the longer term, nationalised banks should be transferred back to the private sector.

Progress has been made in some areas on the structural policy agenda for the 1990s

In addition to these immediate issues, much unfinished business of a longstanding nature remains on the structural policy agenda. This agenda, as it appeared at the start of the 1990s (Box I.6), provides a useful reference point for putting the progress that has been made, and that which has not, into perspective. Some clear successes have been achieved during the past ten years.

– In *financial markets*, most remaining regulations limiting the ability to transact business at market clearing prices (direct controls on interest rates, credit allocation, access to foreign exchange and capital account transactions) have been abolished and replaced by market mechanisms. Regulations affecting institutional boundaries and market access within the financial sector have also come under pressure, as with the recent agreement to repeal Glass-Steagall restrictions in the United States. This has tended to increase the scope for competition, but liberalisation in these areas has been less extensive.[6]

– The most important item on the *international trade* agenda ten years ago, the successful completion of the Uruguay Round, has been achieved. It has worked to restrict the use of non-tariff barriers and to increase the transparency of border measures through "tariffication" (Table I.9). The creation of a

Table I.9. **Trade-policy indicators 1988-96**

	Average tariff rate,[a] all goods			Non-tariff barriers, import coverage ratio		
	1988/89	1993	1996	1988	1993	1996
United States	4.4	4.7	5.2	16.7	17.0	7.7
European Union	8.2	8.4	7.7	13.2	11.1	6.7
Japan	4.2	3.6	3.4	8.6	8.1	7.4
Canada	8.7	8.4	12.1	5.7	4.5	4.0
Norway	5.3	4.0	22.3	13.8	11.1	3.0
Switzerland	4.8	4.5	3.2	13.2	13.2	9.8
Australia	11.2	6.6	4.2	8.9	0.4	0.6
New Zealand	10.6	5.7	5.1	11.5	0.2	0.2
Mexico	11.0	12.9	18.0	18.6	17.4	6.9

a) Production weighted.
Source: OECD, *Indicators of Tariff and Non-Tariff Trade Barriers*, 1997, Paris.

6. For an overview see Chapter 2 in OECD, *The OECD Report on Regulatory Reform, Volume I: Sectoral Studies*, Paris, 1997; and M. Edey, and K. Hviding, "An assessment of financial reform in OECD countries", *OECD Economic Studies*, No. 25, 1995 II.

Box I.6. Structural reform agenda for OECD countries at the start of the 1990s

A decade ago, as part of its ongoing surveillance of structural policies, the OECD reviewed the progress that OECD countries had made with structural reform in nine major areas. The review was finished in early 1990 and the results were reported in a supplement of *OECD Economic Outlook* 47, published in June 1990. The main problem areas and reform agenda they implied, identified in the report, are set out below. Significant progress has been made in some of the areas, but as noted in the main text, others still remain on the current agenda.

Financial markets

- The range of financial instruments in securities and money markets remained narrow in some countries.
- Official controls or gentlemen's agreements sometimes regulated interest rates, the direction and/or the volume of capital flows, while banks remained at least partially exempt from competition legislation.
- Competitiveness remained contingent upon reforms in areas such as taxation, foreign direct investment, and competition policies.

Foreign Direct Investment

- Local content requirements, restrictive rules of origin and inconsistent application posed a risk to investment flows.
- Reciprocity requirements risked leading to restrictive regulations, particularly in banking and financial services (but the EC Second Banking Directive was seen as a positive force).
- The Exon-Florio amendment to the 1988 US Trade Bill, which gives the president the right to veto foreign acquisitions or to require divestment on national security grounds, was a concern.
- There was felt to be a need to strengthen the National Treatment instrument and Capital Movements Code at the OECD.

Taxation

- Top personal tax rates were high; dispersion of consumption tax rates was wide within and between most countries.
- Inadequate integration of taxation, social security financing and benefit systems discouraged labour force participation.
- Effective marginal tax rates on labour and capital varied widely. Incomplete integration of personal and corporate taxation, coupled with interest-cost deductibility, encouraged debt financing.
- Further scope for broadening tax bases existed in many countries.
- Liberalised capital markets threatened to lead to tax avoidance where tax rates differ substantially across frontiers.

Competition policy

- The power of dominant firms in telecoms and transportation, especially where they controlled complementary infrastructure (*e.g.* networks; runway capacity and terminal facilities) impeded the functioning of markets.
- Deregulation of air transport at the international level was limited.
- It was stressed that privatisation needs to go hand in hand with increased competition if the full benefits are to be secured.
- Competition policy needed to be applied more vigorously to professional services.

International trade

- Successful completion of Uruguay Round was still needed.
- Efforts to ensure that regional integration conforms with strengthening the multilateral trading system were needed.
- Resort to anti-dumping actions had been increasing and countervailing duties had been applied to a disturbing extent.
- Super 301 of the 1988 Trade Law in the United States raised concerns about its unilateral character.
- Non-tariff barriers and resort to managed trade were increasingly being accepted.
- Action was needed to promote and improve transparency concerning mechanisms and effects of trade policy; enhanced surveillance was suggested.
- Action was needed to promote stronger international disciplines for the use of safeguards, anti-dumping, countervailing duties, rules of origin and subsidies.

Agriculture

- Substantial, progressive reductions in agricultural support to be sustained over an internationally agreed period of time were necessary.

Industrial policy

- Greater transparency of measures, instruments and application criteria, and accepted international rules of the game for support policies were necessary.
- To improve transparency and rules of the games, internationally comparable data on industrial subsidies and improved methods of evaluation (*e.g.* calculating effective rates of assistance) were necessary.

Labour markets

- It was necessary to establish legal and institutional frameworks for wage negotiations which ensure that wages adjust to structural changes in demand and supply in industries, regions and skills.
- Social transfer programmes needed to tighten links between income support and participation in education and employment programmes.
- Greater efforts to promote opportunities for training and retraining in order to ease life-long learning processes were desirable.
- Greater flexibility in employment contracts and lower costs of dismissal protection were desirable.

Public sector

It was felt to be desirable to:

- Reconsider where the division between public and private sector and activities should lie.
- In social policy area, routinely analyse government interventions for their effects on private incentives.
- Find more efficient instruments for redistributive goals.
- Make better use of market testing of government activity.
- Improve public procurement practices, especially by allowing foreign suppliers to compete on even terms.

formal trade dispute settlement system could also prove to be a lasting success of the Uruguay Round.

– The *regulatory framework for telecommunications* has been overhauled in most Member countries.[7] The typical OECD country is now characterised by free entry in most services and by a sectoral regulatory agency managing pre-established interconnection rights. Large segments of the industry continue to be dominated by the incumbent operators, but they are coming under increasing pressure from new entrants.

Much remains to be done to cut state aid to agriculture and other sectors

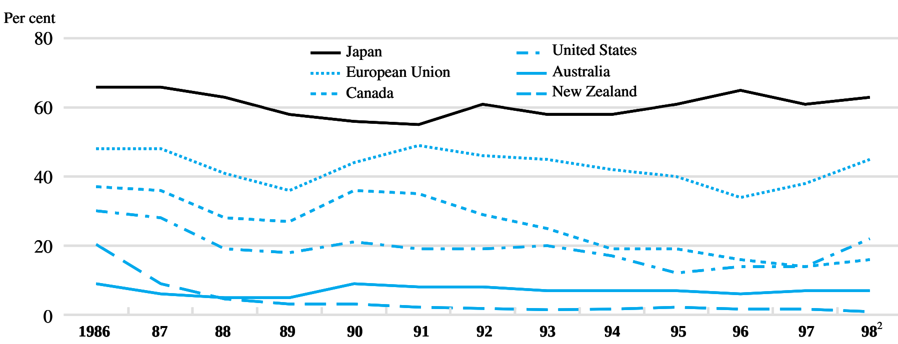
Many other items on the agenda, however, have proved to be more difficult. It has already been noted that progress on labour market reforms has been uneven, and several other areas fall into this category. Progress has been particularly slow in cutting *state aid to agriculture and industry.* Indeed, support levels in agriculture in the main OECD regions have been broadly stable in the 1990s: at around 60 per cent in Japan, at 40 per cent in the European Union and at 20 per cent in the United States (Figure I.10). More progress is still required in developing up-to-date internationally-comparable transparent indicators of effective support to other sectors, and it remains difficult to assess the evolution of industrial subsidies in the 1990s. Data from the European Commission on state aid (including regional, research and development and sectoral support) for the fifteen EU countries suggest that aid levels may have fallen somewhat, but that they are still quite high in a few EU countries.

Concerns remain about the use of certain potential trade barriers…

Notwithstanding the completion of the Uruguay Round, some of the concerns expressed about *trade policy* in 1990 still remain valid. Thus, a few countries retain the right to take unilateral trade action (*e.g.* the United States); and some forms of potential non-tariff barriers, notably anti-dumping actions and country-specific technical standards, continue to be widely used.[8] Also, the authority of the recently created trade dispute settlement system remains to be firmly established.

Figure I.10. **Protection in the agriculture sector**

Producer support estimates[1]



1. Measured as a percentage of the value of agricultural production at domestic market prices plus net direct transfers.
2. Data for 1998 are provisional estimates.
Source: OECD, PSE/CSE Database.

7. See O. Boylaud and G. Nicoletti, “Regulation, market structure and performance in telecommunications”, *OECD Economics Department Working Paper,* forthcoming.
8. See Chapter VIII in *OECD Economic Outlook* 65, June 1999; and J. Coppel and M. Durand (1999), “Trends in market openness”, *OECD Economic Deparment Working Paper*, No. 221.

… and there is much unfinished business in making product markets more competitive

Notwithstanding some progress in strengthening the legal framework governing *competition* in product markets in most Member countries in the 1990s, market discipline is still weak in some areas and some countries. Potential weaknesses include:

– Legal and administrative barriers to competition are common in several countries. These include legal limits on the number of competitors in certain markets (Austria, Denmark and Italy) and burdensome regulatory and administrative arrangements (Belgium, France, Italy and Turkey).

– Despite widespread privatisation efforts in the OECD area in the 1990s (Figure I.11), large state ownership in many countries (Austria, Italy, France, Portugal, Turkey and some transition economies) runs the risk of distorting or weakening competition.[9]

– Notwithstanding liberalisation of the electricity supply industry in a few countries (Finland, New Zealand, Norway, Sweden and the United Kingdom) and attempts to establish a single electricity market in the EU, consumers of electricity in most countries have little, if any, choice in shopping around for the best price.

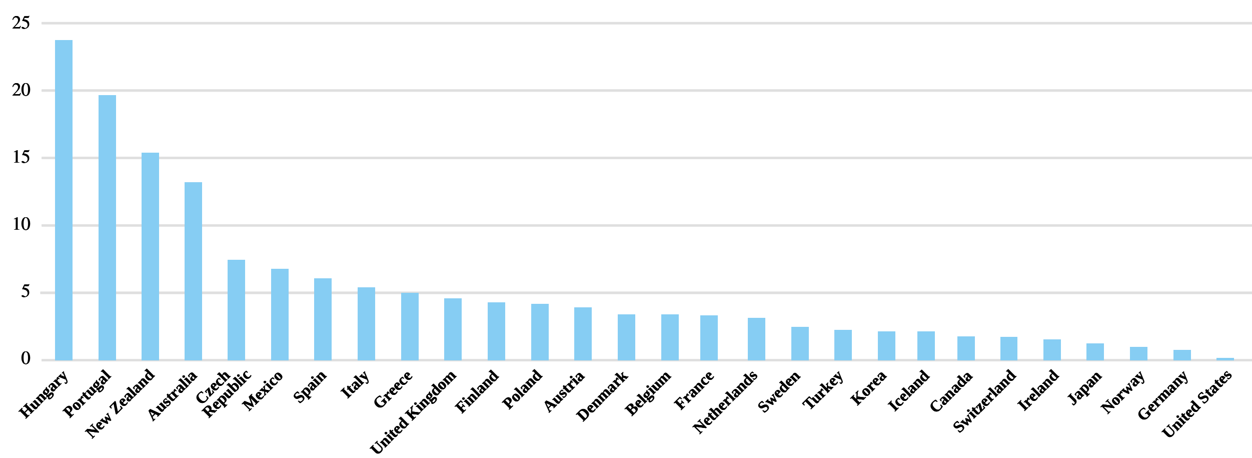
– Transportation sectors, such as railways and road haulage, also remain subject to entry and operational controls in several countries. International air transport remains governed by a complex set of bilateral treaties between governments.

Tax systems continue to discourage economic efficiency unnecessarily

Though *tax reforms* have been implemented in several countries in the 1990s, tax systems continue to distort economic decision-making unduly. Indeed, most of the concerns expressed about the tax system ten years ago still remain valid. Thus, marginal tax rates in excess of 50 per cent on the earnings of an average production

Figure I.11. **Cumulated privatisation proceeds, 1990-98**

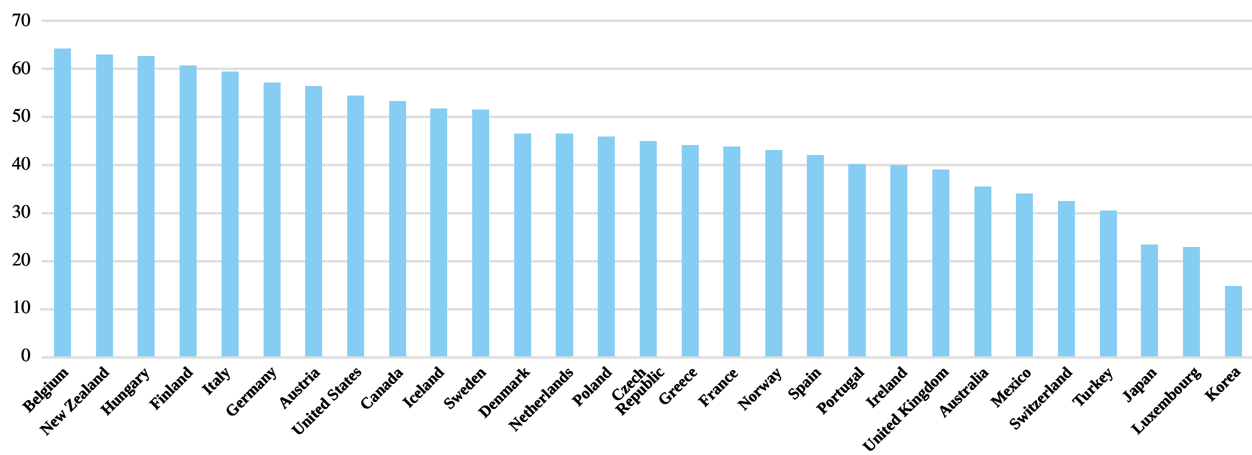
As a percentage of 1998 GDP



Sources: National sources and OECD.

9. Public enterprises can distort competition even in the absence of formal entry barriers through privileged access to finance, dominant position, etc.

Figure I.12. **Marginal tax rates on earnings of an average production worker,[1] 1997**



1. Covering employees' and employers' social security contributions and personnal income tax, with respect to a change in gross labour costs, of a one-earner family with two children whose wage level represents 100% of an average production worker.

Source: OECD, *The tax/benefit position of employees – 1997,* Paris 1998.

worker in many countries (Figure I.12) may weaken work incentives. This could discourage people from investing in education and engaging in entrepreneurial activities. The general payroll tax rate in many European countries continues to be high and rising, and may adversely affect employment.[10] Non-neutralities in tax systems remain widespread, eroding revenues as well as affecting economic behaviour. As demonstrated by large differences in the tax treatment of capital depending on financing form and asset types, taxes on investment income continue to influence resource allocation. A reduction or elimination of tax privileges not justified by the existence of market failures would provide significant scope for broadening the tax base and lowering tax rates in a number of countries.

Public sector efficiency is hampered by lack of market mechanisms in many countries

The *public sector* remains largely sheltered from the disciplining forces of competition in most Member countries, though some countries have made progress in improving public-sector efficiency. A few countries (*e.g.* the United States and Netherlands) have sought to make the public sector more business friendly by systematically streamlining administrative procedures and removing unnecessary regulations. However, "red tape" continues to impose costs. For example, company registration is subject to cumbersome and lengthy bureaucratic procedures in many Member countries, notably in Europe. A few countries (*e.g.* France and Portugal) have plans to speed up registration procedures.

New issues have come onto the structural policy agenda in the 1990s

While the list of unfinished business on the 1990 structural agenda remains long and challenging, governments will also have to tackle new issues that have either come onto the agenda or risen in importance in the course of the 1990s. One major issue that will face most Member countries in coming decades is the ageing of their populations. There has been an increasing recognition of the adjustments this will

10. However, in some countries such effects have been alleviated at the bottom of the pay scale through targeted rebates.

require. But much remains to be done, notably in the area of pension reforms to ensure long-term fiscal stability and reduce incentives for early retirement.

Finally, given the increasingly global nature of economic activity, many of the new issues will have an important international dimension and will call for a multilateral response.

- *Trade reforms.* There remains a continuing, or "built-in", agenda left over from the Uruguay Round and a new trade round could be initiated at the Ministerial Conference of the World Trade Organisation in Seattle in late 1999. This could offer an opportunity to increase the access of poorer non-OECD countries to markets in OECD countries, and thus provide efficient market-based assistance to poor countries. Whatever the agenda that may be agreed for a new round, the global agenda is moving beyond non-agricultural tariff reductions, which do not have much further to go in OECD countries, to more complex areas where issues not fundamentally concerned with trade impinge on trade or are affected by it and must therefore be taken into account. These include, but are not limited to, environmental protection, competition policy, investment and labour standards. There are legitimate policy concerns in all these areas but the question remains whether they are best pursued through the multilateral trading system.
- *Environment.* Many issues beyond those that impinge on trade are increasingly appearing on the policy agenda. At least some of these will have an international dimension, the most prominent at the moment being climate change. The immediate challenge for Member countries is to take action to attain the Kyoto Protocol targets for reducing greenhouse gas emissions. Minimising the costs of such action to society will require the expanded use of economic instruments, including the mechanisms built into the Kyoto Protocol which allow international exchange of emission reductions. It also calls for rapid decisions on how to implement the Protocol so as to give a firm basis for private-sector decisions concerning capital investment and technology development. At the same time, it must be recognised that reaching the Kyoto targets can be only a first step towards more ambitious action, requiring the participation by developing countries, if atmospheric concentrations of greenhouse gases are to be stabilised.
- *Technology.* Developing the legal and institutional framework in which the best can be drawn from technological advance is already high on the agenda. At this stage two major areas stand out. Governments will have to provide the framework that ensures that electronic commerce works and evolves efficiently. This includes ensuring adequate consumer protection, safeguards of privacy and secure payment and identity verification. Governments will have to deal, possibly co-operatively, with the taxation of electronic commerce, especially given the risk of erosion of important tax bases. A second is biotechnology, where governments will have to establish the extent of benefits it could bring; whether these can be realised without unwarranted risks to food safety and the environment; and, even if so, will have to factor in consumer attitudes in determining the details of the regulatory framework for biotechnology. Co-operative action will be required here in dealing with patent protection systems and avoiding trade friction.

Appendix: Quantifying the medium-term consequences of risks to the US economy

Medium-term scenarios evaluate three important risks to the US economy

The alternative medium-term scenarios described in the main text and in Box I.4 were quantified with the OECD's INTERLINK model using, as a common starting point, the most recent version of the OECD's medium-term reference scenario described in Box I.5. The main features of the dynamic profiles of major macroeconomic aggregates for the main OECD country zones in the reference scenario are shown in more detail in Table I.10. This appendix provides additional detailed information on the main features of each of these alternative risk scenarios, the underlying economic assumptions made and the key mechanisms involved, with particular emphasis on the role of policies in stabilising the medium-term consequences of the shocks involved. The following sections deal with each scenario in turn.

Table I.10. **The medium-term reference scenario**

Percentage change from previous period

	1999	2000	2001	2002	2003	2004	2005
United States							
Real GDP growth	3.8	3.1	2.3	2.0	3.0	3.4	3.4
Inflation	1.6	2.3	2.4	2.3	2.2	2.2	2.1
Short-term nominal interest rate	4.6	5.7	6.1	5.5	4.8	4.8	4.8
Current account (% GDP)	–3.7	–4.3	–4.2	–4.0	–3.9	–3.8	–3.7
Japan							
Real GDP growth	1.4	1.4	1.2	2.1	2.2	1.7	1.8
Inflation	–0.3	–0.3	–0.3	0.2	0.5	0.5	0.5
Short-term nominal interest rate	0.3	0.3	0.8	1.8	2.3	2.8	3.0
Current account (% GDP)	2.7	2.8	3.0	3.0	2.9	2.9	2.9
Euro area							
Real GDP growth	2.1	2.8	2.8	2.6	2.5	2.4	2.3
Inflation	1.3	1.7	1.7	1.7	1.7	1.6	1.6
Short-term nominal interest rate	2.9	3.3	4.3	4.3	4.3	4.3	4.3
Current account (% GDP)	0.8	0.7	0.8	0.9	0.9	1.0	1.1
Total OECD							
Real GDP growth	2.9	2.9	2.6	2.5	2.9	2.9	2.9
Inflation[1]	1.8	2.1	2.1	2.0	2.0	1.9	1.9

1. Excluding Turkey.

Boom-bust

A US "boom" economy could overheat and turn into a recessionary "bust" economy

The main features of the "Boom-Bust" scenario are reported in Table I.11. For the United States, the short-term boom phase of the scenario assumes a continuation of the current high rates of domestic demand growth (largely through household consumption) at or around 5 per cent over the coming year (compared with 3½ per cent in the current forecast) combined with *ex ante* increases in wage and price inflation rates of around 1 per cent from the second half of 1999 to end-2000. In the absence of

Table I.11. Boom-bust scenario

Percentage change from previous period

	2000	2001	2002	2003	2004	2005
United States						
Real GDP growth	4.1	1.5	–0.2	3.2	4.3	3.4
Inflation	3.5	3.5	3.5	3.0	2.2	1.8
Short-term nominal interest rate	7.9	8.0	6.3	4.1	4.1	4.1
Current account (% GDP)	–4.8	–4.4	–3.6	–3.7	–3.6	–3.3
Japan						
Real GDP growth	2.3	1.3	0.9	2.0	1.9	1.7
Inflation	0.1	0.7	0.8	–0.2	0.3	0.6
Short-term nominal interest rate	0.7	1.2	1.5	1.8	2.5	2.5
Current account (% GDP)	3.1	3.4	3.3	3.1	2.9	2.8
Euro area						
Real GDP growth	3.1	2.8	1.8	2.2	2.5	2.2
Inflation	1.8	2.1	2.2	1.9	1.7	1.4
Short-term nominal interest rate	4.4	5.1	4.5	4.0	4.0	4.0
Current account (% GDP)	1.0	1.2	0.9	0.8	0.8	0.8
Total OECD						
Real GDP growth	3.6	2.3	1.1	2.7	3.3	2.9
Inflation[1]	2.7	2.9	2.8	2.1	1.7	1.5

Stabilising effects of monetary policies in the boom-bust scenario

Per cent differences from the reference scenario

	2000	2001	2002	2003	2004	2005
United States						
Real GDP growth	–0.3	–0.6	0.7	1.2	0.3	–0.6
Inflation	–0.2	–0.3	–0.4	–0.1	0.4	0.9
Real interest rates	1.1	0.5	–0.4	–1.1	–0.5	–0.2
Current account (% GDP)	0.1	0.1	–0.1	–0.4	–0.2	0.1
Japan						
Real GDP growth	0.1	0.1	0.5	0.2	–0.5	–0.8
Inflation	0.2	0.2	0.3	1.8	0.6	0.1
Real interest rates	–0.2	–0.5	–0.5	–0.7	–0.3	–0.8
Current account (% GDP)	0.0	0.1	0.2	0.5	0.4	0.1
Euro area						
Real GDP growth	–0.3	–0.1	0.4	–0.2	–0.3	–0.5
Inflation	–0.1	–0.5	0.0	1.5	0.8	0.0
Real interest rates	0.8	0.4	0.0	–0.6	–0.5	–0.3
Current account (% GDP)	0.1	0.1	0.0	0.1	0.2	0.1
Total OECD						
Real GDP growth	–0.2	–0.3	0.4	0.5	0.0	–0.5
Inflation[1]	0.0	–0.1	–0.2	–0.1	0.1	0.2

1. Excluding Turkey.

monetary tightening by the US authorities or other restraining influences on the economy, the *ex post* impact of the inflationary shock would be an inflation rate of the order of 4 to 4½ per cent in 2001 and 2002. At the same time, US stock market prices are assumed to fall steadily over the period culminating in an overall reduction of 25 per cent relative to the baseline in early 2002, coinciding with the beginning of the "bust" phase of the cycle. This second phase assumes a sharp fall in consumption and investment spending such that domestic demand falls by 1½ per cent in 2002 (compared with 2 per cent growth in the baseline), reflecting a general loss of consumer confidence, the cumulative fall in stock prices and to some extent the delayed response to monetary tightening.

As illustrated in the lower panel of Table I.11, the contribution of US monetary policy, which by assumption in this scenario fails to anticipate the nature of the "boom" properly, takes a considerable time to bring the situation under control, reflecting a lagged relationship between monetary policy instruments and inflation. By failing to correctly anticipate the build up of inflationary pressures, real interest rates have to increase quite substantially before the underlying inflation is brought under control and by squeezing hard on growth in 2000 and 2001 this contributes to the eventual pronounced slowdown in 2002. However, through the "bust" phase, the subsequent easing of real interest rates plays an important role in re-establishing US growth at or around potential.

Real interest rates in the euro area are largely reactive to the external shock coming from the United States, rising in the initial phase and falling thereafter, tending to stabilise domestic growth and inflation. In Japan, on the assumption that increases in short-term nominal rates will be muted, real interest rates fall as inflation rises in the short term, tending to boost both output and inflation.

Significant weakening of the dollar

A worsening US external position could harm international investment confidence and lower the dollar

The main features of the dollar weakening scenario are reported in the upper panel of Table I.12. This scenario assumes a 20 per cent reduction in the effective dollar exchange rate relative to baseline from 2000 on, driven by concerns about the worsening US external position. At the same time, US stock markets are assumed to fall by 25 per cent, reflecting the same loss of investor confidence, with equity prices falling by about half as much outside the United States.

As illustrated in the lower panel of Table I.12, taken by itself a 20 per cent dollar weakening, whilst stimulating US net exports and GDP in the short term might, in the absence of appropriate and timely monetary policy responses, add about 1½ to 2 per cent to the annual rate of inflation over a fairly prolonged period (reflecting both higher import prices and a larger output gap). Both the corresponding monetary tightening and the effects of the weakening stock market therefore play an important role in moderating inflation and also in stabilising GDP growth at or near the baseline levels.

In the euro area, the disinflationary effects of appreciation allow some easing in interest rates which in turn help partially offset the negative consequences of appreciation on net exports and GDP. This is not the case for Japan, where little downward adjustment in real interest rates is possible in the near term and which, as a consequence, suffers most significantly from the fall in net exports.

Stock market correction

A major fall in stock markets could harm investment and consumption growth

The main features of the stock market correction scenario are summarised in Table I.13. The underlying assumption is that US stock market prices fall immediately by 30 per cent relative to baseline in the first half of 2000, with falls of 15 per cent in other major OECD economies. The main channels of transmission of the

Table I.12. US dollar weakening scenario

Percentage change from previous period

	2000	2001	2002	2003	2004	2005
United States						
Real GDP growth	2.8	2.2	1.8	3.2	3.6	3.4
Inflation	3.4	3.2	2.6	2.4	2.4	2.4
Short-term nominal interest rate	8.0	8.6	7.3	6.6	6.1	5.9
Current account (% GDP)	–4.2	–3.2	–2.9	–2.7	–2.6	–2.5
Japan						
Real GDP growth	0.7	–0.2	2.2	2.7	1.8	1.6
Inflation	–0.6	–1.3	–1.6	–0.7	–0.5	–0.7
Short-term nominal interest rate	0.1	0.0	0.0	0.0	0.0	0.0
Current account (% GDP)	2.7	2.6	2.2	2.1	2.2	2.3
Euro area						
Real GDP growth	2.3	2.4	2.6	2.5	2.5	2.4
Inflation	1.2	1.2	1.1	1.0	0.8	0.6
Short-term nominal interest rate	1.8	1.6	2.3	2.8	2.8	2.8
Current account (% GDP)	0.5	0.2	0.1	0.2	0.4	0.5
Total OECD						
Real GDP growth	2.4	2.1	2.5	3.2	3.2	3.0
Inflation[1]	2.1	1.7	1.3	1.3	1.2	1.3

Impact of the US dollar weakening assuming real interest rates unchanged

Per cent differences from the reference scenario

	2000	2001	2002	2003	2004	2005
United States						
Real GDP growth	0.4	0.9	–0.4	–0.5	–0.4	–0.5
Inflation	1.2	1.3	1.5	1.9	2.1	2.0
Current account (% GDP)	–0.1	0.4	0.6	0.8	0.9	0.9
Japan						
Real GDP growth	–0.2	–0.9	–0.1	0.0	0.0	–0.1
Inflation	–0.3	–0.4	–1.0	–0.8	–0.8	–0.9
Current account (% GDP)	–0.1	–0.3	–0.5	–0.6	–0.6	–0.7
Euro area						
Real GDP growth	–0.4	–0.4	0.0	0.1	0.2	0.1
Inflation	–0.4	–0.4	–0.5	–0.6	–0.6	–0.6
Current account (% GDP)	0.0	–0.3	–0.3	–0.4	–0.3	–0.3
Total OECD						
Real GDP growth	–0.2	–0.1	–0.1	–0.1	0.0	–0.1
Inflation[1]	0.0	0.0	0.0	0.2	0.3	0.3

1. Excluding Turkey.

shock are through wealth and confidence effects on consumption and investment behaviour, more so in the United States where share ownership is more widespread amongst households.[11]

To counteract these negative effects, monetary policy is eased substantially in the United States – with short-term interest rates immediately reduced by 75 basis points and real rates maintained between 1 and 2 percentage points below the baseline values for the 2000-02 period – and to a lesser extent in the euro area; over the

11. See in particular Chapter V of OECD Economic Outlook 64 and L. Boone, C. Giorno and P. Richardson, "Stock Market Fluctuations and Consumption Behaviour: Some Recent Evidence", OECD Economics Department Working Papers, No. 208.

Table I.13. Stock market correction scenario

Percentage change from previous period

	2000	2001	2002	2003	2004	2005
United States						
Real GDP growth	2.6	1.9	2.3	3.0	3.1	3.3
Inflation	2.4	2.6	2.3	1.9	1.8	1.6
Short-term nominal interest rate	5.0	4.2	4.2	4.2	4.2	4.2
Current account (% GDP)	–4.1	–3.9	–3.8	–3.6	–3.4	–3.3
Japan						
Real GDP growth	0.8	0.9	2.5	2.6	1.7	1.8
Inflation	–0.4	–1.0	–0.5	0.3	0.4	0.2
Short-term nominal interest rate	0.0	0.0	0.0	0.4	0.4	0.4
Current account (% GDP)	2.9	2.9	2.8	2.8	2.9	3.0
Euro area						
Real GDP growth	2.6	2.7	2.8	2.7	2.3	2.2
Inflation	1.7	1.6	1.5	1.5	1.2	1.1
Short-term nominal interest rate	3.0	3.5	3.5	3.5	3.5	3.5
Current account (% GDP)	0.6	0.6	0.6	0.7	0.7	0.8
Total OECD						
Real GDP growth	2.5	2.3	2.8	3.1	2.8	2.9
Inflation[1]	2.1	2.0	1.7	1.7	1.5	1.4

Stabilising effects of monetary policies in the stock market correction scenario

Per cent differences from the reference scenario

	2000	2001	2002	2003	2004	2005
United States						
GDP growth	0.3	0.8	0.7	–0.1	–0.5	–0.3
Inflation	0.0	0.1	0.0	0.0	0.2	0.4
Real interest rates	–0.9	–2.1	–1.2	–0.2	–0.2	–0.1
Current account (% GDP)	–0.1	–0.3	–0.5	–0.4	–0.3	–0.3
Japan						
GDP growth	0.1	0.3	0.3	0.1	–0.1	0.0
Inflation	0.0	0.1	0.4	0.7	0.6	0.5
Real interest rates	–0.1	0.1	–1.1	–1.8	–2.2	–2.2
Current account (% GDP)	0.0	0.1	0.2	0.3	0.3	0.4
Euro area						
GDP growth	0.1	0.4	0.3	0.2	–0.1	0.0
Inflation	0.0	0.0	–0.1	–0.1	–0.2	–0.2
Real interest rates	–0.3	–0.6	–0.6	–0.5	–0.4	–0.2
Current account (% GDP)	0.0	0.1	0.2	0.2	0.2	0.3
Total OECD						
GDP growth	0.2	0.5	0.4	0.0	–0.3	–0.2
Inflation[1]	0.0	0.0	0.1	0.2	0.2	0.2

1. Excluding Turkey.

same period in Japan short-term rates are kept at their current zero level. Reflecting the relative movements in interest rates, the dollar is assumed to fall, by around 2 per cent in the short term. As a result, inflation is slightly higher than in the baseline initially, although an overall weaker inflation dynamic rapidly takes over as the loss in output becomes the dominant factor.

As illustrated in the lower panel of Table I.13, the assumed easing of monetary policies and corresponding reductions in real interest rates play a major role in moderating the effect of the correction in stock markets. In the absence of such an easing the reduction in growth in the United States would lead to a cumulative loss of 2½ per

2½ per cent in the level of real GDP by 2002 relative to the reference scenario (compared with less than a percentage point loss during the first two years and a rebound thereafter in the case of an appropriate monetary policy response), and of half this amount in Japan and slightly less in the euro area. In the OECD area as a whole, the concerted macro-policy action helps avert a fairly major slowdown in growth rates over the period, whilst maintaining inflation at or below the original baseline rates.

II. DEVELOPMENTS IN INDIVIDUAL OECD COUNTRIES

United States

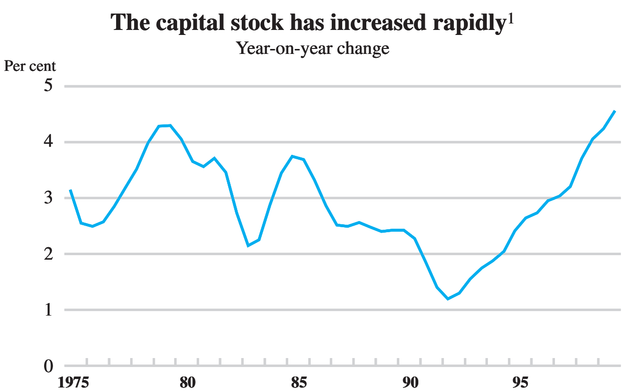
The US economy continued to expand strongly in 1999, and growth is likely to have been close to 3¾ per cent in the second half of the year. While the strength of business investment, notably in information technology, has boosted potential output, the strain on resources is growing. Some slowdown in activity may occur in 2000, in part as the wealth effects associated with rising stock prices tail off. Nonetheless, the economy will still be operating at above capacity, generating tensions in the labour market and a large current account deficit. Higher short-term interest rates are expected eventually to slow the economy, but inflation may rise reaching 2½ per cent by 2001.

To avoid overheating, a further tightening of monetary policy appears to be called for in the current circumstances of particularly strong demand and tight labour market conditions, and indeed is assumed to occur in OECD projections. The case for additional monetary restraint is reinforced by the fact that the government may eventually breach its own previously set spending caps for 2000, resulting in a shift from a restrictive to a neutral fiscal stance next year.

Demand has continued to expand rapidly

While the rapid expansion in final domestic demand reached its zenith in the first half of 1999 and now shows some signs of slackening, aggregate demand is being sustained by a strengthening of world demand. Private consumption was particularly strong in the first half of the year as the personal saving rate declined rapidly, reflecting the buoyant net financial wealth of that sector, which had jumped a fifth in the first half of the year, and borrowing against the increased value of homes. With residential investment also high, households incurred a considerable financial deficit, boosting indebtedness relative to income. In the second half, the increase in private consumption and housing outlays may have weakened somewhat, as real income growth slackened and mortgage rates rose. On the other hand, the expansion

United States



1. Using pre 1999 revision data.
Source: OECD.

Employment, income and inflation

Percentage changes from previous period

	1997	1998	1999	2000	2001
Employment[a]	2.4	2.2	1.9	1.2	0.7
Unemployment rate[b]	4.9	4.5	4.2	4.2	4.6
Employment cost index	3.1	3.5	3.3	4.4	4.4
Compensation per employee[c]	4.0	4.9	4.4	5.3	5.2
Labour productivity[c]	2.3	2.2	2.1	2.1	1.9
Unit labour cost[c]	1.7	2.6	2.3	3.0	3.2
GDP deflator	1.7	1.2	1.4	1.9	2.3
Private consumption deflator	1.7	0.9	1.6	2.3	2.4
Real household disposable income	3.6	4.1	3.9	3.2	2.4

a) Establishment basis.
b) As a percentage of labour force.
c) In the business sector.

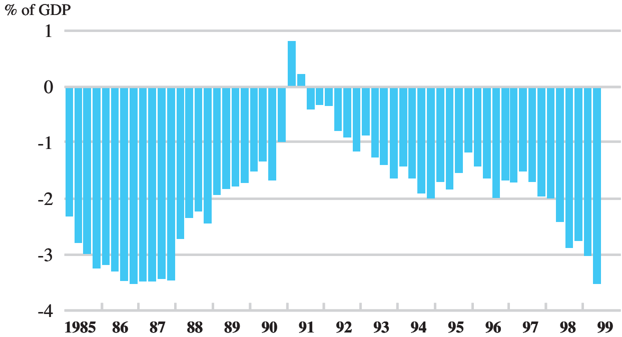
in foreign demand has started to feed through into exports. As a result, overall demand – while slackening from its pace in the first half of the year – seems likely to have continued to grow at the robust 5 per cent pace seen in the past three years.

Despite increased supply...

The underlying growth rate of the US economy has also surged but remains below the pace at which demand is increasing. The strength of investment in technology, which continued in the first half of 1999, helped generate a further acceleration in the capital stock so boosting labour productivity growth. A marked fall in the price of investment goods and a high level of corporate profits are likely to have supported additional investment in the second half of the year. The full extent to which economic performance has improved is not yet clear. Labour productivity has acceleretad in the past two years, but it is difficult to separate cyclical effects from more durable movement. However, given the increase of the work force and the extent of capital deepening, the potential growth rate of the economy may have risen to above 3¼ per cent. Nonetheless, given the pace of the current expansion in activity, the output gap – as estimated by the OECD – has still widened.

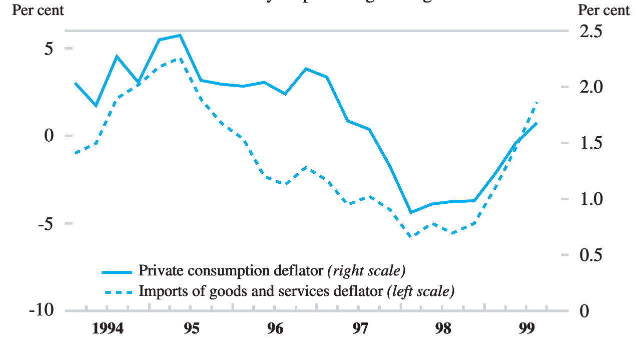
United States

The current account deficit has increased



Inflationary pressures have edged up

Year-on-year percentage change



Source: OECD.

Financial indicators

	1997	1998	1999	2000	2001
Household saving ratio[a]	4.5	3.7	2.5	2.3	3.1
Private sector financial balance	-0.7	-2.6	-4.3	-4.7	-4.5
General government financial balance[b]	-0.9	0.4	1.0	0.9	0.9
Current account balance[b]	-1.7	-2.5	-3.7	-4.2	-4.2
Short-term interest rate[c]	5.1	4.8	4.6	5.7	6.1
Long-term interest rate[d]	6.4	5.3	5.6	6.6	6.4

a) As a percentage of disposable income.
b) As a percentage of GDP.
c) 3-month Treasury bills.
d) 10-year government bonds.

... some signs of inflationary pressure are emerging...

Rapid domestic growth and a stronger world economy have led to the emergence of some inflationary pressure. Indeed, the temporary factors that generated low increases in costs and prices during 1998 have been reversed. Oil prices have surged, those of imported non-oil industrial supplies have started to rise once again, health-care costs have picked up and the dollar has eased back from its earlier highs. As a result, some measures of overall price inflation have accelerated, especially at the early stages of production. At the same time, the deceleration of unit labour costs appears to have ended. Moreover, with the unemployment rate still below most estimates of the level consistent with stable inflation, the annual growth of hourly compensation in a large part of the business sector shows signs of increasing, though this has not been reflected in the employment cost index.

... and the external deficit has risen

The rapid growth of aggregate demand has spilled over into imports. Purchases from foreign suppliers accelerated in the first half of the year and have continued to grow rapidly since then. Coupled with a worsening in the terms of trade, such import growth pushed the current account deficit to 3½ per cent of GDP, its highest level since the mid-1980s.

Demand and output

	1996	1997	1998	1999	2000	2001
	current prices billion $	Percentage changes, volume (1996 prices)				
Private consumption	5 237.5	3.7	4.9	5.1	3.4	1.6
Government consumption	1 171.8	2.3	1.3	2.3	2.6	1.3
Gross fixed investment	1 462.9	7.5	10.6	8.3	3.9	4.1
Public	250.2	2.4	4.0	7.1	3.8	4.1
Residential	313.3	2.4	9.2	6.6	-4.2	-0.8
Non-residential	899.5	10.7	12.7	9.1	6.4	5.5
Final domestic demand	7 872.2	4.2	5.4	5.4	3.4	2.1
stockbuilding[a]	29.9	0.5	0.1	-0.5	0.0	0.2
Total domestic demand	7 902.1	4.7	5.5	4.8	3.4	2.3
Exports of goods and services	874.2	12.7	2.2	3.4	7.0	6.8
Imports of goods and services	963.1	13.7	11.6	12.0	8.7	5.3
net exports[a]	- 89.0	-0.3	-1.3	-1.3	-0.5	0.0
GDP at market prices	7 813.2	4.5	4.3	3.8	3.1	2.3
Industrial production	_	6.0	3.7	2.4	1.8	2.1

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

New methodology for the presentation of US economic data

The projections presented here are based on the newly revised US national accounts data, except notably for capital stock series which were not published at the time these projections were finalised. In addition to incorporating revised and more complete source data into the accounts, a number of methodological changes were made in this comprehensive revision. On balance, the level of nominal GDP in 1998 was revised up by about $250 billion, 3 per cent above the previous estimate. Changes to real GDP were larger, on average, as prices were revised down somewhat. Since 1959, the annual growth rate of real GDP was 0.2 percentage point higher on average but 0.4 percentage point higher since the beginning of the current expansion in 1991. A major source of revision to the level of GDP was a definitional change that treated business and government expenditures on software as fixed investment rather than as an intermediate input. Prior to 1995, GDP was also raised by the use of geometrically weighted price data to deflate personal consumption expenditures, as such a change had the effect of lowering inflation. In recent years, real GDP was raised by the incorporation of new source data, reflecting more complete surveys. Finally, the personal saving rate was revised up to a positive 2.1 per cent and government net lending lowered by a corresponding amount, as contributions to government employee pension plans are now treated in the same way as contributions to private pension plans – as personal income. National saving and GDP were unaffected by this change.

Further increases in interest rates are to be expected...

Looking further ahead, and with an assumption that the nominal exchange rate remains constant, there appear, as yet, to be few forces that would reduce strains on resource utilisation. Policy interest rates have been raised twice this year to reach 5¼ per cent, but real short-term rates are still below their levels of mid-1998. The stock market has eased from its recent highs but remains some 22 per cent above its average 1998 level, while world demand has recovered. Moreover, there may be some increase in the growth of federal outlays as previous spending caps seem likely to be overrun by some $30 billion (over ¼ per cent of GDP), implying no further rise in the structural budget surplus in 2000. With resource utilisation remaining high, inflation might continue to rise. Consequently, further increases in short-term interest rates are assumed, with the Federal funds rate rising in steps to 6½ per cent by the end of 2000.

External indicators

	1997	1998	1999	2000	2001
			$ billion		
Merchandise exports	679.7	670.2	676.0	729	784
Merchandise imports	876.4	917.2	1 029.7	1 143	1 198
Trade balance	- 196.7	- 246.9	- 353.7	- 414	- 414
Invisibles, net	53.2	26.4	16.2	2	- 8
Current account balance	- 143.5	- 220.6	- 337.5	- 412	- 422
			Percentage changes		
Merchandise export volumes[a]	15.4	2.2	4.0	7.7	7.8
Merchandise import volumes[a]	14.7	11.5	13.1	9.1	5.5
Export performance[b]	5.0	- 0.9	- 0.9	0.4	0.9
Terms of trade	0.7	2.8	- 1.3	- 1.5	0.4

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

... which should help reduce strains in the economy

Such a monetary tightening may help to slow economic expansion to below that of potential in the second half of 2000, pulling down the increase in activity to slightly above 3 per cent for the whole year, with growth slackening further to 2¼ per cent in 2001. The impact of this tightening could be felt through both reduced financial asset prices and rising borrowing costs, factors which are expected to result in a slight slackening in the growth of business investment. Weakness in consumer demand, stemming from lower wealth-to-income ratios and higher debt-service payments, may be reinforced by slower growth in real incomes. Nonetheless, with a still positive output gap, inflation may rise towards 2½ per cent and the current account deficit may remain high, at over 4 per cent of GDP.

Nonetheless, significant imbalances could persist

The large imbalances in the economy – highlighted by the growing current account deficit, significant private sector borrowing and a tight labour market – are generating significant downside risks. An upward boost to inflation, particularly in the face of the persistently high external deficit, could lead to an abrupt change in investor sentiment towards US financial assets. Such a change would accentuate inflationary pressures by weakening the exchange rate, driving long-term interest rates up and share prices down. In this scenario, there would be a harder landing for the economy than is embodied in the central projections. Favourable surprises, though, cannot be completely ruled out. The need for a tighter monetary stance could be delayed somewhat if the recent favourable economy-wide productivity movements are prolonged, based on sustained strong developments in the information technology industries. In that case, overall labour productivity could be increasing as rapidly as 2½ per cent, and potential output by more than 3½ per cent with the result that inflationary pressures would be correspondingly less pronounced over the coming year.

Japan

A recovery has been underway since early 1999. It resulted from macroeconomic stimulus measures as well as resolution of the balance-sheet problems in the banking system and the ensuing pickup in confidence. Now that the inventory overhang has been cleared away, production is gearing up, and the income generation process may be resuming. The outlook is for moderate growth, with private outlays gradually replacing public expenditures as the main source of increased demand. While the strong yen and heavy restructuring needs in traditional industries raise the risk of a renewed downturn, a faster pickup could result from pent-up demand and stronger investment in new sectors.

There remains substantial uncertainty about both durability and the strength of the cyclical recovery. Radical changes in the policy stance should therefore be avoided. This implies that the current easy stance of monetary policy should be maintained. Once the second supplementary budget is approved, an early start on the path of fiscal consolidation would be appropriate, given the size of the medium-term public-debt problem. Base-broadening tax changes would be especially helpful. A continuation of the recent rapid pace of structural reforms, especially those that directly bolster the role of markets in allocating resources, is also necessary.

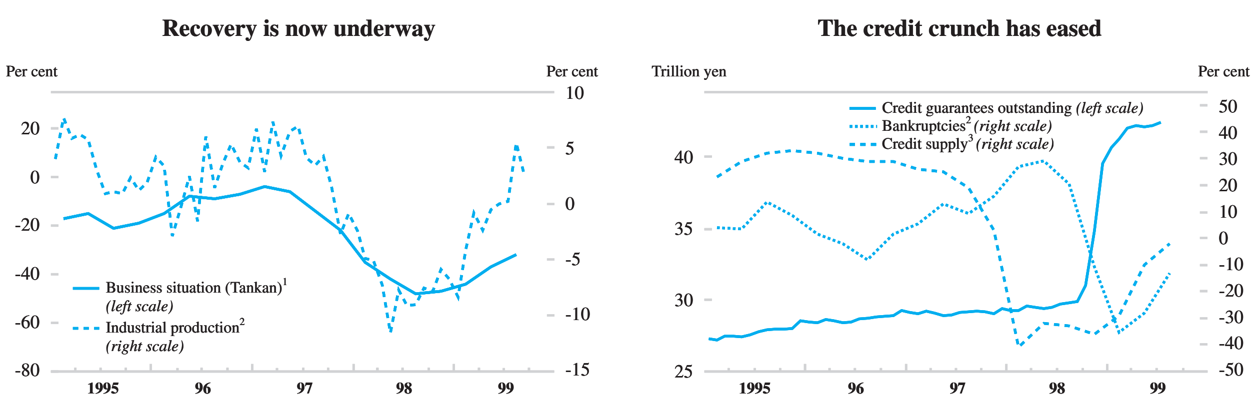
The recession ended early in the year...

After three straight semesters of falling output, the economy turned around and grew by 3.2 per cent at an annual rate in the first half of 1999 (0.7 per cent year on year in the second quarter), thanks to the direct and indirect effects of various government measures. Public investment was boosted by more than a quarter by the implementation of the stimulus packages announced in 1998. Residential investment was pushed up sharply by a temporary tax credit introduced in January 1999. The stabilisation of the banking sector and the drop in bankruptcies following the expansion of government credit guarantees have resulted in improved confidence. Finally, the rapid recovery in Asian trading-partner economies allowed a pickup in exports over the summer. These favourable overall demand developments have eliminated the inventory overhang, encouraging production activities in the manufacturing sector.

... but recovery has been restrained by corporate restructuring and yen appreciation

On the other hand, there have been two drags on the recovery. First, corporate restructuring due to excess capital and labour is still substantial. Business investment remains weak, and labour market outcomes have generally continued to deteriorate, as seen in the fall in both wage rates (bonus payments, in particular) and, until

Japan



1. Balance of positive and negative answers (favourable minus unfavourable).
2. Year-on-year percentage changes.
3. Opinions on financial institutions' lending attitudes (accommodative minus severe).

Source: OECD.

Employment, income and inflation

Percentage changes from previous period

	1997	1998	1999	2000	2001
Employment	1.1	-0.6	-0.9	0.2	0.3
Unemployment rate[a]	3.4	4.1	4.7	4.7	4.7
Compensation of employees	2.4	-0.7	-1.1	0.7	0.9
Unit labour cost	1.0	2.2	-2.5	-0.6	-0.3
Household disposable income	1.4	0.4	-0.3	1.4	1.9
GDP deflator	0.1	0.4	-0.6	-0.5	-0.3
Private consumption deflator	1.4	0.4	-0.3	-0.3	-0.3

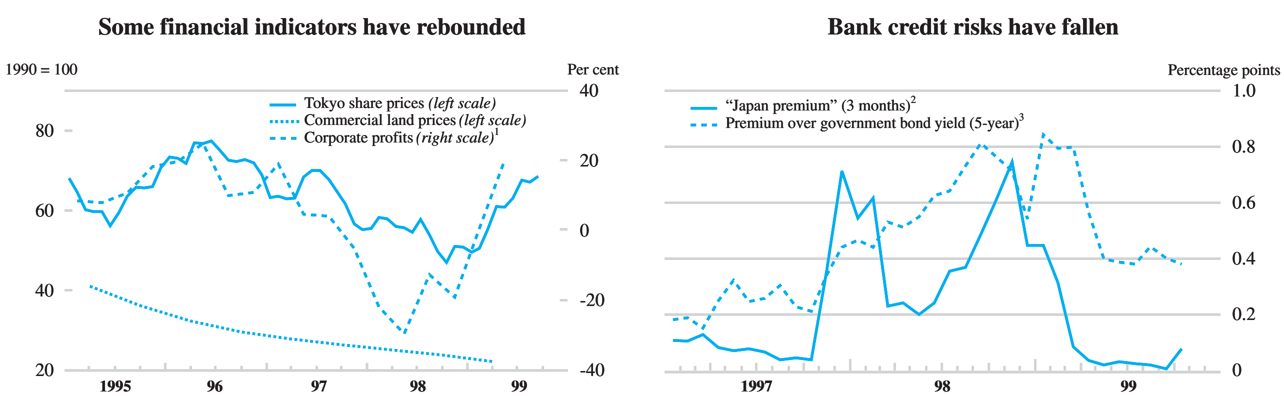
a) As a percentage of labour force.

recently, total employment. The employment adjustment has brought about improved labour productivity, but has also led to persistent rises in the unemployment rate to a peak of nearly 5 per cent, although the increase has been buffered by a decline in the labour force. Second, the yen appreciation that began in the summer of 1998 has restrained export volumes and added to the pick-up in imports resulting from the recovery in domestic demand. The reduced net exports led to a fall in the current account surplus to 2.7 per cent of GDP in the first half of 1999. However, these drags seem to have been increasingly overcome by the aforementioned favourable factors, judging from recent encouraging figures on business confidence, corporate profits, overtime payments, employment growth and exports to Asia.

Output prices have been fairly stable, though land prices have continued to fall

Progress in inventory adjustment has been reflected in domestic wholesale prices, whose declines have begun to level off, owing also to the increase in oil prices. Consumer prices, excluding fresh food, have remained perfectly flat. Because of reduced slack and a significant gain in the terms of trade, the GDP deflator edged up in the first half of 1999, though still remaining below year-earlier levels. But the decline in land prices may have accelerated slightly, contributing to persistent overall deflationary pressures.

Japan



1. Year-on-year percentage changes.
2. Percentage point margin of the average three-month borrowing rates for US dollars of two major Japanese banks over LIBOR.
3. Percentage point margin of the average five-year bank debenture rate over the five-year government bond rate.
Sources: Bank of Japan; Japan Real Estate Institute.

Financial indicators

	1997	1998	1999	2000	2001
Household saving ratio[a]	12.6	13.5	12.1	12.2	12.5
General government financial balance[b,e]	-3.4	-6.0	-7.6	-7.9	-7.2
Current account balance[b]	2.3	3.2	2.7	2.8	3.0
Short-term interest rate[c]	0.6	0.7	0.3	0.3	0.8
Long-term interest rate[d]	2.4	1.5	1.8	2.2	2.6

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

Monetary and financial decisions have contributed to the upturn

The authorities have maintained expansionary monetary and financial conditions. Risk-free interest rates are virtually zero well out on the maturity spectrum, even though long-term rates have been much higher than they were in late 1998. Risk premia have declined sharply, especially in the banking system, where the so-called “Japan premium”, for example, has been eliminated thanks to the successful recapitalisation of the major banks. Perceptions of overall credit supply have improved, no doubt in part thanks to the provision of credit guarantees, which have headed off a further flood of bankruptcies, and to expanded direct lending by public financial institutions. Despite intermittent bouts of reported exchange market intervention, the yen has appreciated sharply, both against the dollar and on a trade-weighted basis, probably reflecting the market’s reaction to the surprisingly rapid turnaround of the economy. The major remaining questions are whether the Bank of Japan could do more to support the recovery, whether the banking system is now capable of providing efficient financial intermediation and how costly the assumption of credit risk by the government will prove to be.

The fiscal stance remains expansionary, with rising government debt

The central government has also maintained its expansionary fiscal stance. In addition to an earlier small supplementary budget (amounting to about 0.1 per cent of GDP) that focused on employment measures, another sizeable supplementary budget is likely to be formulated this autumn in order to alleviate the decline in public investment as the effects of the two 1998 stimulus packages fade. Consequently, an additional 5.5 trillion yen (1.1 per cent of GDP) of public investment is assumed in the projection. However, the net increase in public investment would be smaller: 3.5 trillion yen is projected here because of an assumed offsetting cut in investment spending by local governments. Furthermore, the new supplementary budget will come on top of an initial fiscal year 2000 investment budget, which, according to the July guideline, may be almost as large as this year’s. Therefore, because most of its effect will be carried over into the year 2000, the decline in public investment is projected to be small in 2000 but to accelerate thereafter. Moreover, the draft pension reform law is assumed to be implemented without any significant revisions during the Diet deliberation: contributions will be frozen, and benefits will be reduced. No major changes in the health care system are envisaged, while the long-term care insurance programme is scheduled to start in April 2000, although premiums of about ½ trillion yen (0.1 per cent of GDP) are assumed to be suspended in its first half-year. No reduction in health-insurance contributions is assumed in response to the start of this programme, as has been proposed by the Ministry of Health and Welfare with respect to the government-run scheme. All in all, the primary structural deficit is therefore projected to rise to 5½ per cent of GDP in 1999 and 2000 before shrinking

Demand and output

	1996	1997	1998	1999	2000	2001
	current prices trillion yen	Percentage changes, volume (1990 prices)				
Private consumption	299.3	1.0	-1.1	1.7	1.6	1.8
Government consumption	48.4	1.5	0.7	0.7	0.8	0.7
Gross fixed investment	147.4	-1.9	-8.8	1.2	-0.2	-0.2
Public[a]	43.7	-10.4	-0.3	13.9	-1.5	-7.8
Residential	27.5	-16.3	-13.7	3.1	4.8	0.9
Non-residential	76.2	7.1	-11.3	-5.6	-0.6	4.0
Final domestic demand	495.2	0.1	-3.3	1.5	1.0	1.1
stockbuilding[b]	2.4	-0.1	-0.1	0.1	0.2	0.1
Total domestic demand	497.6	0.1	-3.5	1.5	1.2	1.1
Exports of goods and services	49.7	11.6	-2.3	0.3	4.6	3.6
Imports of goods and services	47.0	0.5	-7.5	1.1	3.3	3.6
net exports[b]	2.7	1.4	0.6	-0.1	0.3	0.1
GDP at market prices	500.3	1.4	-2.8	1.4	1.4	1.2
Industrial production[c]	_	3.6	-7.1	0.4	3.3	1.4

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

to around 5 per cent in 2001. Gross debt is likely to increase to over 120 per cent of GDP (with net debt reaching more than 50 per cent of GDP), gradually pushing up net interest payments to 1½ per cent of GDP by 2001.

Other reforms are also being implemented to boost short- and medium-term prospects

The government is moving on other fronts as part of the structural reform process with a view to enhancing economic performance. For example, a new law was implemented this autumn in order to facilitate corporate restructuring through favourable tax treatment and streamlined administrative procedures. The government may also strengthen support to small firms in legislation expected this autumn. The legal definition of such firms may be extended so that more of them will be able to benefit from public loans and guarantees. Other structural reforms are also coming into effect, notably the next stage of financial market liberalisation (comprising, *inter alia*, deregulation of all stock trading commissions), or are moving toward implementation, such as the decision to allow price-setting flexibility to public utilities.

Growth should continue at near-potential rates

The economic recovery is expected to continue, driven by several forces. First, improved consumer confidence may lead to continuing albeit moderate growth in private consumption, given the likely pent-up demand that accumulated during the recent recession and the healthy state of household balance sheets. Because the recovery in income is lagging, the saving rate probably declined sharply in 1999 but could begin to rebound over the projection horizon. Second, while residential investment may stagnate for a time, it could surge again prior to the expiration of a temporary tax credit at the end of 2000. Third, the recovery in the other Asian economies is likely to boost export volumes, despite adverse competitiveness effects resulting from the yen's recent appreciation. But because import volumes may also increase with the recovery of domestic demand, the contribution of net exports to growth may be quite limited in both 2000 and 2001, following a sizeable positive impact in the current half-year. Finally, the pickup in private consumption and favourable external demand may encourage companies to start rebuilding their stocks. In addition to these positive forces, business investment may be less of a drag on the economy after

External indicators

	1997	1998	1999	2000	2001
			$ billion		
Merchandise exports	409.3	373.3	397.9	433	448
Merchandise imports	307.5	251.2	267.8	293	303
Trade balance	101.7	122.1	130.1	140	146
Invisibles, net	- 7.2	- 1.5	- 10.4	- 5	- 2
Current account balance	94.5	120.6	119.7	135	143
			Percentage changes		
Merchandise export volumes [a]	11.8	- 1.2	1.1	5.2	3.9
Merchandise import volumes [a]	1.7	- 5.3	6.8	3.6	3.8
Export performance [b]	0.4	- 3.7	- 8.4	- 3.7	- 3.1
Terms of trade	- 3.9	6.5	5.0	- 2.0	0.2

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

this year's further sharp fall. Indeed, it may start to recover over the course of 2000 (as profits and capacity utilisation rebound), even though its upturn may be modest due to persistent corporate restructuring effects. On balance, output is projected to increase by an average of nearly 1½ per cent per year over the projection period, only marginally more than the economy's likely potential growth rate.

Deflationary pressures may ease slightly

While remaining substantial, the output gap is likely to edge down, alleviating still-considerable deflationary pressures somewhat. In addition, the higher oil prices may push up import prices and then domestic prices with a lag. Thus, consumer prices will initially be held up and the GDP by 2001 deflator may edge down. The current-account surplus is expected to rise to 3 per cent of GDP by 2001 because of the impact of the Asian recovery on export volumes and a rebound in net investment income. An improvement in the employment situation may now be getting underway, but could remain modest, given the weakness in projected output growth and previous labour hoarding. Wage rates are unlikely to pick up before 2000, when there may be an increase in overtime payments as production expands and a resurgence in bonus payments following the profits turnaround. Increased job opportunities could induce a rise in labour force participation, thereby preventing any decline in the unemployment rate, which may remain around 4¾ per cent. Progress in restructuring may be reflected in renewed labour productivity growth and higher profit rates, as well as in a further slight decline in labour's share in GDP.

The risks surrounding this scenario are both numerous and substantial

The projection is subject to considerable uncertainty. On the upside, the momentum indicated by at least some recent indicators may carry through even more strongly than projected. Also, the coming supplementary budget and the local governments' reactions to it could be larger or smaller than assumed here. But its impact could be reduced if consumers worry about the resulting government debt build-up or if there is interest- and exchange-rate crowding-out. There are, in addition, several clear downside risks. First, the yen could continue to appreciate, restraining export growth. Second, the projection crucially depends on the sustained recovery of consumer sentiment and is therefore vulnerable to any of several possible shocks to confidence, such as concerns about the pensions system, government fiscal conditions, bankruptcies of life insurance companies or other elements of instability in financial markets. It also relies on the ready availability of finance for creditworthy borrowers.

Finally, the speed of corporate restructuring efforts in the form of capital and work-force downsizing cannot be accurately gauged. Business investment and employment could therefore continue to shrink for longer than projected here. But a widely acknowledged shortfall in the amount of capital in some higher technology areas, such as those related to information technology, could lead to unexpected increases in investment once firms regain confidence.

Germany

Growth was weak in the first half of 1999, the expansion of domestic demand not being strong enough to offset a negative contribution from the external sector due to lower exports. Incoming orders (both domestic and foreign) and business expectations all point to a significant acceleration of activity in the second half, with growth for the year as a whole likely to amount to 1¼ per cent. Stronger exports should lead to a more rapid expansion of investment in 2000, which is expected to be underpinned by accommodative monetary conditions. Growth is projected to accelerate to 2¼ per cent in 2000 and 2½ per cent in 2001. At the same time, the fiscal consolidation process is expected to strengthen, with the general government deficit declining to under 1 per cent of GDP by 2001.

The planned fiscal restraint is important both for placing public finances on a more sustainable path and for creating room for tax reform. It should be underpinned by structural reforms in the areas of pensions, health, and social benefits. Returning the economy to a path of strong growth and higher employment will require more dynamic and flexible labour and product markets. In this respect, there is an urgent need to move forward in the field of labour-market policy.

GDP growth was weak in the first half of 1999...

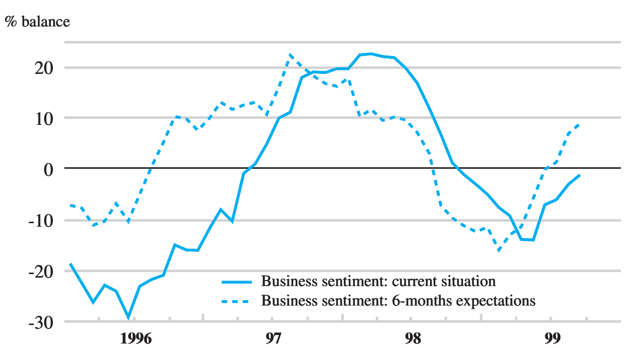
The slowdown in activity during the second half of 1998 continued in the first half of 1999 when GDP increased at an annual rate of only around ¾ per cent. Activity was underpinned by investment in machinery and equipment – including intangible investment such as computer software – which expanded by more than 11 per cent. The contribution of the external sector remained negative, while private consumption slowed and consumer sentiment deteriorated somewhat despite tax reductions which came into effect at the beginning of the year. However, the pattern of activity evolved in the course of the semester. Investment slowed markedly in the second quarter, reflecting the deterioration in the business climate during 1998 and a lower level of capacity utilisation. On the other hand, exports exhibited an improving trend: while those to South America and Russia continued to decline, sales to the dynamic Asian countries and Japan improved, and those to North America remained buoyant.

… but the business climate has begun to improve

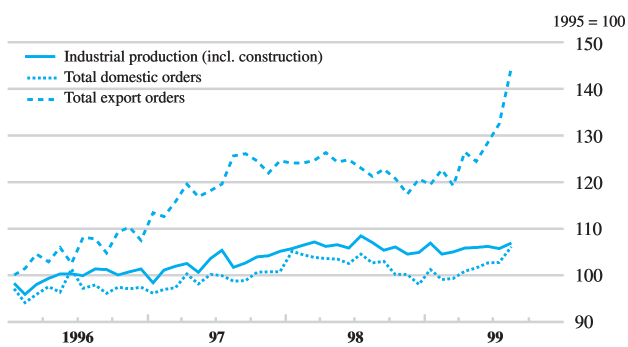
Domestic orders in manufacturing also began to increase in the second quarter while, consistent with past behaviour, industrial production only started to pick up with a delay. Business expectations of future activity improved in the spring, and

Germany

Business sentiment has begun to improve



Industrial orders have picked up



Sources: Ifo Institut; Deutsche Bundesbank; OECD.

Employment, income and inflation

Percentage changes from previous period

	1997	1998	1999	2000	2001
Employment	-0.8	0.4	0.2	0.3	0.5
Unemployment rate[a]	9.8	9.3	9.0	8.7	8.3
Compensation of employees	..	..	..	..	..
Unit labour cost	-1.1	-0.6	1.2	0.1	0.6
Household disposable income	..	..	..	..	..
GDP deflator	0.8	1.0	1.2	1.3	1.3
Private consumption deflator	1.7	0.9	0.7	1.4	1.4

a) As a percentage of labour force.

from mid-year the assessment of current business conditions became more optimistic. Rising orders and improving expectations suggest as well that the recession in construction might finally be nearing an end.

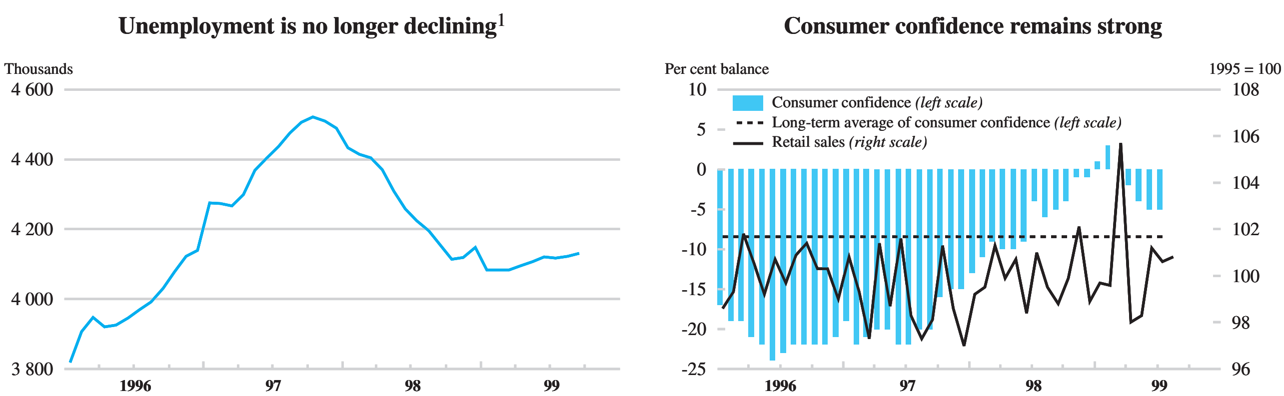
The labour market has stagnated

Unemployment stabilised during the first half of 1999, breaking a declining trend which started at the end of 1997. Slower activity accounted for some of this change, but another important factor was active labour-market policy whose programmes had been expanded rapidly from the second quarter of 1998, thereby reducing the number of registered unemployed. While the new government has maintained such programmes at a high level into 1999, they have ceased to expand in aggregate despite programmes to place 100 000 youths in short training schemes which came into force at the beginning of the year. Although final employment data are not yet available for 1999, there are indications that the level of employment might have started to fall. With productivity growth slowing, the higher wage settlements negotiated for 1999 have led to a pick-up in unit labour costs in domestic currency. However, despite this development and rising raw material prices, inflation has remained subdued.

Monetary conditions should remain accommodative...

Despite some expected increases in short-term interest rates by the European Central Bank (ECB), monetary conditions should remain accommodative. Long-term rates have risen from their unusually low level at the start of 1999, but in real terms

Germany



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

Financial indicators

	1997	1998	1999	2000	2001
Household saving ratio[a]	..	..	..	..	..
General government financial balance[b,c]	-2.6	-1.7	-1.6	-1.2	-0.9
Current account balance[b]	-0.1	-0.2	0.0	0.1	0.5
Short-term interest rate[d]	3.3	3.5	2.9	3.3	4.3
Long-term interest rate[e]	5.7	4.6	4.5	5.6	5.8

a) As a percentage of disposable income.
b) As a percentage of GDP.
c) Maastricht definition.
d) 3-month interbank rate.
e) 10-year government bonds.

they remain low by historical standards. In the absence of marked inflationary pressures, these favourable conditions are expected to continue. Since the beginning of the year, the nominal effective exchange rate of the euro has declined, offsetting the appreciation which occurred in 1998 in the run-up to the introduction of the euro. Despite the rise in unit labour costs, German competitiveness thus remains favourable.

… while fiscal policy has become more ambitious

Fiscal consolidation plans have become more ambitious for 2000 and beyond. At the start of the year, they called for a stabilisation of the general government deficit in 2000 at the same level as in 1999 (around 1¾ per cent on the basis of the new accounts and 2 per cent on the old system). However, in June the government announced a lowering of the deficit target by ½ per cent of GDP. To this end – as well as to create room for tax reform and to increase family allowances – a package was

Demand and output

	1996	1997	1998	1999	2000	2001
	current prices billion DM	Percentage changes, volume (1995 prices)				
Private consumption	2 055.4	0.7	2.3	1.7	2.2	2.4
Government consumption	717.5	-1.1	0.5	0.7	0.5	0.5
Gross fixed investment	779.4	0.5	1.4	3.2	2.8	3.6
Public	78.2	-8.9	-2.1	0.5	0.8	1.2
Residential	250.5	-0.5	-4.3	-2.7	0.7	1.1
Non-residential	450.7	2.7	5.0	6.4	4.0	5.0
Final domestic demand	3 552.3	0.3	1.7	1.9	2.0	2.3
stockbuilding[a]	- 5.6	0.4	0.7	-0.1	0.0	0.0
Total domestic demand	3 546.7	0.7	2.5	1.7	1.9	2.3
Exports of goods and services	908.8	10.9	7.0	1.7	6.1	6.3
Imports of goods and services	869.5	8.3	8.5	3.1	4.9	5.7
net exports[a]	39.3	0.8	-0.3	-0.4	0.4	0.3
GDP at market prices	3 586.0	1.5	2.2	1.3	2.3	2.5
GDP at market prices in billion €	1 833.5					
Industrial production	_	3.7	4.2	-0.4	3.5	3.0
Memorandum items						
Investment in machinery and equipment	291.4	3.7	9.9	7.8	5.5	6.8
Construction investment	488.0	-1.4	-3.9	-0.1	0.7	1.0

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

External indicators

	1997	1998	1999	2000	2001
			$ billion		
Merchandise exports	510.7	541.6	543.5	583	627
Merchandise imports	438.7	462.4	463.8	496	531
Trade balance	72.0	79.2	79.7	87	96
Invisibles, net	- 73.7	- 83.5	- 80.8	- 84	- 85
Current account balance	- 1.7	- 4.2	- 1.1	3	10
			Percentage changes		
Merchandise export volumes[a]	8.0	9.7	5.2	6.2	6.4
Merchandise import volumes[a]	6.6	9.7	5.5	5.1	5.9
Export performance[b]	- 1.7	0.8	0.8	- 0.6	- 0.1
Terms of trade	- 1.6	1.5	0.4	- 0.8	0.1

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

introduced amounting to DM 30 billion (¾ per cent of GDP) in savings in 2000, rising progressively to some DM 49 billion by 2003. The package still needs to be agreed by the parliament so that details could well alter, but, as it stands, the OECD estimates that actual expenditure cuts in national accounts terms could amount to some DM 15-17 billion (around 0.4 per cent of GDP) in 2000 relative to the OECD's normal unchanged policy baseline. Taking into account the family tax reform as well, the general government deficit is projected to decline from 1.6 per cent of GDP in 1999 to 1.2 per cent in 2000. A further decline in the deficit to 0.9 per cent of GDP is projected for 2001, not including the envisaged business tax reform, which has not yet been submitted to Parliament.

A new approach to labour market policy is still evolving

Employment and output growth are also likely to be influenced by the government's new approach to labour-market policy. The priority to cut unemployment is reflected in three areas: reducing indirect labour costs; a greater resort to active labour market measures (ALMPs); and round table discussions aimed at achieving consensus about measures to encourage employment. Revenues from an energy tax allowed pension contributions to be reduced by 80 basis points of the wage base in 1999. This policy is expected to continue in 2000 and in 2001, but has still to be legislated. How ALMPs will evolve in the future is unclear, although the eligibility criteria for participation in work provision schemes have been significantly widened. Consensus on a strategy to raise employment is proving difficult to reach in the round-table talks (*Bündnis für Arbeit*) and the practical importance of the declaration by the social partners of the need to limit wage increases so as to encourage employment is as yet unclear.

Economic expansion is projected to accelerate...

Activity is expected to have picked up in the second half of 1999, with GDP growth for the year projected at around 1¼ per cent. World trade growth is expected to remain robust in 2000 and in 2001, so that exports should pick up significantly, with the net contribution to growth of the external sector becoming positive. These developments should lead to a gradual pick-up in investment, underpinned by favourable monetary conditions and healthy profitability. The construction sector will also cease to be a brake on aggregate activity, while private consumption is projected to accelerate, based on gradually improving labour market conditions and rising disposable income due to higher wages and tax reductions for households. All in all, GDP growth is projected to expand by some 2¼ per cent in 2000 and 2½ per cent in 2001, while the unemployment rate (in national accounts terms) should decline from 9 per cent in 1999 to 8.3 per cent in 2001.

... but risks arise from both the foreign and the domestic side

These projections are contingent upon a continuing recovery of export market growth and unchanged nominal exchange rates. Moreover, it is assumed that uncertainty about the business environment will gradually wear off as details of the government's reform strategy are settled, otherwise investment could be slower than projected. One risk is that if the recovery of growth in the euro area (as a whole) were to turn out stronger than anticipated, the ECB might be led to shift to a less accommodative stance earlier than expected. Another is that, with growth surges frequently petering out in the recent past due to the failure of investment and consumption growth to become self-sustaining, growth could continue to disappoint.

France

Following a slowdown in production over the winter, a recovery has been under way since the spring. Spurred by household demand and corporate investment, the economy has picked up and is now benefiting from an increase in exports. The conditions are all in place for a virtuous circle of GDP growth, job creation, and fall in unemployment. Inflation is set to move back above 1 per cent, but no more. The current account balance will remain in surplus.

The central government budget for 2000 provides for a freeze on spending in real terms so as to reduce the budget deficit. New taxes on business will be introduced, but taxes on households will be eased, so that overall government revenue will decline in relation to GDP. As they revise their medium-term public finance programme, the authorities should aim at a further decline in the tax burden, alongside a sizeable cut in the budget deficit, in order to make room for the financing of pensions in the future.

After slowing during the winter, the French economy bounced back in spring 1999…

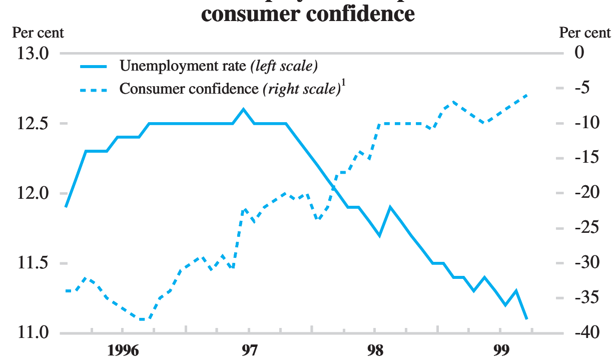
After growing strongly in 1998, the French economy slowed during the winter mainly because the industrial sector was affected by the Asian and Russian crises, the slowdown of the European economies and the downward adjustment of stocks. The slowdown was short-lived, however, and the first signs of recovery were apparent in spring 1999. Industrial production revived, business confidence strengthened and GDP at constant prices accelerated in the second quarter to 2.1 per cent year-on-year. Inflation remained particularly low (0.7 per cent year-on-year in September), despite higher prices of petroleum products. The trade balance and the current account continued to show large surpluses.

… thanks to buoyant job creation and investment

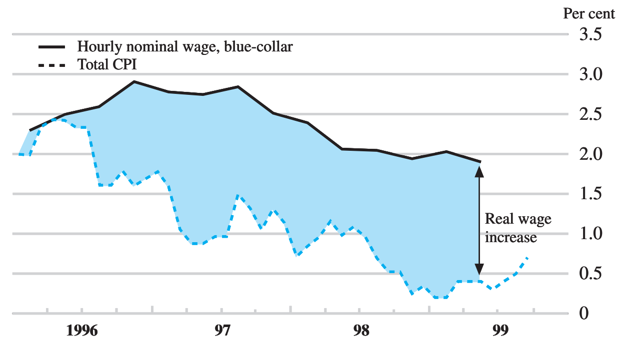
Reflecting stronger output and recent labour market policy initiatives, job creation has accelerated. Against this background, households have remained optimistic about their financial situation and stepped up their purchases of goods and services. Orders of new residential construction also rose sharply in the first half of 1999 ahead of the planned abolition of particularly favourable tax provisions. Firms increased their investment so as to contend with pressures on production capacity. After a mediocre performance over the winter 1998-99, exports have picked up strongly since the second quarter in parallel with the revival of world trade flows.

France

Lower unemployment helps boost consumer confidence



Real wages have increased[2]



1. Balance between optimistic (+) and pessimistic (–) answers.
2. Year-on-year percentage changes.
Source: OECD.

Employment, income and inflation

Percentage changes from previous period

	1997	1998	1999	2000	2001
Employment	0.4	1.4	1.5	1.6	1.4
Unemployment rate[a]	12.5	11.8	11.1	10.3	9.6
Compensation of employees	2.6	3.7	3.2	3.8	3.4
Unit labour cost	0.6	0.3	0.7	0.8	0.5
Household disposable income	3.1	3.4	2.6	3.7	4.0
GDP deflator	1.4	0.9	0.6	1.1	1.3
Private consumption deflator	1.4	0.7	0.8	1.2	1.3

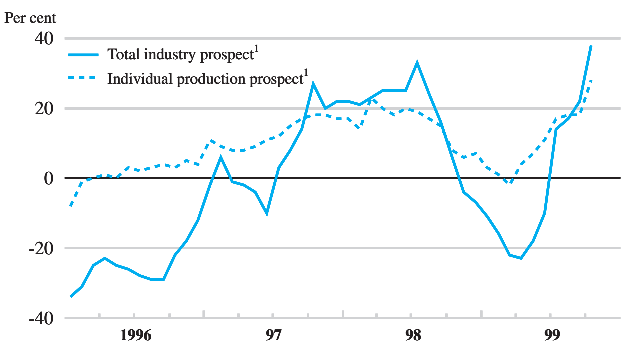
a) As a percentage of labour force.

Reducing working time to 35 hours per week is unlikely to directly lower unemployment

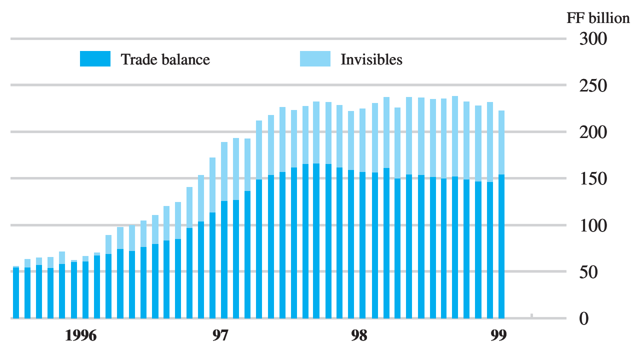
Recent labour market policy iniatives have led to better job performance since 1998. In particular, the promotion of temporary and part-time work, youth employment programmes, and social security contribution rebates have all contributed to job creation. Dependent employment grew appreciably (up 1.8 per cent year-on-year in the second quarter), making for a gradual fall in unemployment. In October-November 1999, Parliament discussed the second law on reducing working time from 39 to 35 hours per week. The shorter work week is scheduled to come into effect as of 1 January 2000 for firms with more than 20 employees. The reduction in working time is unlikely to contribute directly to lower unemployment because efforts will be made by firms to increase productivity in order to limit the rise in unit wage costs. However, strong job performance could continue to prevail thanks to the authorities' decision to lower social security contributions in respect to employees paid up to 1.8 times the minimum wage (SMIC), and to the greater flexibility introduced in work organisation in the context of 35-hour agreements. A more comprehensive reform of labour market policy will be required, however, to reduce structural unemployment well below the current level of about 10 per cent.

France

Business confidence has improved



Current account still in surplus[2]



1. Balance between optimistic (+) and pessimistic (–) answers.
2. Cumulated over 12 months.
Sources: INSEE and OECD.

Financial indicators

	1997	1998	1999	2000	2001
Household saving ratio[a]	16.3	15.5	15.2	15.0	14.9
General government financial balance [b]	-3.0	-2.7	-2.2	-1.7	-1.2
Current account balance [b]	2.7	2.8	2.4	2.3	2.4
Short-term interest rate[c]	3.5	3.6	2.9	3.3	4.3
Long-term interest rate[d]	5.6	4.7	4.6	5.7	5.9

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

The draft 2000 budget envisages a freeze on spending in real terms

The draft 2000 budget provides for a freeze on central government spending in real terms, in line with the commitments made by France as part of its multi-year public finance programme. This would have the effect of reducing the general government deficit from 2.2 per cent of GDP in 1999 to 1.7 per cent in 2000. According to the government, public spending curbs will continue over the coming years, cutting the general government deficit to approximately 1 per cent of GDP by 2002. Over the next few years, however, the budget deficit will be reduced mainly as a result of economic growth.

Taxes on households will be eased, but new taxes on business will be introduced

As part of the 2000 budget, the French authorities have announced cuts in tax on households, and in particular a "targeted" reduction in value-added tax (VAT) for home maintenance work, a cut in real estate transaction tax and the gradual phasing-out of leasehold taxes. On the other hand, new taxes on corporate profits and energy consumption are to be introduced in order to finance aid for companies that agree to reduce working time. Although general government tax revenue will grow less rapidly than nominal GDP in 2000, the tax burden will remain one of the highest in the OECD area, suggesting the need to aim at a lower taxation in the context of the government's revised medium-term public finance programme.

Demand and output

	1996	1997	1998	1999	2000	2001
	current prices billion FF	Percentage changes, volume (1995 prices)				
Private consumption	4 441.6	0.2	3.6	2.3	2.7	2.8
Government consumption	1 922.5	1.6	1.1	1.5	1.3	0.9
Gross fixed investment	1 470.6	0.5	6.1	6.5	5.2	4.5
General government	256.1	-5.0	4.5	3.3	2.0	1.7
Household	362.5	0.6	3.4	8.6	5.2	3.8
Other	852.1	2.1	7.6	6.5	6.0	5.5
Final domestic demand	7 834.8	0.6	3.4	2.9	2.9	2.7
stockbuilding [a]	- 15.5	0.3	0.4	-0.4	-0.1	0.0
Total domestic demand	7 819.3	0.9	3.9	2.5	2.7	2.7
Exports of goods and services	1 834.6	10.6	6.9	1.8	6.3	5.7
Imports of goods and services	1 699.5	6.4	9.4	2.2	5.5	5.5
net exports [a]	135.1	1.1	-0.4	-0.1	0.3	0.2
GDP at market prices	7 954.4	2.0	3.4	2.4	3.0	2.9
GDP at market prices in billion €	1 212.6					
Industrial production[b]	_	3.9	4.5	0.6	3.0	2.6

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

External indicators

	1997	1998	1999	2000	2001
	$ billion				
Merchandise exports	283.9	301.6	290.5	312	333
Merchandise imports	255.9	275.5	270.4	293	313
Trade balance	28.1	26.1	20.1	19	21
Invisibles, net	9.5	14.1	14.1	15	17
Current account balance	37.6	40.2	34.3	34	38
	Percentage changes				
Merchandise export volumes [a]	13.0	6.7	3.4	6.4	5.9
Merchandise import volumes [a]	8.1	8.7	3.0	5.7	5.6
Export performance [b]	3.6	- 0.4	- 1.1	- 0.3	- 0.5
Terms of trade	- 0.3	1.0	- 3.5	- 1.4	- 0.3

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

Growth of production is projected to accelerate, while unemployment should continue its gradual fall

Output growth is projected to accelerate in the coming two years and reach a rate substantially higher than potential. Reductions in tax on households and continued job creation should boost real incomes, while the high level of consumer confidence should result in a gradual reduction in the savings ratio. French exports can be expected to benefit from the upturn in world trade, and in particular the gradual revival of activity in Germany, Italy and Japan. Moreover, the market share losses apparently recorded in early-1999 should gradually be eliminated as a result of the euro fall against the dollar and the yen. Thanks to the growth of production, job creation is expected to remain brisk in the private sector. The government also intends to continue with its programmes to facilitate labour market entry for young people. Cyclical unemployment could therefore disappear within the next two years. Inflation is likely to move back to over 1 per cent because of the increase in commodity prices, but is not projected to reach 1½ per cent.

The international environment constitutes a possible risk

The French economy appears to have entered a virtuous circle of growth in production, higher confidence, and employment creation. A risk that could threaten the economy in the short-term stems from an international environment that is less favourable than expected, notably in the United States. Another risk from the domestic side could derive from stricter labour legislation or mandatory provisions on the introduction of reduced working time. Developments of this sort could undermine business confidence and cast doubt on the durability of the improvement in the labour market. France also needs to tackle the reform of pension funding and curb health spending so that the virtuous circle can persist in the medium term.

Italy

Real GDP growth will be only about 1 per cent in 1999, mainly reflecting the drag on activity caused by the poor performance of net exports. However, with export-market growth rising during the year, activity has begun to show some momentum. Benign macroeconomic conditions continue to support domestic demand, especially investment, although consumer and business confidence remain fragile. Real GDP growth could pick up in the next two years, to around 2½ per cent, as the contribution of net exports becomes more positive, leading to a slight fall in the unemployment rate.

Uncertainties about social security reform need to be resolved if consumer confidence is to be maintained. Achieving vigorous investment and job expansion in the South calls for further structural reforms in the labour market. In the face of Italy's falling market share in total world exports, there is an even greater need to increase competitiveness by reducing costs, in part through an intensification of competition in the service and utilities sectors.

Economic momentum is strengthening...

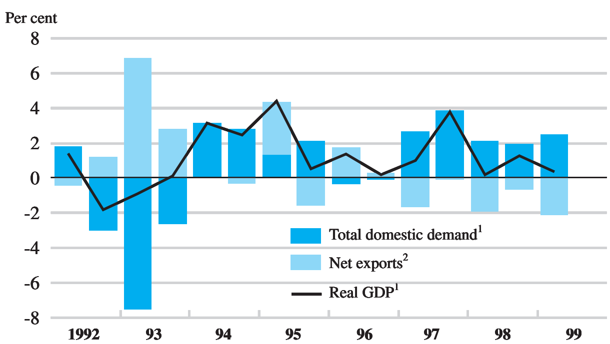
Despite the cushioning effect of stockbuilding, output growth slowed significantly in the first half of 1999, as accelerating imports and a continued fall in exports provided for a strongly adverse contribution to growth from the external sector. However, investment in machinery and equipment and residential construction remained robust and, combined with a pick-up in government consumption, contributed to relatively sustained growth in final domestic demand. Helped by rebounding exports and decelerating imports, the underlying economic momentum was probably stronger at mid-year than suggested by the half-yearly profile.

... and labour market conditions are easing gradually

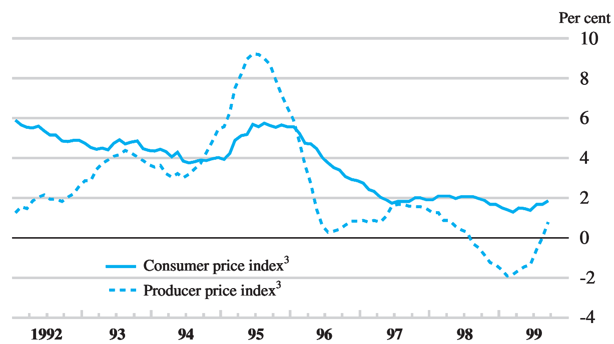
The employment picture has been strongly affected by a major revision of labour-force statistics.* For 1998 this entailed a faster recorded increase in total employment compared with the previous measure: a rise of 1.1 per cent, compared with 0.5 per cent. In the first quarter of 1999, the unemployment rate was at the same level as in the previous year (11.9 per cent). But employment expanded strongly in the following quarters of 1999, bringing the unemployment rate down to 11.1 per

Italy

Output growth has been held back by external demand



Domestic prices have accelerated slightly



1. Percentage change over the previous semester at annual rate.
2. Contribution to changes in real GDP (percentage of real GDP in the previous semester).
3. Year-on-year percentage changes.

Source: OECD.

* The new data show a significant rise in the level of employment (+238 000 units for 1998), reflecting in part the changed age composition of the sample, a higher weight being given to the 35-54 bracket. Under the new methodology there has also been a fall in the number of persons in search of occupation (–92 000).

Employment, income and inflation

Percentage changes from previous period

	1997	1998	1999	2000	2001
Employment	0.4	1.1	1.1	1.2	1.1
Unemployment rate[a]	11.8	11.9	11.6	11.2	10.7
Compensation of employees	4.7	-0.2	3.5	3.1	3.1
Unit labour cost[b]	3.2	-1.6	2.5	0.7	0.4
Household disposable income	2.7	3.3	3.4	3.7	3.9
GDP deflator	2.6	2.8	1.6	1.6	1.5
Private consumption deflator	2.6	2.3	1.8	1.8	1.6

a) As a percentage of labour force.
b) The estimate for 1998 takes into account the introduction of the regional tax (IRAP) which was accompanied by the partial abolition of the employers' compulsory contributions to the health care system.

cent. This progress seems to be based on a significant rise in the number of atypical job contracts, which are more pervasive in the northern regions, and at the sectoral level, in services.

The trade surplus is shrinking

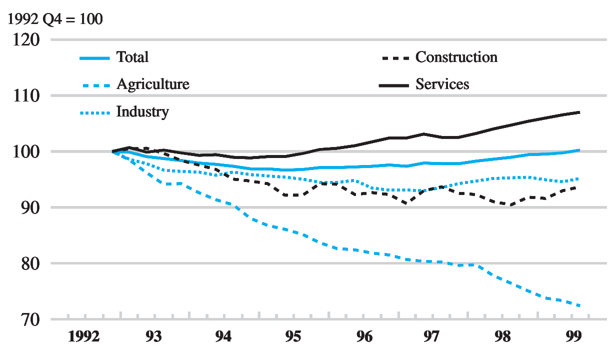
On the external side, the adverse impact of falling exports and stronger imports was only partly mitigated by the positive contribution from the terms of trade. The trade surplus therefore contracted sharply in the eight months to August, to L 21.6 trillion (1.0 per cent of GDP) from L 35.4 trillion a year earlier (1.7 per cent). Exports directed to markets outside the European Union fell sharply. Weaker industrial activity in the European Union also contributed to the poor export performance, the area-wide weight in total Italian exports being close to 57 per cent.

Wage moderation should be maintained and productivity increased to boost competitiveness

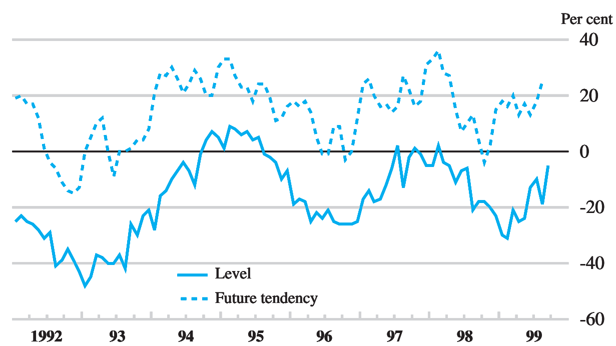
The annual rate of consumer price inflation accelerated to 2.0 per cent in October, responding to rising oil prices, depreciation *vis-à-vis* the dollar and, at the domestic level, rising prices in the private services sector. The differential between Italian and German inflation already equals one percentage point. Nominal wage

Italy

Services drive the expansion of employment[1]



Order books are strengthening[2]



1. New labour force survey series, seasonally adjusted figures.
2. Per cent balance of positive and negative answers.
Source: OECD.

Financial indicators

	1997	1998	1999	2000	2001
Household saving ratio[a]	11.9	11.2	11.3	11.2	11.1
General government financial balance[b]	-2.8	-2.7	-2.3	-1.6	-1.3
Current account balance[b]	2.9	1.7	0.6	0.6	0.9
Short-term interest rate[c]	6.9	5.0	2.9	3.3	4.3
Long-term interest rate[d]	6.9	4.9	4.7	5.8	5.9

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

increases have been moderate. Total compensation per employee in the business sector has been growing in line with the average of the euro area. Nonetheless, this has not been enough to offset the dampening effects on competitiveness of cyclically-poor productivity gains, preventing inflation from converging to rates prevailing elsewhere in the European Union.

Monetary and financial conditions remain supportive...

Nominal interest rates remain low by historical experience, although yields on ten years government bonds, at 5.6 per cent, are some 170 basis points higher than they were at the beginning of the year. This has translated into rising costs of borrowing from banks for both corporations and households. Nevertheless, the volume of credit made available to the private sector has continued to expand briskly, signalling that there is no financial constraint on growth.

… while the fiscal policy stance is consistent with targets

Although fiscal consolidation has progressed at a slower pace than initially planned, the general government deficit is projected to decline to 2¼ per cent of GDP

Demand and output

	1996	1997	1998	1999	2000	2001
	current prices trillion L.	Percentage changes, volume (1995 prices)				
Private consumption[a]	1 105.6	2.5	1.8	1.4	2.0	2.4
Government consumption	344.1	-0.5	1.2	2.4	1.1	0.4
Gross fixed investment	344.2	0.9	3.5	2.9	4.0	3.9
Machinery and equipment	188.6	3.1	6.1	2.5	3.4	3.7
Construction	155.5	-1.8	0.1	3.5	4.7	4.2
Residential	88.3	-2.9	0.7	1.1	5.2	4.9
Non-residential	67.3	-0.3	-0.6	6.5	4.1	3.4
Final domestic demand	1 793.9	1.6	2.0	1.9	2.2	2.3
stockbuilding[b]	6.4	0.8	0.6	0.4	0.0	0.0
Total domestic demand	1 800.3	2.5	2.6	2.3	2.2	2.3
Exports of goods and services	491.8	5.2	1.1	-1.2	5.3	5.9
Imports of goods and services	396.0	10.1	6.0	3.3	4.5	4.7
net exports[b]	95.8	-0.9	-1.2	-1.2	0.3	0.4
GDP at market prices	1 896.0	1.5	1.3	1.0	2.4	2.7
GDP at market prices in billion €	979.2					
Industrial production	_	3.8	1.4	-0.7	2.7	2.9

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

External indicators

	1997	1998	1999	2000	2001
			$ billion		
Merchandise exports	238.2	242.4	228.3	244	261
Merchandise imports	191.1	206.8	211.7	229	243
Trade balance	47.1	35.6	16.6	16	18
Invisibles, net	- 13.6	- 15.8	- 9.8	- 9	- 7
Current account balance	33.6	19.8	6.8	7	11
			Percentage changes		
Merchandise export volumes [a]	4.6	1.8	- 2.1	5.0	5.6
Merchandise import volumes [a]	9.9	9.5	3.5	4.8	5.1
Export performance [b]	- 4.8	- 5.1	- 6.2	- 1.7	- 0.9
Terms of trade	- 0.7	5.6	0.6	- 1.0	0.0

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

this year and 1½ per cent in 2000. The projections for 2000 assume that the fiscal measures submitted to Parliament in September will be implemented. They incorporate restrictions on current expenditures, particularly purchases of goods and services, but embody the effects of higher personnel spending and lower savings from pension payments. Even so, the structural budget deficit would continue to fall, reflecting measures to achieve better control over local authority spending, to cut back transfers to the postal and railways companies and to widen the tax base. In the absence of further policy initiatives, OECD projections show the general government deficit declining to 1.3 per cent of GDP in 2001, consistent with the government's projections.

The economy could be on the verge of a period of stronger expansion

The projected pick-up in real GDP growth, from 1 per cent to 2½ per cent in 2000, is based on a more rapid expansion in economic activity as from the second half of 1999. Forward-looking indicators signal a strengthening of both gross fixed investment and exports. Private consumption is expected to pick up with a lag, reflecting better employment prospects and a steady increase in real disposable income. The momentum thus achieved should underpin a further acceleration in activity in 2001. This upturn in activity is likely to lead to a rise in participation rates, which will limit the decline of the unemployment rate. The progress made towards improving the functioning of the labour market is probably too recent to produce sizeable effects on unemployment in the short term. On the external side, the expansion of exports will be mainly supported by better world demand conditions. These will offset the adverse terms-of-trade effect induced by the rise of oil prices, leaving room for some improvement of the trade balance. This improvement, together with rising non-factor services, should prevent the current account surplus from declining further.

The main risks relate to domestic demand and labour costs

The projection is contingent upon an increase in world trade growth and turnaround in net exports. Domestically, the main uncertainties attach to the performance of private consumption insofar as consumer confidence, though at a relatively high level, remains erratic, reflecting in part uncertainties about social security reform, as well as labour-market conditions. If these uncertainties are not resolved quickly the upturn in private consumption could be slower than projected. On the other hand, excessive labour-cost increases could accentuate inflationary pressures in the short term, undermining competitiveness.

United Kingdom

While growth marked a pause last winter, the slowdown was limited and brief, and activity has picked up vigorously since the second quarter of 1999. The unusual mildness of the business cycle reflected the strength of final domestic demand, which more than offset the weaker foreign demand associated with the strong pound and softer export markets. Employment has continued to expand, and unemployment has come down to levels not seen since the 1970s. Notwithstanding the tightening of the labour market, inflation has declined further, but is now expected to edge up a little.

Against this background, and facing an improving external environment, the Bank of England has raised its policy rate twice since mid-year. Since there is not much slack in the economy, further increases may be called for, but the enhanced credibility of the monetary authorities may help limit the amplitude of the interest rate cycle. The unanticipated buoyancy of tax revenues has elicited pressures for higher spending, but the fiscal bonus should not be spent, all the more so as the original expenditure plans already included a boost for several programmes. On the structural front, the introduction of a number of initiatives stems from the recognition that measures are required to increase employment and productivity in the medium term; nevertheless, some prioritising may be in order lest reform fatigue or dilution set in.

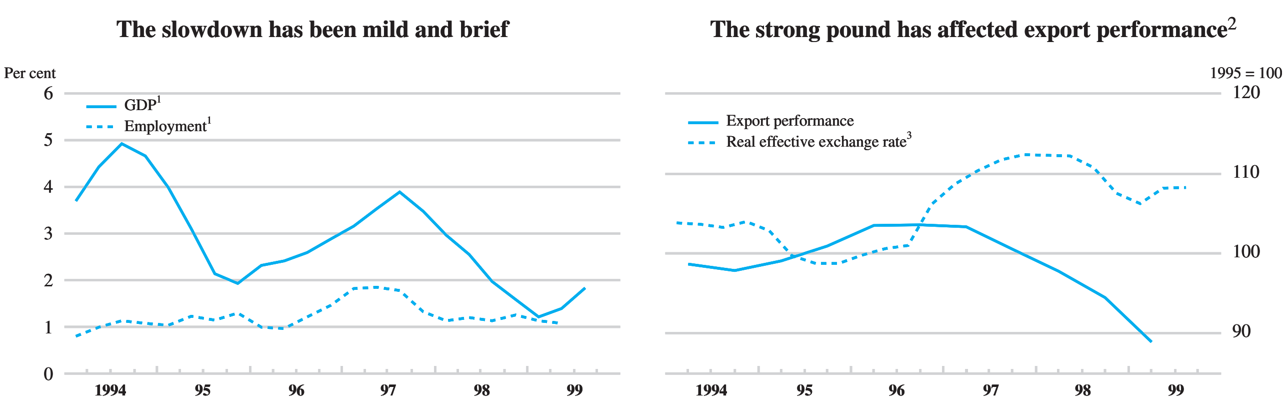
The slowdown has been mild and short-lived…

Contrasting with the widely shared contemporaneous perception of a severe slowdown, the amplitude of the economic cycle has been rather limited.* Unlike during earlier cyclical downturns, real GDP did not decline. It remained essentially flat in the last quarter of 1998 and the first quarter of 1999, and accelerated subsequently. Final domestic demand, most prominently household spending, held up better than generally expected, offsetting inventory decumulation and the negative impulse from foreign trade. The trade deficit on goods deteriorated significantly in the first half of 1999, to 3 per cent of GDP, as the continued strength of the pound fuelled import growth and contributed to sharp losses in export market shares. Export volumes, however, have been rising since the second quarter.

… and unemployment has fallen further, but inflation has remained very subdued

Despite the slowdown in activity, employment continued to grow sufficiently to reduce unemployment further, reaching levels not witnessed since the 1970s. It fell to 5.9 per cent of the labour force for the survey measure and 4.2 per cent for the claimant count by mid-summer 1999. In part, the conjunction of subdued output growth and

United Kingdom



1. Year-on-year percentage changes.
2. In manufacturing.
3. Based on export prices.

Source: OECD.

* The national statistical office's GDP estimates for 1998 and early 1999 have been revised upwards significantly since the publication of the preliminary estimates.

Employment, income and inflation

Percentage changes from previous period

	1997	1998	1999	2000	2001
Employment	1.6	1.2	0.7	0.7	0.6
Unemployment rate[a]	6.9	6.2	6.1	6.0	5.9
Compensation of employees	6.9	7.2	5.1	5.4	5.5
Unit labour cost	3.3	4.8	3.3	2.6	3.1
Household disposable income	6.4	2.0	3.5	5.2	5.2
GDP deflator	2.9	2.7	2.0	2.6	2.6
Private consumption deflator	2.5	2.0	1.7	2.4	2.3

a) As a percentage of labour force.

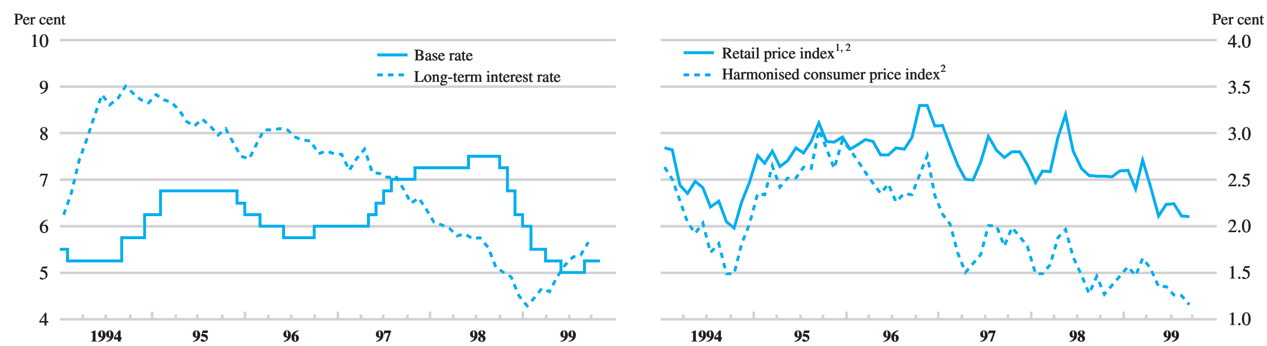
job creation may reflect the impact of some of the "New Deal" labour market measures, but it also results from the relative buoyancy of the more labour-intensive service sector. Against this background, headline inflation has been lower than generally expected, also running at historically low levels. In September 1999, retail prices were up by only 1.1 per cent over a year earlier, and the targeted index – which excludes mortgage interest payments – was up by 2.1 per cent, distinctly below the 2.5 per cent target. In terms of the European Union harmonised consumer price index, inflation has lately been only slightly above the euro area average. Besides falling import prices, inflation reflects the slowdown in nominal earnings, which have recently been increasing at around the 4½ per cent rate deemed compatible with the inflation target by the Bank of England. Wage moderation in turn can to some extent be ascribed to the entrenchment of low inflation expectations.

Interest rates are up again

Monetary policy has adopted a resolutely forward-looking posture, on the grounds that the impact of interest rate moves seeps through the economy only gradually. Faced with a tight labour market, output around potential, unambiguous signs of accelerating activity, booming retail sales, rising commodity prices and a pick-up in house prices, the Bank of England – which had cut its base rate by 250 basis points

United Kingdom

Monetary policy has been active | **Inflation has remained close to target**



1. All items excluding mortgage interest payments (RPIX).
2. Year-on-year percentage changes.

Sources: Bank of England and Office for National Statistics.

Financial indicators

	1997	1998	1999	2000	2001
Household saving ratio[a]	9.6	6.6	5.0	5.1	5.7
General government financial balance[b]	-2.0	0.2	0.7	0.8	0.8
Current account balance[b]	0.8	0.0	-1.5	-1.5	-1.2
Short-term interest rate[c]	6.8	7.3	5.4	6.4	6.8
Long-term interest rate[d]	7.0	5.5	5.1	6.3	6.1

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

since mid-1998 – decided to pre-emptively raise it by 25 basis points in both September and November, to 5½ per cent. The yield curve, which was sharply inverted last winter, progressively flattened out as activity has picked up. If inflation is to be kept close to target, further increases in the policy rate may be warranted. However, enhanced central bank credibility coupled with a broadly neutral fiscal stance should limit the magnitude of the required monetary tightening.

Tax receipts are running ahead of forecasts…

Owing to the dynamism of employment, incomes and consumption, tax receipts have exceeded budgeted amounts during the first half of fiscal year 1999-2000, quickly prompting calls for extra spending. The Government, however, has emphasised that it will not loosen the fiscal stance. The latter is broadly neutral, following several years of tightening, and the budget has already provided for an expenditure boost in a number of priority areas. Over the projection period, the general government budget is projected to remain close to balance, with a continuing and significant decline in the ratio of public debt to GDP.

Demand and output

	1996	1997	1998	1999	2000	2001
	current prices billion £	Percentage changes, volume (1995 prices)				
Private consumption	485.4	3.9	3.4	3.9	2.6	2.2
Government consumption	146.1	-1.4	1.0	3.7	2.6	2.2
Gross fixed investment	125.7	7.5	9.9	4.9	3.0	2.6
Public[a]	13.0	-10.0	7.3	0.0	7.2	7.0
Private residential	27.5	2.5	1.9	-3.1	4.1	2.5
Private non-residential	85.1	11.8	12.5	7.5	2.3	2.2
Final domestic demand	757.2	3.5	4.0	4.1	2.7	2.3
stockbuilding[b]	1.6	0.3	0.1	-0.6	0.2	0.0
Total domestic demand	758.8	3.8	4.1	3.4	2.9	2.3
Exports of goods and services	220.3	8.6	2.0	-0.1	4.0	4.8
Imports of goods and services	224.5	9.2	8.4	5.0	4.3	4.5
net exports[b]	- 4.2	-0.3	-2.1	-1.7	-0.3	-0.1
GDP at market prices[c]	754.6	3.5	2.2	1.7	2.7	2.3
Manufacturing production	_	1.3	0.4	-0.8	1.4	2.6

a) Including nationalised industries and public corporations.
b) Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
c) Data for GDP in the past are based on a compromise estimate which is the average of the expenditure, output and income estimates of GDP. The compromise adjustment is the difference between compromise GDP and the expenditure estimate of GDP.

External indicators

	1997	1998	1999	2000	2001
			$ billion		
Merchandise exports	281.4	271.9	259.1	285	308
Merchandise imports	300.9	306.4	307.9	338	360
Trade balance	- 19.5	- 34.4	- 48.8	- 53	- 52
Invisibles, net	29.6	34.7	26.8	30	32
Current account balance	10.1	0.2	- 22.0	- 22	- 20
			Percentage changes		
Merchandise export volumes[a]	7.6	1.2	- 3.8	4.3	5.4
Merchandise import volumes[a]	8.7	9.0	1.4	4.8	5.0
Export performance[b]	- 1.7	- 5.9	- 8.9	- 2.6	- 1.0
Terms of trade	1.5	1.7	2.1	0.8	0.9

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

… as growth is reverting towards potential

Consumer confidence is strong and export market prospects have improved significantly. In this context, the recovery is projected to gain momentum, with growth rising slightly above potential before the damping effect of rising interest rates brings it down closer to that rate in 2001. The household saving rate, which declined sharply in recent years, could recover somewhat and consumption should become less buoyant, but the foreign trade drag should gradually vanish. Employment is projected to grow less than output, with productivity picking up. The unemployment rate should remain close to its current low level, as the vigour of activity is likely to draw back into the labour force persons who would otherwise have remained on the fringes of the labour market. Inflation is projected to edge up a little, but without exceeding the target by much.

The risks to the outlook are balanced

The downside risks surrounding this scenario include a sharper than projected slowdown in the United States or less of a pick-up than foreseen in the euro area or Japan. There remains also the risk that, in the absence of slack, real earnings might run too far ahead of productivity. On the upside, the good performance of the economy in recent years suggests that potential output growth may be stronger than estimated, which would imply that stronger expansion than in the past can now be sustained at low inflation.

Canada

The economy has continued to expand at a healthy pace supported by buoyant domestic demand and ongoing growth in the United States. The rebound in Canada's terms of trade has pulled the resource-based sector out of recession and has made for a marked narrowing in the external deficit. At the same time, the budget surplus has been maintained. While inflation has edged up, abstracting from energy and other volatile items, it has remained within the lower half of the official target range. In the period ahead, growth is projected to move back toward its potential rate, reflecting a slowdown in the US economy and some withdrawal of monetary stimulus, which is currently substantial.

With estimates of potential output suggesting that the economy is operating near capacity, a gradual move toward a somewhat less accommodative monetary stance would seem to be appropriate. The task of monetary policy would be facilitated by a continued focus on public debt reduction within a medium-term fiscal policy framework that would anchor public and financial-market expectations.

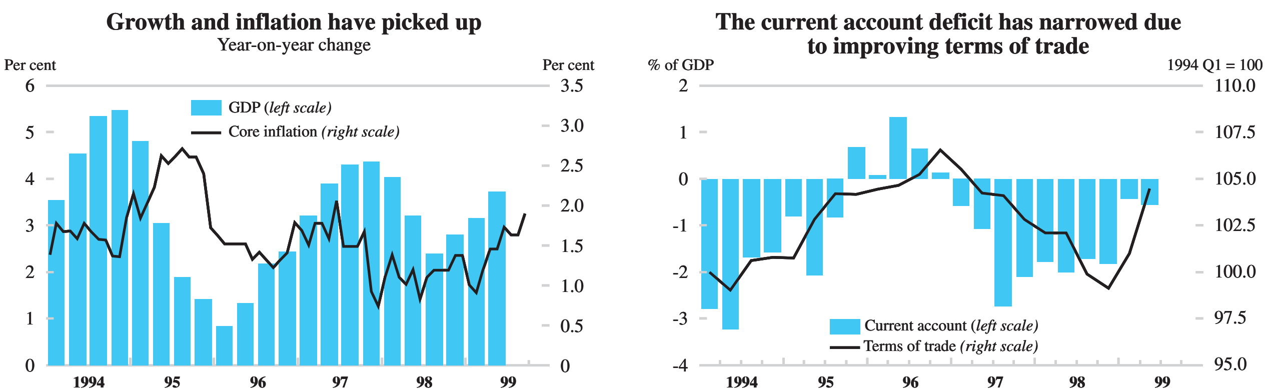
Economic growth has remained robust, but job creation has slowed

The pick-up in activity in late 1998 has been sustained, with economic growth averaging an annual rate of 4 per cent over the three quarters to mid-1999. While the export sector has been an important source of strength for the economy for some time, more recently the stimulus from domestic expenditure has also been growing. Consumers have regained confidence and stepped up spending for cars and housing. Businesses have revised up their plans for investment (including buoyant spending on computer upgrades, partly related to year-2000 readiness). In contrast to strong output indicators, job creation has slowed noticeably following its surge around the turn of the year. As a result, labour productivity growth has resumed, although hours worked have increased more strongly than employment. With fewer people re-entering the labour force, the unemployment rate has remained on a slight downward trend, abstracting from short-term fluctuations.

Rising commodity prices are reflected in higher inflation and a lower external deficit

Headline consumer price inflation has risen significantly in recent months, exceeding 2½ per cent in September. To a large extent, this is due to higher energy prices. However, the Bank of Canada's indicator of core inflation (excluding energy, food, and the effect of indirect tax changes) has also moved upward from the lower part toward the mid-point of the official 1 to 3 per cent target range. In part, this seems to reflect delayed effects of last year's exchange rate depreciation. Unit labour costs have been virtually stable, as recent productivity gains have offset some up-tick

Canada



Source: OECD.

Employment, income and inflation

Percentage changes from previous period

	1997	1998	1999	2000	2001
Employment	1.9	2.8	2.7	1.7	1.6
Unemployment rate[a]	9.2	8.3	7.8	7.7	7.7
Compensation of employees	5.8	4.0	3.8	4.9	4.7
Unit labour cost	1.8	0.9	0.1	1.9	2.0
Household disposable income	3.5	3.2	3.6	4.9	4.9
GDP deflator	0.8	-0.6	1.5	2.0	2.1
Private consumption deflator	1.8	1.0	1.3	2.0	2.1

a) As a percentage of labour force.

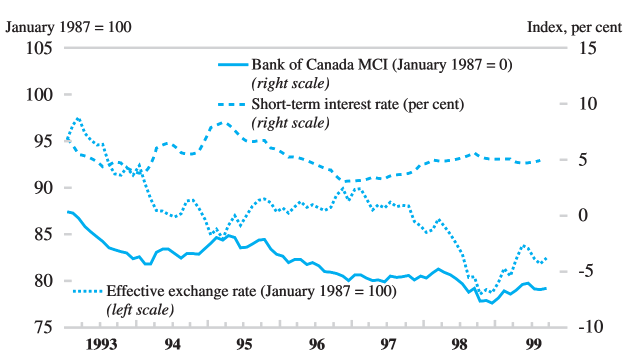
in wages. The rise in commodity prices has led to a marked improvement in Canada's terms of trade, which have broadly recovered their level recorded at the onset of the Asia crisis. This, in turn, has entailed a substantial narrowing in the current account deficit, which dropped from 1¾ per cent of GDP in 1998 to ½ per cent in the first half of 1999. In contrast, the real foreign balance deteriorated somewhat in that period as the resurgence in domestic demand – and in particular its import-sensitive components such as machinery and equipment investment – fuelled import volume growth.

Monetary conditions have remained accommodative

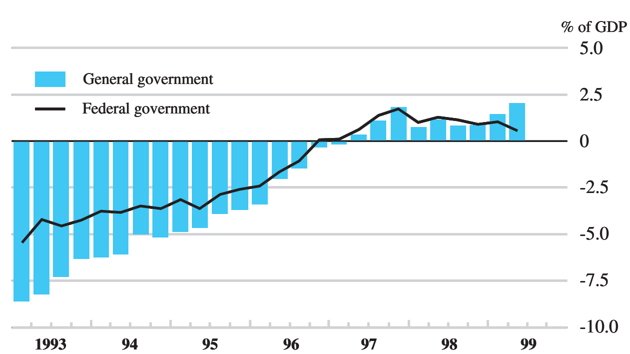
Overall monetary conditions – as measured by the Bank of Canada's index (MCI), which captures the combined effect of movements in short-term interest rates and the effective exchange rate – have remained stimulatory by historical standards, easing a little since mid-1999 after some tightening during the first half of the year. Their recent fluctuations largely reflect movements in the effective exchange rate. The Bank Rate was last changed in early May, when it was reduced by 25 basis points to 4¾ per cent, and the Bank of Canada did not follow recent interest rate hikes made in the United States. Nonetheless, the Canadian dollar has weakened little against its US counterpart, in part because of the rise in commodity prices and Canada's terms of trade. The Bank of Canada has indicated that, given the uncertainty and imprecision in estimates of the economy's productive capacity, it is putting more emphasis on other indicators, which so far show little sign of significant inflation pressure. Even so, on the basis of OECD calculations suggesting that the

Canada

Monetary conditions have eased a little



The budget has remained in surplus



Source: OECD.

Financial indicators

	1997	1998	1999	2000	2001
Household saving ratio[a]	2.8	2.4	2.2	2.6	2.9
General government financial balance[b]	0.8	0.9	1.6	1.6	1.5
Current account balance[b]	-1.6	-1.8	-0.3	-0.1	-0.1
Short-term interest rate[c]	3.5	5.0	4.9	5.4	5.8
Long-term interest rate[d]	6.5	5.5	5.6	6.4	6.1

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

Canadian economy is operating near potential, the projections described below assume that – with constant exchange rates – a gradual rise in short-term interest rates will be required in the period ahead to keep inflation comfortably within the target range. Long-term interest rates are expected to increase further but to fall short of comparable US rates, helped by progress in fiscal consolidation.

Public debt has kept falling

The general government financial surplus (national accounts definition) was 1¾ per cent of GDP in the first half of 1999, up from around 1 per cent for 1998 as a whole. The further rise can be traced to developments at the non-federal levels of government where there has been an underlying improvement in their fiscal position, with remaining deficits likely to be eliminated over the next year or so. Moreover, with the overhaul of the retirement income system, public pension plans have moved back into surplus. Such developments have made for an accelerating decline in the public debt-to-GDP ratio, which has come down from almost 100 per cent of GDP in the mid-1990s to below 90 per cent (and from almost 70 per cent to below 60 per

Demand and output

	1996	1997	1998	1999	2000	2001
	current prices billion C$	Percentage changes, volume (1992 prices)				
Private consumption	482.1	4.2	2.8	2.4	2.3	2.4
Government consumption	172.2	-0.5	1.7	1.4	1.5	1.6
Gross fixed investment	144.0	13.9	3.6	8.8	6.3	4.6
Public[a]	19.1	-5.3	4.9	7.5	3.5	3.5
Residential	39.6	12.6	-1.9	6.8	5.9	4.5
Non-residential	85.4	18.8	5.7	9.9	6.9	4.8
Final domestic demand	798.3	4.9	2.7	3.5	3.0	2.7
stockbuilding[b]	3.1	0.7	-0.4	-0.1	0.0	0.0
Total domestic demand	801.4	5.7	2.2	3.3	3.0	2.7
Exports of goods and services	321.0	8.5	8.2	9.1	6.4	5.7
Imports of goods and services	287.4	14.6	5.8	7.8	6.6	6.1
net exports[b]	33.6	-1.7	1.0	0.6	0.1	0.0
error of estimate[b]	- 1.0	0.2	-0.1	-0.2	0.0	0.0
GDP at market prices	834.0	4.0	3.1	3.7	3.0	2.7
Industrial production	_	5.2	2.4	3.3	3.7	3.5

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

External indicators

	1997	1998	1999	2000	2001
	$ billion				
Merchandise exports	217.6	217.2	239.8	262	281
Merchandise imports	200.4	204.5	218.9	240	258
Trade balance	17.1	12.7	21.0	22	22
Invisibles, net	- 27.4	- 23.7	- 22.6	- 23	- 23
Current account balance	- 10.3	- 11.1	- 1.6	- 1	- 1
	Percentage changes				
Merchandise export volumes [a]	9.2	8.3	9.7	6.5	5.9
Merchandise import volumes [a]	16.9	7.3	8.7	7.0	6.3
Export performance [b]	- 4.3	- 1.6	- 2.6	- 1.8	0.3
Terms of trade	- 1.2	- 3.0	2.2	0.2	- 0.2

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

cent in net terms). Continued budget surpluses of the order of magnitude recorded recently – as projected by the OECD – would reduce the debt ratio by another 10 percentage points by 2001 but still leave it significantly above the OECD average.

The economic outlook looks favourable…

Following the recent burst of growth, the pace of activity is projected to converge back to its potential rate, estimated by the OECD to have edged up to over 2¾ per cent. This easing of growth reflects both external and domestic influences. The projected slowdown in the US economy implies a significant decline in Canada's export market growth, which is unlikely to be offset by gains in market share despite the country's relatively favourable competitive position. At the same time, the assumed reduction in monetary stimulus is expected to damp the growth in domestic demand. Apart from the effect of higher interest rates, some slowdown in household spending is likely to the extent that pent-up demand for durable consumer goods and housing is diminishing. Such a scenario would avoid the emergence of major tensions and imbalances in the economy. In the absence of a significant overshoot of productive potential, inflation is projected to remain well within the official 1 to 3 per cent target band and the external current account to be in broad balance.

… although there are some risks to the projections

Other scenarios cannot be ruled out, however. On the one hand, there are a number of risks that could lead to a "hard landing" of the US economy. Given the strong trade linkages between the two countries, this would inevitably have serious consequences for Canada's growth prospects, although both fiscal and monetary policy now have more room for manoeuvre to support domestic activity than during the recession of the early 1990s, when government deficits and inflation were high. On the other hand, the projected slowdown in economic expansion could be delayed. This appears quite possible given the ongoing strength in the US economy and the improvement in consumer confidence and the business climate at home. Faster-than-anticipated growth at a time when the economy seems to be operating near capacity could entail additional inflationary pressures and necessitate a more pronounced tightening in monetary conditions than assumed. This would imply a more cyclical growth profile, with buoyant activity in the near term followed by a more marked downturn later in the projection period.

Australia

Economic growth, which had surged to 5 per cent in 1998 on the back of buoyant consumption and investment, has begun to moderate in 1999 as private investment has slowed. Growth may be closer to 4 per cent in 1999 and is projected to fall to 3 per cent in 2000 as investment weakens further and the growth of consumption eases. It may then return to around 4 per cent in 2001, with investment picking up again. With export markets and the terms of trade improving, the current account deficit should fall to 4¼ per cent of GDP in 2001.

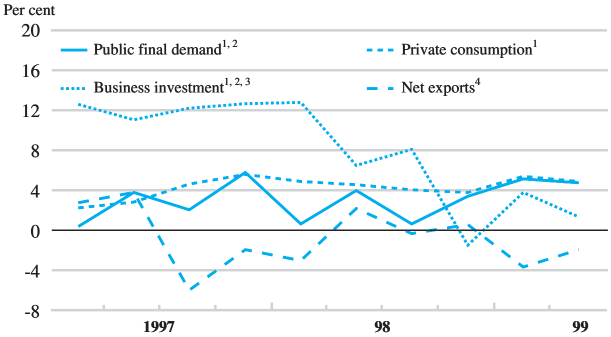
The Reserve Bank has signalled that, with the end of the Asian crisis, monetary policy is likely to revert to a neutral position in the period ahead. The authorities will have to remain vigilant to one-off price effects associated with the new Goods and Services Tax being incorporated into ongoing inflation. Fiscal policy should continue to be directed at keeping the budget in surplus. This should help to maintain financial market confidence in the face of still large current account deficits.

Economic growth is high but slowing…

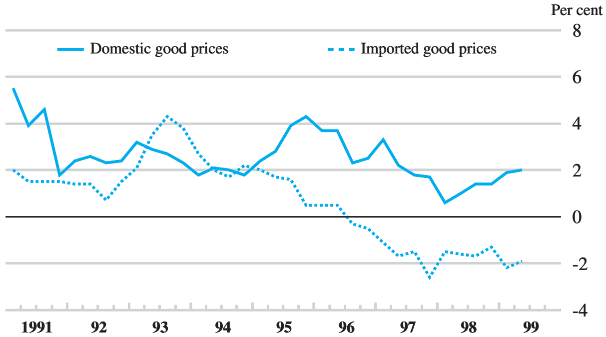
Economic growth has begun to slow from the high rates of the past two years, falling to 4.1 per cent (year-on-year) in the second quarter of 1999. This mainly reflects falling private business investment, especially in the mining industry, and the completion of projects related to the Sydney Olympics. The latest Survey of Capital Expenditure intentions points to a further large drop in mining investment in the coming year and a generally flat outlook in other sectors, although the overall favourable environment for investment would suggest a somewhat less weak outlook. The mainstay of high economic growth over the past year or so has been household consumption expenditure, which grew by 5 per cent in the year to the first half of 1999. Large increases in household wealth, mainly reflecting capital gains on houses and equities as well as demutualisation of the Australian Provident Fund, have encouraged households to borrow to increase consumption expenditure relative to disposable income. With strong growth in domestic demand and depressed export markets, the current account deficit rose further in the first half of 1999, to almost 6 per cent of GDP. The terms of trade stabilised in the first half of 1999, after having fallen steadily since the onset of the Asian crisis.

Australia

Private business investment is slowing



Falling import prices hold down inflation[1]



1. Year-on-year percentage changes.
2. Abstracting from public sales of second-hand assets to the private sector.
3. Private.
4. Contribution to GDP growth.

Sources: Australian Bureau of Statistics and Reserve Bank of Australia.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion A$	Percentage changes, volume (1997/98 prices)				
Private consumption	307.5	3.9	4.3	4.8	3.8	3.5
Government consumption	96.9	1.9	2.7	4.2	2.2	2.3
Gross fixed capital formation	116.5	11.6	6.2	3.4	1.6	3.7
Final domestic demand	521.0	5.2	4.4	4.4	3.0	3.3
Stockbuilding [a]	1.7	-1.6	1.7	0.5	-0.4	0.0
Total domestic demand	522.6	3.6	6.2	4.8	2.5	3.3
Exports of goods and services	100.8	11.5	-0.4	2.8	7.8	7.6
Imports of goods and services	101.7	10.3	5.9	6.5	4.0	5.6
Net exports [a]	- 0.9	0.2	-1.3	-0.8	0.7	0.3
Statistical discrepancy [a]	0.0	0.1	0.2	-0.2	-0.3	0.3
GDP at market prices	521.7	3.9	5.1	3.9	3.0	4.0
GDP deflator	_	1.4	0.3	1.3	2.6	2.5
Memorandum items						
Private consumption deflator	_	1.4	1.3	1.4	4.2	3.5
Industrial production	_	1.6	1.1	2.3	3.0	3.3
Unemployment rate	_	8.5	8.0	7.3	6.9	6.5
Household saving ratio [b]	_	3.8	2.1	2.1	2.8	2.7
General government financial balance [c]	_	-0.6	0.5	0.7	0.5	0.6
Current account balance [c]	_	-3.2	-4.8	-5.7	-4.9	-4.3

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

… and unemployment continues to fall

Employment has continued to grow strongly in recent months. This, together with a stable participation rate has resulted in a one percentage point decline in the unemployment rate over the past year, to a little over 7 per cent. Vacancy data point to further solid growth in employment in coming months. At the same time, wage increases have slowed to an annual rate below 3 per cent. Some business surveys suggest that the low point in wages growth may have been reached, although the expected increases in wage growth are modest.

Domestically-sourced inflation is low, but rising

Inflation has edged up to 1.7 per cent in the year to the third quarter of 1999. Falling imported goods prices have been holding down the overall inflation rate. Excluding imported items, goods inflation has increased to an annual rate of around two per cent. With economic recovery underway in Asia, excess supply in many markets for manufactured goods is likely to decline, increasing imported inflation. Recent increases in oil prices will have a similar effect.

Monetary conditions are accommodating and budget balances are stable

The officially targeted short-term interest rate was raised by 0.25 percentage point in November 1999, to 5.0 per cent. This was the first increase in almost five years. Even so, monetary conditions should continue to support activity over the coming year. Largely reflecting international trends, the ten-year government bond rate has increased to 6.6 per cent. The general government budget surplus should remain at around ½ percentage point of GDP over the projection period, despite the introduction of the tax reform package in July 2000. This reform, which includes the introduction of a Goods and Services Tax (GST), offsets the consolidation that would otherwise have occurred.

Economic growth is projected to slow but inflation is likely to rise

Economic growth is projected to slow progressively to around 3 per cent in 2000, mainly on account of weakening fixed investment, slowing consumption spending as gains in households wealth moderate and a lower rate of stock building, but to bounce back to around 4 per cent in 2001 as business investment begins to recover. Strong employment growth should continue, cutting the unemployment rate to 6½ per cent in 2001. Inflation is projected to pick up to 4 per cent in 2000, including a 2 percentage point contribution from the tax package, but to ease back in the following year as cuts in some indirect taxes occur. Abstracting from the effects of the tax package, inflation is likely to rise to 2½ per cent in 2001. With export markets recovering and the terms of trade rising, the current account deficit is projected to fall to 4¼ per cent of GDP in 2001. The main risks to these projections are that households continue to enjoy large capital gains on houses, sustaining strong consumption expenditures, and that inflation expectations rise as GST is introduced.

Austria

Sharply reduced exports and an associated slackening of investment activity led to slower growth at the start of 1999. However, activity has been supported by strong private consumption, which has been underpinned by significant employment growth in the service sector. Rising exports and improved confidence point to stronger economic expansion in the second half, with GDP for the year as a whole set to rise by 2¼ per cent. This pick-up should continue into 2000, stabilising in 2001 at around the growth rate of potential – an estimated 2½ per cent.

In the absence of a financing package for the enacted tax reform, the budget deficit is projected to rise to some 2½ per cent of GDP in 2000. Once a new government is in office, it will need to take early action to contain potential budget slippage. In doing so, it should further the tax reform by widening the tax base and reducing costly support programmes. Longer-term fiscal sustainability will require tighter control of entitlement spending.

Activity was underpinned in the first half of 1999 by strong domestic demand and higher employment

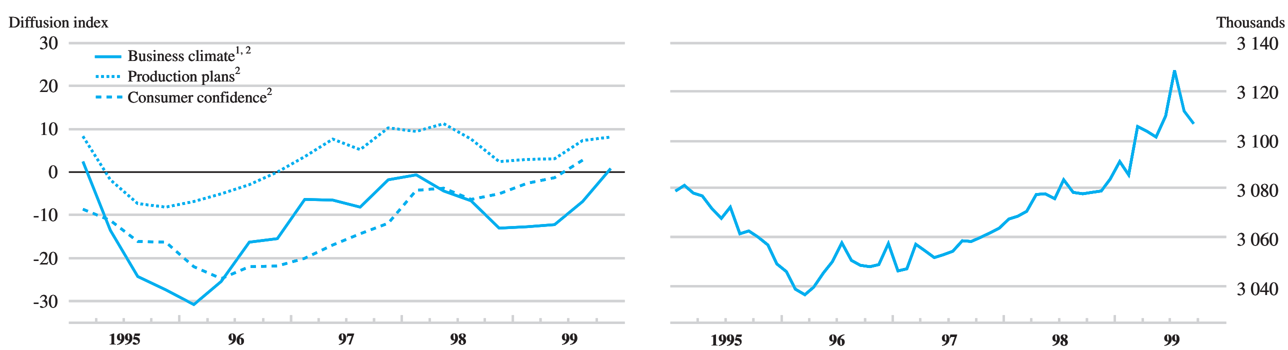
Two conflicting developments underlay GDP growth in the first half of 1999. Private consumption and expenditures on equipment remained strong and employment grew rapidly, thereby underpinning rising household incomes and consumer confidence. However, slowing exports and weakening construction activity retarded growth. With domestic demand strong, imports increased and, despite a strong pick up in tourism, net exports weakened. The continuing strong employment growth has been most apparent in services, including both business-related activities and publicly funded services such as health, education and public administration. Unemployment has also fallen significantly, although two-fifths of the decline is related to participation in active labour-market programmes.

Monetary conditions are favourable but fiscal policy will need to be tightened

Despite the recent back-up in long term rates and some expected rise in policy rates in the euro area in the course of 2000 and 2001, monetary conditions are projected to remain accommodative. Domestic borrowing has been strong. Since the beginning of the year, the euro's nominal effective exchange rate has depreciated, offsetting the appreciation which occurred during 1998 in the run up to its

Austria

Business and consumers are more optimistic | **Employment has expanded strongly**[3]



1. Anticipated business conditions.
2. Seasonally adjusted. Balance of positive – negative replies.
3. Dependent employment, seasonally adjusted.

Sources: WIFO; OECD.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion Sch	Percentage changes, volume (1983 prices)				
Private consumption	1 375.1	0.7	1.7	2.0	2.5	2.3
Government consumption	480.3	-3.9	1.3	1.5	1.3	1.5
Gross fixed capital formation	573.0	2.8	4.7	3.5	3.9	3.5
Final domestic demand	2 428.4	0.5	2.4	2.3	2.7	2.5
Stockbuilding [a]	0.5	1.4	0.2	0.0	-0.1	0.1
Total domestic demand	2 428.9	1.8	2.6	2.3	2.6	2.5
Exports of goods and services	967.7	10.1	7.9	2.9	6.2	6.4
Imports of goods and services	982.0	8.7	6.6	3.0	5.7	6.5
Net exports [a]	- 14.3	0.7	0.7	0.0	0.3	0.0
GDP at market prices	2 414.6	2.5	3.3	2.2	2.9	2.5
GDP at market prices in billion €	175.5					
GDP deflator	_	1.6	1.0	1.0	1.4	1.3
Memorandum items						
Private consumption deflator	_	2.0	0.9	0.7	1.2	1.3
Industrial production	_	6.2	8.4	2.0	3.8	3.5
Unemployment rate [b]	_	6.4	6.5	6.3	5.8	5.4
Household saving ratio [c]	_	7.4	8.8	8.7	9.2	9.0
General government financial balance [d]	_	-1.9	-2.2	-2.1	-2.5	-2.2
Current account balance [d]	_	-2.6	-2.2	-2.6	-2.8	-2.9

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

introduction. Unit labour costs have also developed favourably in Austria so that international competitiveness has strengthened. In the absence of corrective measures, fiscal policy is projected to shift to a stimulative stance in 2000, when the tax reform law will come into effect, resulting in a cut in tax revenues of some Sch 17 billion (½ per cent of GDP). This tax reduction will be compounded by increases in family allowances of Sch 15 billion, decided in 1998. Taken together, the general budget deficit is projected to rise to 2½ per cent of GDP, well above the level approved in Austria's European Union Stability Programme.

Growth picked up in the second half of 1999 and should continue into 2000

Improving business sentiment and rising export orders point to an acceleration of growth in the second half of 1999. With investment and consumption still firm, GDP is likely to have expanded by some 2¼ per cent for the year as a whole. The apparent quickening of growth in the second half of 1999 should continue through 2000 although, with imports strong, the net contribution of the external sector to growth will only be modest. Reflecting the tax cuts, household disposable income will increase significantly in 2000. However, since a financing package is widely expected, lower taxation will probably only be viewed as temporary by households, so that the short run effect on consumption is not expected to be great. With the output gap very narrow and unemployment approaching the estimated structural unemployment rate, wages are likely to pick up in 2001 and imports are projected to continue to be strong. However, after the surge following the European Union entry, investment should slow so that growth is projected to decelerate in 2001 to around potential (2½ per cent).

Domestic risks are assuming greater importance

Risks to the outlook appear to be evenly balanced. On the downside, they arise mainly from external factors, especially if growth in Germany were to be much weaker than projected. Upside risks are mainly domestic. With the output gap smaller than in a number of other countries in the euro area and with domestic demand robust, European Central Bank monetary policy could prove more expansionary for Austria than would be required on purely domestic grounds. However, excess demand would be more likely to show up in the current account than in prices.

Belgium

Real GDP growth has slowed in 1999 partly as a result of the dioxin crisis. But, reflecting more buoyant exports, growth is projected to accelerate in 2000-01, to nearly 3 per cent. While the economy is approaching capacity and labour market conditions should continue to improve, no major inflationary pressures are expected. The general government deficit is projected to remain at around 1 per cent of GDP, with the debt to GDP ratio falling to less than 110 per cent in 2001.

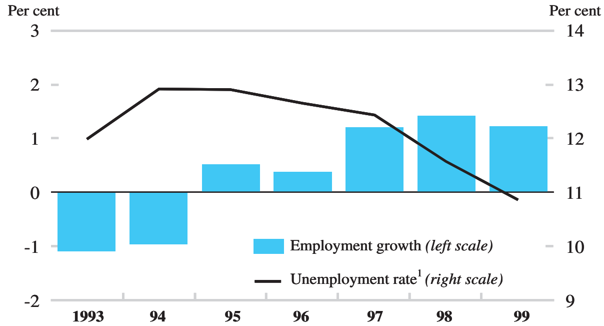
The 2000 Budget includes important revenue reductions and, despite the strength of the economy, the general government deficit is expected to decline only marginally, and expenditure cuts will be needed to bring the budget for 2001 back on a path leading to balanced budgets after 2002. To increase the still low employment rate, the emphasis should remain on inserting low-skilled workers into the active labour force through measures enhancing skills and qualifications, stronger incentives to work, and a more flexible wage formation process.

Growth has slowed, unemployment has fallen and inflation has remained subdued

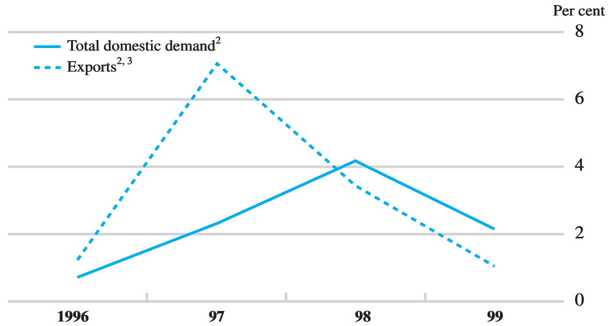
Economic activity has slowed in 1999, in part because of the negative impact on food exports and related industries of the dioxin crisis which is estimated by the authorities to have reduced real GDP growth by around ¼ of a percentage point. At the same time, domestic demand has lost some of the remarkable buoyancy shown in 1998. With the saving ratio levelling off after a decline of several years and personal disposable income growing at a slower pace, private consumption has been less supportive of growth. Business fixed investment, which had grown rapidly for five years, has also decelerated reflecting a more hesitant conjunctural situation as well as progressively less favourable corporate profits. All considered, real GDP growth may have declined to a little below 2 per cent in 1999, with net exports representing a negative contribution of nearly half of a percentage point. Employment has continued to grow, but in 1999 around half of the new jobs may have been created in the public sector or through special labour-market programmes. The unemployment rate has fallen further, reaching 12.2 per cent on national definitions in September 1999 – compared with 13.2 per cent a year earlier. With some spare capacity still available in the economy and the *ex ante* restraint imposed by the Law on Employment and Competitiveness (linking the maximum increase in compensation per employee to the weighted average increase in France, Germany and the Netherlands), wages and labour costs have remained subdued. At around 1 per cent, consumer price inflation stays historically low, despite a rebound in import prices.

Belgium

Labour market conditions improve



Both domestic demand and exports have weakened



1. National definition (registered unemployment as a percentage of labour force), end-of-June figures, not seasonally adjusted.
2. In volume, year-on-year percentage changes.
3. Goods and services.

Source: OECD.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion BF	Percentage changes, volume (1995 prices)				
Private consumption	4 526.0	2.3	3.4	2.2	2.2	2.1
Government consumption	1 804.0	-0.5	2.4	2.3	2.1	1.9
Gross fixed capital formation	1 687.0	6.3	3.7	3.5	3.1	2.5
Final domestic demand	8 017.0	2.5	3.2	2.5	2.4	2.1
Stockbuilding [a]	- 20.0	-0.2	0.9	-0.2	0.1	0.1
Total domestic demand	7 997.0	2.3	4.2	2.3	2.5	2.3
Exports of goods and services	5 917.0	7.1	3.4	1.0	6.0	6.1
Imports of goods and services	5 583.0	6.0	5.2	1.6	5.7	5.7
Net exports [a]	334.0	1.0	-1.1	-0.4	0.4	0.5
GDP at market prices	8 331.0	3.2	2.9	1.8	2.8	2.7
GDP at market prices in billion €	206.5					
GDP deflator	_	1.5	0.9	1.1	0.9	1.4
Memorandum items						
Private consumption deflator	_	1.6	0.7	1.3	1.7	1.7
Industrial production	_	4.9	3.2	-0.4	3.0	2.2
Unemployment rate	_	12.4	11.6	10.8	10.6	9.8
Household saving ratio [b]	_	12.5	12.9	12.8	12.7	12.8
General government financial balance [c]	_	-1.9	-1.0	-1.0	-0.9	-0.9
Current account balance [c]	_	4.7	4.4	3.2	3.3	3.6

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

Policy settings remain generally supportive of growth…

The 2000 Budget is somewhat expansionary mainly because of a strong acceleration in the multi-annual reduction in social security contributions. Along with the re-indexation of tax brackets, the budget contains some minor tax cuts, such as the phasing out of the 3 per cent solidarity tax and the reduction of the value-added tax rate on some labour intensive services. It also introduces a new labour-market programme ensuring that school-leavers find a job within six months. The general government deficit which is expected to reach 1 per cent of GDP in 1999, may in the absence of additional measures remain at around this level in 2000-01, despite the strength of the economy. As the pace of the recovery accelerates in the euro area, both short- and long-term interest rates are expected to rise somewhat. This, together with a less favourable corporate profit situation, may weigh on business fixed investment to some extent, but private consumption will remain underpinned by new job creation – especially in 2001 – and a higher rate of growth in personal disposable income.

… which is expected to pick up in 2000-01

Due to a good cost-price performance relative to trading partner countries, the depreciation of the euro in effective terms over the past year or so, and more buoyant export markets, Belgian firms should regain market shares contributing to a projected acceleration in real GDP growth to nearly 3 per cent in 2000-01. After having been a drag on growth in 1999, the foreign balance is expected to strengthen and become the driving force of the expansion. Domestic demand should remain subdued. The unemployment rate is expected to fall further – to less than 10 per cent in 2001. Recent wage agreements have been fully in line with the Law on Employment and Competitiveness, and the increase in wages is expected to remain modest over the next two years. Labour costs will benefit from the accelerated reduction in social security contributions. The projected increase in consumer price inflation is essentially due to higher import prices – especially in 2000. The main uncertainty concerns the strength of the recovery in the euro area.

Czech Republic

GDP continued to fall in the first half of 1999, reflecting the combination of a very weak first quarter and positive growth in the second supported by rising consumption and stronger exports. In the third quarter these trends continued and the decline in industrial production showed signs of ending. Weak demand in 1998 and 1999 together with restructuring among firms and banks, has led to a significant rise in unemployment and helped keep inflation low, while also contributing to a marked improvement in the current account of the balance of payments. Prospects for 2000 and 2001 include a moderate further recovery in output, coupled with higher inflation and unemployment as one-time price effects are reversed and enterprise restructuring continues.

To prevent a further widening of the budget deficit, a tighter fiscal stance is called for as the recovery takes hold. Meanwhile, completion of banking-sector privatisation and other reforms aimed at encouraging the restructuring of industry continue to be priorities if longer-term growth prospects are to improve.

Signs of recovery emerged in the second quarter of 1999…

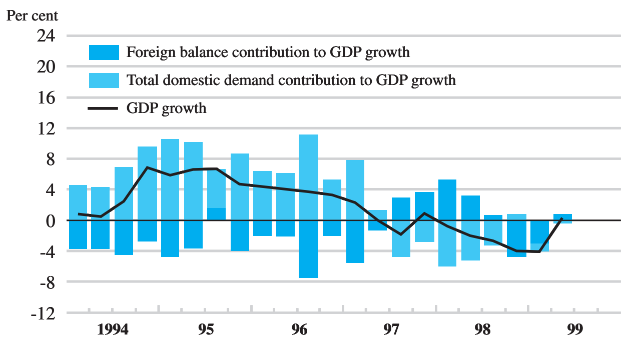
Aggregate demand fell by 1.9 per cent in the first six months of 1999, a decline reflecting a large drop (4.1 per cent) in the first quarter followed by a 0.3 per cent increase in the second. For the first half as a whole, moderate growth in private and government consumption was substantially offset by a 7.1 per cent fall in investment. On the external side, exports rose quickly thanks to increased sales to Europe and weak import growth, thus limiting the fall in GDP, and inducing a very sharp fall in the current-account deficit to 0.6 per cent of GDP. Most recently there were some signs in the third quarter that the decline in industrial production is coming to an end.

… as unemployment continued to rise and inflation stayed low

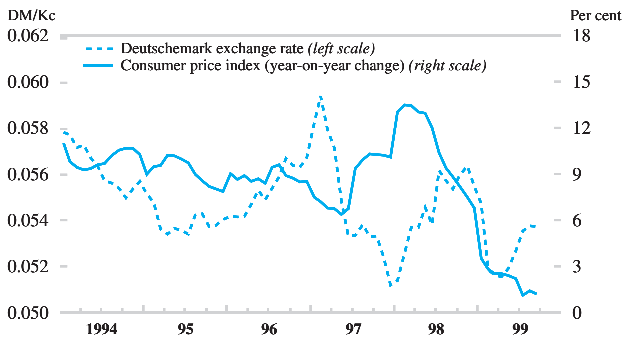
Inflation, after declining substantially at the beginning of the year (from an average of 10.8 per cent in 1998), stood at only 1.4 per cent in October, on a twelve-month basis, but has been showing some signs of picking up. Over the same period, net inflation (*i.e.* changes in the prices of non-regulated goods and services) was frequently negative and, at zero per cent in October, is well below the Central Bank's end-of-year target of 4.5 ± 0.5 per cent. These sharp declines were unexpected and, as a result, real wage growth was strong in 1999 despite a moderation in nominal wages and rising unemployment, which on a registered basis reached 8.9 per cent of the labour force.

Czech Republic

Signs of recovery



A dramatic decrease in inflation



Source: OECD.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion Kc	Percentage changes, volume (1995 prices)				
Private consumption	810.7	2.1	-2.8	1.5	1.5	1.6
Government consumption	312.5	3.6	0.6	3.2	0.6	1.4
Gross fixed capital formation	500.6	-4.3	-3.8	-4.5	1.5	3.5
Final domestic demand	1 623.8	0.3	-2.5	0.0	1.3	2.1
Stockbuilding [a]	48.9	0.0	-0.8	-0.3	0.1	0.3
Total domestic demand	1 672.7	0.3	-3.2	-0.3	1.4	2.4
Exports of goods and services	831.3	8.1	10.7	3.3	6.7	7.9
Imports of goods and services	931.7	7.2	7.9	3.2	6.2	7.5
Net exports [a]	- 100.4	0.0	1.1	-0.2	-0.1	-0.2
GDP at market prices	1 572.3	0.3	-2.3	-0.5	1.4	2.3
GDP deflator	_	6.5	11.0	2.7	3.9	4.4
Memorandum items						
Private consumption deflator	_	7.7	9.7	1.9	4.4	4.2
Industrial production	_	4.7	3.1	-2.2	3.5	6.0
Unemployment rate	_	4.8	6.5	8.9	10.1	11.0
General government financial balance [b]	_	-2.0	-2.4	-5.1	-5.4	-5.5
Current account balance [b]	_	-6.1	-1.9	-0.8	-1.2	-1.4

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

Macroeconomic policy easing caused the general government deficit to increase significantly, while banking-sector reform contributed to firm-level restructuring

Monetary policy continued the easing begun in July 1998, with the two-week repo rate reaching 5.5 per cent in October 1999. Fiscal policy has also been relaxed, with a rise in both cyclical and discretionary spending, contributing to an increase in the consolidated government deficit (net of privatisation revenues), which is now officially expected to reach 5.1 per cent of GDP in 1999. Over the last six months the authorities have sold one of the three large banks in which they held a controlling stake, while tenders for one of the other two have been accepted. The efforts of these banks to clean up their balance sheets, a tightening of the prudential regulations and high real interest rates contributed to a decline in credit supply and may have prompted an acceleration in the pace of industrial restructuring.

The recovery is expected to strengthen in 2000 and 2001…

The nascent recovery is expected to strengthen somewhat in both 2000 and 2001, although its speed will be constrained by ongoing restructuring. Real wages are projected to moderate in both years, as inflation expectations adjust downwards, and competitiveness should improve resulting in stronger export performance and a pickup in investment spending. Monthly year-on-year rate of inflation will continue rising in 2000 and then begin falling in 2001, as the impact of higher food, commodity and regulated prices pass through to the general price level. Assuming unchanged policies, the general government deficit is expected to rise somewhat, reaching 5.5 per cent of GDP by 2001.

… but its strength and durability will depend on the extent of supply-side reforms

This projection incorporates the effects of restructuring taking place over the next two years, which should yield lower output in the short run but increased productivity and competitiveness over the longer term. A pause in that process or higher real wages could see stronger domestic demand in 2000 and 2001, more inflation, greater import demand and a consequent further widening of the current account deficit. On the other hand, the short-term costs of adjustment, and in particular the weakness of the banking sector, might be underestimated here, meaning that more unemployment and slower growth could be observed.

Denmark

The economy has slowed as fiscal tightening and higher long-term interest rates have restrained household demand. However, business investment remains fairly robust and growth is becoming more balanced as exports recover and imports are slowed by the downward adjustment of inventories. The tightening of labour market conditions has widened inflation differentials between Denmark and the euro area, and the spread between Danish and euro interest rates has also increased. Firm export demand should combine with relatively sluggish domestic demand to allow a modest recovery in GDP growth to nearly 2 per cent by 2001.

While overall wage increases are low compared with past experience, they still reflect an economy at full stretch, indicating a need for further labour-market reforms to raise the supply potential of the economy. The general government surplus should remain above 2 per cent over the projection period, but further tightening of fiscal policy may be needed to reduce labour-market tensions in the short run.

Growth is slowing

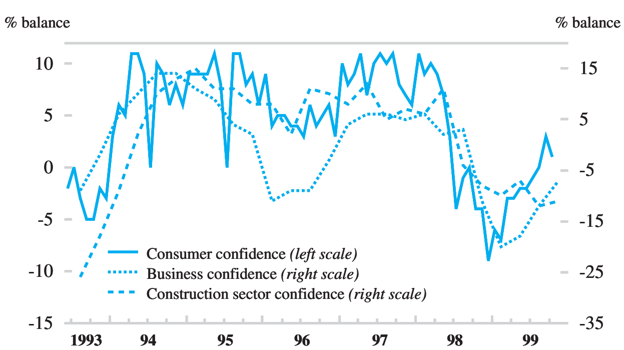
Following five years of substantially above-potential growth, the economy began to slow in the first half of 1999, as private consumption growth fell back to less than 1 per cent. Housing and – to a lesser degree – business investment have also decelerated, while de-stocking subtracted nearly 2 percentage points from GDP growth. For the year as a whole, a pick-up in the contribution of net exports to growth should more or less offset the effects of stock adjustment, as imports have been restrained and exports are recovering. Since public consumption and investment are also decelerating, overall GDP growth may be restricted to just above 1¼ per cent in 1999.

Unemployment has continued to fall and inflation to increase

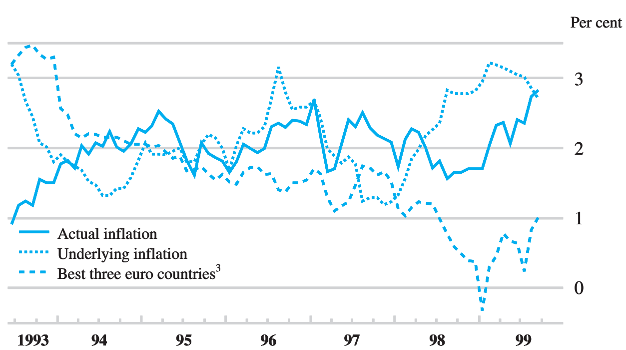
The registered unemployment rate has continued to fall, to 5½ per cent by mid-1999, despite signs that private sector employment declined in the second quarter of 1999 while public employment growth moderated. Wage increases have remained around 4½ per cent, although recent data are difficult to interpret due to statistical disturbances from last year's labour market conflict. Consumer price increases have been picking up, reaching 3.0 per cent in October 1999 as headline inflation approaches the underlying rate of inflation.

Denmark

Confidence is improving[1]



Inflation has been picking up[2]



1. Seasonally adjusted. Balance between positive and negative answers.
2. Year-on-year percentage changes.
3. Average of the three best performing euro countries with respect to inflation in summer 1999.

Sources: Danmarks Statistik; Ministry of Economics; OECD.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion Dkk	Percentage changes, volume (1990 prices)				
Private consumption	531.7	3.7	3.5	1.1	1.5	2.0
Government consumption	273.7	1.0	3.0	1.5	1.0	1.0
Gross fixed capital formation	201.8	10.4	6.9	1.3	1.7	1.9
Final domestic demand	1 007.2	4.5	4.1	1.3	1.4	1.7
Stockbuilding [a]	2.3	0.1	0.4	-0.6	0.0	0.1
Total domestic demand	1 009.5	4.6	4.6	0.6	1.4	1.8
Exports of goods and services	379.4	4.4	1.4	3.6	3.8	4.2
Imports of goods and services	327.2	8.5	6.4	1.9	3.6	4.1
Net exports [a]	52.2	-1.3	-1.8	0.7	0.1	0.1
GDP at market prices	1 061.7	3.1	2.7	1.3	1.5	1.9
GDP deflator	_	1.8	2.1	2.3	2.6	3.0
Memorandum items						
Private consumption deflator	_	1.9	1.8	2.1	2.5	3.0
Industrial production	_	5.9	2.1	2.7	2.6	3.3
Unemployment rate	_	7.7	6.4	5.7	5.8	6.0
Household saving ratio [b]	_	5.1	6.4	5.9	7.2	7.1
General government financial balance [c]	_	0.1	0.9	2.9	2.2	2.4
Current account balance [c]	_	0.6	-1.2	-0.3	-0.2	0.0

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

Short-term rates have fallen, but bond yields have increased and fiscal policy is restrictive

Since the beginning of 1999, there has been a full percentage point fall in short-term interest rates as the interest differential *vis-à-vis* the euro area has narrowed from 70 to 25 basis points. The kroner has remained stable against the euro, although the effective exchange rate has depreciated by 3 per cent. At the same time, there has been a minor increase in long-term interest rate differentials and, in conjunction with internationally higher rates, this has increased bond yields from 4¼ to above 5¾ per cent. Long-term interest rates could increase further if euro-area rates rise and the inflation outlook worsens. Fiscal policy is currently mildly restrictive, but the budget surplus of almost 3 per cent of GDP which should be achieved in 1999 is projected to fall back, but remain above 2 per cent in the following two years.

Growth prospects should improve

While private consumption growth may decelerate to just above 1 per cent in 1999, following the termination of the replacement cycle for durable goods, it could approach 2 per cent by 2001 due to continued real wage increases. Residential investment could continue to decline as higher long-term interest rates put downwards pressure on housing prices. On the other hand, business investment should keep growing as the external sector benefits from a stronger export market outlook and from a short-term improvement in competitiveness due to the depreciation of the effective exchange rate. Overall, GDP growth could pick up progressively over the next two years, to around 2 per cent in 2001, which would be near to potential.

Inflation remains a risk

The deceleration of employment growth is likely to lead to a mild pick-up in the unemployment rate to around 6 per cent by 2001, which would still be below the OECD's estimate of structural unemployment, entailing wage pressures. Combined with a less favourable external price developments consumer price increases could reach 3 per cent in 2001. If still higher inflation were to materialise, which appears to be the major risk, this could further increase the premium on Danish securities in international markets.

Finland

While the very robust growth of recent years was interrupted by a mild slowdown in activity in 1999, growth is projected to accelerate in the coming two years, averaging over 4 per cent per year. Projected monetary conditions, which are determined by the economic situation in the euro area as a whole, are likely to entail a risk of overheating for the Finnish economy though the intensity of domestic cost pressures will also depend importantly on the new wage agreements.

In order to prolong the period of strong non-inflationary growth and rapidly declining unemployment, comprehensive structural reform measures are necessary. Some labour market reforms, especially of the early retirement scheme, would have an immediate positive effect on labour supply, thereby reducing the risk of overheating. In the absence of such reforms, fiscal policy should stand ready to tighten further to prevent a resurgence of inflation.

Economic growth has slowed down temporarily…

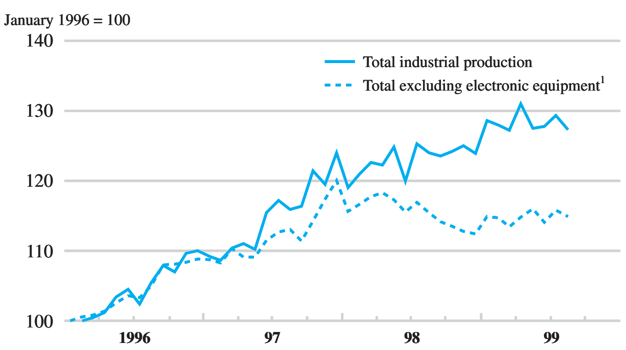
The Finnish economy lost some momentum in the first half of 1999, with real GDP growth slowing to 2½ per cent at an annual rate compared with the second half of 1998. External demand weakened, while private consumption growth stalled after the surge at the end of 1998. Output growth remained underpinned by the electronic equipment industry, which increased production by a quarter. Softer, but still buoyant growth led to a further sharp decline in the unemployment rate, to below 10 per cent in July. Economic growth picked up again in the second half of the year, with renewed strength in manufacturing sectors (other than electronic equipment) that had been weak since mid-1998, while the electronics sector also continued to surge. The construction and electronic equipment industries are facing mounting problems to hire skilled personnel. With more than sixty per cent of the new jobs created in the south of the country, regional labour market bottlenecks are also becoming more serious. Due to the rise in the oil price, consumer price inflation edged up, but remained low. House prices, however, continued to surge, especially in the south.

… but macroeconomic policy settings are, on balance, supportive of growth

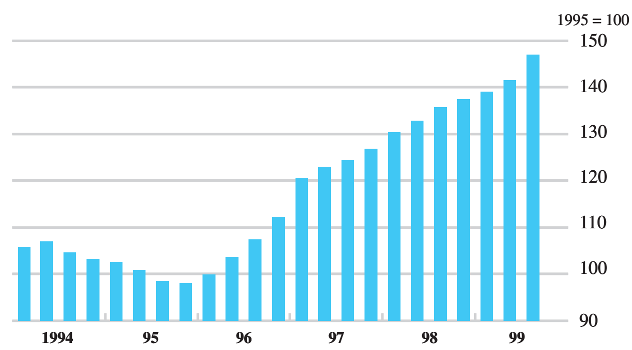
The fiscal stance will remain tight. The central government draft budget shows a moderate rise in spending in 2000 but no tax reduction. However, in line with its intention to reward moderate wage settlements, the government is committed to implementing a FIM 10-11 billion (1½ per cent of GDP) income tax cut before 2003. With revenues rising sharply due to robust economic growth, the central government

Finland

Output is boosted by electronic equipment



Record level for housing prices



1. Total industrial production excluding electronic, electrical and optical equipment.
Source: Statistics Finland.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion FIM	Percentage changes, volume (1995 prices)				
Private consumption	306.7	2.9	5.5	4.1	3.7	3.9
Government consumption	134.8	2.9	1.4	0.6	0.7	0.8
Gross fixed capital formation	98.1	11.7	9.0	6.4	6.2	6.5
Final domestic demand	539.6	4.5	5.2	3.8	3.5	3.8
Stockbuilding [a]	- 1.2	0.7	0.8	-0.2	-0.1	0.0
Total domestic demand	538.4	5.3	6.0	3.5	3.4	3.8
Exports of goods and services	220.9	14.2	9.6	3.1	7.0	6.3
Imports of goods and services	175.7	11.4	9.4	2.3	5.5	5.5
Net exports [a]	45.2	2.0	1.0	0.5	1.2	1.0
GDP at market prices	587.6	5.6	5.6	3.7	4.2	4.4
GDP at market prices in billion €	98.8					
GDP deflator	_	2.0	2.7	0.9	1.6	2.4
Memorandum items						
Private consumption deflator	_	1.9	1.5	1.2	1.6	2.3
Unemployment rate	_	12.7	11.4	10.1	9.1	8.6
General government financial balance [b]	_	-1.6	1.4	3.0	4.4	5.1
Current account balance [b]	_	5.4	5.7	5.3	5.6	6.0

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

budget – after being broadly in balance in 1999 – is projected to be in surplus of 1 per cent of GDP in 2000. At the same time the general government surplus will widen to 4 per cent of GDP, the strongest performance in the euro area. Despite the recent rise in long-term interest rates, financial conditions have remained accommodating, leading to strong credit growth, and are probably too easy for the current cyclical position of the economy.

The outlook is very favourable…

Following on from the growth pick-up in the second half of 1999, and boosted also by an improved global outlook, economic growth is projected to rise further in 2000 and 2001, averaging about 4¼ per cent. Domestic demand is expected to remain buoyant, reflecting solid employment growth, rising real wages, excellent profitability and healthy asset positions of households and enterprises. With the vigorous economic upswing continuing, unemployment should remain on a downward trend. The tighter labour market is projected to put upward pressure on wages, inducing, in combination with rising import prices, somewhat higher inflation.

... but there is a serious inflation risk

The major uncertainty concerns wage developments. This is partly because the coming agreements will be negotiated at the branch level, after two moderate central wage settlements which served the Finnish economy well. Higher than expected wage growth would boost demand in the short run, but could lead to a hard landing later on due to the erosion of competitiveness and profitability. On the other hand, it cannot be excluded that structural reforms have made the economy more flexible, allowing rapid growth to continue some time longer without generating serious inflationary tensions.

Greece

Growth was resilient in 1999 and is set to pick up in 2000 and 2001, reflecting robust domestic demand and stronger exports. Inflation receded owing to favourable domestic cost developments, and with indirect tax cuts offsetting the impact of higher oil prices, the inflation differential with respect to the three best performing euro area economies is set to shrink further. The projections suggest that Greece is in a good position to fulfil the Maastricht inflation criterion in early 2000. However, stronger consumer price increases in the short run cannot be ruled out as demand pressures keep rising.

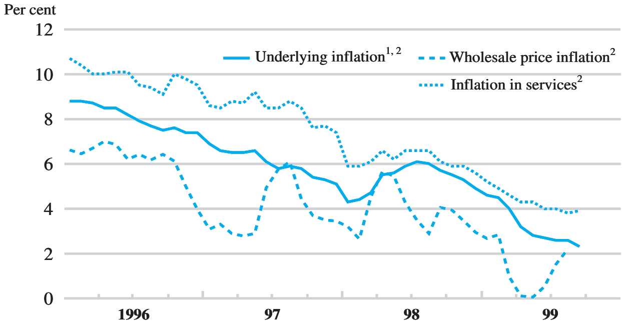
With monetary conditions set to ease in the expected transition to joining European Economic and Monetary Union, the burden of sustaining low inflation will fall on fiscal policy, which should aim at a more ambitious consolidation target by reining in primary government expenditures. Planned income tax cuts should be viewed as an opportunity to promote moderation in wage settlements. Stepping up public utilities' deregulation and enhancing competition in sheltered markets would also help secure more favourable domestic cost developments.

Activity has slowed moderately, while inflation has receded

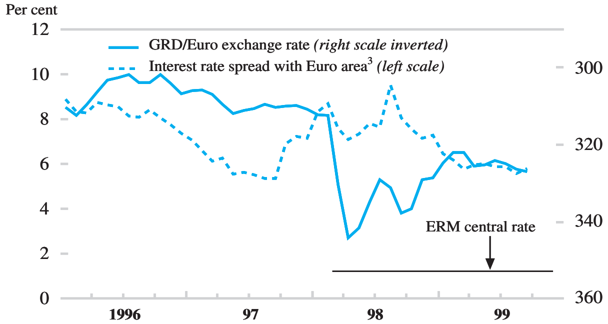
In the first half of 1999, economic activity weakened only moderately as strong domestic demand largely outweighed slower export growth. GDP is expected to have grown by nearly 3¼ per cent for the year as a whole. Labour market outcomes have been less favourable, with the unemployment rate edging up to an estimated 11 per cent in mid 1999. Surging retail sales and continuing strong consumer credit expansion signal unabated consumer confidence, while manufacturing output has stabilised after falling early in the year. The increase in the number of foreign visitors heralds good prospects for tourist receipts, despite the temporary setback due to the Kosovo crisis. Consumer price inflation has receded to close to 2 per cent as from June and underlying inflation fell to 2.3 per cent in September. Wholesale price inflation edged up during the summer, however, pointing to possible pressures on consumer prices in coming months. Nonetheless, lower wage settlements, as well as cuts in heating oil and car taxes introduced in September, herald a decline of Greece's inflation differential with the euro area economies.

Greece

Disinflation has been on track



Monetary conditions are set to ease



1. Excluding fresh food and energy products.
2. Year-on-year percentage change.
3. 12-month Treasury bill rate and 12-month EURIBOR.

Source: OECD.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion Dr	Percentage changes, volume (1995 prices)				
Private consumption	22 050.8	2.7	2.1	2.6	3.1	3.4
Government consumption	4 348.0	1.7	2.0	0.0	0.5	0.3
Gross fixed capital formation [a]	5 829.1	13.1	8.1	7.5	8.4	9.3
Final domestic demand	32 227.9	4.5	3.2	3.3	3.9	4.3
Stockbuilding [b,c]	95.5	-0.4	-0.1	0.0	0.0	0.0
Total domestic demand	32 323.4	4.1	3.2	3.3	3.9	4.3
Exports of goods and services	5 245.6	7.9	4.2	6.2	7.5	7.5
Imports of goods and services	7 633.9	9.5	1.9	5.1	7.3	7.5
Net exports [b]	-2 388.3	-1.1	0.3	-0.2	-0.6	-0.6
GDP at market prices	29 935.1	3.4	3.7	3.3	3.7	4.1
GDP deflator	_	6.7	4.9	2.7	2.3	2.6
Memorandum items						
Private consumption deflator	_	5.6	4.7	2.5	2.2	2.5
Industrial production	_	1.5	2.7	4.0	5.0	6.0
Unemployment rate	_	10.2	11.2	11.3	10.9	10.2
General government financial balance [d]	_	-3.9	-2.5	-1.6	-1.6	-1.1
Current account balance [d,e]	_	-4.0	-3.0	-2.9	-3.3	-3.4

a) Excluding ships operating overseas.
b) Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
c) Including statistical discrepancy.
d) As a percentage of GDP.
e) On settlement data basis.

Monetary conditions and fiscal policy are set to ease

The stance of monetary policy has remained tight. The Bank of Greece bolstered the administrative measures introduced in April to restrain credit expansion and has kept the key intervention rates high. Exchange rate policy assisted disinflation, with the exchange rate remaining 8 per cent above its central rate in the European Exchange Rate Mechanism. However, monetary conditions are set to ease before joining the euro area, because interest rate differentials are still sizeable. Improved economic fundamentals and the prospect of a decline in interest rates induced massive portfolio shifts into equities, leading to sharp rises in stock market prices. This could fuel demand and pose risks to the inflation outlook. The implementation of the 1999 budget has been on track and the deficit could be somewhat lower than budgeted. Growth in tax revenues has outpaced the targets by a projected 0.8 per cent of GDP for the full year, owing to buoyant value-added and corporate tax collections, as well as to the strong yield from the stamp tax on stock market transactions. Tax relief measures for low-income earners and small and medium sized entreprises, as well as higher social spending, were introduced in September 1999. Including the indirect tax cuts, these measures will cost 1.2 per cent of GDP, but should be largely covered by lower debt service payments and a doubling in the stamp tax on stock market transactions. Despite a lower deficit target of 1.2 per cent of GDP, the stance of fiscal policy is set to ease in 2000 when measured on a cyclically-adjusted basis.

Growth will strengthen further, but inflation risks remain

Growth is projected to increase in 2000 and pick up further in 2001 to a pace slightly above 4 per cent, reflecting robust increases of household consumption and solid private and public investment. It will be supported by an accommodating macroeconomic policy stance and by healthy exports, mirroring the recovery in the European Union. Stronger employment growth could reduce the unemployment rate to around 10 per cent. Inflation should remain close to 2¼ per cent in 2000, which should allow Greece to fulfil also the Maastricht inflation criterion for membership of the European Economic and Monetary Union. However, inflation could edge up due to rising demand pressures. Indeed, the sharp loosening of monetary conditions to which Greece will be exposed, combined with the stimulus from fiscal policy, might lead to overheating. In addition, inflated asset prices could make the economy vulnerable to sharp changes in market sentiment. Finally, if Greece's entry into the euro area were to be made at the drachma's current central rate in the European Exchange Rate Mechanism, the resulting depreciation of the currency could induce a temporary spurt in inflation, while boosting export and GDP growth further. Given the assumption of unchanged exchange rates, this scenario is not covered in the central projections but constitutes an important risk.

Hungary

Recent indicators point to a moderate slowing in economic activity in 1999 from the rapid pace recorded the year before. Over the first half, GDP growth decelerated to 3.6 per cent (at annual rates), driven by strong but slowing investment expenditures. Nonetheless, the current account deficit widened as imports continued their rapid expansion in response to sustained domestic demand. Growth is projected to remain broadly unchanged in 2000 before picking up again in the following year as investment expands to meet rising export demand. Inflation is expected to decline slowly, averaging 8 per cent in 2000, while the unemployment rate should remain in the 7 per cent range as relatively strong employment gains are matched by an increase in the labour force.

The large external and government deficits suggest the need for further fiscal consolidation efforts, preferably through expenditure reductions and reforms to the social security system.

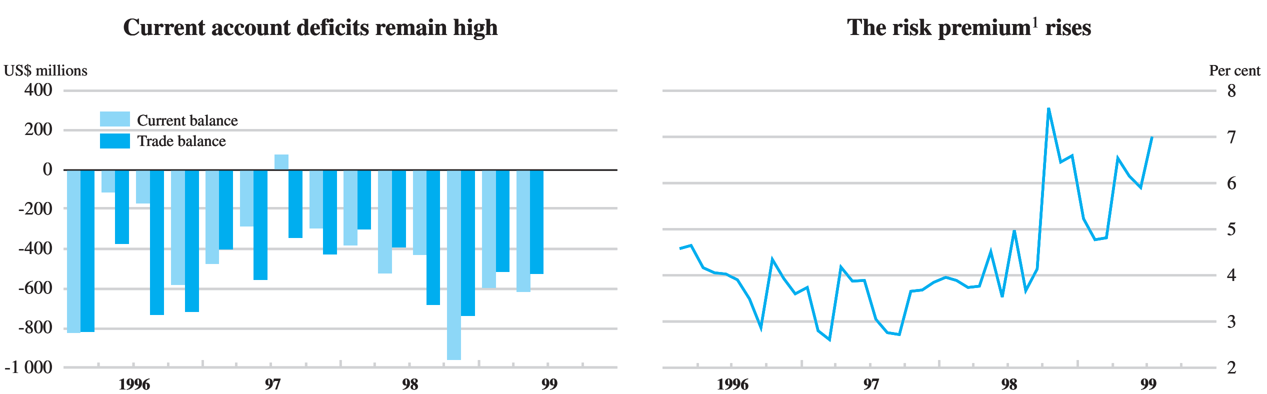
Economic activity moderated in the first half of 1999…

Following the robust 5.1 per cent increase in real GDP in 1998, output growth declined to 3.6 per cent in the first half of 1999, with consumer and investment expenditures expanding by 4.4 and 6.6 per cent respectively. Real wage increases of about 3 per cent helped maintain consumption and rising retail sales figures point to a pick up in expenditures in this area. Strong import growth in response to buoyant demand caused the current account deficit to deteriorate substantially in the first half of the year. Improved export performance in the third quarter allowed it to regain levels observed in 1998, when it was 4.8 per cent of GDP. At the same time, the unemployment rate continued to fall to 7 per cent in the second quarter, while increasing oil and food prices, and reductions in government subsidies on pharmaceuticals, contributed to a resurgence in inflation, which jumped to 10.5 per cent in October on a 12-month basis, after having dropped below 10 per cent in March.

… while the large government deficit contributed to an increase in the interest rate premium

At the same time, the government announced that the budget deficit target of 4 per cent of GDP for 1999 will only be met if revenues are supplemented by extraordinary asset sales.* In their absence, the deficit is expected to exceed the target by 0.5 percentage points. By September, public spending by the consolidated central government had already reached 106 per cent of planned allocations for the year,

Hungary



1. The risk premium is defined as the annualised rate on 90-day Hungarian T-bills less the expected depreciation of the currency over the same period less the weighted average of US and German interest rates.

Source: OECD.

* Following National Accounts rules, such sales constitute capital transfers and should not be attributed to current revenues. Similarly, of the 54 billion forints earned by the sale of a 15-year telecom licence, accrual-based accounting would mean that only about one fifteenth of this amount or 3.6 billion forints would be considered revenue in each of 1999 and 2000, versus the 21.6 billion forints in the current treatment.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion HUF	Percentage changes, volume (1995 prices)				
Private consumption	3 525.1	2.6	3.8	4.5	4.2	4.2
Government consumption	1 594.4	1.5	2.6	2.0	2.0	1.5
Gross fixed capital formation	1 475.5	9.2	11.4	7.4	6.0	7.7
Final domestic demand	6 595.0	3.8	5.3	4.6	4.2	4.5
Stockbuilding [a]	373.8	0.8	3.1	0.5	0.4	0.3
Total domestic demand	6 968.8	4.4	8.1	4.7	4.2	4.5
Exports of goods and services	2 678.7	26.4	16.0	10.4	10.1	10.6
Imports of goods and services	2 753.6	25.5	22.2	11.7	10.8	11.3
Net exports [a]	- 74.9	0.2	-3.0	-1.1	-0.9	-1.0
GDP at market prices	6 893.9	4.6	5.1	3.8	3.5	3.7
GDP deflator	_	18.5	14.2	9.9	8.0	6.0
Memorandum items	_					
Private consumption deflator	_	17.0	14.2	9.9	8.0	6.0
Industrial production	_	11.0	12.6	7.1	6.9	7.4
Unemployment rate	_	8.9	8.0	7.0	6.9	6.8
Household saving ratio [b]	_	18.0	19.3	19.0	19.1	19.2
General government financial balance [c]	_	-4.9	-4.6	-4.0	-4.0	-4.0
Current account balance [c]	_	-2.1	-4.8	-5.1	-5.2	-5.3

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

while weaker than planned value-added tax revenues, greater than anticipated interest payments, and a large social security deficit placed additional pressure on the general government balance. These fiscal developments and the widening current account deficit raised the risk premium on the Forint, convincing the monetary authorities to further reduce the rate of crawl of the exchange rate, thereby raising the real rate of return on forint-denominated assets. This helped to keep the currency on the strong side of its fluctuation band despite the growing domestic and external imbalances.

Robust consumer expenditures should maintain output growth…

Real GDP, which may have expanded by about 3.8 per cent in 1999, is projected to grow somewhat less quickly in 2000 as rising real interest rates cause investment expenditures to slow. At the same time, strong consumer spending, fuelled by real wage gains and expansionary fiscal policy is expected to maintain strength in domestic demand. Output should pick up in 2001 as investment rises to meet expanding export demand, but the trade deficit is projected to widen following the appreciation of the real exchange rate. Disinflation is expected to resume its downward track, but at a relatively slow pace, while an increase in labour force growth should temper declines in the unemployment rate. Barring additional fiscal tightening, the government is unlikely to meet its 2000 deficit target of 3.5 per cent of GDP.

… but the stance of fiscal policy remains an area of concern

This projection is subject to two principal risks. On the upside, export performance, which has been improving in recent months, could prove stronger in 2000 and 2001, resulting in a decline in the current account deficit. In this case, the risk premium on the Forint would probably fall somewhat, yielding lower interest rates, stronger investment and higher growth. A tightening of fiscal policy would tend to have a similar impact on the current account, investment and to a lesser extent GDP. On the downside, larger wage increases and stronger household consumption could push inflation to a level inconsistent with the rate of crawl of the currency. This could lead to an even stronger real appreciation of the exchange rate, resulting in a further loss of competitiveness and additional pressures on the current account.

Iceland

The Icelandic economy has become overheated, with GDP rising on average by 5 per cent over 1998-1999. Although exports and foreign investment have been buoyant, recent demand increases have also been fuelled by an extraordinary expansion in money and credit. During the projection period, with output above its potential level and the unemployment rate very low, inflation could accelerate to 5 per cent, while the current account deficit could remain at the high level of 5 per cent of GDP.

The task for policymakers is to slow domestic demand to bring the economy into better balance and lower the rate of inflation. The recently introduced budget represents a first step in this direction, bringing a significant increase in the surplus, despite a reduction in gasoline taxes. However, the Central Bank needs to raise interest rates towards market levels, which may imply allowing the krona to appreciate further.

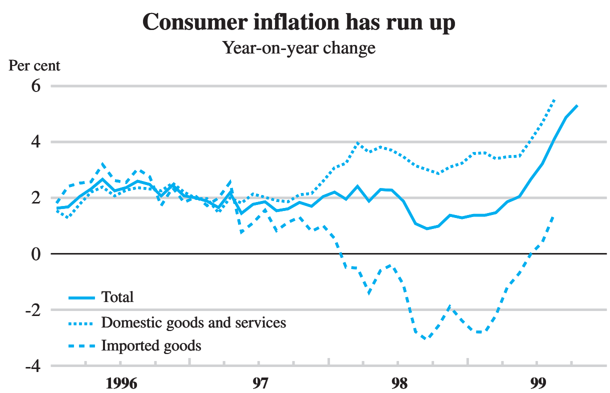
Inflation has surged reflecting overheating

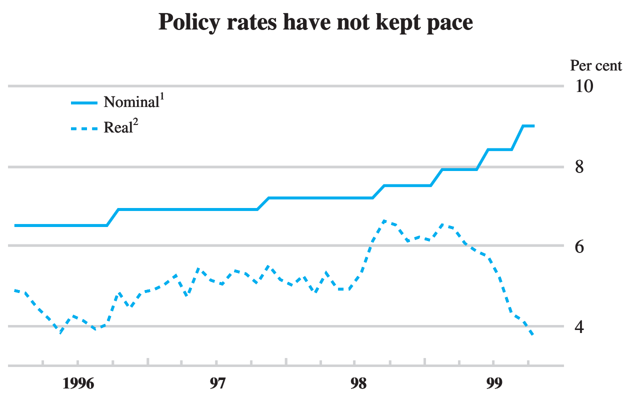
Inflation rose significantly in the course of 1999. As late as March 1999, the twelve-month increase in the consumer price index stood at 1½ per cent. By October, it had moved up to 5.3 per cent. Although some of the increase was due to temporary factors, the price acceleration was widespread, suggesting a significant rise in the trend rate of inflation. The run-up in inflation is a natural consequence of tightness in the real economy. Real GDP grew 5 per cent in 1998, with a somewhat greater increase likely in 1999. Despite rapid trend productivity growth, actual output has risen further above potential GDP. With the unemployment rate averaging 2 per cent in 1999, private-sector wages appears likely to rise 6½ per cent in 1999, after increasing 7 per cent the year before.

The policy stance has not been sufficiently restrictive

So far, the restraint exercised by monetary policy has been insufficient. Nominal policy rates have been raised to 9 per cent, but this still leaves short-term real rates only slightly above their level at the end of 1997 when the economy was in equilibrium. However money market rates are well above official rates and this has led to an appreciation of the exchange rate. Nonetheless, monetary aggregates have continued to expand rapidly and, in the year to June 1999, business sector borrowing from banks (much of it in foreign currency) surged to 40 per cent above its

Iceland





1. Central Bank nominal repo yield.
2. Nominal repo yield less 12-month percentage change in the CPI.
Sources: Central Bank of Iceland and Statistics Iceland.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion Ikr	Percentage changes, volume (1990 prices)				
Private consumption	296.8	6.0	11.0	6.7	4.0	3.5
Government consumption	100.4	3.1	3.7	3.4	2.5	2.0
Gross fixed capital formation	86.8	10.6	22.8	0.1	2.6	0.6
Final domestic demand	484.0	6.2	11.7	4.8	3.5	2.7
Stockbuilding [a]	- 1.2	0.0	0.3	0.0	0.0	0.0
Total domestic demand	482.7	6.2	12.1	4.7	3.4	2.7
Exports of goods and services	176.9	6.0	3.0	8.5	6.2	5.2
Imports of goods and services	173.7	8.6	22.4	5.1	7.2	5.3
Net exports [a]	3.1	-0.7	-6.7	1.0	-0.6	-0.2
GDP at market prices	485.9	5.3	5.1	6.0	2.9	2.6
GDP deflator	_	3.4	5.3	4.1	5.2	5.7
Memorandum items	_					
Private consumption deflator	_	1.8	1.7	3.1	5.1	5.4
Unemployment rate	_	3.7	3.0	2.0	2.1	2.4
General government financial balance [b]	_	0.0	0.9	1.3	1.6	1.7
Current account balance [b]	_	-1.4	-5.7	-4.7	-5.3	-5.4

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

level of the previous year. At the same time, fiscal policy has been somewhat expansionary. Real government consumption rose about 3 per cent in 1998 and 1999, while government employees have received larger wage increases than in the private sector. Overall, the government account has moved into a surplus of about 1¼ per cent of GDP in 1999, but this is low given the buoyant state of the economy. The budget for 2000 should make the stance to fiscal policy more restrictive and increase the structural surplus by around ½ per cent of potential GDP.

Additional inflation pressures are expected…

Inflationary pressures are expected to continue through 2000, even though the policy tightening begins to slow the economy. GDP is projected to grow 3 per cent in 2000, with continued strength in personal consumption, private investment and exports. With unemployment rates still low, output prices could rise 5¼ per cent. Such a development is expected to lead to significant interest rate increases. With policy becoming tighter, output is projected to slow below potential in 2001, although not enough to stop inflation from edging up further. Despite a pick up in export growth and a slowing in aggregate demand, the current account deficit could remain about 5 per cent of GDP throughout the projection period.

… increasing the risks to the outlook

With the pick up in inflation, risks to the outlook have increased. Inflationary expectations could deteriorate bringing a wage-price spiral. Such a development might result in foreign investors requiring a higher premium for holding Icelandic securities. Although net short-term bank borrowing from overseas has declined in response to new liquidity rules, the consequences of any change in investor sentiment has to be seen in the light of the large continuing current account deficit. While at the moment the exchange rate is appreciating, it remains vulnerable to a change in expectations that would put pressure on the balance sheets of both financial and non-financial enterprises, given the extent to which companies have borrowed in foreign currency through the banking system.

Ireland

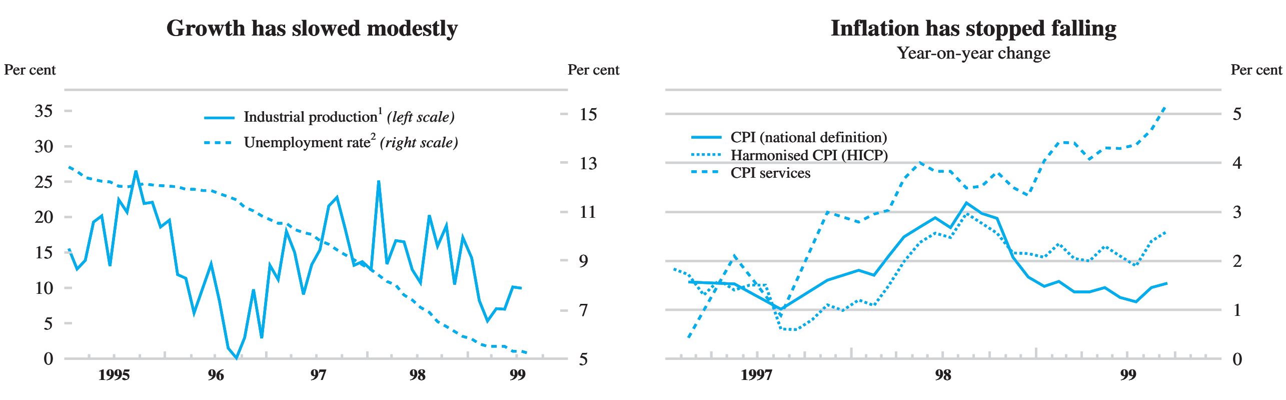
Output growth may finally have begun to ease, though the deceleration that took hold in late 1998 is fairly modest and may have been partially reversed of late. But the pressures on goods, property and labour markets persist: the risks of substantial overheating are rising, as the unemployment rate has fallen below 6 per cent, wages are picking up steadily and house prices continue to soar. While activity will probably continue to moderate towards more sustainable rates, inflation pressures seem set to persist, endangering competitiveness and, ultimately, future prospects.

Monetary and financial levers have imposed little restraint of late: mortgage rates have fallen sharply, credit supply is surging, and the exchange rate has declined substantially in trade-weighted terms. The government has no choice other than to use budgetary policy to limit domestic demand. Tax cuts under consideration should be at least offset by base broadening, expanded user fees and aggregate spending restraint, even accounting for desirable infrastructure outlays. In attempting to reach a new centralised wage agreement, the government should not accede to demands that imply labour cost increases out of line with those of Ireland's main trading partners, since such increases would undermine the basis for further employment growth.

Growth remains strong, and cost pressures are still mounting

The economy continues to expand at a rapid rate. Real GDP growth in 1998 was nearly 9 per cent, bringing cumulative increases to over 50 per cent in the last five years. While there are signs that the pace of expansion eased towards the end of last year, it seems to have picked up somewhat again during the course of 1999. Growth continues to be led by exports and the investment required to make such sales. Real exports to non-European Union countries (which account for over 35 per cent of the total) are 24 per cent above year-earlier levels in the 12 months to September. Similarly, machinery and equipment acquisitions in the first half recorded a 22 per cent rise. Year-on-year industrial production growth has picked up again to around 10 per cent. These increases have brought about further substantial full-time job creation (6½ per cent over the most recent year). The unemployment rate has plunged, as the still rapid pace of labour force increases has also slowed somewhat. The resulting even stronger pressure on resources is boosting wages and prices. Claims are surging in the public sector, and private sector wages were rising at an annual rate of better

Ireland



1. Year-on-year percentage change.
2. OECD estimates from May 1998 pending expected official revisions.
Source: OECD.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion Ir£	Percentage changes, volume (1995 prices)				
Private consumption	25.1	7.3	7.4	7.8	6.5	6.0
Government consumption	6.5	4.8	5.8	3.7	4.8	3.8
Gross fixed capital formation	8.6	17.4	16.8	11.6	8.9	7.0
Final domestic demand	40.1	9.0	9.3	8.1	6.8	5.9
Stockbuilding [a]	0.4	0.5	0.2	-0.4	0.0	0.0
Total domestic demand	40.6	9.5	9.4	7.6	6.8	5.9
Exports of goods and services	34.3	17.0	20.5	11.8	10.7	8.5
Imports of goods and services	29.4	16.1	23.2	12.0	10.4	9.1
Net exports [a]	5.0	2.5	0.6	1.2	1.5	0.6
GDP at market prices	45.2	10.7	8.9	8.6	7.5	5.7
GDP at market prices in billion €	57.4					
GDP deflator	_	3.5	5.7	3.5	4.2	4.5
GNP at market prices	40.1	9.0	8.1	7.6	6.8	5.2
Memorandum items						
Private consumption deflator	_	2.5	3.7	3.8	4.0	3.4
Industrial production	_	15.3	15.8	9.8	8.5	7.0
Unemployment rate	_	10.3	7.6	5.8	5.0	5.0
Household saving ratio [b]	_	11.7	11.7	11.3	11.2	11.0
General government financial balance [c]	_	0.6	2.2	3.4	3.8	4.0
Current account balance [d]	_	2.5	0.9	0.3	-1.4	-2.3

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

than 5 per cent in the spring. The implementation of the new national minimum wage in April 2000 will further add to labour costs. While headline rates of inflation have dropped, that is largely due to mortgage rate declines, and, to a lesser extent, competitive pressures in the retail sector. Harmonised consumer prices have risen 2.6 per cent over the past year, the fastest rate in the European Union (EU). Moreover, services prices are rising at a nearly 5¼ per cent annual rate and fixed asset prices even faster – prices of existing housing are up 22 per cent over the past year, for example.

Budgetary policy and financial conditions have exercised little restraint on the economy

The driving force behind the long-lasting boom has been the inflow of direct investment in mostly high-technology sectors. While the evidence is largely anecdotal, it seems logical to expect that once the plentiful supply of highly-trained labour is used up and factor input costs move up to world levels, this flow should diminish. But macroeconomic policies have also done little to brake the economy's momentum. Official interest rates are set by the European Central Bank on the basis of what are presently much-weaker average conditions in the euro area, and, despite the rebound in long-term rates across the zone, mortgage rates in Ireland have fallen due to a price war resulting from new entry. Residential mortgage lending was 23 per cent higher in August than a year earlier, overall underlying private-sector credit growth was 27 per cent, and both are still accelerating. Given state spending increases thus far this year at over 10 per cent, fiscal policy has also been fairly accommodative. Nonetheless, with much more buoyant tax receipts than expected, the planned general government budget surplus for 1999 will be easily surpassed, and, according to the latest official forecast, could reach 3 per cent of GDP.

With available supply exhausted, slowing growth will not prevent rising risks of overheating

The outlook is for some moderate slowdown in activity due to the depletion of available inputs and the consequent impact on cost competitiveness and the attractiveness of Ireland as an export platform. Real GDP growth may fall to its lowest rate since the early 1990s but even at 5¾ per cent in 2001 would still be much more rapid than elsewhere in the EU. Export increases should moderate because of diminishing market share gains. Rises in household demand may subside in line with slowing gains in real disposable income. The unemployment rate could finally touch bottom near 5 per cent, a level that should put plenty of pressure on wage settlements. With more rapidly growing labour costs, consumer prices will continue to rise much faster than elsewhere in the EU, especially in services. The current account surplus should shrink this year and then turn to deficit, as the buoyancy of imports and losses in the terms of trade outweigh still-strong, albeit weakening export growth. The main risk to the projection lies in even faster wage and price inflation, possibly following a breakdown in centralised wage setting, leading to more overt overheating and a sharper deterioration in the current account.

Korea

The recovery from the worst recession in Korea's post-war history in 1998 has been stronger than expected. Driven by an inventory adjustment and a rebound in private consumption, output growth may have been as high as 9 per cent in 1999. Inflation has remained subdued, while unemployment may have averaged 6½ per cent for the year – more than double the pre-crisis level. The expansion is likely to continue through 2000 and beyond, though probably at a more sustainable rate of around 6 per cent, while financial and corporate restructuring proceeds.

The recent financial instability resulting from the collapse of a major conglomerate indicates the need for further restructuring efforts. Effective implementation of the new corporate governance framework and other reforms is important to facilitate market-based restructuring of the corporate sector. In the context of the present financial fragility and the plan to balance the central government budget by 2004, monetary policy should remain supportive of the expansion. However, the monetary authorities should respond quickly to any inflationary pressures that arise as the expansion continues.

After a severe recession in 1998, a sharp recovery began in the first half of 1999…

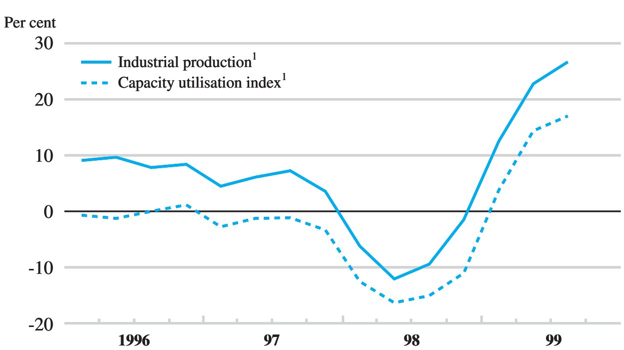
Following an almost 6 per cent decline in 1998, output increased by 7 per cent (year-on-year) in the first half of 1999, led by a large contribution from stockbuilding and a rebound in private consumption. Investment, however, remained subdued as corporate restructuring limited the recovery in capital formation. Nevertheless, the pick-up in domestic demand prompted a surge of imports that is likely to reduce the current account surplus, which reached 12½ per cent of GDP last year, by half. Despite a sharp fall in the participation rate, unemployment remained high at over 6 per cent of the labour force in the summer of 1999. The year-on-year rise in consumer prices during the first nine months of the year was limited to 0.6 per cent.

… due primarily to supportive macroeconomic policies and progress in structural reform

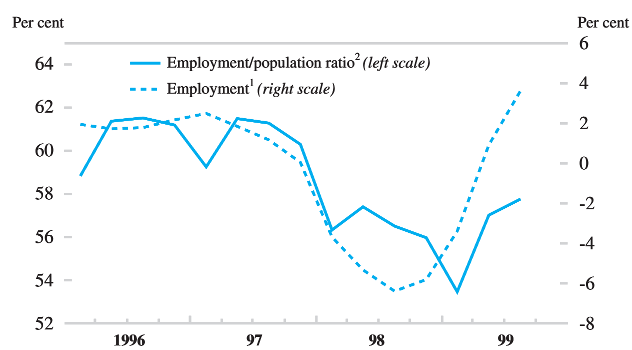
The strong recovery underway is due, in large part, to both a substantial easing of monetary and fiscal policies and the implementation of structural reforms. In particular, the fall in short-term interest rates from 25 per cent at the beginning of 1998 to around 5 per cent since early 1999 has lowered borrowing costs. This has been accompanied by a substantial rise in public expenditures, notably to assist the unemployed, and a credit guarantee programme to encourage lending to small enterprises.

Korea

A V-shaped recovery



Labour market conditions remain slack



1. Year-on-year percentage changes.
2. Number of employed as percentage of the population aged 15 or older.
Source: National Statistical Office.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices trillion won	Percentage changes, volume (1995 prices)				
Private consumption	233.6	3.5	-9.6	8.6	5.5	4.7
Government consumption	42.5	1.5	-0.1	-1.4	2.1	2.1
Gross fixed capital formation	154.0	-2.2	-21.1	5.1	9.5	10.3
Final domestic demand	430.1	1.2	-12.7	6.4	6.4	6.3
Stockbuilding [a]	4.8	-2.0	-5.6	5.0	0.9	0.9
Total domestic demand	434.9	-0.8	-18.7	12.9	7.6	7.4
Exports of goods and services	123.5	21.4	13.3	14.5	12.0	10.5
Imports of goods and services	140.7	3.2	-22.0	29.5	17.1	16.4
Net exports [a]	- 17.2	5.7	12.2	-1.8	-0.1	-0.8
Statistical discrepancy [a]	0.8	0.1	0.1	0.0	0.0	0.0
GDP at market prices	418.5	5.0	-5.8	9.0	6.5	5.7
GDP deflator	_	3.1	5.3	-0.5	2.3	2.7
Memorandum items						
Private consumption deflator	_	5.5	8.6	0.9	2.5	2.8
Industrial production	_	5.3	-7.3	15.0	8.0	7.0
Unemployment rate	_	2.6	6.8	6.4	6.0	5.5
Household saving ratio [b]	_	17.3	12.2	12.2	15.2	17.0
General government financial balance [c]	_	2.4	0.7	-0.1	0.4	0.8
Current account balance [c]	_	-1.5	12.6	6.2	3.6	2.4

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

In addition, structural reforms, such as measures to rehabilitate the financial sector and to improve the corporate governance framework, have helped boost the confidence of both foreign and domestic investors. The positive impact of these reforms is reflected in the tripling of the stock price index between September 1998 and July 1999. Finally, Korea has benefited from favourable external conditions, notably strong demand for electronic products and the appreciation of the yen.

However, fiscal consolidation and a higher risk premium…

Some of these positive factors may wane or even be reversed in the period ahead. The consolidated central government deficit, estimated at 4 per cent of GDP this year, is to be eliminated by 2004 by limiting the growth of government expenditures to 3 percentage points below the rise in nominal output beginning in 2000. In addition, the failure of one of the largest conglomerates in August has created instability in the financial market. Banks, with a total exposure estimated at W 23 trillion (5 per cent of their total credit), may face a significant rise in non-performing loans. Investment trust companies, with an even larger exposure of W 28 trillion, are a greater concern. These problems have contributed to a 20 per cent correction in the stock market between early July and the end of October and a 100 basis point rise in the yield on long-term corporate bonds. Government policies, including the launch of a fund to stabilise the bond market, eased concerns about the impact of the collapse of Daewoo on the real economy.

... may lead to slower growth in 2000 and 2001

Output growth is expected to slow to a more sustainable pace of around 6 per cent in the next two years as the contribution from stockbuilding wanes, the fiscal consolidation process begins and households boost their saving rate, which has fallen sharply since the crisis. This is likely to be accompanied by a further narrowing of the current account surplus to around 2 per cent of GDP by 2001. Inflation may pick up to close to 3 per cent, in part reflecting the impact of higher oil prices, but labour market slack should limit the extent of the rise. The main risk to a continued expansion is financial instability resulting from the on-going corporate restructuring process. A sharp increase in non-performing loans could result in a credit crunch or capital outflows that would weaken the won and create inflationary pressures. Nevertheless, continued market-based restructuring of the corporate and financial sectors is the key to the long-term growth of the economy.

Luxembourg

Real GDP growth may have levelled off at around 5 per cent in 1999, and is projected to slow only moderately in 2000-01 to a still robust 4 per cent. Exports of financial and communication services will continue to buoy the economy. Despite strong job creation, unemployment is likely to remain broadly unchanged and no major inflationary tensions are expected over the projection period.

While overall fiscal conditions remain enviable, budget flexibility could be improved by reducing the widespread use of indexation. In addition, further measures are needed to reduce long-term unemployment and assure the long-term sustainability of the pension system.

Economic growth has remained strong in 1999

Due to continued buoyancy in the service sectors, real GDP growth is expected to remain at around 5 per cent in 1999. Investment has accelerated sharply to nearly 8 per cent, and private consumption has also strengthened significantly, partly as a result of the 1998 tax reductions. The pickup in domestic demand has been cushioned somewhat by a weaker foreign balance, mainly reflecting the purchase of some aircraft. Employment growth has remained strong but – as most of the new jobs have again been taken by cross-border workers – unemployment has remained virtually unchanged at about 3 per cent of the national labour force. The increase in wages has remained moderate and the pick-up in inflation has been mainly due to higher energy prices.

With continued buoyancy in the service sector…

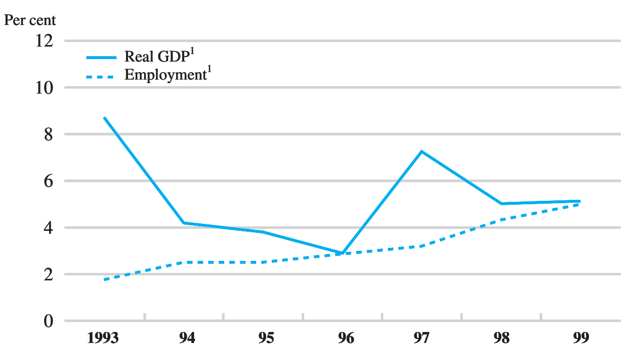
Despite robust growth and strong job creation during the past decade or so, the economy does not show signs of overheating as tensions in the labour market have been avoided by a growing reliance on cross-border workers. Given the elastic labour supply in surrounding regions and relatively high net wages in Luxembourg, this trend is expected to continue. The service sector and related exports are likely to remain the main engine of growth, mainly due to the dynamism of financial and communication services. However, international competition in financial services has intensified, reflecting increased tax competition in the European Union.

… and a mildly expansive fiscal policy…

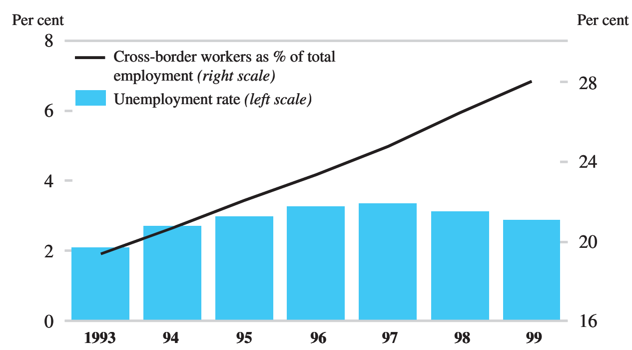
The fiscal stance has remained mildly expansionary in 1999: the general government surplus is expected to have come down to just over 1 per cent of GDP, mainly as a result of reductions in corporate and income taxes and a stepping up of public

Luxembourg

The expansion has continued



The presence of cross-border workers is growing



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

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion LF	Percentage changes, volume (1995 prices)				
Private consumption	273.7	3.8	2.3	3.3	2.7	2.6
Government consumption	102.8	2.1	2.8	2.5	2.5	2.5
Gross fixed capital formation	114.3	10.9	1.9	7.8	5.0	5.5
Final domestic demand	490.8	5.1	2.3	4.2	3.2	3.3
Stockbuilding [a]	- 0.7	0.4	0.0	0.0	0.0	0.0
Total domestic demand	490.1	5.6	2.3	4.2	3.2	3.3
Exports of goods and services	597.7	10.5	9.9	6.1	6.6	6.2
Imports of goods and services	524.3	9.3	8.3	5.5	6.0	5.8
Net exports [a]	73.4	2.5	3.0	1.6	1.8	1.6
GDP at market prices	563.5	7.3	5.0	5.1	4.3	4.1
GDP at market prices in billion €	14.0					
GDP deflator	_	3.3	1.5	1.3	1.2	1.6
Memorandum items						
Private consumption deflator	_	1.7	1.7	1.2	1.9	1.8
Industrial production	_	7.3	4.3	0.7	2.0	2.3
Unemployment rate	_	3.3	3.1	2.9	2.8	2.8

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

investment. In this area, the priority of the new government is to keep public finances in surplus. Expenditure restraint should create room for further reductions in corporate taxes and pave the way for an income tax reform in 2002. According to the 2000 Budget, central government expenditure is projected to increase by 6 per cent, largely due to further increases in road construction, the introduction of a parental leave scheme and the implementation of the National Employment Plan. With tax receipts projected to rise by 5½ per cent, the general government surplus may decrease further in 2000.

… GDP growth is expected to slow only moderately in 2000-01

Real GDP growth is projected to slow to around 4 cent in both 2000 and 2001 as nearly all components of domestic demand weaken somewhat. On the other hand, exports – in particular of financial and communication services – are expected to remain buoyant. Employment growth should continue to be robust, but the unemployment rate may decline only slightly. As in neighbouring countries, consumer price inflation may increase moderately, reflecting higher import prices. The main risk to the projection is on the external side: a weaker than expected expansion in continental Europe would lower economic activity, especially in the manufacturing sector.

Mexico

Following the tightening of macroeconomic policies, output growth is likely to ease to around 3½ per cent this year, supported by buoyant net exports. The external balance has improved and the disinflation process has resumed, helped by the broadly stable exchange rate since March. The tight setting of macroeconomic policies in the run-up to presidential elections next year and slower growth in the United States are likely to hold back GDP growth in the near term, but a strengthening is projected in 2001. Inflation is expected to continue to decline and the current account deficit could widen marginally, to 3½ per cent of GDP by 2001.

Despite relatively favourable economic fundamentals, macroeconomic policies will have to remain prudent in 2000, in the face of political uncertainties, easing only gradually as uncertainties abate and the process of steady disinflation becomes more firmly established. Structural reform should continue, in particular in the tax area, to further improve tax collection and bolster revenue, as well as in the financial sector, which will need to be strengthened over the longer run to allow the expansion of credit consistent with strong and sustainable growth.

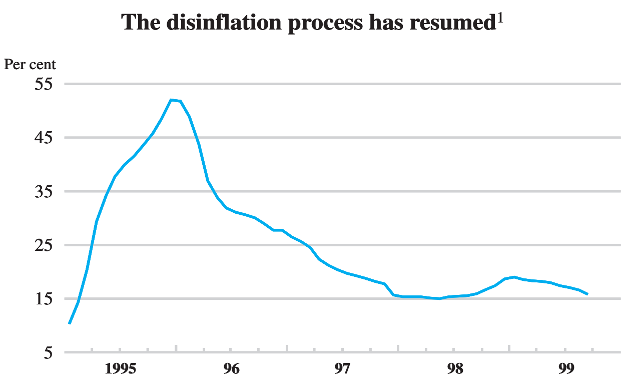
Output growth has slowed and the current-account deficit has narrowed

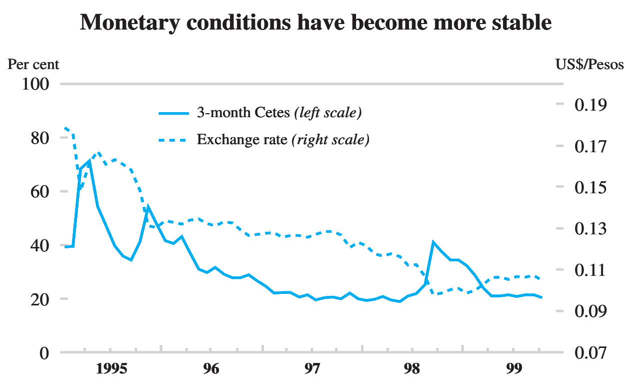
Real GDP growth slowed in late 1998, against a background of the global financial crisis and falling oil prices. Despite the slowing of domestic demand in 1999, output growth of almost 3½ per cent is likely to have been attained, aided by strong exports to the United States and still vigorous private investment. Employment in the formal sector has remained on a rising path, but weak real wage growth has restrained household spending. As export growth outstripped import growth for the first time in recent years, the current account deficit narrowed substantially in the first half of 1999, in a context of rising oil prices; for the year as a whole, it is projected to amount to about 3 per cent of GDP (against 4 per cent in 1998), mostly financed by long-term capital inflows (foreign direct investment should reach US$10 billion).

Disinflation has resumed, but real interest rates are unlikely to come down much before 2001

The emerging market crisis led to pressures on the peso, prompting a tightening of monetary policy in late 1998 and early 1999. As confidence returned, the peso exchange rate recovered somewhat during the first quarter of 1999, and has remained broadly stable since then. The fall in consumer price inflation has resumed, so that the central bank target of 13 per cent by December 1999 is likely to be reached. The increase in short-term interest rates has likewise been reversed, and since March, the 3-month *Cetes* rate has been hovering around 21 per cent, close to its pre-crisis levels. This implies stubbornly high real interest rates, however, perhaps reflecting

Mexico





1. CPI inflation, year-on-year percentage change.
Source: OECD.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion Pesos	Percentage changes, volume (1993 prices)				
Private consumption	1 644.9	6.4	6.4	3.0	3.3	4.0
Government consumption	243.7	2.9	-1.3	2.6	4.0	1.8
Gross fixed capital formation	451.1	21.0	10.7	6.0	5.9	9.0
Final domestic demand	2 339.7	8.5	6.4	3.6	3.9	4.8
Stockbuilding [a]	136.8	1.2	-0.1	-0.3	0.0	0.0
Total domestic demand	2 476.5	9.5	6.0	3.1	3.8	4.7
Exports of goods and services	812.9	10.8	9.7	11.2	8.0	6.0
Imports of goods and services	759.5	22.8	14.2	10.0	9.5	8.4
Net exports [a]	53.4	-2.5	-1.1	0.3	-0.5	-0.8
GDP at market prices	2 529.9	6.8	4.8	3.4	3.3	4.0
GDP deflator	_	17.7	13.8	16.0	11.0	8.5
Memorandum items						
Private consumption deflator	_	16.4	19.3	16.5	10.7	8.7
Unemployment rate [b]	_	3.7	3.2	2.8	2.8	2.7
Current account balance [c]	_	-1.9	-3.9	-3.0	-3.1	-3.5

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

rising domestic uncertainty in the run-up to the presidential election next year. Real interest rates are assumed to remain relatively high on average in 2000, although strong economic fundamentals should curb financial volatility. A gradual recovery in investor confidence following the formation of the new government is likely to allow a steady decline in real interest rates in 2001.

A prudent fiscal policy stance will be maintained in 2000

The fiscal stance has remained restrictive. Based on results for the first semester, the government's fiscal target for 1999 is expected to be achieved, with the public sector deficit unchanged from 1998, at 1¼ per cent of GDP, and the primary surplus improving by 1 percentage point, despite slowing GDP growth. To achieve the budget target, the federal government has been containing non-interest spending, investment in particular, so as to offset the rise in interest payments. For 2000, the projections assume that the public sector deficit will be reduced slightly, to 1 per cent of GDP, as outlined in the government's programme. For the following year, a prudent fiscal policy stance is assumed to be maintained.

Economic prospects are favourable, notwithstanding near-term uncertainties

Private domestic demand is likely to continue to be reined in by uncertainties and high real interest rates in 2000, while export prospects should be less supportive than in the recent period. Nevertheless, real output growth is projected to remain fairly robust, at between 3 and 3½ per cent, underpinned by a recovery in public spending, as outlined in the government's strategy. In 2001, growth could reach about 4 per cent, buoyed by stronger domestic demand, while net exports could suffer from the projected slowdown in the United States. Inflation should continue to come down gradually, to below 9 per cent in 2001, although this projection hinges on the usual assumption of a fixed exchange rate. The authorities have shown their readiness to tighten policy, when needed, to counter financial instability. New financial disturbances cannot be ruled out, and the necessary response, while ensuring that market confidence is restored, would have a negative effect on growth in the short run. On the external front, the major source of uncertainty for the outlook emanates from developments in the United States.

Netherlands

The economy is slowing from the unsustainable pace of the past few years: real GDP growth may have declined to 3 per cent in 1999, and is projected to edge down further to around 2¾ per cent in 2000-01 as a result of less buoyant domestic demand. While the economy is not clearly overheating, tensions in the labour market may persist for some time and inflation may stay relatively high. The general government deficit is projected to move to rough balance by 2001.

If overheating were to materialise, fiscal policy would have to tighten promptly as monetary policy is no longer available as a tool of policy. Structural reforms need to be pursued on a broad front: in the labour market the focus of attention should continue to be on increasing the employment prospects of less skilled and older workers, as well as on enhancing the outflow from social security schemes.

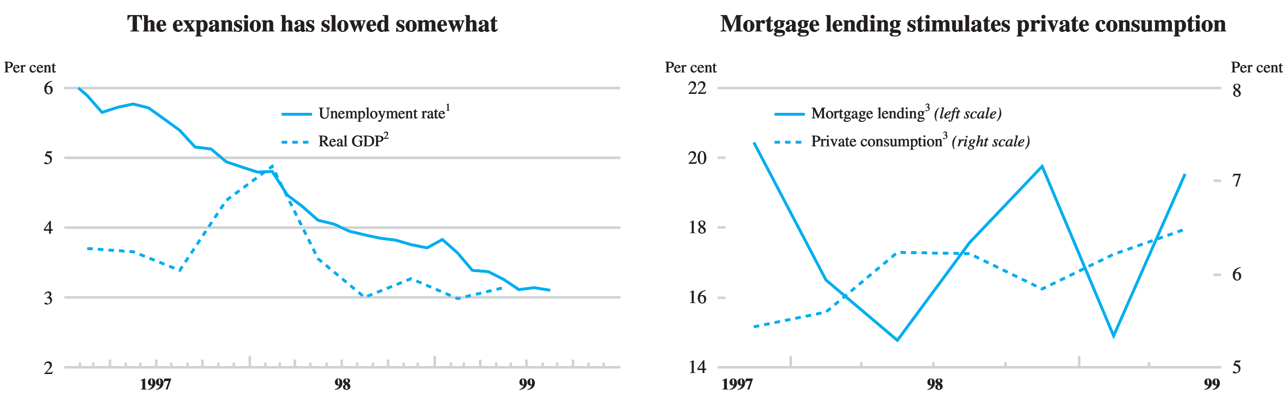
The economy has slowed somewhat...

After approaching 4 per cent in 1998, real GDP growth may have slowed to a still robust 3 per cent in 1999, mainly reflecting a sharp deceleration in business fixed investment after the completion of a few large projects. On the other hand, private consumption has continued to be underpinned by the boom in house prices and high consumer confidence. Exports were severely hit by the Asian crisis and the slowdown in the euro area but, after reaching a trough in the first quarter of 1999, they have recovered.

... though pressures on resource utilisation remain strong

With the unemployment rate falling to a little over 3 per cent – compared with a structural unemployment rate estimated by the OECD at around 4 per cent – tensions in the labour market have increased: unfilled vacancies have reached record levels and wages have accelerated somewhat. Consumer price inflation has also increased – to a little over 2 per cent – but this has been mainly due to higher energy prices and indirect taxes. Although certain indicators show that the economy has been operating well above potential, wage-price inflation has remained contained. This has probably reflected several factors, including: wage moderation, which has long been a hallmark of the "Dutch model"; comprehensive structural and regulatory reforms; the growing use of flexible labour contracts; and a boom in capacity-expanding investment which has raised potential output.

Netherlands



1. National definition.
2. Year-on-year percentage change.
3. Quarter-on-quarter percentage change, annual rate.

Sources: Statistics Netherlands; Netherlands Bank; OECD.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion Gld	Percentage changes, volume (1995 prices)				
Private consumption	346.1	2.6	4.1	4.1	3.5	2.7
Government consumption	160.6	3.3	3.3	2.7	1.0	2.1
Gross fixed capital formation	146.3	5.9	5.2	2.6	2.0	2.6
Final domestic demand	653.0	3.5	4.2	3.4	2.5	2.5
Stockbuilding [a]	1.5	-0.1	0.1	0.0	0.1	0.0
Total domestic demand	654.4	3.5	4.2	3.4	2.6	2.5
Exports of goods and services	402.1	9.0	6.4	3.9	5.3	5.3
Imports of goods and services	362.2	9.0	7.7	4.7	5.5	5.4
Net exports [a]	39.9	0.6	-0.3	-0.2	0.2	0.2
GDP at market prices	694.3	3.8	3.7	3.0	2.7	2.6
GDP at market prices in billion €	315.1					
GDP deflator	_	2.0	1.9	2.1	2.4	2.5
Memorandum items						
Private consumption deflator	_	2.1	1.8	2.1	2.5	2.3
Industrial production	_	5.0	2.1	1.5	2.4	2.3
Unemployment rate	_	5.5	4.2	3.2	3.2	3.4
Household saving ratio [b]	_	5.7	4.2	3.2	2.9	3.9
General government financial balance [c]	_	-1.2	-0.8	-0.6	-0.2	-0.1
Current account balance [c]	_	7.5	5.5	3.6	3.8	4.0

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

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

b) As a percentage of disposable income, excluding net contributions (actual and imputed) to life insurance and pension schemes.

c) As a percentage of GDP.

The forces acting on the economy are relatively balanced

The strength of demand over the past two years owes much to the surge in financial and especially real asset prices which have boosted households' wealth and private consumption, and caused the saving ratio to fall significantly. However, the projected gradual increase in interest rates should contribute to the normalisation of the housing market and to the progressive fading out of its impact on consumption. The fiscal stance is projected to remain broadly neutral, as the 2000 Budget includes a decrease in both government expenditure and taxes as a percentage of GDP. The government has announced a comprehensive tax reform for 2001 which would imply a temporary easing of the fiscal stance. Without this reform, which has still to be approved by Parliament, the OECD projects that the general government deficit will shrink to around zero in 2001.

Real GDP growth is projected to continue to slow, but tensions in the labour market may persist

The economy is expected to slow to around 2¾ per cent in 2000-01, as private consumption progressively loses buoyancy. Domestic fixed investment may remain sluggish, hampered by falling profit margins and rising interest rates. The positive contribution of the foreign balance to growth should be small, since the impact of stronger export markets is likely to be partly offset by a progressive deterioration of Dutch competitiveness and a loss of market shares. Wages and compensation per employee could accelerate somewhat. With import prices rebounding, consumer price inflation is projected to edge up and remain higher than in the euro area. In addition to wage developments, the main risks and uncertainties concern real and financial asset prices: a major downward correction could have a significant impact on growth, in which case the planned tax reform would be welcome in reviving domestic demand.

New Zealand

The economy has continued to recover from the recession of the first half of 1998. Monetary easing has contributed to a revival in domestic demand, but another drought this year has acted as a drag on activity. Inflation has remained subdued, given the persistent economic slack. The sizeable external deficit has tended to widen once again, however. With the disappearance of adverse one-off factors, the recovery should gather momentum, underpinned by easy monetary conditions and a pick-up in export markets.

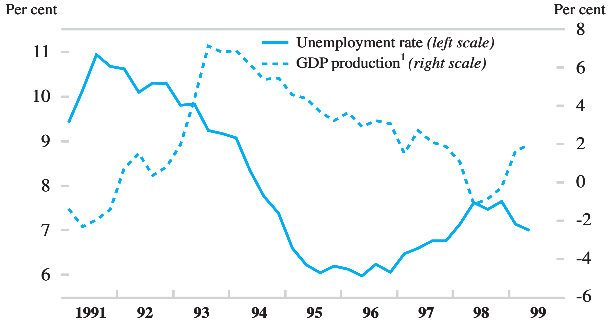
Maintaining an accommodative monetary stance would seem appropriate in the current context, although some firming in interest rates might be warranted during the projection period as the output gap narrows. Rebuilding budget surpluses is important both to enhance the credibility of longer-term fiscal objectives and to bolster market confidence while the external deficit remains at high levels.

Economic growth has resumed

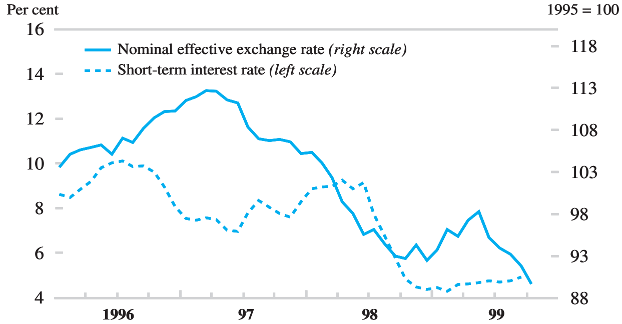
During the year following the cyclical trough in mid-1998, the economy expanded by 2½ per cent, broadly in line with the OECD's estimate of potential output. The relatively modest growth over this period reflected strength in industry and services partly offset by a drop in primary output, with farming, fishing and energy production all being adversely affected by unfavourable climatic conditions. The drought-related weakness in these sectors also depressed exports, which had led the economy out of recession in the second half of 1998. In contrast, domestic demand has gathered considerable momentum recently, led by a rebound in housing investment in response to lower interest rates and improving confidence. With consumer spending on durable goods and business investment on machinery and equipment also strengthening, import growth has accelerated sharply. Combined with weakening export growth, this has entailed a renewed deterioration in the external balance: in the twelve months to June 1999, the current account deficit reached 6¼ per cent of GDP, as compared with 5 per cent in the preceding year. The pick-up in output has sufficed to reverse the rise in unemployment. At 7 per cent, the unemployment rate is, however, still well above its estimated structural level, so that wage increases have remained moderate. With an output gap of nearly 2 per cent, inflation has remained low, running at just over 1 per cent, as measured by the consumer price index excluding credit services (CPIX).

New Zealand

Rebounding output has lowered unemployment



Monetary conditions remain stimulative



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

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion NZ$	Percentage changes, volume (1991/92 prices)				
Private consumption	59.3	3.0	1.6	2.3	3.2	2.5
Government consumption	13.7	6.2	-1.0	5.0	-2.5	0.5
Gross fixed capital formation	20.0	3.1	-1.9	9.5	6.9	5.0
Final domestic demand	92.9	3.5	0.4	4.2	3.1	2.8
Stockbuilding [a,b]	0.8	-0.1	-0.7	0.7	0.0	0.0
Total domestic demand	93.7	3.4	-0.2	4.9	3.1	2.8
Exports of goods and services	27.7	3.1	1.4	3.9	6.6	6.7
Imports of goods and services	26.9	4.1	2.9	10.4	5.1	4.9
Net exports [a]	0.8	-0.4	-0.5	-2.4	0.3	0.4
GDP (expenditure) at market prices	94.5	3.0	-0.7	2.7	3.5	3.3
GDP deflator	_	0.1	1.6	1.4	2.3	1.7
Memorandum items						
GDP (production)	_	2.1	-0.3	2.4	3.5	3.3
Private consumption deflator	_	1.0	1.9	1.4	1.8	1.5
Unemployment rate	_	6.7	7.5	7.1	6.6	6.1
Current account balance [c]	_	-6.7	-5.0	-7.2	-6.7	-6.2

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

Monetary conditions have remained accommodative

Overall monetary conditions (taking account of both interest and exchange rate movements) have eased in recent months, reversing the tightening that occurred in the early part of the year. This reflects a depreciation in the effective exchange rate, as the market appears to have become more doubtful about the extent to which some positive factors, such as the impact of the commodity price recovery, will impact on the economy. The deteriorating current account position and political uncertainty associated with the upcoming general election may also have played a role in this regard. In contrast to the exchange rate, short-term interest rates have moved little, as the Reserve Bank has left the official cash rate unchanged at 4½ per cent since it was introduced in March. The Bank has, however, pointed out that the recent rise in long-term interest rates – which has exceeded the global trend – has to be taken into account in an assessment of overall monetary conditions. The projections assume that short-term interest rates will not rise significantly before the year 2001 and that a positive long-term interest rate differential will persist.

A budget deficit may be avoided

The government's operating surplus for the fiscal year ending in June – the sixth surplus in succession – was 1¾ per cent of GDP (¼ per cent excluding favourable one-off factors). The authorities now expect a slight surplus in the current fiscal year. They have also reaffirmed their commitment to reduce net public debt – currently 22 per cent of GDP – to below 15 per cent and to lower expenditures – currently 35 per cent of GDP – to under 30 per cent in the medium term. The projections assume a broadly unchanged fiscal stance in the period ahead, implying an improvement in the budget balance as economic slack is taken up.

The recovery should gather momentum…

With the negative effects of the drought dissipating, economic expansion is projected to accelerate to above potential rates. Both external and domestic influences should underpin activity. The external environment is favourable, with growth in Australia remaining robust and Asian economies, including Japan, showing signs of recovery. Given a favourable competitive position – owing both to a lower exchange rate and virtual price stability – exporters would appear to be well placed to take advantage of such developments. On the domestic side, demand is being supported by historically low interest rates. Although the output gap is expected to narrow, inflation should remain well within the official 0 to 3 per cent target range over the projection period.

… although the external imbalance poses some risk

The major risk to the outlook remains the persisting external imbalance. Reflecting the purchase of another frigate by the New Zealand navy, the current account deficit is likely to rise further in the near term, exceeding 7 per cent of GDP for 1999 as a whole. Thereafter, the deficit is projected to narrow somewhat, but it will continue to boost New Zealand's net external liabilities, increasing the possibility of a shift in market sentiment that could raise the risk premium on interest rates and put excessive downward pressure on the exchange rate.

Norway

The Norwegian economy is cooling off after a period of exceptional strength that led to overheating. Mainland GDP is projected to be flat in 1999 and 2000 after having grown by more than 3 per cent in 1998, and inflation should drift downwards. With households, enterprises and banks in a much healthier financial position, the downturn is likely to be limited to a growth pause and should not, as at the end of the 1980s, lead to a pronounced recession.

The main challenge for the social partners and government is to secure a moderate wage agreement for 2000-01. This would be a crucial step towards reducing cost pressures and price inflation to the euro area average. Rising unemployment, economic hardship in some industries and regions and higher oil revenues could induce a more relaxed fiscal stance. This would be unwelcome as it could jeopardise restoring price stability.

The downturn after a period of overheating…

Norway is experiencing a pronounced investment-led slowdown caused by a profit squeeze due to excessive wage rises, tight fiscal and monetary policies and the completion of major public infrastructure projects. The manufacturing and construction industries have been most affected by the slowdown, while the impact on the service sector is cushioned by the still considerable growth in consumption. In the second quarter, mainland output was ½ per cent lower than a year earlier after increasing by 3½ per cent on average in the previous six years. The slowdown has had only a limited impact on the labour market until now and the unemployment rate only became in August marginally higher than a year earlier. As a result, bottlenecks persist in some sectors.

… has started to bring down inflation…

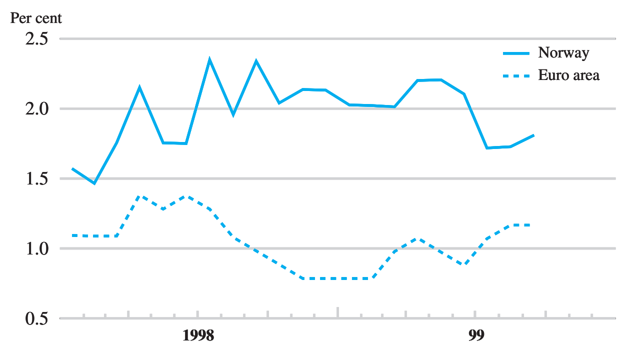
A first step towards wage moderation was set by the agreement on a "zero" wage round in early 1999. However, due to strong carry-over, wage inflation in 1999 has remained markedly stronger than in the euro area. Nonetheless, in combination with the economic slowdown, the appreciation of the Norwegian krone, driven by the oil price recovery and tight monetary policy, has led to some decline in price inflation in recent months. The inflation differential with the euro area still persists, however. House prices have also continued to grow rapidly.

… and made some monetary easing possible

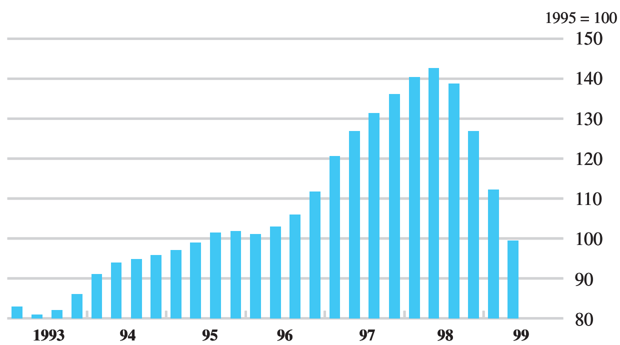
Soft output developments and receding inflation, together with the stronger exchange rate, have induced cuts in key interest rates by 2.5 percentage points from the peak of early 1999. However, with the deposit rate at 5.5 per cent, monetary

Norway

Inflation[1] is well above the euro area average



Strong drop in orders[2]



1. Harmonised consumer price index, year-on-year percentage changes.
2. Stock figures (unfilled orders).
Sources: European Central Bank and Statistics Norway.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion NOK	Percentage changes, volume (1990 prices)				
Private consumption	490.4	3.7	3.1	1.7	1.7	1.9
Government consumption	206.8	2.8	3.7	2.1	2.0	2.0
Gross fixed capital formation	216.2	15.1	8.1	-9.4	-10.9	0.6
Final domestic demand	913.3	6.2	4.5	-1.2	-1.3	1.6
Stockbuilding [a]	15.8	0.3	0.9	-0.1	0.0	0.0
Total domestic demand	929.2	6.4	5.4	-1.2	-1.3	1.6
Exports of goods and services	414.5	5.7	0.5	1.9	7.5	3.5
Imports of goods and services	327.1	12.0	9.1	-2.2	-2.4	3.5
Net exports [a]	87.4	-1.5	-3.1	1.7	4.4	0.4
GDP at market prices	1 016.6	4.3	2.1	0.6	3.3	1.8
GDP deflator	_	2.7	-0.4	6.0	5.0	1.7
Memorandum items						
Mainland GDP at market prices [b]	_	4.4	3.3	0.0	0.1	1.6
Mainland GDP deflator [b]	_	2.7	4.2	2.5	2.1	2.0
Exports of non-manufactures (incl. energy)	_	2.7	-2.8	3.8	15.0	3.0
Private consumption deflator	_	2.5	2.6	2.3	2.1	2.0
Unemployment rate	_	4.1	3.2	3.2	3.8	3.9
Household saving ratio [c]	_	5.1	6.5	6.6	6.6	6.6
General government financial balance [d]	_	7.9	3.9	4.9	6.5	7.0
Current account balance [d]	_	5.2	-1.5	4.2	10.4	10.2

Note: National accounts are based on chain linked data. This introduces a discrepancy in the indentity between real demand components and the GDP. See "Sources and Methods" for further details.
a) Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
b) GDP excluding oil and shipping.
c) As a percentage of disposable income.
d) As a percentage of GDP.

policy remains fairly tight and the fiscal stance in 1999 continues to be restrictive despite some fiscal slippage. In its draft budget sent to Parliament in early October, the government aimed at a broadly neutral fiscal stance for 2000. The government surplus will increase sharply due to the oil price recovery, leading to substantially higher transfers to the Government Petroleum Fund.

A rebound may only occur in 2001

The sharp drop in orders indicates weak production developments for the manufacturing sector in the coming quarters. Oil investment is projected to decline dramatically, reflecting the completion of a number of large investment projects on the Norwegian shelf. A further drop in other business investment is likely due to low profitability, while manufactured exports may suffer additional market share losses. This, despite continuing consumption growth, will result in flat mainland GDP in 2000 and somewhat lower inflation. Total GDP should pick up, however, boosted by a strong rise in oil production as new fields come on stream and the end to the oil production cap agreed with other producers. In 2001, in response to further monetary easing, mainland GDP is projected to regain momentum but should remain below potential output growth. The current account surplus is projected to increase steeply due to the higher oil prices and the sharp drop in imports of investment goods.

Is inflation really under control?

The main domestic risk to the projection is that inflation does not converge to the lower levels in the main trading partners, as the labour market may still be too tight to lead to moderate wage rises. This would result in further export market losses and prolong the period of tight monetary policy.

Poland

After slowing in the wake of the Russian crisis, the Polish economy appears poised for a rebound. Supportive macroeconomic policies, real wage increases, and a boom in consumer credit all helped to revive domestic demand. The upturn in other European economies will also contribute to stronger exports next year. In these circumstances, a return to robust output growth of 5 to 6 per cent is within reach.

Important progress has been made to privatise state enterprises and modernise the public sector. But there are still difficult restructuring needs in a number of sectors. Furthermore, the budgetary situation has recently deteriorated and the measures introduced by the authorities have largely been of a one-off nature. Effective implementation of the government's medium-term strategy for public finance and economic development would lay the ground for long-lasting fiscal consolidation. The monetary authorities also need to keep inflationary pressures under control and put the economy back on to a gradual disinflation path.

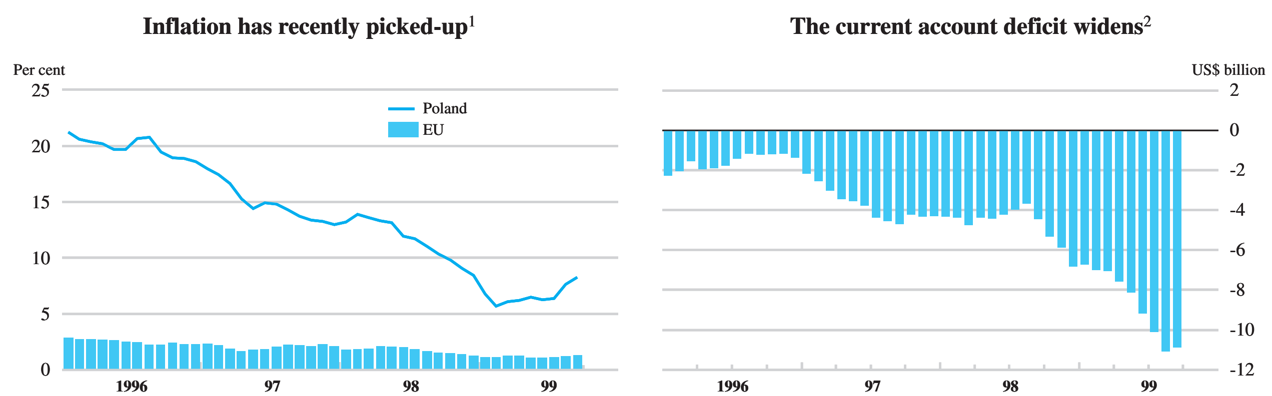
Output is showing signs of revival…

The economy slowed down in the winter of 1998-99 under the depressing impact of earlier monetary tightening, the Russian financial crisis, and weaker growth in the European Union. The bottom, however, was probably hit in the first quarter of 1999, when real GDP growth dipped to 1.5 per cent (year-on-year). In the second quarter, industrial production picked up vigorously and real GDP accelerated to 3 per cent. Early indications are that output growth gathered momentum in the second half of the year. Consumer price inflation fell to a 5.6 per cent record low (year-on-year) in February 1999, but has since been creeping up, to 8.7 per cent in October. Unemployment has been rising for the first time in six years. With strong domestic demand, weak export markets, and rising international commodity prices, the current account deficit could reach 7 per cent of GDP in 1999.

… due to supportive macroeconomic policies and structural reforms

The output recovery currently underway is in part due to the substantial easing of monetary policy in the second half of 1998. In particular, the fall in short-term interest rates from 24 per cent in August 1998 to 13 per cent in January 1999 has reduced the cost of borrowing and led to a boom in consumer credit and mortgage loans. This has been accompanied by a relatively loose fiscal policy, marked by strong increase in public-sector wages, pensions and social benefits in real terms. The

Poland



1. Year-on-year percentage changes.
2. Cumulated over 12 months.
Sources: Central Statistical Office and OECD.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion Zl	Percentage changes, volume (1995 prices)				
Private consumption	243.2	6.9	4.8	3.9	4.0	4.2
Government consumption	63.4	3.1	1.5	2.0	2.0	2.0
Gross fixed capital formation	80.4	21.8	14.5	10.0	11.0	11.5
Final domestic demand	387.1	9.5	6.6	5.2	5.6	5.9
Stockbuilding [a,b]	4.4	0.1	0.7	0.0	0.1	0.0
Total domestic demand	391.5	9.4	7.2	5.1	5.6	5.8
Exports of goods and services	94.2	12.2	10.3	-2.0	6.5	10.0
Imports of goods and services	100.2	21.4	13.9	4.0	7.0	8.5
Net exports [a]	- 6.0	-2.7	-1.5	-2.0	-0.6	-0.1
GDP at market prices	385.4	6.8	4.8	3.5	5.2	5.8
GDP deflator	_	14.0	11.7	6.2	6.6	5.0
Memorandum items						
Private consumption deflator	_	14.7	11.5	7.0	7.1	5.4
Industrial production	_	11.6	4.9	2.0	6.0	6.9
Unemployment rate	_	11.2	10.6	11.4	10.8	10.3
General government financial balance [c]	_	-2.9	-2.5	-3.0	-2.4	-2.3
Current account balance [c]	_	-4.0	-5.0	-7.1	-6.7	-6.3

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

authorities have also provided financial support to loss-making sectors to help them cope with the slowdown. At the same time, important structural reforms have been implemented and privatisation has gathered momentum, which has boosted the confidence of domestic and foreign investors. Foreign direct investment flows have continued unabated.

Assuming prudent macroeconomic policies and a recovery in Europe…

The general government deficit could widen to 3 per cent on a cash basis in 1999 due to a shortfall in tax revenue and loose restraint on public spending. Payment arrears have also built up, adding to the deficit on a commitment basis. The authorities have adopted temporary solutions, including a loan of Zl 4 billion to rescue the social insurance fund, which should ease problems of liquidity and stop the accumulation of payment arrears. In the projections, a gradual tightening of the overall fiscal stance is assumed, along the lines of the fiscal strategy for 2000-10 adopted earlier by the government. Following the interest rate increases in September (by 100 basis points) and November (by 250 basis points), monetary policy is assumed to remain sufficiently strict to achieve lower inflation.

… the economy could grow at a robust pace

Output growth is projected to gather momentum in the next two years and reach a pace of 5 to 6 per cent, as exports to Europe recover from the present depressed level. However, the upturn in exports will not be sufficient to close the current account deficit to a more comfortable level. Greater budgetary saving is also necessary in this regard. The current account deficit is likely to be fully financed by foreign direct investment and long-term capital flows. Despite rapid output growth, unemployment will probably decline only slowly because large groups of school leavers are now entering the workforce and labour market rigidities remain. After the recent acceleration, inflation is projected to return to a gradual decline towards the European Union level. The main risk to a continued expansion arises from delays in fiscal consolidation, which would impact adversely on both the balance of payments and inflation.

Portugal

Economic activity has moderated, lessening concerns about overheating. Inflation is sharply down and unemployment has stabilised. Monetary conditions remain expansionary, while the fiscal stance has been tightened slightly. Output growth is expected to pick up in 2000, as exports recover, before moderating somewhat in 2001 in the context of a projected tightening of monetary policy in the euro area. Unemployment is likely to remain at present low levels, while inflation is expected to edge up as a result of rising import prices and a tight labour market. The current account deficit may widen further, to 8 per cent of GDP in 2001.

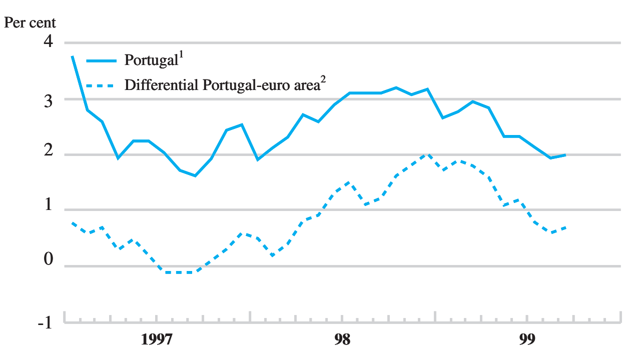
Although the inflation differential with the rest of the euro area has narrowed significantly, domestic demand pressures remain strong. In that context, it is essential that budget outcomes do not fall short of the objectives set in the Stability and Growth Pact, and new budget measures are likely to be necessary to meet fiscal targets from 2000 onwards. To maintain a non-inflationary growth path, the government will need to consider going beyond present budget deficit targets. The authorities should also press ahead with structural reforms to address the causes of the increases in government spending in recent years.

Output growth has slowed, helping to bring inflation down

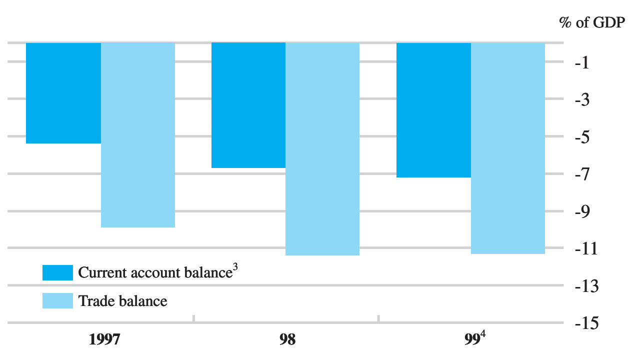
Economic activity has lost momentum as a result of a sharp deceleration in merchandise exports and the end of temporary factors that were boosting output, including the Expo98 in Lisbon and some large infrastructure projects. However, rising disposable income and the rapid expansion of domestic credit have continued to boost private consumption and investment spending. Output growth is expected to have fallen to around 3 per cent in 1999, almost a percentage point below the previous year. This slowdown has helped to reduce inflationary pressures, lessening concerns about overheating. Inflation fell from 3.2 per cent in December 1998 to 2.0 per cent in September 1999, while the unemployment rate stabilised below 5 per cent. The deceleration of exports was linked to the moderation of economic activity in the rest of the European Union and in major emerging markets, as well as to increased competition from Asian countries in the market for labour-intensive products. Although import growth slowed, the current account deficit has continued to widen to around 7 per cent of GDP in 1999.

Portugal

Inflation moderates



The current account deficit widens



1. Measured by the national consumer price index. Year-on-year percentage change.
2. Measured by the harmonised consumer price index. Year-on-year percentage change.
3. The current account balance is presented under the new methodology.
4. Estimate.

Sources: Banco de Portugal; European Central Bank.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion Esc	Percentage changes, volume (1990 prices)				
Private consumption	10 896.5	3.0	5.2	4.5	4.0	3.5
Government consumption	3 045.5	2.5	3.3	3.3	2.8	2.5
Gross fixed capital formation	3 996.2	11.3	9.5	6.7	6.4	6.0
Final domestic demand	17 938.2	5.1	6.1	5.0	4.5	4.1
Stockbuilding [a]	83.3	0.1	0.5	-0.2	0.0	0.0
Total domestic demand	18 021.5	5.2	6.5	4.7	4.4	4.0
Exports of goods and services	5 191.5	8.4	9.3	4.2	6.6	6.5
Imports of goods and services	6 427.6	10.4	13.3	7.0	7.5	7.0
Net exports [a]	-1 236.1	-2.1	-3.5	-2.5	-1.8	-1.6
GDP at market prices	16 785.3	3.7	3.9	3.1	3.4	3.2
GDP at market prices in billion €	83.7					
GDP deflator	_	2.0	4.3	2.6	2.7	2.8
Memorandum items						
Private consumption deflator	_	2.0	2.8	2.4	2.4	2.5
Industrial production [b]	_	2.6	5.7	2.8	3.5	3.3
Unemployment rate	_	6.8	5.0	4.5	4.4	4.4
Household saving ratio [c]	_	10.4	9.2	8.4	8.0	7.7
Current account balance [d]	_	-5.4	-6.7	-7.1	-7.6	-8.0

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

Monetary conditions remain easy, while the budget deficit declined by more than targeted

Monetary conditions have remained supportive of growth, with real short-term interest rates close to zero on average in 1999, even if long-term interest rates have moved steadily up during the year. Yields on the 10-year Treasury bond rose from 3.9 per cent in January to 5.8 per cent in late October. This has mirrored to a large extent the increase in the rest of the euro area, the differential between German and Portuguese long-term bonds widening only slightly. Monetary conditions are expected to tighten over the projection period, as both policy-controlled and market-determined rates move up. The budget deficit has continued to fall – from 2.2 per cent of GDP in 1998 to an estimated 1.8 per cent in 1999, lower than the 2 per cent target. Revenues have grown significantly faster than expected, boosted by buoyant domestic demand and increased tax compliance. As in previous years, this has been partly offset by spending overruns, especially in the health and social security sectors. The Stability and Growth Pact calls for a cut in the deficit to 1.5 per cent in 2000 and 1.2 per cent in 2001. Given the expected rise in interest rates and the diminishing returns on the fight against tax evasion, new budget measures seem likely to be necessary to meet these targets, especially if the authorities fail to address the structural causes of the spending increases of recent years.

Activity should pick up in 2000, before moderating again in 2001

Output growth is projected to pick up to 3.4 per cent in 2000, as exports recover in line with stronger economic conditions in the euro area. Private consumption and investment spending are likely to remain robust, boosted by gains in real disposable income. In 2001, however, rising euro-wide interest rates should lead to a slight deceleration in private spending, bringing output growth down nearer to potential – estimated at slightly above 3 per cent – and helping allay fears of overheating.

Inflation is expected to edge up to 2.5 per cent in 2001, a result of increasing import prices and a tight labour market. Unemployment is likely to remain at its current low level of about 4.5 per cent. As the trade deficit continues to widen, the current account deficit may reach 8 per cent of GDP in 2001. The main risk attached to these projections is that excess demand could lead to inflationary pressures in 2000, and a significant deterioration of Portugal's external position. The evolution of demand from Portugal's main trading partners in Europe is also a source of uncertainty.

Spain

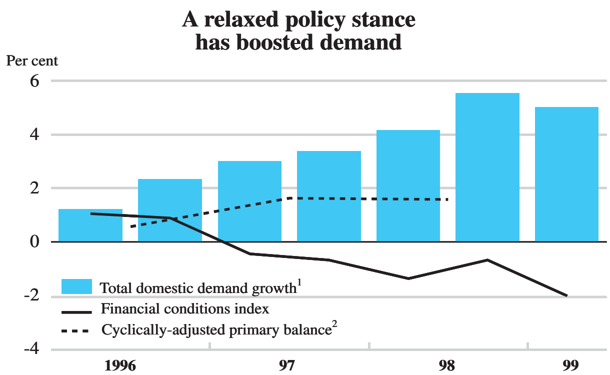
Domestic demand has accelerated further so far in 1999 and unemployment has continued to plunge, in the context of a relaxed macroeconomic policy stance. Despite moderate wage claims, inflation pressures have risen, especially in sheltered sectors. Economic activity is projected to slow down somewhat, as the stimulus to consumption from the personal income tax cut vanishes, but growth will remain above potential. Cost and price pressures are thus expected to intensify.

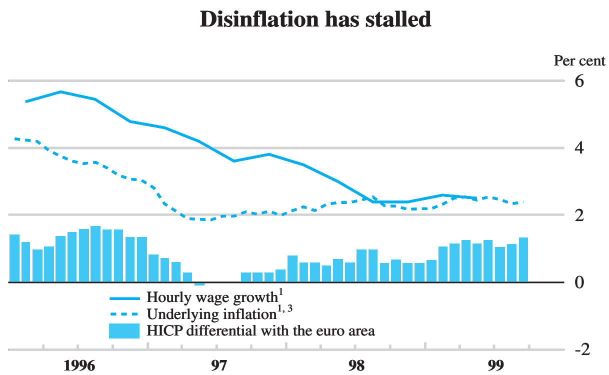
Though the government aims at a balanced budget by 2002, fiscal consolidation may need to be more ambitious to contain demand pressures. Major concerns are reforms of entitlement programmes, especially pensions and health care. Further decentralisation should also aim to provide the right incentives for sound public finance management. Deregulation in product markets should be speeded up. Moreover, further progress in reforming the labour market would underpin strong employment growth while forestalling the emergence of bottlenecks.

Domestic demand has accelerated, putting pressures on prices and the current account

The Spanish economy continued to perform strongly in 1999, with real GDP rising much more than on average in the euro area. Surging household disposable income, a high level of confidence and pent-up demand for durable goods accumulated over several years boosted private consumption. Healthy corporate profits combined with a high rate of capacity utilisation underpinned brisk investment spending. The strong cyclical position was reflected in buoyant import demand, and net exports have become an increasing drag on growth. However, after a pause late in 1998, exports of goods have gradually recovered, largely reflecting a rebound in industrial production and the end of destocking elsewhere in Europe. Strong demand and moderate wage claims have spurred job creation, and pushed the unemployment rate down further, to close to 15 per cent from 20.8 per cent in 1997. Labour costs were further damped by targeted cuts in social security contributions. Partly reflecting oil and food price developments, inflation rose from a historically low 1.4 per cent in December 1998 to 2.5 per cent in September 1999. Inflation for most other goods and for services was also higher than in the euro area and the inflation differential, measured by the harmonised consumer price index, widened. As a result, the government revised its consumer price inflation target for December 1999 from 1.8 to 2.4 per cent.

Spain





1. Year-on-year percentage changes.
2. As a percentage of potential GDP.
3. Excluding non-processed food and energy.
Source: OECD.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion Ptas	Percentage changes, volume (1995 prices)				
Private consumption	45 978.1	2.9	4.1	4.3	3.9	3.5
Government consumption	13 867.5	2.7	2.0	1.6	2.4	2.4
Gross fixed capital formation	16 674.8	5.0	9.2	8.8	8.6	8.5
Final domestic demand	76 520.4	3.3	4.9	4.9	4.8	4.6
Stockbuilding [a]	211.8	-0.1	0.1	0.1	0.0	0.0
Total domestic demand	76 732.2	3.2	5.0	5.0	4.8	4.6
Exports of goods and services	18 442.1	15.1	7.1	6.7	8.0	8.1
Imports of goods and services	18 061.0	12.8	11.1	11.5	11.4	11.2
Net exports [a]	381.1	0.6	-1.0	-1.3	-1.1	-1.2
GDP at market prices	77 113.4	3.8	4.0	3.7	3.7	3.5
GDP at market prices in billion €	463.5					
GDP deflator	_	2.1	2.3	2.3	2.2	2.5
Memorandum items						
Private consumption deflator	_	2.5	2.0	2.3	2.4	2.5
Industrial production	_	6.1	5.4	3.2	4.0	4.4
Unemployment rate	_	20.8	18.8	15.8	14.0	12.7
Household saving ratio [b]	_	11.4	11.0	10.9	10.5	10.1
General government financial balance [c]	_	-3.1	-2.3	-1.4	-1.1	-0.7
Current account balance [c]	_	0.4	-0.2	-1.1	-2.2	-2.9

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

Policies have supported output growth

In 1999, the budget deficit is likely to drop to 1.4 per cent of GDP, which is below the government's initial target. Spending overruns in a few areas have been more than offset by larger-than-expected tax revenues. Indirect and corporate taxes have been particularly strong, reflecting buoyant consumption and solid profits, while the booming labour market and improved compliance underpinned a surge in social security revenues. The 2000 budget projects a further decline in the deficit on the back of booming revenues, the maintenance of hiring restrictions for civil servants and lower interest payments – the latter reflecting both debt management changes to lower the cost of public debt and the gradual lowering of interest rates as debt is rolled over. On the other hand, the government is committed to raising pensions, reducing unemployment insurance contribution rates while extending coverage for the long-term unemployed older than 45 years, increasing corporate tax breaks for R&D expenses, freezing excise taxes and stepping up infrastructure investment. Overall, the budget deficit should decline to around 1 per cent of GDP, but even so the fiscal stance will be broadly supportive. Financial conditions have remained relaxed. Real short-term interest rates have reached historically low levels, and long-term interest rates have remained low, despite the recent pick up.

Activity should remain strong and cost pressures could intensify

Domestic demand is projected to remain buoyant both next year and in 2001, yielding GDP growth that slows only marginally to 3½ per cent, despite a significant negative contribution from the external sector. High consumer confidence, supported by a further decline in the unemployment rate, is projected to lower the saving ratio. Business sentiment is also improving, spurred by rising domestic and foreign orders. Rapid output growth should support further solid job creation, and the unemployment rate could fall to close to 13 per cent. With available slack being taken up quickly, wage and price pressures are set to intensify. A major risk to the projections concerns the evolution of labour market tightness and the response of wage claims to the recent rise in inflation. If wages rise faster than projected, this would imply a further boost to demand in the short run, but could erode competitiveness and jeopardise employment growth later on. On the other hand, uncertainty surrounds the behaviour of private consumption. The impact of the election climate, the sluggishness of the Spanish stock market since early 1999 and the rise in interest rates, could lower confidence and household spending.

Sweden

The economic upswing has strengthened, as export growth has firmed and rising employment has led to more buoyant consumption. Following the completion of the fiscal consolidation process, higher household incomes and public demand are sustaining the expansion. Low inflation and moderate wage agreements have allowed monetary conditions to remain supportive, while tax cuts have been announced for 2000. Sweden should thus experience a prolonged period of high growth, with real GDP expanding by 3 ½ to 4 per cent in 1999, and around 3 per cent in 2000-01.

Relaxing the fiscal stance through tax cuts while the economy is growing above potential and monetary policy is expansionary could lead to bottlenecks, as the unemployment rate approaches 4 per cent. A reduction in public spending would help counter the demand stimulus from the tax cuts and make the upswing more sustainable. There would be similar benefits from further efforts to improve product market efficiency, through the strengthening of competition in the utilities and transport sectors, as well as from additional measures to enhance labour-market flexibility.

Growth has been faster than projected

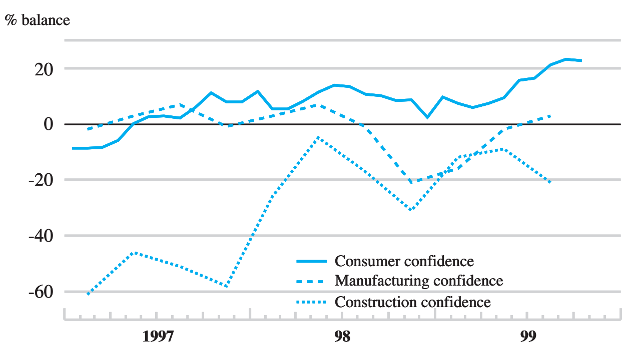
Economic activity accelerated in the first half of 1999, as rapid export growth stimulated employment formation, against the background of strong domestic demand and stimulatory financial-market conditions. While increases in public expenditure remained moderate, private consumption and investment in both the business and housing sectors all grew strongly. Rapid export growth has been based on continued market share gains, while imports slowed in the first half in reaction to the reduction in stocks.

Unemployment has continued to fall but wage growth has remained stable

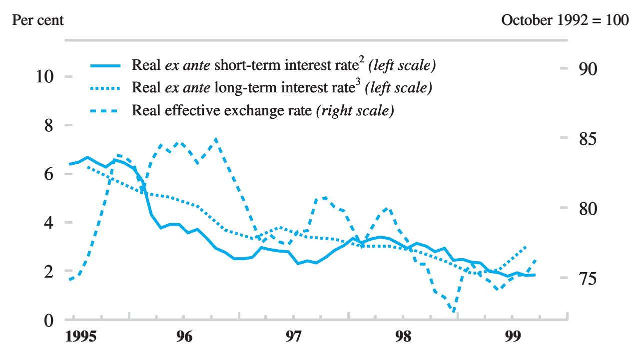
The unemployment rate fell to around 6 per cent in mid-1999, down by more than a percentage point over the preceding year, as fairly broad-based employment creation outpaced the expansion in the labour supply. Wage growth has remained around 3½ per cent, reflecting 2¾ per cent centrally-agreed wage increases and modest wage drift. In mid-1999, consumer price inflation had increased to over ½ per cent, due to higher energy prices and an increase in the underlying inflation rate to 1½ per cent.

Sweden

Confidence is improving[1]



Monetary conditions remain supportive



1. Not seasonally adjusted. Balance between positive and negative answers.
2. Rate of 3-month Treasury bills adjusted for the CPI change expected by households in the coming year.
3. Rate of 5-year government bonds adjusted for bond investors' CPI expectations over the next 5 years.

Sources: SCB; Sveriges Riksbank; OECD.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion SKr	Percentage changes, volume (1995 prices)				
Private consumption	885.5	1.6	2.4	3.2	2.8	2.8
Government consumption	476.4	-1.0	1.0	1.2	1.0	0.9
Gross fixed capital formation	274.7	-2.1	9.2	7.6	5.9	5.1
Final domestic demand	1 636.6	0.2	3.2	3.5	2.9	2.7
Stockbuilding [a]	2.7	0.5	0.3	-0.3	0.0	0.0
Total domestic demand	1 639.3	0.8	3.5	3.0	2.9	2.7
Exports of goods and services	681.0	12.7	6.9	6.0	6.7	5.0
Imports of goods and services	568.5	11.7	9.7	4.5	7.1	5.2
Net exports [a]	112.5	1.2	-0.5	1.0	0.4	0.3
GDP at market prices	1 751.8	1.8	2.6	3.9	3.0	2.7
GDP deflator	_	1.2	1.1	0.6	1.7	2.2
Memorandum items						
Private consumption deflator	_	2.3	0.9	0.8	1.4	1.8
Industrial production	_	6.5	4.6	4.0	3.5	3.0
Unemployment rate [b]	_	8.0	6.5	5.5	4.5	4.0
Household saving ratio [c]	_	1.9	2.3	2.3	1.6	1.9
General government financial balance [d,e]	_	-1.8	1.9	2.3	2.1	2.5
Current account balance [d]	_	3.2	2.4	1.7	1.8	1.9

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

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

b) Based on monthly Labour Force Surveys.

c) As a percentage of disposable income.

d) As a percentage of GDP.

e) Maastricht definition.

Monetary conditions have remained supportive…

The short-term interest differential *vis-à-vis* the euro area, having fallen from mid-1998, has remained at around one-third of a percentage point since spring 1999, leaving the repo rate at 2.9 per cent rate. Long-term interest rates have been increasing to 6 per cent, as international rates have risen and the differential between krona and euro rates has widened. The krona has appreciated by a further 3¼ per cent against the euro since April 1999, leading to a 2 per cent rise in its effective exchange rate, allowing the Central Bank to keep policy-controlled rates constant.

… and the general government surplus has continued to increase

Following the rapid and sharp fiscal consolidation over the past five years, higher than expected tax revenues may see the general government budget surplus rise to about 2¼ per cent of GDP in 1999. Robust growth over the projection period should allow the surplus to remain above the government's medium-term target of 2 per cent despite a reduction in household and indirect taxes totalling almost SKr 12 billion in 2000. In cyclically-adjusted terms, the surplus is projected to fall by nearly two percentage points of GDP, reflecting an easing of the fiscal stance.

Growth should remain above its potential over the projection period

Sustained general government surpluses and moderate wage increases – as embodied in the centrally-negotiated three-year wage agreement – together with a modest tightening of monetary policy as capacity utilisation tightens should allow inflation to stay within the Central Bank's target range. As euro-area interest rates are also projected to rise, the interest differential between Swedish and euro-rates is likely to remain stable. The economy is expected to remain strong, with domestic demand projected to grow by nearly 3 per cent per annum over the 2000 and 2001 period. Private consumption will be robust based on improving consumer confidence and strong employment growth, while investment in the business and housing sectors should also continue to be buoyant. Indeed, in recent years, the balance sheets of households and enterprises have greatly improved. The contribution from net exports is expected to diminish, as the effects on imports from the stock adjustment cycle fades, but should remain positive. Consequently, GDP growth may gradually decelerate from 3½-4 per cent in 1999 to around 2¾ per cent by 2001.

There is some risk of overheating

As for the risks surrounding these projections, the rapid reduction in the unemployment rate could lead to the emergence of bottlenecks in the labour market, leading to a pick-up in wage inflation and eroding export performance. In this respect, the stimulus to already strong consumption growth arising from the tax cuts carries a risk of overheating.

Switzerland

Economic activity remained subdued in the first half of 1999, with real GDP growth falling short of potential. Recent indicators suggest a mild acceleration of growth in the second half of the year, owing largely to a pick up of exports and a turnaround in construction investment. The projected strengthening of the recovery is underpinned by supportive monetary conditions and the positive effects of the improving labour market on household incomes and consumer confidence. The prevailing output gap is likely to keep consumer price inflation very low.

With the inflation outlook remaining favourable and the recovery still fragile, accommodating monetary conditions need to be maintained. Fiscal policy should adhere to the Budget Objective 2001 which aims at eliminating the federal deficit in 2001 and keeping the budget in broad balance over the business cycle thereafter. In view of the ageing of the population, budgetary prudence should be complemented by reforms of the old age pension and health care systems.

Economic activity is firming gradually…

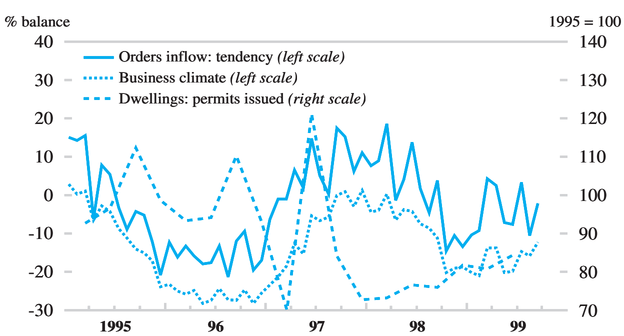
Against an overall picture of weak domestic demand, export growth gained momentum during the first half of 1999, reflecting a rebound in sales to the United States and a pick-up of exports to recovering East Asian economies. Ending four years of slump, construction investment also turned around as dwelling demand increased and the Confederation's programme of 1997 raised public infrastructure expenditure. While the latest surveys point to a still unsatisfactory business climate and a low level of orders, they also indicate improving order inflows and growing business optimism about production prospects. Dwelling permits issued are on an upward trend while consumer sentiment remains relatively high.

… accompanied by falling unemployment and low underlying inflation

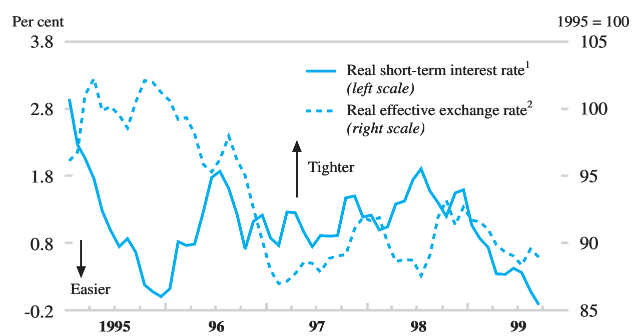
Although employment growth slowed in the first half of 1999, the unemployment rate fell further, to 2.5 per cent in September. Only about half of the decline is of a cyclical nature, the remainder being the effect of "benefit exhaustees" dropping out of the labour force, and of unemployment insurance reform; the latter made full benefit receipt conditional on the enrolment in active labour market programmes, many of whose participants are not counted as unemployed. Consumer price inflation accelerated to 1.2 per cent in October 1999, but underlying inflation, adjusting for the increase in the value-added tax rate by 1 percentage point to 7.5 per cent at the beginning of the year and the recent hike in oil prices, remains very low.

Switzerland

Forward looking indicators improve gradually



Monetary conditions remain easy



1. 90-day euro-Swiss franc rate deflated by the 12 month-change in the CPI.
2. CPI based.
Source: OECD.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices billion SF	Percentage changes, volume (1990 prices)				
Private consumption	219.8	1.3	2.3	1.9	2.0	2.1
Government consumption	56.6	0.6	-0.2	0.2	0.3	0.5
Gross fixed capital formation	73.9	1.5	4.4	4.7	4.0	4.8
Final domestic demand	350.3	1.2	2.4	2.4	2.3	2.6
Stockbuilding [a]	0.5	0.1	1.7	-0.2	0.3	0.2
Total domestic demand	350.8	1.3	4.1	2.2	2.5	2.8
Exports of goods and services	131.5	9.0	4.6	3.0	4.5	5.2
Imports of goods and services	116.4	8.1	9.4	4.8	6.0	6.3
Net exports [a]	15.0	0.4	-2.0	-0.8	-0.8	-0.7
GDP at market prices	365.8	1.7	2.1	1.4	1.8	2.2
GDP deflator	_	-0.1	0.2	0.4	0.6	1.1
Memorandum items						
Private consumption deflator	_	0.6	-0.3	0.8	0.8	1.1
Industrial production	_	4.7	3.5	2.0	2.5	3.2
Unemployment rate	_	5.2	3.9	2.8	2.6	2.3
Current account balance [b]	_	8.9	8.2	8.1	7.5	7.2

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

Monetary conditions remain easy…

Monetary conditions have remained supportive, with both real interest rates and the real effective exchange rate declining during 1999. The nominal three-month Euro-Swiss franc interest rate has hovered around the 1 per cent mark, while long-term interest rates have risen broadly in line with world bond rates. Monetary policy is likely to be kept on hold in the near term, taking account of the nervousness concerning the "Y2K" problem at year-end. The projection assumes that the Swiss National Bank will gradually raise policy interest rates as from next year, in line with expected moves of the European Central Bank, and consistent with an unchanged Swiss franc exchange rate *vis-à-vis* the euro.

… while fiscal consolidation moves ahead

The draft budget of the Confederation for 2000 is for a reduction of the deficit to around SF 1.8 billion (½ per cent of GDP), following an estimated deficit of some 1½ per cent of GDP in 1999. The improvement will be the result of small cuts in a number of expenditure items together with a cyclical increase in revenues. Another cut in the deficit to less than SF 1 billion is planned for 2001, followed by a balanced budget in 2002 and a surplus in 2003.

The upswing is broad based, the main risks attaching to competitiveness and export growth

The projected resumption of construction investment growth removes a major impediment to better economic performance. It is underpinned by the gradual absorption of excess supply of dwellings and office buildings from the real estate boom in the late 1980s, and by the pick-up of investment in large public infrastructure projects. An increase in export growth is also likely, given the projected recovery of export markets and the recent gain in price competitiveness. These factors, together with healthy company profitability, low capital cost and falling prices of imported investment goods should underpin the demand for machinery and equipment investment. Private consumption is likely to be supported by improving labour incomes and growing consumer confidence. Overall, GDP growth is projected to rise over the next two years, reaching 2¼ per cent by 2001. The unemployment rate may fall further, in response to rising employment in the face of slow labour force growth. The impact of higher import prices on consumer price inflation in 2000 is likely to be offset by the effect of the value-added tax increase falling out of the statistics. Underlying inflation is expected to remain low, based on the modest increases in unit labour costs, the prevailing output gap and the price-dampening consequences of increased competition in product markets from deregulation. The tendency of the Swiss franc to appreciate in periods of financial market unrest and the implication for the Swiss economy's international competitiveness remain a major risk in the projections. The strength of the pick-up in Germany is another source of uncertainty.

Turkey

Within the space of a year, the Turkish economy has been affected by two major shocks: the Russian crisis of August 1998 and the Marmara earthquake of August 1999. The former contributed to a deep recession at the start of 1999; the latter inflicted severe economic disruption, loss of life, and homelessness. As a result, output is expected to fall by more than 2 per cent in 1999. Next year, reconstruction and declining real interest rates should stimulate growth, though the underlying tight policy stance will keep the pace of recovery moderate.

The primary budget surplus has fallen sharply in 1999, given pre-election policy slippage, recession and post-earthquake budgetary costs. However, the government has introduced a tight 2000 budget, and has demonstrated a resolve to move forward on structural reforms, notably in the areas of banking, privatisation, and social security. This paves the way for an expected International Monetary Fund stand-by programme, which aims at achieving single-digit inflation.

The emerging market crisis has continued to exert its impact, though a slight recovery appeared by mid-year

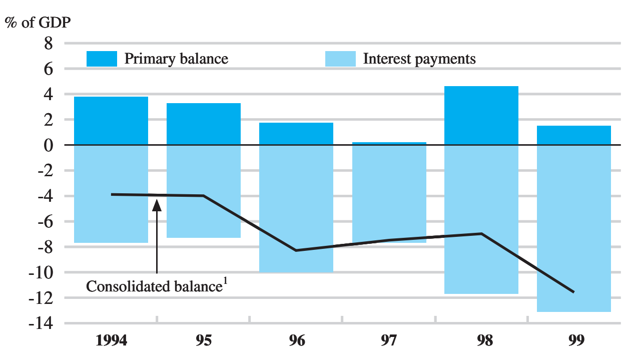
The recession, which was triggered by the withdrawal of foreign capital in the wake of the Russian debt moratorium and exacerbated by the domestic political crisis in the closing months of 1998, deepened in the first half of 1999, when output is estimated to have fallen by over 5 per cent (from the same period one year earlier). Real interest rates remained in the 30-40 per cent range, causing a severe contraction in private demand, especially investment. Moreover, the loss of important markets in Russia and neighbouring countries, together with the decline in competitiveness *vis-à-vis* emerging markets in general, resulted in a sharp drop in exports. The formation of a new coalition government in May and the stronger world economy helped to stabilise the situation, but real interest rates have stayed high. A modest upturn appeared to have begun in mid-year, as fiscal policy easing and high real returns to savings provided some support to demand. Inflation, which had fallen markedly last year and continued to decline through May of this year, subsequently started to rise again, mainly in response to oil and public-sector price rises, thus remaining in the neighbourhood of 65 per cent on a consumer price basis.

The August earthquake caused severe damage and halted the recovery

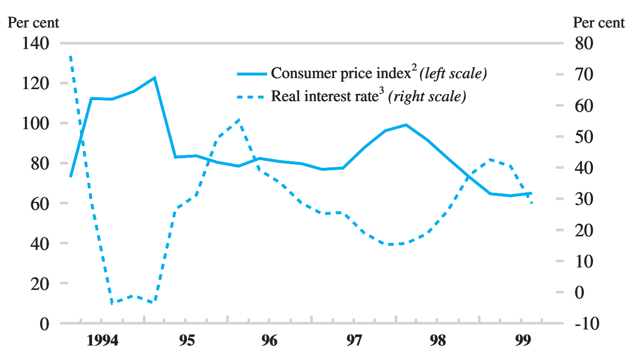
The incipient recovery was halted by the severe earthquake of August 1999. More than 97 000 buildings were destroyed with many others left uninhabitable; perhaps 18 000 people perished and another 25 000 injured, while some 600 000 were left homeless. The direct impact on industrial capacity appears to have been rela-

Turkey

The budget deficit widens



Inflation and real interest rates remain high



1. Official target for 1999.
2. Year-on-year percentage changes.
3. Short-term interest rate deflated by wholesale price inflation.

Source: State Planning Organisation.

Demand, output and prices

	1996	1997	1998	1999	2000	2001
	current prices trillion TL	Percentage changes, volume (1987 prices)				
Private consumption	9 938	8.4	0.1	-2.0	4.0	4.5
Government consumption	1 709	4.1	5.0	5.5	4.0	4.0
Gross fixed capital formation	3 706	14.8	-2.4	-8.6	10.8	8.0
Final domestic demand	15 353	9.9	-0.3	-3.3	5.8	5.4
Stockbuilding [a]	- 80	-0.9	1.1	0.0	0.0	0.0
Total domestic demand	15 274	9.0	0.7	-3.3	5.8	5.5
Exports of goods and services	3 182	19.1	10.5	-5.0	6.0	3.0
Imports of goods and services	4 111	22.4	2.2	-8.0	10.0	8.0
Net exports [a]	- 928	-1.9	2.2	1.2	-1.4	-1.8
Statistical discrepancy [a]	427	-0.1	-0.2	0.0	0.0	0.0
GDP at market prices	14 772	7.5	2.8	-2.3	4.6	3.9
GDP deflator	_	81.5	74.8	61.4	51.2	25.0
Memorandum items						
Private consumption deflator	_	82.2	80.6	65.0	53.0	24.5
Unemployment rate	_	6.4	6.3	6.6	6.1	6.3
Current account balance [b]	_	-1.2	1.1	0.6	-0.9	-2.3

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

tively mild, however, as most of the damage was concentrated on residential structures. GDP growth in 1999 will be about 1 per cent less than would have been expected without the earthquake. By 2000, reconstruction is expected to add around 1 percentage point to GDP growth. Upward pressure on inflation due to the reconstruction should be mitigated by the substantial excess capacity in the economy.

Macroeconomic policies will need to be tightened considerably in order to resume the disinflationary process

In this context, challenges to macroeconomic policy are enormous. The government's primary surplus, which has already declined sharply in response to recession and pre-election policy slippages, now faces the added burden of earthquake costs. These costs – including assistance, tax shortfalls, and reconstruction of public infrastructure – are officially estimated at around $6.2 billion (3 per cent of GDP). Foreign official financing is expected to cover only about half of this amount, the remainder to be met through additional resources, including new taxes. The government has drafted a tight budget for 2000 in anticipation of an International Monetary Fund multi-year stand-by programme (Extended Fund Facility), due to start on 1 January 2000. This programme aims to reduce consumer price inflation to around 25 per cent (wholesale price inflation to 20 per cent) by the end of 2000, and to near single-digit levels by the end of the programme. Achieving these targets entails a pro-active role for monetary policy, based on a reduced rate of exchange-rate depreciation in line with targeted inflation, so as to provide a nominal anchor for inflationary expectations. Civil servants' salaries will be indexed to the inflation target, with *ex post* compensation for deviations from the target.

The outlook reflects declining inflation and real interest rates

The near-term outlook will be heavily influenced by the extent to which the planned fiscal discipline and structural reforms will result in improved market confidence, increasing capital inflows – both official and private – and a declining risk premium in interest rates. Market rates have already started declining with the announcement of the 2000 budget, and real rates are set to fall substantially in the projections. Inflation should begin to fall once the Central Bank adopts a forward-looking exchange-rate peg at the start of next year. However, an unknown element is how fast private wage behaviour will adapt and hence how much the real exchange rate will appreciate. The projections incorporate a moderate real appreciation, with consumer price inflation falling to around 35 per cent by the end of 2000 and to 20 per cent in 2001 despite some upward pressure on prices due to reconstruction activity. The benefits of lower real interest rates on investment are likely to counteract the real output costs of such an appreciation, allowing for a moderate recovery of activity in both 2000 and 2001. Other positive factors will be reconstruction and a pick-up in export-market growth to 6 per cent.

Risks relate chiefly to the credibility of the fiscal effort and foreign confidence

The risks attached to these projections are significant and revolve chiefly around the adoption and implementation of policies needed to achieve disinflation. Most importantly, the credibility and durability of the fiscal adjustment could be undermined in the absence of further reforms to curb public spending, notably in the areas of agricultural subsidies and public-sector bank-credit subsidies. Long-run inflation expectations will hinge critically on the credibility of the new exchange-rate regime. The shape of the 2001 budget will be critical in this regard. And in the event that any overshooting of budget targets is not rapidly countered, the long-term capital inflows needed for supporting growth would be difficult to sustain.

III. DEVELOPMENTS IN SELECTED NON-MEMBER ECONOMIES

The economic situation varies markedly across non-member economies. Recovery in the Dynamic Asian Economies (DAE) is underway and stronger than expected earlier, while growth in China is stabilising after decelerating during the first half of 1999. In Russia, GDP and industrial production have rebounded rather quickly, but recovery is still fragile. In South America, the recession deepened in most countries in the course of 1999, with the exception of Brazil where a timid recovery is underway.

Growth in the DAE should pick up further and become more broadly based in the year 2000, although recovery in Indonesia is likely to be impeded for some time by the major financial problems of its bank and corporate sectors. In China, policies to address the country's severe structural problems, together with some other adverse factors, have generated near-term deflationary pressures that authorities will need to continue to offset through expansionary macroeconomic policies.

The short-term economic outlook has improved somewhat for Russia whose performance in the first half of 1999 with regard to output and inflation was better than expected. There have also been improvements in federal tax collection and the budgetary balance. But the overall macroeconomic situation remains weak, with a high burden of foreign debt service, low international reserves and a slowdown in progress in key structural reforms.

Growth in South America as a whole is projected to resume next year and accelerate into 2001 on the basis that the recovery in Brazil gathers pace, confidence returns to the markets and there is some improvement in the terms of trade. However, large downside risks stem from a number of domestic and international factors that might negatively affect market sentiment.

Dynamic Asia and China

Economic recovery is underway in Dynamic Asia

Economic recovery in the Dynamic Asian Economies (DAE) is underway and is proving to be stronger than expected earlier. Growth in real GDP was positive on an annual basis throughout the region in the second quarter of 1999 for the first time in nearly two years. The strongest rebounds are occurring in Malaysia, Singapore, and Thailand but growth also has accelerated in the Philippines and has remained strong in Chinese Taipei. Recovery is also taking hold in Hong Kong, China. Activity in Indonesia began to revive last spring but the upturn is still weak.

Recovery is being driven by exports, fiscal stimulus and inventory restocking

Export growth, sparked by a revival in world demand for electronics products, has provided a substantial impetus to regional recoveries especially in Malaysia, Singapore, the Philippines and Thailand. Domestically, the rebounds in activity are presently being driven by fiscal stimulus and by restocking of inventories, which had fallen markedly in 1998 relative to production levels. Part of the inventory accumulation is coming from imports, which are also rebounding sharply. However, the recoveries appear to be becoming more broadly based, with private consumption now beginning to pick up.

Fundamentals are generally favourable…

Economic fundamentals in the region are generally favourable to a sustained recovery. While fiscal stimulus is likely to abate beyond 1999, the low levels to which inflation has fallen should allow monetary policy to remain supportive of growth at least through next year, and even to ease further should activity begin to flag. With large current account surpluses and replenished foreign exchange reserves, the upturn should be sustainable even if capital inflows remain subdued. The strength in regional equity markets indicates that confidence has improved considerably over the past year; and the limited spill-over to regional financial markets of the East Timor crisis suggests that risks of contagion have diminished.

… and growth should pick up further while current account surpluses fall

Given these favourable conditions, economic expansion in the DAE is likely to gain further momentum over the coming two years. Consumption growth is expected to accelerate as employment begins to recover, and accommodative monetary policy together with the overall improvement in economic prospects should spur a revival in fixed investment by next year. The pick-up in private domestic demand and continued strength in exports should more than offset the withdrawal of fiscal stimulus and the waning of inventory accumulation. However, unemployment rates should decline only gradually and the income growth lost (in relation to potential) during the crisis is unlikely to be recovered for some years to come. Likewise, trade and current account surpluses should fall progressively over the next two years; but in most cases they will remain sizeable.

But risks have not disappeared altogether

Risks to the outlook are still present, however. Perhaps the greatest are posed by the banking and corporate sector financial problems in Indonesia, Malaysia, and Thailand. Although financial restructuring in these countries has made substantial progress, it is not yet complete (see box). The especially severe financial problems in Indonesia are likely to significantly restrain recovery there for at least the next year. In Malaysia and Thailand, the strong activity rebound now under way (despite continued weakness in bank lending) should boost restructuring efforts by increasing the incentives for banks and their corporate debtors to come to terms. Assuming this process continues, credit availability may pose only a mild and short-lived impediment to the recovery in both countries. However the possibility of a more serious credit crunch, particularly in Thailand, cannot be ruled out.

China's growth has stabilised...

In China, real GDP growth declined in the first half of this year but seems to have stabilised since then. The earlier slowdown was due mainly to the waning impact of last year's large fiscal stimulus, a drop in net exports, and continued subdued growth in consumption and non-state investment. The turnaround beginning in the second half of this year, on the other hand, reflects strong gains in net merchandise exports and a pick-up in industrial production under the impetus of a new supplementary fiscal spending package. Both consumer and retail prices have continued to fall on a year-on-year basis and, although the decline seems to have moderated in recent months, deflationary pressures continue to be a drag on economic activity, particularly in the non-state sector.

... and the external position remains favourable

The trade surplus fell sharply in the first half of this year as imports rose substantially and exports remained weak. The surge in imports largely reflects increased reporting to customs authorities spurred by the crackdown on smuggling. Exports have started to pick up strongly since July on the back of stronger demand from the OECD countries and from other Asian economies. Exports should continue to be strong through next year as China's products remain competitive in international

Box III.1. **Financial restructuring in Indonesia, Malaysia, and Thailand**

Indonesia, Malaysia and Thailand have all established the mechanisms to deal with failed financial institutions and the non-performing loans of their banking sectors, and to promote restructuring of corporate debt. All three countries are employing a mix of government intervention, limited regulatory forbearance, and private initiatives in order to bolster financial positions and ensure adequate credit supplies to support recovery in the near term while managing the burden on government finances and strengthening the financial system over the long term. While broadly similar, there are differences in the means being used that reflect the relative severity of the problems and constraints faced by each country as well as their traditional regulatory approaches.

Of the three countries, ***Malaysia*** has relied most heavily on direct government intervention in its financial restructuring. A government-established asset management company, Danaharta, has (as of August) taken on RM 38 billion (about US$10 billion) of problem loans, amounting to one-third of the total of such loans in the banking system. Another government agency, Danemodal, has injected RM 6.2 billion of capital into ten of the country's banks to bring their capital levels up to the present regulatory minimum. The government has also taken an active role in debt restructuring for larger businesses. Although more remains to be done, these interventions have reduced the risks that the restructuring process would stall, albeit with the government bearing a higher proportion of the overall burden. The government has also tried to boost credit availability by temporarily suspending its earlier imposition of a three-month overdue standard for problem loan classification, and by setting minimum lending targets for the banks. The targets have not been met, however, in large part because of weak loan demand but probably also because of banks' reluctance to jeopardise their future position with regulators by risking more problem loans.

The government in ***Thailand*** has closed or taken over the majority of finance companies along with several commercial banks. However it has relied heavily on private sector initiatives to recapitalise private banks and to restructure corporate debt. Private banks were given the choice of either subscribing to the government's recapitalisation programme under stringent conditions (including the virtual write-off of equity to obtain Tier 1 capital) or raising capital in the market at a sufficient pace to meet progressively rising minimum provisioning ratios against their problem loans. Nearly all of the banks have taken the latter route and only a fraction of the government's fund has been utilised. Asset management companies are being set up by the banks, rather than the government, to deal with problem loans. The authorities also initially left corporate debt restructuring to the private sector, but later became more involved (through the government-sponsored corporate debt restructuring advisory committee) in providing mechanisms to facilitate and enforce agreements between banks and their debtors. Regulators have created an important incentive by allowing banks to reclassify restructured loans as performing immediately, before they have compiled a record of successful payment. Thailand's more "hands-off" approach to restructuring is partly explainable by the fact that non-performing loans are proportionately much higher than in Malaysia. While involving greater risk that the process would stall, restructuring in Thailand has progressed considerably. By July of this year, private banks had raised nearly 85 per cent and state banks nearly 45 per cent of the estimated amount needed to meet Tier 1 capital requirements. Moreover, corporate debt amounting to nearly one-fifth of total non-performing loans had been restructured.

The restructuring process in ***Indonesia*** has been largely dictated by its exceptional severity and complexity. Authorities have taken over much of the private banking sector and have restored capital ratios of the remaining private banks to an interim 4 per cent ratio. The authorities are also moving to recapitalise and restructure the state banking sector, which accounts for most of the problem loans. However progress on corporate debt restructuring has been quite limited, largely because its most critical component involves foreign creditors. Only a handful of institutions have subscribed to the government's programme to provide foreign exchange guarantees for restructuring agreements on external debt. The Jakarta initiative to grant technical facilities and other encouragement for corporate debt restructuring has had much more success in stimulating negotiations between debtors and creditors but few complete deals have yet been achieved. Thus while recapitalisation of the banks will increase their ability to lend, creditworthy customers are likely to continue to be scarce until corporate restructuring proceeds much further than it has so far.

Beyond the financial repair now under way, the countries face major tasks over the longer-term in raising bank capital further to meet international norms and in servicing the large government debt incurred. Estimates suggest that the ultimate public sector costs of financial system restructuring will approach one-third of GDP in Thailand and may exceed 50 per cent of GDP in Indonesia. The authorities also face daunting challenges in re-privatising banks acquired during the crisis and in improving the structure and robustness of the financial sector as a whole. Furthermore, sustained improvements in regulatory oversight will be critical to ensuring that financial institutions behave prudently in the future.

markets and as demand in the rest of Asia recovers further. China's exporters have also been supported by various government measures including a further hike in the rebate rate on the value-added tax. Given these trends, the current account balance for this calendar year as a whole will be lower than in 1998, but should remain in sur-

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

	1998	1999	2000	2001
China				
Real GDP growth	7.8	7.1	6.8	6.5
Domestic demand growth	7.9	7.8	6.9	6.6
Inflation	–2.5	–2.8	–1.0	0.2
Current account balance (US$ bn)	29.3	11.0	6.3	5.1
Current account balance (% of GDP)	3.1	1.1	0.6	0.4
Hong Kong, China				
Real GDP growth	–5.1	0.0	4.0	6.0
Domestic demand growth	–8.5	–1.5	3.5	5.5
Inflation	2.6	–3.0	0.0	2.0
Current account balance (US$ bn)	0.8	2.6	2.2	1.2
Current account balance (% of GDP)	0.5	1.6	1.3	0.6
Indonesia				
Real GDP growth	–13.2	–0.5	2.5	6.0
Domestic demand growth	–17.2	–0.5	4.3	6.0
Inflation	60.0	22.0	4.0	5.0
Current account balance (US$ bn)	4.0	4.3	3.8	3.3
Current account balance (% of GDP)	4.6	3.2	2.5	2.0
Malaysia				
Real GDP growth	–7.5	4.5	5.5	6.5
Domestic demand growth	–25.2	3.0	7.5	7.5
Inflation	5.3	2.8	2.6	2.9
Current account balance (US$ bn)	9.4	11.0	8.5	7.2
Current account balance (% of GDP)	13.0	14.1	10.1	7.8
Philippines				
Real GDP growth	–0.5	3.2	4.5	4.3
Domestic demand growth	–7.5	2.4	6.0	5.7
Inflation	9.4	6.5	5.0	5.2
Current account balance (US$ bn)	1.3	2.0	–0.5	–1.5
Current account balance (% of GDP)	2.0	2.7	–0.6	–1.7
Thailand				
Real GDP growth	–10.0	3.8	5.0	7.0
Domestic demand growth	–26.2	4.6	6.3	8.0
Inflation	8.1	0.0	2.5	3.5
Current account balance (US$ bn)	14.2	11.5	9.5	7.6
Current account balance (% of GDP)	12.5	8.9	7.1	5.1

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

Source: Figures for 1998 are preliminary figures from national sources or OECD estimates. Figures for 1999-2001 are OECD estimates and projections.

plus. Foreign direct investment also fell during the first half of this year, by about 10 per cent. Nevertheless, the overall external payments position remains healthy, as indicated by the fact that foreign exchange reserves are about US$150 billion and have been rising since spring of 1999. Hence, pressures to devalue the currency should remain limited.

Further measures to boost domestic demand are being undertaken

The authorities have been facing the difficult task of reflating the slowing economy to counter near-term deflationary forces generated by structural reforms that are essential to the country's longer-term growth performance. Since last year the government has implemented a series of measures, such as large infrastructure spending and cuts in interest rates, to boost domestic demand and tackle deflation. However, consumer spending and non-state investment have not so far responded positively to these measures in any substantial way. Reform of state-owned enterprises has resulted in job and income insecurity, which has made consumers cautious in their spending. Consumption has been further restrained by slowing income growth in rural areas arising from falling agricultural prices and the increasing problems of township and village enterprises. In addition, falling prices and still-high real interest rates, in conjunction with excess capacity, have damped investment and employment growth in the previously dynamic non-state sector. As growth started to falter in the first half of 1999, the government announced plans to continue stimulus fiscal spending this year and next. A supplementary budget of 60 billion yuan (US$7.2 billion or 0.7 per cent of GDP) was passed in August, aimed mainly at the completion of infrastructure projects started since last year and at technological upgrading of key state-owned enterprises. To spur consumer spending, additional public outlays of 54 billion yuan have been allocated both to increase civil servants' salaries and pensions by up to 30 per cent and to raise welfare benefits paid to the unemployed and the urban poor by an average of 30 per cent. In addition, the government has introduced a 20 per cent tax on interest earnings on bank deposits. The government is also reducing or abolishing many of the administrative fees and unauthorised charges imposed by local governments on individuals and businesses that have acted to weaken domestic demand.

Growth is not likely to fall substantially further over the next two years

The fiscal stimulus package and rising exports are likely to keep economic growth in 1999 and 2000 from faltering much below the 7 per cent range. The main risks for growth beyond next year concern the balance between the restraining effects on domestic demand and employment engendered by the structural problems of the economy on the one hand, and the growth-stimulating effects of efficiency gains that should ultimately come from structural reforms and supporting macroeconomic policies on the other. The government continues to push for structural reforms: in particular, considerable progress is being made in cleaning up the banking sector where the non-performing loans of the four leading state banks are expected to be cut by half by next year. Much has also been achieved in reducing excess capacity in key industries, notably textiles. Given continued progress in these areas, the balance mentioned above should be sustainable for the next two years.

Russian Federation and Central and Eastern Europe

GDP and industrial output have rebounded rather quickly…

While Russian GDP and industrial output declined sharply in the second half of 1998, both have rebounded rather quickly and are now on track to exhibit positive growth in 1999. The recovery of industrial production has come primarily from export and import-substituting industries that have taken advantage of a weaker rouble.

… but the upward trend may not be sustainable

The sustainability of this upward trend is uncertain, however. Severely repressed energy and transportation prices may be playing a role in supporting the higher profitability of manufacturing. Indeed, prices of electricity, gas, and transportation at the end of June 1999 stood at only 10-20 per cent higher than their (pre-crisis) June 1998 levels. This can be compared with overall consumer- and producer-price inflation rates in June of 120 and 60 per cent, respectively (year-on-year). Domestic demand remains weak. In particular, fixed capital investment did not increase along with industrial output in the first half of the year, apparently running marginally below its corresponding level in the first half of 1998. Indirect evidence also shows that small business activity, which is difficult to measure statistically in Russia, may have been hit much harder by the crisis than industry as a whole, indicating possible greater weakness than revealed by official data.

Tight financial policies and a stronger current account have helped stabilisation

The maintenance of tight financial policies, combined with a strong turnaround in Russia's current account, have helped to improve the macroeconomic situation. Monthly inflation fell to under 3 per cent between March and September 1999, after averaging 11 per cent over the previous six months. Since March, the exchange rate has also remained remarkably stable in the range of 24-25 roubles per dollar. The current account has strengthened primarily on the basis of much lower imports, and higher export prices should also contribute in the second half of the year. The estimated trade surplus for the first half of 1999 was US$13 billion, compared with US$1 billion in the first half of 1998. In the context of a stronger current account and more stable expectations, the Central Bank was able to provide almost US$4 billion dollars in credit to the Finance Ministry for foreign debt payments in the first half of 1999 while avoiding a substantial depletion of its still low international reserves. These reserves stood at US$11 billion in early September, as compared with US$12 billion at the beginning of the year. The rouble has come under pressure at certain times, prompting Central Bank intervention to maintain exchange rate stability. The impact of recent money laundering scandals on future foreign aid to Russia is also a question.

Federal tax collection has also shown positive trends

For the first time in the transition period, the Russian government is on track to generate a primary federal budgetary surplus in 1999. Due primarily to the high burden of foreign debt service, exacerbated by a weaker rouble, the overall federal deficit was still 3.5 per cent of GDP in the first half of 1999, as compared with 5 per cent in the first half of 1998. Federal tax collection has improved, due in part to greater revenues from foreign economic activity, higher industrial profits, and a larger share of value-added tax proceeds accruing to the federal budget. Indeed, in the second quarter of 1999, (federal) tax collection has been boosted to over 11 per cent of GDP, up from 8.5 per cent in the second quarter of 1998. Also significant is that the federal government succeeded in collecting all taxes in cash.

Incomes remain well below 1998 levels and poverty has increased

Despite marginally positive trends in recent months, the population has suffered increased hardship since the crisis. Real incomes in June were an estimated 77 per cent of the level of June 1998, although they have risen slightly since the beginning of the year. Estimated poverty (the share of families below the official "subsistence level") increased from 28 per cent to 38 per cent of the population by the end of first quarter 1999. This can be associated with sharp falls in real wages and pensions and rising unemployment, which reached an estimated high of 14 per cent in February 1999, before falling back to 12 per cent in July.

The outlook is somewhat more optimistic but the overall situation remains complicated

While there are signs of recovery, the macroeconomic situation remains potentially rather fragile. Gross international reserves are still low. The dual objectives of the Central Bank in exchange rate policy, both defending the currency and accumulating sufficient foreign currency for debt service, present a potential challenge. The political uncertainty surrounding upcoming parliamentary and presidential elections has delayed the structural reform agenda and made negotiations for debt restructuring more difficult. Upward pressure on energy and transportation prices, together with the real appreciation of the currency that has accompanied the stabilisation of inflation expectations and strong improvement in the current account, could eventually halt the expansion in some manufacturing firms. The severe weakening of financial markets and commercial banking in the aftermath of the crisis also hinders progress in the development of institutions for bankruptcy, corporate governance, and financial intermediation.

Other transition countries are still suffering the effects of the Russian crisis

The transition countries in Central and Eastern Europe are still suffering the effects of the Russian crisis, either directly through trade, as is the case in the Baltics, or indirectly through the reduction in availability of foreign investment. In the Baltic countries, growth slowed considerably in 1999 and fiscal positions have been put under pressure by

Table III.2. Projections for Russia and the Slovak Republic[a]

	1998	1999	2000	2001
Russia				
Real GDP growth	–4.6	2.0	1.0	1.0
Inflation	84.4	40.0	30.0	20.0
Unemployment (ILO definition)	13.3	12.0	11.0	11.0
Fiscal balance (% of GDP)[b]	–6.0	–4.0	–4.0	–2.0
Current account (US$ bn)	2.4	18.0	15.0	12.0
Current account balance (% of GDP)	0.5	10.0	7.5	5.4
Slovak Republic				
Real GDP growth	4.5	2.0	2.0	3.0
Inflation	5.6	13.0	8.0	7.0
Unemployment (ILO definition)	12.0	15.0	15.0	14.0
Fiscal balance (% of GDP)[b]	–5.3	–4.0	–3.0	–2.0
Current account (US$ bn)	–2.0	–1.5	–1.0	–1.0
Current account balance (% of GDP)	–10.0	–6.0	–5.0	–4.0

a) The figures given for GDP are percentage changes from previous year. Inflation refers to end-of-year consumer price index.
b) For Russia, it includes federal, regional and local budgets. In the Slovak Republic, it includes central and local governments and public funds.
Source: Figures for 1998 are preliminary figures from national sources or OECD estimates. Figures for 1999-2001 are OECD estimates and projections.

revenue shortfalls and increased social expenditure. Other countries were also affected by increased risk premia and financial constraints associated with the crisis. This is the case for Romania, which remains particularly vulnerable.

In the Slovak Republic the pick-up of exports is supporting growth

In the Slovak Republic, the government has sought to reverse last years' negative macroeconomic trends marked by the accumulation of significant current account and fiscal deficits. Following the implementation of a stabilisation programme, the economy slowed in the first quarter of 1999 (year-on-year basis), but since then GDP growth has picked up again, driven by exports which from January to August increased by roughly 10 per cent compared with the same period last year (for exports to the EU markets the increase was above 20 per cent). Inflation has also increased, though this largely reflected an adjustment of regulated prices. As with other small open economies in transition, increasing import demand from Western Europe, notably Germany, can provide a significant support to growth in the Slovak Republic. However, even if this window of growth stays open over 2000-01, it is clear that only steady progress in the area of structural reform can establish the conditions for a sustainable growth path. A critical indicator in this regard would be that the recent positive moves on much delayed bank privatisation and enterprise reform are carried forward.

South America

Market sentiment towards the region has deteriorated

Political uncertainties in Venezuela and Colombia, Ecuador's default on Brady bonds, trade tensions within Mercosur induced by Argentina's recession, and poor economic performance in most countries have all contributed to a significant deterioration of market sentiment towards the region. Higher US interest rates and concerns over future rises have further raised the level of unease in financial markets. Expensive credit and receding capital inflows have exacerbated cyclical slowdowns in many countries so that real GDP in the region will decline in 1999 – for the first time in fifteen years – by more than 1 per cent. With the exception of Brazil, where the slowdown is mild and a timid recovery might already be taking place, most countries are going through severe recessions (Argentina, Chile, Colombia, Venezuela, Ecuador), with little sign of recovery at this point.

Some moderate growth is expected in 2000 but downside risks are large

If recovery consolidates in Brazil, political uncertainties in Venezuela and Colombia dissipate, market confidence improves, and monetary conditions ease in Argentina, GDP might start growing moderately in 2000 and gather speed by 2001. However, downside risks in the region are significant. Recovery requires a quick improvement of market sentiment to allow a rapid decline of interest-rate differentials, such that rates fall despite the expected monetary tightening in the United States and Europe. Swift progress in fiscal reform to ensure sustainability of public finances is a prerequisite for improving market sentiment but such reform risks facing increasing domestic hostility. Important risks also stem from a lack of recovery of non-oil commodity prices. A further deterioration of the terms of trade will increase the external imbalances which remain large despite depressed domestic conditions, thereby threatening to make the situation unsustainable, particularly in the current context of low capital flows.

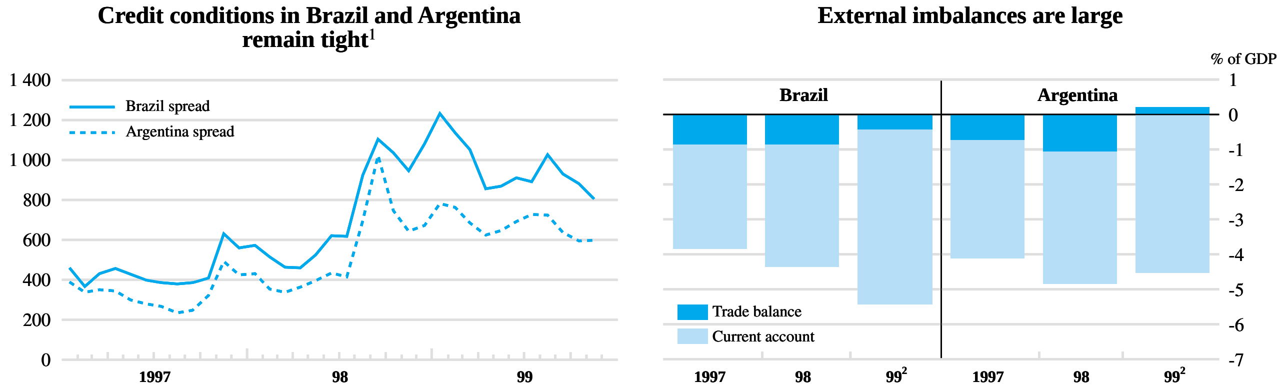
In Brazil, there is some sign of a fragile recovery

Brazil experienced positive GDP growth on a quarterly basis for the first two quarters of 1999, based on a record grain harvest in the first quarter and significant import substitution. However, declining industrial production and slow export volume growth point to a fragile recovery, which will also be held back by still high real interest rates. Inflation, on the other hand, has been resistant to devaluation: the twelve-month rise in consumer prices was 7.1 per cent in September while the real had depreciated by nearly 39 per cent over the same period. The trade deficit has declined, mainly due to plummeting imports, while export performance has been poor. Export prices continued to fall sharply during the first half of the year and the response of export volumes to gains in competitiveness has been sluggish. The improvement in the trade balance is narrowing the current account deficit in dollar terms, but the deficit still remains very large in terms of GDP.

But the slow pace of reform is delaying interest rates declines

The pace of approval of fiscal reform in Congress slowed down considerably over the summer. Fiscal targets contained in the stability programme were being met, but mainly through temporary measures, while planned initiatives to rebalance public finances were delayed by social protests and political pressures. Key proposals for reform of the social security system were abandoned and progress in the reform of the tax system has been slow. Increasing concerns over the government's ability to push key reforms through Congress, uncertainty over US interest rate rises and political instability in neighbouring countries have depressed market sentiment and resulted in renewed currency weakness during the second half of 1999. On the other hand, the adoption of a formal inflation targeting framework has helped to contain inflationary pressures and bring down official interest rates (they declined from a peak of 45 per cent in March to 19 per cent by mid-November. However, interest rate spreads are still high and currency weakness is constraining future cuts, putting pressure on the end-year fiscal targets, the management of public debt, and the sustained recovery of economic activity (see figure).

Figure III.1. **Credit conditions and external balances in Brazil and Argentina**



1. Spreads are basis points difference between yields on long-term public bonds and comparable US Treasury bonds.
2. OECD estimates.
Sources: Bloomberg database, Banco Central do Brasil, Banco Central de la Republica Argentina and OECD.

There might be a recovery in 2000, but downside risks are considerable

Restrained demand, due to high real interest rates and fiscal tightening, and sluggish export growth are likely to have made for a small fall in real GDP for 1999 as a whole. If market sentiment towards Latin American countries improves and Brazil's competitiveness gains are preserved, strengthening exports, declining interest rates, and a pay-off from structural reforms undertaken over the past year, will underpin a return to positive growth next year and provide impetus for rising expansion in 2001. However, failure to pass the fiscal reforms necessary to make public finances sustainable, an aggravation of trade conflicts within Mercosur, a negative reaction of financial markets to rising US interest rates, or a prolonged recession in neighbouring South American countries are all sources of considerable downside risk.

Argentina is going through a severe recession

Argentina's economy entered a severe recession at the end of 1998. Industrial production fell sharply through the first half of the year, unemployment rose from 12½ per cent in October 1998 to 14½ per cent while consumer and producer prices continue to decline. Brazil's large devaluation and the strength of the US dollar, to which the currency is tied by the Convertibility System, have reduced Argentina's export competitiveness. This and the worsening terms of trade have contributed negatively to export revenues. Nevertheless there has been a small improvement in the current account due to a sharp drop in import demand, though the deficit remains very large.

Market sentiment is deteriorating and policy alternatives are limited

Negative market sentiment towards Latin American countries, the high vulnerability of Argentina to setbacks in market sentiment due to sizeable debt refinancing needs, and uncertainty regarding the outcome of October 1999 presidential elections, all contributed to increased market risk premia and higher domestic interest rates. High real interest rates are, in turn, depressing domestic demand and pushing the economy into a vicious circle. Depressed demand is moving the economy into a deflationary process, leading to rising real rates that are further depressing activity. The fall in demand also negatively affects fiscal performance and increases financing needs. All these developments have further aggravated financial markets' concerns over the sustainability of the currency board system, as reflected in a high country risk premium. Monetary policy is constrained by such a system while the large stock of public debt and mounting debt servicing costs leave little room for expansionary

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

	1998	1999	2000	2001
Argentina[b]				
Real GDP growth	3.9	–4.0	2.5	3.5
Inflation	0.0	–0.5	1.2	1.5
Fiscal balance (% of GDP)[c]	–1.5	–2.0	–2.0	–1.5
Current account balance (US$ bn)	–14.7	–12.3	–13.7	–13.8
Current account balance (% of GDP)	–4.9	–4.3	–4.5	–4.5
Brazil				
Real GDP growth	–0.1	–1.0	3.0	3.8
Inflation	1.8	8.0	5.0	5.5
Fiscal balance (% of GDP)	–8.0	–10.0	–6.0	–4.0
Primary fiscal balance (% of GDP)	0.0	3.0	3.5	3.5
Current account balance (US$ bn)	–33.6	–28.0	–26.0	–24.5
Current account balance (% of GDP)	–4.3	–5.3	–4.8	–4.0

a) The figures given for GDP and consumer prices are percentage changes from previous year. Inflation refers to end-of-year consumer price index. The Brazilian inflation figure refers to the *Indice de Preços ao Consumidor Amplo* (IPCA).
b) The recent rebasing of National Accounts produced a considerable downward revision in nominal GDP, which in turn translates into larger fiscal and current balances in GDP terms.
c) Federal government only.
Source: Figures for 1998 are preliminary figures from national sources or OECD estimates. Figures for 1999-2001 are OECD estimates and projections.

fiscal policy. Breaking this vicious circle calls for political action to reassure the markets of the sustainability of public finances. For that, while the scope for fiscal tightening in the short-run is limited by the severity of the recession, a fiscal reform is needed that ensures a gradual reduction of the public debt stock in the medium-term. Structural reforms to increase labour market flexibility and improve competition in product markets are also needed to improve competitiveness and reduce concerns over the currency board.

Output growth may resume next year, under some conditions, but risks are large

Real output will drop in 1999 by 4 per cent and the economy might start growing at the beginning of next year and accelerate in 2001 should there be an improvement in market sentiment that helps reduce interest rates by the end of this year. For this to occur, the new government has to tackle the most pressing structural reforms. Pressures for increasing trade protectionism should be resisted and Mercosur relations need to normalise. Such pressures would be mitigated if the terms of trade improve, and the current account deficit thereby comes down. Finally, for recovery to occur, it is essential that no further external shocks come to unsettle international financial markets. However, there is considerable risk that one or more of these conditions will fail to be realised, in which case the economy could continue to be trapped in a vicious circle and suffer a longer and deeper recession.

IV. THE SIZE AND ROLE OF AUTOMATIC FISCAL STABILISERS

Introduction

Automatic fiscal stabilisers may smooth the business cycle…

Many components of government budgets are affected by the macroeconomic situation in ways that operate to smooth the business cycle, *i.e.* they act as "automatic stabilisers". For example, in a recession fewer taxes are collected, which operates to support private incomes and damps the adverse movements in aggregate demand. Conversely, during a boom more taxes are collected, counteracting the expansion in aggregate demand. This stabilising property is evidently stronger if the tax system is more progressive. Another automatic fiscal stabiliser is the unemployment insurance system: in a downswing the growing payment of unemployment benefits supports demand and *vice versa* in an upswing.

… and may be reinforced by other stabilising mechanisms…

The impact of automatic fiscal stabilisers may be reinforced by other mechanisms that operate to smooth the business cycle. For example, the behaviour of imports is sensitive to short-term fluctuations in aggregate demand and therefore help to stabilise variations in economic activity. Similarly, "permanent income" theories of consumption behaviour suggest that consumer spending responds only slowly to income fluctuations, which would tend to make private saving behaviour stabilising.[1] Reactions in financial markets and of monetary conditions to cyclical developments should also reinforce the above stabilisation mechanisms.[2] In particular, the exchange rate, and hence international price competitiveness, may respond in a way that provides incentives for further adjustment in international trade flows. Finally, cyclical variations in labour productivity prevent sharp swings in the demand for labour and thus help to stabilise unemployment.

… but also entail risks

Although by damping the business cycle automatic fiscal stabilisers may help to reduce the long-lasting economic damage associated with large underutilised resources, they also entail risks for the economy. One relates to the importance of allowing stabilisers to operate symmetrically over the business cycle. If governments allow automatic fiscal stabilisers to work fully in a downswing but fail to resist the temptation to spend cyclical revenue increases during an upswing, the stabilisers may lead to a bias toward weak underlying (or "structural") budget positions. The result may be rises in public indebtedness during periods of cyclical weakness that are not subsequently reversed when activity recovers. This, in turn, could lead to higher interest rates as well as requiring higher taxes (or spending reductions) to finance debt servicing. Unstable "debt dynamics" working to increase debt-GDP ratios over time, due to real interest rates that exceed economic growth rates, may aggravate this problem. A second

1. On the other hand, saving behaviour can be destabilising, when a slowing economy leads to higher saving to build up reserves as a precaution against weaker earnings prospects and job security. Capital gains and losses on real and financial assets may also lead to destabilising movements in private saving.
2. Estimates for the United States suggest that stabilisation through financial markets' reactions offset as much as 60 per cent of the cyclical variations in output, see Asdrubali *et al.* (1996).

risk arises from the fact that automatic fiscal stabilisers respond to structural changes in the economic situation as well as to cyclical developments. Consequently, if the economy's growth potential declines, and this is not appreciated by the government in a timely fashion, the operation of automatic fiscal stabilisers is likely to undermine public finance positions that might otherwise have been sound. Finally, automatic fiscal stabilisation results from the operation of tax and benefit systems that primarily serve other objectives such as income security and redistribution. These systems may delay necessary adjustment in the wake of a recession, thus contributing to poor economic performance.

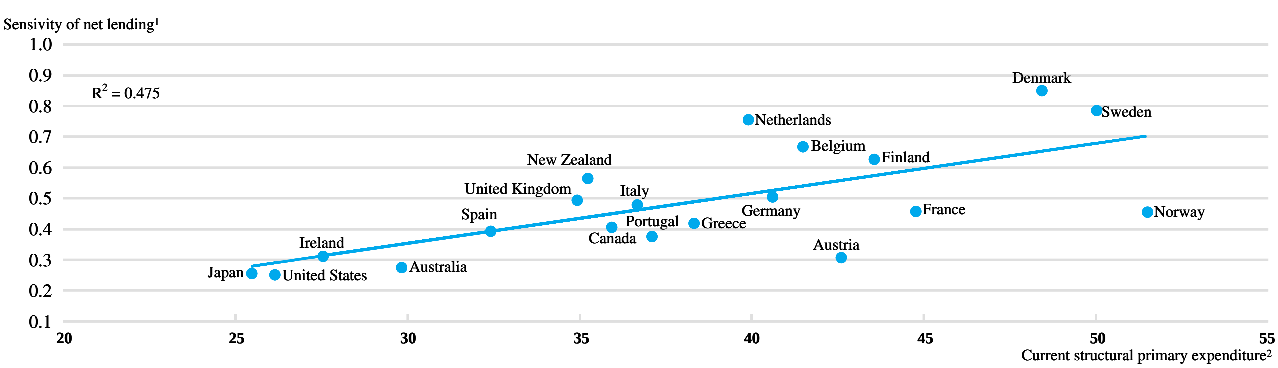
Against this backdrop this chapter assesses the size and role of automatic fiscal stabilisers in the 1990s and beyond. The next section below provides estimates of the size of automatic fiscal stabilisers as measured by the cyclical component of the budget balance over the past decade. The following sections focus on the impact of automatic fiscal stabilisers on the business cycle and on longer-run economic performance.

How large are automatic fiscal stabilisers?

The size of automatic stabilisers depends on the budget's sensitivity to the cycle…

The counter-cyclical demand impulse stemming from automatic fiscal stabilisers depends on the sensitivity of government net lending, as a share of GDP, to cyclical variations in output. The appendix describes the analytical framework that has been developed by the OECD to measure this sensitivity, as well as the key parameters and estimates of this sensitivity for most OECD countries. The most important factor determining the cyclical sensitivity of the fiscal position is the size of the general government sector. For the most part, the larger the share of government expenditure in domestic output, the greater is the sensitivity of the fiscal position to fluctuations in economic activity (Figure IV.1). The tax structure also has a significant impact on the size of automatic stabilisers: the higher the taxation of cyclically sensitive tax bases, the more the tax take will vary with the business cycle and hence the greater will be the cyclical sensitivity of the fiscal position. The progressivity of

Figure IV.1. **Cyclical sensivity of the fiscal position and government size, 1999**



1. Change in net lending as a percentage of GDP for a 1 percentage point change in the output gap.
2. Per cent of potential GDP.

taxes, the generosity of unemployment benefits and the cyclical sensitivity of various tax bases and unemployment, finally, are other significant factors in determining the cyclical sensitivity of the fiscal position.

… and on the size of cyclical fluctuations

The size of the automatic fiscal stabilisers, as measured by the cyclical component of the fiscal balance as a share of GDP, varies over time with the cyclical position of the economy, *i.e.* the output gap. Accordingly, the cyclical component is estimated to have peaked in the late 1980s boom at 0.6, 0.4 and 1.2 per cent of GDP in the United States, Japan and the euro area, respectively (Table IV.1). Conversely, the early 1990s recession prompted the cyclical component of these economies' fiscal balances to turn negative, and hence stimulatory, by roughly the same amounts. After the early 1990s recession, cyclical components diverged across the OECD area, reflecting a de-synchronisation of business cycles. In the United States the cyclical component has now returned to its late 1980s peak, whereas it has remained negative in the euro area and Japan throughout the 1990s. Not surprisingly, economies where activity has been volatile and government sectors are large display the largest cyclical fluctuations in budget balances. Finland and Sweden are the most striking examples in this regard, although at least part of the volatility registered in these countries reflects a series of one-off, rather than cyclical, shocks.

Table IV.1. **Cyclical component of general government balance**[a]

Surplus (+) or deficit (–) as a per cent of GDP

	Cyclical peak			Subsequent trough			Current situation		
	Year	Output gap	Cyclical component	Year	Output gap	Cyclical component	Year	Output gap	Cyclical component
United States	1989	2.0	0.6	1991	–1.8	–0.6	1999	2.5	0.6
Japan	1991	3.1	0.4	1995	–2.3	–0.5	1999	–3.5	–0.9
Germany	1990	2.8	1.3	1993	–1.0	–0.5	1999	–1.7	–0.9
France	1990	1.2	0.5	1993	–2.3	–1.1	1999	–0.7	–0.3
Italy	1989	1.9	0.9	1993	–3.2	–1.7	1999	–3.2	–1.5
United Kingdom	1988	5.6	2.8	1992	–2.8	–1.6	1999	0.7	0.4
Canada	1988	4.0	1.7	1992	–4.6	–2.3	1999	0.1	0.0
Australia	1989	2.1	0.6	1992	–2.8	–0.9	1999	1.2	0.3
Austria	1990	2.7	0.8	1993	–1.5	–0.5	1999	0.3	0.1
Belgium	1990	2.0	1.3	1993	–2.9	–2.1	1999	–1.2	–0.8
Denmark	1986	3.0	2.6	1993	–4.7	–4.1	1999	0.1	0.1
Finland	1989	5.9	3.4	1993	–9.2	–7.2	1999	0.4	0.3
Greece	1989	2.9	1.3	1994	–2.7	–1.2	1999	–0.6	–0.2
Ireland	1990	4.6	1.8	1994	–4.0	–1.6	1999	5.0	1.6
Netherlands	1990	1.7	1.5	1993	–1.1	–1.0	1999	1.4	1.1
New Zealand	1986	1.9	1.3	1992	–5.2	–3.2	1999	–1.6	–0.9
Norway (mainland)	1986	2.7	1.6	1990	–4.6	–3.1	1999	1.4	0.6
Portugal	1990	3.4	1.2	1994	–1.8	–0.7	1999	–0.1	0.0
Spain	1990	4.7	1.9	1996	–2.0	–0.8	1999	0.2	0.1
Sweden	1989	4.4	3.4	1993	–5.9	–5.4	1999	–0.2	–0.1
Euro area average	1990	2.4	1.2	1993	–1.9	–1.0	1999	–1.1	–0.5
OECD average[b]	1989	1.8	0.9	1993	–1.8	–0.5	1999	0.1	0.0

a) The cyclical component is calculated by subtracting the structural component, as a per cent of potential GDP, from the actual balance, as a per cent of GDP. The structural component in turn is calculated from the cyclically-adjusted tax revenues and government expenditures, based on the ratio of potential output to actual output and assumed built-in elasticities (see Appendix).

b) Excluding Czech Republic, Hungary, Iceland, Korea, Mexico, Poland, Switzerland and Turkey.

Source: OECD.

What impact do automatic fiscal stabilisers have on the economy?

Automatic fiscal stabilisers have generally reduced cyclical volatility…

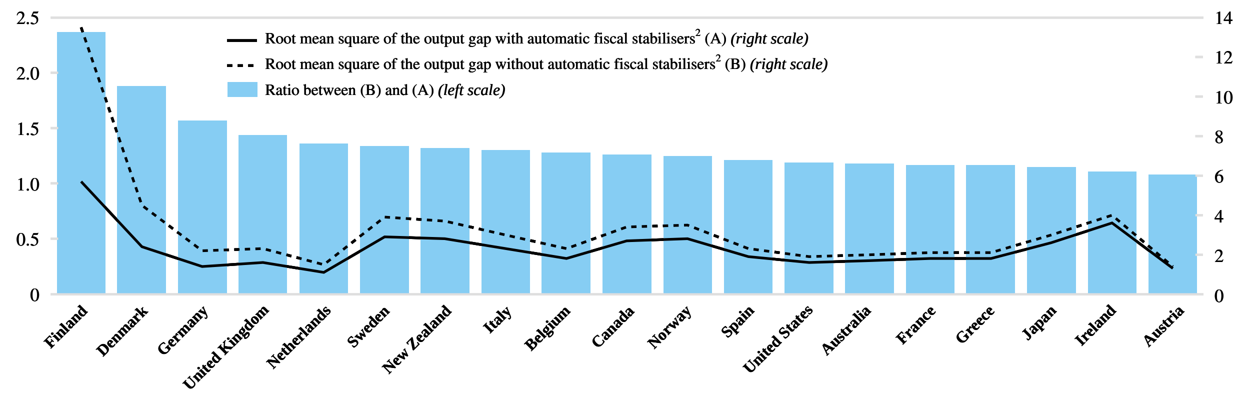
A change in cyclically sensitive government spending (mainly unemployment benefits) or taxes affects spending in the economy mainly through its impact on disposable income, and hence household consumption. Simulations with the OECD's INTERLINK model, in which fiscal stabilisers have been "switched off" by setting tax and public spending flows to their structural levels, suggest that over the 1990s the automatic fiscal stabilisers have worked to damp the cyclical fluctuations in economic activity by roughly a quarter on average (Figure IV.2). However, there is considerable cross-country variation, in part reflecting the relative openness of economies and differences in monetary policy responsiveness.[3] In particular, Finland and Denmark provide clear examples where automatic fiscal stabilisers are essential: without them, output volatility in the 1990s would have been twice as high.[4]

… but in some countries unsustainable fiscal positions forced governments to over-ride automatic stabilisers

There are important qualifications to these results. First, where fiscal positions threatened to become unsustainable, even if this was due to cyclical weakness, business and financial market confidence deteriorated in a number of countries. Therefore risk premia in real long-term interest rates rose,[5] which had a negative

Figure IV.2. **Impact of automatic fiscal stabilisers**[1]

1991-2000



1. Unchanged nominal exchange rates for all countries and a Taylor rule for interest rates for all countries except France, Austria, Belgium, Denmark, the Netherlands and Spain, where interest rates were kept unchanged.

2. Defined as $\sqrt{\frac{1}{9}\sum_{t=1991}^{2000} gap_t^2}$

where $gap_t = (y - y^*)/y^*$, y = GDP and y* = potential GDP.

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3. Monetary policy is assumed to have responded to economic developments in much the same way as it has usually behaved historically, *i.e.* leaning against the business cycle to some extent. In practical terms this has been approximated by a "Taylor rule", which implies that interest rates are raised if either inflation or the output gap rise above their baseline levels, in all countries except for those (other than Germany) that participated in the European Exchange Rate Mechanism throughout the 1990s until the start of monetary union and were least affected by the turbulence of the early and mid-1990s (*i.e.* France, Austria, Belgium, Denmark, the Netherlands and Spain). For the latter group of countries, nominal interest rates were kept constant. Nominal exchange rates were held fixed and the simulations run on a country-by-country basis, which means that international linkages were switched off.
4. The ranking of countries with regard to the stabilising impact of automatic fiscal stabilisers reported in Figure IV.3 is broadly in line with other studies, but some studies report somewhat higher levels of stabilisation for the European countries; see for example Buti and Sapir (1998).
5. Orr *et al.* (1995).

influence on economic activity. When this occurs, the negative effect on private spending operates to diminish or even to reverse the supportive effects of automatic fiscal stabilisers. Such confidence effects are not incorporated in INTERLINK and, therefore, not reflected in the results reported in Figure IV.2. When financial markets respond to rising budget deficits this way, there is little alternative to correcting the fiscal position even if this means overriding the automatic stabilisers. Several cases have been reported where such policy responses helped to reverse increases in long-term interest rates and contributed to a brisk recovery, notably in Finland, Denmark, Ireland and Sweden.[6]

Second, the model simulations may also understate the extent of "non-Keynesian" responses to fiscal automatic stimulus, by which is meant an increase in household saving rates in reaction to deteriorating fiscal balances. If this occurs, the demand impetus stemming from the fiscal automatic stabilisers may be smaller than expected or even negative. Such "perverse" savings reactions are all the more likely if public debt is already high, since the private sector may fear tax increases further down the road to offset a debt explosion.[7] In Europe, for instance, the intense public debates prior to the ratification of the Maastricht Treaty have made the public well aware of fiscal issues, and may thus have prompted such forward-looking saving behaviour.[8] This could happen again if, for example, the public deficit approaches the 3 per cent of GDP benchmark in a future recession. Unfortunately, while forward-looking saving behaviour invalidates the impact of fiscal automatic stabilisers on economic activity, the adverse impact on government borrowing remains.

The simulations described above treat discretionary fiscal policy adjustments as if they were not influenced either by the operation of automatic stabilisers or by the situation in the economy. However, the overall degree of fiscal stabilisation reflects both the operation of the stabilisers themselves and their influence on, and interaction with, discretionary policies. Thus, if automatic stabilisers are overridden by discretionary adjustments, their impact will be neutralised. On the other hand, if they are reinforced by discretionary adjustments, the overall fiscal impulse will be stronger. Table IV.2 reports both the behaviour of fiscal policy and the impact of automatic stabilisers on budget balances over the past decade. It suggests that in the early 1990s recession nine countries reinforced the automatic fiscal stabilisers through an easy stance of fiscal policy (United States, Japan, France, United Kingdom, Canada, Australia, Austria, Finland and Sweden) while other countries offset the working of automatic fiscal stabilisers by adopting a tight fiscal stance. As a result, on average the fiscal stance in the OECD area, as measured by the change in the structural primary balance, was neutral in the recession. With the exceptions of Japan and Norway, all countries reverted to or maintained a tight fiscal stance during the remainder of the decade.

In the United States and Japan discretionary action reinforced the automatic fiscal stabilisers during the 1990s…

A scenario simulated with INTERLINK in which a neutral fiscal stance is assumed for the 1990s suggests that the use of discretionary fiscal policy on average slashed the fluctuations in economic activity during the decade by half (Table IV.3). Interestingly, the United States obtained this result while achieving a better fiscal position than it otherwise would have realised. Discretionary fiscal policy thus acted as a powerful complement to automatic fiscal stabilisation; it contributed to both a virtuous circle of sustainable economic growth and steadily improving public finances. In Japan the variability of economic activity has also been significantly lim-

6. See Giavazzi and Pagano (1990 and 1995).
7. See for example Sutherland (1997).
8. See Martinot (1999).

Table IV.2. **Automatic fiscal stabilisers and the fiscal stance**

Percentage of (potential) GDP

	Change in[a]					
	Overall balance		Cyclical component		Structural primary balance	
	Late-1980s peak to early-1990s trough	Early-1990s trough to 1999	Late-1980s peak to early-1990s trough	Early-1990s trough to 1999	Late-1980s peak to early-1990s trough	Early-1990s trough to 1999
United States	–1.8	7.3	–1.1	1.2	–1.1	4.6
Japan	–6.5	–4.0	–0.9	–0.4	–5.5	–2.9
Germany	–1.2	1.6	–1.8	–0.4	1.1	2.5
France	–4.4	3.8	–1.6	0.8	–2.2	3.1
Italy	0.4	7.1	–2.6	0.2	5.8	2.4
United Kingdom	–7.1	7.2	–4.4	2.0	–3.6	6.1
Canada	–4.9	9.6	–4.0	2.4	–0.5	7.2
Australia	–5.9	6.7	–1.5	1.3	–1.8	4.5
Austria	–1.7	2.0	–1.3	0.6	–0.1	1.4
Belgium	–1.8	6.2	–3.4	1.3	1.4	2.2
Denmark	–6.2	5.8	–6.7	4.2	–1.4	0.3
Finland	–13.2	10.2	–10.5	7.4	–1.7	4.5
Greece	4.4	8.5	–2.5	1.0	12.8	2.5
Ireland	0.8	5.4	–3.4	3.3	2.2	–0.3
Netherlands	2.1	3.0	–2.5	2.1	4.8	0.5
New Zealand	3.3	3.2	–4.4	2.2	5.9	–1.9
Norway (mainland)	–6.2	2.4	–4.7	3.7	–3.0	0.9
Portugal	–0.9	4.2	–1.9	0.6	–3.1	0.7
Spain	–0.9	3.6	–2.8	0.9	3.5	1.5
Sweden	–17.0	14.1	–8.8	5.3	–7.8	10.9
Euro area average	–1.4	3.9	–2.2	0.5	1.4	2.7
OECD average[b]	–3.0	3.6	–1.4	0.5	0.0	1.4

a) The cyclical component and the structural primary balance do not add up to the overall balance, the net interest payments being the residual.
b) Excluding Czech Republic, Hungary, Iceland, Korea, Mexico, Poland, Switzerland and Turkey.
Source: OECD.

ited as a result of discretionary fiscal policy. However, since both automatic and discretionary fiscal policy have been mostly stimulatory over the decade they caused a dramatic deterioration of the fiscal position and the public debt-to-GDP ratio.

… but this option was not open to most EU economies

The simulations suggest that in the European Union (EU) the tight stance of discretionary fiscal policy contributed to the sluggishness of the recovery from the 1993 recession. However, there was no other option in many EU countries given the poor state of public finances at the time of the Maastricht Treaty and beyond. Had fiscal automatic stabilisers been allowed to work without any discretionary adjustments in the euro area, the simulations suggest that 1999 budget deficits would on average be six times as high as their current levels. This would undoubtedly have boosted long-term interest rates, perhaps significantly, and would have extended the episode of exchange rate turbulence that marked the early and mid-1990s. Obviously this would have made the establishment of monetary union extremely difficult.[9]

9. Several European countries that eased fiscal policy during the recession and tightened later (France, the United Kingdom and Sweden) had some success in terms of stabilising the economy, but at the cost of fiscal positions that were still weaker in 1999 and substantially higher debt ratios.

Table IV.3. **Volatility of economic activity and public finances with and without discretionary fiscal policy**[a]

	Fiscal stance in the early-1990s downturn[b]	Root mean square of output gap 1991-1999		Net lending, per cent of GDP 1999		Gross debt, per cent of GDP 1999	
		Actual	Neutral discretionary fiscal policy	Actual	Neutral discretionary fiscal policy	Actual	Neutral discretionary fiscal policy
United States	easy	1.4	3.8	1.0	–5.0	62.4	76.2
Japan[c]	easy	2.3	4.6	–6.0	16.3	97.3	22.9
Germany	tight	1.3	1.6	–1.6	–6.5	62.6	72.7
France	easy	1.8	1.7	–2.2	–0.6	65.2	48.9
Italy	tight	2.1	0.4	–2.3	–28.0	119.7	187.5
United Kingdom	easy	1.5	1.9	0.7	1.6	54.0	31.5
Canada	easy	2.7	1.9	1.6	–37.8	86.9	192.7
Australia	easy	1.7	3.4	0.6	6.2	30.3	0.0
Austria	easy	1.8	3.2	–2.1	–6.8	63.3	80.4
Belgium	tight	1.8	1.1	–1.0	–4.5	114.1	124.5
Finland	easy	5.7	8.6	–3.0	2.7	43.6	26.2
Greece	tight	1.8	4.4	–1.6	–13.4	108.8	152.0
Ireland	tight	3.1	3.8	3.4	0.5	43.9	53.2
Netherlands	tight	1.0	2.5	–0.6	–6.5	62.9	86.2
New Zealand	tight	2.8	3.2	0.0	0.6	..	..
Spain	tight	1.9	3.0	–1.4	–7.9	70.3	86.6
Sweden	easy	2.9	4.0	2.3	2.5	68.3	42.2
Euro area average[d]	tight	1.4	0.6	–1.6	–9.6	74.8	95.3
OECD average[e]	neutral	0.8	1.6	–1.0	–3.5	72.7	73.6

a) Neutral discretionary fiscal policy means holding structural tax and primary spending at their 1990 levels (as a proportion of potential GDP). The monetary policy assumption is an unchanged nominal exchange rate for all countries, and a Taylor rule for interest rates for all countries except France, Austria, Belgium, the Netherlands and Spain (their nominal interest rates were kept unchanged). For technical reasons, results for Denmark, Norway and Portugal are not available.
b) Based on the change in the structural primary balance as a percent of potential GDP between the late-1980s cyclical peak and the early-1990s cyclical trough (an increase in the balance points to a tight fiscal stance and *vice versa*, see Table IV.2).
c) Simulation ends in 1998. For technical reasons results for 1999 are not available.
d) Excluding Portugal.
e) Excluding Czech Republic, Denmark, Hungary, Iceland, Korea, Mexico, Norway, Poland, Portugal, Switzerland and Turkey.
Source: OECD.

Do automatic fiscal stabilisers have an impact on longer-term performance?

Automatic fiscal stabilisers may raise the economy's potential…

There are a number of ways in which fiscal stabilisers may impinge on longer-term economic performance. On the positive side, achievement of longer-term objectives of sustainable economic growth, full employment and price stability, requires short-run macroeconomic stabilisation policy to ensure the maintenance of an appropriate level of aggregate demand. Recurrent large under-utilisation of resources can have damaging longer-term effects if it leads to under-investment in, and failure to maintain, physical and, more importantly, human capital. While periods of overheating may have some similar, offsetting effects in a favourable direction, it is likely that sharp fluctuations around the trend on balance have negative implications for the economy's longer-term potential.[10]

10. Elmeskov and Mac Farlan (1993).

… and avoid costly frequent changes in spending or tax rates

Moreover, the theoretical literature strongly suggests that it is less costly to keep tax rates stable over the cycle, and hence allow automatic fiscal stabilisers to operate, than to adjust tax rates from one year to another. Such a policy may, in any event, prove to be ineffective if activity keeps moving as attempts are made to stabilise the fiscal position. Similar arguments will apply to adjusting spending parameters such as unemployment benefit rates. Automatic stabilisation can also be justified on the ground that the government faces fewer liquidity constraints and a lower risk premium than the private sector and therefore is likely to be more efficient at consumption smoothing through cyclical downturns than households are.

In order to avoid costly debt accumulation…

There is also a negative side, or at least there are risks, involved in using automatic fiscal stabilisers. First, unless care is taken to ensure that automatic stabilisers operate symmetrically over the business cycle, the result may be permanently higher government indebtedness and associated servicing cost. Most importantly, this involves ensuring that the stabilisers are allowed to work in booms as well as during slowdowns so that they do not bias structural budget positions toward deficits. However, permanent effects can also arise for either of two further reasons: downswings and upswings can differ in terms of their intensity; or they can differ in terms of their duration.[11] The risk of unsustainable debt accumulation is heightened by adverse debt dynamics that may emerge when real interest rates exceed growth rates. As a result, debt expands at a faster rate than GDP, hence the debt-to-GDP ratio rises unless there is a sufficiently large primary surplus. The long-run damage to economic growth that results from sustaining high public debt levels in the wake of a recession without subsequently reducing them may be substantial, because taxes, and the distortions they create, as well as real long-term interest rates would have to be higher.

… automatic fiscal stabilisers should be employed symmetrically over the cycle

During the 1990s, the cumulative mechanical impact of automatic stabilisers on public debt formation has been broadly neutral (Figure IV.3).[12] There are, however, a few exceptions to this general finding. In particular, in Sweden and Finland the accumulation of adverse cyclical developments explains a good deal of the sharp rise in public debt in this period. Moreover, adverse debt dynamics have been very prominent in most OECD countries during the 1990s, especially in countries that had high debt levels from the outset such as Italy, Canada and Belgium.[13] Such poor starting positions stemmed from the earlier failure to use fiscal automatic stabilisers symmetrically during previous business cycles[14] – *i.e.* the tendency to let automatic stabilis-

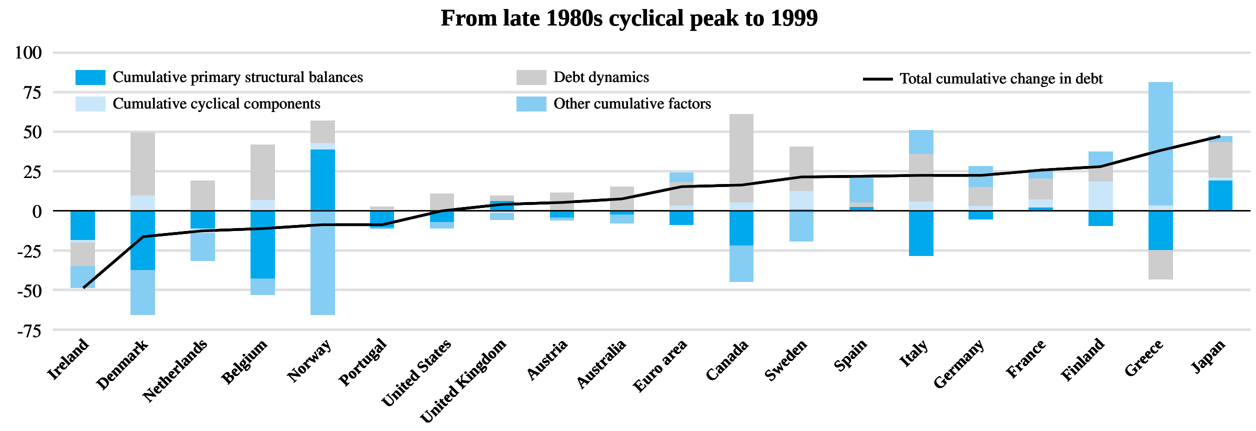
11. A second order effect can also arise as a consequence of interest rate variations over the cycle.
12. Figure IV.3 decomposes the accumulation of gross public debt relative to GDP into relevant contributing factors according to the following identity (where *d* represents the ratio of gross debt to GDP):

$$\Delta d = -sb - cc + \frac{r-g}{1+g+\pi} d_{t-1} + Other$$

The first term on the right-hand side represents the impact of the structural primary balance (*i.e.* receipts less expenditures excluding net interest payments) as a ratio to GDP (*sb*) on debt formation and the second term that of the cyclical component as a ratio to GDP (*cc*). The third term represents the impact of endogenous debt dynamics (r = real interest rate, g = real GDP growth rate, π = inflation rate). It shows that existing debt contributes to further increases in the debt/GDP ratio if the real rate of interest exceeds the growth rate of the economy. The last term marked "*Other*" is a residual, which includes the impact of revaluation of existing debt (*e.g.* due to exchange rate movements), the net purchase of financial assets by the government and interest receipts. This analysis focuses on gross debt rather than on net debt, since the latter is more uncertain due to difficulties in assessing the true value of governments' financial assets. Moreover, in most countries gross debt has greater relevance for financial markets than net debt.
13. In contrast, in Greece, also a high-debt country, debt dynamics have worked favourably due to high inflation, but (foreign-currency denominated) debt nevertheless soared in the wake of the depreciation of the exchange rate.
14. Leibfritz *et al.* (1994).

Figure IV.3. **Breakdown of cumulated gross public debt**

As a percentage of actual GDP



ers work fully in a recession while overriding them by discretionary fiscal expansion in upswings. Most countries have succeeded in offsetting the resulting adverse debt dynamics in the 1990s by strong fiscal consolidation – with the notable exception of Japan where massive fiscal easing contributed to the ballooning of public debt. In the future governments should guard against the asymmetric use of automatic fiscal stabilisers, although this obviously does not preclude all discretionary action, particularly for structural reasons. If, for example, the tax burden is heavy and found to exert a negative impact on economic growth, governments may aim to cut taxes even during an economic upswing. However, such tax cuts need to be matched with simultaneous reductions in expenditure in order to preserve fiscal balance.

… offset if a shock is structural rather than cyclical…

Second, there is a risk of governments treating changes in budget positions that have structural roots as if they were the result of automatic stabilisers, or *vice versa*. This is to misjudge the underlying fiscal situation and may lead to inappropriate policies. Of central importance in judging the underlying, structural, budget position is a sound assessment of structural change, particularly as it affects the level of potential output. Once evidence suggests that changes affecting the level or the growth rate of potential output have occurred, fiscal policies should be reviewed and, where necessary, adjusted. Otherwise, fiscal policy may be set on an unsustainable course and there is a risk of provoking adverse private-sector reactions once financial markets and consumers realise this. Improving the analytical tools available to governments to gauge the economy's potential and the structural fiscal position thus appears to be important for future policy making.

… and used to facilitate, rather than discourage, adjustment to change

Finally, but very importantly, automatic fiscal stabilisation is often created by mechanisms that allow people and businesses affected by changing economic circumstances to delay their adjustment to change. Such mechanisms include the functioning of social security systems, labour market institutions and many parts of tax systems whose effects on incentives have been analysed in detail in the various *OECD Jobs Strategy* publications.[15] These systems therefore need to be designed to

15. See for the most recent publication in this series, OECD (1999).

ensure that the incentives to which they give rise are consistent with flexible labour and product markets that heighten the economy's ability to adapt well to change.[16] Indeed, when a future economic shock requires a major reallocation of resources, the role of automatic fiscal stabilisers should at best be one of temporarily easing the pain, to allow time for the necessary adjustments to take place – not to postpone these adjustments indefinitely.

Appendix: Gauging automatic fiscal stabilisers

Tax and expenditure elasticities...

To obtain a clearer picture of the impact of cyclical variations in economic activity on government budgets, the OECD calculates the cyclical components of budget balances (Table IV.1). In practice, the cyclical components of the budget balance are calculated by subtracting the estimated structural components of government revenues and expenditure from their actual levels (see Annex Tables 30 and 31). The structural components, in turn, are calculated from actual tax revenues and government expenditures, adjusted proportionally according to the output gap and the assumed built-in elasticities.[17] For the purpose of accurately assessing cyclical sensitivity of revenues, four different categories of taxes are distinguished, each portraying different degrees of built-in elasticity with respect to cyclical fluctuations in GDP (see Table IV.4):

- *Corporate tax*, which on average represents 3½ per cent of GDP in the countries covered, exhibits the highest variability. Accordingly, the average output elasticity is estimated at around 1¼, with somewhat higher values (around 2) found for the United States, Japan, France, Austria and Denmark and lower ones (less than 1) for Germany, Italy, the United Kingdom, Belgium, Finland, Greece, New Zealand and Sweden.

- As concerns *personal income tax*, whose share in GDP amounts to some 12½ per cent on average in the countries that are covered, the average GDP elasticity is close to 1 on average. Note, however, that some countries (the United Kingdom, Finland, Greece and Sweden) show significantly higher values, whereas others (Japan) have substantially lower ones.

- For *social security tax*, which on average yields 12 per cent of GDP, the cross-country average GDP elasticity amounts to just over ¾, with values above 1 found in the United Kingdom and Greece, and values less than ½ in Japan.

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16. This need not diminish or may even strengthen the automatic fiscal stabilisers. For example, shortening benefit duration strengthens work incentives without affecting the short-run automatic stabilisation properties of the unemployment insurance system. To take another example, introducing lower marginal tax rates and in-work benefits at the lower end of the pay scale, while providing work incentives, raise tax progressivity at the same time.
17. In addition the OECD Secretariat has experimented with a complementary approach, using a structural VAR model to capture the effects on fiscal balances of specific economic shocks in the past in European Union countries (Dalsgaard and De Serres, 1999). A main advantage relative to the above approach is that estimates of output gaps are not required, but the results with this model are not directly comparable. This is the case because the elasticities that are derived from the VAR model include not only the impact of automatic stabilisers, but also that of discretionary fiscal policy to the extent that it reacts in a predictable fashion to economic disturbances.

Table IV.4. **Tax and expenditure elasticities**

	Tax				Current expenditure	Total balance[a]
	Corporate	Personal	Indirect	Social security		
United States	1.8	0.6	0.9	0.6	–0.1	0.25
Japan	2.1	0.4	0.5	0.3	–0.1	0.26
Germany	0.8	1.3	1.0	1.0	–0.1	0.51
France	1.8	0.6	0.7	0.5	–0.3	0.46
Italy	1.4	0.8	1.3	0.6	–0.1	0.48
United Kingdom	0.6	1.4	1.1	1.2	–0.2	0.50
Canada	1.0	1.2	0.7	0.9	–0.2	0.41
Australia	1.6	0.6	0.4	0.6	–0.3	0.28
Austria	1.9	0.7	0.5	0.5	0.0	0.31
Belgium	0.9	1.3	0.9	1.0	–0.4	0.67
Denmark	1.6	0.7	1.6	0.7	–0.7	0.85
Finland	0.7	1.3	0.9	1.1	–0.4	0.63
Greece	0.9	2.2	0.8	1.1	0.0	0.42
Ireland	1.2	1.0	0.5	0.8	–0.4	0.32
Netherlands	1.1	1.4	0.7	0.8	–1.0	0.76
New Zealand	0.9	1.2	1.2	1.1	–0.4	0.57
Norway (mainland)	1.3	0.9	1.6	0.8	–0.2	0.46
Portugal	1.4	0.8	0.6	0.7	–0.2	0.38
Spain	1.1	1.1	1.2	0.8	–0.1	0.40
Sweden	0.9	1.2	0.9	1.0	–0.5	0.79
Average	1.26	1.03	0.89	0.81	–0.29	0.49
Standard deviation	0.43	0.40	0.35	0.22	0.24	0.18

a) Based on weights for 1999. Semi-elasticity, *i.e.* change in net lending as a percentage of GDP for a 1 per cent change in GDP.
Source: OECD.

– In the case of *indirect tax*, which on average is the largest tax category among the countries covered (14 per cent of GDP), the GDP elasticity amounts to almost 1 on average. However, Norway and Denmark well exceed that average whereas Japan, Australia, Austria and Ireland are significantly below it.

The built-in elasticity of government expenditure, finally, which reflects cyclical variations in unemployment-related spending (unemployment insurance and active labour market measures), is relatively low given the small share of such spending in the total. For most countries elasticities in the 0 to –¼ range have been adopted, albeit Denmark, the Netherlands and Sweden display significantly stronger expenditure sensitivity.

... reflect the cyclical sensitivity of tax bases and unemployment, the tax code and benefit rates

These elasticities have been estimated in two steps (see for further details Van den Noord, 2000). First, the elasticity of the relevant tax bases and unemployment with respect to (cyclical) economic activity are estimated through regression analysis. Next, the elasticities of tax proceeds or expenditure with respect to the relevant bases are extracted from the tax code or simply set to unity in cases where proportionality may be assumed. These two sets of elasticities are subsequently combined into reduced-form elasticities that link the cyclical components of taxes and expenditure to the output gap.

The last column of the table below suggests that, averaged over OECD countries, the budget deficit widens by ½ per cent of GDP when output falls by 1 per cent relative to its potential level. This finding is in line with earlier analysis (Giorno *et al.*, 1995) and may be considered as a stylised fact. However, this average conceals marked differences across countries. For example, in Sweden, Denmark and the

Netherlands the sensitivity is almost double the OECD average while in the United States and Japan it is only around half of that.

The elasticities are surrounded by significant margins of uncertainty

For a number of reasons, the estimated cyclical components of the budget balances are surrounded by significant margins of uncertainty. First, the estimated elasticities may be expected to reflect, at best, the "average" cyclical responsiveness of these items over a sample period. Actual year-to-year behaviour may be more erratic as specific tax bases may react atypically over the cycle. Second, the cyclical behaviour of tax yields may be changing over time due to reforms of tax systems. Reform initiatives since the mid-1980s have generally been geared to removing preferential tax treatments, flattening personal tax rate structures and lowering business tax rates. These changes should have worked to reduce the automatic stabilising properties of tax systems. Third, the response of tax bases to changes in activity may depend on the nature of the economic shock(s) that produced the boom or recession. For example, the budgetary consequences of supply shocks that are associated with improvements in technology and changes in labour supply may differ from those of demand shocks that stem from the international trade cycle or movements in household sentiment. Moreover, even if automatic fiscal stabilisers operate fully following the supply shock, part of the resulting change in the fiscal position may be recorded as structural rather than cyclical.[18]

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18. This must logically be the case with the methodology adopted here. For example, an exogenous decline in labour supply is likely to affect actual and potential GDP in the same (downward) direction, and as a result the output gap may not move much. Similarly, a favourable technology shock may boost actual and potential output, but not necessarily the output gap.

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V. MAKING WORK PAY

Making work pay policies aim at reducing problems faced by persons with low earnings potential and their dependants

There has recently been increased interest in policies that subsidise work at low pay in order to "make work pay".[1] Such policies operate either by reducing employers' cost of employing low-wage labour or by raising the disposable incomes of workers with low earnings. Making work pay policies address three problems afflicting persons with low earnings potential: exclusion from the labour market, high risk of unemployment and low earnings if in work. The long-term solution to these problems is to increase the earnings capacity of individuals, notably through higher educational attainment as well as better on-the-job training. However, in the short and medium term, making work pay policies can help to increase employment and the income of low productivity workers. Moreover, they reduce the risk of an underclass becoming alienated from society. This chapter briefly reviews the difficulties that low productivity workers face, how the various making work pay policies might alleviate such difficulties, and the extent to which such policies are effective and efficient in solving these problems.

The review presented in the chapter suggests that making work pay policies have achieved some success in stimulating employment of people with low earnings capacity. Moreover, they have often proved to be effective in redistributing income towards those with low pay. However, these policies have also weakened work incentives for those already in work, though in the countries already pursuing such policies these negative effects have not been so strong as to offset the positive employment effects. To maximise their effectiveness, making work pay policies need to be tailored to specific framework conditions in each country, and the introduction or expansion of such policies may have to be accompanied by changes in other areas of labour market and social policies.

The economic situation of persons with low skills

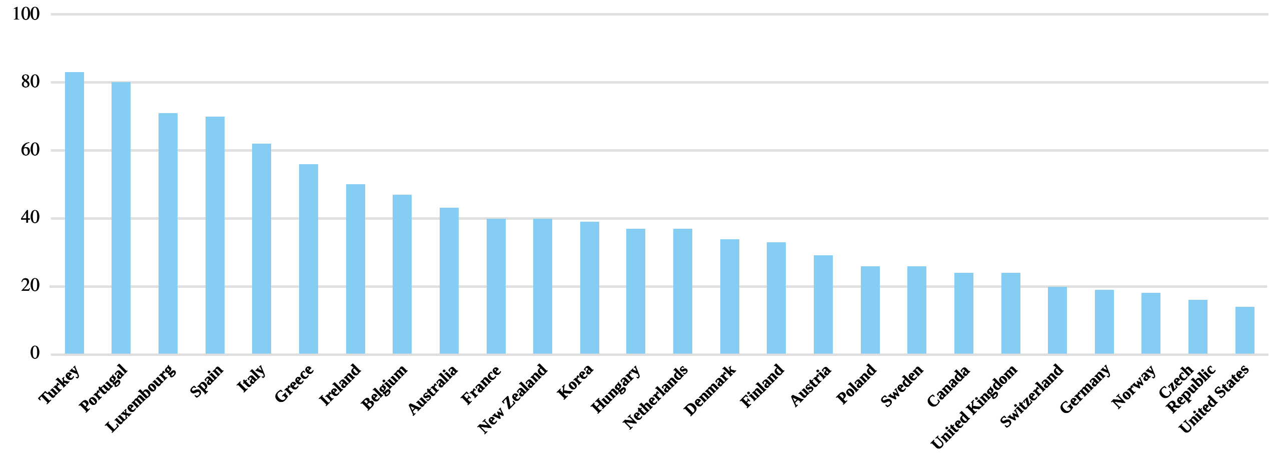
Persons with low educational attainment and lack of work experience suffer from various problems:

Low earnings capacity is generally associated with low educational qualification and lack of work experience. Across OECD Member countries, the proportion of the population aged 25 to 64 that has attained only lower secondary education or less varied considerably in the mid-1990s (Figure V.1). As women have often received less education than men in the past, females are over-represented in the lowest educational group in many countries.[2] Moreover, their job-related skills are often adversely affected by breaks in careers related to family responsibilities, and this may strongly affect the earnings capacity of even relatively educated single mothers. Although young people tend to have relatively high educational qualifications, inexperienced youth that leave school early do not have enough skills to command high earnings capacity. Lack of recent job experience also makes the long-term unemployed less attractive in the eyes of employers.

1. This chapter draws heavily on papers presented at an OECD workshop on Making Work Pay held in September 1999. These papers will be published in *OECD Economic Studies No. 31* (forthcoming). Further background material for the chapter comes from OECD, *Implementing the OECD Jobs Strategy – Assessing Performance and Policy*, Paris, 1999; and OECD, *Making Work Pay*, Paris, 1997.
2. See Table A1.2*b* in OECD, *Education at a Glance 1998*, Paris, 1998.

Figure V.1. **Individuals aged 25-64 with lower secondary education or less, 1996**

Per cent of total population aged 25-64



Source: OECD, *Education at a Glance – OECD Indicators,* 1998.

... low labour force participation...

Labour force participation of groups with only basic educational attainment is low in most OECD countries (Figure V.2, upper panel). The labour force participation rate of the adult population with at most lower secondary education is often 20 percentage points lower than for those who left the education system after completing an upper secondary education and the gap is much larger still compared with those with tertiary education.

... high unemployment rate...

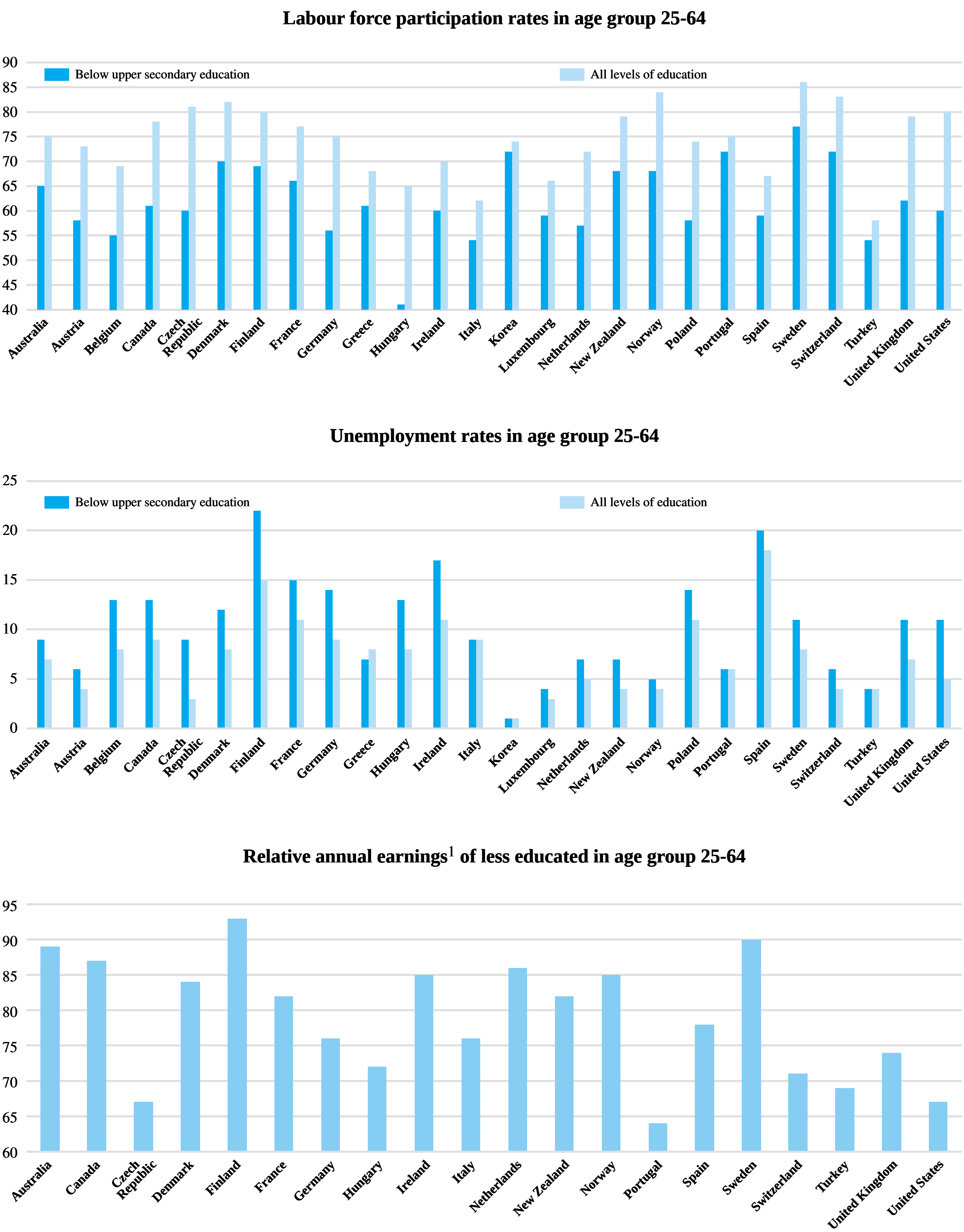
Less educated workers account for a high proportion of total unemployment in most OECD countries. Their unemployment rate is generally above the average (Figure V.2, middle panel), by a factor of as much as two in the United States and the Czech Republic.[3] Serious low-skilled unemployment problems in many countries appear to be related to relatively high floors on labour costs, related to high minimum wages and/or high payroll taxes imposed on low wages, that prevent workers with (perceived) low productivity from being hired. For example, comparatively high floors on labour costs in some European countries in the past (such as in France and in Belgium) may have acted as a barrier for employment for the lower skilled, for inexperienced youth, as well as for the long-term unemployed.

... and/or low pay

Earnings of those with only basic education are comparatively low in many countries (Figure V.2, lower panel). In several OECD countries (Canada, Hungary, Korea and the United States), more than a fifth of all full-time workers and more than a tenth of all prime age workers fall into the low pay category, low pay being defined as earnings less than two-thirds of median earnings. A significant proportion of these low-skilled workers remains in low pay for a prolonged period of time.[4] Low pay for an individual does not, however, necessarily imply that he or she is below the poverty

3. While the unemployment rate of the lowest educated is very high in the United States and the Czech Republic, the fact that the lower educated make up only a relatively small proportion of the total labour force in both countries implies that there are only few unemployed persons with low educational attainments compared to the total labour force.
4. See *e.g. OECD Employment Outlook*, Paris, 1998.

Figure V.2. **Economic conditions of individuals with lower secondary education or less, 1996**



1. Ratio of mean earnings of those with only lower secondary education or less to that of those at upper secondary education (upper secondary education = 100).
Source: OECD, *Education at a Glance – OECD Indicators*, 1998.

line.[5] In fact, the majority of all persons receiving low pay is living in households that are well above the poverty line. Nevertheless, in some countries (United States, Italy) a quarter to a fifth of all persons with low pay live in poor households.

Making work pay policies in the 1990s

There has been renewed interest in making work pay policies in the 1990s:

The desire of policymakers to address the problems of economic exclusion, high unemployment and low pay of the lower skilled has renewed interest in the use of the tax and benefit systems to improve their situation. While the basic problems and policy objectives are broadly similar, countries have followed two different routes in their policy interventions, depending on their initial situation. On the one hand, those most concerned with high unemployment of the lower skilled have focused on measures to increase labour demand for such workers without lowering their wages. On the other hand, countries with a high incidence of low pay have concentrated on re-distributing income in favour of those on low pay. In both cases, people with low earnings capacity will have greater incentives to participate in the labour market. However, since all the countries that have increased the subsidisation of work at low pay have statutory minimum wages, the increase in labour supply does not exert downward pressure on wage levels.

Employer social security contributions on low pay have been reduced in many countries…

Measures to increase demand for low skilled workers have primarily taken the form of reducing employer social security contributions on low earnings.[6] This approach has been used extensively in France and the Netherlands (Figure V.3). The reductions in social security contributions in these countries currently apply to workers earning up to 115 per cent of the statutory minimum wage in the Netherlands and up to 130 per cent of the official minimum wage in France,[7] and the reductions tend to fall with higher incomes.[8] At the level of the minimum wage, the reduction in total labour costs is around 12-13 per cent in both France and the Netherlands. Reflecting the compression of the earnings distribution in these countries, a large number of employees are covered by these concessionary contribution rates, one in six in the Netherlands and one in four in France. However, thanks to the phasing out of the reduction in contributions with higher earnings, the budgetary costs of these measures have been modest, with the French scheme being the more expensive (0.6 per cent of GDP in 1997). The recent overhaul of the contribution rates in the United Kingdom has also lowered employer contribution rates on low earnings.

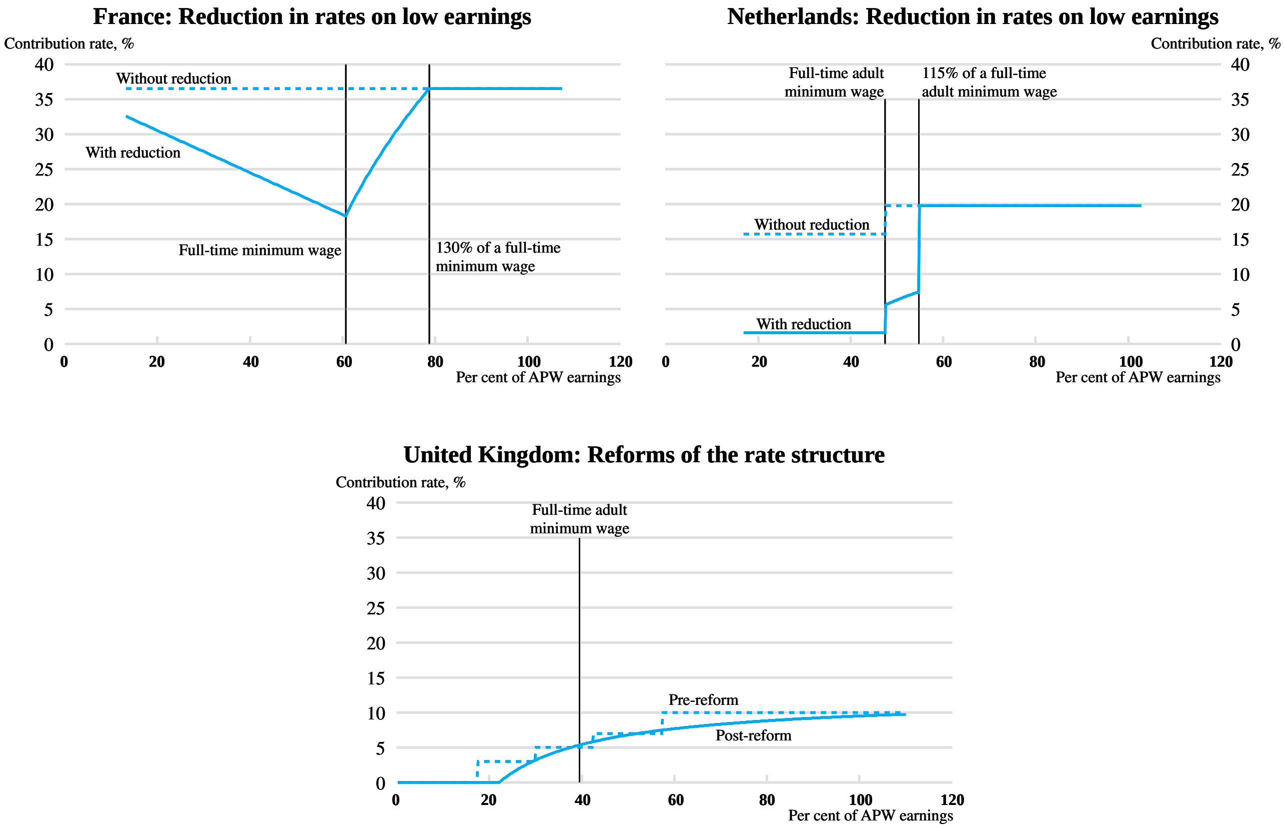
… and in-work benefits or tax credits have been expanded or introduced

Measures to increase the income of persons with low earnings capacity have centred on the expansion or introduction of in-work benefits or tax credits to top up low wages. In contrast to the reduction in social security contributions, in-work benefits or tax credits can be narrowly targeted on groups with particular family circumstances. Prominent examples include:

– The Earned Income Tax Credit (EITC) in the United States is currently differentiated according to whether taxpayers are without dependent children, with

5. The poverty line is defined as less than half of median household income for all individuals.
6. Apart from the countries mentioned in this paragraph, reduced payroll taxes on low-paid workers have been introduced in Austria, Belgium, Greece and Mexico, see OECD, *Implementing the OECD Jobs Strategy – Assessing Performance and Policy*, Paris, 1999, p. 121.
7. The French government has recently proposed an extension of this scheme to cover workers earning up to 180 per cent of the minimum wage.
8. In France, the downward sloping schedule up to the full-time minimum wage reflects that the rebate in this particular scheme declines with less hours worked. However, another scheme provides additional reductions in payroll tax rates for part-time workers.

Figure V.3. **Employer social security contribution rates in 1999: Reforms in selected countries**



Note: APW earnings represent estimated full-time earnings of an average production worker in 1999. Changes in earnings up to the full-time minimum wage reflect variations in hours paid times the hourly minimum wage.
Sources: National sources and OECD.

one child, or with more than one qualifying child. The EITC has become more targeted since it was introduced in 1975.

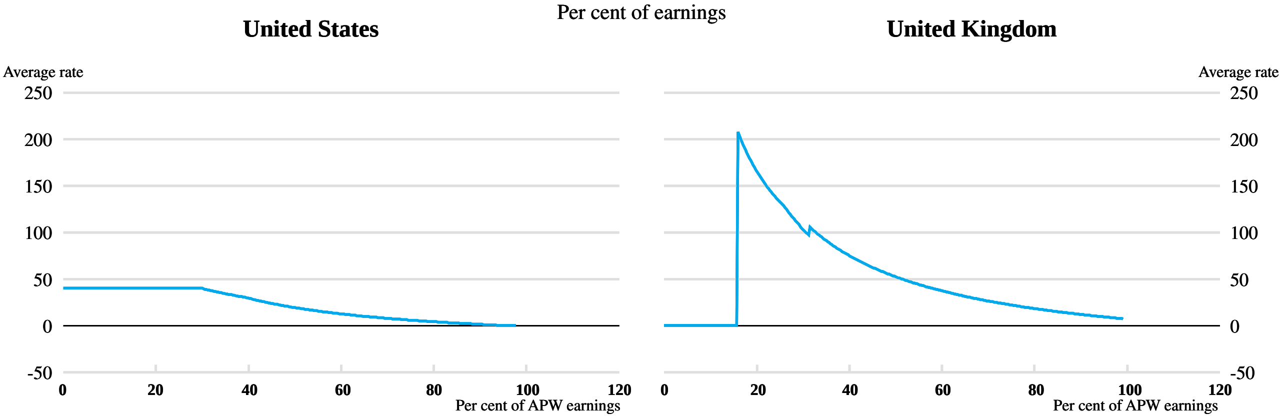
– The recently introduced Working Families Tax Credit (WFTC) in the United Kingdom is strongly targeted, providing a tax credit for each child differentiated according to age, an additional childcare tax credit, and an extra tax credit for working 30 hours or more a week.
– Several countries have increased child care allowances to working parents (Australia, Canada, Finland) to encourage labour force participation.

The structure of in-work tax credits in the United States and the United Kingdom differs in important respects (Figure V.4), partly reflecting different aims of the programmes:

– Tax credits in the United States are available from the very first dollar earned and thus encourage any work attachment, while tax credits in the United Kingdom are conditional on one family member working at least 16 hours per week.
– Beyond 16 hours of work, the size of the tax credit is higher, and the associated incentives to join the labour force are accordingly stronger, in the United Kingdom than in the United States. This is notably so at very low levels of

Figure V.4. **In-work tax credits in the United States and the United Kingdom in 1999**

Per cent of earnings



Note: The schedule for the United States refers to Earned Income Tax Credit for taxpayers with more than one qualifying child. The schedule for the United Kingdom refers to Working Families Tax Credit for a family with two children under 11 and childcare costs of 60 pounds a week. Extra tax credit for working 30 hours or more a week comes into effect at 30 times the hourly adult minimum wage.
Sources: National sources and OECD.

earned income, where the tax credit can amount to more than 200 per cent of earnings in the United Kingdom compared with 40 per cent in the United States.

– The withdrawal of tax credits commences at relatively low earnings, and the withdrawal rate is comparatively high,[9] in the United Kingdom, implying that most low paid workers are faced with high effective marginal tax rates, with possible adverse consequences for hours worked.

The prompt withdrawal of the tax credits, together with the targeting, has helped to contain the budgetary costs of these programmes. The United States spends around 0.3 per cent of GDP on the EITC, whereas the United Kingdom expects that the introduction of the WFTC will raise the costs of in-work financial support to 0.6 per cent of GDP.

The impact of making work pay policies

Making work pay policies appear to have stimulated employment...

Making work pay policies appear to have been successful in increasing employment of targeted groups and thereby reducing the risk of social exclusion. The expansion of the EITC in the United States has been found to promote employment, especially among single parents, but the increase in overall employment has not been substantial. In the United Kingdom, estimates of the ultimate employment effects of the WFTC programme range from ten to one hundred thousand persons. An expansion of the Family Credit programme, the predecessor to WFTC, in the late 1980s, is also estimated to have increased employment, notably of single mothers. Indirect evidence suggests that the employment effects of reductions in social security contributions on low earnings may have been significant. Thus, employment growth in France has accelerated since the contributions were cut in 1994, and lower contribu-

9. The withdrawal rate in the WFTC is 55 per cent, rather than the 70 per cent in its predecessor (Family Credit).

tions in the Netherlands also appear to have played a role in its fast employment growth.

… but total labour supply effects have been partly offset by disincentives further up the earnings scale...

While in-work benefits and tax credits appear to have encouraged more people to take up gainful activity, high benefit withdrawal rates may have induced those with higher earnings to reduce the number of hours worked. A simulation study[10] on the expansion of the EITC in the mid-1990s indicated that the negative effect on working hours due to steeper withdrawal rates for a larger number of families could offset around one third of the effect of increased participation. Changes in the Family Credit programme in the United Kingdom in the late 1980s are also estimated to have been accompanied by negative effects on hours worked, partially offsetting the positive employment impact.

… and higher taxes needed to finance making work pay programmes

An assessment of the overall labour utilisation effects of making work pay policies must take into account that the financing of such programmes may entail cuts in hours worked. Where tax credits and reduced payroll tax rates are financed by increasing taxes and social security contributions on those further up the earnings scale, the latter may reduce hours worked. There is no assessment available on the overall hours effects of current making work pay policies. A recent study[11] on a hypothetical introduction of a stylised EITC in four countries suggests that the impact on overall hours worked is likely to be positive in countries with a wide earnings dispersion. Under these circumstances, few workers will be eligible for receiving the tax credit and the required increases in taxes will accordingly be small. However, the introduction of EITC could have a negative overall impact in countries with compressed earnings distributions, since taxes further up the earnings scale would have to rise significantly. Such negative effects may be compounded where the tax pressure is already high at the outset.

In-work support has often been an effective anti-poverty tool

In-work benefits and tax credits appear to have been successful in redistributing income towards low-income households. Because of the targeting on needy groups, about a half of all EITC payments in the United States go to families with incomes below the poverty line. It is estimated to have lifted 4.3 million persons out of poverty in 1997, more than twice as many as prior to the expansion of the scheme in the mid-1990, and to have played a major role in alleviating child poverty.[12] The increased generosity of in-work support in the United Kingdom with the introduction of the WFTC is estimated to be directed almost fully to families in the bottom half of the income distribution, with gains being concentrated in the second and third deciles.[13]

… in contrast to lower payroll taxes

Given the absence of targeting, a reduction in employer social security contributions is not a very effective anti-poverty tool. Individuals that get hired as a result of such measures will have more income than they had before, provided that out-of-work benefits are lower than earnings from work. However, as noted earlier, there is

10. See J.K. Scholz, In-work Benefits in the United States: The Earned Income Tax Credit", *Economic Journal*, 106, 1996, pp. 156-169.
11. See A. Bassanini, J.H. Rasmussen and S. Scarpetta, "The economic effects of employment conditional income support schemes for the low-paid: An illustration from a CGE model applied to four OECD countries", *OECD Economics Department Working Papers* No. 224, 1999.
12. See Box 3-3 in *Economic Report of the President*, Transmitted to the Congress February 1999, Washington D.C.
13. Not all in-work financial support schemes redistribute income towards low-income households. For example, the Irish employment-conditional benefit, Family Income Supplement, tends to be received by those in the middle of the income distribution, see *OECD Employment Outlook*, Paris, 1996, p. 46.

only a weak correspondence between low pay of individuals and family poverty. Thus, a significant proportion of those that are helped into work by lower employer social security contributions is likely to be in families that are not poor. There is, however, no formal study available on the distributional impact of the large schemes run in France and the Netherlands.

The dynamic effects of making work pay policies are uncertain

It remains to be seen if making work pay policies will help to lift low productivity workers out of benefit or subsidy dependency on a sustained basis. By assisting the low skilled to gain a foothold in the labour market from which they may acquire on-the-job experience and training, in-work financial support and hiring incentives can put them on a career path that may ultimately make government intervention unnecessary. However, notwithstanding significant upward earnings mobility in many Member countries, there is a noticeable proportion of workers that remains trapped in low pay, and those brought into employment as a result of making work pay policies could fall into that category. By increasing employment and income prospects of the lower skilled, such policies may also undermine incentives for such individuals to increase their human capital, thus increasing benefit and subsidy dependency.

Enhancing the effectiveness of making work pay policies

Effectiveness depends on the stance of policy in several areas

The effectiveness of making work pay policies in achieving their stated objectives depends importantly on the economic environment in which payroll tax cuts and in-work financial support are pursued. Strong and stable macroeconomic conditions are likely to enhance such policies, prompting employers to hire more workers and encouraging more people to enter the labour market. However, the success of making work pay policies will crucially depend on the stance of policy in areas such as out-of-work benefit generosity and administration, the tax system, employment protection legislation and statutory minimum wages. Where the traditional stance of policy has encouraged relatively high wage floors and the problem for the lower educated manifest themselves primarily in a lack of jobs, the most effective making work pay measure would be to stimulate the demand for such workers via cuts in payroll taxes and/or targeted wage subsidies. On the other hand, in-work financial support would be more effective if the principal problem of the lower educated is low pay and lack of labour force participation.

Labour supply must be mobilised

Policies aimed at increasing the demand for low skilled workers need to be accompanied by adequate incentives for such workers to enter into employment. In particular, a move into a job must be financially rewarding and a job must be actively sought. However, unemployment and social benefit systems in many countries provide income for people with low earnings potential that is close to, or even exceeds, their potential take-home pay from work. Moreover, though benefit eligibility conditions have been tightened in a number of countries in recent years, work availability and job search requirements appear to be weak in many countries. Thus, the introduction or expansion of payroll tax reductions on low earnings may have to go hand in hand with measures to strengthen eligibility conditions, in particular with respect to job search and the acceptance of job offers.

… and hiring constraints eased

Increasing the incentives for people with low earnings potential to enter the labour market will only show up in higher employment if employers have adequate incentives to hire. This requires, in particular, that labour costs for such workers are sufficiently low to make it profitable for employers to hire. It also requires that employment protection legislation and restrictions on part-time work do not act as barriers to hiring.

The combination of in-work financial support and stronger hiring incentives may be mutually reinforcing. Thus, lower payroll taxes could succeed in expanding employment if in-work benefits at the same time strengthened work incentives despite high out-of-work benefits and lax benefit eligibility conditions. In-work financial support could similarly succeed when combined with payroll tax reductions even if wage floors remained high and employment protection tight. However, cost constraints are likely to prevent large-scale subsidisation of both the demand for and supply of low productivity workers. Nevertheless, as a part of a comprehensive package of policy measures along the lines of the OECD Jobs Strategy, schemes to make work pay may in many cases be a useful complement to other policies aimed at improving labour market outcomes.

VI. PUBLIC DEBT MANAGEMENT AT THE CROSS-ROADS

Introduction

Debt management issues came to the fore with rising public debt...

Rising debt-to-GDP ratios until the 1990s made governments more aware of costs in managing their public debt. At the same time, the shift away from bank financing of budget deficits towards non-bank sources increased the focus on the risk of rolling over the debt at higher interest rates, not least in the context of financial markets that have become increasingly open internationally. The result has been the development of more market-oriented and more sophisticated debt management procedures and techniques (discussed in the Appendix to this chapter). Partly to this end, the promotion of domestic financial markets became a supplementary role of debt management in a number of countries.

More recently, with the advent of low inflation and progress in reducing public deficits (the exception being Japan), debt management concerns have abated somewhat. By the late 1990s, longer-term, fixed rate instruments accounted for a large part of government debt (Tables VI.1 and VI.2), reducing rollover and interest rate risk. Moreover, with the deepening of secondary markets, the impact on market interest

Table VI.1. **Features of the maturity profile for central government debt**

1997

	Maturity distribution[a] (as a percentage of total volume outstanding) (In years)				Average term to maturity	Duration	Number of original maturities[d]	Number of benchmarks
	1 or less	1-5	5-10	Over 10	(Years)			
United States	21	62		17	5.2	n.a	7	7
Japan	5	8	78	9	n.a.	n.a.	8	1
Germany	2	32	61	5	n.a.	n.a.	6	4
France	10	27	53	10	6.2	n.a.	8	7
Italy	17	32	48	3	4.7	2.4	10	5
United Kingdom[b]	7	29	34	30	9.7	6.5	5	3
Canada	32	29	27	12	5.8	5.1	7	7
Belgium	19	6	43	32	4.4	3.4	7	2
Netherlands	4	10	74	12	5.9[c]	4.1	6	2
Sweden	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	12
Switzerland	27	23	13	37	n.a.	n.a.	12	7

a) Distribution by original maturity, excluding older issues out of the regular issuance cycle and index-linked securities.
b) Maturity distribution by remaining maturity.
c) Excluding Dutch State Treasury Certificates.
d) These maturities range from 3 to 6 months in all countries (except for Germany and the United Kingdom where they are for 6 months and 3 months only, respectively) through to larger maturities of 10 and 30 years in all countries (except Japan and Switzerland where 20 years is the longest).
Sources: Bank for International Settlements (1999).

Table VI.2. **Central government securities by type of instrument**

In per cent of total, end-1997[a]

	Fixed rate	Floating rate	Indexed	Zero coupon	
				Long[b]	Short[c]
United States	77.9	–	1.0	–	20.7
Japan	94.2	–	–	0.5	5.2
Germany	95.8	1.9	–	–	2.0
France	78.2	5.6	–	6.2	9.9
Italy	39.4	29.1	–	8.2	15.5
United Kingdom	84.4	3.1	11.3	–	–
Canada	59.7	–	2.1	–	28.1
Belgium	74.2	5.8	–	0.6	19.5
Netherlands	96.1	–	–	–	3.6
Sweden	73.3	–	10.3	–	16.4
Switzerland	72.6	–	–	–	27.4

a) Any difference between 100 and the sum of displayed percentage shares comprises other, non-classified marketable, issues.
b) Zero coupon issue with original maturity above one year.
c) Zero coupon issue with original maturity up to one year.
Source: Bank for International Settlements (1999).

rates from government issuance activity in primary markets appears to have been considerably reduced and with it the potential conflict between debt management and the operation of monetary policy. In fact, the link between monetary policy considerations and debt management issues is largely through the signalling effects of debt levels and maturity structures on policy makers' credibility.

… and are about to change with the shift in budgetary prospects

Looking forward, however, debt managers will face different challenges as the evolution of debt-to-GDP ratios is seen to diverge quite significantly across countries (Table VI.3).

- For the United States (and to a lesser extent the United Kingdom, Canada and Sweden),[1] in view of the projections of a rapidly diminishing gross debt, policy makers will have to confront the implications of lower liquidity in traditional government issues that play an important role for the functioning of the bond market.
- For the euro area, despite recent improvements in primary balances, debt levels are unlikely to decrease rapidly. The introduction of the euro raises the question of the need for co-ordination among the eleven autonomous debt managers with a view to supporting the creation of a larger and more efficient euro-area financial market.
- In the case of Japan, estimates suggest a rapidly rising level of debt as a per cent of GDP. Thus, an emphasis on improving the efficiency of debt management techniques has the potential to produce budgetary savings.

The subsequent three sections of this chapter deal with each of these issues in turn.[2]

1. Some other smaller OECD countries have also achieved fiscal surpluses (the other Nordic countries, Australia, Ireland and New Zealand).
2. This chapter is based on Mylonas, *et al*., "Public Debt Management in the Major OECD Economies: Recent Developments and Policy Issues", forthcoming as an OECD *Economics Department Working Paper*, which contains additional information on this topic.

Table VI.3. **Debt dynamics**

	Real interest rate[a]	Real GDP growth[b]	Primary balance[c]	Net debt[c]	Gross debt[c]	Debt dynamics[d]
			as a percentage of GDP			
United States	5.3	3.8	3.2	43.9	59.3	–2.6
Japan	2.8	1.3	–5.4	37.2	105.4	6.0
Germany	4.0	1.6	2.3	47.1	62.6	–1.1
France	4.0	2.1	1.1	43.2	65.2	–0.3
Italy	3.9	1.6	5.9	105.5	117.7	–3.4
United Kingdom	4.1	2.6	3.1	39.7	54.0	–2.5
Canada	5.5	3.0	6.4	57.9	86.9	–5.0
Belgium	4.1	2.3	6.7	110.7	114.1	–4.7
Netherlands	3.7	3.2	2.3	51.9	62.9	–1.9
Sweden	5.0	2.7	5.3	12.7	68.3	–5.0
Euro area	4.0	2.1	2.8	58.8	74.8	–1.7

a) Average long-term interest rates deflated by the GDP deflator from 1995 to 1999, estimate for 1999.
b) Average from 1995 to 1999, estimate for 1999.
c) Cyclically adjusted, estimate for 1999.
d) The implied annual change in the debt-to-GDP ratio. The estimate is based on the following formula: $\Delta = d\,(r - y) - p$, where Δ denotes change and the variables are: d: general government net debt-to-GDP ratio; p: primary balance-to-GDP ratio; r: real interest rate; and y: real GDP growth.
Source: OECD.

Debt management as debt is dramatically lowered: the case of the United States

For the United States, the relevant issue is the extent to which financial market liquidity would be affected…

Budget surpluses are currently projected by the US government to be sustained into the future and, on optimistic scenarios, the gross debt of the United States would even be eliminated by as early as 2015.[3] If outstanding government debt falls to low levels, policy makers will face a new set of challenges. The issues discussed here relate mainly to the level of gross government debt which is sufficient for the well-functioning of debt markets in general. In this respect, market participants are reportedly already noting the impact on US bond prices of the reduced flow of new supply.

The role and uses of government debt in financial markets

… since government bonds currently play an important hedging and pricing role

Government securities have contributed to the development and functioning of financial markets, in part because of their liquidity (Box VI.1). In highly developed markets, in particular those of the United States, examples of their importance include:

- Governments, reflecting their taxation power, provide securities with no (or a negligible) credit risk. Markets use (central) government debt to calculate prices of other debt and derivative instruments. Such benchmarking is considered to be important for the development of a corporate bond market.

3. These projections assume that policies required to meet the existing expenditure limits will be identified and implemented. In the event, the envisaged ageing of the population is expected to result in an increase in the debt from the middle of the next century.

Box VI.1. **Liquidity**

Liquid markets are defined as ones where participants can rapidly execute large transactions without having a significant impact on price. This feature enhances market participants' confidence in the functioning of these markets both in normal and in stress situations (Bank for International Settlements, 1999).

Market liquidity has many dimensions, and depends *inter alia*, on the volume and design of the relevant asset. Government bond markets have advantages in this regard as, typically, government security issues are large compared with other bond issues, and there is some evidence that larger issue sizes tend to be accompanied by somewhat narrower bid-ask spreads. Furthermore, as a general rule, government securities are more homogenous because there is only one issuer (the government) and because other features, such as coupon payment dates and issuance frequency, are usually identical across issues. This implies a high substitutability among the issues.

The desire to increase market liquidity was the rationale for the trend by managers of public debt towards a passive issuance policy – that is, the regular issuance of bonds within a limited set of maturities and in relatively large sizes.

Due to these factors, major OECD countries' government bond markets can generally be classified as highly liquid, which is reflected in high turnover ratios and low bid-ask spreads (see table below), compared with other bond markets. The recent Asian and Russian financial crises have illustrated the robustness of some major government bond markets which remained liquid, while spreads in many other bond markets increased very substantially, reflecting increasing illiquidity premia, or even completely shut down. Nevertheless, even these markets can experience short periods of illiquidity (*e.g.* as occurred in the US market at the time of the near-collapse of Long-Term Capital Management).

Liquidity indicators for major OECD countries' government bond markets

1997

	United States	Japan	Germany	France	Italy	United Kingdom	Canada	Sweden
Bid-ask spread:								
On-the-run issues [a]								
2 years	1.6	5	4	4	3	3	2	4
5 years [b]	1.6	9	4	5	5	4	5	9
10 years	3.1	7	4	10	6	4	5	15
30 years [b]	3.1	16	10	24	14	8	10	27 [c]
Off-the-run issues [a, d]								
5 years [b]	6.3	11	4	6	8	4	12.5	..
10 years	6.3	7	5	6	8	4	15.5	..
30 years [b]	12.5	19	10	10	14	12	18.5	..
Volume outstanding (a) [e]	3 457	1 919	63	551	1 100	458	285	35
Yearly trading volume (b) [g]	75 901	13 282	..	8 634 [f]	8 419	3 222	6 243	125 [f]
Turnover ratio (b)/(a)	22.0	6.9	..	33.8	7.7	7.0	21.9	3.6

a) Bid-ask spreads in one-hundredth of a currency unit for the face value of 100 currency units.
b) For Japan, 6-year bonds are used in place of 5-year bonds and 20-year bonds are used in place of 30-year bonds.
c) For the 22-year bond.
d) Bid-ask spreads for off-the-run issues having similar remaining maturity as the on-the-run issues. Some of the spreads are indicative rather than definitive.
e) The figures are for end-1997, in billions of US dollars, converted at the exchange rates of end-1997.
f) Figures may include trading other than outright transactions; such as repos or buy/sell backs.
g) Figures are for 1997 calendar year.
Source: Bank for International Settlements (1999).

– Estimates of the yield curve and interest rate futures are mostly based on medium- to long-term government bonds. As well, options are often written on government bond futures, because their valuation requires a large, active and well-arbitraged market in the underlying security. In the swap market,[4]

4. In this market, participants agree to exchange a sequence of interest payments, one based on a fixed rate of interest and the other based on a floating short-term interest rate. In effect this exchange is a "swap" of interest payments.

government securities serve, not only as the basis for pricing such transactions, but also as one side of a credit risk swap.

– Government debt is often a critical component of strategies aimed at reducing overall portfolio risk. For example, short positions in government bonds can be used to hedge interest-rate risk from holding other fixed-income securities.
– More generally, government debt is part of bank regulatory capital. In many countries, guidelines and/or direct quantitative regulations of private pension funds specify minimum compulsory investment shares in government securities.
– Central banks use government debt securities from other countries, mostly US Treasury bonds, to invest their foreign exchange reserves.

Government securities are also used by central banks to implement monetary policy operations

For open market operations, the Federal Reserve, as well as other major central banks, use government securities and derivatives of those securities (repos) almost exclusively, largely because of the high liquidity of these markets. This practice also helps avoid the appearance of favouritism that might occur if transactions were carried out in private sector assets. More importantly, a liquid market for government bonds brings the added benefit of rendering monetary policy signals more transparent.

The US government, as well as others, has also used issuance activity to develop domestic financial markets. This activity has played a key role (often leading the way) in issuing STRIPS,[5] a procedure which allows the individual coupons and the principal to be traded separately, as well as to be combined again. These instruments have advantages for market participants, including the more flexible management of future cash flows compared with coupon-bearing bonds. In addition, some governments (most recently those of France and the United States) are now issuing index-linked securities. However, as a general rule, the market for index-linked bonds is less developed than that for conventional bonds, even in the United Kingdom which was the first of the large countries to introduce them (Drèze, 1993). This appears to result mainly from: *i)* the unfavourable tax treatment in many countries; *ii)* the relatively low inflation rates in recent years; and *iii)* the relative novelty of these securities. Another drawback is their low liquidity, arising from the buy-and-hold strategy most investors have for these bonds.

Policy options in an environment of declining net debt

If faced with continuing budget surpluses, countries could reduce the gross level of debt, in the belief that private sector securities would substitute for government debt…

The key challenge for the United States, and a number of other governments in similar positions, will be to manage the projected decline in debt in such a way as to maintain the benefits from government bond markets. If it were decided to reduce gross debt commensurately with the reduction in net debt, the effective maturity of the portfolio of government securities would have to fall. This could occur through reducing issuance of long maturity bonds. At the same time, the issuance of other benchmark securities, like one-year notes, might have to be discontinued (3-year notes were discontinued in the United States in 1998), *inter alia*, so as to avoid a sharp reduction in the size and issuance frequency of the remaining issues.

As gross debt continues to decline, however, the use of this strategy could affect the well-functioning of bond markets, unless private financial securities could either

5. The acronym STRIPS stands for Separate Trading of Registered Interest and Principal of Securities.

achieve the same risk status, or fulfil similar functions despite a different risk status. In this case, the need for government debt would be less compelling, including for the conduct of monetary policy.[6] For example, either collateralisation of, or an implicit government guarantee for, other types of debt could make it a close substitute for central government debt with regard to risk characteristics. In this regard, debt issues of government sponsored enterprises (GSE), such as Fannie Mae and Freddie Mac in the United States,[7] or European Pfandbriefe, are bonds backed (indirectly) by private mortgages or public sector loans, and may be seen as reasonably comparable to government debt.[8] The US institutions enjoy a considerable funding advantage through a perceived government guarantee,[9] while the European ones seem to benefit mainly from the strict regulations regarding their collateralisation and their payment track record. Like government bonds, these issues have been characterised by a trend towards "regularisation", that is, the regular issuance of bonds with a limited set of maturities and in relatively large sizes in order to create liquid markets (*i.e.* market benchmarks). Both markets are relatively large compared with other bond markets (Table VI.4); however, a derivatives market, based on their issues, is underdeveloped at this stage.

Even when the risk and liquidity characteristics of private debt securities differ from those of government debt, they may be able to fulfil some functions of the latter. Outstanding corporate debt is relatively large and growing in the United States (Table VI.5) and benchmark issues are being established. For example, recently a private US company (with a single A rating) has offered the first large issue in its

Table VI.4. **A comparison of the size of some important bond markets**

$US billion, end-1998

US government[a]	3 355.5
Japanese government	2 590.4
US non-financial corporates	1 621.8
US government-sponsored enterprises[b]	1 273.6
German government	1 110.2
German Pfandbriefe[c]	1 073.2
US asset-backed securities issues	1 012.8
Italian government[d]	959.6
French government[d]	654.4

a) Total marketable interest-bearing Federal debt.
b) Securities issued by Federal Home Loan Banks, Fannie Mae, Federal Home Loan Mortgage Corporation (Freddie Mac), Farm Credit System, the Financing Corporation, the Resolution Funding Corporation, and the Student Loan Marketing Association (Sallie Mae), not including mortgage-backed securities (MBS).
c) Hypotheken Pfandbriefe and Öffentliche Pfandbriefe.
d) Excluding Treasury bills.
Sources: Board of Governors of the Federal Reserve System, *Flow of Funds Accounts of the United States*; Bank of Japan, *Financial and Economics Statistics Monthly*; Deutsche Bank (1999), Merrill Lynch (1999).

6. Current legislation constraining the use of instruments issued by the private sector in the conduct of monetary policy would need to be amended in some countries.
7. Fannie Mae stands for Federal National Mortgage Association and Freddie Mac for Federal Home Loan Mortgage Corporation.
8. Fannie Mae and Freddie Mae also issue mortgage-backed securities, so as to shift mortgages off their balance sheets. These securities are riskier than their straight issues, as the holders face mortgage refinancing risk when interest rates decline.
9. While the GSEs are not backed by an explicit Federal guarantee, capital market participants regard them as holding an "implicit guarantee" and they are rated AAA.

Table VI.5. **General government share of total bond debt**[a]

	Government		Financial institutions		Non-financial enterprises		Government	
	As a share of total bond debt in per cent						As a share of total, excluding financial institutions	
	1985	1997[b]	1985	1997[b]	1985	1997[b]	1985	1997[b]
United States	54.3	44.2	26.9	40.9	18.8	14.9	74.2	74.9
Japan	66.6	59.0	24.8	26.0	8.6	15.0	88.5	79.7
Germany	26.8	38.8	68.4	58.5	4.7	2.7	84.9	93.5
France	35.9	46.0	49.5	41.7	14.5	12.3	71.2	78.9
Italy	81.1	83.5	15.0	15.3	3.9	1.2	95.4	98.6
Canada	66.5	69.6	7.2	8.9	26.3	21.5	71.7	76.4
Belgium	60.7	66.5	34.3	30.5	5.0	3.1	92.4	95.6
Sweden	57.9	51.5	35.7	46.2	6.4	2.3	90.1	95.7

a) Total bond debt here is defined as debt in short- and long-term securities by government, non-financial enterprises and financial institutions, where the government section includes central, state and local levels.
b) Latest values available in the OECD *Financial Statistics* are from 1996 for Belgium, Canada, Japan, Sweden and the United States, and from 1997 for France, Germany and Italy.
Source: OECD *Financial Statistics*, various issues.

"Global Landmark Securities program", a series of multi-billion-dollar securities sales designed to establish a benchmark for corporate issues. Corporate issues may permit a more efficient pricing of other corporate debt and in this respect they may offer some advantages as opposed to using Treasury paper. Specifically, as long as the (idiosyncratic) company-specific risk is sufficiently small, the risks of different corporate securities may be more correlated than the ones between corporate and central government issues.

… or, aim to maintain a minimum level of gross debt, so as to support the well-functioning of financial markets

On the other hand, if private debt cannot fulfil all the desirable functions of public debt, governments may consider maintaining a minimum level of gross debt despite the reduction in net debt. This could be done by investing government surpluses in private financial assets (domestic or foreign). The level of gross debt would have to be sufficient to maintain liquidity in the government bond market, permit issuing in selected (benchmark) segments and support the existence of the large derivative markets based on government bond markets. Maintaining a minimum level of gross debt would also eliminate the costs of re-establishing the government bond market in the second half of the 21st century, when the needs of an ageing population are expected to result in an increase in net debt.

The latter strategy would require the Government to face the issues surrounding a build up of a position in private-sector assets

The decision to purchase assets, however, raises issues about their regulation and administration. Previous experience provides only limited guidance. The US Social Security Trust Fund and the Canadian Pension Plan Investment Board only invest in their respective countries' government securities.[10] Sweden, in contrast, following the recent important pension reform, widened considerably the investment options of the large pension funds – with asset holdings equivalent to about 25 per cent of GDP. The aim was to encourage investments in both equities and foreign assets subject to prudential limits, whereas, previously, assets were placed mostly in government securities.

10. However, US state pension plans, most notably that of California, invest in corporate bonds and equities.

Another example of asset management by government is Norway's Petroleum Fund. Prior to 1997, the strategy adopted duplicated that for foreign reserves, investing only in relatively risk-free assets, but from 1997 the fund was allowed to invest 30 to 50 per cent of its funds in domestic and foreign equity markets. While these strategies may be feasible for smaller countries, it may be more delicate for larger ones to follow them. They may cause large shifts in capital flows (to the extent that investments are made abroad) and domestic assets would need to be purchased with care so as not to distort either relative prices or to influence corporate governance.

Challenges in developing a unified bond market: the case of the euro area

The creation of the euro-area raises the issue of the policy requirements, if any, for the development of a pan-european securities market

The emergence of a truly pan-euro-area government-bond market would provide benefits similar to those of the US government securities market. Its establishment will be a policy priority for the euro area and some initial steps have been taken already. Beyond the introduction of the common currency, an important development has been the recent convergence within the euro area of the composition of debt (by type of instrument and maturity).[11] This reflects parallel attempts by the authorities to promote liquid and efficient government-securities markets in individual countries. Further progress towards the complete integration of their bond markets, however, might be hampered by the absence of a single-area issuer of debt and by decentralised budget policies. Despite recent progress, and improvements in primary balances, differences with respect to liquidity and default risk remain.[12] Whether these factors will limit the substitutability of securities issued by different euro-area governments and, in the process, possibly hinder market integration, is an open question.

Competition and co-ordination among debt managers in the European market

A key question for the euro area is whether competition among "independent debt managers" will result in an efficient euro-area government securities market…

In the search for funds in the European market, competition among euro-area treasuries could increase, especially if governments attempt to establish their issues as benchmarks in the process of trying to gain liquidity premiums. Market makers have had a preference for German debt as the reference bonds in the euro area, especially for the longer maturities.[13] However, this benchmark status could start to be shared with French and Italian government bonds at shorter and very long-term maturities. For example, while German bonds benefit from their greater absolute size and from an active market in Bund futures, French securities are more liquid in the very short term and in the 15-to-30 year maturity segment of the market. Indeed, market

11. These policies have led to an accelerated integration of European capital markets, a substantial convergence of debt duration across member countries of the European Economic and Monetary Union (EMU) and may have contributed to a more symmetric transmission of monetary policy impulses across member countries.
12. Risk premiums are relatively small, though the credit risk premium should have increased as a result of the loss of the participating country's monetary sovereignty. Recent rate movements suggest that other, offsetting factors may be at play. For example, the narrowing of interest rate spreads and credit ratings has been interpreted as reflecting the perception that a bail-out of a sovereign debtor within the EMU area is a possibility.
13. The traditional preference for Bunds over other European government bonds, before the launch of the euro, was highlighted again during the financial crisis in autumn 1998, and reflected in widening spreads.

makers have stated a preference for French Treasury bonds since they feel that the authorities' secondary-market policy is less discretionary.[14]

… or whether independent debt management strategies would lead to costly co-ordination failures

Competition among debt managers has beneficial aspects to the extent that it improves the overall liquidity and efficiency of the area-wide markets. However, now that exchange-rate risk has been eliminated, questions have been raised as to whether increased co-ordination among issuers may hasten euro-zone financial market integration and thus support an increase in the market's overall size. For example:

– Is there a potential for co-ordination failures with respect to issuance strategies among eleven debt managers acting independently, which may turn out to be costly to the taxpayer, deter market integration and thus the development of the euro area as an important financial market?
– Is co-ordination required to achieve a sufficiently uniform distribution of maturities so as to support the establishment of a euro-area term structure of interest rates and facilitate efficient pricing?

To date, in recognition of some of these potential problems, progress has already been made in the form of an exchange of information among euro-area debt managers and this has helped transparency.[15] Although no other co-ordination is foreseen, a suggestion has recently been made to create a single body responsible for issuing a large part of euro-zone government bonds (de Silguy, 1999). Without such efforts, it is sometimes argued, there may be incentives for individual debt managers to abandon passive issuance strategies in order to pursue a more active one in the cash market, competing against other governments as well as the market, and resulting in an overall welfare loss.

Passive issuance policies in the cash market have been adopted by many countries because they are thought to be more beneficial (in the long run) compared with more active ones.[16] It has become accepted that an efficient functioning of the financial market requires that the impact of government debt operations on prices be minimal. This is more likely to be achieved by publishing issuance schedules in advance, and focusing on a small set of maturities (*i.e.* benchmark issues) and a smooth redemption profile.

In contrast, a more active debt management strategy aims at lowering debt-service costs by taking advantage of market anomalies (traditionally by switching from the issuance of long- to short-term bonds when the yield curve is atypically steep). Such a strategy is now widely seen to be disruptive for markets and actually would be ineffective if market participants were able to identify the issuer's strategic behaviour. Markets would eventually build in a specific risk premium as they gained experience of issuers' behaviour.[17] Moreover, to the extent that the term structure of

14. The practice in Germany of leaving aside issue amounts for the market management operations of the Bundesbank is perceived as discretionary by market makers (Favero *et al.,* 1999)
15. Among other things, debt management issues for the European Union (EU) area are discussed in the European Economic and Financial Committee on EU Government Bonds and Bills (EFC).
16. Debt managers are becoming more active in the derivatives market, however. For example, interest rate swaps allow a borrower to manage the interest sensitivity of a portfolio by switching from fixed to floating interest rate payments or *vice versa*. Cost savings also arise as public borrowers with a high credit rating, operating in a developed market, usually have a comparative advantage issuing long-term, fixed rate bonds, and can then swap interest payments to floating rates (OECD, 1999*b*).
17. One aim of an active strategy was to use issuance activity to lower long-term rates (with the purported additional advantage of stimulating output) and raise short-term rates (with a view to reducing net capital outflows). A noted example is the so-called "operation twist" in the United States in 1962, though similar operations were also briefly undertaken there in 1994 and contemplated in Japan in early 1999, in both cases when long-term rates increased rapidly above short-term ones.

interest rates is determined by expectations of future short rates, cost savings from such a strategy would be limited over time. In the case of the euro area, co-ordination (including an exchange of information) would reduce incentives for individual debt managers to revise their debt issuance schedules after observing those of others.

In the absence of co-ordination and complete integration of government bond markets, the euro-area term structure of interest rates from government bonds may be less informative regarding market expectations of interest rates, and this could hamper various financial activities, such as pricing other assets. Here the swap curve may represent a reasonable substitute. The introduction of the euro has led to the development of a single swap market comprising several closely linked markets. Swap yields are not necessarily the lowest yields in the markets, however, risk premiums appear to be fairly standard across markets (McCauley, 1996).

Debt management when the stock of debt is growing: the case of Japan

The level of debt in Japan is projected to rise rapidly…

The Japanese Government Bond (JGB) market is the second largest in the world after that of the United States. With the fiscal deficit relative to GDP projected to remain high (of the order of 7 to 8 per cent in 1999 to 2001 – the highest in the OECD area),[18] Japanese bond issues are expected to account for approximately 90 per cent of total net OECD government bond issuance in the next few years. Uncertainties related to this burgeoning supply, on the one hand, and micro-structure issues in the JGB market, on the other, may have already increased the volatility of the 10-year JGB yields, prompting investors to move into the AAA euro-yen market to reduce price risks. Looking forward, the envisaged rapid build-up in net debt – albeit from relatively low levels – is likely to make debt management a more important issue in Japan than in most other OECD countries, both as regards the more standard fiscal (cost savings) perspective as well as the signal it provides to markets about the future stance of monetary policy (Box VI.2).

… and there is potential for significant cost saving if debt management was made more efficient…

Significant cost savings could be achieved if debt management were to be made more efficient. Various reforms concerning institutional aspects of debt issuance (the introduction of auctions and more liquid brokers) and other steps towards market liberalisation have already been undertaken including, *inter alia*, the abolition in 1999 of the withholding tax for non-residents and the transaction tax on JGBs.[19] Nevertheless, various features point to inefficiencies that still persist:

– Most medium- to long-term issuance has until recently been concentrated in the 10-year market segment, with the 10-year bond still comprising the only benchmark

18. These projections are described in the earlier chapters of this publication.
19. Beginning in the second half of the 1980s, the financial system in Japan was dramatically liberalised. These reforms were aimed, in particular, at making the JGB market more attractive to foreign investors. Reforms included the deregulation of interest rates, the development of futures and options trading and new procedures for the issuance of government debt. Until 1987, bank syndicates were used for the issuance of JGBs. Since then, the higher maturity debt has been issued in multiple-price auctions, and (since April this year) public auctions have been introduced for short-term government securities (Takeda and Turner, 1992; Kroszner 1998; and Nakamae, 1999). Finally, larger and more liquid brokers took over the business in 1996, which may support market liquidity (Ohashi and Milligan, 1998).

Box VI.2. Debt management and monetary policies

While monetary policy considerations and actions are now relatively isolated from debt management ones, it is recognised that the monetary transmission mechanism may be affected through the impact of the structure of debt on market expectations. Equally, a high level of debt may create expectations of time inconsistent policies (Sargent and Wallace, 1981).

In the recent history of industrial countries, however, high debt levels have only occasionally resulted in a rise in inflation that reduced the government's debt burden at the expense of private creditors – "unpleasant monetarist arithmetic". This can be partly explained by the existence of liberalised capital flows, which are a disciplining force on the authorities. Any sign of opportunistic behaviour would quickly lead to capital flight and an exchange rate crisis. Moreover, if the central bank has a clear mandate to keep inflation low, high levels of debt may be seen more likely to result in "unpleasant fiscal arithmetic" (King, 1998). If inflationary pressures arise, the independent central bank will keep interest rates high, and in such circumstances, fiscal policy would have to bear the brunt of adjustment.[1]

In fact, several countries in Europe may have been made more susceptible in the past to a crisis of confidence as the average term-to-maturity was reduced in response to concerns about time inconsistency arising from high levels of debt (Alesina *et al.*, 1990 and Giavazzi and Pagano, 1990). In effect, the economy was pushed into a situation which left it vulnerable to an adverse shock that forced up interest rates.

In the case of Japan, after the recovery is firmly established, the levels of debt are likely to be high enough that the government may need to signal to markets that it does not intend to create inflation or depreciation surprises. To this end, the credibility of policies (both macro and structural) could be enhanced through its debt management decisions. The latter could comprise the issuance of more foreign-currency-denominated or index-linked debt.

1. In the euro area, partly due to these considerations, the Stability and Growth Pact includes limits on individual country deficit and debt levels.

issue (Table VI.6). As a result, approximately three-quarters of outstanding issues have an original maturity of 10 years, leaving the government bond markets with a lack of sizeable issues along the yield curve and undermining overall market liquidity (Bank of International Settlements, 1999; and Ohashi and Milligan, 1998).

Table VI.6. Selected characteristics of bond markets in major OECD countries

As of 1997

	Bid-ask spread[a]	Cash-futures ratio[b]	Issues size[c]	Number of benchmarks	Rules/ practices of short sales[d]	Primary dealers
United States	3	2.7	17.5	7	Yes	Yes
Japan	7	0.7	7.7	1	No	No
Germany	4	..	8.3	4	No	No
France	10	..	2.8	7	Yes	Yes
Italy	6	4.1	12.3	5	Yes	Yes
United Kingdom	4	1.0	18.2	3	Yes	Yes
Canada	5	33.7	6.7	7	Yes	Yes
Belgium	5	33.8	8.9	2	Yes	Yes
Netherlands	..	..	6.2	2	Yes	Yes
Sweden	15	3.2	3.8	12	Yes	Yes
Switzerland	10	1.4	2.5	7	Yes	No

a) Bid-ask spread for on-the-run ten-year fixed-coupon government securities.
b) Yearly trading volumes of all marketable securities divided by yearly trading volumes (notional values) in futures markets.
c) Average issue size in $ billion for on-the-run ten-year fixed-coupon government securities.
d) Existence of rules/practices for fails which enable dealers to postpone a delivery (with penalty payments) if they are in short position and cannot deliver the respective securities.
Sources: Bank for International Settlements (1999), Inoue (1999).

– For a bond market the size of Japan's, bid-ask spreads are high in the JGB market (7 basis points for 10-year bonds, compared with 3 in the United States), which may signal a relative lack of liquidity even for this key benchmark bond (Bank of International Settlements, 1999).

– Margins of AAA euro-yen issues over JGBs are narrow compared with similar US issues (+/–5 basis points for JGBs versus 15-30 basis points for yields on euro-dollar AAA bonds over US government securities), possibly suggesting the existence of significant liquidity premiums on government debt.

– Non-resident holdings of JGBs are small compared with those of other large OECD countries (10 per cent in the case of Japan compared with 37 per cent for the United States) (Table VI.7). This reflects, in part, the existence until recently of the transaction tax and thewithholding tax, but may also reflect liquidity considerations.

– The cash-to-futures-transactions ratio has been low compared with that in other large OECD countries (1:2 in the JGB market versus 3:1 in the US government securities market). This fact may also reflect illiquidity premiums and tax considerations in the cash market.

– A large share of government debt is held to maturity by quasi-public institutions, such as the Trust Fund Bureau, thereby reducing the amount of market-priced debt. There are as well obstacles to short selling (*e.g.* the non-existence of rules/practices for fails).

… through the introduction of measures that would improve the liquidity of the JGB market

A number of reforms could produce cost savings. Larger, standardised issues at more evenly distributed maturities could help increase liquidity. In this regard, the government recently introduced a 1-year Treasury bill (April 1999) and a 30-year bond (September 1999). It also intends to reintroduce 5-year JGBs (a maturity which has been so far the exclusive privilege of long-term credit banks) in late 1999 or early 2000. These initiatives, in combination with the recent emphasis on existing issues, as well as the 10-year bond, should help fill in the yield curve's maturity structure and increase its currently poor level of liquidity. The introduction of STRIPS, which has been announced, would improve the liquidity of the JGB market by offering high duration instruments, hedging flexibility and a fuller yield curve (Ohashi and Milligan, 1998). In view of the heightened uncertainties typically attached to a rising debt-to-GDP ratio (Box VI.2), the introduction of index-linked bonds may also attract investor interest, thus raising market liquidity. The elimination

Table VI.7. **Holders of government debt securities**[a]

Per cent of total, end 1997

	United States	Japan	Germany	France	Italy	United Kingdom	Canada	Belgium	Netherlands	Sweden
Residents	63.1	90.0	31.2	87.1	77.5	85.6	75.0	78.6	76.0	80.5
Government	0.0	35.8 }	3.3	. .	0.1 }	3.6	4.5	4.3	0.0	21.4
Central bank	13.1	10.5 }		0.0	7.6 }		5.3	0.7	0.0	5.5
Domestic financial sector }	50.0	26.8	12.3 }	87.1[b]	69.8	67.8	52.5	57.0 }	76.0	33.4
Domestic non-financial sector }		16.9	15.6 }			14.2	12.7	16.6 }		20.2
Non-residents	36.9	10.0[c]	68.8	12.9	22.5	14.4	25.0	23.0	24.0	19.5

a) Figures are for marketable debt only, except for Belgium where non-marketable debt is included.
b) Includes government holdings.
c) Estimate.
Sources: Bank for International Settlements (1999), and Deutsche Bundesbank, Special Statistical Publication 9: *Securities Deposits,* August 1998.

of legislative obstacles to short selling would serve to increase further foreign demand in the cash market. Over the medium term, market liquidity could be enhanced if a larger share of the debt were traded, rather than remaining in the hands of quasi-public institutions. In the event, caution would be required during a transition period so as to minimise disruptions to the market, given current large official holdings, which may be keeping interest rates low. Here, there may be a role for primary dealers which, currently, do not exist in Japan.

Appendix: The primary objectives of debt management: minimising cost while reducing risk

The trade-off between cost and refinancing risk

Debt management decisions typically deal with the choice of instruments, issuing techniques and institutional arrangements that minimise debt-servicing costs, given a certain risk profile. When choosing a debt instrument, there is usually a trade-off between reducing cost and reducing rollover risk (the former frequently implies issuing short-term debt and the latter long-term). The appropriate choice has often been based on an *ad hoc* target, usually for: *i)* the mix of floating, index-linked and fix-rated debt; and *ii)* the mix of long-term and short-term debt. For example, a longer maturity structure, built from fixed interest rate securities, would lessen the need for refinancing and would stabilise the nominal cost of borrowing, thus reducing refinancing risk. There may also be a market preference for certain, usually medium- to longer-term, maturities. If such "preferred habitats" can be identified, the borrower can profit by raising funds more cheaply. The establishment of such market segments, however, may initially entail an illiquidity risk premium, which would be applied to new instruments, as compared with an issuing strategy that is focused on the few existing standardised instruments. This could be easily overcome if there was high market demand for the new instruments, as was the case for STRIPS but perhaps less so for index-linked bonds.

Currently, duration, which indicates the interest exposure of a debt portfolio, is the most commonly used single measure for the trade-off between cost and rollover risk.[20] A more advanced risk evaluation system, used by the Danish authorities, is a "Cost-at-Risk"(CaR) measure, which is similar to the Value-at-Risk (VaR) concept. The CaR measure focuses on the risk from increasing interest rates by calculating the cost of debt service within a certain probability range. The respective probability distribution is calculated from models and assumptions concerning the future development of interest rates.

The maturity structure of the debt may serve an important macroeconomic insurance role as a hedging mechanism for governments, once the stochastic properties of the economy are known (Lucas and Stokey, 1983; and Bohn, 1988). For example, if productivity (supply) shocks are prevalent in the economy, necessary tax adjustments to keep the budget close to balance will be more limited if the government issues more long-term (fixed-rate) nominal debt. In the case of a negative supply shock, output and inflation are negatively correlated. A hedge will have been

20. Duration is defined as the weighted average maturity profile, where the weights are the share of the total debt service payments (in present value terms).

created since revenues will fall at the same time as interest servicing costs, in real terms, also decline. On the other hand, if (non-fiscal) demand shocks are more prevalent in the economy, issuing more short-term and index-linked debt creates the appropriate hedge. In the case of a positive demand shock, higher output and inflation result in simultaneous increases in revenues as well as interest service costs. The debt structures of countries have been found to fit these patterns (Missale, 1997), which may reflect the fact that debt managers implicitly internalise the macroeconomic insurance aspects of the trade-off between rollover risk and cost saving. For example, in the United Kingdom there have been strong positive co-movements between inflation and potential output since the 1990s, suggesting a role for price-indexed debt, while in Italy and the United States the co-movements have been negative, suggesting a role for longer-term nominal debt.

Selling techniques, debt instruments and innovations

To lower costs, debt managers have made several innovations with respect to the use of instruments and selling techniques. Generally, such innovations aim at increasing demand – in many cases from foreign investors – and raising liquidity. In most countries, auctions have replaced a system of syndication. Auctions are mainly of the "multiple-price" variety, with securities allotted to the bidders in the order of their bid price. As opposed to "uniform-price" auctions, the issuer can earn rents from price discrimination, and the successful bidders are subject to the "winner's curse" as the bid price is paid.[21] Auctions are sometimes combined with issuance through a set of primary dealers, who also act as underwriters. They are used to enhance the price discovery process through the requirement of continuous two-way quoting (market making), and by including foreign firms as primary dealers, to help stimulate foreign demand (Bröker, 1993). The combination of primary dealers and multiple-price auction systems has been linked to the opportunity for primary dealers to acquire a large fraction of new issues by aggressive bids, which then allows them some market power.[22] Other organisational improvements that have allowed cost savings are the introduction of electronic book entry systems, central depositories and delivery versus payment systems.

Institutional aspects: independent debt managers

Part of the trend towards transparency has been the appointment of independent debt managers. They operate outside the influence of both the central bank and the Ministry of Finance, with the sole objective of meeting the government's borrowing requirements. The argument for the creation of such an institution in many ways parallels that for independent central banks and basically refers to time-consistency and credibility, and the desire to prevent interaction of debt issuance with the conduct of monetary and fiscal policy (Kroszner, 1998). Independence raises the importance of an assessment of the management's cost-effectiveness. In general, their performance is measured in different ways. For example, assessment is made through comparisons with a benchmark or cost-risk relationship (Ferré Carracedo and Dattels, 1997).

21. The fear of bidding too high under a multiple-price auction is said to lead to bid prices that are, on average, lower than in the case of a uniform-price auction. Though there is no clear-cut empirical evidence as to whether gains from price discrimination are outweighed by losses from under-pricing, for very liquid markets such as those for government bonds, multiple-price auctions are generally believed to yield net gains for the issuer. See Gray (1997) and Kroszner (1998).
22. They would make profits by squeezing the other primary dealers who acquired less, but have already sold "when issued" securities to their customers (Kroszner, 1998).

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VII. CROSS-COUNTRY PATTERNS OF PRODUCT MARKET REGULATION

Introduction

Regulation is essential in market economies, but it may sometimes be too intrusive

Regulation is perhaps the most pervasive form of state intervention in economic activity. By establishing the "rules of the game" in a number of different areas – such as market competition, business conduct, consumer protection, public safety and health, and the environment – regulation is essential for the good working of market economies. Nonetheless, in the past two decades there has been increasing concern that many regulations have become too intrusive and stifle market mechanisms, possibly affecting resource allocation and productive efficiency. Therefore, most OECD governments have been reviewing and updating their regulatory environments. A wide policy consensus has emerged on the need to eliminate unnecessary and obsolete regulations, soften excessively restrictive ones, replace "command and control" measures with "incentive-based" regulatory schemes, increase administrative transparency and reduce administrative burdens. This regulatory reform process is closely intertwined with the prospect of enhancing product market competition, a crucial structural policy issue on the agenda of OECD governments.[1]

OECD indicators describe patterns of regulation in a synthetic way…

This chapter reports the results of an effort by the OECD to collect and analyse comparative data on regulatory environments in the product market in 1998.[2,3] Its main purpose is to describe the variability of regulatory approaches across countries and analyse the interrelations between various sets of regulatory provisions. The chapter considers only economic and administrative regulations, ignoring other important regulatory areas in which the available cross-country information is scarce. Moreover, the focus is exclusively on the relative friendliness of these regulations to market mechanisms. There is no attempt to assess the overall quality of regulations or their aptness in achieving their stated public policy goals, nor is there any attempt to compare competition policies (*i.e.* the characteristics and the enforcement of competition laws) across countries.

In order to ensure a reasonable level of international comparability, the analysis was based on several principles (see Box VII.1 for more detail). First, the basic data were harmonised, eliminating as much as possible spurious cross-country differences. Second, the regulatory environment was characterised with reference to a large set of individual regulatory provisions. Third, the metric chosen made it possible to rank countries on each of the regulatory provisions according to a common and

1. See OECD (1997, 1999*a*, 1999*b*, 1999*c*).
2. The analysis is based on data submitted by Member countries as well as on data available from other sources. In principle, the data should capture the situation in 1998, but in practice the precise reference period may change slightly depending on the indicator and the country concerned. As a general rule, regulatory reforms implemented after 1998 are not reflected in the analysis contained in this chapter.
3. This effort is part of a larger project on regulatory reform. The results benefit from and feed into the ongoing *OECD Reviews of Regulatory Reform*.

Box VII.1. **The regulatory database and indicators**

The OECD Regulatory Indicators Questionnaire was distributed to Member countries in 1998. It asked for information, both quantitative and qualitative, on more than 1 500 different regulatory provisions concerning economy-wide and sector-specific laws, regulations and administrative procedures. The sectors covered included retail distribution, transportation (road freight, air passenger transport and rail transport) and telecommunications. The response rate was high and the data collected were extensively checked by OECD and government experts. Using the responses to the questionnaire as well as other sources, an international regulation database was established. The database provides a "snapshot" of regulatory environments in (or around) 1998. However, in some cases "dynamic" elements were also included, to account for recent reform tendencies, such as privatisation policies, administrative simplification programs and improvements in the flexibility of certain regulations (*e.g.* shop opening hours).

The information contained in the database was exploited to construct summary indicators of regulation. These are cardinal measures that summarise economy-wide and sectoral regulations by regulatory area and are increasing (along a 0-6 scale) with the degree of restrictions they impose on market competition. Economy-wide regulations are defined as regulations that affect all or most sectors of the economy (for example administrative burdens), while sectoral regulations are specific to particular activities or markets (such as limitations on the number of competitors in fixed telephony). The indicators have a pyramidal structure: at the top they summarise the main features of the overall regulatory environment in the product market; at the intermediate levels they summarise information about broad regulatory areas and families of regulatory interventions; at the lowest level they coincide with more specific features of the regulatory regimes (Figure VII.1). These specific features are often derived as combinations of the basic information on regulation obtained from the questionnaire or other sources. The summary indicators were then constructed aggregating these features by means of multivariate data analysis techniques (details on the database and the construction of the indicators can be found in Nicoletti *et al.*, 1999).*

Economic and administrative regulations are classified into two main areas: inward-oriented and outward-oriented policies, depending on whether regulations are directed at domestic or foreign operators. In turn, inward-oriented policies are subdivided into measures aimed at establishing various forms of state control on economic activities and provisions resulting in impediments to entrepreneurial activity, while outward-oriented policies distinguish explicit barriers to trade and investment (*e.g.* tariffs or foreign ownership restrictions) from other barriers to international exchanges (*e.g.* regulatory hindrances). State control measures include public ownership of business enterprises (*e.g.* the size and the scope of the public enterprise sector) and the involvement of the state in the operation of private businesses (*e.g.* price controls). Barriers to entrepreneurship include obstacles to competition (*e.g.* legal limitations on the number of competitors), administrative burdens (*e.g.* burdens on business startups) and administrative opacities (*e.g.* the complexity of the licensing and permit system). The advantage of the resulting pyramidal structure of regulatory indicators is that indicator values concerning broad regulatory areas (such as inward and outward-oriented policies or state control and barriers to entrepreneurship) can be traced with an increasing level of detail to the values taken by the more disaggregated indicators.

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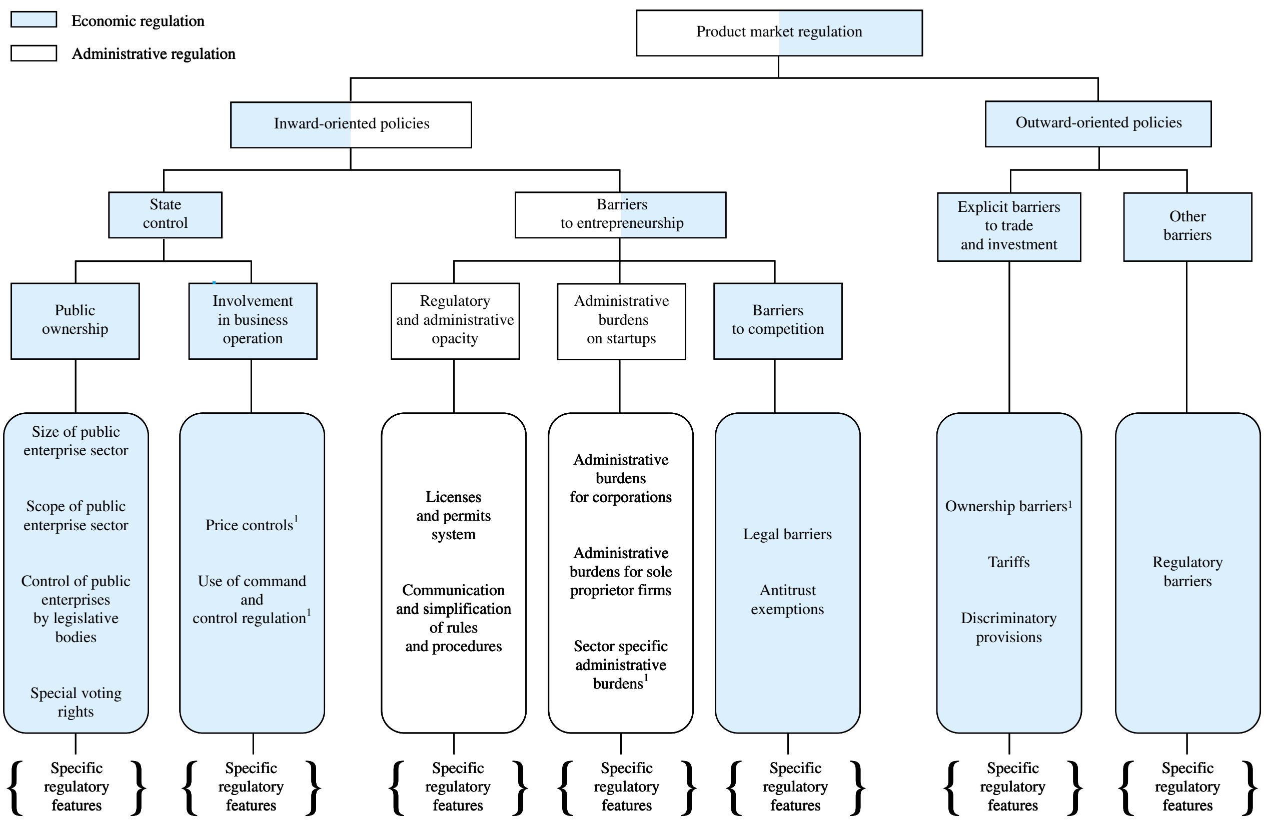
* At each level of the pyramid, the summary indicators described in Figure VII.1 aggregate the lower-level (more detailed) indicators using weights estimated from factor analysis. The first-level indicators (*e.g.* size of public enterprise sector) either summarise or coincide with the information on specific regulatory features contained in the database.

interpretable scale. Finally, the large set of provisions composing each of the regulatory families and the overall regulatory environment was synthesised into a set of summary measures.

The resulting indicators of economic regulation include a wide range of constraints and incentive mechanisms concerning market access, the use of inputs, output choices and pricing. The indicators of administrative regulation *(i.e.* the interface between government agencies and economic agents) include means for communicating regulatory requirements to the public as well as compliance procedures. The guiding principle inspiring the conception of these indicators is the likely influence of regulations on the intensity of product market competition. For this purpose, restrictions to competition were defined either as barriers to access in markets that are inherently competitive or as government interferences with market mechanisms

Figure VII.1. **Taxonomy of economic and administrative regulations**



1. Includes sector specific information on road freight, air transport, retail distribution and some telecommunications services.
Source: Nicoletti, G., S. Scarpetta and O. Boylaud (1999), "Summary indicators of product market regulation and employment protection legislation for the purpose of international comparisons", *OECD Economics Department Working Paper,* No. 226.

(such as price controls or involvement in business operation) in areas in which there are no obvious reasons why mechanisms should not be operating freely.[4]

... but cannot account for all aspects of the regulatory environment

It should be underscored that a market-oriented economic and administrative regulatory environment is only a necessary condition for enhancing product market competition, because in many markets competition could be stifled by anti-competitive behaviour of private businesses (*e.g.* cartels or abuses of dominant position). Since the effectiveness of competition policies or different approaches to regulating access and pricing in network industries (after basic entry liberalisation has been implemented) are not assessed, the analysis in this chapter cannot tell whether competitive pressures operate fully in the economies under consideration. In addition, the analysis deals only with formal regulations and, therefore, cannot account for enforcement issues. Finally, some important areas, such as financial markets and land-use regulations are outside the scope of this study. These are

4. For instance, price controls were considered to restrict competition only in industries where individual firms have no market power, such as road freight or retail distribution.

likely to be particularly relevant for the assessment of barriers to entrepreneurship, because they affect *inter alia* the access to venture capital and the flexibility in the use of inputs. Taking into account these additional factors could have repercussions on the assessment of the policy stance in the different regulatory domains or could affect the overall assessment of the scope allowed for product market competition in individual countries.

The general picture

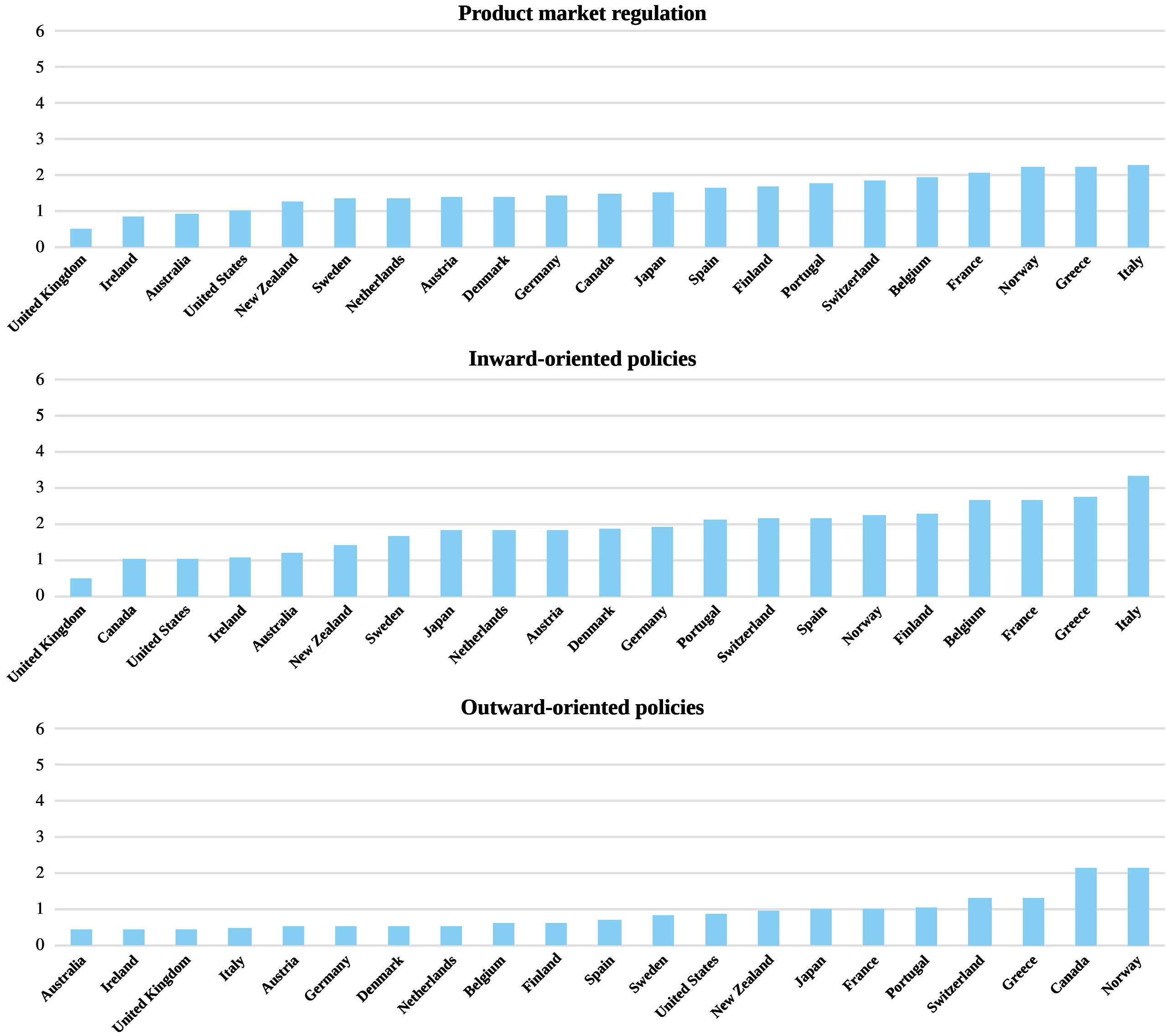
The friendliness of regulation to market mechanisms varies substantially across countries…

Figure VII.2 shows the overall indicator of product market regulation as well as its two constituent parts: the summary indicators for inward and outward-oriented regulatory policies.[5] Relative to a worst case scenario, in which regulation would effectively stifle market competition, the subset of OECD countries considered in the figure appears to be comfortably placed.[6] However, the indicators suggest that the friendliness of regulatory environments to product market competition still varies substantially across countries, in particular for inward-oriented regulations. This is unsurprising since outward-oriented ones are increasingly determined by multilateral agreements and supranational institutions. The United Kingdom, Ireland, Australia, the United States and New Zealand are estimated to have the least restrictive overall regulatory environments. However, while the first three countries have the most liberal regulatory stance both at home and vis à vis their commercial partners, the United States and New Zealand are assessed as having a slightly tighter outward orientation. By contrast, the regulatory environment appears to be the most unfriendly to competition in Italy, Greece and Norway. In Greece and especially Italy this largely reflects a very restrictive domestic environment, while in Norway outward-oriented policies appear to be more restrictive than in most other countries included in the analysis. With the exception of France and Belgium, in which the domestic environment is also relatively restrictive, and Canada, which is estimated to have outward-oriented policies as restrictive as Norway, the remaining countries tend to pursue broadly similar regulatory stances in each of the two broad policy areas, though with a tendency for some Northern and Central European countries (the Netherlands, Austria, Denmark and Germany) to have a relatively liberal regulatory approach in both.

Concentrating on inward-oriented policies, the overall country indicators can be related to more specific dimensions of the regulatory environments (Figure VII.3). The top panel distinguishes regulatory provisions that entail the control by the state over business enterprises (public ownership and control,[7] government involvement in the operation of private businesses) from provisions that create barriers to entrepreneurship (barriers to competition, administrative burdens and regulatory and administrative

5. The analysis in this chapter focuses on a subset of OECD countries for which no important information on the individual regulatory provisions summarised by the indicators was missing. Still, the lack of secondary information has left a margin of uncertainty for some of the countries included in the analysis (Canada, Ireland and Portugal), which however is unlikely to change the individual country rankings in any significant way.
6. The range of values taken by the summary indicators is smaller than the 0-6 scale along which individual regulatory provisions are ranked due to aggregation effects. This is because, in general, countries are ranked differently on different individual provisions.
7. The public ownership indicator covers privatisations implemented by 1998. In some countries, such as France, Italy and Greece, important sales of public assets have been carried out in 1999.

Figure VII.2. **Overall regulatory approaches**[1]



1. The scale of indicators is 0-6 from least to most restrictive.

Source: Nicoletti, G., S. Scarpetta and O. Boylaud (1999), "Summary indicators of product market regulation and employment protection legislation for the purpose of international comparisons", *OECD Economics Department Working Paper,* No. 226.

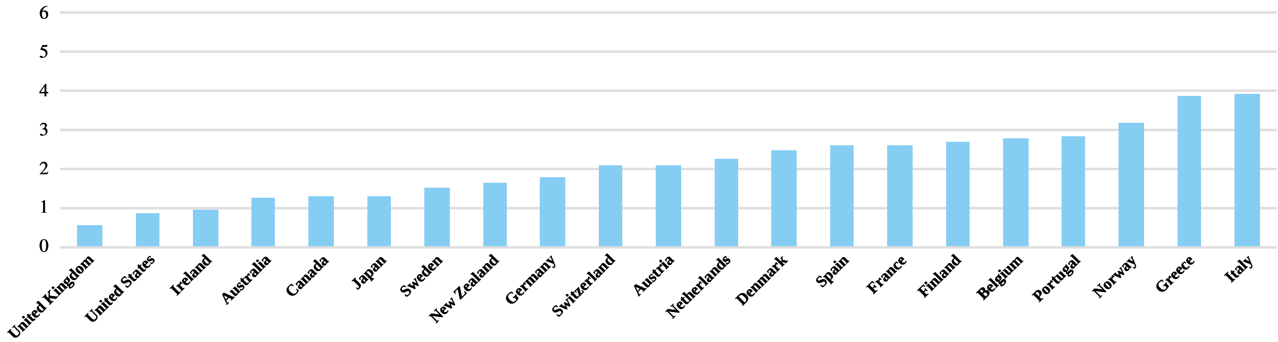
opacity). Countries differ much more in the degree of state control than in the extent of barriers to entrepreneurship, partly reflecting differences in the timing and scope of privatisation and in the extent to which past regulatory reform has been successful in shifting from "command and control" to "incentive-based" regulations.

Among the countries showing liberal overall regulatory environments, Australia, Ireland and especially the United Kingdom are reported as having both relatively low state control and few barriers to entrepreneurship. Also the United States have a very low degree of state control, but they appear to have slightly higher barriers to

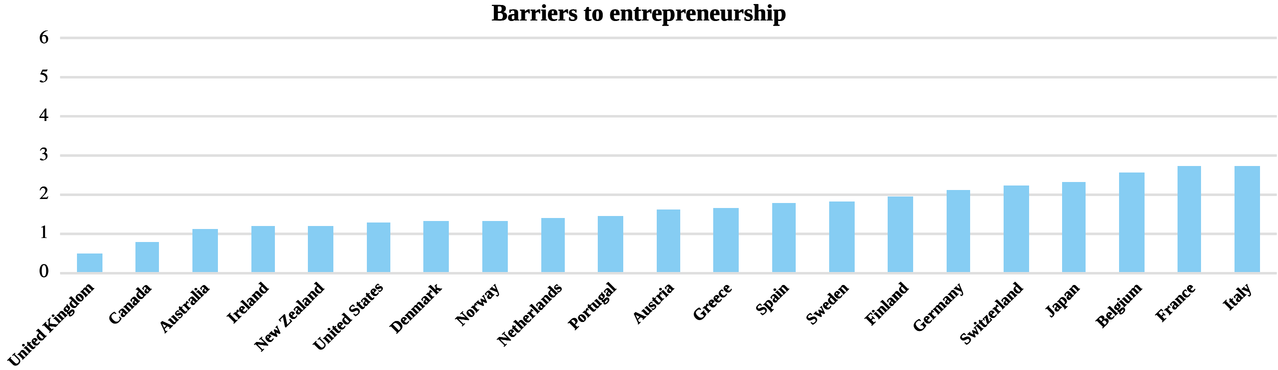
Figure VII.3. **Inward-oriented regulations**[1]

A. Thematic

State control

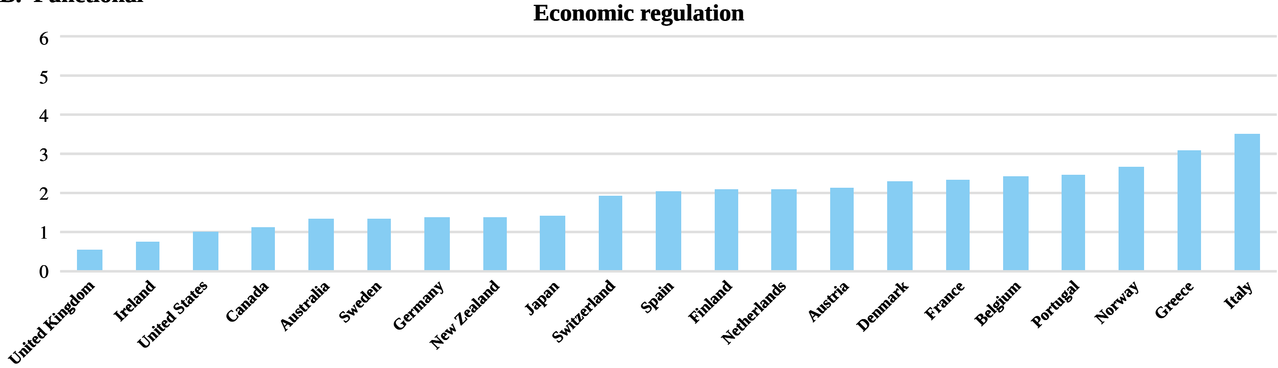


Barriers to entrepreneurship

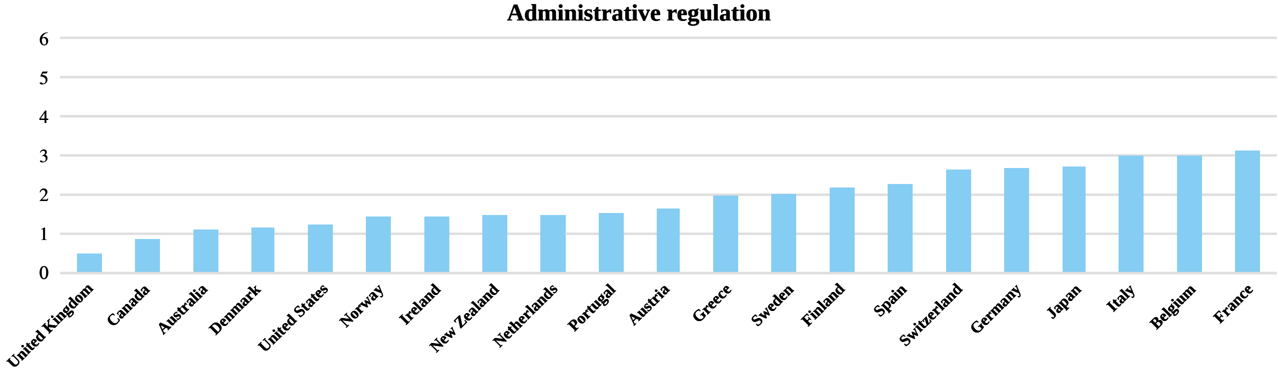


B. Functional

Economic regulation



Administrative regulation



1. The scale of indicators is 0-6 from least to most restrictive.

Source: Nicoletti, G., S. Scarpetta and O. Boylaud (1999), "Summary indicators of product market regulation and employment protection legislation for the purpose of international comparisons", *OECD Economics Department Working Paper,* No. 226.

entrepreneurship,[8] due to some complexities in administrative procedures (such as the lack of one-stop shops for obtaining licenses and permits) and antitrust exemptions (*e.g.* for state-mandated action and public enterprises). New Zealand appears to have few barriers to entrepreneurship but a somewhat higher degree of state control, mainly reflecting the existence of special voting rights in privatised enterprises and legal constraints to the sale of remaining public enterprises. At the other end, Italy is assessed as having both the tightest state control and the highest level of barriers to entrepreneurship: despite extensive privatisation and recent regulatory reforms, state-controlled enterprises are still numerous and recourse to "command and control" regulations and price controls is frequent relative to other countries, especially in competitive industries (such as road freight and, to a lesser extent, retail distribution); access to a large number of industries is also restricted by laws and regulations that limit the number of competitors, and administrative burdens on startups remain significant. Similarly, Greece has a high degree of state intervention in business sector activities related to a particularly strong recourse to command and control regulations and price controls; and France has relatively high barriers to entrepreneurship mainly implied by the complexity of administrative procedures and relatively heavy administrative burdens on business startups.

… and in many countries administrative procedures are burdensome

The respective roles of economic and administrative regulations in shaping the inward-oriented regulatory environments are illustrated in the bottom panel of Figure VII.3. This breakdown is based on the same principles as the previous one, but hinges on a different aggregation of the detailed regulatory indicators (see Figure VII.1). Administrative regulation includes reporting, information and application procedures and burdens on startups, implied by both economy-wide and sector-specific requirements; economic regulation includes all other inward-oriented provisions (such as state control and legal barriers to competition). The United Kingdom remains the least restrictive country on both counts, but economic and administrative regulations appear to be rather low also in other countries such as Ireland, the United States, Canada and Australia. The heaviest administrative regulations are found in France, Belgium, Italy and, to a lesser extent, Japan and Germany. It is worth noting that, according to the indicators, there are groups of countries in which the overall impact on competition of economic regulation is similar (*e.g.* in Australia, Sweden, Germany, New Zealand and Japan as well as in some other continental European countries), suggesting that differences in the degree of state control are sometimes offset by differences in legal barriers to competition.

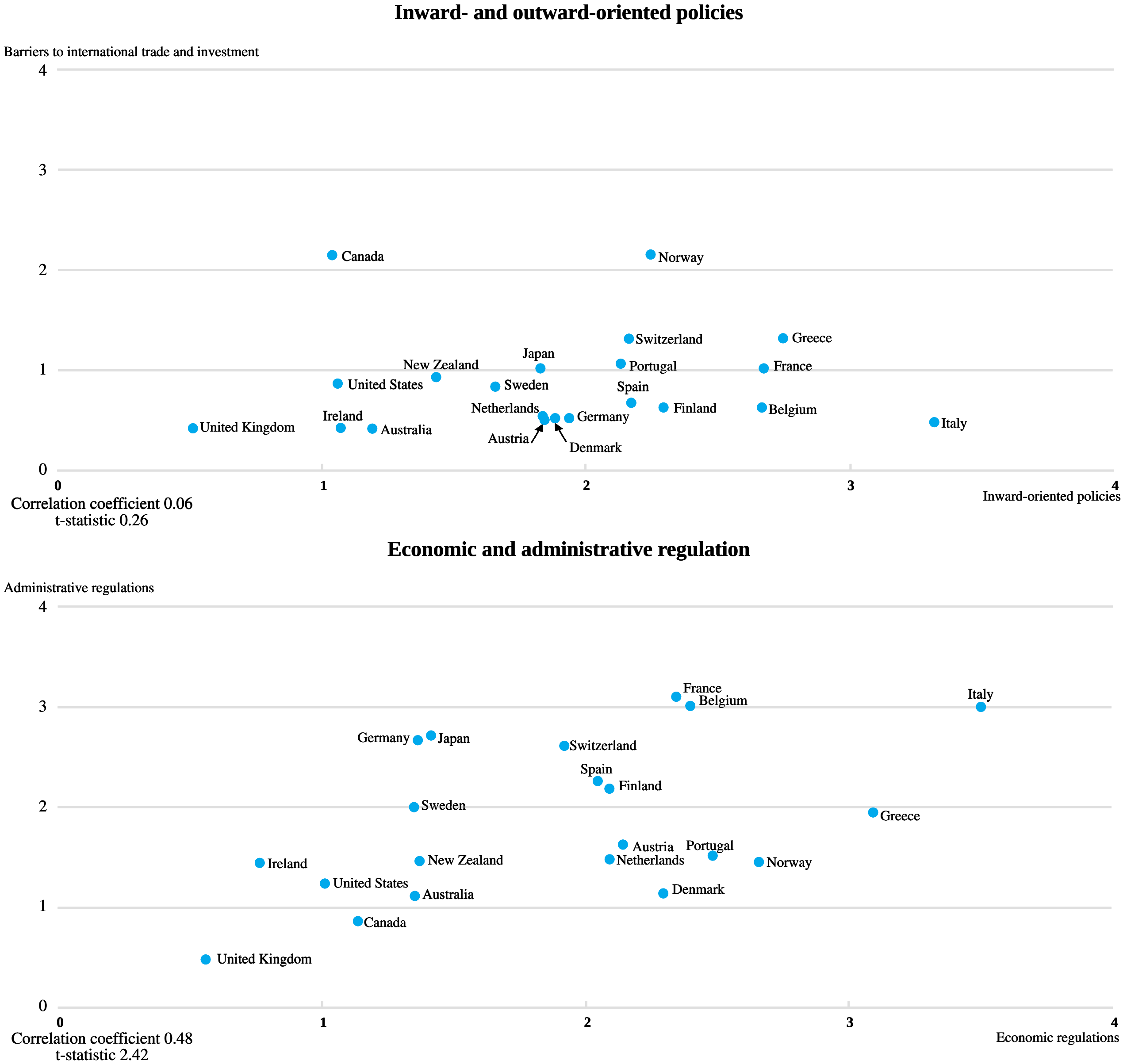
Regulatory profiles

Regulatory approaches in different areas may interact

Are the approaches taken by OECD countries in different regulatory areas interrelated? This question is relevant to the extent that the restrictive impact on product market competition of one set of regulations can be reinforced by the presence of restrictive regulations in another policy area – or *vice versa*. At the same time, the consequences of different sets of regulations on the degree of product market competition may be parallel, so that reforming only one set may not have much effect on the behaviour of private agents. Figures VII.4 and VII.5 provide some information on the

8. The omission of financial and land-use regulations might bias this indicator upwards in the United States, relative to other countries.

Figure VII.4. **Regulatory approaches across countries**[1]



1. The scale of indicators is 0-6 from least to most restrictive.

Source: Nicoletti, G., S. Scarpetta and O. Boylaud (1999), "Summary indicators of product market regulation and employment protection legislation for the purpose of international comparisons", *OECD Economics Department Working Paper,* No. 226.

relationships between inward and outward-oriented policies, economic and administrative regulations, and (at a more detailed level) the scope of state control and legal barriers to competition.

Inward and outward-oriented regulatory policies are not necessarily related…

Regulatory policies that restrict competition at home are not necessarily matched by relatively closed attitudes towards international trade and investment (Figure VII.4, top panel). The absence of a relation between inward and outward-oriented regulatory policies partly reflects economic integration in the OECD area.

All countries participate in multilateral agreements and/or supranational institutions that impose on signatories and members high standards of openness to trade and international investment. However, many domestic regulations are outside the reach of these agreements and institutions. For instance, despite the role played by European institutions in seeking to reduce national obstacles to internal trade, there are a number of areas (such as legal barriers to entry in certain service activities, regulations constraining the provision of business and personal services and administrative regulations) that remain largely under the realm of domestic policies that are often unfriendly to competition. The tension between market-oriented outward policies and relatively restrictive inward policies is particularly striking in some European countries, such as Belgium and especially Italy.

… but tight economic regulations are generally matched by burdensome administrative environments…

Countries that have tight inward-oriented economic regulations also tend to impose burdensome administrative procedures on business enterprises (Figure VII.4, bottom panel). Heavy reliance on command and control regulation and mandated market structure increases the complexity of the regulatory and administrative framework that businesses have to face. This suggests that reforms which make market access easier and rely increasingly on market-based mechanisms instead of coercive rules may also bring about a simplification of administrative procedures and a reduction in administrative burdens, thus enhancing their positive effects on product market competition.

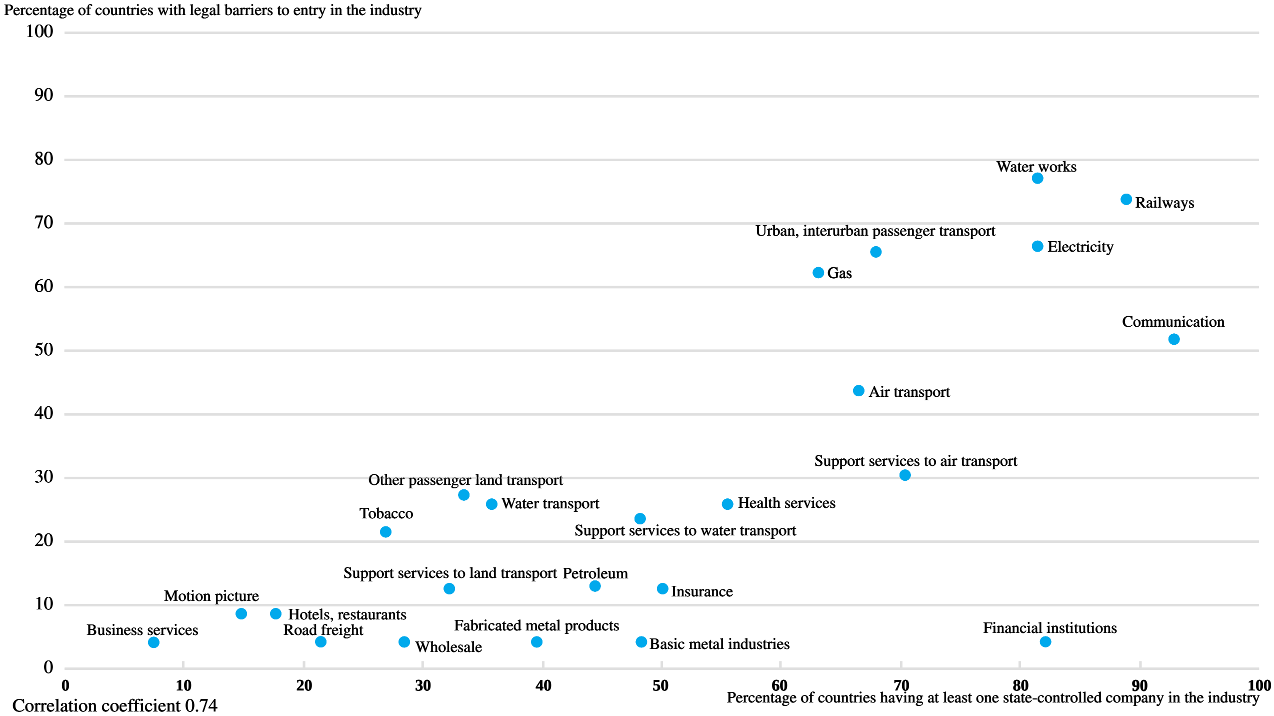
… and state control and legal barriers to competition often go hand in hand

Another interesting question is whether a high degree of state control in a business sector tends to be associated with laws and regulations that create barriers to competition. Figure VII.5 explores this issue by looking at the cross-country frequencies of public ownership and legal barriers to competition in selected business industries. Except for financial institutions, where public ownership is frequent but legal barriers to entry are not, industries in which the state is involved as an owner also tend to have market access restricted by laws and regulations (Figure VII.5, top panel). In several industries legal barriers to entry go hand in hand with large state-controlled incumbents, not only in the presence of clear natural monopoly components (such as in railways and electricity) but also where natural monopoly characteristics are either less evident (*e.g.* communications – including broadcasting) or lacking (*e.g.* air transport). The domination of an (otherwise) competitive industry by state-controlled enterprises often creates barriers for new entrants that may have the same effect on product market competition as explicit legal limitations on the number of competitors, especially when public enterprises are exempted from antitrust provisions. Thus, the simultaneous presence of state-controlled enterprises and legal barriers to competition in an inherently competitive industry might reinforce the effects of the two types of regulatory interventions on competition.

At the country level (Figure VII.5, bottom panel), the evidence of an association between public ownership and legal barriers to entry is weaker. The two indicators plotted in the figure summarise in each country the range of the industries covered in this study in which the government controls at least one company and in which laws or regulations limit the number of competitors. While some countries make frequent use of both kinds of regulatory interventions (notably Italy and Austria), other countries rely on either one or the other: Spain and Portugal have significant public ownership but few barriers, while Japan has low public ownership and relatively more widespread barriers. Economies where both public ownership and barriers to competition are widespread (even when not in the same industries) are likely to be characterised by a less competitive overall product market environment.

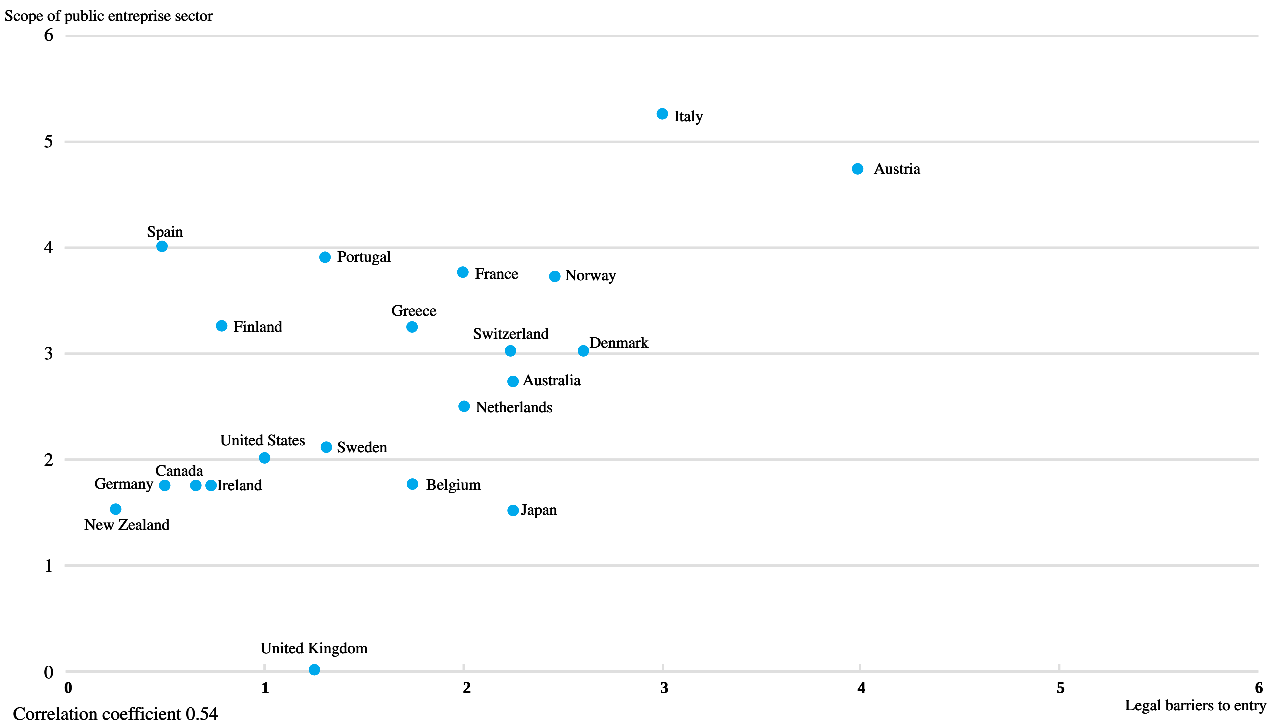
Figure VII.5. **State control and legal barriers to competition**

Scope of public entreprise sector and legal barriers to entry by industry in the OECD area



Correlation coefficient 0.74
t-statistic 5.09

Scope of public entreprise sector and legal barriers to entry by country[1]



Correlation coefficient 0.54
t-statistic 2.83

1. The scale of indicators is 0-6 from least to most restrictive.

Source: Nicoletti, G., S. Scarpetta and O. Boylaud (1999), "Summary indicators of product market regulation and employment protection legislation for the purpose of international comparisons", *OECD Economics Department Working Paper*, No. 226.

Conclusions

The regulatory indicators presented in this chapter suggest that, despite the increasing consensus on the need to reform regulation in a pro-competitive sense, some dimensions of the regulatory environments still differ significantly across OECD countries. The analysis points out a number of stylized facts concerning regulatory profiles across countries. First, the increasing degree of economic integration in the OECD area has leveled out differences in international trade and investment policies, which (for a large set of countries) appear to be more homogeneous than inward-oriented regulations. Second, there is evidence that across different areas of domestic regulation approaches tend to be similar within countries, so that their overall effect on market competition is compounded. For example, economic regulations that restrict competition are generally matched by a burdensome administrative environment. To the extent that administrative procedures are made complex by the need to comply with unduly restrictive regulations, the economic benefits of market-based regulatory reforms are likely to be matched by a parallel reduction in the complexity and costs of administrative procedures. At the same time, public ownership appears to be associated with legal limitations to the number of competitors. This association is frequent at the industry level and, in addition, these regulatory interventions are sometimes both widespread at the national level. Given that state control and restrictions to entry may be complements or substitutes in bridling market forces, in many countries the full benefits of regulatory reform are to be reaped only if both privatisation and liberalisation are pursued at the same time.

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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 1999-2001 are OECD estimates and projections. The data on some of the tables have been adjusted to internationally agreed concepts and definitions in order to make them more comparable as between countries, as well as consistent with historical data shown in other OECD publications. Regional totals and sub-totals are based on those countries in the table for which data are shown. Aggregate measures contained in the Annex, except the series for the euro area (see below), are computed on the basis of 1995 GDP weights expressed in 1995 purchasing power parities (see following page for weights). Aggregate measures for external trade and payments statistics, on the other hand, are based on current year exchange rate for values and base-year exchange rates for volumes.

Given the uneven progress in the transition of the European Union member countries to the new European System of Accounts (ESA95) (see Box I.2 in Chapter I "General Assessment of the Macroeconomic Situation" in *OECD Economic Outlook* 65), the publication of the three following Annex tables have been temporarily suspended. When data homogeneity and country coverage become comprehensive enough to arrive at reasonably consistent data series across countries the OECD will resume their publication.

– Annex Table 24. Capital income shares in the business sector
– Annex Table 25. Rates of return on capital in the business sector
– Annex Table 59. Productivity in the business sector

The OECD projection methods and underlying statistical concepts and sources are described in detail in "Sources and Methods: OECD Economic Outlook" which can be downloaded from the OECD Internet site (http://www.OECD.org/eco/out/source.htm). A supplementary document, the "OECD Economic Outlook Database Inventory", can also be downloaded (http://www.oecd.org/eco/ data/eoinv.pdf). The construction of macroeconomic series of the euro area are described in another supplementary document (http://www.OECD.org/eco/data/euroset.htm).).

NOTE ON STATISTICAL TREATMENT OF GERMANY,
THE CZECH REPUBLIC, HUNGARY AND POLAND

In this publication, data up to end-1990 are for western Germany only; unless, otherwise indicated, they are for the whole Germany from 1991 onwards. In tables showing percentage changes from previous year, data refer to the whole Germany from 1992 onwards. For technical reasons, data for the Czech Republic, Hungary and Poland are shown and included in aggregate measures for total OECD from 1993 onwards only. In tables showing percentage changes from previous year, data (for the Czech Republic, Hungary and Poland) are included from 1994 onwards.

Country classification

	OECD
Seven major OECD countries	United States, Japan, Germany, France, Italy, United Kingdom and Canada.
Smaller OECD countries	Australia, Austria, Belgium, the Czech Republic, Denmark, Finland, Greece, Hungary, Iceland, Ireland, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Spain, Sweden, Switzerland and Turkey.
European Union	Germany, France, Italy, United Kingdom, Austria, Belgium, Denmark, Finland, Greece, Ireland, Luxembourg, Netherlands, Portugal, Spain and Sweden.
Euro area	Germany, France, Italy, Austria, Belgium, Finland, Ireland, 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 Slovak Republic, the Newly Independent States of the former Soviet Union, and the Baltic States.

Weighting scheme for aggregate measures

Per cent

United States	35.32	Ireland	0.31
Japan	13.66	Korea	2.92
Germany	8.31	Luxembourg	0.07
France	5.70	Mexico	2.96
Italy	5.48	Netherlands	1.56
United Kingdom	5.18	New Zealand	0.29
Canada	3.25	Norway	0.48
		Poland	1.28
Total of above countries	76.90	Portugal	0.63
		Spain	2.84
Australia	1.82	Sweden	0.83
Austria	0.81	Switzerland	0.86
Belgium	1.05	Turkey	1.65
Czech Republic	0.61		
Denmark	0.57	Total of smaller countries	23.10
Finland	0.46		
Greece	0.64	Total OECD	100.00
		Memorandum item	
Hungary	0.44	European Union	34.43
Iceland	0.03	Euro area	27.21

Note: Based on 1995 GDP and purchasing power parities (PPPs).

Annex Tables

Demand and Output

Wages, Costs and Inflation

Labour Force, Employment and Unemployment

Business Sector

Saving

Fiscal Balances and Public Indebtedness

Interest Rates and Exchange Rates

External Trade and Payments

Other Background Data

Annex Table 1. **Real GDP**

Percentage change from previous period

	Average 1972-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections		
																		1999	2000	2001
United States	2.2	4.0	7.0	3.6	3.1	3.1	4.2	3.5	1.7	-0.2	3.3	2.4	4.0	2.7	3.7	4.5	4.3	3.8	3.1	2.3
Japan	3.8	2.3	3.9	4.4	2.9	4.2	6.2	4.8	5.1	3.8	1.0	0.3	0.6	1.5	5.1	1.4	-2.8	1.4	1.4	1.2
Germany	1.9	1.8	2.8	2.0	2.3	1.5	3.7	3.6	5.7	5.0	2.2	-1.1	2.3	1.7	0.8	1.5	2.2	1.3	2.3	2.5
France	2.8	0.7	1.3	1.9	2.0	2.5	4.2	4.3	2.6	1.1	1.4	-1.0	1.8	1.8	1.2	2.0	3.4	2.4	3.0	2.9
Italy	3.2	1.2	2.6	2.8	2.8	3.1	3.9	2.9	2.0	1.4	0.8	-0.9	2.2	2.9	0.9	1.5	1.3	1.0	2.4	2.7
United Kingdom	1.4	3.7	2.4	3.8	4.2	4.4	5.2	2.1	0.6	-1.5	0.1	2.3	4.4	2.8	2.6	3.5	2.2	1.7	2.7	2.3
Canada	3.2	2.8	5.7	5.4	2.6	4.1	4.9	2.5	0.3	-1.9	0.9	2.3	4.7	2.8	1.7	4.0	3.1	3.7	3.0	2.7
Total of major countries	2.6	2.9	4.9	3.5	2.9	3.2	4.6	3.6	2.7	1.1	2.2	1.1	3.0	2.3	3.1	3.1	2.3	2.7	2.6	2.2
Australia	2.9	0.0	6.5	5.2	1.9	5.0	4.5	4.4	1.5	-1.0	2.6	3.8	5.0	4.4	4.0	3.9	5.1	3.9	3.0	4.0
Austria	2.7	2.8	0.3	2.2	2.3	1.7	3.2	4.2	4.6	3.4	1.3	0.5	2.4	1.7	2.0	2.5	3.3	2.2	2.9	2.5
Belgium	2.5	0.0	2.5	1.0	1.8	2.7	4.6	3.6	2.7	2.0	1.6	-1.5	3.0	2.6	0.9	3.2	2.9	1.8	2.8	2.7
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	2.6	5.9	3.8	0.3	-2.3	-0.5	1.4	2.3
Denmark	1.7	2.5	4.4	4.3	3.6	0.3	1.2	0.3	1.2	1.4	1.3	0.8	5.8	3.7	2.8	3.1	2.7	1.3	1.5	1.9
Finland	3.0	2.7	3.0	3.4	2.4	4.1	4.9	5.5	-0.5	-5.9	-3.2	-0.6	3.7	3.9	4.1	5.6	5.6	3.7	4.2	4.4
Greece	3.2	0.4	2.8	3.1	1.6	-0.5	4.5	3.8	0.0	3.1	0.7	-1.6	2.0	2.1	2.4	3.4	3.7	3.3	3.7	4.1
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	2.9	1.5	1.3	4.6	5.1	3.8	3.5	3.7
Iceland	5.1	-2.2	4.1	3.3	6.3	8.5	-0.1	0.3	1.2	1.1	-3.3	1.0	3.7	1.0	5.6	5.3	5.1	6.0	2.9	2.6
Ireland	4.3	-0.2	4.4	3.1	-0.4	4.7	5.2	5.8	8.5	1.9	3.3	2.6	5.8	9.5	7.7	10.7	8.9	8.6	7.5	5.7
Korea	7.6	11.5	8.7	6.5	11.6	11.5	11.3	6.4	7.8	9.2	5.4	5.5	8.3	8.9	6.7	5.0	-5.8	9.0	6.5	5.7
Luxembourg	1.7	3.0	6.2	2.9	7.7	2.3	10.4	9.8	2.2	6.1	4.5	8.7	4.2	3.8	2.9	7.3	5.0	5.1	4.3	4.1
Mexico	6.1	-4.2	3.5	2.5	-3.6	1.8	1.3	3.3	4.5	3.6	2.8	0.7	4.5	-6.2	5.1	6.8	4.8	3.4	3.3	4.0
Netherlands	2.0	1.7	3.3	3.1	2.8	1.4	2.6	4.7	4.1	2.3	2.0	0.8	3.2	2.3	3.0	3.8	3.7	3.0	2.7	2.6
New Zealand	1.9	2.5	8.5	1.6	0.1	1.1	2.9	-0.8	0.3	-2.3	0.6	4.9	6.1	3.5	2.3	3.0	-0.7	2.7	3.5	3.3
Norway	3.9	3.5	5.9	5.2	3.6	2.0	-0.1	0.9	2.0	3.1	3.3	2.7	5.5	3.8	4.9	4.3	2.1	0.6	3.3	1.8
Poland	..	..	..	..	..	..	..	..	..	..	..	..	5.2	7.0	6.0	6.8	4.8	3.5	5.2	5.8
Portugal	3.7	-0.2	-1.9	2.8	4.1	6.4	4.9	5.1	4.4	2.3	2.5	-1.1	2.2	2.9	3.2	3.7	3.9	3.1	3.4	3.2
Spain	2.4	2.2	1.5	2.6	3.2	5.6	5.2	4.7	3.7	2.3	0.7	-1.2	2.3	2.7	2.3	3.8	4.0	3.7	3.7	3.5
Sweden	1.8	1.6	4.5	2.0	2.4	3.0	1.7	2.7	1.6	-1.1	-1.6	-2.4	4.0	3.7	1.3	1.8	2.6	3.9	3.0	2.7
Switzerland	1.1	0.5	3.0	3.4	1.6	0.7	3.1	4.3	3.7	-0.8	-0.1	-0.5	0.5	0.5	0.3	1.7	2.1	1.4	1.8	2.2
Turkey	3.6	5.0	6.7	4.2	7.0	9.5	2.1	0.3	9.3	0.9	6.0	8.0	-5.5	7.2	7.0	7.5	2.8	-2.3	4.6	3.9
Total of smaller countries	3.9	2.3	4.3	3.6	3.3	4.7	4.4	3.9	4.3	2.6	2.4	1.7	3.5	3.1	4.0	4.6	2.5	3.4	3.8	3.8
Total OECD	2.9	2.8	4.8	3.5	3.0	3.5	4.5	3.7	3.0	1.4	2.2	1.3	3.1	2.5	3.3	3.5	2.4	2.8	2.9	2.6
Memorandum items																				
European Union	2.4	1.7	2.3	2.6	2.8	2.9	4.1	3.5	3.0	1.8	1.2	-0.4	2.7	2.4	1.6	2.5	2.7	2.1	2.8	2.8
Euro area	2.5	1.4	2.2	2.3	2.4	2.6	4.0	3.9	3.6	2.4	1.4	-0.8	2.3	2.2	1.3	2.2	2.8	2.1	2.8	2.8

Annex Table 2. **Nominal GDP**

Percentage change from previous period

	Average 1972-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	10.1	8.5	11.3	7.1	5.7	6.5	7.7	7.5	5.7	3.2	5.6	5.1	6.2	4.9	5.6	6.2	5.5	5.3	5.0	4.6
Japan	11.3	4.1	6.7	6.6	4.7	4.3	6.9	7.0	7.5	6.6	2.8	0.9	0.8	0.8	3.5	1.5	-2.5	0.7	0.9	0.9
Germany	6.8	5.1	4.9	4.1	5.6	3.4	5.3	6.1	9.1	9.1	7.4	2.5	4.9	3.8	1.8	2.2	3.2	2.5	3.6	3.9
France	13.9	10.5	8.9	7.8	7.4	5.6	7.5	7.6	5.5	4.1	3.4	1.5	3.7	3.5	2.6	3.4	4.3	3.1	4.1	4.2
Italy	21.1	16.5	14.4	12.1	10.9	9.4	10.9	9.5	10.4	9.1	5.3	3.0	5.8	8.1	6.1	4.1	4.2	2.6	4.1	4.2
United Kingdom	15.7	9.3	7.2	9.6	7.4	9.9	11.5	9.7	8.3	5.1	4.1	5.1	6.0	5.4	5.9	6.5	5.0	3.8	5.4	5.0
Canada	13.2	8.3	9.3	8.0	5.5	9.0	9.6	7.3	3.3	0.8	2.2	3.8	5.9	5.2	3.3	4.8	2.5	5.2	5.1	4.9
Total of major countries	11.6	8.1	9.5	7.4	6.1	6.3	7.9	7.6	6.8	4.9	4.8	3.6	4.9	4.2	4.6	4.6	3.5	3.7	4.0	3.9
Australia	14.9	8.3	13.6	11.1	8.5	13.0	13.5	11.7	6.4	1.6	4.1	5.3	5.9	5.9	6.1	5.3	5.4	5.3	5.7	6.6
Austria	9.0	6.6	5.0	5.4	5.1	3.8	4.8	7.1	8.2	7.3	5.7	3.3	5.3	4.1	3.7	4.1	4.3	3.3	4.3	3.8
Belgium	9.8	5.9	7.7	7.1	4.8	4.1	7.0	8.7	5.8	4.8	5.3	2.2	4.9	4.4	2.4	4.8	3.9	2.9	3.8	4.1
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	13.9	16.8	13.8	6.8	8.4	2.2	5.4	6.8
Denmark	11.9	10.4	10.3	8.8	8.4	5.0	4.6	5.4	4.6	3.9	3.5	1.4	7.3	4.6	5.1	5.0	4.8	3.6	4.2	5.0
Finland	15.3	11.5	12.1	8.9	7.0	9.0	12.3	12.4	5.3	-4.4	-2.2	1.2	5.8	7.7	4.7	7.7	8.4	4.6	5.9	6.8
Greece	21.2	19.6	23.6	21.3	19.4	13.7	20.7	18.9	20.6	23.5	15.7	12.6	13.5	12.1	9.9	10.3	8.8	6.1	6.1	6.8
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	23.0	27.4	22.8	23.9	20.0	14.1	11.8	9.9
Iceland	48.9	72.4	30.6	35.6	33.3	29.6	22.8	20.1	18.2	9.0	0.2	3.5	5.7	3.8	7.6	8.9	10.7	10.3	8.3	8.4
Ireland	19.6	10.4	11.0	8.4	6.1	7.0	8.6	11.7	7.7	3.7	6.2	8.0	7.6	12.5	10.2	14.6	15.1	12.4	12.0	10.4
Korea	29.2	17.3	14.7	11.5	16.7	17.1	18.7	12.0	19.7	21.1	13.5	12.9	16.5	16.7	10.9	8.3	-0.8	8.5	8.9	8.5
Luxembourg	9.6	10.0	10.9	6.0	8.5	5.2	11.1	14.6	7.5	8.6	7.2	9.3	9.2	4.1	4.6	10.8	6.6	6.5	5.5	5.8
Mexico	32.4	83.0	64.4	60.4	67.0	144.5	104.3	30.2	35.4	26.3	18.0	10.7	13.3	29.4	37.3	25.7	19.3	20.0	14.7	12.8
Netherlands	9.1	3.8	4.7	4.9	2.9	0.7	3.8	6.0	6.5	5.0	4.3	2.7	5.6	4.1	4.2	5.8	5.6	5.2	5.1	5.2
New Zealand	15.6	7.1	15.1	17.2	15.9	14.4	10.4	6.1	4.1	-1.3	2.3	7.7	7.8	6.2	4.2	3.1	0.9	4.1	6.0	5.1
Norway	13.6	10.8	12.6	10.7	2.6	9.1	4.9	6.7	5.9	5.7	2.8	4.9	5.3	7.1	9.4	7.1	1.7	6.6	8.5	3.6
Poland	..	..	..	..	..	..	..	..	..	..	..	..	43.7	36.8	25.8	21.8	17.1	9.9	12.1	11.1
Portugal	23.1	24.4	22.3	25.2	25.4	17.1	17.3	18.2	17.7	14.8	12.8	5.5	8.7	8.1	6.1	5.8	8.4	5.8	6.2	6.1
Spain	18.9	14.2	13.3	10.5	14.6	11.8	11.1	12.2	11.3	9.5	7.6	3.1	6.3	7.7	5.9	6.1	6.3	6.1	6.0	6.1
Sweden	12.0	12.0	11.9	8.7	9.3	8.0	8.9	10.6	10.3	6.4	-0.4	0.3	6.4	7.4	2.7	3.0	3.8	4.5	4.8	5.0
Switzerland	5.7	3.2	6.6	5.9	4.8	3.5	6.0	7.5	8.2	5.2	2.6	2.2	2.2	1.6	0.7	1.6	2.3	1.8	2.4	3.3
Turkey	42.4	32.5	58.2	59.5	45.5	45.0	73.9	75.6	73.6	60.1	73.7	81.2	95.5	100.4	90.3	95.1	79.6	57.8	58.1	29.8
Total of smaller countries	21.4	24.3	23.3	21.5	22.3	32.5	30.0	18.9	19.2	15.7	13.6	11.9	18.1	19.7	17.5	16.0	12.8	11.8	11.3	9.0
Total OECD	13.7	11.6	12.5	10.4	9.6	11.8	12.7	10.0	9.4	7.2	6.7	5.4	7.9	7.8	7.5	7.2	5.6	5.6	5.7	5.0
Memorandum items																				
OECD *less* high inflation countries[a]	12.5	8.7	9.9	7.8	6.9	6.9	8.4	8.1	7.5	5.6	5.2	4.0	5.4	4.9	4.9	4.8	3.7	4.0	4.4	4.2
European Union	14.1	10.4	9.4	8.6	8.5	7.1	8.7	8.8	8.8	7.3	5.5	3.1	5.5	5.5	4.2	4.5	4.6	3.6	4.6	4.6
Euro area	12.6	9.7	8.9	7.7	7.9	6.0	7.7	8.2	8.4	7.2	5.7	2.6	5.1	5.0	3.4	3.8	4.4	3.4	4.4	4.5

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

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

Percentage change from previous period

	Average 1972-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	2.5	5.2	5.2	4.7	4.0	3.2	4.1	2.6	1.8	0.1	3.2	3.0	3.8	3.1	3.3	3.7	4.9	5.1	3.4	1.6
Japan	3.8	3.3	2.6	3.3	3.5	4.2	5.3	4.8	4.4	2.5	2.1	1.2	1.9	2.1	2.9	1.0	-1.1	1.7	1.6	1.8
Germany	2.1	1.5	1.8	1.7	3.5	3.4	2.7	2.8	5.4	5.6	2.8	0.2	1.0	2.1	0.8	0.7	2.3	1.7	2.2	2.4
France	3.0	0.9	1.1	2.4	3.2	2.8	2.3	3.1	2.7	0.8	0.8	-0.3	0.8	1.4	1.4	0.2	3.6	2.3	2.7	2.8
Italy	3.8	0.8	2.3	3.0	3.5	4.1	4.2	3.7	2.1	2.9	1.9	-3.7	1.5	1.7	0.9	2.5	1.8	1.4	2.0	2.4
United Kingdom	1.4	4.6	1.9	3.9	6.6	5.4	7.6	3.3	0.7	-1.7	0.4	2.9	2.9	1.7	3.6	3.9	3.4	3.9	2.6	2.2
Canada	3.2	2.9	4.5	5.2	4.0	4.1	4.4	3.6	1.3	-1.4	1.8	1.8	3.1	2.1	2.5	4.2	2.8	2.4	2.3	2.4
Total of major countries	2.8	3.7	3.6	3.8	3.9	3.6	4.3	3.2	2.6	1.2	2.4	1.6	2.7	2.4	2.6	2.6	3.0	3.5	2.7	1.9
Australia	3.6	1.3	1.9	4.5	2.1	2.1	3.9	5.8	2.9	0.7	2.7	1.8	4.0	5.1	3.3	3.9	4.3	4.8	3.8	3.5
Austria	2.9	5.0	-1.3	1.9	2.2	2.9	3.3	3.7	3.8	2.8	3.0	0.7	1.8	2.9	2.0	0.7	1.7	2.0	2.5	2.3
Belgium	3.1	-0.9	0.6	2.0	3.0	1.8	3.7	3.9	3.2	3.0	2.2	-1.0	2.0	0.8	1.2	2.3	3.4	2.2	2.2	2.1
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	5.3	5.9	6.9	2.1	-2.8	1.5	1.5	1.6
Denmark	1.2	2.6	3.4	5.0	5.7	-1.5	-1.0	-0.3	0.2	1.8	2.6	1.4	7.1	2.6	2.9	3.7	3.5	1.1	1.5	2.0
Finland	2.6	3.1	3.1	3.7	4.0	5.2	5.1	4.4	-0.8	-3.5	-4.5	-3.2	2.5	4.3	3.5	2.9	5.5	4.1	3.7	3.9
Greece	3.8	0.3	1.7	3.9	0.7	1.2	3.6	6.0	2.6	2.8	2.4	-0.8	2.0	2.7	2.4	2.7	2.1	2.6	3.1	3.4
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	0.2	-7.1	-3.2	2.6	3.8	4.5	4.2	4.2
Iceland	4.9	-5.6	3.7	4.2	6.9	16.2	-3.8	-4.2	0.5	4.1	-4.5	-4.5	1.9	4.2	6.4	6.0	11.0	6.7	4.0	3.5
Ireland	2.7	0.9	2.0	4.6	2.0	3.3	4.5	6.5	1.4	1.8	2.9	2.9	4.3	3.7	6.5	7.3	7.4	7.8	6.5	6.0
Korea	6.1	9.2	7.9	6.4	8.1	8.1	9.0	10.8	8.0	8.0	5.5	5.6	8.2	9.6	7.1	3.5	-9.6	8.6	5.5	4.7
Luxembourg	3.2	0.5	1.4	2.7	5.7	4.6	4.6	5.1	5.7	6.3	-0.9	1.7	2.4	2.4	4.4	3.8	2.3	3.3	2.7	2.6
Mexico	5.3	-5.4	3.3	3.3	-2.6	-0.1	1.8	6.8	6.1	4.9	3.9	0.2	4.6	-9.5	2.2	6.4	6.4	3.0	3.3	4.0
Netherlands	2.3	1.0	1.2	2.8	2.6	2.7	0.8	3.5	4.2	3.1	2.5	1.0	2.2	1.8	4.0	2.6	4.1	4.1	3.5	2.7
New Zealand	1.4	1.4	5.7	0.5	4.0	2.4	2.3	0.8	-0.3	-1.9	-0.1	2.3	5.6	4.6	4.4	3.0	1.6	2.3	3.2	2.5
Norway	3.0	1.9	3.2	9.4	5.0	-0.8	-2.0	-0.6	0.7	1.5	2.2	2.2	4.0	3.4	5.3	3.7	3.1	1.7	1.7	1.9
Poland	..	..	..	..	..	..	..	..	..	..	..	..	4.2	3.3	8.3	6.9	4.8	3.9	4.0	4.2
Portugal	3.1	-1.4	-2.9	0.7	5.6	5.3	5.5	2.6	5.9	3.7	4.3	1.5	2.2	1.6	2.5	3.0	5.2	4.5	4.0	3.5
Spain	2.3	0.3	-0.2	3.5	3.3	5.8	4.9	5.7	3.6	2.9	2.2	-2.2	0.9	1.6	2.0	2.9	4.1	4.3	3.9	3.5
Sweden	1.2	-2.0	1.5	2.7	4.4	4.5	2.4	1.1	-0.4	0.9	-1.4	-3.1	1.8	0.7	1.4	1.6	2.4	3.2	2.8	2.8
Switzerland	0.4	1.1	1.3	1.6	2.3	2.2	1.7	2.3	1.2	1.6	0.1	-0.9	1.0	0.6	0.7	1.3	2.3	1.9	2.0	2.1
Turkey	3.4	6.7	8.1	-0.6	5.8	-0.3	1.2	-1.0	13.1	2.7	3.2	8.6	-5.4	4.8	8.5	8.4	0.1	-2.0	4.0	4.5
Total of smaller countries	3.5	1.6	2.8	3.4	3.2	3.1	3.6	4.9	4.7	3.3	2.7	1.4	3.0	1.9	3.9	4.0	2.0	3.7	3.6	3.5
Total OECD	2.9	3.2	3.4	3.7	3.8	3.5	4.1	3.6	3.1	1.6	2.5	1.5	2.7	2.3	2.9	2.9	2.8	3.5	2.9	2.3
Memorandum items																				
European Union	2.6	1.5	1.4	2.8	3.9	3.8	3.8	3.4	3.0	2.3	1.7	-0.4	1.6	1.8	1.8	2.0	3.0	2.6	2.6	2.6
Euro area	2.8	1.1	1.3	2.4	3.3	3.6	3.2	3.5	3.5	3.1	2.0	-1.0	1.2	1.8	1.4	1.4	2.9	2.4	2.6	2.7

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

Percentage change from previous period

	Average 1972-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	1.2	2.1	1.7	4.8	4.6	2.2	1.5	2.5	2.6	1.4	0.5	-0.5	0.1	0.0	0.6	2.3	1.3	2.3	2.6	1.3
Japan	4.5	2.5	2.3	0.3	5.1	1.6	2.3	2.0	1.5	2.0	2.0	2.4	2.4	3.3	1.9	1.5	0.7	0.7	0.8	0.7
Germany	2.6	0.2	2.5	2.1	2.5	1.5	2.1	-1.6	2.2	0.4	5.0	0.1	2.4	1.5	2.1	-1.1	0.5	0.7	0.5	0.5
France	3.3	2.1	1.1	2.3	2.4	2.2	3.1	1.8	2.5	2.6	3.6	4.3	0.5	0.0	2.2	1.6	1.1	1.5	1.3	0.9
Italy	2.6	3.1	2.2	3.1	2.5	3.2	2.7	0.2	2.5	1.7	0.6	-0.2	-0.9	-2.2	1.4	-0.5	1.2	2.4	1.1	0.4
United Kingdom	1.7	2.1	1.0	-0.1	1.6	0.0	0.0	0.8	2.5	2.9	0.5	-0.8	1.4	1.6	1.7	-1.4	1.0	3.7	2.6	2.2
Canada	3.4	1.7	1.1	4.3	1.9	1.4	4.6	2.8	3.7	2.8	1.0	0.1	-1.2	-0.5	-1.1	-0.5	1.7	1.4	1.5	1.6
Total of major countries	2.3	2.0	1.8	3.1	3.8	1.9	2.0	1.7	2.4	1.7	1.5	0.5	0.8	0.7	1.1	1.2	1.0	1.9	1.8	1.1
Australia	3.9	5.8	5.4	6.0	4.4	1.4	2.7	2.6	3.5	2.5	1.0	0.5	3.9	3.6	2.3	1.9	2.7	4.2	2.2	2.3
Austria	3.1	1.7	0.8	1.3	1.8	0.2	1.1	1.4	1.3	2.2	2.0	2.7	2.5	0.0	0.6	-3.9	1.3	1.5	1.3	1.5
Belgium	2.9	0.3	0.6	2.5	1.4	2.7	-0.7	0.7	-0.4	3.8	1.4	-0.2	1.5	1.0	2.4	-0.5	2.4	2.3	2.1	1.9
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	-2.3	-4.2	-1.2	3.6	0.6	3.2	0.6	1.4
Denmark	3.8	0.0	-0.4	2.5	0.5	2.5	0.9	-0.8	-0.2	0.7	0.9	4.1	2.9	2.2	3.2	1.0	3.0	1.5	1.0	1.0
Finland	4.6	3.7	2.7	4.5	3.1	4.3	2.3	2.3	3.9	2.0	-2.3	-4.3	0.3	2.0	2.5	2.9	1.4	0.6	0.7	0.8
Greece	6.1	2.7	3.0	3.2	-0.8	0.9	5.7	5.4	0.6	-1.5	-3.0	2.6	-1.1	5.6	0.9	1.7	2.0	0.0	0.5	0.3
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	-7.4	-5.7	-2.3	1.5	2.6	2.0	2.0	1.5
Iceland	6.1	4.7	0.6	6.5	7.3	6.5	4.7	3.0	4.4	3.2	-0.8	2.3	3.7	1.3	1.0	3.1	3.7	3.4	2.5	2.0
Ireland	5.0	-0.4	-0.7	1.8	2.6	-4.8	-5.0	-1.3	5.4	2.8	3.0	-0.4	4.1	2.9	2.8	4.8	5.8	3.7	4.8	3.8
Korea	4.9	2.9	1.3	4.8	8.4	6.1	8.0	8.5	3.6	7.2	5.9	4.6	1.9	0.8	8.2	1.5	-0.1	-1.4	2.1	2.1
Luxembourg	2.6	1.9	2.2	2.0	2.7	4.7	4.9	3.9	3.1	3.9	1.5	3.7	2.0	2.2	4.4	2.1	2.8	2.5	2.5	2.5
Mexico	7.6	2.8	6.5	1.0	1.4	-1.2	-0.5	-0.2	2.3	4.0	2.3	2.0	2.9	-1.3	-0.7	2.9	-1.3	2.6	4.0	1.8
Netherlands	2.8	2.3	0.0	2.4	3.6	2.6	1.4	1.5	1.6	1.5	1.7	1.5	0.6	0.6	-0.4	3.3	3.3	2.7	1.0	2.1
New Zealand	2.8	2.6	2.2	1.5	2.1	0.1	1.7	0.6	4.0	-1.9	3.1	-0.5	-1.0	2.9	2.4	6.2	-1.0	5.0	-2.5	0.5
Norway	5.0	2.8	0.8	2.4	1.9	4.6	-0.1	1.9	4.9	4.3	5.3	2.1	1.4	0.3	2.8	2.8	3.7	2.1	2.0	2.0
Poland	..	..	..	..	..	..	..	..	..	..	..	..	2.2	2.9	3.4	3.1	1.5	2.0	2.0	2.0
Portugal	7.8	3.8	0.2	6.4	7.2	3.8	8.1	6.6	5.4	10.3	1.1	0.9	2.1	2.2	2.0	2.5	3.3	3.3	2.8	2.5
Spain	5.4	3.9	2.4	5.5	5.4	8.9	4.0	8.3	6.6	5.6	4.0	2.4	-0.3	1.8	1.3	2.7	2.0	1.6	2.4	2.4
Sweden	3.1	0.8	2.2	2.2	1.3	1.0	0.6	2.1	2.6	2.7	-0.1	0.1	-0.8	-0.7	0.8	-1.0	1.0	1.2	1.0	0.9
Switzerland	1.8	3.8	1.7	3.4	3.4	1.7	4.5	5.4	5.4	3.5	0.7	-0.1	2.0	-0.1	2.0	0.6	-0.2	0.2	0.3	0.5
Turkey	5.9	16.6	1.9	14.1	9.2	9.4	-1.1	0.8	8.0	3.7	3.6	8.6	-5.5	6.8	8.6	4.1	5.0	5.5	4.0	4.0
Total of smaller countries	5.0	4.0	2.5	4.4	4.2	3.6	2.6	3.6	3.7	4.0	2.5	2.4	0.8	1.3	2.6	2.1	1.6	2.0	2.2	2.0
Total OECD	2.9	2.5	1.9	3.3	3.9	2.3	2.1	2.1	2.7	2.2	1.7	0.9	0.8	0.8	1.5	1.4	1.2	1.9	1.9	1.3
Memorandum items																				
European Union	3.1	1.9	1.6	2.4	2.6	2.4	2.1	1.2	2.6	2.3	2.4	1.0	0.9	0.7	1.7	0.1	1.3	1.9	1.4	1.2
Euro area	3.1	1.8	1.7	2.6	2.7	2.6	2.4	0.9	2.6	2.1	3.0	1.3	1.0	0.5	1.8	0.4	1.3	1.6	1.1	1.0

Annex Table 5. **Real total gross fixed capital formation**

Percentage change from previous period

	Average 1972-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	1.1	8.3	15.5	6.0	2.3	0.7	2.7	2.7	-0.4	-5.6	5.5	5.7	7.3	5.3	8.3	7.5	10.6	8.3	3.9	4.1
Japan	2.2	-1.1	4.3	5.0	4.8	9.1	11.5	8.2	8.5	3.3	-1.5	-2.0	-0.8	1.7	11.1	-1.9	-8.8	1.2	-0.2	-0.2
Germany	-0.7	3.1	0.1	-0.5	3.3	1.8	4.4	6.3	8.5	6.0	4.5	-4.5	4.0	-0.7	-1.1	0.5	1.4	3.2	2.8	3.6
France	0.9	-3.6	-2.6	3.2	4.5	5.6	9.1	7.7	3.2	-1.6	-1.7	-6.6	1.6	2.1	0.0	0.5	6.1	6.5	5.2	4.5
Italy	0.9	-1.0	3.4	0.5	2.0	4.4	6.9	4.2	4.0	1.0	-1.4	-10.9	0.1	6.0	2.3	0.9	3.5	2.9	4.0	3.9
United Kingdom	-0.1	5.1	9.3	4.0	2.1	8.9	14.8	5.9	-2.3	-8.7	-0.7	0.8	3.6	2.9	4.9	7.5	9.9	4.9	3.0	2.6
Canada	4.8	0.3	2.5	10.3	5.4	10.7	9.8	5.9	-3.6	-3.5	-1.3	-2.7	7.4	-1.9	6.5	13.9	3.6	8.8	6.3	4.6
Total of major countries	1.2	4.0	8.8	4.6	3.1	3.9	6.3	4.9	2.4	-2.2	2.4	0.5	4.3	3.4	6.4	4.3	5.0	5.8	3.2	3.2
Australia	2.7	-8.6	9.8	10.9	-2.4	4.9	9.1	10.5	-7.5	-8.9	2.8	4.8	12.3	2.8	5.0	11.6	6.2	3.4	1.6	3.7
Austria	0.4	0.4	0.1	6.9	2.4	4.4	6.8	6.3	6.6	6.3	0.1	-2.0	8.4	1.2	2.5	2.8	4.7	3.5	3.9	3.5
Belgium	-0.1	-5.9	2.5	3.9	3.2	6.3	15.6	12.7	8.5	-4.2	1.7	-3.0	-0.1	5.5	0.9	6.3	3.7	3.5	3.1	2.5
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	17.3	19.8	8.2	-4.3	-3.8	-4.5	1.5	3.5
Denmark	-3.3	1.9	12.9	12.6	17.1	-3.8	-6.6	0.2	-0.9	-2.7	-1.0	-1.9	7.4	13.6	4.8	10.4	6.9	1.3	1.7	1.9
Finland	1.7	3.7	-2.1	2.2	-0.4	4.9	9.8	14.0	-3.2	-18.6	-17.3	-16.7	-2.3	10.8	8.4	11.7	9.0	6.4	6.2	6.5
Greece	-1.0	-1.3	-5.7	5.2	-6.2	-5.1	8.9	7.1	5.0	4.8	-3.2	-3.5	-2.8	4.2	8.4	13.1	8.1	7.5	8.4	9.3
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	12.5	-4.3	6.7	9.2	11.4	7.4	6.0	7.7
Iceland	3.4	-12.7	9.4	1.0	-1.6	18.8	-0.2	-7.9	3.0	2.0	-11.3	-11.4	-1.1	-2.8	26.5	10.6	22.8	0.1	2.6	0.6
Ireland	4.8	-9.3	-2.5	-7.7	-2.8	-1.1	5.2	10.1	13.4	-6.2	-1.8	-3.5	12.0	13.5	16.2	17.4	16.8	11.6	8.9	7.0
Korea	13.2	17.3	10.0	4.3	10.6	17.0	13.7	15.9	28.2	13.3	-0.7	6.3	10.7	11.9	7.3	-2.2	-21.1	5.1	9.5	10.3
Luxembourg	0.0	-11.8	0.1	-9.5	31.0	17.9	15.0	7.0	2.7	31.6	-9.0	28.4	-14.9	3.5	-3.5	10.9	1.9	7.8	5.0	5.5
Mexico	6.9	-28.3	6.4	7.9	-11.8	-0.1	5.8	6.4	13.1	8.3	10.9	-1.2	8.4	-29.0	16.4	21.0	10.7	6.0	5.9	9.0
Netherlands	-1.1	2.5	5.8	7.0	6.9	0.9	4.5	4.9	1.6	0.2	0.6	-2.8	2.2	5.0	6.3	5.9	5.2	2.6	2.0	2.6
New Zealand	0.8	0.2	11.5	4.0	-1.8	0.1	-2.2	4.8	-1.2	-18.6	1.4	14.8	16.7	12.0	6.1	3.1	-1.9	9.5	6.9	5.0
Norway	3.5	5.4	1.0	-4.0	7.6	0.3	-1.8	-6.9	-10.8	-0.4	-3.1	4.3	4.5	3.4	9.9	15.1	8.1	-9.4	-10.9	0.6
Poland	..	..	..	..	..	..	..	..	..	..	..	..	9.2	16.6	19.7	21.8	14.5	10.0	11.0	11.5
Portugal	2.3	-7.1	-17.4	-3.5	10.9	18.0	10.5	4.4	7.6	3.5	4.8	-6.0	3.4	4.8	5.7	11.3	9.5	6.7	6.4	6.0
Spain	0.5	-2.4	-6.9	6.1	9.9	14.0	13.9	13.6	6.6	1.6	-4.4	-10.5	2.5	8.2	2.0	5.0	9.2	8.8	8.6	8.5
Sweden	-0.2	1.1	7.2	5.2	0.3	8.2	6.6	11.3	1.3	-8.9	-10.8	-17.2	5.9	9.2	5.1	-2.1	9.2	7.6	5.9	5.1
Switzerland	0.4	3.9	4.7	2.8	5.4	4.0	8.1	5.3	3.8	-2.9	-6.6	-2.7	6.5	1.8	-2.4	1.5	4.4	4.7	4.0	4.8
Turkey	3.4	2.6	0.9	11.5	8.4	45.1	-1.0	2.2	15.9	0.4	6.4	26.4	-16.0	9.1	14.1	14.8	-2.4	-8.6	10.8	8.0
Total of smaller countries	4.0	-2.6	3.1	6.0	3.4	9.8	8.0	8.8	8.6	1.6	0.5	0.2	5.2	3.3	8.0	8.8	3.5	4.3	6.0	6.8
Total OECD	1.8	2.6	7.6	4.9	3.2	5.2	6.7	5.7	3.7	-1.4	2.0	0.4	4.5	3.4	6.8	5.4	4.6	5.4	3.9	4.0
Memorandum items																				
European Union	0.2	0.3	1.3	2.6	3.9	5.4	8.6	7.0	4.1	-0.3	-0.3	-5.7	2.6	3.6	2.1	3.3	5.5	4.7	4.2	4.2
Euro area	0.2	-0.6	-0.4	1.9	4.0	4.7	7.6	7.3	5.3	1.2	0.1	-6.6	2.6	2.6	0.9	2.2	4.3	4.6	4.3	4.4

Annex Table 6. **Real gross private non-residential fixed capital formation**

Percentage change from previous period

	Average 1972-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	4.2	-1.7	17.3	6.2	-3.5	-0.9	5.4	5.5	0.7	-4.9	3.4	8.4	8.9	9.8	10.0	10.7	12.7	9.1	6.4	5.5
Japan	3.2	1.7	11.7	12.1	4.5	5.9	14.7	14.5	10.9	6.3	-5.6	-10.2	-5.3	5.2	11.3	7.1	-11.3	-5.6	-0.6	4.0
Germany	0.2	4.5	-0.4	5.0	4.3	3.8	5.6	7.4	10.1	7.5	1.4	-8.3	1.2	-0.6	-0.6	2.7	5.0	6.4	4.0	5.0
France	0.8	-4.1	-2.1	4.4	6.7	7.4	9.8	8.3	5.6	-1.3	-2.4	-8.0	0.8	3.1	-0.1	2.1	7.6	6.5	6.0	5.5
Italy	1.3	-5.1	6.2	0.9	4.7	8.2	12.1	5.3	5.6	0.2	-1.2	-14.7	4.0	11.5	3.3	0.3	3.4	3.3	3.6	3.8
United Kingdom	3.0	-0.4	11.1	9.2	-3.2	12.0	16.7	12.9	1.0	-7.9	-2.9	-2.9	3.7	7.7	8.8	11.8	12.5	7.5	2.3	2.2
Canada	9.4	-8.2	3.1	10.4	1.6	9.6	16.8	6.0	-1.6	0.5	-5.9	-2.4	9.2	5.7	7.4	18.8	5.7	9.9	6.9	4.8
Total of major countries	3.4	-1.1	11.3	7.0	0.3	3.4	9.2	8.0	4.1	-1.0	0.0	-0.8	4.3	7.2	7.7	8.2	6.3	5.5	4.4	4.8
Australia	3.3	-7.7	6.0	14.4	-2.4	8.7	9.5	10.6	-7.5	-11.4	0.1	1.9	13.3	7.0	8.8	11.4	4.9	3.5	1.5	4.7
Austria	0.5	0.6	0.8	12.5	1.2	8.4	9.0	9.1	11.4	7.3	-3.4	-4.2	10.0	-1.9	3.9	9.2	6.4	4.0	4.6	4.2
Belgium	-0.6	-3.7	7.6	3.9	6.4	9.0	13.7	17.7	10.7	-3.7	0.2	-6.7	-2.4	7.6	4.1	6.7	4.7	3.1	3.8	3.1
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Denmark	0.4	2.1	11.8	18.7	18.3	-5.2	-7.0	4.7	3.6	-0.4	-2.1	-5.9	7.2	17.1	3.6	12.3	8.5	2.7	3.4	3.8
Finland	1.5	3.9	-3.4	2.1	0.3	3.7	7.8	17.9	-5.4	-23.2	-19.9	-17.7	-2.3	21.6	9.8	7.8	11.9	7.8	6.8	6.9
Greece	4.4	-12.5	-0.5	9.8	-19.4	-7.8	16.9	18.4	7.5	5.2	3.8	1.8	0.5	3.0	15.0	15.0	8.6	7.5	9.0	9.7
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Iceland	4.8	-15.4	11.3	7.3	4.3	22.3	-10.2	-14.5	6.4	3.7	-17.0	-24.3	0.2	6.8	53.1	17.9	33.0	-3.0	3.6	0.5
Ireland	5.9	-11.2	-3.3	-15.5	-4.5	7.1	20.9	9.4	19.6	-10.8	-5.6	-2.8	7.8	14.8	17.5	20.6	19.8	13.2	9.2	6.6
Korea	14.1	14.0	16.2	4.6	13.1	20.4	12.8	15.7	19.5	13.1	0.5	5.8	15.3	14.0	7.0	-2.9	-30.0	3.8	11.9	13.0
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mexico	..	-31.8	10.4	15.8	-17.0	8.6	20.1	8.7	19.4	16.4	23.2	-3.3	-0.4	-38.9	45.8	34.0	18.3	8.5	7.8	11.0
Netherlands	-0.2	7.0	5.8	14.0	11.3	0.3	1.4	7.9	2.6	2.2	-3.0	-4.2	0.2	7.5	6.5	8.4	8.5	2.0	1.7	2.7
New Zealand	2.3	-8.6	28.9	2.5	-5.3	12.7	-3.1	6.6	-6.6	-17.9	8.5	23.8	18.3	18.4	3.6	-1.8	6.2	12.4	7.7	5.3
Norway	4.4	7.1	1.7	-5.6	6.6	-2.4	-1.7	-7.5	-10.4	1.8	-3.7	9.8	2.6	2.3	13.3	15.6	10.5	-10.6	-15.0	0.1
Poland	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Portugal	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Spain	1.3	-0.5	-10.8	-0.1	14.6	21.3	14.4	13.9	4.5	2.9	-1.9	-15.0	4.3	12.6	4.2	6.8	10.7	9.4	9.6	9.7
Sweden	1.1	2.5	8.2	11.4	2.1	9.0	5.1	13.5	-0.6	-14.6	-15.0	-15.7	18.3	19.7	8.1	3.7	10.9	7.9	5.7	5.0
Switzerland	2.3	2.0	3.8	5.2	8.7	4.6	9.7	4.7	6.3	-2.6	-10.6	-5.9	2.0	4.9	2.3	4.3	6.6	6.5	4.9	6.0
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Total of smaller countries	4.2	-3.6	5.4	8.0	3.2	10.2	11.2	11.2	8.0	2.7	1.4	-3.7	6.2	2.5	13.1	10.9	4.0	5.6	6.3	7.7
Total OECD	3.5	-1.6	10.1	7.2	0.9	4.7	9.6	8.7	4.9	-0.3	0.3	-1.3	4.6	6.3	8.7	8.7	5.8	5.6	4.8	5.4
Memorandum items																				
European Union	1.3	-0.6	2.3	5.3	4.4	7.9	10.2	9.5	5.8	0.0	-1.7	-8.7	2.8	6.3	3.4	5.1	7.5	6.1	4.6	4.8
Euro area	0.7	-0.6	-0.3	4.0	6.3	7.4	9.0	8.7	6.7	1.8	-1.0	-9.8	2.0	4.5	1.8	3.9	6.6	5.9	5.1	5.3

Annex Table 7. **Real gross private residential fixed capital formation**

Percentage change from previous period

	Average 1972-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	-4.6	41.1	14.6	1.3	12.0	0.5	-0.5	-4.1	-8.6	-12.8	16.3	7.3	9.7	-3.6	7.4	2.4	9.2	6.6	-4.2	-0.8
Japan	0.3	-5.9	-2.1	2.6	8.1	22.4	11.4	0.9	4.8	-8.5	-6.5	2.4	8.5	-6.5	13.6	-16.3	-13.7	3.1	4.8	0.9
Germany	-1.7	5.5	2.0	-10.0	-0.6	-1.3	3.6	4.8	8.4	4.2	9.8	4.1	11.9	0.9	-0.3	-0.5	-4.3	-2.7	0.7	1.1
France	0.4	-2.6	-4.4	-2.1	1.6	2.9	5.5	7.4	-1.7	-6.9	-3.7	-5.2	4.4	2.1	0.4	0.6	3.4	8.6	5.2	3.8
Italy	-1.0	4.0	-0.1	-3.1	-2.0	-2.3	1.1	3.0	3.7	3.3	1.3	-1.5	-2.3	-0.1	-2.4	-2.9	0.7	1.1	5.2	4.9
United Kingdom	-1.3	7.4	6.7	-2.7	12.0	8.1	19.0	-11.6	-17.5	-15.1	0.2	8.1	2.5	-3.1	9.7	2.5	1.9	-3.1	4.1	2.5
Canada	0.9	17.8	0.6	9.2	12.8	14.7	2.2	4.2	-10.2	-14.5	7.2	-3.5	4.2	-15.1	9.9	12.6	-1.9	6.8	5.9	4.5
Total of major countries	-2.1	19.9	6.7	-0.1	8.3	5.4	4.1	-1.1	-3.8	-9.0	7.5	4.1	7.8	-3.4	6.7	-1.3	1.7	4.1	0.3	0.9
Australia	3.0	-15.2	20.5	2.7	-7.6	-2.5	20.0	8.7	-11.3	-6.2	13.1	13.3	11.9	-5.9	-7.5	14.4	12.6	3.7	2.6	1.0
Austria	0.7	-1.0	-1.0	-0.8	2.9	1.7	7.5	0.2	-2.6	4.6	9.0	4.7	6.8	12.1	2.6	1.0	1.1	2.1	2.0	1.9
Belgium	-2.5	-8.3	2.7	20.4	0.0	8.5	25.2	17.6	8.0	-8.9	4.9	1.8	5.3	5.6	-4.1	5.0	2.3	-1.0	2.0	2.2
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Denmark	-8.6	11.5	20.3	-2.1	21.3	-3.2	-9.4	-7.9	-10.8	-11.1	-1.8	7.5	8.1	5.3	7.3	7.7	5.1	-2.0	-6.0	-8.0
Finland	1.7	-0.3	-2.7	-3.0	-8.3	0.7	16.7	18.9	-5.7	-16.6	-20.6	-14.3	-4.5	-2.7	2.6	23.0	8.4	9.8	7.5	7.4
Greece	-3.9	4.6	-19.7	-0.5	14.6	3.4	2.9	-1.8	5.4	-0.6	-16.7	-10.5	-11.3	2.6	-1.2	9.8	7.6	5.0	8.0	9.0
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Iceland	2.5	-9.1	10.4	-13.6	-13.9	14.2	14.8	2.8	-0.6	-4.9	-3.3	-5.8	0.0	-9.9	4.0	-6.1	5.0	7.0	5.0	-1.0
Ireland	2.9	-5.7	7.8	-1.0	7.0	5.1	-0.4	13.2	-0.5	0.7	8.0	-11.9	24.0	13.9	18.0	14.7	13.7	9.4	9.0	7.7
Korea	12.5	31.3	-9.3	0.8	16.2	9.0	22.7	19.7	62.1	10.8	-7.3	11.2	-1.7	8.3	1.5	-6.3	-7.6	7.1	6.5	7.0
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mexico	3.9	-5.9	5.0	8.1	-1.6	4.4	-1.2	5.8	4.4	7.6	2.9	5.2	4.0	-7.9	2.5	4.4	13.7	5.0	3.6	5.5
Netherlands	-1.8	-0.7	4.4	-0.8	4.2	1.6	11.3	0.7	-2.5	-5.4	6.4	-0.3	6.2	0.9	3.9	6.4	-0.9	0.8	1.8	2.2
New Zealand	-1.9	2.0	18.5	-0.5	-3.1	-3.9	4.2	15.1	2.0	-15.8	3.4	17.0	12.7	2.2	5.4	6.4	-16.6	9.5	6.6	5.1
Norway	2.6	0.0	-0.7	-0.9	7.8	3.2	-6.9	-12.5	-17.8	-21.7	-10.6	-3.7	24.6	9.1	-0.1	8.2	-0.6	-9.0	0.5	1.8
Poland	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Portugal	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Spain	-1.5	-5.5	-5.4	6.5	2.1	6.3	11.4	3.3	6.4	-3.7	-4.0	-4.1	0.4	7.1	9.1	-0.7	5.5	9.0	6.5	5.0
Sweden	-2.1	-0.7	10.7	-2.7	-2.9	10.0	10.7	6.2	8.1	-2.1	-7.3	-32.8	-34.1	-23.9	8.9	-25.5	4.9	15.0	14.0	10.0
Switzerland	-2.2	9.1	9.4	0.5	-1.6	2.7	4.9	5.8	-3.4	-7.7	-1.6	5.8	19.3	0.0	-10.2	-4.0	-0.6	0.8	1.2	2.3
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Total of smaller countries	2.7	1.9	2.2	3.4	3.4	4.3	10.7	7.3	10.0	-1.1	-0.4	1.8	3.1	1.1	2.1	2.3	4.0	4.9	4.5	4.3
Total OECD	-1.1	16.4	5.9	0.6	7.3	5.2	5.3	0.5	-1.1	-7.4	6.0	3.7	6.9	-2.6	5.8	-0.6	2.1	4.2	1.1	1.5
Memorandum items																				
European Union	-1.0	2.0	0.8	-2.6	2.7	2.4	7.9	2.3	0.1	-3.3	1.6	-0.2	3.6	0.8	2.5	0.4	1.0	1.9	3.8	3.2
Euro area	-0.9	0.8	-0.8	-3.8	0.1	0.8	5.8	5.3	3.1	-1.1	2.8	-0.1	6.3	2.0	0.7	0.5	-0.2	1.9	3.3	3.0

Annex Table 8. **Real total domestic demand**

Percentage change from previous period

	Average 1972-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	1.9	5.3	7.9	4.0	3.4	2.8	3.2	2.8	1.4	-0.9	3.4	2.9	4.4	2.4	3.8	4.7	5.5	4.8	3.4	2.3
Japan	3.4	1.7	3.2	3.8	3.9	5.1	7.4	5.6	5.2	2.9	0.4	0.1	1.0	2.3	5.7	0.1	-3.5	1.5	1.2	1.1
Germany	1.4	2.4	1.9	1.0	3.3	2.4	3.5	2.8	5.2	4.6	2.8	-1.0	2.2	1.7	0.3	0.7	2.5	1.7	1.9	2.3
France	2.6	-0.3	0.6	2.3	3.2	3.2	4.2	3.9	2.7	0.5	0.7	-1.7	1.8	1.7	0.7	0.9	3.9	2.5	2.7	2.7
Italy	3.0	0.3	2.9	3.0	3.1	4.2	3.8	3.1	2.7	2.1	0.9	-5.1	1.7	2.0	0.4	2.5	2.6	2.3	2.2	2.3
United Kingdom	1.2	4.8	2.7	3.2	4.8	4.9	8.0	2.9	-0.3	-2.7	0.8	2.2	3.5	1.8	3.0	3.8	4.1	3.4	2.9	2.3
Canada	3.2	3.8	4.7	5.8	3.4	4.7	5.3	4.1	0.0	-1.4	0.9	1.4	3.2	1.7	1.6	5.7	2.2	3.3	3.0	2.7
Total of major countries	2.3	3.5	5.1	3.5	3.5	3.5	4.5	3.5	2.4	0.5	2.1	1.0	3.1	2.2	3.1	3.0	3.0	3.4	2.6	2.1
Australia	3.0	2.0	2.3	14.2	25.5	3.1	5.7	7.0	-0.7	-2.3	3.0	3.1	5.4	4.7	3.3	3.6	6.2	4.8	2.5	3.3
Austria	2.3	3.5	1.6	1.9	2.1	2.6	3.2	3.0	4.3	3.6	1.4	0.8	3.6	1.9	1.7	1.8	2.6	2.3	2.6	2.5
Belgium	2.4	-2.0	2.2	1.0	2.6	3.4	4.8	4.2	2.8	1.8	1.8	-1.4	2.1	2.0	0.7	2.3	4.2	2.3	2.5	2.3
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	6.4	8.4	6.9	0.3	-3.2	-0.3	1.4	2.4
Denmark	1.0	1.6	5.0	5.2	5.7	-1.8	-0.8	0.1	-0.5	0.1	1.6	0.5	7.2	5.5	2.5	4.6	4.6	0.6	1.4	1.8
Finland	2.9	2.9	2.0	3.2	2.5	5.1	6.1	6.9	-1.0	-8.3	-6.1	-5.6	3.7	4.4	2.5	5.3	6.0	3.5	3.4	3.8
Greece	3.1	0.5	0.9	4.7	0.5	0.0	4.4	4.9	2.4	3.6	-0.6	-0.9	1.1	3.9	3.3	4.1	3.2	3.3	3.9	4.3
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	2.0	-3.0	0.8	4.4	8.1	4.7	4.2	4.5
Iceland	5.1	-8.6	6.4	2.7	4.5	15.7	-0.6	-4.4	1.5	5.1	-5.3	-4.1	1.5	3.1	7.5	6.2	12.1	4.7	3.4	2.7
Ireland	3.8	-2.0	1.5	1.5	1.0	0.8	2.8	6.9	5.9	0.1	-0.3	1.0	5.6	7.0	7.8	9.5	9.4	7.6	6.8	5.9
Korea	7.3	9.6	8.9	5.5	8.2	10.6	11.4	12.6	11.6	10.4	3.2	4.6	9.6	9.3	7.8	-0.8	-18.7	12.9	7.6	7.4
Luxembourg	2.4	-1.7	1.3	0.4	8.9	7.2	6.8	4.9	4.7	11.6	-2.6	8.3	-2.8	2.6	2.7	5.6	2.3	4.2	3.2	3.3
Mexico	5.9	-9.1	4.2	4.2	-5.0	1.0	3.7	5.5	6.7	5.4	5.9	-0.1	5.6	-14.0	5.6	9.5	6.0	3.1	3.8	4.7
Netherlands	1.6	2.2	1.7	3.7	3.9	1.4	1.9	4.4	3.2	1.7	1.5	-1.1	2.9	1.9	2.8	3.5	4.2	3.4	2.6	2.5
New Zealand	1.8	-1.1	10.5	-0.1	0.8	1.6	1.7	2.8	-0.3	-6.2	2.0	4.9	6.9	5.1	3.9	3.4	-0.2	4.9	3.1	2.8
Norway	3.5	-0.3	4.8	5.6	7.3	-0.8	-3.1	-2.0	-0.3	0.8	1.7	3.1	4.1	4.2	4.2	6.4	5.4	-1.2	-1.3	1.6
Poland	..	..	..	..	..	..	..	..	..	..	..	..	4.7	6.9	9.8	9.4	7.2	5.1	5.6	5.8
Portugal	3.9	-4.4	-5.6	1.4	6.8	9.8	8.5	3.3	6.1	4.2	5.0	-1.3	3.0	3.0	2.8	5.2	6.5	4.7	4.4	4.0
Spain	2.2	0.9	-0.4	3.2	4.7	7.4	6.5	6.9	4.5	2.6	0.8	-3.5	1.3	2.9	1.8	3.2	5.0	5.0	4.8	4.6
Sweden	1.4	-0.8	4.0	3.5	2.6	3.9	2.6	3.9	1.3	-1.9	-2.0	-5.7	3.1	2.0	0.7	0.8	3.5	3.0	2.9	2.7
Switzerland	1.0	1.9	3.2	1.9	4.5	2.0	2.6	4.1	3.9	-0.6	-2.7	-1.0	2.7	1.8	0.4	1.3	4.1	2.2	2.5	2.8
Turkey	3.6	5.8	6.4	3.2	7.0	8.9	-1.3	1.5	14.6	-0.6	5.6	14.2	-12.5	11.4	7.6	9.0	0.7	-3.3	5.8	5.5
Total of smaller countries	3.7	1.0	3.4	4.5	5.3	4.7	4.6	5.7	5.4	2.6	2.3	1.2	3.3	2.6	4.3	4.3	1.6	4.2	4.1	4.3
Total OECD	2.6	2.9	4.7	3.7	3.9	3.8	4.5	3.9	3.1	1.0	2.2	1.0	3.1	2.3	3.4	3.3	2.7	3.6	3.0	2.6
Memorandum items																				
European Union	2.1	1.4	1.7	2.5	3.6	3.7	4.6	3.7	3.0	1.5	1.3	-1.6	2.4	2.1	1.3	2.2	3.6	2.8	2.7	2.7
Euro area	2.2	0.9	1.5	2.2	3.3	3.4	4.1	3.8	3.6	2.3	1.4	-2.1	2.1	2.0	0.9	1.7	3.3	2.6	2.6	2.7

Annex Table 9. **Real exports of goods and services**

Percentage change from previous period

	Average 1972-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	6.1	-2.6	8.3	2.7	7.4	11.0	16.1	11.7	8.7	6.8	6.4	3.0	8.9	10.3	8.3	12.7	2.2	3.4	7.0	6.8
Japan	8.7	4.8	14.8	5.4	-5.7	-0.5	5.9	9.1	6.9	5.2	4.9	1.3	4.6	5.4	6.3	11.6	-2.3	0.3	4.6	3.6
Germany	5.2	-0.8	8.2	7.6	-0.6	0.4	5.5	10.2	11.0	12.6	-0.8	-5.5	7.6	5.7	5.1	10.9	7.0	1.7	6.1	6.3
France	5.1	3.7	7.0	1.9	-1.2	3.0	8.6	10.7	4.7	5.6	5.0	0.2	7.9	7.8	3.1	10.6	6.9	1.8	6.3	5.7
Italy	5.0	3.0	9.0	3.7	2.3	4.6	5.7	7.8	7.5	-1.4	7.3	9.0	9.8	12.6	0.9	5.2	1.1	-1.2	5.3	5.9
United Kingdom	3.7	1.8	6.6	6.0	4.5	5.9	0.6	4.8	4.9	-0.2	4.1	3.9	9.2	9.5	7.5	8.6	2.0	-0.1	4.0	4.8
Canada	3.7	6.4	18.6	5.5	5.2	3.3	9.5	1.3	4.7	2.3	7.9	10.9	13.1	9.0	5.8	8.5	8.2	9.1	6.4	5.7
Total of major countries	6.2	0.5	9.7	4.0	2.9	6.1	10.6	9.8	7.8	5.7	5.2	2.4	8.2	8.8	6.5	11.2	2.4	2.2	6.1	5.9
Australia	3.3	-4.4	16.1	11.1	4.3	12.2	3.5	2.9	8.5	13.1	5.4	8.0	9.0	5.1	10.6	11.5	-0.4	2.8	7.8	7.6
Austria	6.0	3.6	6.3	7.1	-2.3	3.1	10.2	11.3	7.9	5.9	1.7	-1.3	5.6	6.5	6.9	10.1	7.9	2.9	6.2	6.4
Belgium	3.8	2.5	6.5	0.3	2.8	5.0	9.6	8.3	4.6	3.1	3.7	-0.4	8.4	5.7	1.2	7.1	3.4	1.0	6.0	6.1
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	0.2	16.7	9.2	8.1	10.7	3.3	6.7	7.9
Denmark	4.3	4.9	3.5	5.0	0.0	5.1	7.8	4.3	6.2	7.0	-0.5	0.1	8.2	3.5	5.0	4.4	1.4	3.6	3.8	4.2
Finland	4.8	2.0	5.0	1.1	1.2	2.7	3.7	2.1	-0.1	-7.3	10.4	16.7	13.1	8.7	6.1	14.2	9.6	3.1	7.0	6.3
Greece	6.5	8.0	16.9	1.3	14.0	16.0	9.0	4.8	-4.1	3.7	10.4	-3.3	6.6	0.5	3.5	7.9	4.2	6.2	7.5	7.5
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	13.7	13.4	8.4	26.4	16.0	10.4	10.1	10.6
Iceland	4.7	11.0	2.4	11.1	5.9	3.3	-3.6	2.9	0.0	-5.9	-1.9	7.1	10.0	-2.2	10.0	6.0	3.0	8.5	6.2	5.2
Ireland	7.3	10.5	16.6	6.6	2.9	13.7	9.0	10.3	8.7	5.3	13.5	9.1	14.7	19.6	11.8	17.0	20.5	11.8	10.7	8.5
Korea	16.5	19.4	7.7	4.6	26.5	21.7	12.5	-4.1	3.8	11.2	11.3	11.3	16.1	24.6	11.2	21.4	13.3	14.5	12.0	10.5
Luxembourg	1.7	5.3	18.0	9.5	3.3	4.4	11.7	8.1	3.4	6.7	4.8	2.8	4.4	4.4	4.0	10.5	9.9	6.1	6.6	6.2
Mexico	9.7	14.2	5.8	-4.5	4.5	9.5	5.8	2.3	3.6	4.6	1.7	3.8	17.8	30.2	18.2	10.8	9.7	11.2	8.0	6.0
Netherlands	3.3	3.2	7.5	5.1	1.8	4.0	9.0	6.6	5.3	4.7	2.9	1.5	6.7	7.1	4.6	9.0	6.4	3.9	5.3	5.3
New Zealand	4.3	8.2	7.4	8.0	-0.4	6.1	4.1	-2.6	4.6	9.6	2.7	5.9	10.3	3.7	3.5	3.1	1.4	3.9	6.6	6.7
Norway	4.4	7.1	7.9	7.2	2.2	1.1	6.4	11.0	8.6	6.1	5.2	3.2	8.7	4.3	9.3	5.7	0.5	1.9	7.5	3.5
Poland	..	..	..	..	..	..	..	..	..	..	..	..	13.1	22.8	12.0	12.2	10.3	-2.0	6.5	10.0
Portugal	1.5	13.6	11.6	6.7	6.8	11.2	6.5	13.0	10.0	2.6	4.9	-3.6	8.7	9.1	10.2	8.4	9.3	4.2	6.6	6.5
Spain	5.7	10.0	11.7	2.6	1.9	6.3	5.1	3.0	3.2	7.9	7.4	8.5	16.7	10.0	10.3	15.1	7.1	6.7	8.0	8.1
Sweden	3.5	9.8	6.8	1.5	3.7	4.2	2.5	3.2	1.6	-2.4	2.4	7.7	13.6	11.5	3.9	12.7	6.9	6.0	6.7	5.0
Switzerland	3.0	0.8	7.5	8.0	-0.4	2.3	6.5	6.6	2.1	-2.1	3.0	1.5	1.8	1.6	2.5	9.0	4.6	3.0	4.5	5.2
Turkey	9.0	13.1	25.4	-1.9	-5.1	26.4	18.4	-0.3	2.6	3.7	11.0	7.7	15.2	8.0	22.0	19.1	10.5	-5.0	6.0	3.0
Total of smaller countries	7.6	9.0	10.3	3.1	5.7	10.7	8.1	3.3	4.3	5.9	5.9	5.5	12.2	13.5	10.4	13.0	7.9	5.6	7.6	7.0
Total OECD	6.5	2.3	9.8	3.8	3.5	7.1	10.1	8.4	7.0	5.8	5.4	3.1	9.1	9.9	7.4	11.6	3.7	3.0	6.4	6.1
Memorandum items																				
European Union	4.8	3.2	8.2	4.5	1.5	4.1	5.7	7.8	6.4	4.8	3.9	1.8	9.2	8.4	4.9	9.6	5.2	1.9	5.9	6.0
Euro area	7.5	2.1	10.4	3.5	-10.3	-2.4	6.7	8.0	8.2	7.4	2.0	11.8	9.1	7.0	6.9	13.1	4.3	0.9	6.5	6.3

Annex Table 10. **Real imports of goods and services**

Percentage change from previous period

	Average 1972-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	2.2	12.6	24.3	6.5	8.4	6.0	3.8	3.9	3.8	-0.5	6.6	9.1	12.0	8.2	8.6	13.7	11.6	12.0	8.7	5.3
Japan	3.5	-3.0	10.5	-1.4	2.0	9.5	20.9	18.6	7.9	-3.1	-0.7	-0.3	8.9	14.2	11.9	0.5	-7.5	1.1	3.3	3.6
Germany	3.4	1.4	5.2	4.5	2.7	4.2	5.1	8.3	10.3	13.1	1.5	-5.4	7.3	5.6	3.2	8.3	8.5	3.1	4.9	5.7
France	3.7	-2.7	2.7	4.5	6.2	7.5	8.3	8.4	5.3	2.6	1.7	-3.7	8.6	7.9	1.3	6.4	9.4	2.2	5.5	5.5
Italy	3.5	-3.0	12.1	4.9	3.9	11.4	5.4	8.9	11.5	2.3	7.4	-10.9	8.1	9.7	-0.8	10.1	6.0	3.3	4.5	4.7
United Kingdom	2.3	6.6	9.9	2.5	6.9	7.9	12.8	7.4	0.5	-5.0	6.8	3.2	5.4	5.5	9.1	9.2	8.4	5.0	4.3	4.5
Canada	4.3	10.8	18.1	8.8	8.5	5.6	13.7	6.3	2.3	3.2	6.2	7.4	8.3	6.2	5.8	14.6	5.8	7.8	6.6	6.1
Total of major countries	3.0	5.9	16.2	4.4	6.1	7.1	8.5	8.0	5.6	0.6	4.5	3.0	9.8	8.8	7.3	9.7	6.8	7.1	6.4	5.0
Australia	6.4	-9.8	22.1	3.5	-3.3	2.7	17.1	20.6	-4.0	-2.5	7.1	4.2	14.1	8.1	8.2	10.3	5.9	6.5	4.0	5.6
Austria	4.6	5.7	10.0	6.2	-2.9	5.4	10.4	8.4	7.3	6.5	1.8	-0.7	8.3	7.0	6.3	8.7	6.6	3.0	5.7	6.5
Belgium	3.6	-1.3	6.3	0.2	4.6	6.7	10.4	9.6	4.9	2.8	4.1	-0.4	7.2	5.0	1.0	6.0	5.2	1.6	5.7	5.7
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	7.8	21.2	14.3	7.2	7.9	3.2	6.2	7.5
Denmark	1.8	1.8	5.5	8.1	6.8	-2.0	1.5	4.2	1.5	3.9	0.2	-1.2	13.2	8.8	4.3	8.5	6.4	1.9	3.6	4.1
Finland	3.6	3.1	1.6	6.4	2.6	9.2	11.1	10.3	-1.7	-13.5	0.6	1.3	12.8	7.9	6.3	11.4	9.4	2.3	5.5	5.5
Greece	4.7	6.6	0.2	12.8	3.8	16.6	8.0	10.7	8.7	6.0	1.3	0.2	1.3	9.2	7.0	9.5	1.9	5.1	7.3	7.5
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	8.8	-0.7	6.6	25.5	22.2	11.7	10.8	11.3
Iceland	4.8	-9.7	9.1	9.4	0.9	23.3	-4.6	-10.3	1.0	5.7	-8.0	-8.6	4.2	3.8	16.6	8.6	22.4	5.1	7.2	5.3
Ireland	5.3	4.7	9.9	3.2	5.6	6.2	4.9	13.5	5.1	2.2	7.9	7.0	15.1	16.1	12.0	16.1	23.2	12.0	10.4	9.1
Korea	13.8	11.9	7.4	-0.6	17.9	19.6	12.9	16.3	13.0	19.2	5.3	6.2	21.6	22.4	14.2	3.2	-22.0	29.5	17.1	16.4
Luxembourg	2.1	1.2	13.9	7.0	3.8	7.5	8.2	6.6	4.5	9.0	-0.8	2.8	-0.1	3.8	4.0	9.3	8.3	5.5	6.0	5.8
Mexico	6.9	-33.8	17.8	11.0	-7.6	5.1	36.7	21.3	19.8	16.7	20.9	-1.3	21.3	-15.0	22.9	22.8	14.2	10.0	9.5	8.4
Netherlands	2.4	3.9	5.0	6.3	3.5	4.2	7.6	6.7	4.2	4.1	2.1	-2.1	6.7	7.2	4.4	9.0	7.7	4.7	5.5	5.4
New Zealand	3.6	-7.7	16.5	0.6	2.8	8.6	-0.8	12.4	2.1	-5.4	8.3	5.8	13.2	8.9	8.3	4.1	2.9	10.4	5.1	4.9
Norway	3.7	-3.1	5.8	8.9	11.8	-6.5	-2.4	2.2	2.5	0.2	0.7	4.4	4.9	5.6	8.0	12.0	9.1	-2.2	-2.4	3.5
Poland	..	..	..	..	..	..	..	..	..	..	..	..	11.3	24.2	28.0	21.4	13.9	4.0	7.0	8.5
Portugal	2.7	-6.1	-4.4	1.4	16.9	23.1	17.3	6.1	14.0	7.3	10.7	-3.3	9.0	7.8	7.5	10.4	13.3	7.0	7.5	7.0
Spain	4.0	-0.3	-1.8	7.9	14.4	20.1	14.4	17.3	7.8	9.0	6.9	-5.2	11.3	11.0	8.1	12.8	11.1	11.5	11.4	11.2
Sweden	2.1	0.8	5.4	7.0	4.4	7.6	5.4	7.4	0.8	-4.9	1.2	-2.7	12.3	7.3	2.9	11.7	9.7	4.5	7.1	5.2
Switzerland	2.6	5.5	8.3	3.7	8.1	6.2	5.2	5.9	2.6	-1.6	-4.2	0.1	7.9	5.1	2.7	8.1	9.4	4.8	6.0	6.3
Turkey	7.6	16.9	19.7	-6.6	-3.5	23.0	-4.5	6.9	33.0	-5.2	10.9	35.8	-21.9	29.6	20.5	22.4	2.2	-8.0	10.0	8.0
Total of smaller countries	6.6	-2.0	9.1	4.6	5.0	11.2	13.2	13.2	9.8	6.3	7.1	3.1	10.5	9.6	11.8	12.6	5.5	8.4	8.7	8.6
Total OECD	3.8	4.2	14.7	4.5	5.9	8.0	9.5	9.1	6.5	1.9	5.0	3.0	10.0	9.0	8.3	10.4	6.5	7.4	6.9	5.8
Memorandum items																				
European Union	3.4	0.8	5.9	4.8	5.5	8.6	8.4	9.0	6.8	4.2	4.0	-3.8	7.9	7.5	3.9	9.0	8.4	4.2	5.6	5.8
Euro area	5.2	-2.4	6.2	3.3	-6.7	5.0	7.9	8.2	9.2	6.9	1.8	1.2	8.0	5.6	4.7	11.4	8.3	4.0	5.9	6.2

Annex Table 11. **Output gaps**[a]

Deviations of actual GDP from potential GDP as a percentage of potential GDP

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	-5.1	-3.9	-0.3	-0.1	-0.2	-0.1	1.3	2.0	0.9	-1.8	-1.1	-1.4	-0.4	-0.8	-0.3	1.1	2.0	2.5	2.2	1.2
Japan	-0.1	-1.5	-1.3	-1.3	-2.5	-2.5	-0.4	0.6	2.5	3.1	1.3	-0.6	-1.7	-2.3	0.9	0.8	-3.5	-3.5	-3.4	-3.4
Germany	-3.1	-3.1	-2.0	-1.6	-1.1	-1.6	-0.3	0.5	2.8	2.1	1.7	-1.0	-0.6	-0.5	-1.4	-1.6	-1.2	-1.7	-1.3	-0.6
France	0.5	-1.1	-2.1	-2.4	-2.6	-2.5	-0.8	0.9	1.2	0.3	0.0	-2.3	-2.0	-2.0	-2.5	-2.4	-1.0	-0.7	0.0	0.4
Italy	-0.7	-2.2	-2.5	-1.9	-0.9	0.0	1.5	1.9	1.3	0.2	-1.1	-3.2	-2.2	-0.5	-1.3	-1.7	-2.3	-3.2	-2.8	-2.2
United Kingdom	-4.7	-2.8	-2.5	-0.9	0.9	3.0	5.6	5.2	3.1	-0.9	-2.8	-2.8	-0.6	-0.3	0.0	1.2	1.3	0.7	1.1	1.0
Canada	-5.4	-5.1	-2.2	0.5	0.5	2.0	4.0	3.7	1.1	-3.4	-4.6	-4.4	-1.9	-1.3	-1.9	-0.7	-0.5	0.1	0.2	0.0
Total of above countries	-3.3	-3.0	-1.2	-0.8	-0.8	-0.5	1.1	1.8	1.6	-0.2	-0.5	-1.6	-1.0	-1.1	-0.5	0.2	0.0	0.1	0.2	-0.2
Australia	-1.6	-4.1	-0.9	1.0	-0.5	0.7	1.5	2.1	0.6	-2.9	-2.8	-1.9	-0.2	0.5	0.5	0.4	1.5	1.2	0.7	1.0
Austria	-1.5	-0.7	-2.4	-2.1	-1.6	-1.7	-0.4	1.7	2.7	2.5	0.9	-1.5	-1.2	-1.3	-1.2	-0.7	0.3	0.3	0.8	0.9
Belgium	0.5	-1.5	-1.1	-1.9	-2.1	-1.7	0.4	1.4	2.0	1.4	0.7	-2.9	-2.2	-1.5	-2.8	-1.6	-1.0	-1.2	-0.7	-0.3
Denmark	-2.6	-2.1	-0.1	1.7	3.0	1.2	-1.2	-2.6	-3.0	-3.2	-3.7	-4.7	-1.3	-0.1	0.2	0.9	1.2	0.1	-0.6	-0.9
Finland	-0.4	-1.0	-0.9	-0.4	-0.7	0.7	3.0	5.9	3.0	-4.4	-7.9	-9.2	-6.9	-4.9	-3.4	-1.1	1.0	0.4	0.8	1.0
Greece	-3.1	-4.0	-2.5	-0.9	-0.4	-1.9	1.1	2.9	0.6	1.5	0.3	-2.4	-2.7	-2.7	-2.4	-1.6	-0.8	-0.6	-0.2	0.4
Ireland	0.1	-2.8	-1.4	-1.0	-4.2	-3.1	-1.1	1.1	4.6	1.1	-1.1	-3.9	-4.0	-1.2	-0.5	2.6	3.7	5.0	5.5	4.8
Netherlands	-3.4	-2.8	-1.0	0.4	0.5	-0.7	-1.1	0.5	1.7	1.2	0.6	-1.1	-0.2	-0.4	0.0	0.8	1.3	1.4	1.2	1.1
New Zealand	-0.5	-2.3	2.3	1.9	1.9	1.2	-0.3	-0.6	-2.1	-4.8	-5.2	-2.4	0.4	1.1	1.2	0.8	-1.7	-1.6	-0.9	-0.2
Norway[b]	-0.9	-1.9	-1.1	2.2	2.7	2.0	-1.0	-4.4	-4.6	-4.6	-4.2	-2.6	-1.2	-0.9	0.6	2.4	3.3	1.4	-0.7	-0.8
Portugal	2.2	-0.4	-4.7	-4.7	-3.7	-0.9	0.6	2.3	3.4	2.8	2.5	-1.3	-1.8	-1.7	-1.5	-0.8	-0.1	-0.1	0.2	0.3
Spain	-4.6	-3.2	-2.5	-1.7	-1.2	1.5	3.4	4.3	4.7	4.0	2.0	-1.5	-1.6	-1.5	-2.0	-1.0	0.3	0.2	0.7	0.9
Sweden	..	-1.0	1.9	2.3	3.2	4.3	4.1	4.4	3.6	1.0	-2.3	-5.9	-3.8	-1.8	-2.2	-2.4	-1.9	-0.2	0.7	1.1
Switzerland	0.6	-0.6	0.5	1.9	1.2	-0.5	0.0	1.8	3.0	0.7	-0.7	-2.1	-2.5	-2.9	-3.3	-2.5	-1.8	-1.8	-1.5	-0.9
Total of above smaller countries	-2.0	-2.4	-1.3	-0.3	-0.3	0.3	1.1	2.1	2.1	0.6	-0.6	-2.5	-1.7	-1.2	-1.3	-0.5	0.3	0.3	0.4	0.6
Total of above OECD countries	-3.1	-2.9	-1.2	-0.7	-0.8	-0.4	1.1	1.8	1.7	-0.1	-0.5	-1.8	-1.1	-1.1	-0.6	0.1	0.1	0.1	0.2	-0.1
Memorandum items																				
Total of above European Union countries	-2.1	-2.3	-2.1	-1.5	-0.9	-0.3	1.3	2.1	2.3	1.0	-0.1	-2.3	-1.5	-1.0	-1.4	-1.1	-0.6	-0.8	-0.4	-0.1
Total of above Euro area countries	-1.4	-2.0	-1.8	-1.5	-1.2	-0.9	0.5	1.7	2.4	1.4	0.6	-1.9	-1.4	-1.0	-1.6	-1.4	-0.8	-1.1	-0.6	-0.2

a) For further details, see Giorno *et al*., "Potential output, output gaps and structural budget balances", *OECD Economic Studies*, N°. 24, 1995/I.
b) Mainland Norway.

Annex Table 12. **Compensation per employee in the business sector**

Percentage change from previous period

	Average 1972-82[a]	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	8.3	5.1	5.0	4.0	3.9	4.5	4.8	3.2	4.9	3.9	5.7	2.8	2.3	1.9	2.5	4.0	4.9	4.4	5.3	5.2
Japan	11.0	2.5	4.2	3.4	2.4	2.5	3.0	3.8	5.1	4.3	0.9	0.6	2.0	0.8	0.6	1.3	-0.2	-0.4	0.3	0.5
Germany	7.3	3.9	3.8	3.1	3.7	3.3	3.2	3.0	4.2	4.8	10.5	3.9	3.2	3.7	2.0	1.3	1.3	2.4	2.2	2.7
France	14.2	10.2	8.2	6.8	4.2	4.0	4.2	3.5	3.7	4.9	4.1	2.1	1.1	1.1	2.0	1.8	1.4	1.3	2.3	2.6
Italy	20.2	15.9	11.9	10.4	7.0	7.7	7.8	9.3	8.5	8.8	6.3	4.1	2.8	5.3	5.0	4.1	-1.5	2.4	2.4	2.3
United Kingdom	16.0	8.7	6.9	8.6	8.8	6.3	7.6	9.7	10.2	8.5	4.6	1.8	3.5	2.7	3.8	6.0	6.8	4.7	4.9	4.9
Canada	10.1	5.1	4.8	5.5	2.9	6.9	7.1	4.9	4.5	5.5	2.7	1.9	0.8	1.8	3.2	7.0	2.1	1.0	2.9	3.1
Total of major countries	10.6	5.9	5.6	4.9	4.1	4.4	4.8	4.3	5.4	4.9	5.1	2.5	2.3	2.2	2.4	3.3	2.9	2.8	3.5	3.6
Australia	13.4	4.8	9.9	5.0	6.6	5.2	6.3	7.4	8.3	2.9	3.4	3.4	1.8	3.4	5.6	3.3	2.6	3.2	3.5	3.7
Austria	9.4	5.0	5.6	5.5	5.8	4.1	4.3	4.9	5.8	5.8	4.2	3.7	3.2	3.6	1.9	2.0	2.9	2.5	2.4	3.0
Belgium	11.2	5.1	8.6	5.5	3.8	3.3	2.4	5.0	6.5	7.6	5.5	4.8	2.3	2.3	0.8	1.0	2.1	1.8	1.7	2.3
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	17.3	17.6	17.7	10.6	9.4	8.6	7.4	6.8
Denmark	12.1	9.0	6.1	4.9	5.1	7.3	11.4	4.6	4.1	4.0	4.4	2.5	3.2	3.4	2.3	3.9	4.8	4.6	4.9	5.4
Finland	15.5	9.2	10.1	10.4	7.6	8.0	9.9	10.5	9.3	5.0	1.8	1.3	4.7	4.5	2.5	2.1	5.6	4.0	4.5	5.2
Greece	20.1	21.9	18.6	21.9	12.9	10.7	17.4	22.5	16.3	16.3	12.7	8.7	11.8	14.7	8.4	10.2	7.9	5.3	4.7	5.1
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	20.7	23.1	23.1	20.4	17.9	9.6	10.5	8.5
Iceland	50.9	54.1	30.2	42.2	29.2	44.0	26.0	13.4	16.5	24.6	1.7	-3.3	5.7	9.4	6.5	1.9	7.1	7.4	8.7	8.7
Ireland	18.8	13.2	10.5	9.1	6.4	5.2	5.1	5.9	2.9	3.6	8.3	4.9	2.0	2.3	3.3	3.4	1.6	7.0	7.5	7.5
Korea	25.8	18.9	11.7	6.3	11.0	12.3	18.1	12.1	18.2	20.6	10.9	7.8	9.3	13.2	11.2	7.5	-1.1	8.9	7.5	7.0
Netherlands	9.4	3.6	0.8	1.8	2.7	1.5	1.3	0.9	3.3	4.5	4.2	3.0	2.8	1.3	1.7	2.1	2.1	3.8	4.0	4.0
New Zealand	14.7	3.9	3.5	12.3	18.8	14.2	11.2	6.8	1.1	1.3	1.1	1.9	1.9	0.4	2.1	2.9	2.4	2.4	2.5	2.8
Norway	10.9	7.9	7.5	7.1	9.8	9.1	8.5	4.6	5.0	5.4	4.5	2.2	2.8	3.0	2.5	4.8	7.1	5.1	4.3	3.8
Poland	..	..	..	..	..	..	..	..	..	..	..	..	42.0	28.5	32.4	21.3	16.8	10.5	9.0	6.5
Portugal	24.1	16.6	19.7	19.3	18.9	13.6	9.4	12.9	17.4	18.4	17.0	6.7	5.9	6.4	5.5	5.0	4.5	5.0	4.8	4.5
Spain	20.3	16.2	11.1	8.0	8.2	1.0	5.1	6.0	9.6	10.8	10.6	9.5	2.9	2.3	3.9	2.7	1.2	1.4	2.9	3.4
Sweden	11.8	8.0	9.8	8.4	8.3	7.4	8.1	12.2	9.8	6.3	3.2	5.2	5.4	2.8	6.2	3.2	4.4	2.0	1.8	3.1
Switzerland	5.7	4.6	3.3	3.9	4.3	3.2	3.6	4.5	5.0	7.2	6.3	1.8	1.3	2.4	0.7	2.7	0.5	1.5	2.0	2.5
Total of smaller countries	16.5	11.2	9.4	7.4	8.1	6.3	8.4	7.9	9.8	9.9	7.4	5.6	7.7	7.6	7.6	5.7	3.8	4.7	4.7	4.6
Total OECD	11.6	6.8	6.3	5.3	4.8	4.8	5.4	4.9	6.1	5.8	5.5	3.0	3.4	3.2	3.4	3.8	3.0	3.2	3.7	3.8
Memorandum items																				
OECD *less* high inflation countries[b]	11.6	6.7	6.2	5.2	4.8	4.7	5.3	4.8	6.1	5.7	5.4	3.0	2.7	2.7	2.9	3.4	2.8	3.1	3.6	3.7
European Union[c]	14.3	9.7	7.9	7.2	6.2	4.9	5.6	6.4	7.0	7.1	7.1	3.9	3.0	3.3	3.2	3.0	2.2	2.7	3.0	3.3
Euro area[c]	13.2	9.4	7.4	6.5	5.4	4.4	4.3	4.5	5.4	6.2	8.0	5.7	3.1	3.9	2.0	1.5	0.9	1.9	2.3	2.7

a) Average 1975-82 in the case of Korea.

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

c) Luxembourg excluded.

Annex Table 13. **Unit labour costs in the total economy**

Percentage change from previous period

	Average 1972-82[a]	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	7.8	2.0	3.2	3.8	2.8	4.0	3.6	2.4	4.5	3.3	2.1	2.2	1.2	1.9	0.9	1.8	2.8	2.5	3.2	3.2
Japan	8.9	2.8	1.6	0.3	1.4	-0.6	-0.5	2.2	3.2	3.8	2.5	2.0	1.8	0.2	-2.9	1.0	2.2	-2.5	-0.6	-0.3
Germany	5.5	0.3	0.8	1.8	2.8	2.7	0.2	0.8	2.0	2.8	6.0	3.5	0.2	1.9	0.5	-1.1	-0.6	1.2	0.1	0.6
France	12.2	9.1	5.9	4.4	2.9	1.8	1.3	2.0	3.9	3.7	2.4	2.6	0.0	1.6	1.6	0.6	0.3	0.7	0.8	0.5
Italy	17.2	13.7	8.8	8.6	5.0	5.3	5.9	6.4	10.0	7.9	4.4	1.9	-0.8	1.0	5.1	3.2	-1.6	2.5	0.7	0.4
United Kingdom	13.8	3.1	4.3	4.5	3.5	3.8	6.2	8.9	9.6	7.5	3.9	0.4	-0.6	1.3	2.4	3.3	4.8	3.3	2.6	3.1
Canada	9.8	2.0	1.9	2.3	3.9	4.4	4.6	5.2	4.9	4.7	1.4	-0.5	-2.1	0.6	0.7	1.8	0.9	0.1	1.9	2.0
Total of major countries	9.3	3.5	3.3	3.3	2.8	3.0	2.7	3.0	4.7	4.1	2.9	2.1	0.7	1.4	0.6	1.4	1.9	1.3	1.7	1.8
Australia	12.0	3.1	4.9	3.4	8.1	3.1	5.5	8.3	7.5	2.0	0.5	-0.5	1.9	2.7	2.5	1.1	0.6	2.3	2.6	1.8
Austria	7.5	1.0	5.2	3.7	3.7	2.4	1.2	2.1	3.2	4.9	5.2	3.6	1.4	1.8	-0.7	-1.3	0.3	1.0	0.4	1.0
Belgium	8.0	3.0	4.4	4.9	1.9	0.4	-1.1	3.2	4.7	5.8	3.4	4.6	-0.3	0.6	0.8	-0.1	1.2	1.2	-0.1	1.2
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	15.7	10.4	13.0	9.1	8.4	5.1	2.9	3.5
Denmark	10.6	6.3	3.5	3.7	3.9	8.9	8.7	3.7	2.4	2.0	1.7	0.3	-2.2	1.1	1.6	2.8	4.3	3.6	3.4	3.5
Finland	12.6	7.7	7.9	7.8	4.6	4.5	5.4	5.8	10.0	6.7	-2.4	-5.0	-1.9	2.7	0.5	-0.6	2.0	2.4	2.1	2.2
Greece	20.2	19.9	19.0	20.9	10.5	13.0	16.1	21.5	21.6	11.0	11.4	14.1	10.7	15.4	5.7	8.7	6.1	2.5	2.6	2.5
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	12.9	17.2	17.9	16.7	16.2	8.3	9.1	6.7
Ireland	15.8	9.6	4.0	4.0	7.3	0.5	-0.9	0.9	-0.3	4.3	3.9	5.0	0.6	-1.6	0.5	-0.3	5.1	3.1	3.8	4.4
Korea	21.1	8.2	5.3	4.2	2.9	7.6	10.1	11.9	14.1	13.5	6.5	4.2	4.6	6.6	6.2	3.2	-2.7	-3.8	3.2	3.7
Netherlands	7.1	-0.7	-2.8	0.4	1.6	1.9	0.0	-1.7	1.7	3.7	3.7	2.1	-1.2	1.0	0.8	1.1	1.9	3.6	2.8	2.7
New Zealand	15.0	2.5	0.2	14.7	18.5	13.4	6.4	2.6	2.2	0.8	0.5	-1.1	0.1	2.6	2.8	2.1	1.4	1.4	0.8	1.1
Norway	8.6	4.7	3.1	5.4	9.0	10.3	6.5	0.2	1.6	1.5	0.6	-0.9	-0.4	2.0	2.0	3.7	7.2	4.6	0.7	1.9
Poland	..	..	..	..	..	..	..	..	..	..	..	..	28.6	27.7	23.4	15.0	10.1	6.2	4.4	2.3
Portugal	19.8	22.1	20.5	17.4	15.2	9.3	11.2	12.3	16.0	18.1	11.9	6.2	1.1	3.1	2.7	3.1	3.4	3.4	2.8	2.5
Spain	16.4	11.1	5.5	5.1	9.2	6.0	6.3	7.7	10.5	9.3	7.3	5.0	0.1	2.3	3.2	2.3	2.2	3.5	2.6	2.5
Sweden	10.5	6.6	4.8	6.9	6.9	5.1	7.3	9.9	10.8	6.3	0.4	0.6	-0.1	0.6	4.7	0.9	2.1	1.1	1.4	2.1
Switzerland	5.2	4.1	1.1	2.5	4.4	4.1	2.7	2.5	4.9	8.2	3.5	1.4	0.5	1.9	0.1	0.3	-0.4	0.4	0.6	1.1
Total of smaller countries	15.3	15.1	13.0	13.5	16.6	24.2	19.8	10.0	11.8	11.1	7.5	5.3	4.8	7.6	7.2	5.3	4.2	3.4	3.7	3.4
Total OECD	10.5	5.8	5.3	5.4	5.6	7.2	6.1	4.5	6.2	5.5	3.8	2.7	1.6	2.8	2.1	2.3	2.4	1.8	2.1	2.2
Memorandum items																				
OECD *less* high inflation countries[b]	10.0	4.0	3.5	3.6	3.4	3.3	3.2	3.6	5.3	4.6	3.1	2.2	0.9	1.7	1.1	1.5	1.8	1.3	1.8	1.9
European Union[c]	11.9	6.6	5.0	5.1	4.3	3.8	3.6	4.7	6.6	5.8	4.6	2.7	0.0	1.8	2.2	1.3	1.1	2.1	1.3	1.4
Euro area[c]	10.7	6.6	4.3	4.4	4.0	3.2	2.1	2.8	5.2	5.1	5.0	4.3	0.2	2.2	1.4	0.3	0.2	1.7	0.9	1.0

a) Average 1975-82 in the case of Korea.
b) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of GDP deflator on average during the 1990s on the basis of historical data. Consequently, Greece, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.
c) Luxembourg excluded.

Annex Table 14. **GDP deflators**

Percentage change from previous period

	Average 1972-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	7.7	4.3	4.0	3.4	2.5	3.3	3.4	3.9	3.9	3.4	2.2	2.7	2.1	2.1	1.8	1.7	1.2	1.4	1.9	2.3
Japan	7.3	1.8	2.6	2.1	1.7	0.1	0.7	2.0	2.3	2.7	1.7	0.6	0.2	-0.6	-1.4	0.1	0.4	-0.6	-0.5	-0.3
Germany	4.8	3.2	2.1	2.1	3.2	1.9	1.5	2.4	3.2	3.9	5.0	3.7	2.5	2.0	1.0	0.8	1.0	1.2	1.3	1.3
France	10.8	9.7	7.5	5.8	5.3	3.0	3.2	3.2	2.9	3.0	2.0	2.4	1.8	1.7	1.4	1.4	0.9	0.6	1.1	1.3
Italy	17.4	15.1	11.6	9.0	7.8	6.1	6.8	6.5	8.2	7.6	4.5	3.9	3.5	5.0	5.2	2.6	2.8	1.6	1.6	1.5
United Kingdom	14.1	5.4	4.6	5.6	3.1	5.2	6.1	7.4	7.6	6.7	4.0	2.8	1.5	2.5	3.3	2.9	2.7	2.0	2.6	2.6
Canada	9.7	5.4	3.4	2.5	2.8	4.8	4.5	4.6	3.1	2.7	1.3	1.5	1.1	2.3	1.6	0.8	-0.6	1.5	2.0	2.1
Total of major countries	8.8	5.1	4.4	3.7	3.1	3.0	3.2	3.8	4.0	3.8	2.6	2.4	1.8	1.8	1.5	1.4	1.1	1.0	1.4	1.6
Australia	11.6	8.3	6.7	5.6	6.5	7.6	8.5	6.9	4.9	2.6	1.4	1.4	0.9	1.5	2.0	1.4	0.3	1.3	2.6	2.5
Austria	6.2	3.7	4.6	3.1	2.7	2.1	1.6	2.7	3.4	3.7	4.3	2.8	2.9	2.3	1.7	1.6	1.0	1.0	1.4	1.3
Belgium	7.2	5.9	5.1	6.1	3.0	1.4	2.3	4.9	3.0	2.8	3.6	3.7	1.8	1.8	1.6	1.5	0.9	1.1	0.9	1.4
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	11.0	10.2	9.7	6.5	11.0	2.7	3.9	4.4
Denmark	10.1	7.6	5.7	4.3	4.6	4.7	3.4	5.1	3.4	2.5	2.2	0.5	1.4	0.8	2.2	1.8	2.1	2.3	2.6	3.0
Finland	12.0	8.6	8.9	5.3	4.6	4.7	7.0	6.5	5.8	1.6	1.0	1.8	2.0	3.6	0.6	2.0	2.7	0.9	1.6	2.4
Greece	17.5	19.1	20.3	17.7	17.5	14.2	15.6	14.5	20.6	19.8	14.9	14.4	11.2	9.8	7.4	6.7	4.9	2.7	2.3	2.6
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	19.5	25.6	21.2	18.5	14.2	9.9	8.0	6.0
Iceland	41.7	76.2	25.4	31.3	25.5	19.4	22.9	19.8	16.9	7.8	3.6	2.5	2.0	2.7	1.9	3.4	5.3	4.1	5.2	5.7
Ireland	14.7	10.7	6.4	5.2	6.6	2.2	3.2	5.5	-0.7	1.8	2.8	5.2	1.7	2.7	2.3	3.5	5.7	3.5	4.2	4.5
Korea	20.1	5.2	5.5	4.6	4.6	5.0	6.7	5.3	11.1	10.9	7.7	7.0	7.6	7.1	3.9	3.1	5.3	-0.5	2.3	2.7
Luxembourg	7.8	6.8	4.4	3.0	0.7	2.8	0.6	4.3	5.2	2.3	2.6	0.6	4.8	0.3	1.7	3.3	1.5	1.3	1.2	1.6
Mexico	24.7	91.0	58.8	56.5	73.4	140.1	101.7	26.0	29.6	21.9	14.8	10.0	8.5	38.0	30.6	17.7	13.8	16.0	11.0	8.5
Netherlands	6.9	2.1	1.4	1.8	0.1	-0.7	1.2	1.2	2.3	2.7	2.3	1.9	2.3	1.8	1.2	2.0	1.9	2.1	2.4	2.5
New Zealand	13.4	4.5	6.1	15.4	15.8	13.1	7.3	7.0	3.8	1.0	1.7	2.7	1.5	2.7	1.9	0.1	1.6	1.4	2.3	1.7
Norway	9.3	7.0	6.3	5.2	-0.9	6.9	5.0	5.7	3.8	2.5	-0.4	2.2	-0.2	3.1	4.3	2.7	-0.4	6.0	5.0	1.7
Poland	..	..	..	..	..	..	..	..	..	..	..	..	36.7	27.9	18.7	14.0	11.7	6.2	6.6	5.0
Portugal	18.7	24.6	24.7	21.7	20.5	10.1	11.8	12.4	12.8	12.2	10.0	6.7	6.3	5.1	2.8	2.0	4.3	2.6	2.7	2.8
Spain	16.1	11.8	11.6	7.7	11.1	5.8	5.6	7.1	7.3	7.1	6.9	4.3	4.0	4.8	3.4	2.1	2.3	2.3	2.2	2.5
Sweden	10.1	10.2	7.1	6.6	6.7	4.9	7.0	7.7	8.6	7.6	1.3	2.7	2.3	3.6	1.4	1.2	1.1	0.6	1.7	2.2
Switzerland	4.5	2.7	3.5	2.4	3.1	2.7	2.8	3.1	4.3	6.0	2.7	2.7	1.6	1.1	0.4	-0.1	0.2	0.4	0.6	1.1
Turkey	37.5	26.3	48.2	53.1	36.0	32.5	70.3	75.2	58.9	58.6	63.9	67.7	106.8	86.9	77.8	81.5	74.8	61.4	51.2	25.0
Total of smaller countries	16.9	21.5	18.3	17.3	18.4	26.5	24.6	14.4	14.3	12.7	10.9	10.0	14.0	16.1	13.0	10.9	10.0	8.1	7.2	5.0
Total OECD	10.6	8.6	7.4	6.7	6.4	8.0	7.8	6.1	6.2	5.7	4.4	4.1	4.6	5.1	4.1	3.6	3.2	2.6	2.7	2.4
Memorandum items																				
OECD *less* high inflation countries[a]	9.5	5.5	4.9	4.1	3.6	3.3	3.6	4.2	4.4	4.2	3.0	2.8	2.1	2.2	1.7	1.5	1.4	1.1	1.5	1.8
European Union	11.4	8.5	7.0	5.9	5.5	4.0	4.4	5.1	5.6	5.4	4.3	3.5	2.7	3.0	2.5	1.9	1.9	1.5	1.7	1.8
Euro area	9.9	8.2	6.5	5.3	5.3	3.3	3.6	4.1	4.6	4.7	4.2	3.4	2.7	2.8	2.1	1.6	1.6	1.3	1.5	1.6

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

Annex Table 15. **Private consumption deflators**

Percentage change from previous period

	Average 1972-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	7.8	4.6	3.9	3.7	2.6	3.9	3.9	4.4	4.6	3.5	2.7	2.7	2.0	2.2	2.0	1.7	0.9	1.6	2.3	2.4
Japan	8.3	2.1	2.6	2.3	0.7	0.5	0.5	2.1	2.6	2.5	1.9	1.2	0.7	-0.5	0.1	1.4	0.4	-0.3	-0.3	-0.3
Germany	5.1	3.2	2.5	1.8	-0.6	0.5	1.3	2.9	2.7	3.7	4.4	3.8	2.6	1.9	1.9	1.7	0.9	0.7	1.4	1.4
France	11.1	9.7	7.7	5.8	2.8	3.4	2.8	3.8	3.1	3.5	2.5	2.5	2.2	2.0	1.9	1.4	0.7	0.8	1.2	1.3
Italy	17.0	14.7	11.9	9.3	6.3	5.4	5.9	6.7	6.4	7.0	5.5	5.5	4.9	6.0	4.4	2.6	2.3	1.8	1.8	1.6
United Kingdom	13.7	5.1	5.1	5.2	4.0	4.2	5.0	6.2	7.7	7.9	4.7	3.5	2.2	2.9	3.1	2.5	2.0	1.7	2.4	2.3
Canada	9.3	6.7	4.3	3.8	4.1	3.9	3.9	4.3	4.1	4.8	1.5	2.3	0.9	1.2	1.6	1.8	1.0	1.3	2.0	2.1
Total of major countries	9.0	5.2	4.5	3.9	2.4	3.1	3.1	4.1	4.3	3.9	3.0	2.8	2.1	2.0	1.9	1.7	1.0	1.1	1.6	1.7
Australia	11.3	9.2	6.4	6.8	7.7	8.5	7.6	5.5	6.3	4.3	2.3	2.4	0.9	1.9	1.7	1.4	1.3	1.4	4.2	3.5
Austria	6.4	3.9	5.3	3.3	1.7	0.7	1.6	2.7	3.5	3.0	3.9	3.3	3.3	1.5	2.9	2.0	0.9	0.7	1.2	1.3
Belgium	7.6	6.9	6.0	5.7	-0.1	2.1	1.0	3.9	2.8	2.6	1.9	2.7	2.5	1.7	2.0	1.6	0.7	1.3	1.7	1.7
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	10.7	9.2	8.1	7.7	9.7	1.9	4.4	4.2
Denmark	11.0	6.8	6.4	4.3	2.9	4.6	4.0	5.0	2.7	2.7	1.2	1.1	2.5	0.6	1.4	1.9	1.8	2.1	2.5	3.0
Finland	12.1	8.1	7.0	5.6	3.1	3.6	4.6	5.2	5.8	5.6	4.1	4.1	1.1	0.2	1.6	1.9	1.5	1.2	1.6	2.3
Greece	17.0	18.1	17.9	18.3	22.1	15.7	14.2	13.6	19.9	19.7	15.7	14.2	11.0	8.9	8.2	5.6	4.7	2.5	2.2	2.5
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	19.4	27.7	21.2	17.0	14.2	9.9	8.0	6.0
Iceland	42.1	82.1	31.4	32.6	20.1	15.8	25.6	23.2	16.7	6.9	4.7	4.6	1.6	1.8	2.3	1.8	1.7	3.1	5.1	5.4
Ireland	15.5	9.2	7.4	5.0	4.6	2.4	3.8	4.1	2.1	2.7	3.0	2.2	2.8	2.8	2.6	2.5	3.7	3.8	4.0	3.4
Korea	20.0	2.8	3.6	3.9	1.7	3.3	5.6	5.4	9.4	12.1	8.9	8.0	9.7	7.0	5.7	5.5	8.6	0.9	2.5	2.8
Luxembourg	7.5	8.3	6.5	4.3	-2.4	1.0	0.7	2.0	1.6	2.9	2.6	2.5	3.6	1.1	1.7	1.7	1.7	1.2	1.9	1.8
Mexico	23.3	90.5	65.5	59.2	82.0	134.4	109.6	23.4	28.3	21.8	14.0	9.4	7.6	34.2	30.4	16.4	19.3	16.5	10.7	8.7
Netherlands	7.1	2.9	1.9	2.4	0.3	0.2	0.5	1.2	2.2	3.2	3.1	2.1	2.8	1.6	1.9	2.1	1.8	2.1	2.5	2.3
New Zealand	13.4	7.5	7.2	17.3	12.8	12.9	6.6	6.8	6.1	2.9	1.4	1.8	1.7	2.5	2.1	1.0	1.9	1.4	1.8	1.5
Norway	9.3	8.4	6.3	5.9	6.7	7.8	6.1	4.8	4.7	3.8	2.7	2.0	1.2	2.4	1.5	2.5	2.6	2.3	2.1	2.0
Poland	..	..	..	..	..	..	..	..	..	..	..	..	36.8	27.8	19.8	14.7	11.5	7.0	7.1	5.4
Portugal	20.3	25.8	28.5	19.4	13.8	9.9	11.7	13.1	12.4	12.2	9.7	6.6	5.6	4.5	3.6	2.0	2.8	2.4	2.4	2.5
Spain	16.5	12.5	11.9	7.1	9.4	5.7	5.0	6.6	6.5	6.4	6.4	5.6	4.9	4.7	3.4	2.5	2.0	2.3	2.4	2.5
Sweden	10.7	10.9	7.7	7.0	5.2	5.6	6.1	7.0	9.9	10.3	2.2	5.7	2.8	2.9	1.5	2.3	0.9	0.8	1.4	1.8
Switzerland	4.8	3.2	3.0	3.3	1.3	1.5	1.9	2.9	5.2	6.0	4.2	3.4	1.1	1.7	1.1	0.6	-0.3	0.8	0.8	1.1
Turkey	37.5	25.8	49.0	50.9	30.4	48.1	59.4	82.9	60.7	60.3	65.6	65.9	109.3	91.8	67.9	82.2	80.6	65.0	53.0	24.5
Total of smaller countries	16.8	21.4	19.2	17.5	18.3	26.8	24.3	14.2	14.1	13.4	11.3	10.3	14.6	15.8	12.6	11.2	11.5	8.5	7.5	5.1
Total OECD	10.7	8.7	7.6	6.8	5.8	8.2	7.7	6.3	6.4	6.0	4.8	4.4	4.9	5.2	4.4	3.9	3.4	2.8	3.0	2.5
Memorandum items																				
OECD *less* high inflation countries[a]	9.7	5.7	5.0	4.3	2.8	3.3	3.5	4.3	4.6	4.4	3.4	3.2	2.5	2.2	2.1	1.9	1.4	1.2	1.8	1.8
European Union	11.5	8.5	7.4	5.7	3.8	3.6	3.8	5.0	5.2	5.6	4.5	4.1	3.3	3.1	2.8	2.1	1.5	1.4	1.8	1.8
Euro area	10.3	8.4	7.1	5.3	3.0	2.9	3.1	4.4	4.2	4.7	4.3	4.0	3.2	2.9	2.5	1.9	1.4	1.3	1.7	1.7

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

Annex Table 16. **Consumer prices**[a]

Percentage change from previous period

	Average 1970-79	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
United States	7.2	13.5	10.3	6.1	3.2	4.3	3.5	1.9	3.7	4.1	4.8	5.4	4.2	3.0	3.0	2.6	2.8	2.9	2.3	1.6
Japan	9.1	7.8	4.9	2.7	1.9	2.3	2.0	0.6	0.1	0.7	2.3	3.1	3.3	1.7	1.2	0.7	-0.1	0.1	1.7	0.6
Germany	5.0	5.4	6.3	5.2	3.3	2.4	2.1	-0.1	0.2	1.3	2.8	2.7	3.6	5.1	4.4	2.8	1.7	1.4	1.9	0.9
France	9.2	13.6	13.3	12.0	9.5	7.7	5.8	2.5	3.3	2.7	3.5	3.6	3.2	2.4	2.1	1.7	1.8	2.0	1.2	0.8
Italy[b]	13.0	21.1	18.0	16.5	14.6	10.8	9.2	5.8	4.7	5.1	6.3	6.5	6.3	5.3	4.6	4.1	5.2	4.0	2.0	2.0
United Kingdom	13.2	18.0	11.9	8.6	4.6	5.0	6.1	3.4	4.1	4.9	7.8	9.5	5.9	3.7	1.6	2.5	3.4	2.4	3.1	3.4
Canada	7.8	10.2	12.4	10.8	5.9	4.3	4.0	4.2	4.3	4.0	5.0	4.8	5.6	1.5	1.9	0.2	2.2	1.6	1.6	1.0
Total of major countries	8.3	12.6	10.0	7.0	4.4	4.5	3.9	2.0	2.9	3.3	4.5	5.0	4.3	3.1	2.7	2.3	2.4	2.3	2.1	1.4
Australia	10.4	10.2	9.6	11.2	10.1	3.9	6.7	9.1	8.5	7.3	7.5	7.3	3.2	1.0	1.8	1.9	4.6	2.6	0.3	0.9
Austria	6.2	6.3	6.8	5.4	3.3	5.7	3.2	1.7	1.5	1.9	2.6	3.3	3.3	4.0	3.6	3.0	2.2	1.5	1.3	0.9
Belgium	7.4	6.6	7.6	8.7	7.7	6.3	4.9	1.3	1.6	1.2	3.1	3.4	3.2	2.4	2.8	2.4	1.5	2.1	1.6	1.0
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	10.0	9.1	8.8	8.5	10.7
Denmark	9.6	12.3	11.8	10.1	6.9	6.3	4.7	3.7	4.0	4.5	4.8	2.6	2.4	2.1	1.3	2.0	2.1	2.1	2.2	1.8
Finland	11.0	11.6	11.3	9.6	8.4	7.1	5.2	2.9	4.1	5.1	6.6	6.1	4.3	2.9	2.2	1.1	0.8	0.6	1.2	1.4
Greece	13.2	24.7	24.5	21.0	20.2	18.5	19.3	23.0	16.4	13.5	13.7	20.4	19.5	15.9	14.4	10.7	8.9	8.2	5.5	4.8
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	18.9	28.3	23.5	18.3	14.2
Iceland[c]	30.2	58.8	50.6	50.0	85.2	28.9	32.5	21.2	17.8	25.7	20.8	15.9	6.8	3.7	4.1	1.5	1.7	2.3	1.8	1.7
Ireland	13.1	18.3	20.4	17.1	10.5	8.6	5.5	3.8	3.1	2.1	4.1	3.3	3.2	3.1	1.4	2.3	2.5	1.7	1.4	2.4
Korea	..	..	..	..	..	..	..	..	..	..	..	8.6	9.3	6.2	4.8	6.3	4.5	4.9	4.4	7.5
Luxembourg	6.7	6.3	8.1	9.4	8.7	6.4	4.1	0.3	-0.1	1.4	3.4	3.3	3.1	3.2	3.6	2.2	1.9	1.3	1.4	1.0
Mexico	15.2	25.8	28.2	58.7	102.3	65.3	57.8	86.2	131.8	114.2	20.0	26.7	22.7	15.5	9.8	7.0	35.0	34.4	20.6	15.9
Netherlands	7.4	6.5	6.7	5.9	2.7	3.3	2.3	0.1	-0.7	0.7	1.1	2.5	3.2	3.2	2.6	2.8	1.9	2.0	2.2	2.0
New Zealand	12.0	17.2	15.4	16.2	7.3	6.2	15.4	13.2	15.7	6.4	5.7	6.1	2.6	1.0	1.3	1.7	3.8	2.3	1.2	1.3
Norway	8.1	10.9	13.7	11.3	8.4	6.3	5.7	7.2	8.7	6.7	4.5	4.1	3.4	2.3	2.3	1.4	2.4	1.2	2.6	2.3
Poland	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	32.2	27.8	19.9	14.9	11.6
Portugal	19.4	16.6	20.0	22.7	25.1	28.9	19.6	11.8	9.4	9.7	12.6	13.4	10.5	9.4	6.7	5.4	4.2	3.1	2.3	2.8
Spain	15.2	15.6	14.5	14.4	12.2	11.3	8.8	8.8	5.2	4.8	6.8	6.7	5.9	5.9	4.6	4.7	4.7	3.6	2.0	1.8
Sweden	8.7	13.7	12.1	8.6	8.9	8.0	7.4	4.2	4.2	6.1	6.6	10.4	9.7	2.6	4.7	2.4	2.9	0.8	0.9	0.4
Switzerland	5.1	4.0	6.5	5.7	2.9	2.9	3.4	0.8	1.4	1.9	3.2	5.4	5.9	4.0	3.3	0.9	1.8	0.8	0.5	0.0
Turkey[d]	28.0	94.3	37.6	29.1	31.4	48.4	45.0	34.6	38.9	68.8	63.3	60.3	66.0	70.1	66.1	105.2	89.1	80.4	85.7	84.6
Total of smaller countries	13.6	23.6	17.6	22.4	29.7	23.7	21.2	24.5	33.1	33.0	15.0	15.3	14.6	12.7	10.9	15.4	18.0	16.1	13.6	12.9
Total OECD	9.2	14.5	11.3	9.6	8.8	7.8	6.9	5.9	8.1	8.4	6.3	7.0	6.3	5.0	4.3	5.0	5.6	5.2	4.5	3.8
Memorandum items																				
OECD *less* high inflation countries[e]	8.6	12.4	10.2	7.5	5.0	4.9	4.3	2.5	3.1	3.4	4.6	5.2	4.5	3.3	2.9	2.5	2.6	2.4	2.1	1.6
European Union	10.1	13.2	11.8	10.4	8.1	6.9	5.8	3.2	3.0	3.4	5.0	5.4	4.8	4.3	3.4	2.9	3.0	2.4	2.0	1.7

a) Aggregates were computed using weights based on 1997 consumer expenditure expressed in private consumption purchasing power parities.
b) Index for households of wage and salary earners.
c) Excluding rent, but including imputed rent.
d) Until 1981: Istanbul index (154 items); from 1982, Turkish index.
a) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of GDP deflator on average during the 1990s on the basis of historical data. Consequently, Greece, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Annex Table 17. **Oil and other primary commodity markets**

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
Oil market conditions[a]																		
(in million barrels per day)																		
Demand																		
OECD[b]	38.0	37.7	38.6	39.4	40.7	41.3	41.6	41.9	42.8	43.2	44.4	44.8	45.9	46.7	46.9	47.7	48.6	..
of which: Canada and United States	19.3	19.3	19.6	20.1	20.8	21.0	20.7	20.4	20.8	21.1	21.7	21.6	22.2	22.7	23.2	23.6	24.1	..
Europe[c]	12.8	12.7	13.2	13.3	13.5	13.5	13.7	14.0	14.2	14.2	14.3	14.6	14.9	15.0	15.3	15.4	15.7	..
Pacific	5.9	5.7	5.8	6.0	6.4	6.8	7.2	7.5	7.8	8.0	8.4	8.7	8.8	9.0	8.4	8.6	8.8	..
Non-OECD[d]	22.0	22.4	23.2	23.9	24.4	24.8	24.9	25.0	24.6	24.5	24.2	25.1	25.9	27.1	27.3	27.7	28.5	..
Total	60.0	60.2	61.9	63.3	65.1	66.1	66.5	66.9	67.4	67.7	68.6	70.0	71.8	73.8	74.2	75.3	77.1	..
Supply																		
OECD[b]	19.8	20.1	19.7	19.8	19.6	18.9	19.0	19.5	19.8	20.0	20.8	21.1	21.7	22.1	21.9	21.3	21.9	..
OPEC total	18.8	17.6	20.0	19.7	21.8	23.8	25.1	25.3	26.5	26.9	27.3	27.6	28.4	30.0	30.7	29.5	..	..
Former USSR	12.3	11.9	12.3	12.5	12.5	12.2	11.5	10.4	8.9	7.9	7.2	7.1	7.1	7.2	7.3	7.5	7.5	..
Other non-OECD[d]	8.9	9.6	10.0	10.4	10.8	11.2	11.4	11.6	12.1	12.6	13.2	14.3	14.8	15.2	15.5	15.6	15.8	..
Total	59.8	59.3	62.0	62.4	64.8	66.1	66.9	66.8	67.2	67.5	68.6	70.1	72.1	74.4	75.4	73.8	..	..
Trade																		
OECD net imports[b]	18.4	17.4	19.3	19.9	20.9	22.5	22.9	22.3	23.1	23.4	23.8	23.4	24.2	24.9	25.3	26.3	26.7	..
Former USSR net exports	3.3	3.1	3.4	3.6	3.6	3.5	3.1	2.2	1.9	2.1	2.4	2.4	2.7	2.9	3.2	3.6	3.5	..
Other non-OECD net exports[d]	15.1	14.3	15.9	16.3	17.3	19.0	19.8	20.1	21.2	21.4	21.4	21.1	21.5	22.0	22.1	22.7	23.2	..
Prices[e,f]																		
OECD crude oil import price (cif, $ per bl)	29.0	27.5	15.0	17.9	14.9	17.5	22.3	19.3	18.4	16.4	15.6	17.2	20.5	19.1	12.6	17.3	22.1	22.2
Prices of other primary commodities[e,f]																		
(US$ indices)																		
Food and tropical beverages	108	94	97	80	94	88	79	74	72	73	98	100	99	104	91	74	69	70
of which: Food	110	87	73	71	99	96	85	83	87	88	95	100	118	104	91	77	74	74
Tropical beverages	106	98	114	86	90	82	75	68	62	63	100	100	86	103	91	71	67	67
Agricultural raw materials	57	50	58	72	80	82	90	78	79	75	86	100	86	83	71	70	72	73
Minerals, ores and metals	74	69	69	78	112	107	99	88	85	74	85	100	90	91	78	74	80	80
Total	75	67	71	76	94	92	90	80	79	74	89	100	90	91	78	72	74	75
Memorandum item																		
Export prices of OECD manufactures (dollar index)	59	59	70	79	84	84	91	91	93	89	92	100	96	88	85	83	84	85

a) Based on data published in IEA, *Oil Market Report*, October 1999 ; *Annual Statistical Supplement*, August 1999.
b) Excluding Czech Republic, Hungary, Korea, Mexico and Poland.
c) European Union countries and Iceland, Norway, Switzerland and Turkey.
d) Including Czech Republic, Hungary, Korea, Mexico and Poland.
e) Indices through 1998 are based on data compiled by IEA for oil and by Hamburg Institute for Economic Research for the prices of other primary commodities; OECD estimates and projections for 1999 to 2001.
f) By technical assumption, prices are projected to rise broadly in line with OECD manufactured export prices for 2001.

Annex Table 18. **Labour force**[a]

Percentage change from previous period

	1996 Labour force (thousands)	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States[b]	133 941	1.2	1.8	1.7	2.1	1.7	1.5	1.8	1.6	0.4	1.4	0.8	1.4	1.0	1.2	1.7	1.0	1.2	0.8	0.9
Japan	67 115	2.0	0.7	0.6	1.0	1.0	1.4	1.7	1.8	1.9	1.1	0.6	0.5	0.3	0.7	1.1	0.1	-0.2	0.2	0.3
Germany	39 657	0.2	0.2	0.8	1.0	0.7	0.8	0.7	2.2	1.7	-0.5	-0.2	0.2	-0.4	0.1	0.3	-0.2	-0.1	0.0	0.1
France	25 617	0.0	0.6	0.5	0.6	0.5	0.5	0.8	0.3	0.6	0.4	0.3	0.7	0.1	1.0	0.6	0.6	0.8	0.7	0.6
Italy	22 604	1.0	1.1	0.4	1.8	0.1	0.8	-0.4	0.0	0.1	-0.8	-1.6	-0.5	0.0	0.5	0.5	1.2	0.7	0.7	0.6
United Kingdom	28 753	0.4	2.2	1.3	0.3	0.9	1.5	0.5	0.1	-0.5	0.1	-0.3	-0.1	0.4	0.4	0.4	0.5	0.6	0.5	0.6
Canada	15 146	1.5	2.0	2.1	1.9	1.9	2.0	1.8	1.3	0.5	0.5	1.3	1.1	0.7	1.5	1.3	1.8	2.2	1.6	1.5
Total of major countries	332 832	1.1	1.3	1.2	1.4	1.2	1.3	1.3	1.3	0.8	0.7	0.4	0.7	0.5	0.8	1.1	0.7	0.7	0.6	0.6
Australia	9 166	1.3	1.8	2.7	3.5	2.2	2.6	3.6	2.4	0.6	0.7	0.6	1.7	2.8	1.3	0.9	1.2	1.1	1.3	1.4
Austria	3 646	-0.5	0.0	0.5	0.8	0.3	0.4	1.1	2.3	2.3	1.6	0.5	0.0	-0.3	-0.2	0.3	0.7	0.5	0.3	0.2
Belgium	4 255	0.5	-0.1	-0.5	-0.1	0.1	0.3	0.4	0.8	0.8	0.7	0.9	0.1	0.5	0.1	1.0	0.4	0.4	0.5	0.4
Czech Republic	5 116	..	..	..	..	..	..	..	..	..	..	..	1.1	0.6	0.0	0.3	0.4	0.3	0.2	0.2
Denmark	2 819	1.0	1.3	1.4	1.3	0.8	0.2	0.1	-0.5	0.3	0.0	-0.3	-0.5	-1.3	-0.3	1.0	0.7	-0.3	0.5	0.5
Finland	2 490	0.6	0.7	0.8	0.1	-0.6	0.9	0.5	-0.1	-1.6	-1.8	-0.9	-0.5	0.7	0.4	-0.2	1.0	0.9	1.0	1.0
Greece	4 318	3.4	0.7	0.6	-0.1	-0.1	2.0	0.2	0.8	-1.7	2.5	2.1	1.8	1.3	1.7	-0.6	2.7	0.8	0.8	0.8
Hungary	3 957	..	..	..	..	..	..	..	..	..	..	..	-4.6	-2.5	-0.9	-1.0	0.4	1.0	1.2	1.3
Iceland	133	1.2	1.7	3.2	2.8	5.6	-2.6	-0.5	-0.8	-0.3	0.1	0.6	0.9	1.7	1.7	2.1	1.3	1.3	1.0	0.8
Ireland	1 494	0.7	-0.1	-0.5	0.1	1.1	-0.6	-1.5	1.8	1.7	1.1	2.1	1.9	1.7	3.1	3.0	6.9	2.5	2.7	2.7
Korea	21 188	0.6	-0.8	4.0	3.4	4.7	2.6	4.1	2.9	2.8	2.0	1.9	2.6	2.3	1.9	2.0	-1.0	-0.1	2.1	1.9
Luxembourg	174	-0.1	0.6	-0.2	1.0	1.5	1.2	1.3	1.3	1.5	0.4	0.2	1.5	1.0	1.5	1.4	1.8	2.5	2.1	1.8
Mexico[c]	16 392	..	..	..	..	..	4.3	2.9	1.7	5.4	4.9	4.7	1.2	4.7	4.1	11.3	4.3	2.5	2.5	2.6
Netherlands	6 628	1.4	0.1	-0.2	1.6	1.2	2.0	1.0	2.0	2.0	1.6	1.9	1.0	1.9	1.6	2.2	1.5	1.5	1.4	1.4
New Zealand	1 842	0.7	1.9	2.5	0.1	0.9	-1.6	-1.0	1.6	1.5	0.9	1.7	3.1	3.1	3.5	1.0	0.2	0.8	1.3	1.4
Norway	2 240	0.9	1.0	1.7	2.9	2.0	0.5	-1.3	-0.6	-0.7	0.2	0.0	1.0	1.7	2.4	2.0	1.5	0.1	0.1	0.2
Poland	17 076	..	..	..	..	..	..	..	..	..	..	..	-1.1	-0.4	0.0	0.1	0.4	0.9	0.8	0.8
Portugal[d]	4 549	4.3	0.7	-0.3	0.1	0.9	1.1	1.5	1.9	2.4	-6.4	-0.5	1.3	-0.2	0.6	1.3	0.5	1.2	1.0	1.0
Spain[e]	15 950	1.1	0.6	0.8	1.7	2.4	1.6	1.3	1.4	0.4	0.5	1.1	1.0	0.5	0.9	1.1	0.9	0.7	0.7	0.7
Sweden	4 311	0.4	0.4	-0.5	0.4	0.6	1.0	1.2	1.1	-0.7	-1.9	-2.7	-1.2	1.3	-0.2	-1.1	-0.2	1.5	0.8	0.8
Switzerland	3 981	0.5	1.2	1.8	2.1	2.4	2.5	2.5	3.2	2.4	-0.2	1.1	-0.1	-0.2	0.7	0.2	0.0	-0.4	0.4	0.8
Turkey[f]	22 919	1.8	1.4	1.2	2.7	-1.9	1.6	2.8	1.1	1.6	1.0	0.6	3.0	2.4	4.6	-2.1	2.7	2.0	2.0	2.2
Total of smaller countries[g]	154 644	1.2	0.6	1.4	1.9	1.3	1.9	2.1	1.6	1.7	1.0	1.3	1.0	1.5	1.7	1.5	1.3	1.1	1.4	1.4
Total OECD[g]	487 476	1.1	1.1	1.2	1.5	1.2	1.5	1.5	1.4	1.0	0.8	0.6	0.8	0.8	1.1	1.3	0.9	0.8	0.9	0.9
Memorandum items																				
European Union	167 265	0.7	0.8	0.6	0.9	0.7	1.0	0.6	0.9	0.5	-0.2	-0.1	0.2	0.2	0.5	0.6	0.7	0.6	0.5	0.6
Euro area	127 115	0.6	0.5	0.5	1.1	0.7	0.8	0.6	1.1	0.9	-0.3	0.0	0.3	0.1	0.6	0.7	0.6	0.5	0.5	0.5

a) For sources and definitions see "Sources and Methods".
b) Break in series as of January 1994.
c) Data based on the National Survey of Urban Employment; see "Sources and Methods".
d) Break in series in 1992.
e) Rebased; see "Sources and Methods".
f) The figures incorporate important revisions to Turkish data; see "Sources and Methods".
g) Totals exclude Mexico prior to 1988.

Annex Table 19. **Labour force participation rate**[a]

	Average 1972-82	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections		
																		1999	2000	2001
United States	68.9	71.7	72.3	72.8	73.6	74.3	74.9	75.8	76.5	76.2	76.6	76.6	76.9	76.9	77.0	77.7	77.7	77.8	77.7	77.6
Japan	71.3	72.8	72.5	72.3	72.2	72.3	72.5	73.1	74.1	75.2	75.7	76.0	76.4	76.4	77.0	78.0	78.1	78.1	78.4	78.9
Germany	68.3	67.3	67.0	67.4	68.0	68.4	68.7	68.6	69.1	72.3	72.1	71.9	71.6	71.2	71.1	71.2	71.0	70.9	70.8	70.9
France	68.1	66.9	66.6	66.4	66.5	66.5	66.4	66.6	66.5	66.7	66.7	66.6	66.9	66.7	67.1	67.3	67.5	67.8	68.0	68.1
Italy	58.9	59.0	58.7	58.5	59.4	59.2	59.5	59.1	58.9	58.8	58.3	57.1	56.6	56.6	56.9	57.2	58.0	58.5	59.1	59.6
United Kingdom	73.7	73.1	74.0	74.8	74.8	75.2	76.3	76.6	76.5	76.0	76.0	75.6	75.4	75.3	75.3	75.3	75.5	75.7	75.9	76.0
Canada	69.5	73.6	74.2	75.1	75.8	76.5	77.3	77.8	77.9	77.3	76.5	76.3	76.1	75.7	75.9	76.0	76.5	77.3	77.5	77.7
Total of major countries	68.8	70.1	70.2	70.5	71.0	71.4	71.8	72.3	72.8	73.2	73.4	73.2	73.3	73.2	73.5	74.0	74.1	74.3	74.4	74.6
Australia	70.1	69.8	69.9	70.6	71.7	71.9	72.4	73.6	74.3	74.0	73.7	73.5	74.0	75.2	75.2	74.8	74.7	74.6	74.7	74.8
Austria	68.9	66.2	65.6	65.5	65.9	65.9	66.1	66.7	67.4	68.1	68.8	68.0	67.8	67.5	67.2	67.2	67.5	67.5	67.4	67.1
Belgium	61.9	62.1	61.6	61.3	61.1	61.1	61.1	61.4	61.9	62.3	62.7	63.1	63.1	63.4	63.5	64.1	64.3	64.5	64.8	65.1
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	80.9	81.1	81.1	80.7	80.7	80.6	80.5	80.5	80.6
Denmark	79.0	81.4	82.2	83.0	83.7	84.1	84.0	83.8	83.1	83.0	82.7	82.2	81.6	80.2	79.6	80.3	80.7	80.4	80.6	81.0
Finland	73.6	76.5	76.5	76.9	76.8	76.3	77.0	77.3	77.1	75.3	73.8	72.9	72.3	72.7	72.9	72.5	73.0	73.5	74.1	74.8
Greece	56.7	59.9	59.8	59.6	59.1	58.7	59.5	59.2	59.2	57.3	58.1	58.9	59.6	60.1	61.0	60.5	62.0	62.3	62.6	62.9
Hungary	..	..	..	..	..	..	..	..	..	..	..	61.8	59.0	57.6	57.1	56.6	56.6	57.0	57.6	58.4
Iceland	73.4	77.3	77.6	79.3	80.8	84.0	80.1	78.7	77.5	76.2	75.5	75.3	75.4	75.9	76.6	77.2	77.4	77.3	77.7	77.8
Ireland	63.9	63.7	63.0	62.2	62.0	62.3	62.0	61.2	61.9	62.1	61.8	62.2	62.5	62.7	63.5	64.2	67.1	67.4	67.9	68.7
Korea	..	59.3	57.4	58.3	58.9	60.3	60.5	61.9	62.5	63.3	63.6	64.0	64.6	65.2	65.5	65.9	64.4	63.3	63.7	64.2
Luxembourg	..	60.6	60.7	60.2	60.4	60.9	61.3	61.5	61.7	62.1	61.8	61.3	61.7	61.6	61.7	62.1	62.4	63.1	63.6	64.0
Mexico[b]	..	..	..	..	..	51.0	51.5	51.7	51.8	53.2	54.0	55.1	53.9	54.2	55.0	60.0	61.3	61.6	61.9	62.2
Netherlands	58.6	57.4	56.8	56.0	56.4	56.5	57.2	57.4	58.2	59.0	59.6	60.5	60.8	61.7	62.5	63.7	64.4	65.0	65.7	66.3
New Zealand	65.6	65.3	65.5	66.5	66.2	66.1	64.6	63.5	63.8	63.8	63.3	63.3	64.1	64.9	65.8	65.6	65.2	65.2	65.2	65.4
Norway	73.0	76.5	76.7	77.5	79.2	80.3	80.1	78.7	78.0	77.1	76.9	76.5	76.8	77.9	79.4	80.6	81.4	81.2	81.2	81.3
Poland	..	..	..	..	..	..	..	..	..	..	..	71.4	70.1	69.3	68.7	68.5	68.4	68.8	69.0	69.2
Portugal	67.1	69.3	69.2	68.6	68.5	68.9	69.5	70.4	71.6	73.0	68.0	67.2	67.8	67.4	67.6	68.2	68.2	68.7	69.2	69.6
Spain[c]	61.4	59.4	59.1	58.8	58.9	59.8	60.4	60.4	60.9	60.9	60.9	61.2	61.5	61.5	61.8	62.3	63.0	63.3	63.6	63.9
Sweden	78.9	81.3	81.4	81.0	81.2	81.5	82.0	82.5	82.7	81.8	80.0	77.5	76.0	76.7	76.4	75.4	75.1	76.0	76.3	76.6
Switzerland	75.0	74.5	74.7	75.5	76.5	77.7	79.0	80.5	82.2	83.2	82.6	83.3	82.8	82.4	82.8	83.1	83.0	82.2	82.2	82.4
Turkey[d]	73.6	67.2	66.0	64.6	64.4	61.4	60.6	60.4	59.2	58.6	57.5	56.3	56.5	56.4	57.6	55.2	55.3	55.0	54.8	54.6
Total of smaller countries[e]	67.4	65.0	64.2	64.1	64.3	62.5	62.6	62.9	63.1	63.2	62.9	64.2	63.9	64.0	64.3	64.6	64.8	64.7	64.9	65.1
Total OECD[e]	68.5	68.7	68.7	68.8	69.2	68.7	69.1	69.5	69.9	70.2	70.2	70.1	70.1	70.1	70.3	70.7	70.9	70.9	71.1	71.2
Memorandum items																				
European Union	66.4	65.8	65.7	65.8	66.0	66.3	66.7	66.7	66.9	67.6	67.4	67.1	67.0	66.9	67.1	67.3	67.6	67.9	68.1	68.4
Euro area	64.5	63.7	63.4	63.3	63.7	63.9	64.1	64.1	64.4	65.7	65.4	65.1	65.1	65.0	65.2	65.5	65.8	66.1	66.3	66.6

a) For sources and definitions see "Sources and Methods".
b) Data based on the National Survey of Urban Employment; see "Sources and Methods".
c) Rebased; see "Sources and Methods".
d) The figures incorporate important revisions to Turkish data; see "Sources and Methods".
e) Totals exclude Mexico prior to 1987.

Annex Table 20. **Employment**[a]

Percentage change from previous period

	1996 Employment (thousands)	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States[b]	126 710	1.3	4.1	2.0	2.3	2.6	2.3	2.0	1.3	-0.9	0.7	1.5	2.3	1.5	1.4	2.2	1.5	1.5	0.8	0.4
Japan	64 865	1.7	0.6	0.7	0.8	1.0	1.7	2.0	2.0	1.9	1.1	0.2	0.1	0.1	0.4	1.1	-0.6	-0.9	0.2	0.3
Germany	36 158	-1.4	0.2	0.7	1.4	0.7	0.8	1.5	3.0	2.5	-1.6	-1.5	-0.3	-0.1	-0.7	-0.8	0.4	0.2	0.3	0.5
France	22 460	-0.2	-0.9	-0.1	0.5	0.4	1.0	1.5	0.8	0.0	-0.6	-1.2	0.1	0.8	0.1	0.4	1.4	1.5	1.6	1.4
Italy	19 951	0.1	0.3	0.3	0.4	-0.3	0.5	-0.1	1.2	0.7	-1.0	-3.1	-1.6	-0.6	0.5	0.4	1.1	1.1	1.2	1.1
United Kingdom	26 455	-0.5	2.0	1.1	0.1	2.6	4.3	2.4	0.3	-3.0	-2.1	-0.4	1.0	1.2	1.1	1.6	1.2	0.7	0.7	0.6
Canada	13 675	0.6	2.7	3.0	3.0	2.7	3.2	2.1	0.6	-1.9	-0.6	1.4	2.1	1.6	1.2	1.9	2.8	2.7	1.7	1.6
Total of major countries	310 275	0.7	2.0	1.3	1.4	1.7	2.0	1.8	1.4	0.0	0.0	0.2	1.0	0.8	0.8	1.3	0.9	0.8	0.8	0.6
Australia	8 393	-1.8	2.9	3.5	3.6	2.2	3.7	4.7	1.5	-2.1	-0.7	0.4	3.1	4.2	1.3	0.8	1.8	1.9	1.7	1.9
Austria	3 416	-1.2	-0.1	0.2	0.4	0.0	0.6	1.5	1.9	1.9	1.5	-0.3	0.2	-0.4	-0.7	0.3	0.6	0.7	0.8	0.6
Belgium	3 710	-1.0	-0.2	0.6	0.6	0.5	1.5	1.6	1.4	0.1	-0.4	-1.1	-1.0	0.5	0.4	1.2	1.4	1.2	0.8	1.3
Czech Republic	4 915	..	..	..	..	..	..	..	..	..	..	..	1.1	0.9	0.1	-0.6	-1.4	-2.2	-1.2	-0.8
Denmark	2 574	0.3	1.7	2.5	2.6	0.9	-0.6	-0.7	-0.8	-0.6	-0.9	-1.5	-0.4	0.7	1.4	2.1	2.1	0.5	0.3	0.4
Finland	2 127	0.6	1.0	1.0	-0.3	-0.3	1.8	1.6	-0.1	-5.2	-7.1	-6.1	-0.8	2.2	1.4	2.0	2.4	2.3	2.1	1.6
Greece	3 872	1.1	0.4	1.0	0.4	-0.1	1.6	0.4	1.3	-2.3	1.5	0.9	1.9	0.9	1.3	-0.4	1.5	0.7	1.3	1.6
Hungary	3 557	..	..	..	..	..	..	..	..	..	..	..	-3.4	-1.9	-0.5	0.3	1.5	2.1	1.3	1.4
Iceland	127	0.9	1.5	3.6	3.1	5.8	-2.8	-1.5	-0.9	-0.1	-1.4	-0.8	0.5	1.5	2.4	2.9	2.0	2.3	0.9	0.5
Ireland	1 317	-2.1	-1.8	-2.5	-0.4	1.3	0.1	0.0	4.4	-0.3	0.6	1.4	3.0	4.8	3.4	4.8	10.2	4.5	3.6	2.7
Korea	20 764	0.9	-0.5	3.7	3.6	5.5	3.2	4.1	3.0	2.9	1.9	1.5	3.0	2.7	1.9	1.4	-5.3	0.4	2.5	2.5
Luxembourg	168	-0.3	0.6	1.4	2.5	2.7	3.1	4.0	4.2	2.7	2.5	1.8	2.5	2.5	2.9	3.2	4.3	5.0	3.1	2.8
Mexico[c]	15 492	..	..	..	..	..	4.7	3.6	1.9	5.5	4.7	4.1	0.9	1.9	5.0	13.3	4.9	2.9	2.5	2.7
Netherlands	6 187	-1.3	0.5	1.3	2.5	1.6	2.3	1.8	3.0	2.6	1.6	0.7	-0.1	2.4	2.0	3.4	3.0	2.5	1.4	1.3
New Zealand	1 729	-1.0	2.7	3.5	-0.4	0.8	-3.1	-2.6	0.9	-1.3	0.8	2.6	4.7	5.2	3.7	0.4	-0.6	1.2	1.8	2.0
Norway	2 131	0.1	1.3	2.3	3.5	1.9	-0.6	-3.0	-0.9	-1.0	-0.3	0.0	1.5	2.2	2.5	2.9	2.4	0.1	-0.5	0.1
Poland	14 969	..	..	..	..	..	..	..	..	..	..	..	-1.6	0.9	1.2	1.4	1.2	0.0	1.5	1.3
Portugal[d]	4 217	5.3	0.3	-0.5	0.1	2.6	2.6	2.3	2.2	3.0	-6.4	-2.0	-0.1	-0.6	0.5	1.9	2.4	1.7	1.2	1.0
Spain[e]	12 408	-1.1	-1.8	-0.9	2.2	3.1	2.9	4.1	2.6	0.2	-1.9	-4.3	-0.9	1.8	1.5	2.9	3.4	4.5	2.8	2.2
Sweden	3 964	0.1	0.7	-0.3	0.7	1.0	1.4	1.5	1.0	-2.0	-4.3	-5.8	-0.9	1.6	-0.6	-1.1	1.5	2.6	1.8	1.3
Switzerland	3 813	0.0	1.0	2.0	2.3	2.5	2.6	2.7	3.2	1.9	-1.6	-0.8	-0.3	0.3	0.3	-0.3	1.2	0.5	0.7	1.0
Turkey[f]	21 537	1.0	1.6	1.7	1.9	-2.2	1.5	2.6	1.7	1.7	0.8	0.9	2.5	3.7	5.6	-2.5	2.8	1.7	2.5	2.0
Total of smaller countries[g]	141 385	0.2	0.4	1.5	2.0	1.5	2.4	2.7	2.0	1.3	0.2	0.1	0.8	2.0	2.3	2.1	1.3	1.6	1.9	1.8
Total OECD[g]	451 659	0.6	1.6	1.3	1.6	1.6	2.1	2.0	1.6	0.3	0.0	0.1	0.9	1.2	1.2	1.6	1.0	1.1	1.1	1.0
Memorandum items																				
European Union	148 984	-0.4	0.2	0.4	0.8	1.1	1.8	1.6	1.5	0.1	-1.5	-1.7	-0.2	0.6	0.4	0.8	1.4	1.3	1.1	1.1
Euro area	112 170	-0.5	-0.3	0.2	1.0	0.8	1.2	1.5	1.9	1.0	-1.3	-2.0	-0.5	0.4	0.2	0.6	1.5	1.5	1.2	1.1

a) For sources and definitions see "Sources and Methods".
b) Break in series as of January 1994.
c) Data based on the National Survey of Urban Employment; see "Sources and Methods".
d) Break in series in 1992.
e) Rebased; see "Sources and Methods".
f) The figures incorporate important revisions to Turkish data; see "Sources and Methods".
g) Totals exclude Mexico prior to 1988.

Annex Table 21. **Unemployment rates: commonly used definitions**[a]

	1996 Unemployment (thousands)	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States[b]	7 231	9.6	7.5	7.2	7.0	6.2	5.5	5.3	5.6	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.2	4.6
Japan	2 250	2.7	2.7	2.6	2.8	2.8	2.5	2.3	2.1	2.1	2.2	2.5	2.9	3.1	3.4	3.4	4.1	4.7	4.7	4.7
Germany	3 498	7.9	7.9	8.0	7.7	7.6	7.6	6.9	6.2	5.5	6.6	7.8	8.3	8.1	8.8	9.8	9.3	9.0	8.7	8.3
France	3 157	8.3	9.7	10.2	10.4	10.5	10.0	9.3	8.9	9.4	10.4	11.7	12.2	11.6	12.3	12.5	11.8	11.1	10.3	9.6
Italy	2 653	7.7	8.5	8.6	9.9	10.2	10.5	10.2	9.1	8.6	8.8	10.2	11.2	11.7	11.7	11.8	11.9	11.6	11.2	10.7
United Kingdom	2 298	11.2	11.4	11.6	11.8	10.2	7.8	6.1	5.9	8.2	10.2	10.3	9.4	8.6	8.0	6.9	6.2	6.1	6.0	5.9
Canada	1 471	11.9	11.3	10.5	9.6	8.8	7.8	7.5	8.2	10.4	11.3	11.2	10.4	9.5	9.7	9.2	8.3	7.8	7.7	7.7
Total of major countries	22 558	8.0	7.4	7.3	7.3	6.8	6.2	5.7	5.6	6.3	7.0	7.2	7.0	6.7	6.8	6.6	6.4	6.2	6.1	6.1
Australia	774	9.9	8.9	8.2	8.1	8.1	7.1	6.1	7.0	9.5	10.7	10.9	9.7	8.5	8.4	8.5	8.0	7.3	6.9	6.5
Austria	231	3.8	3.9	4.2	4.5	4.9	4.7	4.3	4.7	5.2	5.3	6.1	5.9	5.9	6.3	6.4	6.5	6.3	5.8	5.4
Belgium	545	13.2	13.2	12.3	11.7	11.3	10.3	9.3	8.7	9.3	10.3	12.0	12.9	12.9	12.7	12.4	11.6	10.8	10.6	9.8
Czech Republic	201	..	..	..	..	..	..	..	..	..	..	4.3	4.4	4.1	3.9	4.8	6.5	8.9	10.1	11.0
Denmark	246	10.3	9.9	8.9	7.7	7.7	8.4	9.2	9.4	10.3	11.0	12.1	12.0	10.2	8.7	7.7	6.4	5.7	5.8	6.0
Finland	363	5.4	5.2	5.0	5.4	5.1	4.2	3.1	3.2	6.6	11.7	16.3	16.6	15.4	14.6	12.7	11.4	10.1	9.1	8.6
Greece	446	7.9	8.1	7.8	7.4	7.4	7.7	7.5	7.0	7.7	8.7	9.7	9.6	10.0	10.3	10.2	11.2	11.3	10.9	10.2
Hungary	400	..	..	..	..	..	..	..	..	..	..	12.1	11.0	10.4	10.1	8.9	8.0	7.0	6.9	6.8
Iceland	6	1.0	1.3	0.9	0.6	0.5	0.6	1.7	1.8	1.5	3.0	4.4	4.8	5.0	4.3	3.7	3.0	2.0	2.1	2.4
Ireland	178	13.5	15.0	16.8	17.1	16.9	16.3	15.1	12.9	14.7	15.1	15.7	14.8	12.2	11.9	10.3	7.6	5.8	5.0	5.0
Korea	424	4.1	3.8	4.0	3.8	3.1	2.5	2.6	2.4	2.3	2.4	2.8	2.4	2.0	2.0	2.6	6.8	6.4	6.0	5.5
Luxembourg	6	1.6	1.7	1.7	1.5	1.7	1.6	1.4	1.3	1.4	1.6	2.1	2.7	3.0	3.3	3.3	3.1	2.9	2.8	2.8
Mexico[c]	900	6.1	5.6	4.4	4.3	3.9	3.5	2.9	2.7	2.6	2.8	3.4	3.7	6.3	5.5	3.7	3.2	2.8	2.8	2.7
Netherlands	441	11.0	10.6	9.2	8.4	8.0	7.7	6.9	6.0	5.4	5.4	6.6	7.6	7.1	6.6	5.5	4.2	3.2	3.2	3.4
New Zealand	113	5.3	4.5	3.5	4.0	4.1	5.6	7.1	7.8	10.3	10.3	9.5	8.1	6.3	6.1	6.7	7.5	7.1	6.6	6.1
Norway	108	3.4	3.2	2.6	2.0	2.1	3.2	4.9	5.2	5.5	5.9	6.0	5.4	4.9	4.8	4.1	3.2	3.2	3.8	3.9
Poland	2 108	..	..	..	..	..	..	..	..	..	..	14.0	14.4	13.3	12.3	11.2	10.6	11.4	10.8	10.3
Portugal	332	8.2	8.6	8.7	8.6	7.1	5.8	5.1	4.7	4.1	4.2	5.6	6.9	7.2	7.3	6.8	5.0	4.5	4.4	4.4
Spain[d]	3 542	17.7	19.6	20.9	20.5	20.0	19.0	16.7	15.7	15.8	17.9	22.2	23.7	22.7	22.2	20.8	18.8	15.8	14.0	12.7
Sweden	347	3.5	3.1	2.8	2.5	2.1	1.7	1.5	1.7	3.0	5.3	8.2	8.0	7.7	8.0	8.0	6.5	5.5	4.5	4.0
Switzerland	169	0.8	1.0	0.8	0.7	0.7	0.6	0.5	0.5	1.1	2.5	4.5	4.7	4.2	4.7	5.2	3.9	2.8	2.6	2.3
Turkey[e]	1 382	7.8	7.7	7.2	8.0	8.3	8.4	8.6	8.0	7.9	8.0	7.7	8.1	6.9	6.0	6.4	6.3	6.6	6.1	6.3
Total of smaller countries[f]	13 259	8.6	8.8	8.6	8.5	7.8	7.4	6.9	6.6	6.9	7.6	9.3	9.5	9.0	8.6	8.1	8.0	7.6	7.1	6.8
Total OECD[f]	35 817	8.1	7.7	7.6	7.6	7.1	6.5	6.0	5.9	6.5	7.2	7.9	7.8	7.4	7.3	7.1	6.9	6.7	6.4	6.3
Memorandum items																				
European Union	18 281	9.5	10.1	10.3	10.4	10.1	9.4	8.4	7.9	8.1	9.3	10.8	11.2	10.8	10.9	10.8	10.1	9.4	8.8	8.4
Euro area	14 945	9.4	10.2	10.4	10.5	10.5	10.1	9.3	8.6	8.3	9.3	11.0	11.7	11.5	11.8	11.8	11.1	10.2	9.6	9.1

a) For sources and definitions see "Sources and Methods".
b) Break in series as of January 1994.
c) Data based on the National Survey of Urban Employment; see "Sources and Methods".
d) Rebased; see "Sources and Methods".
e) The figures incorporate important revisions to Turkish data; see "Sources and Methods".
f) Totals exclude Mexico prior to 1987.

Annex Table 22. **Standardised unemployment rates**[a]

Per cent of civilian labour force

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
United States	7.2	7.6	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.3	5.6	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5
Japan	2.0	2.2	2.4	2.7	2.7	2.6	2.8	2.8	2.5	2.3	2.1	2.1	2.2	2.5	2.9	3.1	3.4	3.4	4.1
Germany[b]	2.6	4.0	5.7	6.9	7.1	7.2	6.5	6.3	6.2	5.6	4.8	4.2	4.5	7.9	8.4	8.2	8.9	9.9	9.4
France	5.8	7.0	7.7	8.1	9.7	10.1	10.2	10.4	9.8	9.3	9.0	9.5	10.4	11.7	12.3	11.7	12.4	12.3	11.7
Italy	5.6	6.2	6.5	7.7	8.1	8.5	9.2	9.9	10.0	10.0	9.1	8.8	9.0	10.3	11.4	11.9	12.0	12.1	12.3
United Kingdom	6.2	9.7	10.3	11.1	11.2	11.5	11.6	10.6	8.7	7.3	7.1	8.9	10.0	10.5	9.6	8.7	8.2	7.0	6.3
Canada	7.5	7.6	11.0	11.9	11.3	10.5	9.6	8.9	7.8	7.5	8.1	10.4	11.3	11.2	10.4	9.5	9.7	9.2	8.4
Total of major countries	5.3	6.2	7.5	7.9	7.2	7.1	7.1	6.7	6.1	5.6	5.6	6.3	6.8	7.3	7.1	6.8	6.8	6.6	6.4
Australia	6.1	5.8	7.2	10.0	9.0	8.3	8.1	8.1	7.2	6.2	6.9	9.6	10.8	10.9	9.7	8.5	8.5	8.5	8.0
Austria	..	..	..	..	..	..	..	..	..	..	..	..	..	4.0	3.8	3.9	4.3	4.5	4.7
Belgium	9.3	9.5	10.1	11.1	11.1	10.4	10.3	10.0	8.9	7.5	6.7	6.6	7.3	8.9	10.0	9.9	9.7	9.4	9.5
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	4.4	4.4	4.1	3.9	4.8	6.5
Denmark	..	..	..	..	..	..	..	..	6.1	7.4	7.7	8.5	9.2	10.1	8.2	7.2	6.8	5.6	5.1
Finland	5.3	5.7	6.1	6.1	5.9	6.0	6.7	4.9	4.2	3.1	3.2	6.7	11.6	16.4	16.7	15.3	14.6	12.6	11.4
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	9.9	12.1	11.0	10.4	10.1	8.9	8.0
Ireland	..	..	11.6	14.0	15.5	16.9	16.8	16.6	16.1	14.7	13.4	14.8	15.4	15.6	14.3	12.3	11.6	9.9	7.8
Luxembourg	..	..	3.0	3.5	3.1	2.9	2.6	2.5	2.0	1.8	1.7	1.7	2.1	2.7	3.2	2.9	3.0	2.8	2.8
Netherlands	6.0	6.8	8.2	9.7	9.3	8.3	8.3	8.0	7.5	6.9	6.2	5.8	5.6	6.6	7.1	6.9	6.3	5.2	4.0
New Zealand	2.2	3.6	3.5	5.7	5.7	4.2	4.0	4.1	5.6	7.1	7.8	10.3	10.3	9.5	8.2	6.3	6.1	6.6	7.5
Norway	1.7	2.1	2.6	3.5	3.2	2.7	2.0	2.1	3.2	5.0	5.3	5.6	6.0	6.1	5.5	5.0	4.9	4.1	3.3
Poland	..	..	..	..	..	..	..	..	..	..	..	..	..	14.0	14.4	13.3	12.3	11.2	10.6
Portugal	..	..	..	7.9	8.5	8.7	8.4	6.9	5.5	4.9	4.6	4.0	4.2	5.7	7.0	7.3	7.3	6.8	5.1
Spain	10.5	13.3	14.9	17.5	20.3	21.7	21.2	20.6	19.5	17.2	16.2	16.4	18.4	22.7	24.1	22.9	22.2	20.8	18.8
Sweden	2.0	2.5	3.3	3.7	3.3	2.9	2.7	2.2	1.8	1.5	1.7	3.1	5.6	9.1	9.4	8.8	9.6	9.9	8.3
Switzerland	..	..	..	..	..	..	..	..	..	..	..	2.0	3.1	4.0	3.8	3.5	3.9	4.2	..
Total OECD	..	..	..	..	..	..	..	..	..	..	..	..	..	8.2	8.1	7.8	7.7	7.4	7.1
Memorandum items																			
European Union	..	..	..	..	..	..	..	..	..	..	..	8.2	9.2	10.7	11.1	10.7	10.8	10.6	10.0
Euro area	..	..	..	..	..	..	..	..	..	..	..	8.3	9.2	10.9	11.7	11.4	11.6	11.6	10.9

Note: Data for European Union (EU) countries are calculated by Eurostat from 1982 onwards (1984 for Finland). Prior to these dates, figures published for EU countries are OECD estimates.

a) See technical notes in OECD *Quarterly Labour Force Statistics.*

b) Prior to 1993 data refers to Western Germany.

Annex Table 23. **Labour force, employment and unemployment**

Millions

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
Labour force																			
Major seven countries	284.5	288.2	291.6	295.8	299.2	303.1	307.0	311.1	322.6	324.9	326.0	328.5	330.0	332.8	336.6	338.9	341.2	343.2	345.4
Total of smaller countries[a]	93.9	94.4	95.7	97.5	110.5	112.6	115.0	116.9	118.8	120.1	148.3	149.8	152.0	154.6	157.0	159.0	160.7	162.9	165.3
European Union	147.8	149.1	150.0	151.3	152.5	154.0	154.9	156.2	166.2	165.9	165.7	166.1	166.4	167.3	168.2	169.3	170.2	171.1	172.1
Euro area	110.0	110.6	111.1	112.3	113.1	114.1	114.8	116.1	126.2	125.9	125.9	126.3	126.4	127.1	128.0	128.8	129.5	130.2	130.9
Total OECD[a]	378.4	382.6	387.3	393.3	409.7	415.7	422.0	428.0	441.4	444.9	474.3	478.3	482.0	487.5	493.6	497.9	501.9	506.2	510.7
Employment																			
Major seven countries	261.8	267.0	270.4	274.3	278.9	284.4	289.6	293.7	302.1	302.0	302.5	305.4	307.9	310.3	314.4	317.2	319.9	322.3	324.2
Total of smaller countries[a]	85.8	86.1	87.4	89.2	101.9	104.3	107.1	109.2	110.7	110.9	134.5	135.6	138.3	141.4	144.3	146.2	148.6	151.3	154.0
European Union	133.7	134.0	134.5	135.6	137.1	139.6	141.8	144.0	152.6	150.4	147.8	147.5	148.4	149.0	150.1	152.3	154.3	156.0	157.7
Euro area	99.6	99.3	99.5	100.5	101.3	102.5	104.1	106.1	115.8	114.3	112.0	111.4	111.9	112.2	112.9	114.5	116.2	117.6	119.0
Total OECD[a]	347.6	353.2	357.8	363.4	380.7	388.7	396.7	402.9	412.8	413.0	437.0	441.0	446.1	451.7	458.7	463.5	468.4	473.6	478.3
Unemployment																			
Major seven countries	22.7	21.2	21.2	21.5	20.4	18.7	17.5	17.4	20.4	22.8	23.5	23.0	22.2	22.6	22.2	21.6	21.3	20.9	21.2
Total of smaller countries[a]	8.1	8.3	8.3	8.3	8.6	8.3	7.9	7.7	8.2	9.2	13.8	14.2	13.7	13.3	12.7	12.8	12.2	11.6	11.2
European Union	14.1	15.1	15.5	15.7	15.3	14.4	13.1	12.3	13.5	15.5	17.9	18.6	18.0	18.3	18.1	17.0	15.9	15.1	14.4
Euro area	10.4	11.2	11.6	11.8	11.8	11.6	10.7	10.0	10.5	11.6	13.8	14.8	14.5	14.9	15.1	14.3	13.3	12.5	11.9
Total OECD[a]	30.8	29.5	29.5	29.8	29.0	27.0	25.4	25.1	28.6	32.0	37.4	37.2	35.9	35.8	34.9	34.4	33.4	32.5	32.4

a) The aggregate measures include Mexico as of 1987. There is a potential bias in the aggregates thereafter because of the limited coverage of the Mexican National Survey of Urban Employment.

Annex Table 26. **Household saving rates**[a]

Percentage of disposable household income

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States[b]	10.9	8.8	10.6	9.2	8.2	7.3	7.8	7.5	7.8	8.3	8.7	7.1	6.1	5.6	4.8	4.5	3.7	2.5	2.3	3.1
Japan	16.7	16.1	15.8	15.6	15.6	13.8	13.0	12.9	12.1	13.2	13.1	13.4	13.3	13.7	13.4	12.6	13.5	12.1	12.2	12.5
Germany[b]	10.9	9.0	9.5	9.5	10.4	10.7	10.9	10.5	12.0	12.9	12.8	12.2	11.6	11.4	11.5	11.0	11.0	11.2	11.1	10.8
France[b]	19.1	17.6	16.0	15.4	14.2	12.2	12.3	13.1	13.9	14.5	14.9	15.7	14.8	16.0	15.1	16.3	15.5	15.2	15.0	14.9
Italy[b]	20.8	23.2	21.2	19.4	18.5	17.9	16.9	15.5	17.0	17.2	17.1	15.1	14.8	14.5	13.8	11.9	11.2	11.3	11.2	11.1
United Kingdom[b]	10.8	8.7	10.1	9.6	7.9	5.8	4.1	5.9	7.7	9.7	11.8	11.2	9.6	10.5	9.7	9.6	6.6	5.0	5.1	5.7
Canada[b]	19.0	15.4	15.2	14.2	11.9	10.3	10.7	11.5	11.5	11.7	11.4	10.3	7.7	7.5	5.2	2.8	2.4	2.2	2.6	2.9
Australia	12.3	12.1	13.5	10.9	10.3	8.0	6.6	8.1	8.7	5.9	5.3	3.8	5.6	5.1	5.9	3.8	2.1	2.1	2.8	2.7
Austria[b]	10.4	8.3	8.2	8.6	10.5	12.1	10.1	11.1	12.2	13.2	10.2	9.1	10.0	9.8	7.8	7.4	8.8	8.7	9.2	9.0
Belgium	12.5	13.4	12.5	10.5	12.3	11.1	12.4	13.5	13.9	15.6	16.6	17.9	15.8	15.1	13.4	12.5	12.9	12.8	12.7	12.8
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Denmark	..	..	..	..	..	..	7.6	8.6	11.4	11.1	9.9	8.6	4.5	7.1	5.9	5.1	6.4	5.9	7.2	7.1
Finland	3.7	4.3	3.6	3.2	1.8	2.8	-0.6	0.4	2.9	7.8	10.2	7.5	2.6	6.2	2.8	4.7	4.5	4.6	4.7	4.6
Greece	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Hungary	..	..	..	..	..	..	..	..	..	..	..	8.1	10.0	12.7	15.0	18.0	19.3	19.0	19.1	19.2
Iceland	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ireland	16.4	14.7	15.5	13.7	11.9	12.7	10.0	8.3	9.8	11.0	9.8	11.8	7.8	9.9	9.1	11.7	11.7	11.3	11.2	11.0
Korea	11.0	10.8	13.7	13.5	18.5	21.8	23.4	21.7	19.8	21.9	20.2	18.6	17.9	17.9	17.3	17.3	12.2	12.2	15.2	17.0
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mexico	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Netherlands[c]	9.5	5.7	5.5	5.5	8.3	8.4	8.2	10.1	11.9	7.2	8.4	6.8	7.1	6.5	5.7	5.7	4.2	3.2	2.9	3.9
New Zealand	9.0	6.9	6.6	5.7	4.4	7.2	5.8	5.5	3.3	5.5	3.3	3.4	0.5	0.5	0.4	1.3	1.3	1.7	1.1	0.9
Norway	4.4	4.2	5.0	-1.8	-4.7	-4.6	-1.2	1.1	2.2	4.2	5.9	6.9	5.9	5.7	4.7	5.1	6.5	6.6	6.6	6.6
Poland	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Portugal	24.1	22.4	23.2	24.3	21.8	21.4	16.4	15.1	16.4	17.0	14.8	12.6	10.2	10.3	10.2	10.4	9.2	8.4	8.0	7.7
Spain[b]	12.2	11.8	10.9	10.6	12.1	10.6	11.0	10.0	11.8	12.7	11.2	13.9	11.4	13.4	12.6	11.4	11.0	10.9	10.5	10.1
Sweden	3.3	4.0	3.8	3.9	2.9	-1.1	-3.1	-3.2	1.1	4.7	9.2	9.8	9.4	6.8	5.0	1.9	2.3	2.3	1.6	1.9
Switzerland	3.2	2.7	2.9	2.8	3.8	5.5	7.9	9.3	10.3	10.5	10.1	10.8	9.1	9.5	8.5	9.0	8.7	8.5	8.5	8.6
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

a) National definition except the United States.
b) Gross saving.
c) Excluding mandatory saving through occupational pension schemes.

Annex Table 27. **Gross national saving**[a]

As a percentage of nominal GDP

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
United States	20.9	19.4	20.7	18.2	16.3	18.6	17.2	15.7	15.9	16.7	16.2	15.2	15.4	14.1	14.2	15.4	16.2	16.6	17.4
Japan	31.5	31.1	31.5	30.6	29.8	30.8	31.7	31.9	32.5	33.4	33.6	33.6	34.5	33.9	32.7	31.3	30.8	31.6	31.0
Germany	22.8	21.7	20.3	20.2	21.2	21.7	22.0	23.8	23.5	24.3	25.7	24.9	22.3	21.9	20.4	20.9	20.6	19.7	20.7
France	24.6	23.6	21.1	19.7	19.1	19.0	18.9	20.1	20.0	21.1	21.8	21.5	21.0	19.8	18.2	19.0	19.8	18.6	20.0
Italy	26.3	24.7	22.6	21.9	22.3	22.2	21.5	21.4	20.9	20.7	20.0	19.5	18.5	17.1	17.9	18.6	20.6	20.4	20.4
United Kingdom	19.0	17.7	16.7	16.7	17.1	16.8	17.6	16.0	16.0	15.5	15.4	14.4	13.6	12.8	12.6	13.7	14.3	14.6	14.9
Canada	22.7	22.8	23.1	20.0	19.5	20.3	19.9	18.2	19.4	20.7	19.7	17.0	14.3	12.8	13.5	15.6	17.8	18.1	18.4
Australia	22.1	21.6	20.5	17.5	19.8	19.6	18.6	19.2	20.9	22.1	20.6	17.7	15.5	15.8	17.0	17.1	17.6	18.3	18.4
Austria	26.4	26.0	24.7	23.8	22.1	23.1	23.1	23.2	23.4	23.4	23.9	25.0	25.1	23.8	22.6	22.9	22.3	21.8	23.4
Belgium	18.3	17.2	14.0	13.2	13.5	14.8	14.4	16.3	17.1	19.5	20.8	21.0	20.2	20.3	21.2	21.6	22.5	21.7	22.4
Denmark	20.9	15.6	9.1	8.7	11.9	16.4	16.1	19.2	18.3	19.2	19.5	20.7	20.0	20.3	19.2	19.1	20.4	20.7	20.9
Finland	25.2	26.0	24.9	23.3	22.8	23.8	22.8	22.2	22.1	24.0	24.8	23.0	15.1	12.1	13.0	17.0	19.7	19.4	22.3
Greece	35.1	36.1	30.1	19.5	19.6	17.7	14.7	16.4	16.4	20.3	18.0	18.0	19.6	18.9	17.3	18.2	16.2	16.8	18.0
Iceland	23.3	24.0	21.5	19.0	18.3	16.3	14.7	17.4	15.2	15.0	15.0	16.0	14.9	15.0	16.6	17.1	15.9	15.9	16.2
Ireland	18.2	15.2	13.0	16.1	15.9	15.8	15.0	14.9	16.3	16.7	17.1	21.1	21.7	19.3	20.1	19.1	21.8	23.2	23.7
Korea	28.6	23.0	22.5	24.1	27.2	29.4	29.2	33.1	37.1	39.2	36.1	35.8	35.9	34.7	35.1	35.2	35.9	34.5	34.2
Luxembourg	30.8	30.9	31.9	43.7	48.0	48.4	48.5	49.0	44.4	46.1	49.6	51.9	52.2	51.9	50.5	49.1	47.6	48.2	48.1
Mexico	24.4	26.4	25.4	26.3	28.4	25.7	25.8	19.1	24.5	21.3	20.3	20.3	18.7	16.6	15.1	14.8	19.3	22.7	23.6
Netherlands	20.7	20.9	21.5	21.4	22.1	23.5	24.3	24.3	22.6	24.2	26.1	26.0	24.8	23.7	23.4	24.6	24.7	25.9	27.1
New Zealand	20.1	18.3	20.4	19.4	20.4	19.4	17.1	18.9	17.9	17.8	15.6	14.0	13.7	16.4	19.2	18.6	17.5	15.1	14.9
Norway	26.5	30.6	30.6	29.1	29.6	32.1	31.2	25.5	25.7	25.1	26.2	25.8	25.1	24.2	24.6	25.4	27.0	30.1	30.5
Portugal	28.5	27.5	23.0	21.1	20.5	19.3	21.5	25.4	27.8	27.3	28.2	26.9	24.0	23.0	20.6	19.4	19.8	19.2	19.2
Spain	22.8	20.6	19.0	19.4	19.6	20.7	20.6	21.6	21.6	22.6	21.9	21.7	21.0	19.0	18.9	18.8	21.3	20.9	21.0
Sweden	17.8	17.8	15.6	14.2	16.1	17.9	17.5	18.1	18.2	18.8	19.2	17.7	15.8	13.4	11.9	13.6	16.7	16.0	16.1
Switzerland	28.4	28.5	29.5	28.3	27.4	30.0	30.4	30.0	29.8	31.8	32.5	32.3	30.2	28.4	28.9	27.9	28.5	27.9	29.3
Turkey	15.0	12.1	19.2	18.4	15.5	16.3	20.7	23.9	24.3	28.9	26.4	21.5	17.7	18.5	18.7	18.9	20.1	22.6	21.6
Total OECD	23.6	22.4	22.4	21.0	20.5	21.6	21.3	20.9	21.3	22.1	21.8	21.1	20.6	19.5	19.2	19.7	20.5	20.7	21.2
Memorandum items																			
European Union	23.1	21.9	20.0	19.4	19.8	20.1	20.1	20.8	20.6	21.2	21.6	21.1	19.9	18.9	18.2	18.9	19.7	19.3	20.0

a) The data do not reflect the shift to the new National Account System (SNA93).

Annex Table 28. **General government total outlays**[a]

As a percentage of nominal GDP

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	33.9	33.1	33.8	34.2	33.9	32.9	32.8	33.6	34.2	34.8	34.1	33.1	32.9	32.4	31.4	30.5	30.1	29.9	29.7
Japan[b]	33.3	32.3	31.6	31.9	32.1	31.3	30.6	31.3	30.9	31.7	33.7	34.4	35.6	35.9	35.0	36.9	38.1	38.4	38.2
Germany[c]	47.8	47.4	47.0	46.4	45.3	44.9	43.5	43.8	46.0	46.9	48.1	47.8	48.1	49.1	48.1	47.3	47.6	46.8	46.2
France	51.0	51.5	51.7	51.1	50.5	49.4	48.5	49.3	49.9	51.7	54.0	53.8	53.7	53.9	52.6	52.4	52.4	51.5	50.5
Italy	48.6	49.4	50.7	50.6	50.3	50.4	51.2	53.1	53.1	53.3	56.4	53.9	51.8	51.7	50.0	48.6	48.6	47.5	46.8
United Kingdom	..	..	..	..	43.0	40.6	39.8	41.8	43.4	45.2	45.4	44.7	44.4	43.0	40.9	40.1	39.7	39.5	39.5
Canada	45.8	45.3	46.0	45.4	44.0	43.4	43.9	46.7	50.1	51.1	50.0	47.5	46.3	44.4	42.4	42.6	41.2	40.9	40.7
Total of above countries	38.3	37.8	38.1	38.2	38.2	37.3	36.9	37.9	38.7	39.6	40.1	39.4	39.3	39.1	37.9	37.6	37.5	37.3	36.9
Australia	35.4	36.4	37.3	37.4	35.7	33.1	31.9	33.6	34.7	36.3	36.5	35.0	35.7	34.7	33.2	32.7	32.4	32.5	32.0
Austria	49.0	49.3	50.4	51.2	51.7	50.5	49.1	48.6	49.4	50.2	53.1	52.5	52.6	51.8	49.8	49.7	49.7	49.1	48.9
Belgium	62.0	60.7	60.2	59.8	58.3	55.7	53.1	53.3	54.4	54.9	56.0	54.5	53.1	52.7	51.4	50.8	50.9	50.0	49.8
Czech Republic	..	..	..	..	..	..	..	..	..	..	42.2	44.0	43.1	41.7	40.9	40.6	44.7	45.4	47.4
Denmark	..	..	..	..	..	56.6	56.7	56.0	56.9	58.0	60.6	60.6	59.0	58.6	56.8	55.5	54.5	54.1	53.5
Finland	40.2	40.2	42.2	43.5	44.0	43.0	41.0	44.5	52.8	57.6	59.0	57.6	55.1	54.5	51.8	48.6	47.0	45.2	43.4
Greece	40.4	43.1	46.2	45.0	45.6	44.6	46.3	51.0	48.0	50.5	53.7	52.6	54.6	52.4	50.4	49.6	49.3	48.7	47.9
Hungary	..	..	..	..	..	..	..	..	..	..	54.7	52.3	49.2	43.7	44.5	44.3	43.7	43.4	43.4
Iceland	..	..	..	..	32.5	37.0	39.3	36.6	37.5	37.7	37.4	37.1	39.0	38.2	36.6	36.5	35.8	35.0	35.0
Ireland	49.4	47.7	48.6	48.3	46.6	43.0	36.9	37.8	39.0	39.4	39.1	38.9	36.4	34.5	33.2	31.0	30.0	29.2	28.6
Korea	18.5	17.7	17.6	16.8	15.9	16.1	17.2	18.1	19.3	20.5	19.8	19.6	19.1	20.4	22.1	25.0	25.2	24.4	23.6
Netherlands	54.7	53.8	51.9	52.0	53.3	51.3	48.9	49.4	49.5	50.0	49.9	47.6	47.7	45.6	44.6	43.5	43.8	43.2	42.9
New Zealand	..	..	..	52.6	48.8	50.0	48.4	48.8	45.8	45.4	42.0	39.6	38.8	38.6	38.9	39.6	40.9	39.7	39.2
Norway	44.0	42.1	41.5	45.4	47.7	49.5	49.1	49.7	50.6	52.0	51.0	49.9	47.6	45.4	44.1	46.4	46.1	44.9	45.3
Poland	..	..	..	..	..	..	..	..	..	..	54.3	49.3	47.2	45.8	44.9	43.4	44.1	42.4	41.4
Portugal	44.5	41.1	40.2	40.6	39.2	38.5	37.6	40.6	43.1	43.6	45.3	43.8	44.5	43.4	43.5	43.5	44.2	44.1	44.0
Spain	35.4	35.2	37.7	38.6	37.7	37.2	38.9	39.7	40.7	42.0	45.2	43.1	42.5	41.3	39.9	39.4	38.5	38.0	37.6
Sweden	61.6	59.2	60.5	58.9	55.2	55.4	55.7	56.4	58.6	64.3	67.9	65.7	62.7	60.9	59.0	56.6	56.4	54.7	53.1
Total of above smaller countries	39.6	39.1	39.7	40.1	39.3	39.0	38.8	39.8	40.9	42.3	44.5	43.0	42.3	41.3	40.5	40.4	40.4	39.7	39.2
Total of above OECD countries	38.6	38.0	38.4	38.5	38.4	37.6	37.2	38.3	39.1	40.0	40.9	40.0	39.8	39.5	38.4	38.1	38.1	37.7	37.4
Memorandum items																			
Total of above European Union countries	48.4	48.3	48.8	48.5	47.1	46.3	45.7	46.8	47.9	49.2	51.0	49.9	49.4	49.1	47.7	46.8	46.7	46.0	45.4
Euro area	47.6	47.5	47.8	47.6	47.4	46.6	45.9	46.8	47.8	48.8	51.0	50.0	49.6	49.8	48.5	47.7	47.6	46.8	46.0

Note : The numbers are subject to revision for countries that have changed their national accounts since there can be differences between the treatment of individual items of the government accounts in ESA95/SNA93 and the Outlook Databank. For further details see "Sources and Methods" (http://www.oecd.org/eco/out/source.htm).

a) Current outlays plus net capital outlays.

b) The 1998 outlays would have risen by 5.4 percentage points of GDP if account were taken of the assumption by the central government of the debt of the Japan Railway Settlement Corporation and the National Forest Special Account.

c) Includes outlays of the German Railways Fund from 1994 onwards and the Inherited Debt Fund from 1995 onwards.

Annex Table 29 . **General government current tax and non-tax receipts**[a]

As a percentage of nominal GDP

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	28.3	28.3	28.7	28.9	29.6	29.3	29.5	29.3	29.2	28.9	29.2	29.4	29.8	30.2	30.5	30.9	31.0	30.8	30.6
Japan	29.6	30.2	30.8	31.0	32.5	32.8	33.1	34.2	33.8	33.2	32.1	32.1	32.0	31.7	31.7	30.8	30.5	30.5	30.9
Germany	45.3	45.5	45.8	45.0	43.5	42.8	43.6	41.8	43.1	44.4	44.9	45.3	45.0	45.7	45.5	45.6	46.0	45.6	45.3
France	47.7	48.7	48.8	48.3	48.5	47.7	47.3	47.7	47.7	47.5	48.0	48.2	48.0	49.7	49.6	49.6	50.2	49.8	49.3
Italy	38.2	38.0	38.5	39.3	39.4	39.7	41.4	42.1	43.1	43.8	47.0	44.8	44.2	45.2	47.2	45.9	46.3	45.9	45.5
United Kingdom	..	..	..	..	41.1	41.2	40.8	40.3	40.6	38.7	37.4	37.9	38.6	38.6	38.9	40.3	40.3	40.3	40.4
Canada	38.9	38.9	38.7	39.5	39.9	40.3	40.6	42.1	42.9	43.1	42.4	41.9	42.0	42.6	43.2	43.5	42.8	42.5	42.2
Total of above countries	33.2	33.4	33.8	33.9	34.9	34.7	35.0	35.1	35.3	35.1	35.2	35.3	35.4	35.8	36.1	36.1	36.2	36.0	35.9
Australia	29.9	31.2	32.2	33.2	33.6	32.7	31.9	32.3	30.9	30.3	30.8	30.4	31.8	32.4	32.6	33.2	33.1	33.0	32.7
Austria	45.0	46.7	47.7	47.4	47.2	47.1	46.0	46.2	46.7	48.3	49.0	47.6	47.5	48.0	48.0	47.5	47.6	46.6	46.7
Belgium	50.5	51.2	51.3	50.5	50.7	48.9	47.0	47.9	48.2	48.0	48.8	49.6	49.2	49.6	49.6	49.8	49.9	49.1	48.8
Czech Republic	..	..	..	..	..	..	..	..	..	..	42.3	42.1	41.5	39.8	38.9	38.2	39.6	40.0	41.9
Denmark	..	..	..	..	..	58.1	57.0	55.0	54.5	55.8	57.8	58.1	56.8	57.6	56.9	56.4	57.4	56.3	56.0
Finland	42.3	44.3	46.0	47.2	45.3	47.1	47.1	49.9	51.8	52.0	51.9	51.7	50.7	51.5	50.2	50.0	50.0	49.6	48.6
Greece	33.5	35.0	35.2	35.1	36.1	33.0	31.9	34.9	36.5	37.7	39.9	42.6	44.5	44.9	46.5	47.1	47.7	47.2	46.8
Hungary	..	..	..	..	..	..	..	..	..	..	47.0	44.9	42.8	40.7	39.7	39.7	39.7	39.4	39.4
Iceland	..	..	..	..	31.6	35.0	34.8	33.3	34.5	34.9	32.9	32.4	36.0	36.6	36.6	37.4	37.0	36.7	36.6
Ireland	38.5	38.6	38.2	38.1	38.4	38.7	35.2	35.0	36.2	36.5	36.3	36.9	34.0	34.3	33.8	33.2	33.4	32.9	32.6
Korea	20.3	19.2	18.8	18.4	18.6	19.7	20.8	21.8	21.3	22.0	22.6	22.9	23.5	24.6	24.5	25.6	25.1	24.8	24.4
Netherlands	48.3	47.6	47.9	46.3	46.7	46.2	43.6	43.7	46.3	45.6	46.3	43.4	43.6	43.8	43.4	42.8	43.2	43.0	42.8
New Zealand	..	..	..	46.1	46.6	45.2	44.7	44.0	42.1	42.1	41.4	42.6	41.9	41.5	40.9	41.1	40.8	40.3	40.3
Norway	50.1	49.1	51.4	51.3	52.3	52.1	51.0	52.3	50.7	50.2	49.6	50.3	51.1	52.0	52.0	50.3	51.0	51.4	52.4
Poland	..	..	..	..	..	..	..	..	..	..	49.8	45.8	44.4	42.7	42.0	41.0	41.0	40.0	39.1
Portugal	34.5	34.1	32.8	34.3	33.7	35.0	35.2	35.5	37.1	40.7	39.2	37.8	38.8	40.1	41.0	41.3	42.4	42.5	42.6
Spain	31.3	30.9	32.2	32.7	34.1	33.9	35.3	35.6	36.5	38.1	38.6	37.1	35.5	36.3	36.8	37.1	37.2	36.9	36.8
Sweden	56.8	56.4	56.8	57.7	59.3	58.8	60.9	60.5	57.5	56.8	56.1	54.7	54.8	57.3	57.2	58.5	58.7	56.8	55.6
Total of above smaller countries	35.7	35.7	36.2	36.5	37.0	37.6	37.4	37.9	38.1	38.7	40.2	39.4	39.2	39.6	39.6	39.8	39.9	39.4	39.2
Total of above OECD countries	33.6	33.8	34.2	34.3	35.2	35.2	35.4	35.5	35.7	35.7	36.1	36.0	36.1	36.5	36.7	36.8	36.9	36.7	36.5
Memorandum items																			
Total of above European Union countries	43.0	43.3	43.7	43.5	43.0	42.9	43.2	43.0	43.7	44.0	44.7	44.3	44.0	44.9	45.2	45.2	45.6	45.2	44.9
Euro area	42.6	42.8	43.2	43.0	43.0	42.6	42.8	42.6	43.4	44.2	45.5	45.0	44.7	45.7	45.9	45.7	46.0	45.6	45.2

Note : The numbers are subject to revision for countries that have changed their national accounts since there can be differences between the treatment of individual items of the government accounts in ESA95/SNA93 and the Outlook Databank. For further details see "Sources and Methods" (http://www.oecd.org/eco/out/source.htm).

a) Current receipts exclude capital receipts. Non-tax current receipts include operating surpluses of departmental enterprises, property income, fees, charges, fines etc.

Annex Table 30. **General government financial balances**

Surplus (+) or deficit (-) as a percentage of nominal GDP

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections		
																	1999	2000	2001
United States	-5.6	-4.7	-5.0	-5.3	-4.3	-3.6	-3.2	-4.3	-5.0	-5.9	-5.0	-3.6	-3.1	-2.2	-0.9	0.4	1.0	0.9	0.9
Japan [a]	-3.6	-2.1	-0.8	-0.9	0.5	1.5	2.5	2.9	2.9	1.5	-1.6	-2.3	-3.6	-4.2	-3.4	-6.0	-7.6	-7.9	-7.2
Germany [b]	-2.6	-1.9	-1.2	-1.3	-1.8	-2.1	0.1	-2.0	-2.9	-2.5	-3.2	-2.5	-3.2	-3.4	-2.6	-1.7	-1.6	-1.2	-0.9
France	-3.2	-2.8	-2.9	-2.8	-1.9	-1.7	-1.2	-1.6	-2.2	-4.2	-6.0	-5.6	-5.6	-4.1	-3.0	-2.7	-2.2	-1.7	-1.2
Italy	-10.4	-11.4	-12.3	-11.4	-10.9	-10.7	-9.8	-11.0	-10.0	-9.5	-9.4	-9.1	-7.6	-6.5	-2.8	-2.7	-2.3	-1.6	-1.3
United Kingdom	-3.3	-4.0	-2.9	-2.6	-1.9	0.6	0.9	-1.5	-2.8	-6.5	-8.0	-6.8	-5.8	-4.4	-2.0	0.2	0.7	0.8	0.8
Canada	-6.8	-6.5	-7.3	-5.9	-4.1	-3.1	-3.3	-4.5	-7.2	-8.0	-7.6	-5.6	-4.3	-1.8	0.8	0.9	1.6	1.6	1.5
Total of above countries	-5.0	-4.3	-4.2	-4.2	-3.3	-2.6	-1.9	-2.9	-3.5	-4.5	-4.9	-4.1	-3.9	-3.3	-1.8	-1.4	-1.3	-1.2	-1.0
Australia	-5.4	-5.2	-5.1	-4.2	-2.2	-0.4	-0.1	-1.3	-3.8	-6.0	-5.6	-4.6	-3.9	-2.3	-0.6	0.5	0.7	0.5	0.6
Austria	-4.0	-2.7	-2.6	-3.9	-4.4	-3.4	-3.1	-2.4	-2.7	-1.9	-4.1	-5.0	-5.1	-3.7	-1.9	-2.2	-2.1	-2.5	-2.2
Belgium	-11.5	-9.5	-9.0	-9.3	-7.6	-6.7	-6.1	-5.4	-6.2	-6.9	-7.2	-4.8	-3.9	-3.1	-1.9	-1.0	-1.0	-0.9	-0.9
Czech Republic	..	..	..	..	..	..	..	..	..	..	0.0	-1.9	-1.6	-1.9	-2.0	-2.4	-5.1	-5.4	-5.5
Denmark	..	..	..	..	..	1.5	0.3	-1.0	-2.4	-2.2	-2.9	-2.4	-2.3	-1.0	0.1	0.9	2.9	2.2	2.4
Finland	2.1	4.0	3.8	3.8	1.3	4.0	6.1	5.4	-1.1	-5.5	-7.1	-5.8	-4.4	-3.0	-1.6	1.4	3.0	4.4	5.1
Greece	-7.1	-8.4	-11.5	-10.3	-9.5	-11.5	-14.4	-16.1	-11.5	-12.8	-13.8	-10.0	-10.2	-7.4	-3.9	-2.5	-1.6	-1.6	-1.1
Hungary	..	..	..	..	..	..	..	..	..	..	-7.7	-7.4	-6.4	-3.0	-4.9	-4.6	-4.0	-4.0	-4.0
Iceland	..	..	..	..	-0.9	-2.0	-4.6	-3.3	-3.1	-2.8	-4.5	-4.7	-3.0	-1.7	0.0	0.9	1.3	1.6	1.7
Ireland	-10.9	-9.1	-10.4	-10.2	-8.2	-4.3	-1.7	-2.8	-2.9	-3.0	-2.7	-2.0	-2.5	-0.2	0.6	2.2	3.4	3.8	4.0
Korea	1.7	1.5	1.2	1.7	2.7	3.7	3.6	3.8	2.0	1.5	2.7	3.3	4.4	4.2	2.4	0.7	-0.1	0.4	0.8
Netherlands	-6.4	-6.2	-4.1	-5.7	-6.6	-5.1	-5.3	-5.7	-3.2	-4.4	-3.6	-4.2	-4.2	-1.8	-1.2	-0.8	-0.6	-0.2	-0.1
New Zealand	..	..	..	-6.5	-2.2	-4.8	-3.7	-4.7	-3.8	-3.3	-0.6	3.0	3.1	3.0	2.0	1.4	0.0	0.6	1.0
Norway	6.1	7.0	9.9	5.9	4.6	2.7	1.8	2.6	0.1	-1.7	-1.4	0.4	3.5	6.6	7.9	3.9	4.9	6.5	7.0
Poland	..	..	..	..	..	..	..	..	..	..	-4.5	-3.5	-2.8	-3.1	-2.9	-2.5	-3.0	-2.4	-2.3
Portugal	-10.0	-7.0	-7.3	-6.3	-5.5	-3.5	-2.4	-5.1	-6.0	-2.9	-6.1	-6.0	-5.7	-3.3	-2.5	-2.2	-1.8	-1.6	-1.4
Spain	-4.1	-4.3	-5.5	-5.9	-3.6	-3.2	-3.5	-4.1	-4.2	-3.9	-6.6	-6.0	-6.9	-5.0	-3.1	-2.3	-1.4	-1.1	-0.7
Sweden	-4.8	-2.8	-3.7	-1.2	4.1	3.4	5.2	4.0	-1.1	-7.5	-11.8	-11.0	-7.9	-3.6	-1.8	1.9	2.3	2.1	2.5
Total of above smaller countries	-3.9	-3.4	-3.5	-3.6	-2.3	-1.5	-1.4	-1.9	-2.8	-3.7	-4.3	-3.6	-3.1	-1.7	-1.0	-0.6	-0.5	-0.3	0.0
Total of above OECD countries	-4.8	-4.2	-4.1	-4.1	-3.2	-2.4	-1.8	-2.7	-3.3	-4.3	-4.8	-4.0	-3.8	-3.0	-1.7	-1.3	-1.2	-1.1	-0.8
Memorandum items																			
Total of above European Union countries	-5.0	-4.9	-4.8	-4.6	-4.1	-3.4	-2.6	-3.9	-4.3	-5.2	-6.3	-5.6	-5.4	-4.2	-2.5	-1.6	-1.1	-0.8	-0.5
Euro area	-5.0	-4.7	-4.6	-4.7	-4.4	-4.1	-3.1	-4.1	-4.4	-4.6	-5.5	-4.9	-4.9	-4.1	-2.6	-2.0	-1.6	-1.2	-0.8
General government financial balances excluding social security																			
United States	-5.6	-4.8	-5.3	-5.7	-4.8	-4.5	-4.2	-5.3	-5.9	-6.7	-5.7	-4.5	-3.9	-3.1	-1.9	-0.8	-0.4	-0.6	-0.6
Japan	-6.2	-4.6	-3.4	-3.9	-2.4	-1.6	-0.7	-0.6	-0.8	-2.0	-4.8	-5.1	-6.4	-6.9	-6.0	-8.5	-9.9	-10.1	-9.4

Note: Fiscal policy assumptions are based on announced measures and stated policy intentions, where they are embodied in well defined programmes. Detailed assumptions for individual countries are provided in the country notes. Further details can also be found in "Sources and Methods" (http://www.oecd.org/eco/out/source.htm).

a) The 1998 outlays would have risen by 5.4 percentage points of GDP if account were taken of the assumption by the central government of the debt of the Japan Railway Settlement Corporation and the National Forest Special Account.

b) Includes balances of the German Railways Fund from 1994 onwards and the Inherited Debt Fund from 1995 onwards.

Annex Table 31. **General government structural balances**

Surplus (+) or deficit (-) as a percentage of potential GDP

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	-4.4	-4.6	-5.0	-5.2	-4.3	-4.0	-3.8	-4.7	-5.1	-5.5	-4.5	-3.5	-2.8	-2.1	-1.2	-0.1	0.3	0.4	0.6
Japan	-3.3	-1.8	-0.5	-0.3	1.0	1.6	2.3	2.3	2.5	1.2	-1.5	-1.9	-3.1	-4.4	-3.6	-5.1	-6.7	-7.0	-6.3
Germany	-1.0	-0.9	-0.4	-0.8	-1.1	-2.0	-0.1	-3.3	-3.5	-3.3	-2.7	-2.2	-2.9	-2.6	-1.8	-1.1	-0.8	-0.6	-0.6
France	-2.7	-1.9	-1.8	-1.7	-0.8	-1.3	-1.6	-2.1	-2.4	-4.2	-4.9	-4.6	-4.7	-3.0	-1.9	-2.2	-1.8	-1.7	-1.4
Italy	-9.5	-10.3	-11.4	-10.9	-10.9	-11.4	-10.7	-11.7	-10.1	-8.9	-7.7	-8.0	-7.3	-5.8	-1.9	-1.6	-0.7	-0.3	-0.3
United Kingdom	..	..	..	..	-3.4	-2.2	-1.6	-3.1	-2.3	-4.9	-6.4	-6.4	-5.6	-4.3	-2.6	-0.5	0.3	0.3	0.3
Canada	-4.6	-5.5	-7.5	-6.1	-5.0	-4.8	-4.9	-5.0	-5.5	-5.6	-5.4	-4.7	-3.7	-1.0	1.1	1.1	1.6	1.6	1.5
Total of above countries	-4.1	-3.9	-4.0	-4.0	-3.2	-3.0	-2.5	-3.5	-3.5	-4.2	-4.2	-3.7	-3.6	-3.0	-1.8	-1.4	-1.2	-1.2	-0.9
Australia	-4.2	-4.9	-5.4	-4.0	-2.4	-0.8	-0.7	-1.4	-2.9	-5.1	-5.0	-4.5	-4.0	-2.5	-0.7	0.1	0.3	0.3	0.3
Austria	-3.8	-1.9	-2.0	-3.4	-3.9	-3.3	-3.6	-3.2	-3.4	-2.1	-3.6	-4.6	-4.7	-3.3	-1.7	-2.3	-2.2	-2.7	-2.5
Belgium	-10.3	-8.6	-7.5	-7.7	-6.3	-7.0	-7.1	-6.7	-7.2	-7.4	-5.1	-3.3	-2.9	-1.1	-0.7	-0.3	-0.2	-0.5	-0.7
Denmark	..	..	..	..	..	2.5	2.5	1.4	0.3	0.9	1.3	-1.3	-2.2	-1.2	-0.7	-0.2	2.9	2.8	3.2
Finland	2.6	4.5	4.0	4.2	0.9	2.3	2.8	3.6	2.0	0.5	0.1	-0.5	-0.8	-0.5	-0.8	0.7	2.8	3.9	4.6
Greece	-5.6	-7.4	-11.1	-10.1	-8.7	-12.0	-15.7	-16.4	-12.2	-12.9	-12.6	-8.8	-8.9	-6.4	-3.2	-2.1	-1.3	-1.5	-1.2
Ireland	-9.5	-8.4	-9.9	-8.2	-6.7	-3.7	-2.1	-4.6	-3.3	-2.5	-1.1	-0.4	-2.0	0.0	-0.3	1.0	1.8	2.0	2.6
Netherlands	-3.8	-5.3	-4.4	-6.1	-6.0	-4.1	-5.7	-7.2	-4.3	-4.9	-2.6	-4.0	-3.9	-1.8	-1.8	-1.8	-1.7	-1.1	-0.9
New Zealand	..	..	..	-7.8	-3.1	-4.6	-3.3	-3.4	-0.9	-0.1	0.8	2.7	2.5	2.3	1.6	2.4	0.9	1.1	1.1
Norway [a]	-1.1	-1.3	-0.9	1.0	0.2	0.9	0.8	-0.5	-3.3	-5.2	-6.1	-5.0	-1.8	-2.1	-1.8	-2.7	-1.8	-1.4	-1.3
Portugal	-9.9	-5.4	-5.7	-5.1	-5.2	-3.7	-3.1	-6.3	-7.0	-3.8	-5.6	-5.3	-5.1	-2.8	-2.2	-2.2	-1.8	-1.7	-1.5
Spain	-2.9	-3.4	-4.8	-5.5	-4.2	-4.5	-5.3	-6.0	-5.9	-4.8	-6.0	-5.4	-6.3	-4.2	-2.7	-2.4	-1.5	-1.3	-1.1
Sweden	..	-4.3	-5.6	-3.7	0.8	0.2	1.8	1.2	-1.9	-5.5	-6.4	-7.6	-6.4	-1.8	0.2	3.4	2.5	1.6	1.6
Total of above smaller countries	-4.5	-4.4	-5.0	-5.0	-3.9	-3.3	-3.6	-4.4	-4.4	-4.7	-4.7	-4.5	-4.4	-2.6	-1.5	-0.9	-0.4	-0.4	-0.2
Total of above OECD countries	-4.2	-4.0	-4.1	-4.1	-3.3	-3.1	-2.7	-3.6	-3.6	-4.3	-4.3	-3.8	-3.7	-3.0	-1.7	-1.3	-1.1	-1.1	-0.8
Memorandum items																			
Total of above European Union countries	-4.2	-4.1	-4.4	-4.5	-4.0	-4.0	-3.6	-5.0	-4.6	-5.0	-5.0	-4.8	-4.9	-3.5	-1.9	-1.3	-0.7	-0.6	-0.4
Euro area	-4.0	-3.8	-3.9	-4.1	-4.0	-4.3	-3.9	-5.3	-5.1	-4.9	-4.5	-4.2	-4.4	-3.3	-1.9	-1.6	-1.1	-0.9	-0.7

Note: Fiscal policy assumptions are based on announced measures and stated policy intentions, where they are embodied in well defined programmes. Details on the methodology used for estimating the structural component of the general government balances can be found in "Sources and Methods" (http://www.oecd.org/eco/out/source.htm).

a) As a percentage of mainland potential GDP. The financial balances shown exclude revenues from oil production.

Annex Table 32. **General government primary balances**

Surplus (+) or deficit (-) as a percentage of nominal GDP

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	-2.8	-1.6	-1.8	-2.0	-1.0	-0.3	0.2	-0.8	-1.3	-2.2	-1.4	-0.2	0.6	1.3	2.4	3.5	3.8	3.4	3.2
Japan [a, b]	-1.8	-0.1	1.0	0.7	2.0	2.7	3.6	3.7	3.4	2.1	-0.9	-2.3	-3.1	-3.5	-2.4	-4.8	-6.3	-6.5	-5.8
Germany	-0.3	0.4	1.1	1.0	0.4	0.2	2.2	-0.1	-1.0	0.0	-0.7	0.2	0.0	-0.3	0.5	1.3	1.5	1.8	2.4
France	-1.5	-1.0	-0.9	-0.7	0.2	0.3	0.9	0.7	0.2	-1.5	-3.0	-2.5	-2.4	-0.7	0.3	0.4	0.8	1.2	1.6
Italy	-3.6	-4.0	-5.1	-3.8	-3.8	-3.3	-1.6	-2.2	-0.4	1.4	2.1	1.4	3.0	3.5	6.2	4.8	4.6	4.8	4.7
United Kingdom	-0.2	-0.6	0.5	0.6	1.2	3.3	3.4	0.8	-0.7	-4.5	-5.8	-4.2	-2.8	-1.5	0.9	3.0	3.5	3.6	3.7
Canada	-3.9	-3.0	-3.3	-1.7	0.0	1.2	1.4	0.7	-2.0	-2.9	-2.7	-0.6	1.3	3.4	5.6	5.9	6.4	6.3	6.0
Total of above countries	-2.2	-1.3	-1.1	-1.1	-0.2	0.4	1.2	0.3	-0.2	-1.1	-1.5	-0.9	-0.4	0.2	1.5	1.7	1.7	1.5	1.6
Australia	-3.0	-2.4	-1.9	-0.7	1.2	2.7	3.0	1.4	-1.5	-3.1	-3.2	-1.1	-0.4	0.7	2.1	2.7	2.6	2.2	2.2
Austria	-1.8	0.0	0.2	-1.0	-1.4	-0.2	0.0	0.8	0.6	1.5	-0.5	-1.5	-1.5	0.0	1.6	1.3	1.4	0.9	1.1
Belgium	-3.0	-0.6	0.5	0.8	2.0	2.4	3.3	4.2	3.0	2.9	2.7	4.5	4.4	5.0	5.6	6.2	6.0	5.8	5.9
Denmark	..	..	..	..	..	5.8	4.3	2.7	1.5	0.9	0.6	0.8	0.8	1.8	2.9	3.3	4.9	4.0	4.2
Finland	1.1	3.1	2.8	2.7	0.4	3.1	4.9	3.7	-3.0	-7.5	-7.5	-4.7	-3.4	-1.4	0.4	3.2	4.5	5.5	5.9
Greece	-3.4	-3.8	-5.9	-4.4	-2.8	-4.2	-6.9	-6.1	-2.2	-1.3	-1.1	3.9	2.6	4.6	5.7	6.4	7.1	6.3	6.3
Iceland	..	..	..	..	-0.5	-0.8	-3.1	-1.4	-1.2	-0.9	-2.4	-2.5	-0.4	0.6	2.1	2.9	2.8	3.0	2.9
Ireland [a]	-5.0	-2.8	-3.4	-3.3	-1.2	2.3	4.6	3.4	2.8	2.2	2.1	2.6	1.7	3.0	3.8	4.6	5.3	5.2	5.2
Korea	1.8	1.7	1.3	1.8	2.8	3.7	3.4	3.4	1.6	1.0	2.3	2.9	4.1	3.6	1.8	-0.4	-0.4	0.1	0.6
Netherlands	-2.5	-2.0	0.3	-1.2	-2.0	-0.5	-1.2	-1.6	1.1	0.0	0.8	0.2	0.6	2.9	3.2	3.4	3.3	3.3	3.1
New Zealand [a]	..	..	..	-2.0	1.8	-1.5	0.2	-0.5	-0.8	-0.3	1.8	4.3	4.6	3.8	2.7	1.7	-0.1	0.5	0.7
Norway	5.8	6.0	8.7	4.2	2.8	-0.5	-1.3	-0.6	-3.1	-4.7	-3.9	-1.4	1.7	5.0	6.4	2.6	3.8	5.1	5.5
Portugal	-4.6	0.2	0.9	2.2	2.2	3.4	3.8	3.0	1.8	4.2	0.1	0.2	0.6	1.5	1.8	1.2	1.4	1.5	1.7
Spain	-4.6	-4.3	-4.8	-3.4	-0.5	-0.7	-0.3	-1.1	-1.6	-0.7	-3.0	-2.3	-2.4	-0.2	1.3	1.7	2.1	2.0	2.1
Sweden	-3.0	-0.5	-0.8	1.0	5.8	4.3	5.7	4.2	-1.0	-7.2	-10.8	-9.0	-5.2	-0.2	1.4	4.9	5.2	4.5	4.5
Total of above smaller countries	-1.9	-1.0	-0.8	-0.4	0.9	1.5	1.6	1.1	0.0	-0.6	-1.1	-0.1	0.5	1.9	2.5	2.4	2.6	2.6	2.8
Total of above OECD countries	-2.1	-1.2	-1.0	-1.0	-0.1	0.6	1.3	0.4	-0.2	-1.0	-1.4	-0.7	-0.2	0.5	1.7	1.8	1.8	1.7	1.8
Memorandum items																			
Total of above European Union countries	-1.9	-1.4	-1.2	-0.8	-0.3	0.3	1.2	0.0	-0.4	-0.8	-1.7	-1.0	-0.5	0.6	2.0	2.5	2.7	2.9	3.1
Euro area	-1.9	-1.3	-1.2	-0.9	-0.7	-0.4	0.8	-0.2	-0.3	0.0	-0.8	-0.4	-0.1	0.7	2.0	2.2	2.3	2.6	2.8

Note : For further details see "Sources and Methods" (http://www.oecd.org/eco/out/source.htm).

a) Where net interest payments are not available, net property income paid is used as a proxy.

b) The 1998 outlays would have risen by 5.4 percentage points of GDP if account were taken of the assumption by the central government of the debt of the Japan Railway Settlement Corporation and the National Forest Special Account.

Annex Table 33. **General government net debt interest payments**

As a percentage of nominal GDP

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	2.8	3.1	3.2	3.3	3.3	3.3	3.4	3.5	3.7	3.7	3.5	3.5	3.6	3.5	3.3	3.2	2.8	2.5	2.3
Japan [a,b]	1.9	2.0	1.9	1.7	1.5	1.2	1.1	0.8	0.5	0.7	0.7	0.0	0.6	0.7	1.0	1.2	1.3	1.4	1.5
Germany [c]	2.3	2.3	2.3	2.3	2.3	2.3	2.1	1.9	2.0	2.5	2.5	2.6	3.1	3.1	3.1	3.0	3.1	3.1	3.3
France	1.7	1.8	2.0	2.1	2.1	2.0	2.1	2.3	2.4	2.7	3.0	3.1	3.3	3.4	3.3	3.1	2.9	2.8	2.8
Italy	6.8	7.4	7.2	7.5	7.2	7.4	8.2	8.9	9.6	10.9	11.5	10.5	10.6	10.0	9.0	7.6	6.8	6.4	6.1
United Kingdom	3.1	3.4	3.4	3.2	3.1	2.7	2.4	2.3	2.1	2.0	2.2	2.6	3.0	2.8	2.9	2.8	2.8	2.8	2.8
Canada	2.9	3.5	4.0	4.1	4.2	4.3	4.7	5.3	5.1	5.1	4.9	5.0	5.6	5.2	4.9	5.0	4.8	4.7	4.5
Total of above countries	2.8	3.1	3.1	3.1	3.1	3.0	3.1	3.2	3.2	3.4	3.4	3.2	3.5	3.5	3.3	3.2	3.0	2.8	2.7
Australia	2.4	2.7	3.2	3.5	3.4	3.1	3.1	2.7	2.3	2.9	2.5	3.6	3.4	3.0	2.6	2.1	1.9	1.7	1.6
Austria	2.3	2.7	2.8	2.9	3.0	3.2	3.1	3.2	3.3	3.4	3.6	3.4	3.6	3.8	3.5	3.6	3.5	3.4	3.3
Belgium	8.5	8.9	9.5	10.1	9.6	9.2	9.4	9.6	9.2	9.8	9.9	9.3	8.3	8.0	7.4	7.2	7.0	6.8	6.8
Denmark	..	..	..	..	..	4.3	4.0	3.7	3.9	3.1	3.4	3.2	3.1	2.8	2.8	2.4	2.0	1.8	1.7
Finland	-1.0	-0.9	-0.9	-1.0	-0.9	-0.9	-1.2	-1.7	-1.9	-1.9	-0.3	1.1	0.9	1.6	2.0	1.8	1.4	1.1	0.8
Greece	3.5	4.3	5.0	5.4	6.7	7.4	7.5	10.0	9.3	11.5	12.6	13.9	12.7	12.0	9.6	8.9	8.6	7.9	7.3
Iceland	..	..	..	..	0.4	1.2	1.5	2.0	1.9	1.9	2.1	2.3	2.6	2.3	2.1	2.0	1.5	1.3	1.2
Ireland [a]	5.9	6.3	6.9	7.0	7.0	6.6	6.3	6.2	5.7	5.2	4.8	4.5	4.2	3.2	3.2	2.4	1.9	1.5	1.2
Korea	0.1	0.2	0.1	0.1	0.1	0.0	-0.2	-0.4	-0.5	-0.5	-0.4	-0.3	-0.3	-0.6	-0.6	-1.1	-0.3	-0.3	-0.2
Netherlands	3.9	4.2	4.4	4.4	4.7	4.6	4.1	4.1	4.3	4.4	4.4	4.4	4.7	4.7	4.4	4.2	3.9	3.6	3.3
New Zealand [a]	..	..	..	4.5	4.1	3.4	3.9	4.2	3.0	2.9	2.4	1.3	1.5	0.8	0.8	0.3	-0.1	-0.2	-0.4
Norway	-0.3	-1.0	-1.2	-1.7	-1.8	-3.2	-3.1	-3.1	-3.3	-2.9	-2.5	-1.9	-1.8	-1.6	-1.4	-1.4	-1.1	-1.4	-1.5
Portugal	5.4	7.2	8.2	8.5	7.7	6.9	6.2	8.1	7.9	7.2	6.2	6.2	6.3	4.8	4.3	3.4	3.2	3.1	3.1
Spain	-0.5	0.1	0.6	2.5	3.1	2.5	3.2	3.0	2.7	3.3	3.6	3.7	4.6	4.8	4.4	4.0	3.5	3.0	2.8
Sweden	1.8	2.3	2.9	2.2	1.7	0.9	0.5	0.1	0.1	0.2	1.0	1.9	2.7	3.3	3.1	3.0	2.9	2.4	2.0
Total of above smaller countries	2.0	2.4	2.7	3.2	3.3	3.0	3.0	3.0	2.8	3.1	3.2	3.5	3.6	3.5	3.1	2.7	2.7	2.4	2.3
Total of above OECD countries	2.7	2.9	3.1	3.1	3.1	3.0	3.1	3.1	3.2	3.3	3.4	3.3	3.5	3.5	3.3	3.1	2.9	2.7	2.6
Memorandum items																			
Total of above European Union countries	3.2	3.5	3.6	3.8	3.8	3.7	3.8	3.9	3.9	4.4	4.6	4.6	4.9	4.8	4.5	4.1	3.9	3.7	3.6
Euro area	3.1	3.3	3.4	3.7	3.7	3.7	3.9	4.0	4.1	4.6	4.7	4.6	4.8	4.8	4.6	4.2	3.9	3.7	3.7

Note : For further details see "Sources and Methods" (http://www.oecd.org/eco/out/source.htm).

a) Where net interest payments are not available, net property income paid is used as a proxy.

b) Includes interest payments on the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

c) Includes interest payments of the German Railways Fund from 1994 onwards and the Inherited Debt Fund from 1995 onwards.

Annex Table 34. **General government gross financial liabilities**

As a percentage of nominal GDP

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections		
																	1999	2000	2001
United States	46.9	48.6	53.5	56.9	58.3	59.0	59.3	60.9	65.5	68.1	69.7	68.9	68.3	67.7	65.4	62.4	59.3	57.1	55.2
Japan [b]	61.7	62.6	64.2	66.7	68.9	65.5	62.6	61.4	58.2	59.8	63.0	69.4	76.0	80.6	84.7	97.3 [a]	105.4	114.1	122.1
Germany [c]	39.1	40.6	41.6	41.5	42.2	42.2	39.9	42.0	40.1	43.4	49.0	49.2	59.1	61.9	62.8	63.3	62.6	61.7	60.2
France	34.7	36.5	37.9	38.8	40.1	40.0	39.9	39.5	40.3	44.7	51.6	55.3	59.4	62.3	64.5	64.9 [a]	65.2	64.6	63.4
Italy	70.0	75.3	82.1	86.2	90.3	92.5	95.3	103.7	107.4	116.1	117.9	124.0	123.1	122.2	120.4 [a]	118.2	117.7	115.2	112.3
United Kingdom	53.9	60.8	59.4	58.6	56.3	49.9	43.2	39.1	40.1	46.9	56.2	53.7	58.9	58.5	58.9	56.4 [a]	54.0	51.2	48.6
Canada	57.8	60.0	66.3	69.6	70.7	70.5	71.1	73.5	80.9	88.2	96.8	98.0	99.2	98.9	94.1	91.7 [a]	86.9	82.5	78.5
Total of above countries	50.5	52.7	56.1	58.6	60.0	59.4	58.5	59.7	61.5	65.0	68.6	70.0	72.6	73.6	73.3	73.8	73.4	73.2	73.0
Australia	..	..	..	..	..	25.8	23.8	22.6	23.8	28.1	31.4	41.0	42.2	40.2	38.6	33.4	31.3	27.7	26.6
Austria	45.2	47.7	49.8	54.3	58.2	59.5	58.7	57.9	58.1	58.0	62.7	65.4	69.4	69.7	64.3	63.3	63.3	63.2	63.0
Belgium	110.5	114.8	118.8	123.8	128.2	128.3	124.7	125.2	126.9	128.3	134.9	132.8	129.8	126.5	121.2	116.2	114.1	111.0	107.7
Denmark	76.2	77.5	74.9	71.8	68.6	66.7	65.0	65.8	66.7	70.6	83.8	77.7	73.9	68.0	64.5	59.6 [a]	55.4	51.6	47.8
Finland	..	..	..	..	..	..	..	14.5	23.0	41.5	58.0	59.6	58.1	57.6	55.0	49.7	44.9	40.6	36.0
Greece	33.6	40.3	47.2	47.8	52.6	62.7	65.7	89.0	91.2	97.5	110.2	107.9	108.7	111.3	108.6	105.4	103.8	103.0	102.5
Iceland	31.3	33.3	33.1	30.6	28.3	31.7	37.4	37.0	39.1	46.9	53.7	56.6	59.6	56.8	52.1	44.9 [a]	39.8	36.0	32.5
Ireland	92.7	96.8	99.7	110.8	112.1	108.5	99.1	92.6	92.4	90.0	94.0	88.1	80.8	71.1	62.3	52.6	43.9	35.7	28.5
Korea	17.8	16.7	16.3	14.4	12.6	9.8	9.1	8.2	7.2	6.9	5.9	6.1	6.3	6.3	9.2	9.9 [a]	13.7	17.0	19.5
Netherlands	60.2	64.2	68.7	70.6	73.1	76.0	76.0	75.6	75.7	76.4	77.6	74.0	75.5	73.8	68.4	65.0	62.9	60.6	58.3
Norway	31.6	31.9	34.6	43.0	36.0	35.1	35.4	32.4	30.3	36.1	45.1	43.5	41.1	35.2	31.7	33.7 [a]	34.3	33.2	30.4
Portugal	48.5	54.0	57.0	66.8	64.3	65.0	63.3	65.3	67.3	59.9	63.1	63.8	65.9	65.0	62.1	57.7 [a]	56.6	55.4	53.9
Spain	37.4	43.7	48.6	49.4	48.6	45.0	46.5	48.5	49.6	52.1	63.4	65.5	68.4	72.2	70.9	70.3 [a]	70.4	70.6	68.6
Sweden	63.6	64.9	64.6	64.1	57.2	51.5	46.9	42.9	51.6	68.9	74.0	78.3	77.2	74.6	74.4	73.7 [a]	68.3	64.4	59.6
Total of above smaller countries	47.1	50.2	52.7	54.3	53.9	49.5	48.6	48.2	49.4	52.3	57.8	58.9	59.5	58.8	57.0	54.8	54.0	53.0	51.6
Total of above OECD countries	50.0	52.3	55.6	58.0	59.1	57.8	56.9	57.8	59.5	63.0	66.8	68.2	70.5	71.2	70.6	70.7	70.2	69.9	69.5
Memorandum items																			
Total of above European Union countries	50.9	54.7	57.1	58.4	59.2	58.4	57.1	58.1	58.7	63.6	70.0	71.2	75.1	76.0	75.5	74.1	73.1	71.4	69.3
Euro area	47.4	50.5	53.4	55.2	56.6	57.3	57.1	59.6	60.1	64.0	68.5	70.2	74.2	76.7	76.6	75.6	74.8	73.4	71.4

Note: For further details see "Sources and Methods" (http://www.oecd.org/eco/out/source.htm).

a) OECD estimates starting from this year.

b) Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

c) Includes the debt of the German Railways Fund from 1994 onwards and the Inherited Debt Fund from 1995 onwards.

Annex Table 35. **General government net financial liabilities**

As a percentage of nominal GDP

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	32.0	33.3	36.4	39.8	41.7	42.8	43.0	44.1	47.7	51.2	53.1	53.7	53.1	52.7	50.8	47.5	43.9	41.7	39.8
Japan [b]	26.0	27.0	26.5	25.5	21.2	18.0	14.8	9.5	4.8	4.2	5.2	7.7	13.0	16.4	17.9	29.8[a]	37.2	44.8	51.6
Germany [c]	17.1	18.7	18.7	19.0	20.4	20.7	18.0	17.8	18.4	24.6	32.5	37.8	42.1	44.9	45.9	46.6	47.1	46.7	45.8
France	4.5	7.4	10.6	13.7	12.8	13.9	14.6	16.1	16.3	18.4	26.6	29.4	36.0	41.5	41.3	42.3[a]	43.2	43.2	42.7
Italy	67.2	72.8	79.8	84.0	88.3	90.6	93.5	83.7	88.6	97.3	105.4	110.7	108.7	109.1	107.6[a]	105.9	105.5	103.0	100.1
United Kingdom	37.4	30.3	30.9	31.3	29.6	23.9	19.2	18.6	18.9	25.9	35.2	35.2	41.0	42.6	44.2	41.9[a]	39.7	36.9	34.3
Canada	23.8	27.4	35.3	38.4	38.0	38.2	39.8	42.4	47.8	56.0	63.3	66.8	67.8	68.8	65.1	62.6[a]	57.9	53.5	49.5
Total of above countries	29.9	31.1	33.6	35.7	36.1	35.9	35.2	34.2	35.5	39.2	43.3	45.3	47.3	48.6	47.9	48.3	47.7	47.5	47.2
Australia	..	..	..	..	..	15.3	11.3	10.7	11.6	16.1	22.0	26.4	26.8	21.8	21.7	16.6	11.8	8.3	7.2
Austria	27.3	28.8	30.5	33.7	36.7	38.9	38.5	38.4	38.1	39.4	44.3	45.4	49.8	50.6	45.1[a]	44.0	44.8	45.4	45.9
Belgium	102.1	106.0	108.8	114.0	118.1	118.4	115.3	115.5	116.6	118.5	124.9	124.0	123.0	120.4	115.9	112.9[a]	110.7	107.7	104.4
Denmark	45.6	48.8	45.3	37.9	33.7	35.4	33.2	33.0	37.5	41.2	45.2	45.8	46.2	42.4	38.5	35.8[a]	31.7	28.1	24.4
Finland	-26.2	-26.0	-27.2	-28.2	-27.9	-29.4	-33.4	-35.7	-34.3	-25.7	-17.5	-15.4	-9.9[a]	-6.5	-4.4	-5.5	-8.3	-12.2	-16.6
Iceland	5.8	5.8	6.1	9.0	8.4	10.0	18.0	19.5	20.2	27.0	35.0	38.3	40.0	39.8	36.5	32.1[a]	27.8	24.0	20.5
Korea	-4.4	-5.3	-6.5	-8.1	-10.2	-13.6	-16.3	-17.2	-15.9	-15.3	-15.5	-15.2	-18.0	-19.4	-22.5	-23.3[a]	-21.4	-20.0	-19.2
Netherlands	34.5	37.8	40.6	43.7	27.1	30.9	34.5	35.4	36.2	39.6	40.6	41.9	53.2	53.7	55.4	54.0	51.9	49.6	47.3
Norway	-26.6	-30.1	-36.9	-41.4	-42.8	-43.0	-42.2	-42.0	-38.3	-35.9	-32.1	-30.8	-32.8	-36.7	-43.3	-46.5[a]	-48.5	-51.2	-56.5
Spain	19.4	23.1	25.9	29.1	29.7	30.4	30.4	31.5	33.0	35.2	42.2	46.4	50.4	52.6	52.1	51.3[a]	49.8	48.0	46.0
Sweden	10.5	13.3	13.9	12.5	6.4	0.2	-6.0	-7.8	-5.0	4.6	10.7	21.1	22.8	19.5	18.3	15.7[a]	12.7	10.0	7.0
Total of above smaller countries	20.4	22.1	22.8	23.6	20.9	19.8	18.2	18.1	19.5	22.5	26.7	29.2	31.2	30.2	28.4	26.5	25.0	23.4	21.9
Total of above OECD countries	28.7	30.0	32.2	34.1	34.1	33.5	32.6	31.8	33.1	36.7	40.8	42.9	44.9	45.8	45.0	45.1	44.4	43.9	43.4
Memorandum items																			
Total of above European Union countries	30.6	32.0	34.4	36.3	36.2	36.1	35.1	33.6	34.6	40.0	47.6	51.0	54.9	56.9	56.8	56.2	55.6	54.1	52.3
Euro area	27.1	30.3	33.0	35.7	36.3	37.6	37.8	36.3	37.7	42.4	48.6	52.2	55.4	59.1	59.2	59.0	58.8	57.7	56.2

Note: For further details see "Sources and Methods" (http://www.oecd.org/eco/out/source.htm).

a) OECD estimates starting from this year.

b) Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

c) Includes the debt of the German Railways Fund from 1994 onwards and the Inherited Debt Fund from 1995 onwards.

Annex Table 36. **Short-term interest rates**[a]

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	10.6	8.6	9.5	7.5	6.0	5.8	6.7	8.1	7.5	5.4	3.4	3.0	4.2	5.5	5.0	5.1	4.8	4.6	5.7	6.1
Japan	7.0	6.7	6.5	6.6	5.2	4.2	4.5	5.4	7.7	7.4	4.5	3.0	2.2	1.2	0.6	0.6	0.7	0.3	0.3	0.8
Germany	8.9	5.8	6.0	5.4	4.6	4.0	4.3	7.1	8.5	9.2	9.5	7.3	5.4	4.5	3.3	3.3	3.5	2.9	3.3	4.3
France	14.6	12.5	11.7	9.9	7.7	8.3	7.9	9.4	10.3	9.6	10.3	8.6	5.8	6.6	3.9	3.5	3.6	2.9	3.3	4.3
Italy	19.9	18.3	17.3	15.2	13.4	11.3	10.8	12.6	12.2	12.2	14.0	10.2	8.5	10.5	8.8	6.9	5.0	2.9	3.3	4.3
United Kingdom	12.3	10.1	9.9	12.2	10.9	9.7	10.3	13.9	14.8	11.5	9.6	5.9	5.5	6.7	6.0	6.8	7.3	5.4	6.4	6.8
Canada	14.1	8.3	10.0	8.6	8.1	7.8	9.5	12.1	12.7	8.8	6.6	5.0	5.5	7.1	4.4	3.5	5.0	4.9	5.4	5.8
Australia	16.6	12.1	12.2	16.2	16.4	13.5	12.9	17.7	14.4	10.2	6.5	5.2	5.7	7.7	7.2	5.4	5.0	4.9	5.6	5.8
Austria	8.8	5.4	6.5	6.2	5.3	4.3	4.6	7.5	9.0	9.5	9.5	7.0	5.1	4.6	3.4	3.5	3.6	2.9	3.3	4.3
Belgium	14.0	10.4	11.4	9.5	8.1	7.1	6.7	8.8	9.6	9.4	9.4	8.2	5.7	4.8	3.2	3.4	3.6	2.9	3.3	4.3
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	13.1	9.1	10.9	12.0	15.9	14.3	6.9	6.7	7.7
Denmark	16.8	12.7	11.7	10.2	9.1	10.1	8.5	9.8	10.8	9.7	11.5	10.3	6.2	6.0	3.9	3.7	4.1	3.3	3.7	4.8
Finland	11.8	14.6	16.5	13.5	12.7	10.0	10.0	12.6	14.0	13.1	13.3	7.8	5.4	5.8	3.6	3.2	3.6	2.9	3.3	4.3
Greece	15.3	15.3	17.8	18.4	18.5	19.0	19.2	19.0	23.0	23.3	21.7	21.3	19.3	15.5	12.8	10.4	11.6	8.6	5.8	4.3
Hungary	..	..	..	..	..	..	..	..	..	..	..	17.2	26.9	32.0	24.0	20.1	18.0	13.9	12.9	12.9
Iceland	47.6	51.0	28.4	35.0	23.8	25.6	31.0	27.9	14.8	14.6	10.5	8.8	4.9	7.0	7.0	7.1	7.4	8.5	10.5	11.5
Ireland	16.3	13.2	13.2	11.9	12.5	10.8	8.0	10.0	11.3	10.4	14.3	9.1	5.9	6.2	5.4	6.1	5.4	2.9	3.3	4.3
Korea	..	..	..	..	..	..	..	..	..	18.3	16.4	13.0	13.3	14.1	12.7	13.4	15.2	6.7	7.3	8.0
Mexico	45.7	59.5	49.7	63.7	90.5	102.8	62.1	44.8	35.0	19.8	15.9	15.5	14.5	47.8	32.9	21.3	26.1	22.5	18.0	14.2
Netherlands	8.4	5.6	6.1	6.3	5.7	5.4	4.8	7.4	8.7	9.3	9.4	6.9	5.2	4.4	3.0	3.3	3.5	2.9	3.3	4.3
New Zealand	17.0	13.1	15.0	23.3	19.1	21.1	15.4	13.5	13.9	10.0	6.7	6.3	6.7	9.0	9.3	7.7	7.4	4.8	5.1	5.4
Norway	15.4	13.3	13.0	12.5	14.4	14.7	13.5	11.4	11.5	10.6	11.8	7.3	5.9	5.5	4.9	3.7	5.8	6.5	5.0	4.9
Poland	..	..	..	..	..	..	..	..	..	..	..	33.2	28.8	25.6	20.3	21.6	19.1	12.7	12.5	11.3
Portugal	18.5	22.7	24.9	22.4	15.6	13.9	13.0	14.9	16.9	17.7	16.1	12.5	11.1	9.8	7.4	5.7	4.3	2.9	3.3	4.3
Spain	16.3	20.0	14.9	12.2	11.7	15.8	11.7	15.0	15.2	13.2	13.3	11.7	8.0	9.4	7.5	5.4	4.2	2.9	3.3	4.3
Sweden	13.3	11.4	11.9	14.2	9.8	9.4	10.1	11.5	13.7	11.6	12.9	8.4	7.4	8.7	5.8	4.1	4.2	3.2	3.5	4.5
Switzerland	5.1	4.1	4.3	4.9	4.2	3.8	3.1	6.9	8.8	8.1	7.8	4.8	4.0	3.0	1.9	1.6	1.4	1.1	1.5	2.4
Turkey	..	..	..	..	..	39.8	60.6	40.7	51.9	72.7	65.4	62.8	136.5	72.3	76.2	100.0	111.3	97.0	70.0	36.0
Euro area	13.3	11.6	11.0	9.7	8.3	8.0	7.5	9.8	10.7	10.6	11.2	8.7	6.3	6.5	4.7	4.2	3.9	2.9	3.3	4.3

a) For sources and detailed definitions see "Sources and Methods".

Annex Table 37. **Long-term interest rates**[a]

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	13.0	11.1	12.4	10.6	7.7	8.4	8.8	8.5	8.6	7.9	7.0	5.9	7.1	6.6	6.4	6.4	5.3	5.6	6.6	6.4
Japan	8.3	7.8	7.3	6.5	5.1	5.0	4.8	5.1	7.0	6.3	5.3	4.3	4.4	3.4	3.1	2.4	1.5	1.8	2.2	2.6
Germany	9.1	8.2	8.1	7.2	6.3	6.4	6.6	7.1	8.7	8.5	7.9	6.5	6.9	6.9	6.2	5.7	4.6	4.5	5.6	5.8
France	16.0	14.4	13.4	11.9	9.1	10.2	9.2	9.2	10.3	9.0	8.6	6.8	7.2	7.5	6.3	5.6	4.7	4.6	5.7	5.9
Italy	20.2	18.3	15.6	13.7	11.5	10.6	10.9	12.8	13.5	13.3	13.3	11.2	10.5	12.2	9.4	6.9	4.9	4.7	5.8	5.9
United Kingdom	13.1	11.3	11.1	11.0	10.1	9.6	9.7	10.2	11.8	10.1	9.1	7.5	8.2	8.2	7.8	7.0	5.5	5.1	6.3	6.1
Canada	14.4	11.8	12.7	11.1	9.5	9.9	10.2	9.9	10.8	9.8	8.8	7.9	8.6	8.4	7.5	6.5	5.5	5.6	6.4	6.1
Australia	15.4	13.9	13.5	14.0	13.4	13.2	12.1	13.4	13.2	10.7	9.2	7.3	9.0	9.2	8.2	6.9	5.5	6.1	7.1	6.9
Austria	9.9	8.2	8.0	7.8	7.3	6.9	6.7	7.1	8.7	8.5	8.1	6.7	7.0	7.1	6.3	5.7	4.7	4.6	5.6	5.8
Belgium	13.4	11.9	12.2	11.0	8.6	8.2	8.0	8.6	10.1	9.3	8.7	7.2	7.7	7.4	6.3	5.6	4.7	4.7	5.8	5.9
Denmark	21.4	15.1	14.5	11.6	10.1	11.3	9.6	9.8	10.6	9.3	8.9	7.2	7.9	8.3	7.1	6.2	4.9	4.9	6.1	6.2
Finland	11.0	10.8	11.1	10.7	8.9	7.9	10.3	12.1	13.2	11.9	12.1	8.8	9.0	8.8	7.1	6.0	4.8	4.7	5.8	6.0
Iceland	45.4	48.8	23.0	32.5	19.6	27.9	33.2	29.5	16.4	17.7	13.1	14.3	10.6	11.6	12.4	12.9	12.8	13.8	15.6	16.0
Ireland	..	..	..	12.8	11.2	11.3	9.4	9.2	10.3	9.4	9.3	7.6	8.0	8.2	7.2	6.3	4.7	4.7	5.8	5.9
Korea	..	13.8	14.3	13.9	11.9	12.4	13.0	14.2	15.1	16.5	15.1	12.1	12.3	12.4	10.9	11.8	12.8	8.5	10.1	10.7
Mexico	..	..	..	63.7	90.5	102.8	62.1	44.8	34.8	19.7	16.1	15.5	13.8	39.8	34.4	22.5	24.8	23.0	18.0	14.2
Netherlands	9.9	8.2	8.1	7.3	6.3	6.4	6.4	7.2	8.9	8.7	8.1	6.4	6.9	6.9	6.2	5.6	4.6	4.6	5.7	5.9
New Zealand	12.9	12.2	12.6	17.6	16.7	15.7	13.1	12.8	12.5	9.9	8.4	6.9	7.7	7.7	7.9	7.1	6.3	6.3	7.2	6.9
Norway	13.2	12.9	12.2	12.6	13.3	13.3	12.9	10.8	10.7	10.0	9.6	6.9	7.4	7.4	6.8	5.9	5.4	5.3	6.3	6.3
Poland	..	..	..	..	..	..	..	..	..	..	..	..	28.5	22.9	18.3	19.0	16.4	14.5	13.8	12.3
Portugal	..	..	..	..	..	..	..	..	..	..	..	..	10.4	11.5	8.6	6.4	4.9	4.9	6.0	6.2
Spain	16.0	16.9	16.5	13.4	11.4	12.8	11.7	13.8	14.6	12.8	11.7	10.2	10.0	11.3	8.7	6.4	4.8	4.7	5.8	6.0
Sweden	13.3	12.6	12.5	13.2	10.5	11.7	11.4	11.2	13.2	10.7	10.0	8.5	9.5	10.2	8.0	6.6	5.0	4.9	6.0	6.2
Switzerland	4.6	4.2	4.6	4.7	4.2	4.0	4.0	5.2	6.4	6.2	6.4	4.6	5.0	4.5	4.0	3.4	2.8	2.9	4.0	4.1
Turkey	..	..	..	..	55.0	47.0	62.4	58.3	51.9	71.9	75.4	85.1	189.4	126.9	111.6	122.3	113.5	105.0	77.0	41.0
Euro area	..	..	..	10.6	8.8	9.0	8.8	9.7	11.0	10.3	9.8	8.0	8.0	8.4	7.0	5.9	4.7	4.6	5.7	5.8

a) For sources and detailed definitions, see "Sources and Methods".

Annex Table 38. **Nominal exchange rates (vis-à-vis the US dollar)**

Average of daily rates

	Monetary unit	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and assumptions[a] 1999	2000	2001
United States	**Dollar**	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Japan	**Yen**	144.6	128.1	138.0	144.8	134.5	126.7	111.2	102.2	94.1	108.8	121.0	130.9	114.3	106.0	106.0
Germany	**Deutschemark**	1.797	1.756	1.880	1.616	1.659	1.562	1.653	1.623	1.433	1.505	1.734	1.759	1.822	1.833	1.833
France	**Franc**	6.009	5.957	6.380	5.446	5.641	5.294	5.662	5.552	4.991	5.116	5.837	5.899	6.110	6.147	6.147
Italy	**Lira**	1 297	1 302	1 372	1 198	1 241	1 232	1 572	1 613	1 629	1 543	1 703	1 736	1 804	1 814	1 814
United Kingdom	**Pound**	0.612	0.562	0.611	0.563	0.567	0.570	0.666	0.653	0.634	0.641	0.611	0.604	0.616	0.601	0.601
Canada	**Dollar**	1.326	1.231	1.184	1.167	1.146	1.209	1.290	1.366	1.372	1.364	1.385	1.483	1.486	1.472	1.472
Australia	**Dollar**	1.429	1.281	1.265	1.282	1.284	1.362	1.473	1.369	1.350	1.277	1.348	1.592	1.545	1.537	1.537
Austria	**Schilling**	12.64	12.34	13.23	11.37	11.67	10.99	11.63	11.42	10.08	10.58	12.20	12.38	12.82	12.89	12.89
Belgium-Luxembourg	**Franc**	37.34	36.77	39.40	33.42	34.16	32.15	34.55	33.46	29.50	30.98	35.76	36.30	37.58	37.80	37.80
Czech Republic	**Koruny**	..	..	..	..	29.47	28.26	29.15	28.79	26.54	27.15	31.70	32.28	34.42	34.38	34.38
Denmark	**Krone**	6.838	6.730	7.310	6.186	6.393	6.038	6.482	6.360	5.604	5.798	6.604	6.696	6.925	6.955	6.955
Finland	**Markka**	4.396	4.186	4.288	3.823	4.043	4.486	5.721	5.223	4.367	4.592	5.187	5.345	5.538	5.571	5.571
Greece	**Drachma**	135.2	141.7	162.1	158.2	182.1	190.5	229.1	242.2	231.6	240.7	272.9	295.3	303.4	308.9	308.9
Hungary	**Forint**	..	..	..	..	74.8	79.0	91.9	105.1	125.7	152.6	186.6	214.3	236.0	247.6	251.0
Iceland	**Krona**	38.68	43.05	57.11	58.38	59.10	57.62	67.64	69.99	64.77	66.69	70.97	71.17	72.19	70.72	70.72
Ireland	**Pound**	0.672	0.657	0.706	0.605	0.622	0.588	0.683	0.670	0.624	0.625	0.660	0.703	0.733	0.737	0.737
Korea	**Won**	825.0	730.0	669.2	708.0	733.2	780.0	802.4	804.3	771.4	804.4	950.5	1 400.5	1 190.3	1 204.8	1 204.8
Mexico	**Peso**	1.418	2.281	2.495	2.841	3.022	3.095	3.115	3.389	6.421	7.601	7.924	9.153	9.588	9.615	9.615
Netherlands	**Guilder**	2.026	1.977	2.121	1.821	1.870	1.759	1.857	1.820	1.605	1.686	1.951	1.985	2.053	2.065	2.065
New Zealand	**Dollar**	1.695	1.529	1.674	1.678	1.729	1.860	1.851	1.687	1.524	1.454	1.513	1.869	1.889	1.946	1.946
Norway	**Krone**	6.737	6.517	6.903	6.258	6.484	6.214	7.094	7.057	6.337	6.457	7.072	7.545	7.758	7.737	7.737
Poland	**Zloty**	..	..	..	..	1.058	1.363	1.814	2.273	2.425	2.696	3.277	3.492	3.954	4.243	4.372
Portugal	**Escudo**	140.8	143.9	157.1	142.3	144.4	134.8	160.7	166.0	149.9	154.2	175.2	180.1	186.7	187.9	187.9
Spain	**Peseta**	123.5	116.5	118.4	101.9	103.9	102.4	127.2	134.0	124.7	126.7	146.4	149.4	155.0	155.9	155.9
Sweden	**Krona**	6.340	6.129	6.446	5.918	6.045	5.823	7.785	7.716	7.134	6.707	7.635	7.947	8.213	8.130	8.130
Switzerland	**Franc**	1.491	1.463	1.635	1.389	1.434	1.406	1.477	1.367	1.182	1.236	1.450	1.450	1.490	1.497	1.497
Turkey	**Lira**	855	1 421	2 120	2 606	4 169	6 861	10 964	29 778	45 738	81 281	151 595	260 473	420 944	605 013	705 765
Euro zone	€	..	..	..	..	..	..	..	..	..	..	..	..	0.932	0.937	0.937
	SDR	0.774	0.742	0.780	0.738	0.731	0.710	0.716	0.699	0.659	0.689	0.726	0.737	0.729	0.717	0.717

a) On the technical assumption that exchange rates remain at their levels of 25 October 1999, except for Hungary, Poland and Turkey where exchange rates vary according to official exchange policy.

Annex Table 39. **Effective exchange rates**[a]

Indices 1995 = 100, average of daily rates

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and assumptions[b] 1999	2000	2001
United States	80.1	75.2	73.8	79.1	82.8	84.6	86.1	91.4	97.6	100.0	105.4	112.9	124.9	124.0	122.5	122.5
Japan	44.9	49.8	55.8	54.3	53.0	59.2	64.2	79.4	93.3	100.0	87.2	83.1	85.9	98.2	105.4	105.5
Germany	66.7	71.5	72.2	72.6	78.6	79.1	83.0	87.6	92.5	100.0	98.7	95.0	98.6	98.5	98.3	98.6
France	80.4	81.0	80.1	80.1	85.8	85.0	88.6	92.2	95.6	100.0	100.3	97.0	99.7	98.9	98.5	98.6
Italy	111.7	112.7	111.6	115.7	122.7	123.3	122.1	106.0	107.2	100.0	110.1	111.4	114.0	114.3	114.1	114.4
United Kingdom	104.2	103.1	110.3	108.0	108.8	110.7	108.0	100.0	103.3	100.0	102.2	118.8	126.7	127.0	130.3	130.4
Canada	93.1	95.3	102.6	109.9	112.7	115.7	109.8	104.7	100.4	100.0	102.1	102.6	98.2	97.8	98.4	98.4
Australia	96.3	92.0	99.4	106.8	106.4	106.8	100.0	95.2	103.1	100.0	109.2	110.4	102.7	103.1	102.3	102.4
Austria	81.4	84.2	84.4	84.3	87.7	87.8	89.9	92.4	95.1	100.0	99.0	97.0	99.1	99.7	99.7	99.8
Belgium-Luxembourg	76.0	79.3	79.0	79.3	84.7	85.3	88.0	90.1	94.3	100.0	98.4	94.1	96.3	96.0	95.5	95.6
Czech Republic	..	..	..	..	..	..	91.3	95.6	98.6	100.0	101.8	98.8	100.6	99.5	100.3	100.5
Denmark	79.5	82.3	81.4	80.0	86.3	85.8	88.4	92.5	95.0	100.0	99.1	96.6	99.2	98.8	98.4	98.6
Finland	90.8	91.9	93.7	98.0	101.5	98.4	86.4	77.1	87.5	100.0	97.6	95.4	98.1	100.1	99.4	99.5
Greece	176.4	158.0	148.0	139.4	131.3	118.1	111.0	103.3	100.0	100.0	98.6	96.9	94.3	95.7	94.5	94.7
Hungary	..	..	..	..	..	..	131.0	134.3	124.3	100.0	85.2	78.6	71.3	68.7	65.8	65.0
Iceland	173.8	168.9	153.6	124.7	111.0	111.8	111.2	104.4	99.8	100.0	99.6	102.3	105.5	106.5	108.3	108.3
Ireland	94.0	93.4	91.6	91.0	98.7	97.4	101.7	96.4	98.0	100.0	102.5	102.4	99.8	96.8	95.3	95.4
Korea	92.5	89.9	96.5	111.5	108.3	104.6	97.5	96.8	99.0	100.0	101.0	93.0	66.9	76.5	74.2	74.2
Mexico	837.8	370.2	217.5	209.6	190.5	184.3	185.6	195.6	189.9	100.0	84.8	83.2	74.1	70.3	69.9	69.9
Netherlands	72.7	76.8	77.4	77.8	83.5	83.8	87.0	90.7	94.2	100.0	98.5	93.6	96.6	96.4	95.8	95.9
New Zealand	89.8	93.0	96.8	92.0	91.7	88.9	82.7	86.7	93.9	100.0	106.9	109.4	97.3	93.7	89.6	89.6
Norway	97.1	93.6	94.0	94.6	95.9	94.7	96.5	95.0	96.0	100.0	100.0	100.5	97.9	97.8	97.8	97.8
Poland	..	..	..	..	..	..	154.4	141.0	114.1	100.0	92.8	85.7	83.9	76.7	71.7	69.7
Portugal	104.5	96.3	93.0	92.4	93.5	95.8	101.1	97.5	96.9	100.0	99.7	98.3	98.2	97.8	97.4	97.5
Spain	99.1	98.7	102.9	108.9	116.0	117.1	115.9	103.4	99.3	100.0	101.1	96.8	98.3	97.5	97.1	97.2
Sweden	113.2	112.0	112.9	114.7	115.0	115.8	118.5	97.5	99.3	100.0	110.1	106.4	106.1	105.8	106.9	107.0
Switzerland	74.2	78.3	78.3	75.1	81.4	80.9	80.4	84.1	92.3	100.0	98.6	92.8	96.9	97.7	97.4	97.5
Turkey	6 513.7	4 498.9	2 706.7	1 939.1	1 491.8	980.8	585.5	415.3	171.3	100.0	58.7	34.8	21.0	14.0	9.6	8.2
Euro area	61.9	67.3	67.4	69.4	82.1	82.4	88.0	86.6	92.7	100.0	102.7	96.2	102.0	101.2	100.3	100.7

a) For the details on the method of calculation, see the section exchange rates and competitiveness indicators in "Sources and Methods".

b) On the technical assumption that exchange rates remain at their levels of 25 October 1999, except for Hungary, Poland and Turkey where exchange rates vary according to official exchange policy.

Annex Table 40. **Export volumes**

Total goods, customs basis, percentage changes from previous period

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States [a]	-9.1	-2.9	7.9	3.6	5.1	11.0	18.8	12.5	8.3	7.0	7.0	3.4	9.9	12.5	9.7	15.4	2.2	4.0	7.7	7.8
Japan	-2.3	8.5	15.8	5.0	-0.5	0.4	4.4	4.5	5.5	2.5	1.5	-2.1	1.7	4.4	0.7	11.8	-1.2	1.1	5.2	3.9
Germany	3.3	-0.3	9.1	5.9	1.3	2.9	6.6	8.1	1.4	1.4	0.8	-6.3	9.0	6.7	7.1	8.0	9.7	5.2	6.2	6.4
France	-2.8	3.6	7.0	2.4	-1.1	3.7	9.0	9.1	5.3	3.9	4.7	-1.0	6.5	7.9	5.1	13.0	6.7	3.4	6.4	5.9
Italy	0.7	4.7	5.0	6.5	1.5	3.0	8.9	5.3	2.7	0.8	3.5	11.7	11.5	7.9	4.5	4.6	1.8	-2.1	5.0	5.6
United Kingdom	3.3	1.8	8.6	5.7	4.0	5.5	2.5	5.4	6.5	0.5	2.2	0.1	13.0	10.6	8.3	7.6	1.2	-3.8	4.3	5.4
Canada	-0.5	7.4	18.6	6.4	5.8	3.6	9.7	1.2	4.7	2.6	7.9	11.3	13.2	9.5	5.5	9.2	8.3	9.7	6.5	5.9
Total of major countries	-1.2	2.7	10.3	5.0	1.7	3.9	8.4	7.3	4.8	2.9	3.5	0.4	8.3	8.4	6.0	10.7	4.1	2.9	6.2	6.1
Australia	5.9	-2.8	17.7	9.0	3.1	8.1	0.1	4.8	7.2	16.2	6.4	6.2	6.3	3.0	12.7	7.4	0.2	2.0	8.1	7.9
Austria	1.6	4.3	9.4	9.7	1.0	2.2	7.6	15.2	11.2	7.1	3.5	-2.7	11.4	12.5	4.5	12.9	8.5	1.5	6.3	7.1
Belgium [b]	1.6	4.1	5.0	4.1	7.9	6.9	4.6	8.1	3.1	4.0	0.0	7.7	9.0	6.2	2.2	7.5	4.2	1.2	6.1	6.2
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	5.6	15.0	2.6	14.9	13.4	6.8	7.1	8.2
Denmark	2.0	7.6	5.5	4.6	1.4	2.4	7.6	7.4	6.5	7.1	5.3	0.1	7.5	5.5	3.7	6.1	-0.4	3.3	4.3	4.5
Finland	-2.7	4.0	9.6	0.9	0.4	1.5	3.5	-0.2	2.8	-9.2	9.1	18.7	13.9	7.0	6.0	12.0	5.5	0.9	7.2	6.4
Greece	0.4	16.5	18.1	-0.1	17.9	11.1	-31.2	37.1	-5.8	11.3	23.8	0.2	4.5	7.9	19.2	8.6	-5.0	1.0	6.7	6.7
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	16.7	9.9	24.2	29.7	21.9	11.5	11.3	11.9
Iceland [c]	-23.4	9.4	-3.6	12.7	34.5	25.2	1.3	-2.1	13.5	-1.2	-2.8	-4.7	10.8	11.7	5.3	0.6	-3.3	7.9	7.3	4.2
Ireland	7.3	12.0	18.4	6.5	4.0	14.2	7.1	11.2	8.5	5.6	13.7	11.1	14.8	20.1	9.9	14.9	24.1	13.0	10.6	8.4
Korea	9.8	19.5	18.1	10.7	24.5	23.2	21.7	-5.1	6.2	9.9	8.3	6.8	14.7	24.1	20.0	24.8	16.1	14.2	12.9	11.3
Mexico	12.7	15.1	10.5	-3.0	17.8	11.5	16.8	5.8	8.2	14.1	8.0	16.7	8.4	23.9	18.5	14.8	11.2	11.3	8.1	6.1
Netherlands	-0.6	4.5	7.4	5.9	2.1	4.5	9.2	6.4	5.2	4.8	2.6	1.1	6.5	7.2	5.4	6.5	8.3	5.1	5.6	5.5
New Zealand	2.9	5.5	4.9	10.7	-2.0	2.9	3.9	-2.7	5.7	10.4	2.6	4.2	10.1	2.9	4.8	5.6	-1.0	0.9	6.9	6.9
Norway	-0.8	12.6	9.1	3.5	1.8	13.9	4.4	15.0	6.7	6.7	8.0	5.3	12.4	5.5	12.9	4.6	0.2	1.1	9.8	3.9
Poland	..	..	..	..	..	..	..	..	..	..	..	..	18.3	16.7	9.7	13.2	9.3	-2.8	6.3	10.0
Portugal	11.9	21.3	14.5	10.6	7.8	11.7	9.3	20.5	12.7	0.6	7.5	-4.2	14.4	14.2	9.6	10.0	5.2	5.4	7.1	6.6
Spain	6.2	8.4	17.5	2.8	-3.7	7.6	6.0	4.8	11.9	11.3	4.9	11.7	21.2	9.7	12.0	14.5	6.6	4.4	7.1	7.0
Sweden	3.7	11.4	8.2	3.4	2.9	2.7	3.7	2.1	0.2	-2.2	1.1	9.8	16.7	11.1	5.9	10.3	6.9	7.4	6.6	4.9
Switzerland	-4.9	-0.5	7.9	7.8	0.0	1.8	7.2	7.7	3.4	-2.8	3.5	1.0	3.4	2.2	2.6	7.9	4.0	2.2	4.5	5.2
Turkey	29.3	5.4	29.5	14.5	-20.8	21.9	8.7	-1.6	1.1	6.4	6.5	7.6	22.0	4.9	13.8	13.2	-3.7	-9.4	5.7	2.2
Total of smaller countries	2.1	6.5	9.9	5.5	4.2	7.3	7.5	5.9	5.5	5.1	4.6	5.9	10.9	10.5	9.0	11.9	8.0	5.7	7.8	7.1
Total OECD	-0.4	3.7	10.2	5.1	2.4	4.9	8.1	6.9	5.0	3.6	3.8	2.0	9.1	9.1	7.0	11.1	5.4	3.9	6.7	6.4
Memorandum item																				
European Union	1.6	3.2	8.2	5.0	1.9	4.1	6.4	7.4	4.0	2.5	2.8	1.1	10.2	8.3	6.3	8.9	6.4	2.8	6.0	6.1

a) Derived from values and unit values on a national account basis.

b) Including Luxembourg until 1994.

c) OECD estimates.

Annex Table 41. **Import volumes**

Total goods, customs basis, percentage changes from previous period

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States [a]	-2.5	13.6	24.2	6.3	10.2	4.6	4.0	4.2	3.0	-0.1	9.6	10.5	13.6	9.6	10.0	14.7	11.5	13.1	9.1	5.5
Japan	-0.7	1.1	10.6	0.7	9.7	9.0	16.9	7.7	5.5	3.9	-0.7	3.7	13.4	13.7	5.0	1.7	-5.3	6.8	3.6	3.8
Germany	1.3	4.0	5.2	4.9	5.4	5.3	6.4	7.3	12.7	11.9	1.3	-9.8	7.9	6.9	5.5	6.6	9.7	5.5	5.1	5.9
France	2.9	-2.7	2.6	4.6	7.4	7.7	9.0	8.0	5.7	2.9	0.9	-4.1	7.3	5.8	2.5	8.1	8.7	3.0	5.7	5.6
Italy	-0.1	1.2	7.6	8.8	2.5	10.2	3.8	9.6	4.2	2.9	3.3	-9.1	11.1	5.9	0.1	9.9	9.5	3.5	4.8	5.1
United Kingdom	5.1	6.1	11.1	3.8	7.2	6.9	13.8	8.0	0.5	-5.2	6.2	0.4	6.3	6.0	9.8	8.7	9.0	1.4	4.8	5.0
Canada	-16.4	11.0	19.7	10.4	9.1	5.4	13.5	5.2	0.6	3.1	7.6	8.7	10.6	7.5	6.2	16.9	7.3	8.7	7.0	6.3
Total of major countries	-0.4	5.4	12.1	5.4	7.7	6.4	8.2	6.7	5.2	3.1	4.3	0.4	10.5	8.3	6.6	10.0	8.3	7.6	6.6	5.4
Australia	6.3	-16.0	18.9	7.9	-1.3	1.5	13.2	22.8	-7.3	-1.3	6.7	4.3	11.8	10.1	7.0	6.2	7.2	2.8	3.8	5.4
Austria	-0.8	8.0	8.4	5.4	5.2	5.4	7.7	10.6	11.2	3.0	3.1	-1.1	12.9	4.5	2.7	9.2	7.1	3.9	6.0	6.6
Belgium [b]	0.8	-1.4	4.9	3.8	10.6	8.3	4.9	6.8	5.2	4.1	1.0	1.3	7.7	5.0	4.3	4.5	6.9	2.7	5.8	5.9
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	18.8	26.7	10.9	8.8	10.9	4.0	6.7	7.7
Denmark	2.3	3.0	3.4	7.9	7.0	-1.7	0.0	2.4	4.5	4.7	4.7	-3.6	12.3	7.0	1.2	9.1	2.3	0.4	3.7	4.1
Finland	1.3	3.2	-0.3	5.9	5.2	9.3	9.1	10.6	-4.1	-17.0	-2.0	-3.6	20.4	8.1	7.7	10.1	7.7	1.9	5.6	5.5
Greece	12.8	3.7	2.0	12.9	6.0	13.2	-13.5	30.9	14.2	9.8	15.6	7.1	7.4	9.4	12.3	8.5	-0.1	4.4	7.3	7.5
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	14.9	-3.1	17.9	26.2	24.6	10.9	11.6	11.4
Iceland [c]	-7.8	-13.4	0.7	10.1	23.4	41.6	0.6	-12.3	18.6	5.1	-3.3	-16.3	4.6	19.4	16.2	7.5	26.0	4.6	8.4	6.1
Ireland	-3.5	3.2	10.5	3.3	3.0	6.2	4.7	13.0	6.8	0.8	4.8	7.0	13.2	14.4	10.0	14.9	17.8	11.3	10.5	9.1
Korea	-2.8	12.0	18.6	5.6	1.6	17.8	17.4	11.5	12.0	16.8	2.0	6.5	21.4	21.2	12.7	1.5	-19.3	30.0	17.0	16.5
Mexico	-37.9	-32.0	29.9	15.2	-7.0	8.5	40.9	18.8	17.4	19.8	23.1	3.8	18.4	-13.4	23.0	22.8	14.7	8.8	9.6	8.4
Netherlands	0.9	4.5	5.5	7.2	3.7	4.7	8.0	6.8	4.7	4.3	1.3	-2.7	7.1	7.8	6.1	7.6	7.3	4.6	5.6	5.5
New Zealand	6.2	-6.8	20.1	0.0	-1.4	10.4	-7.8	21.7	7.3	-9.6	10.7	4.3	16.3	6.5	3.4	3.6	2.4	6.9	5.4	5.2
Norway	3.4	-3.3	13.5	11.7	14.4	-2.0	-9.5	-5.7	10.3	2.6	3.3	0.7	16.1	8.1	10.4	7.9	10.5	-4.8	-3.7	3.7
Poland	..	..	..	..	..	..	..	..	..	..	..	..	13.4	20.5	28.0	20.2	13.9	3.8	7.0	8.5
Portugal	5.9	-12.6	-5.7	6.6	19.2	28.0	22.2	8.4	15.8	5.9	13.0	-9.5	12.2	9.4	5.1	12.8	14.3	7.3	7.7	7.1
Spain	4.4	-1.6	-1.0	8.4	20.3	27.7	19.2	16.8	9.9	11.5	6.8	-5.7	15.2	11.0	7.5	12.4	13.1	11.5	11.3	11.0
Sweden	5.4	1.9	6.7	9.2	3.7	8.9	5.4	7.1	0.2	-6.4	-0.7	2.4	14.9	8.9	2.4	10.6	9.7	3.0	7.5	5.3
Switzerland	-2.2	5.9	8.5	3.8	8.5	6.0	4.5	7.0	1.9	-1.5	-4.9	-0.8	8.3	4.1	2.4	8.5	9.1	2.1	6.1	6.3
Turkey	3.1	12.0	24.0	7.9	-5.0	14.1	-0.5	5.7	34.2	-2.0	10.6	37.2	-21.1	29.2	18.2	22.5	-4.5	-8.8	10.6	8.4
Total of smaller countries	-0.8	0.5	7.9	6.6	6.1	8.4	8.1	9.6	6.4	4.1	3.7	0.9	11.2	8.5	8.2	9.7	6.3	6.4	7.9	8.0
Total OECD	-0.5	3.7	10.8	5.7	7.2	7.0	8.2	7.6	5.6	3.4	4.1	0.6	10.7	8.4	7.2	9.9	7.6	7.2	7.0	6.3
Memorandum item																				
European Union	2.1	2.1	5.6	5.7	6.4	7.6	8.0	8.4	6.4	4.0	2.8	-4.5	8.9	6.9	5.1	8.3	9.0	4.3	5.9	6.1

a) Derived from values and unit values on a national account basis.
b) Including Luxembourg until 1994.
c) OECD estimates.

Annex Table 42. **Export prices (average unit values)**

Total goods, percentage changes, national currency terms

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	-1.2	-0.7	0.9	-5.0	-3.3	2.6	6.5	1.4	-1.0	0.0	-1.7	-0.9	0.8	1.8	-3.5	-3.6	-3.2	-1.5	0.2	-0.2
Japan	5.5	-6.6	-0.2	-0.7	-15.4	-6.0	-2.5	6.9	3.6	-0.3	-0.1	-4.6	-1.0	-1.8	6.9	1.9	0.7	-8.2	-3.9	-0.4
Germany	4.5	1.3	3.4	3.9	-3.3	-2.7	0.9	4.4	-1.1	-0.6	0.7	0.0	1.0	1.7	0.2	1.6	-2.4	-1.3	1.6	1.1
France	12.8	9.9	9.7	4.2	-3.5	-0.6	2.7	4.9	-1.9	-0.1	-2.3	-2.5	2.3	1.1	-0.4	1.5	0.6	-2.8	1.6	0.8
Italy	15.1	6.3	11.1	9.1	-4.4	0.5	2.0	9.7	2.3	2.7	0.9	8.7	3.8	13.3	-1.7	0.3	1.9	-0.5	2.6	1.0
United Kingdom	6.3	7.6	6.9	5.2	-10.6	3.8	0.4	8.3	3.9	0.6	1.2	9.7	0.4	3.7	1.1	-5.1	-4.8	-0.4	3.1	2.5
Canada	0.5	-0.1	3.7	0.5	-2.4	1.4	-0.5	1.2	-1.2	-5.3	2.5	4.6	6.0	6.2	0.0	-1.4	-1.2	0.8	1.7	1.1
Total of major countries	5.1	1.3	4.0	1.4	-6.4	-0.7	1.7	4.8	0.4	-0.3	-0.1	0.7	1.3	2.6	0.4	-0.6	-1.5	-2.5	0.5	0.6
Australia	4.5	7.6	0.3	12.5	1.2	4.0	11.8	5.5	1.2	-9.1	2.1	1.3	-2.8	7.4	-4.1	1.8	4.8	-8.2	3.1	2.9
Austria	4.2	-0.3	3.8	2.5	-4.1	-2.1	4.0	-2.9	-2.3	-4.1	-1.6	-1.5	-1.6	0.8	1.3	3.3	0.0	2.2	0.9	0.9
Belgium [a]	13.2	7.9	7.8	1.7	-9.9	-6.1	4.8	7.9	-3.1	-1.9	-1.4	-1.4	1.1	1.8	2.8	5.4	0.0	-1.1	1.9	0.9
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	4.7	7.2	1.0	5.5	4.1	-0.8	1.2	1.8
Denmark	11.1	4.9	6.2	3.4	-4.5	-1.0	-0.1	5.6	-1.6	-0.4	-1.7	-3.0	1.9	0.6	0.8	2.2	-0.7	-2.5	0.6	2.0
Finland	7.3	6.4	6.3	2.6	-2.2	2.1	5.0	7.6	-1.2	0.8	6.1	5.2	0.8	6.9	-0.1	1.8	1.5	1.4	2.4	2.0
Greece	21.8	15.9	19.7	15.7	6.9	7.4	16.7	13.7	12.4	13.0	-2.5	3.5	11.0	4.3	-6.2	-2.0	9.6	4.5	3.5	2.1
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	18.0	31.2	18.9	15.1	13.1	2.8	7.9	6.2
Iceland [b]	70.6	102.1	27.7	30.9	-1.0	-5.9	11.7	32.1	2.2	1.4	-2.4	17.6	3.1	-7.3	2.9	2.4	7.6	-2.8	0.5	1.2
Ireland	10.7	8.5	8.5	2.8	-7.2	-0.1	7.1	6.7	-9.4	-0.9	-2.6	6.8	1.0	1.3	-0.7	1.3	3.5	-2.0	2.6	2.2
Korea	-6.3	-6.4	1.3	-6.0	-8.4	10.6	5.5	8.3	-1.8	4.2	4.6	3.3	1.9	0.7	-9.4	-0.5	21.7	-10.5	-0.3	2.2
Mexico	111.9	182.2	26.0	60.3	35.7	154.0	52.3	18.5	22.1	-2.4	2.6	-3.1	18.0	99.8	20.2	2.9	10.5	8.8	7.8	6.4
Netherlands	4.1	-0.3	5.9	1.3	-17.0	-5.7	0.4	5.0	-1.2	-0.6	-2.9	-3.4	2.0	1.5	0.7	3.0	-3.6	-0.7	3.5	1.4
New Zealand	10.6	5.6	13.1	9.3	-2.6	6.0	6.3	13.0	-1.2	-4.2	8.1	2.7	-4.1	-1.7	-3.5	-2.6	4.8	0.4	3.3	1.6
Norway	7.4	3.7	9.4	4.9	-24.8	-3.4	0.0	12.3	4.1	-3.7	-8.4	0.6	-3.7	3.7	7.4	2.3	-11.3	12.6	12.8	1.1
Poland	..	..	..	..	..	..	..	..	..	..	..	..	29.0	21.0	8.0	15.4	10.4	6.9	7.1	5.1
Portugal	15.2	30.2	30.7	15.7	3.3	8.5	10.4	5.7	2.9	0.2	-2.2	4.3	5.1	3.0	-1.2	0.4	0.1	0.0	1.4	1.4
Spain	11.7	16.9	12.4	6.9	-3.9	2.6	5.4	4.6	-1.8	-0.9	1.1	5.1	4.2	6.3	1.0	3.2	0.1	-1.3	1.4	1.6
Sweden	10.6	13.9	6.6	3.8	-1.2	3.5	4.5	6.9	2.1	0.2	-3.2	8.9	4.0	6.6	-5.0	0.6	-1.8	-1.7	1.8	1.2
Switzerland	4.9	2.4	4.7	2.0	0.5	-1.0	2.3	5.6	1.3	2.5	1.2	0.2	-0.6	-1.8	-0.1	3.8	-0.7	0.5	1.1	0.5
Turkey	40.9	32.5	51.6	35.9	25.7	47.2	57.8	50.3	35.8	58.2	66.9	55.4	163.8	73.5	68.2	75.2	71.8	52.9	49.1	18.5
Total of smaller countries	12.8	13.5	8.8	6.6	-4.5	7.7	7.9	7.9	1.1	0.3	0.7	1.8	4.9	9.0	1.8	3.9	3.6	0.0	3.4	2.2
Total OECD	7.4	4.9	5.5	3.0	-5.8	1.9	3.6	5.8	0.6	-0.1	0.1	1.0	2.5	4.6	0.8	0.8	0.1	-1.7	1.4	1.1
Memorandum item																				
European Union	8.8	6.1	7.3	4.5	-6.0	-0.9	2.3	6.0	-0.4	-0.1	-0.4	2.1	1.8	3.6	0.0	1.0	-1.2	-1.1	2.1	1.3

a) Including Luxembourg until 1994.

b) OECD estimates.

Annex Table 43. **Import prices (average unit values)**

Total goods, percentage changes, national currency terms

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections		
																		1999	2000	2001
United States	-4.0	-4.2	-0.7	-4.0	-2.2	7.1	4.8	2.8	1.8	-1.4	-0.7	-1.5	0.5	2.2	-2.9	-4.2	-5.9	-0.3	1.7	-0.6
Japan	4.6	-9.1	-2.6	-4.4	-36.5	-8.0	-5.4	11.9	10.7	-9.1	-6.9	-12.3	-7.7	-1.4	14.7	6.0	-5.4	-12.6	-2.0	-0.5
Germany	0.7	-0.4	5.9	2.5	-15.9	-6.1	1.0	7.4	-2.5	1.9	-2.4	-1.5	0.8	0.5	0.5	3.2	-3.9	-1.7	2.4	1.0
France	12.6	8.2	10.1	1.5	-14.3	-1.1	2.5	7.0	-2.0	-0.6	-3.4	-3.7	2.0	2.0	0.8	1.8	-0.4	0.7	3.1	1.1
Italy	12.5	3.6	12.8	7.5	-15.9	-1.7	7.5	6.4	-0.5	0.8	-0.6	10.5	5.2	15.2	-4.0	0.9	-3.6	-1.1	3.6	1.0
United Kingdom	7.2	9.1	8.0	3.9	-5.8	2.7	-0.4	5.9	3.0	-0.5	-0.3	7.8	3.6	6.7	0.0	-6.6	-6.5	-2.4	2.3	1.6
Canada	3.5	-1.4	4.6	1.7	0.1	-1.8	-2.0	-0.3	0.7	-3.3	2.0	5.5	6.1	3.0	-2.5	-0.2	1.8	-1.4	1.6	1.2
Total of major countries	2.7	-0.6	3.8	-0.1	-12.6	-0.2	1.7	5.7	1.5	-1.6	-1.9	-0.9	0.7	2.9	0.5	-0.5	-4.2	-2.4	1.7	0.4
Australia	6.8	8.6	2.5	18.7	9.3	6.1	-2.6	-0.8	3.9	1.0	4.6	8.1	-2.4	3.6	-5.4	-0.1	8.4	-0.7	1.5	1.6
Austria	0.1	-2.8	4.0	3.9	-9.8	-4.2	1.9	2.9	-2.8	3.3	-2.6	-3.8	-1.3	1.0	3.5	1.8	-0.1	3.1	2.4	1.1
Belgium [a]	9.1	13.8	8.3	0.0	-16.2	-7.0	5.7	7.1	-1.8	-1.3	-3.2	-5.7	2.0	3.1	3.4	6.2	-1.8	-0.4	2.9	1.1
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	-0.9	5.6	1.3	5.2	-2.8	0.5	2.1	1.9
Denmark	9.5	3.2	8.7	2.4	-9.6	-4.1	1.8	7.1	-2.9	0.0	-2.9	-2.9	2.5	3.2	0.9	3.2	0.3	-1.2	2.0	2.0
Finland	4.4	7.1	4.4	3.5	-9.9	-2.3	2.0	3.5	1.8	2.5	10.3	12.8	-2.9	-1.3	2.6	2.7	-1.3	2.0	3.9	2.3
Greece	28.9	14.4	20.0	22.5	13.0	0.1	10.3	13.0	9.7	11.1	0.5	1.5	-0.1	0.9	-1.9	-2.9	9.3	3.9	3.0	2.1
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	15.2	30.6	21.3	13.6	11.3	4.9	8.7	5.8
Iceland [b]	70.6	102.1	27.7	30.9	-1.0	-6.0	11.1	32.7	2.4	1.2	-2.5	17.3	3.3	-7.3	3.3	-1.7	-2.0	0.1	1.8	1.3
Ireland	7.3	4.6	9.5	2.6	-11.2	-0.1	6.5	6.4	-4.9	2.1	-1.9	5.4	2.4	4.5	-1.0	0.4	1.7	-2.0	4.5	2.5
Korea	-4.5	-3.5	-1.4	-3.6	-0.2	10.2	7.6	6.5	1.3	3.6	4.5	-1.0	0.7	4.4	3.1	11.5	20.2	-10.3	3.7	0.5
Mexico	128.2	207.3	28.8	69.9	92.2	133.6	67.6	14.2	16.1	6.5	3.3	2.0	11.8	100.0	18.5	1.7	14.4	8.2	6.3	6.4
Netherlands	1.0	0.1	5.7	0.9	-18.0	-3.1	-0.6	5.2	-1.7	-0.3	-2.7	-3.2	2.0	0.2	0.7	2.6	-1.8	0.1	3.8	1.2
New Zealand	11.6	8.3	13.7	10.5	-2.5	-4.4	-0.7	7.9	0.7	1.0	6.7	-0.6	-3.4	-0.1	-2.7	-0.9	3.8	2.6	2.8	1.3
Norway	4.5	3.7	3.1	6.5	0.0	2.7	2.9	6.1	0.9	-1.7	-2.1	1.0	0.7	0.9	-0.9	-1.0	1.4	-0.8	3.4	1.7
Poland	..	..	..	..	..	..	..	..	..	..	..	..	27.2	19.2	10.9	17.2	8.4	10.8	7.5	5.1
Portugal	17.0	37.3	35.3	7.3	-8.6	6.2	7.1	7.7	3.2	0.2	-5.1	5.0	3.6	1.8	2.7	0.3	-2.5	0.9	2.3	1.4
Spain	12.2	22.3	11.8	1.2	-19.1	-4.5	-2.1	2.1	-3.4	-2.7	-1.2	5.2	5.8	4.4	0.3	3.6	-2.4	-0.2	2.2	1.3
Sweden	11.1	15.0	2.3	2.4	-8.3	1.7	3.4	5.2	2.2	-0.6	-1.9	12.2	3.9	0.7	-3.6	0.0	-3.3	1.3	2.1	0.8
Switzerland	-1.2	-0.7	4.2	4.4	-9.3	-3.7	4.9	8.0	-0.4	-0.1	2.1	-1.9	-4.9	-2.0	-0.1	4.9	-3.6	-0.7	2.2	0.7
Turkey	41.5	29.4	56.2	44.3	8.3	38.7	61.8	56.4	29.6	54.6	61.6	50.0	171.5	83.1	82.8	66.1	68.4	52.8	57.8	18.0
Total of smaller countries	10.5	13.6	9.0	6.6	-6.3	4.5	7.0	7.2	1.1	2.1	1.2	1.5	5.3	8.0	3.9	5.5	3.8	1.0	4.5	2.1
Total OECD	5.2	3.9	5.5	2.0	-10.6	1.3	3.4	6.2	1.3	-0.4	-0.9	-0.1	2.2	4.6	1.6	1.5	-1.6	-1.3	2.7	1.0
Memorandum item																				
European Union	6.9	6.3	8.5	3.0	-13.6	-2.7	2.1	6.2	-1.0	0.4	-2.0	1.1	2.4	3.5	0.2	1.3	-2.7	-0.6	2.8	1.2

a) Including Luxembourg until 1994.

b) OECD estimates.

Annex Table 44. **Competitive positions: relative unit labour costs**

Indices, 1995 = 100

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
United States	152.4	157.6	161.0	166.5	143.5	122.3	113.3	114.6	111.7	110.6	107.9	107.7	105.3	100.0	102.5	109.4	120.5	119.4
Japan	50.1	56.3	57.6	56.7	77.1	80.4	83.5	75.0	67.3	71.2	75.5	90.7	102.4	100.0	81.3	77.7	82.2	92.8
Germany	70.7	71.6	70.0	69.1	75.9	83.9	83.5	81.1	83.7	81.3	87.6	91.7	93.1	100.0	97.0	89.9	89.8	91.0
France	109.3	108.4	109.3	112.1	115.0	113.8	107.5	102.7	106.3	101.5	101.5	102.7	100.3	100.0	98.8	91.8	93.0	91.2
Italy	129.3	137.6	134.1	131.6	133.6	132.2	131.1	136.1	142.9	145.4	138.1	115.3	109.8	100.0	113.8	117.5	119.6	121.1
United Kingdom	125.7	115.1	110.4	113.5	106.4	108.6	115.7	111.6	114.7	118.2	112.6	99.3	101.5	100.0	102.2	124.7	140.7	143.5
Canada	116.7	120.8	111.0	106.3	99.7	105.0	115.2	120.8	122.6	126.5	116.1	104.6	98.1	100.0	101.9	102.9	101.5	100.2
Australia	290.3	284.3	285.6	222.9	178.7	161.3	157.7	160.7	146.7	130.7	115.3	101.7	102.9	100.0	102.3	103.3	93.1	92.1
Austria	115.6	115.2	111.7	111.2	116.5	116.3	110.0	105.8	105.9	103.4	103.4	102.1	98.9	100.0	96.6	90.5	90.3	86.8
Belgium-Luxembourg	95.1	90.3	90.1	90.8	94.3	96.5	93.9	91.7	97.0	97.9	98.2	97.6	97.4	100.0	97.4	91.0	93.9	92.8
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	87.6	96.9	100.0	108.8	107.6	119.9	119.2
Denmark	81.6	81.9	82.5	85.8	93.6	102.2	99.1	93.4	100.8	97.3	100.2	101.3	96.6	100.0	95.4	96.9	99.4	99.2
Finland	138.6	134.9	139.6	141.1	134.9	131.5	135.1	140.6	147.2	142.8	110.8	84.9	87.9	100.0	93.9	91.7	96.7	97.2
Greece	110.3	104.7	109.2	107.5	90.8	86.4	95.1	100.2	105.8	98.5	96.0	89.8	92.9	100.0	102.1	104.8	102.4	100.7
Hungary	..	..	..	..	..	..	..	..	..	..	..	129.5	122.7	100.0	92.8	92.0	86.4	89.3
Iceland	105.6	90.6	94.7	101.5	98.1	119.8	124.8	110.3	107.3	112.1	110.0	101.1	99.0	100.0	99.9	104.6	112.6	114.8
Ireland	187.9	174.5	160.7	154.8	164.6	150.7	138.1	127.0	131.9	126.3	122.1	112.8	108.8	100.0	98.9	91.1	81.3	72.8
Korea	93.2	93.8	98.8	89.2	68.6	71.2	85.4	100.0	96.7	98.2	91.5	87.8	90.1	100.0	105.7	89.2	59.9	63.6
Mexico	211.4	111.8	142.5	136.3	104.6	104.1	108.4	120.4	121.4	135.5	152.0	164.3	160.9	100.0	100.7	108.5	106.6	109.5
Netherlands	116.2	113.0	102.1	99.9	107.1	111.4	108.0	100.5	101.4	99.5	103.0	103.4	98.8	100.0	95.1	89.3	91.4	90.6
New Zealand	99.0	94.7	79.6	78.7	80.3	89.5	99.1	92.8	92.4	92.6	83.5	85.8	93.6	100.0	112.1	116.3	105.6	104.9
Norway	96.3	98.0	96.4	96.4	96.0	96.3	101.9	99.9	98.0	95.6	94.2	91.1	94.1	100.0	101.5	107.6	109.2	109.1
Poland	..	..	..	..	..	..	..	..	..	..	..	86.5	84.2	100.0	102.7	102.3	110.0	126.4
Portugal	84.8	76.1	67.8	74.7	70.6	70.4	72.7	74.3	79.8	89.3	99.9	97.7	99.1	100.0	97.8	97.1	99.8	100.1
Spain	105.3	91.2	93.4	92.4	90.4	90.9	97.1	104.6	115.0	117.6	120.4	107.6	101.2	100.0	103.6	101.7	105.7	105.0
Sweden	134.2	120.6	124.3	129.9	129.8	129.2	135.7	142.0	145.3	150.7	147.5	106.5	101.8	100.0	112.4	106.4	107.0	106.5
Switzerland	68.8	73.6	71.6	70.7	77.7	82.0	83.4	78.4	83.6	85.3	83.5	83.9	92.2	100.0	96.1	91.8	96.8	96.0
Turkey	107.3	115.5	100.7	103.8	81.8	73.5	66.8	101.0	119.5	152.6	145.5	139.5	96.2	100.0	99.4	101.0	111.9	119.0
Euro area	93.0	92.3	87.7	87.0	97.7	106.0	101.3	97.1	107.5	103.9	108.3	102.2	98.1	100.0	101.4	91.2	93.8	93.1

Note: Indices are expressed in a common currency and concern the manufacturing sector. The relative export price indices take into account both export and import competitiveness. For the 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.*

Annex Table 45. **Competitive positions: relative export prices**

Indices, 1995 = 100

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
United States	165.9	169.2	168.9	165.9	145.9	131.4	125.9	125.3	119.9	118.8	114.5	114.9	110.0	100.0	97.4	98.2	101.5	99.8
Japan	70.3	72.1	71.8	73.3	82.1	80.8	82.6	80.0	75.3	80.3	84.0	94.2	100.7	100.0	94.3	92.1	91.5	98.2
Germany	83.2	84.4	81.1	82.3	91.0	94.1	91.6	89.9	93.5	91.9	95.4	96.6	96.8	100.0	97.5	93.6	94.0	94.3
France	95.7	95.0	95.6	98.2	102.1	102.9	101.7	99.3	101.9	98.7	99.1	97.7	99.1	100.0	99.1	95.7	97.8	93.8
Italy	106.0	104.3	104.7	105.0	107.6	106.9	103.7	110.3	115.5	115.8	114.1	101.8	99.4	100.0	106.7	106.2	109.0	107.4
United Kingdom	104.9	102.8	99.8	102.4	97.5	98.6	103.4	101.8	103.8	104.9	102.9	102.2	103.7	100.0	101.9	110.8	110.7	108.3
Canada	94.3	98.1	98.1	97.4	94.2	97.6	101.3	104.1	101.8	99.4	95.4	94.6	95.1	100.0	102.9	105.5	102.3	102.9
Australia	119.5	121.5	121.6	108.5	97.5	100.7	117.9	123.0	115.8	105.1	96.4	90.7	95.8	100.0	101.1	103.8	96.3	92.3
Austria	111.7	110.5	108.2	107.5	111.4	113.4	116.0	105.6	107.6	101.6	101.0	101.8	98.2	100.0	101.9	100.8	102.4	105.0
Belgium-Luxembourg	91.4	92.3	91.5	91.5	94.8	94.3	93.8	96.2	98.2	95.4	96.3	94.2	95.7	100.0	100.5	100.1	101.6	99.6
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	93.7	97.3	100.0	102.5	101.8	106.7	102.6
Denmark	87.1	89.6	87.5	90.1	96.4	98.8	95.5	93.2	98.6	96.7	98.2	97.7	98.9	100.0	99.5	97.7	100.8	100.5
Finland	90.7	87.5	88.3	89.8	89.5	92.0	95.1	99.9	99.6	98.1	90.1	79.0	84.6	100.0	95.7	95.0	98.4	98.3
Greece	163.3	155.0	147.5	136.1	119.3	112.5	118.4	120.7	124.0	120.7	107.5	102.5	103.3	100.0	90.3	82.2	91.3	97.6
Hungary	..	..	..	..	..	..	..	..	..	..	..	102.6	101.8	100.0	100.2	103.7	104.9	100.7
Iceland	162.5	170.1	177.3	176.9	144.5	127.7	119.2	119.9	109.4	110.7	107.5	115.0	111.4	100.0	103.1	109.9	138.6	148.0
Ireland	106.8	107.6	106.7	109.2	110.8	103.7	108.4	108.8	103.7	101.5	104.0	100.3	99.0	100.0	102.8	106.9	107.6	103.5
Korea	118.7	105.8	108.1	98.3	84.1	96.7	109.1	124.7	110.7	108.3	102.8	103.0	101.6	100.0	88.7	78.1	69.2	74.5
Mexico	91.5	92.8	96.9	96.6	97.7	92.8	94.7	93.0	91.3	91.3	89.4	90.4	99.0	100.0	105.1	113.3	114.5	118.6
Netherlands	102.3	100.9	95.8	92.5	92.5	99.2	99.1	95.4	96.9	95.0	95.1	94.7	95.8	100.0	98.9	95.2	95.6	95.8
New Zealand	97.6	98.1	96.7	92.8	88.4	94.4	105.3	103.3	97.8	91.3	88.3	91.9	96.8	100.0	102.7	102.9	92.8	90.7
Norway	101.5	99.8	104.5	100.9	96.3	97.1	112.6	117.0	106.4	100.4	95.0	90.3	89.0	100.0	95.9	95.0	94.3	93.8
Poland	..	..	..	..	..	..	..	..	..	..	..	99.3	99.1	100.0	99.8	104.7	115.6	112.4
Portugal	112.5	110.0	112.5	113.0	109.6	107.1	107.0	102.1	102.5	103.6	105.1	99.9	98.9	100.0	98.8	95.5	94.0	92.2
Spain	91.3	86.6	88.9	91.9	99.5	101.8	105.4	105.3	110.9	114.9	116.5	107.9	101.7	100.0	101.8	99.9	101.4	98.3
Sweden	105.9	102.2	104.2	106.5	108.6	110.0	111.5	113.2	113.9	114.8	113.2	97.9	98.8	100.0	105.9	101.3	98.9	96.1
Switzerland	75.9	79.6	78.1	75.8	85.5	89.4	88.7	84.5	91.3	92.7	91.9	93.5	99.2	100.0	99.3	96.7	98.9	99.9
Turkey	160.1	160.8	155.3	141.5	110.8	118.2	106.4	104.4	103.4	102.3	99.6	100.2	92.9	100.0	106.1	111.2	119.8	121.1
Euro area	91.4	89.7	85.5	87.0	98.4	102.6	99.3	98.0	105.9	101.3	103.9	96.7	95.6	100.0	101.2	95.8	98.7	96.0

Note: Indices are expressed in a common currency and concern the manufacturing sector. The relative export price indices take into account both export and import competitiveness. For the 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.*

Annex Table 46. **Export performance for total goods**[a]

Total goods, percentage changes, national currency terms

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	-3.4	-1.0	-2.0	-0.1	0.6	5.1	5.5	4.4	3.4	0.4	0.1	-1.4	-1.6	4.7	3.3	5.0	-0.9	-0.9	0.4	0.9
Japan	-2.8	3.0	2.1	-0.4	-6.1	-6.0	-6.3	-3.6	-0.4	-5.1	-6.5	-9.8	-10.6	-6.7	-7.0	0.4	-3.7	-8.4	-3.7	-3.1
Germany	2.3	-1.0	2.0	2.6	-4.8	-2.8	-1.2	0.4	-3.0	-1.6	-2.2	-9.9	-0.7	-3.1	0.1	-1.7	0.8	0.8	-0.6	-0.1
France	-3.2	3.1	1.5	0.4	-5.8	-2.4	0.6	1.6	-0.7	-1.4	0.8	0.5	-2.4	0.0	-0.5	3.6	-0.4	-1.1	-0.3	-0.5
Italy	-0.7	5.8	0.2	4.2	-5.4	-1.6	0.6	-2.1	-4.1	-4.3	0.5	13.1	2.0	-1.0	-2.0	-4.8	-5.1	-6.2	-1.7	-0.9
United Kingdom	1.2	-0.3	1.8	3.3	-1.3	1.6	-3.2	-1.5	0.5	-3.7	-1.8	1.5	2.3	1.3	2.3	-1.7	-5.9	-8.9	-2.6	-1.0
Canada	0.1	-3.7	-0.4	-0.6	-2.7	2.2	2.4	-4.1	3.7	1.3	-0.7	1.2	0.3	0.4	-3.3	-4.3	-1.6	-2.6	-1.8	0.3
Total of major countries	-0.5	1.3	1.3	1.4	-4.0	-1.4	-0.8	-0.3	-0.4	-2.1	-1.8	-3.1	-2.5	-0.9	-0.8	0.3	-1.9	-3.2	-1.2	-0.5
Australia	5.9	-4.4	6.8	7.0	2.1	-1.5	-9.0	-1.6	2.0	11.3	0.3	2.6	-4.5	-5.1	9.8	2.8	-0.9	-2.2	0.9	1.1
Austria	0.6	2.8	3.1	5.8	-5.6	-3.6	0.3	6.3	3.0	0.6	3.2	1.6	-0.2	3.6	-1.8	3.6	-0.1	-3.0	0.0	0.6
Belgium[b]	0.1	2.5	-0.2	0.6	-1.7	0.2	-1.3	0.0	-3.6	-1.3	-2.4	11.7	-0.2	-1.9	-3.2	-1.2	-3.4	-3.1	0.0	0.1
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	-6.8	4.7	-4.6	6.5	5.2	5.2	1.5	1.9
Denmark	0.5	5.6	-0.5	0.1	-3.8	-2.5	2.0	0.9	1.2	2.6	2.6	2.2	-2.3	-1.0	-3.5	-1.2	-6.4	-0.4	-1.0	-1.2
Finland	-3.1	2.1	1.6	-2.6	-5.3	-3.6	-2.9	-6.4	-0.7	-12.0	7.8	20.6	8.1	-10.3	-2.9	2.1	-1.0	-2.1	0.9	0.3
Greece	-0.2	18.5	12.6	-2.3	16.5	6.7	-34.4	31.6	-9.8	7.5	26.1	2.5	-4.6	1.4	12.0	1.3	-10.4	0.1	1.1	0.9
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	7.6	0.8	17.1	20.7	14.5	10.5	5.7	5.7
Iceland	-22.6	7.7	-8.8	10.5	26.7	19.9	-0.1	-6.7	9.1	-3.4	-6.0	-4.0	3.9	7.7	0.5	-4.0	-6.7	4.8	2.4	-0.6
Ireland	4.9	8.2	9.3	2.4	-1.7	9.3	-3.4	3.4	3.5	3.0	8.6	11.7	6.6	11.0	2.4	4.0	15.4	8.4	4.4	2.7
Korea	3.4	16.4	2.9	3.3	10.3	12.2	7.3	-12.6	0.5	1.6	1.0	-2.0	1.7	10.6	12.2	13.3	13.2	6.4	4.7	4.9
Mexico	11.3	3.4	-7.6	-11.3	-3.2	3.3	-3.5	4.1	5.0	6.2	-0.8	6.9	-3.6	15.5	8.7	-0.3	0.3	0.0	-0.5	0.5
Netherlands	-1.6	3.1	3.0	2.4	-2.5	-1.1	2.5	-0.6	-1.0	-0.1	-0.1	4.5	-2.6	0.6	-0.2	-0.6	1.6	1.5	-0.3	-0.4
New Zealand	3.6	7.3	-5.0	8.8	-1.9	-4.1	-4.6	-11.5	4.2	8.7	-3.8	-0.4	0.6	-5.3	1.2	-0.3	-1.6	-4.5	1.1	1.0
Norway	-0.4	9.4	2.2	0.2	-5.5	6.8	-1.1	8.8	2.3	3.5	3.6	5.6	4.3	-0.1	6.5	-1.8	-4.0	0.4	4.1	-1.2
Poland	..	..	..	..	..	..	..	..	..	..	..	..	7.9	8.3	4.5	8.5	2.2	-4.8	0.8	3.8
Portugal	11.5	17.0	8.5	6.6	0.9	4.0	-0.5	11.1	6.1	-4.1	4.4	0.5	3.6	6.1	4.8	1.1	-3.0	0.3	0.4	-0.1
Spain	1.7	6.2	13.4	-2.2	-13.4	-0.1	-0.6	-0.4	1.8	1.3	-0.4	14.0	12.1	4.6	5.7	4.8	-1.8	1.7	1.0	1.0
Sweden	2.2	9.6	0.3	-1.7	-3.9	-1.9	-3.0	-4.6	-4.7	-5.0	-2.1	10.3	4.7	2.0	-1.3	1.0	-0.3	3.2	0.9	-0.9
Switzerland	-7.2	-6.4	0.3	-8.3	-18.4	-1.8	-0.8	-0.5	-2.7	-9.1	1.3	3.0	-6.8	-5.0	-4.7	-3.2	-1.6	-2.8	-2.0	-1.0
Turkey	29.6	6.2	25.6	16.1	-23.2	19.1	3.6	-5.1	-3.0	3.0	6.3	12.7	11.4	-5.6	0.6	3.2	-9.5	-11.1	-0.4	-3.6
Total of smaller countries	0.5	3.8	2.4	-0.3	-4.6	1.2	-0.5	-0.9	-0.4	-0.3	0.9	6.3	0.8	2.0	2.3	2.6	1.3	1.1	1.3	1.0
Total OECD	-0.3	2.0	1.6	0.9	-4.1	-0.7	-0.7	-0.4	-0.4	-1.6	-1.0	-0.4	-1.5	0.0	0.2	1.1	-0.9	-1.8	-0.4	0.0
China	7.3	3.2	2.3	14.6	6.1	2.4	0.4	-2.9	0.4	8.2	10.0	2.7	19.1	-6.7	6.0	12.2	10.2	2.0	2.8	0.4
Dynamic Asia[c]	4.4	7.1	2.1	-4.1	15.1	10.6	4.3	2.2	4.3	5.0	3.4	3.6	2.2	0.1	-0.8	-0.4	1.1	-2.5	-0.1	-0.6
Other Asia	8.3	1.9	-3.0	-3.0	5.0	4.2	-2.0	5.6	5.2	0.9	7.3	8.0	0.9	6.5	5.9	-4.6	2.4	-1.6	-1.7	1.3
Latin America	3.3	4.8	2.9	0.6	-8.8	0.0	6.4	2.4	-3.1	-1.5	-4.1	3.4	-4.3	-6.9	1.6	-0.4	2.5	0.7	0.2	0.0
Africa and Middle-East	-14.8	-4.6	-8.1	-0.7	20.5	-7.9	-1.5	-0.6	-6.2	0.4	-1.0	1.8	-5.5	-6.8	9.2	1.5	-0.4	0.6	-0.4	-0.5
Central and Eastern Europe	1.2	3.1	2.3	-8.2	1.4	-0.6	-3.9	-4.3	-3.9	-12.7	-13.5	-0.6	12.4	0.3	-4.4	-12.4	-7.1	-4.5	-2.2	-1.7
Total of non-OECD countries	-2.9	1.2	-1.6	-3.2	8.1	0.4	0.1	-0.3	-1.3	-0.1	-0.2	2.8	2.4	-2.4	1.8	-0.2	1.2	-0.9	0.1	-0.4
World	-1.0	1.8	0.8	-0.1	-1.2	-0.4	-0.5	-0.4	-0.6	-1.2	-0.8	0.4	-0.4	-0.7	0.6	0.7	-0.3	-1.6	-0.3	-0.1
Memorandum item																				
European Union	0.4	2.2	2.1	2.0	-4.2	-1.4	-0.9	0.1	-1.8	-2.0	-0.4	1.5	0.6	-0.5	-0.1	-0.3	-1.3	-1.5	-0.5	-0.2

a) Export performance is the ratio between export volumes and export markets for total goods. The export volume concept employed is the sum of the exports of non-manufactured goods and manufactures. The calculation of exports markets is based on a weighted average of import volumes in each exporting country's markets, with weights based on trade flows in 1995. The export markets for total goods facing each country is calculated as the weighted sum of the individual export markets for non-manufactured goods and manufactures, where the weights correspond to the commodity export structure of the exporting country in 1995.

b) Including Luxembourg until 1994.

c) Dynamic Asia include Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore and Thailand.

Annex Table 47. Shares in world exports and imports

Percentage, values for total goods, customs basis

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
A. Exports																				
United States	11.5	11.3	11.6	11.3	10.5	10.2	11.2	11.8	11.2	11.7	11.5	11.8	11.4	11.0	11.1	12.0	12.1	12.0	11.8	11.8
Japan	7.9	8.6	9.4	9.6	10.5	9.8	9.8	9.4	8.6	9.3	9.4	9.9	9.5	8.9	7.9	7.8	7.3	7.6	7.5	7.3
Germany	10.3	10.1	9.6	10.1	12.3	12.6	12.1	11.8	12.2	11.6	11.8	10.4	10.2	10.5	10.2	9.5	10.2	9.9	9.6	9.7
France	5.5	5.5	5.3	5.4	6.1	6.2	6.1	6.0	6.4	6.3	6.4	5.8	5.6	5.7	5.5	5.4	5.8	5.5	5.4	5.4
Italy	4.2	4.2	4.0	4.2	4.8	4.8	4.7	4.7	5.0	4.9	4.8	4.6	4.5	4.6	4.8	4.4	4.5	4.1	4.0	4.0
United Kingdom	5.4	5.2	5.0	5.3	5.2	5.4	5.3	5.1	5.4	5.3	5.1	4.8	4.9	4.8	4.9	5.1	5.1	4.7	4.7	4.7
Canada	4.0	4.4	4.8	4.8	4.5	4.2	4.3	4.2	3.9	3.8	3.7	4.0	4.0	3.9	3.9	4.0	4.1	4.4	4.4	4.4
Other OECD countries	18.9	19.4	19.5	19.6	20.6	21.6	21.7	21.5	22.2	22.0	22.0	22.2	22.4	23.4	23.5	23.2	24.1	24.1	24.2	24.6
Total OECD	67.7	68.7	69.2	70.5	74.4	74.7	75.2	74.3	75.0	74.8	74.7	73.4	72.7	72.7	71.8	71.4	73.2	72.2	71.6	71.8
Non OECD Asia	8.9	9.4	10.1	9.8	9.7	10.5	11.2	11.7	11.7	13.1	14.1	15.5	16.2	16.3	16.4	16.8	16.2	16.3	16.2	16.0
Latin America	4.5	4.5	4.7	4.5	3.6	3.2	3.4	3.4	3.2	3.0	2.9	3.0	3.0	2.9	3.0	3.2	3.1	3.0	3.1	3.1
Other non OECD countries	18.8	17.3	16.0	15.2	12.3	11.6	10.2	10.6	10.2	9.1	8.3	8.2	8.1	8.1	8.7	8.6	7.5	8.4	9.1	9.0
Total of non OECD countries	32.3	31.3	30.8	29.5	25.6	25.3	24.8	25.7	25.0	25.2	25.3	26.6	27.3	27.3	28.2	28.6	26.8	27.8	28.4	28.2
B. Imports																				
United States	13.5	15.2	17.7	17.9	17.6	16.9	16.1	16.0	14.8	14.2	14.5	15.9	16.0	15.1	15.4	16.4	17.3	18.9	19.1	18.6
Japan	6.3	6.2	6.3	6.0	5.4	5.4	5.9	6.1	6.0	5.9	5.5	5.8	5.8	5.9	5.9	5.5	4.6	4.8	4.7	4.6
Germany	8.3	8.4	8.0	8.2	9.0	9.3	8.9	8.8	10.0	10.8	10.6	9.0	8.8	9.0	8.7	8.0	8.4	8.1	7.9	7.9
France	6.2	5.8	5.4	5.6	6.0	6.4	6.3	6.3	6.7	6.4	6.3	5.5	5.4	5.4	5.2	4.9	5.3	5.1	5.0	5.0
Italy	4.3	4.1	4.1	4.4	4.4	4.7	4.6	4.7	4.9	4.8	4.6	3.7	3.7	3.7	3.6	3.5	3.7	3.5	3.5	3.4
United Kingdom	5.2	5.4	5.4	5.5	5.8	6.1	6.6	6.4	6.4	5.8	5.7	5.4	5.3	5.2	5.4	5.6	5.8	5.4	5.4	5.4
Canada	2.8	3.1	3.5	3.7	3.6	3.4	3.5	3.6	3.2	3.2	3.1	3.4	3.3	3.1	3.0	3.4	3.5	3.6	3.6	3.6
Other OECD countries	20.9	20.5	20.1	20.7	22.0	23.3	23.3	23.7	24.8	24.5	24.3	23.8	24.0	24.5	25.0	24.3	24.8	25.0	25.2	25.8
Total OECD	67.5	68.7	70.5	72.0	73.9	75.5	75.2	75.5	76.7	75.6	74.7	72.5	72.4	71.9	72.1	71.6	73.5	74.5	74.4	74.3
Non OECD Asia	9.0	9.5	9.7	10.1	9.5	9.8	11.1	11.5	11.3	12.5	13.7	15.7	16.1	16.4	16.0	16.0	14.0	14.4	14.6	14.5
Latin America	5.0	4.1	3.9	3.7	3.7	3.4	3.1	2.9	2.8	2.9	3.2	3.6	3.7	3.8	3.8	4.3	4.5	3.8	3.8	3.9
Other non OECD countries	18.4	17.6	15.9	14.2	12.9	11.3	10.6	10.0	9.2	9.0	8.3	8.2	7.8	7.9	8.0	8.1	8.1	7.3	7.2	7.3
Total of non OECD countries	32.5	31.3	29.5	28.0	26.1	24.5	24.8	24.5	23.3	24.4	25.3	27.5	27.6	28.1	27.9	28.4	26.5	25.5	25.6	25.7

Annex Table 48. **Trade balances**

Billions US dollars

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	-36.5	-67.1	-112.5	-122.2	-145.1	-159.6	-127.0	-115.2	-109.0	-74.1	-96.1	-132.6	-166.2	-173.7	-191.3	-196.7	-246.9	-353.7	-413.6	-413.8
Japan	18.1	31.5	44.3	54.3	89.8	91.5	92.2	80.0	69.4	96.1	124.5	139.3	144.1	131.2	83.6	101.7	122.1	130.1	140.1	145.7
Germany	24.2	19.5	21.4	28.3	54.6	67.6	76.3	74.9	68.4	19.5	28.2	41.2	50.9	65.1	71.3	72.0	79.2	79.7	86.6	95.9
France	-15.4	-8.3	-4.4	-5.0	-1.4	-7.8	-7.6	-10.3	-13.3	-9.7	2.4	7.2	7.2	11.0	15.0	28.1	26.1	20.1	19.2	20.7
Italy	-7.9	-1.6	-5.1	-5.5	4.8	0.1	-0.7	-1.7	0.9	0.0	3.1	32.9	35.4	44.1	60.7	47.1	35.6	16.6	15.8	18.1
United Kingdom	3.3	-2.3	-7.1	-4.3	-14.0	-19.1	-38.3	-40.4	-33.2	-18.0	-22.9	-20.0	-17.0	-18.5	-20.4	-19.5	-34.4	-48.8	-52.7	-52.2
Canada	15.1	14.2	15.6	11.9	7.2	9.2	8.8	6.5	9.5	6.1	7.4	10.2	14.8	25.8	30.8	17.1	12.7	21.0	22.2	22.4
Total of major countries	0.9	-14.2	-47.8	-42.4	-4.1	-18.1	3.8	-6.2	-7.3	19.8	46.6	78.1	69.3	84.9	49.7	49.9	-5.6	-134.9	-182.3	-163.3
Australia	-2.2	0.0	-0.8	-1.0	-1.9	0.5	-0.7	-3.4	0.4	3.5	1.6	0.0	-3.3	-4.2	-0.6	1.8	-5.4	-10.1	-7.3	-5.5
Austria	-3.1	-3.2	-3.2	-3.1	-4.0	-4.8	-4.8	-5.6	-7.0	-8.6	-7.7	-6.5	-7.9	-6.7	-7.3	-4.3	-3.7	-5.8	-7.1	-7.4
Belgium [a]	-2.2	-0.7	-0.3	0.5	2.3	1.3	2.7	2.3	1.7	2.1	3.7	5.9	6.8	11.1	10.4	9.5	10.1	6.3	5.8	6.2
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	-0.5	-1.4	-3.7	-5.9	-4.6	-2.6	-2.1	-2.4	-2.5
Denmark	-0.8	0.2	-0.2	-0.7	-1.0	0.8	2.1	2.7	5.3	5.2	7.4	7.8	7.4	6.5	7.6	5.5	3.7	4.6	4.5	5.0
Finland	0.2	0.1	1.5	0.9	1.7	1.5	1.2	-0.2	0.7	2.2	3.8	6.3	7.5	12.3	11.2	11.5	12.3	11.6	12.7	14.0
Greece	-4.7	-4.3	-4.2	-5.0	-4.4	-5.4	-6.0	-7.3	-10.1	-10.0	-11.6	-10.5	-11.3	-14.4	-15.5	-15.4	-15.2	-16.0	-17.4	-19.1
Hungary	..	..	..	..	..	..	..	..	..	..	..	-4.0	-3.7	-2.4	-2.7	-2.0	-2.1	-2.5	-3.2	-3.5
Iceland	-0.2	0.0	0.0	0.0	0.1	-0.1	0.0	0.1	0.1	-0.1	0.0	0.2	0.3	0.2	0.0	0.0	-0.4	-0.4	-0.5	-0.5
Ireland	-1.1	-0.2	0.2	0.6	1.1	2.6	3.8	4.0	3.9	4.3	7.0	8.1	9.3	13.5	15.7	18.6	23.4	25.9	28.3	30.9
Korea	-2.8	-1.8	-1.1	0.0	4.3	7.5	11.3	4.4	-2.5	-6.8	-1.8	2.3	-2.9	-4.4	-15.0	-3.2	41.2	31.5	25.3	24.4
Mexico	7.0	14.1	13.2	8.4	5.0	8.8	2.6	0.4	-0.9	-7.3	-15.9	-13.5	-18.5	7.1	6.5	0.6	-7.9	-5.3	-6.2	-11.1
Netherlands	6.2	5.5	6.6	6.8	7.5	6.2	10.0	9.8	12.0	12.0	12.3	16.9	18.6	22.1	20.4	19.0	18.1	11.3	11.7	12.9
New Zealand	-0.3	0.3	-0.5	0.0	0.1	0.6	2.1	1.0	0.9	2.1	1.6	1.7	1.4	0.9	0.5	0.8	0.9	-0.2	0.0	0.3
Norway	2.4	4.3	5.2	4.7	-2.1	-0.7	-0.2	3.8	7.8	8.6	9.3	8.0	7.5	8.6	12.9	11.2	1.6	10.7	21.7	22.6
Poland	..	..	..	..	..	..	..	..	..	..	..	-2.5	-0.6	-1.6	-7.3	-9.8	-12.3	-15.9	-17.3	-18.7
Portugal	-4.7	-3.0	-2.0	-1.4	-1.6	-3.5	-5.4	-4.8	-6.7	-7.7	-9.4	-8.0	-8.3	-9.0	-9.4	-10.0	-12.2	-12.4	-13.9	-15.2
Spain	-9.3	-7.8	-4.6	-4.7	-7.2	-13.7	-18.7	-25.4	-29.1	-30.4	-30.4	-15.0	-14.8	-18.2	-16.0	-13.2	-18.7	-25.8	-34.8	-43.5
Sweden	-0.3	1.9	3.4	2.4	5.1	4.5	4.8	4.0	3.5	6.3	6.3	7.2	9.4	16.9	18.7	18.4	17.6	18.1	18.9	20.2
Switzerland	-3.1	-4.0	-4.1	-3.9	-4.4	-6.0	-6.4	-7.4	-7.2	-5.9	-1.0	1.7	1.6	0.9	0.9	-0.3	-1.9	-1.8	-4.1	-5.6
Turkey	-2.7	-3.0	-2.9	-3.0	-3.1	-3.2	-1.8	-4.2	-9.6	-7.3	-8.2	-14.2	-4.2	-13.2	-10.6	-15.3	-14.3	-9.5	-14.7	-17.9
Total of smaller countries	-21.6	-1.4	6.0	1.4	-2.4	-3.1	-3.2	-25.8	-36.7	-37.8	-32.8	-8.7	-6.9	22.2	14.8	18.9	32.1	12.3	0.1	-13.9
Total OECD	-20.7	-15.6	-41.8	-41.0	-6.5	-21.2	0.6	-32.0	-43.9	-18.0	13.8	69.4	62.4	107.1	64.5	68.8	26.5	-122.6	-182.1	-177.1
Memorandum item																				
European Union	-15.6	-4.1	1.9	9.7	43.5	30.3	19.5	2.0	-2.9	-32.9	-7.8	73.5	93.4	135.8	162.5	167.3	141.8	85.6	77.8	86.5
Euro area	-13.1	0.3	10.1	17.4	57.9	49.6	56.9	43.1	31.6	-16.4	13.0	89.0	104.8	145.3	172.1	178.3	170.2	127.6	124.4	132.6

a) Including Luxembourg until 1994.

Annex Table 49. **Non-factors services, net**

Billions US dollars

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	12.3	9.3	3.4	0.3	5.3	6.8	11.5	23.7	29.1	44.6	59.1	62.7	67.8	76.2	86.9	91.9	82.6	79.4	79.1	80.2
Japan	-11.6	-12.2	-12.0	-9.5	-12.8	-20.3	-30.3	-36.8	-42.7	-41.9	-44.0	-43.0	-47.9	-57.3	-62.3	-54.1	-49.3	-53.2	-60.1	-62.9
Germany	-7.4	-6.6	-4.9	-4.0	-6.2	-9.7	-13.3	-12.7	-17.3	-21.4	-30.4	-33.0	-39.7	-45.3	-44.0	-41.4	-44.0	-45.6	-47.2	-50.4
France	7.9	8.6	8.9	9.6	10.0	10.4	10.7	13.6	14.9	16.6	19.5	17.3	17.8	17.9	16.3	17.6	18.7	17.6	18.7	19.7
Italy	2.3	3.7	3.3	3.4	3.4	3.5	1.3	-0.2	-0.2	0.3	-3.8	-0.1	1.9	1.7	2.0	2.1	4.0	2.0	4.0	6.3
United Kingdom	5.3	5.8	5.6	8.2	9.1	10.9	7.7	6.4	7.1	7.9	10.0	9.9	10.0	14.1	13.9	19.5	20.3	18.1	19.8	22.0
Canada	-3.6	-3.8	-3.9	-4.1	-4.1	-4.6	-5.4	-6.9	-9.1	-10.0	-10.1	-10.5	-8.5	-7.4	-6.4	-6.5	-4.7	-3.6	-2.8	-2.5
Total of major countries	5.3	4.9	0.5	3.9	4.7	-2.9	-17.8	-12.8	-18.3	-3.8	0.3	3.2	1.3	-0.1	6.4	29.0	27.5	14.8	11.5	12.5
Australia	-3.2	-2.8	-3.7	-3.5	-2.9	-2.6	-2.4	-4.3	-3.6	-2.5	-2.6	-1.5	-1.3	-1.0	0.0	-0.1	-0.9	-1.0	-0.5	-0.4
Austria	4.2	3.9	3.5	3.4	5.0	5.5	5.5	6.9	9.2	10.1	9.4	7.5	7.3	4.6	4.6	1.0	2.2	3.6	4.1	3.9
Belgium [a]	1.4	2.0	1.2	1.0	2.0	3.5	2.8	0.6	1.9	1.9	2.9	3.3	4.0	0.1	0.4	1.2	0.5	2.2	2.1	2.4
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	1.0	0.5	1.8	1.9	1.8	1.9	1.6	1.9	2.0
Denmark	0.9	0.6	0.8	0.7	0.3	0.5	0.8	0.7	1.8	3.0	2.6	1.9	0.7	0.8	1.5	0.2	-0.6	-0.1	-0.4	-0.5
Finland	0.2	0.0	-0.2	-0.5	-0.7	-1.2	-1.7	-2.1	-3.0	-3.2	-2.5	-2.0	-1.4	-2.1	-1.3	-1.2	-1.3	-1.5	-1.6	-1.8
Greece	1.8	1.4	1.4	1.2	1.6	2.6	2.9	2.4	3.6	4.0	5.0	4.7	5.4	5.2	5.1	4.6	5.3	6.1	6.5	7.2
Hungary	..	..	..	..	..	..	..	..	..	..	..	0.2	0.2	0.6	1.5	1.4	0.7	0.6	0.8	0.6
Iceland	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Ireland	-0.2	-0.2	-0.3	-0.2	-0.6	-0.9	-1.4	-1.8	-1.7	-2.0	-3.1	-3.0	-4.1	-6.3	-7.7	-9.0	-13.3	-15.1	-16.8	-18.6
Korea	0.3	0.4	0.4	0.5	1.4	2.3	2.3	0.4	-0.6	-2.2	-2.9	-2.1	-1.8	-3.0	-6.2	-3.2	0.4	-3.5	-7.4	-11.6
Mexico	-1.7	-0.3	-0.3	-0.6	-0.4	0.3	0.0	-0.5	-1.9	-1.8	-2.3	-2.1	-2.0	0.7	0.5	-0.5	-0.6	-0.6	-0.6	-1.1
Netherlands	-0.3	-0.6	-0.6	-1.2	-1.2	-1.4	-2.2	-0.7	0.7	-0.7	0.3	0.7	1.4	2.2	3.8	5.7	5.1	3.3	3.2	3.3
New Zealand	-0.8	-0.5	-0.3	-0.4	-0.5	-0.5	-0.6	-0.8	-0.8	-0.8	-0.9	-0.6	-0.3	-0.2	-0.3	-0.7	-0.8	-0.2	-0.1	0.0
Norway	0.8	0.0	-0.2	0.0	-0.5	-1.1	-0.6	0.1	0.4	0.6	-1.1	-1.1	0.2	0.2	0.6	-0.2	-1.2	-1.7	-1.9	-2.4
Poland	..	..	..	..	..	..	..	..	..	..	..	0.4	2.8	3.5	3.4	3.2	3.4	2.9	3.2	3.8
Portugal	0.1	0.3	0.4	0.7	0.8	1.0	0.8	1.0	1.1	0.8	0.7	1.4	1.2	1.6	1.4	1.3	1.6	1.2	1.4	1.5
Spain	5.6	6.3	7.9	8.1	11.8	13.4	13.9	12.7	11.8	12.1	12.4	11.3	14.5	17.8	19.8	19.3	21.2	22.3	24.4	27.1
Sweden	-0.4	0.1	0.0	-0.6	-1.8	-1.7	-2.2	-3.0	-3.3	-2.6	-2.2	0.1	0.2	-0.5	-1.2	-1.8	-2.6	-3.6	-4.6	-5.2
Switzerland	4.2	4.4	4.4	4.8	6.6	8.3	8.2	8.0	9.4	10.3	10.7	11.4	11.4	12.9	12.4	13.0	12.8	12.7	12.9	13.5
Turkey	0.9	0.8	0.9	1.5	1.6	2.1	3.7	3.9	4.9	5.2	5.8	6.7	7.0	9.6	6.6	11.4	13.1	12.5	13.4	14.2
Total of smaller countries	13.8	15.8	15.3	14.9	22.4	30.4	29.8	23.5	29.8	32.2	32.0	38.3	46.1	48.8	47.0	47.4	46.9	41.9	40.2	38.0
Total OECD	19.1	20.7	15.9	18.8	27.2	27.4	12.0	10.7	11.5	28.4	32.3	41.5	47.4	48.6	53.5	76.4	74.4	56.7	51.6	50.5
Memorandum item																				
European Union	21.5	25.4	27.0	29.8	33.5	36.7	25.4	23.6	26.5	26.9	20.6	20.2	19.3	11.9	14.6	19.0	17.0	10.6	13.7	17.0
Euro area	13.9	17.4	19.3	20.3	24.3	24.3	16.2	17.2	17.3	14.6	5.4	3.5	2.9	-7.7	-4.6	-3.5	-5.4	-9.8	-7.6	-6.5

a) Including Luxembourg until 1994.

Annex Table 50. **Investment income, net**

Billions US dollars

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
United States	35.1	36.3	35.0	25.6	15.4	14.2	18.5	19.7	28.4	24.0	22.3	23.2	15.9	19.4	17.2	3.2	-12.2	-19.2	-31.9	-42.7
Japan	1.7	3.1	4.2	6.7	9.3	16.2	20.6	23.0	22.7	26.0	35.6	40.8	40.4	44.2	53.5	55.7	56.5	54.5	66.1	71.9
Germany	0.0	2.9	4.7	4.7	5.3	5.2	9.4	14.3	20.6	20.3	21.8	16.6	2.9	0.2	1.2	-1.8	-9.2	-10.7	-10.9	-9.2
France	0.2	-1.5	-2.4	-2.3	-1.7	-1.7	-1.0	-0.3	-1.6	-3.3	-6.0	-6.6	-6.0	-8.2	-2.0	1.5	5.0	2.3	5.1	6.6
Italy	-2.4	-2.5	-2.5	-2.7	-4.2	-4.9	-5.5	-7.3	-14.7	-17.6	-22.0	-17.2	-16.5	-15.5	-15.0	-11.2	-12.4	-8.4	-9.2	-9.6
United Kingdom	2.6	4.3	5.8	3.0	6.8	2.5	2.3	-0.1	-1.0	-3.4	3.7	1.0	11.9	9.4	12.7	17.9	25.2	12.7	12.6	12.4
Canada	-9.6	-12.6	-12.4	-12.8	-14.0	-17.1	-17.5	-20.5	-19.4	-17.4	-17.5	-20.8	-18.9	-22.7	-21.5	-21.4	-19.6	-19.8	-20.9	-21.5
Total of major countries	27.6	30.0	32.4	22.1	16.8	14.4	27.0	28.8	35.0	28.5	38.0	37.0	29.7	26.9	46.0	43.9	33.3	11.4	10.8	8.0
Australia	-2.5	-3.2	-4.1	-4.5	-4.9	-5.8	-8.4	-10.5	-13.2	-12.2	-10.1	-8.1	-12.5	-14.4	-15.4	-14.3	-11.2	-11.5	-12.7	-13.2
Austria	-0.4	-0.4	-0.4	-0.2	-0.7	-0.9	-0.9	-0.9	-1.0	-1.4	-1.4	-1.1	-1.3	-1.6	-0.3	-0.3	-1.2	-1.3	-1.3	-1.2
Belgium [a]	-0.2	-0.1	0.0	-0.1	0.2	0.4	0.5	2.6	2.3	3.2	2.8	4.8	5.2	4.1	4.5	4.2	4.3	4.2	5.1	5.8
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	-0.1	0.0	-0.1	-0.7	-0.8	-0.7	-0.5	-0.7	-0.9
Denmark	-2.2	-2.1	-2.3	-2.6	-3.5	-4.1	-3.9	-3.9	-5.2	-5.3	-5.0	-4.0	-3.9	-3.8	-3.8	-3.4	-3.6	-3.5	-3.2	-3.2
Finland	-1.2	-1.1	-1.1	-1.0	-1.3	-1.6	-1.7	-2.7	-3.8	-4.7	-5.5	-4.9	-4.4	-4.5	-3.9	-2.9	-2.6	-2.3	-2.3	-2.4
Greece	-0.6	-0.8	-1.0	-1.1	-1.3	-1.4	-1.5	-1.6	-1.7	-1.8	-2.1	-1.4	-1.2	-1.7	-2.2	-1.6	-1.5	-2.1	-2.2	-2.2
Hungary	..	..	..	..	..	..	..	..	..	..	..	-1.2	-1.4	-1.8	-1.5	-1.4	-1.9	-1.7	-1.8	-1.8
Iceland	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Ireland	-1.4	-1.6	-1.8	-2.1	-2.6	-3.1	-3.9	-4.3	-5.0	-4.6	-5.6	-5.3	-5.4	-7.3	-8.2	-9.7	-10.7	-12.0	-14.2	-16.1
Korea	-0.6	-0.8	-1.3	-2.1	-2.3	-1.6	-1.3	-0.6	-0.1	-0.2	-0.4	-0.4	-0.5	-1.3	-1.8	-2.5	-4.8	-3.8	-1.7	-1.2
Mexico	-12.3	-9.1	-10.1	-9.0	-7.5	-6.8	-7.2	-8.3	-8.6	-8.6	-9.6	-11.4	-13.0	-13.3	-13.9	-12.8	-13.5	-14.7	-16.1	-16.3
Netherlands	0.4	1.1	1.4	-0.2	-0.2	1.4	1.1	2.8	-0.6	0.7	-0.8	0.5	3.0	6.3	4.7	9.6	5.4	5.2	6.6	7.3
New Zealand	-0.7	-0.9	-1.1	-1.3	-1.5	-2.0	-2.1	-1.9	-1.6	-2.5	-2.2	-2.3	-3.3	-4.0	-4.7	-4.9	-3.1	-3.7	-4.0	-4.2
Norway	-1.9	-1.7	-1.6	-1.1	-1.2	-1.3	-2.0	-2.6	-2.7	-2.7	-3.4	-3.3	-2.2	-1.9	-1.8	-1.5	-0.9	-0.9	-0.5	-0.3
Poland	..	..	..	..	..	..	..	..	..	..	..	-3.4	-2.6	-2.0	-1.1	-1.1	-1.1	-0.7	0.2	0.8
Portugal	-1.3	-1.1	-1.2	-1.1	-1.0	-0.8	-0.8	-0.6	-0.1	0.2	0.6	0.2	-0.6	0.0	-1.0	-0.5	-0.6	-0.7	-0.7	-0.8
Spain	-2.2	-2.3	-2.3	-1.7	-1.8	-2.6	-3.3	-2.8	-3.5	-4.3	-5.8	-3.6	-7.8	-4.1	-6.1	-6.7	-7.5	-7.0	-7.1	-7.2
Sweden	-1.7	-1.8	-1.9	-2.0	-2.0	-1.6	-1.8	-2.3	-4.5	-6.4	-10.0	-8.8	-5.9	-6.5	-7.5	-5.9	-5.8	-6.4	-6.0	-6.0
Switzerland	3.9	4.3	5.0	5.0	5.8	6.8	8.9	8.1	8.7	8.9	8.3	9.1	7.8	11.8	12.6	13.6	13.8	13.7	15.1	16.1
Turkey	-1.5	-1.4	-1.5	-1.6	-1.9	-2.1	-2.5	-2.3	-2.5	-2.7	-2.6	-2.7	-3.3	-3.2	-2.9	-3.0	-2.6	-6.7	-6.2	-6.8
Total of smaller countries	-26.6	-23.1	-25.3	-26.8	-27.8	-27.2	-31.1	-32.2	-43.3	-44.7	-52.9	-47.5	-53.4	-49.4	-55.1	-45.9	-50.1	-56.4	-53.8	-54.0
Total OECD	1.0	6.9	7.1	-4.7	-11.0	-12.8	-4.1	-3.3	-8.4	-16.2	-14.9	-10.5	-23.7	-22.5	-9.1	-2.0	-16.8	-45.0	-43.0	-46.0
Memorandum item																				
European Union	-10.4	-7.0	-4.9	-9.5	-8.0	-13.1	-10.9	-7.2	-19.9	-28.6	-35.1	-29.6	-30.1	-33.1	-26.9	-10.6	-15.3	-30.0	-27.8	-25.8
Euro area	-8.5	-6.6	-5.5	-6.8	-8.0	-8.4	-6.0	0.8	-7.5	-11.7	-21.8	-16.5	-30.9	-30.5	-26.0	-17.6	-29.6	-30.8	-29.0	-26.8

a) Including Luxembourg until 1994.

Annex Table 51. **Current account balances**

Billions US dollars

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections		
																		1999	2000	2001
United States	-6.2	-39.2	-94.8	-119.1	-149.2	-162.7	-123.1	-98.9	-79.3	4.3	-50.6	-85.3	-121.7	-113.6	-129.3	-143.5	-220.6	-337.5	-411.6	-421.8
Japan	6.8	20.8	35.0	50.2	84.5	84.3	79.2	63.1	44.7	68.2	112.4	131.9	130.5	110.4	65.8	94.5	120.6	119.7	134.7	143.4
Germany	5.8	5.8	10.6	18.9	41.0	46.7	53.7	58.1	49.8	-17.1	-13.3	-8.9	-22.9	-19.0	-5.6	-1.7	-4.2	-1.1	2.6	10.4
France	-12.0	-5.0	-0.8	-0.2	2.4	-4.5	-4.6	-4.6	-9.8	-5.7	4.8	9.7	7.4	10.8	20.6	37.6	40.2	34.3	34.2	38.0
Italy	-7.2	0.8	-3.1	-4.2	2.2	-2.5	-6.8	-12.8	-17.2	-24.1	-30.2	8.3	13.7	25.7	40.5	33.6	19.8	6.8	6.7	10.9
United Kingdom	8.1	5.4	2.0	2.9	-1.3	-9.1	-31.2	-38.4	-34.7	-14.8	-17.7	-15.9	-2.2	-5.9	-0.9	10.1	0.2	-22.0	-22.4	-19.8
Canada	1.8	-2.5	-1.3	-5.7	-11.2	-13.5	-14.9	-21.8	-19.8	-22.4	-21.1	-21.7	-13.0	-4.4	3.3	-10.3	-11.1	-1.6	-0.7	-0.8
Total of major countries	-2.7	-14.0	-52.5	-57.2	-31.5	-61.2	-47.6	-55.3	-66.3	-11.6	-15.7	18.0	-8.1	4.1	-5.6	20.3	-55.1	-201.4	-256.4	-239.7
Australia	-8.5	-6.3	-8.9	-9.2	-9.8	-8.0	-11.7	-18.2	-16.0	-11.2	-11.2	-9.9	-17.4	-19.6	-16.0	-12.8	-17.6	-22.6	-20.6	-19.2
Austria	0.7	0.3	-0.2	-0.1	0.3	-0.2	-0.3	0.3	1.2	0.0	-0.8	-1.0	-2.9	-5.4	-4.8	-5.3	-4.6	-5.5	-6.1	-6.6
Belgium [a]	-2.3	0.0	0.1	0.7	3.5	3.7	4.0	3.5	3.7	4.9	6.7	11.3	12.5	11.4	11.3	11.4	10.9	8.0	8.4	9.7
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	0.5	-0.8	-1.4	-4.3	-3.3	-1.1	-0.5	-0.7	-0.9
Denmark	-2.3	-1.4	-1.7	-2.7	-4.5	-3.0	-1.5	-1.4	1.2	1.8	3.8	4.5	2.8	1.7	3.2	0.9	-2.1	-0.4	-0.4	0.0
Finland	-0.9	-1.1	0.0	-0.8	-0.7	-1.7	-2.7	-5.8	-7.0	-6.7	-4.9	-1.1	1.2	5.2	5.0	6.5	7.3	6.8	7.7	8.8
Greece	-1.9	-1.9	-2.1	-3.3	-1.7	-1.2	-1.0	-2.6	-3.5	-1.6	-2.1	-0.7	-0.1	-2.9	-4.6	-4.9	-3.6	-3.7	-4.3	-4.7
Hungary	..	..	..	..	..	..	..	..	..	..	..	-4.3	-4.1	-2.5	-1.7	-1.0	-2.3	-2.5	-2.8	-3.0
Iceland	-0.3	-0.1	-0.1	-0.1	0.0	-0.2	-0.2	-0.1	-0.1	-0.3	-0.2	0.0	0.1	0.1	-0.1	-0.1	-0.5	-0.4	-0.5	-0.6
Ireland	-1.9	-1.2	-1.0	-0.8	-0.9	-0.1	0.0	-0.6	-0.4	0.3	0.6	1.8	1.5	1.7	2.0	1.9	0.8	0.3	-1.4	-2.6
Korea	-2.5	-1.5	-1.3	-0.8	4.7	10.1	14.5	5.4	-2.0	-8.3	-3.9	1.0	-3.9	-8.5	-23.0	-8.2	40.0	25.2	16.1	11.5
Mexico	-5.9	5.9	4.2	0.8	-1.4	4.2	-2.4	-5.8	-7.5	-14.6	-24.4	-23.4	-29.7	-1.6	-2.3	-7.4	-16.0	-14.1	-16.8	-21.7
Netherlands	5.0	5.0	6.3	4.4	4.4	4.2	7.0	10.0	9.2	7.8	7.4	13.6	17.8	24.2	22.1	28.3	21.5	14.4	15.7	17.3
New Zealand	-1.7	-1.0	-1.9	-1.6	-1.8	-1.8	-0.5	-1.6	-1.2	-0.9	-1.1	-0.5	-1.1	-2.8	-4.0	-4.4	-2.6	-3.9	-3.7	-3.7
Norway	0.6	2.0	2.9	3.0	-4.5	-4.1	-3.9	0.2	4.0	5.0	3.0	2.2	3.8	4.9	10.2	8.0	-2.2	6.4	17.1	17.5
Poland	..	..	..	..	..	..	..	..	..	..	..	-4.6	1.0	0.9	-3.3	-5.7	-7.9	-10.8	-10.7	-10.8
Portugal	-3.2	-1.6	-0.6	0.4	1.2	0.4	-1.0	0.2	-0.2	-0.7	-0.3	0.3	-2.2	-0.2	-4.5	-5.5	-7.2	-7.7	-8.8	-9.8
Spain	-4.5	-2.9	1.8	2.8	3.9	-0.2	-3.7	-10.9	-18.1	-19.7	-21.3	-6.0	-6.7	0.2	0.2	2.3	-1.5	-6.8	-13.6	-19.6
Sweden	-3.3	-0.7	0.7	-1.0	0.0	0.0	-0.6	-3.1	-6.3	-4.7	-7.4	-2.7	2.4	7.2	7.2	7.6	5.8	4.2	4.5	5.2
Switzerland	3.9	3.8	4.4	5.0	6.9	7.6	9.0	7.0	8.6	10.6	15.1	19.5	17.5	21.3	22.0	22.8	21.4	20.9	19.9	19.8
Turkey	-1.0	-1.8	-1.4	-1.0	-1.5	-0.8	1.6	0.9	-2.6	0.3	-1.0	-6.4	2.6	-2.3	-2.4	-2.2	1.9	1.0	-1.8	-5.4
Total of smaller countries	-30.0	-4.5	1.1	-4.3	-1.8	9.0	6.7	-22.5	-37.0	-38.0	-42.2	-5.9	-5.8	31.6	12.3	29.2	40.5	8.2	-2.8	-18.9
Total OECD	-32.7	-18.5	-51.4	-61.5	-33.4	-52.3	-40.9	-77.8	-103.2	-49.6	-57.9	12.1	-13.9	35.7	6.7	49.5	-14.6	-193.2	-259.2	-258.5
Memorandum item																				
European Union	-19.9	1.5	11.9	17.0	49.9	32.5	11.4	-8.1	-32.1	-80.2	-74.7	13.2	22.2	54.9	91.8	122.9	83.1	27.5	22.8	37.1
Euro area	-20.5	0.1	13.1	21.1	57.3	45.9	45.7	37.4	11.2	-61.0	-51.3	28.0	19.4	54.8	86.8	109.2	82.8	49.4	45.3	56.5

a) Including Luxembourg until 1994.

Note: The balance-of-payments data in this table are derived from OECD countries' submission and publications. They are based on the concepts and definitions of the IMF *Balance of Payments Manual*.

Annex Table 52. **Current account balances as a percentage of GDP**

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections		
																		1999	2000	2001
United States	-0.2	-1.1	-2.4	-2.8	-3.4	-3.4	-2.4	-1.8	-1.4	0.1	-0.8	-1.3	-1.7	-1.5	-1.7	-1.7	-2.5	-3.7	-4.2	-4.2
Japan	0.6	1.8	2.8	3.7	4.2	3.5	2.7	2.2	1.5	2.0	3.0	3.1	2.8	2.1	1.4	2.3	3.2	2.7	2.8	3.0
Germany	0.9	0.8	1.7	2.9	4.5	4.1	4.4	4.8	3.2	-1.0	-0.7	-0.5	-1.1	-0.8	-0.2	-0.1	-0.2	0.0	0.1	0.5
France	-2.1	-0.9	-0.1	-0.1	0.3	-0.5	-0.5	-0.5	-0.8	-0.5	0.4	0.8	0.5	0.7	1.3	2.7	2.8	2.4	2.3	2.4
Italy	-1.8	0.2	-0.8	-1.0	0.3	-0.3	-0.8	-1.5	-1.6	-2.1	-2.5	0.9	1.3	2.3	3.3	2.9	1.7	0.6	0.6	0.9
United Kingdom	1.7	1.2	0.5	0.6	-0.2	-1.3	-3.8	-4.6	-3.6	-1.4	-1.7	-1.7	-0.2	-0.5	-0.1	0.8	0.0	-1.5	-1.5	-1.2
Canada	0.6	-0.8	-0.4	-1.6	-3.0	-3.2	-3.0	-3.9	-3.4	-3.8	-3.6	-3.9	-2.3	-0.8	0.5	-1.6	-1.8	-0.3	-0.1	-0.1
Total of major countries	0.0	-0.2	-0.7	-0.7	-0.3	-0.6	-0.4	-0.4	-0.5	-0.1	-0.1	0.1	0.0	0.0	0.0	0.1	-0.3	-1.0	-1.2	-1.1
Australia	-4.8	-3.7	-4.7	-5.5	-5.7	-3.9	-4.5	-6.2	-5.2	-3.6	-3.7	-3.3	-5.1	-5.4	-3.9	-3.2	-4.8	-5.7	-4.9	-4.3
Austria	1.1	0.3	-0.3	-0.1	0.3	-0.2	-0.2	0.2	0.8	0.0	-0.4	-0.5	-1.5	-2.3	-2.1	-2.6	-2.2	-2.6	-2.8	-2.9
Belgium [a]	-2.5	0.0	0.1	0.9	3.0	2.6	2.5	2.2	1.9	2.4	3.0	5.3	5.3	4.1	4.2	4.7	4.4	3.2	3.3	3.6
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	1.3	-1.9	-2.6	-7.4	-6.1	-1.9	-0.8	-1.2	-1.4
Denmark	-3.9	-2.4	-3.1	-4.6	-5.3	-2.9	-1.4	-1.3	0.9	1.4	2.6	3.3	1.8	1.0	1.8	0.6	-1.2	-0.3	-0.2	0.0
Finland	-1.9	-2.3	-0.1	-1.5	-1.0	-1.9	-2.6	-5.0	-5.1	-5.4	-4.5	-1.3	1.3	4.0	3.9	5.4	5.7	5.3	5.6	6.0
Greece	-4.1	-4.4	-5.1	-8.0	-3.5	-2.1	-1.4	-3.8	-4.2	-1.7	-2.2	-0.8	-0.2	-2.4	-3.7	-4.0	-3.0	-2.9	-3.3	-3.4
Hungary	..	..	..	..	..	..	..	..	..	..	..	-11.0	-9.7	-5.5	-3.8	-2.1	-4.8	-5.1	-5.2	-5.3
Iceland	-7.8	-2.0	-4.7	-3.8	0.5	-3.3	-3.7	-1.9	-2.1	-4.7	-3.2	0.1	1.8	0.7	-1.6	-1.4	-5.7	-4.7	-5.3	-5.4
Ireland	-9.2	-5.8	-5.3	-3.7	-3.1	-0.2	0.0	-1.5	-0.8	0.7	1.0	3.7	2.7	2.6	2.8	2.5	0.9	0.3	-1.4	-2.3
Korea	-3.4	-1.8	-1.4	-0.8	4.3	7.4	7.9	2.4	-0.8	-2.8	-1.2	0.3	-1.0	-1.7	-4.4	-1.5	12.6	6.2	3.6	2.4
Mexico	-2.0	4.6	2.4	0.8	-0.8	2.7	-1.3	-2.6	-2.8	-4.6	-6.7	-5.8	-7.1	-0.5	-0.7	-1.9	-3.9	-3.0	-3.1	-3.5
Netherlands	3.4	3.5	4.8	3.2	2.4	1.9	2.9	4.2	3.1	2.6	2.2	4.2	5.1	5.8	5.4	7.5	5.5	3.6	3.8	4.0
New Zealand	-7.3	-4.4	-8.6	-7.3	-6.4	-5.1	-1.1	-3.7	-2.8	-2.2	-2.7	-1.2	-2.2	-4.7	-6.1	-6.7	-5.0	-7.2	-6.7	-6.2
Norway	1.0	3.3	4.8	4.9	-6.0	-4.5	-4.0	0.2	3.3	4.3	2.3	1.8	3.0	3.3	6.5	5.2	-1.5	4.2	10.4	10.2
Poland	..	..	..	..	..	..	..	..	..	..	..	-5.2	1.0	0.7	-2.3	-4.0	-5.0	-7.1	-6.7	-6.3
Portugal	-11.6	-6.2	-2.6	1.5	3.3	1.0	-2.1	0.3	-0.3	-0.9	-0.2	0.4	-2.5	-0.1	-4.2	-5.4	-6.7	-7.1	-7.6	-8.0
Spain	-2.4	-1.7	1.1	1.6	1.6	0.0	-1.0	-2.7	-3.5	-3.6	-3.5	-1.2	-1.3	0.0	0.0	0.4	-0.2	-1.1	-2.2	-2.9
Sweden	-3.3	-0.8	0.7	-1.0	0.0	0.0	-0.3	-1.6	-2.6	-1.9	-2.9	-1.3	1.2	3.0	2.8	3.2	2.4	1.7	1.8	1.9
Switzerland	3.9	3.8	4.6	5.2	5.0	4.4	4.8	3.9	3.7	4.6	6.2	8.2	6.7	6.9	7.4	8.9	8.2	8.1	7.5	7.2
Turkey	-1.4	-2.9	-2.4	-1.5	-1.9	-0.9	2.0	0.9	-1.7	0.1	-0.6	-3.6	2.2	-1.5	-1.3	-1.2	1.1	0.6	-0.9	-2.3
Total of smaller countries	-2.0	-0.3	0.1	-0.3	-0.1	0.4	0.3	-0.8	-1.1	-1.1	-1.1	-0.2	-0.1	0.7	0.3	0.7	0.9	0.2	-0.1	-0.4
Total OECD	-0.4	-0.2	-0.6	-0.7	-0.3	-0.4	-0.3	-0.5	-0.6	-0.3	-0.3	0.1	-0.1	0.2	0.0	0.2	-0.1	-0.8	-1.0	-0.9
Memorandum item																				
European Union	-0.7	0.1	0.4	0.6	1.3	0.7	0.2	-0.1	-0.5	-1.1	-1.0	0.2	0.3	0.6	1.0	1.5	1.0	0.3	0.3	0.4
Euro area	-0.9	0.0	0.6	1.0	1.9	1.2	1.1	0.9	0.2	-1.1	-0.8	0.5	0.3	0.8	1.2	1.7	1.3	0.8	0.7	0.8

a) Including Luxembourg until 1994.

Annex Table 53. Structure of current account balances of major world regions[a]

Billions US dollars

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Estimates and projections 1999	2000	2001
Trade balance																				
OECD	-21	-16	-42	-41	-7	-21	1	-32	-44	-18	14	69	62	107	64	69	27	-123	-182	-177
Non-OECD *of which:*	35	34	61	52	15	49	29	50	61	49	31	-8	21	2	25	35	32	129	176	166
China	4	2	0	-13	-9	-2	-5	-6	9	9	5	-11	7	18	20	46	47	30	29	28
Dynamic Asia[b]	-6	-4	12	18	22	28	21	22	10	10	8	6	1	-15	-9	-1	65	66	59	53
Other Asia	-13	-11	-12	-13	-14	-13	-14	-13	-13	-9	-12	-14	-17	-22	-26	-27	-26	-28	-30	-31
Latin America	0	16	24	24	11	10	20	27	29	18	8	1	1	-9	-7	-19	-31	-7	-3	-5
Africa and Middle-East	39	19	23	31	-3	14	2	25	48	21	19	10	19	22	46	40	-17	53	100	100
Central and Eastern Europe	11	12	13	5	8	12	6	-6	-23	1	2	0	10	9	2	-4	-5	16	21	21
World[c]	14	18	19	11	9	28	29	18	17	31	45	62	83	109	89	104	59	7	-6	-11
Services and private transfers, net																				
OECD	14	21	17	8	8	-1	-9	-10	-18	-9	-9	13	3	1	14	45	31	-15	-16	-19
Non-OECD *of which:*	-89	-75	-79	-74	-57	-59	-65	-75	-80	-81	-76	-73	-71	-103	-97	-116	-133	-121	-128	-129
China	1	2	2	2	2	2	1	1	3	4	0	-2	0	-17	-14	-21	-21	-24	-27	-27
Dynamic Asia[b]	-6	-8	-11	-10	-5	-7	-6	-6	-4	-4	-1	-2	0	-2	1	0	-15	-17	-16	-16
Other Asia	8	9	8	7	6	6	4	3	0	1	3	3	7	7	7	11	12	17	21	23
Latin America	-35	-30	-31	-28	-28	-26	-29	-31	-25	-6	-9	-10	-20	-29	-32	-43	-47	-43	-42	-41
Africa and Middle-East	-59	-53	-52	-46	-34	-36	-36	-44	-55	-71	-58	-56	-54	-52	-54	-54	-51	-47	-53	-56
Central and Eastern Europe	3	4	5	1	1	1	1	1	1	-4	-10	-6	-4	-10	-5	-9	-11	-8	-10	-11
World[c]	-75	-55	-62	-66	-49	-61	-74	-85	-98	-90	-84	-60	-67	-102	-83	-71	-102	-136	-144	-148
Official transfers, net																				
OECD	-26	-24	-26	-29	-35	-30	-33	-36	-41	-23	-63	-70	-80	-72	-72	-65	-72	-56	-61	-62
Non-OECD *of which:*	-2	-2	0	5	5	5	8	8	3	-10	20	19	14	16	18	23	23	25	24	25
China	1	0	0	0	0	0	0	0	0	0	1	1	-1	1	1	4	4	4	4	4
Dynamic Asia[b]	0	0	0	0	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Other Asia	-3	-3	-2	-2	-2	-1	-1	-2	-2	1	2	1	2	2	1	2	2	3	3	3
Latin America	1	1	1	1	1	2	1	2	2	3	3	3	4	4	4	5	5	6	6	5
Africa and Middle-East	-1	-1	1	5	5	3	6	7	2	-20	10	9	8	7	8	8	8	8	8	9
Central and Eastern Europe	0	0	0	0	0	0	0	0	1	6	4	4	1	2	2	3	2	2	2	2
World[c]	-28	-25	-26	-24	-29	-25	-25	-28	-38	-33	-43	-51	-66	-56	-55	-42	-49	-31	-36	-38
Current balance																				
OECD	-33	-19	-51	-62	-33	-52	-41	-78	-103	-50	-58	12	-14	36	7	49	-15	-193	-259	-259
Non-OECD *of which:*	-57	-43	-17	-18	-36	-5	-29	-17	-16	-41	-25	-61	-36	-85	-54	-58	-77	33	72	62
China	6	4	2	-11	-7	0	-4	-4	12	13	6	-12	7	2	7	30	29	11	6	5
Dynamic Asia[b]	-12	-11	2	8	17	22	16	17	6	6	8	5	1	-17	-8	0	51	50	43	38
Other Asia	-7	-5	-7	-9	-9	-9	-12	-11	-15	-8	-7	-9	-9	-13	-17	-14	-12	-9	-6	-5
Latin America	-35	-13	-5	-3	-15	-14	-7	-2	6	14	2	-6	-15	-34	-36	-56	-72	-44	-39	-41
Africa and Middle-East	-21	-35	-27	-10	-32	-19	-28	-12	-5	-70	-30	-37	-27	-23	0	-6	-60	14	55	53
Central and Eastern Europe	13	16	18	6	10	13	7	-4	-21	3	-4	-3	7	1	-1	-11	-14	10	13	12
World[c]	-89	-62	-68	-79	-70	-58	-70	-95	-119	-91	-83	-49	-50	-49	-48	-9	-92	-160	-187	-196

a) Historical data for the OECD area are aggregates of reported balance-of-payments data of each individual country. Because of various statistical problems as weill as a large number of non-reporters among non-OECD countries, trade and current account balances estimated on the basis of theses countries'own balance-of-payments records may differ from corresponding estimates shown in this table.

b) Dynamic Asia include Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore and Thailand.

c) 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.

Annex Table 54. **Semiannual demand and output projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	1999	2000	2001	1999 I	1999 II	2000 I	2000 II	2001 I	2001 II
Private consumption									
United States	5.1	3.4	1.6	5.7	4.4	3.6	2.1	1.7	0.8
Japan	1.7	1.6	1.8	3.2	1.0	1.8	1.8	1.7	1.7
Germany	1.7	2.2	2.4	1.3	2.2	2.1	2.3	2.5	2.5
France	2.3	2.7	2.8	1.5	3.3	2.3	2.9	2.8	2.7
Italy	1.4	2.0	2.4	1.0	1.7	2.1	2.3	2.4	2.4
United Kingdom	3.9	2.6	2.2	5.4	2.8	2.6	2.5	2.2	2.0
Canada	2.4	2.3	2.4	2.8	2.2	2.3	2.4	2.4	2.5
Total of above countries	3.5	2.7	1.9	4.0	3.1	2.8	2.2	2.0	1.6
European Union	2.6	2.6	2.6	2.6	2.7	2.6	2.7	2.6	2.6
Euro area	2.4	2.6	2.7	2.1	2.7	2.5	2.7	2.7	2.7
Total OECD	3.5	2.9	2.3	4.1	3.2	3.0	2.5	2.3	2.0
Public consumption									
United States	2.3	2.6	1.3	2.0	3.2	2.8	1.8	0.9	1.6
Japan	0.7	0.8	0.7	0.6	0.6	0.8	0.9	0.5	1.0
Germany	0.7	0.5	0.5	3.5	-1.0	1.0	0.8	0.5	0.4
France	1.5	1.3	0.9	1.2	2.8	0.7	0.9	0.9	0.9
Italy	2.4	1.1	0.4	2.8	1.8	1.0	0.6	0.4	0.3
United Kingdom	3.7	2.6	2.2	4.8	3.0	2.6	2.4	2.2	2.2
Canada	1.4	1.5	1.6	1.6	1.3	1.5	1.5	1.6	1.5
Total of above countries	1.9	1.8	1.1	2.1	2.1	1.9	1.4	0.8	1.3
European Union	1.9	1.4	1.2	2.7	1.6	1.4	1.3	1.2	1.2
Euro area	1.6	1.1	1.0	2.5	1.2	1.1	1.1	1.0	1.0
Total OECD	1.9	1.9	1.3	2.1	2.2	1.9	1.6	1.1	1.4
Investment									
United States	8.3	3.9	4.1	9.8	6.5	2.6	3.9	4.2	4.1
Japan	1.2	-0.2	-0.2	7.3	-1.9	0.5	0.3	-1.1	0.9
Germany	3.2	2.8	3.6	4.4	2.6	2.7	3.3	3.6	3.8
France	6.5	5.2	4.5	7.1	5.0	5.4	4.9	4.5	4.2
Italy	2.9	4.0	3.9	3.7	3.8	4.1	3.9	4.0	3.9
United Kingdom	4.9	3.0	2.6	3.1	3.5	3.0	2.7	2.6	2.6
Canada	8.8	6.3	4.6	12.3	8.0	5.8	5.4	4.4	4.2
Total of above countries	5.8	3.2	3.2	7.8	4.1	2.7	3.3	3.1	3.4
European Union	4.7	4.2	4.2	5.2	4.1	4.3	4.2	4.2	4.1
Euro area	4.6	4.3	4.4	5.5	4.2	4.3	4.5	4.5	4.4
Total OECD	5.4	3.9	4.0	7.2	4.4	3.6	4.0	4.0	4.2
Total domestic demand									
United States	4.8	3.4	2.3	5.0	4.7	3.2	2.6	2.3	1.9
Japan	1.5	1.2	1.1	4.3	0.3	1.4	1.4	0.8	1.5
Germany	1.7	1.9	2.3	1.6	1.9	1.8	2.2	2.3	2.3
France	2.5	2.7	2.7	2.4	2.7	2.7	2.8	2.8	2.6
Italy	2.3	2.2	2.3	2.5	2.1	2.2	2.2	2.3	2.3
United Kingdom	3.4	2.9	2.3	3.4	3.3	2.8	2.6	2.3	2.1
Canada	3.3	3.0	2.7	5.3	3.2	2.9	2.9	2.7	2.6
Total of above countries	3.4	2.6	2.1	4.0	3.1	2.6	2.3	2.1	2.0
European Union	2.8	2.7	2.7	2.7	2.8	2.6	2.8	2.7	2.6
Euro area	2.6	2.6	2.7	2.5	2.7	2.5	2.8	2.7	2.7
Total OECD	3.6	3.0	2.6	4.4	3.4	2.9	2.7	2.6	2.6
Export of goods and services									
United States	3.4	7.0	6.8	1.9	8.1	6.3	7.3	6.8	6.5
Japan	0.3	4.6	3.6	-2.2	7.6	4.3	2.5	3.7	4.5
Germany	1.7	6.1	6.3	0.7	6.3	5.9	6.2	6.2	6.6
France	1.8	6.3	5.7	-0.3	5.5	6.5	6.5	5.5	5.5
Italy	-1.2	5.3	5.9	-2.6	4.7	5.4	5.6	5.9	5.9
United Kingdom	-0.1	4.0	4.8	-2.2	3.4	4.0	4.5	4.8	5.0
Canada	9.1	6.4	5.7	8.6	8.7	5.6	5.8	5.7	5.8
Total of above countries	2.2	6.1	5.9	0.6	7.1	5.6	5.9	5.8	5.9
European Union	1.9	5.9	6.0	0.6	5.6	5.9	6.1	5.9	6.0
Euro area	0.9	6.5	6.3	-0.8	7.0	6.4	6.4	6.2	6.4
Total OECD	3.0	6.4	6.1	1.8	7.1	6.1	6.3	6.1	6.0

Annex Table 54. **(cont'd)** ***Semiannual demand and output projections***

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	1999	2000	2001	1999 I	1999 II	2000 I	2000 II	2001 I	2001 II
Import of goods and services									
United States	12.0	8.7	5.3	12.6	14.4	7.2	6.2	5.4	4.3
Japan	1.1	3.3	3.6	5.6	0.9	4.5	3.2	3.6	4.0
Germany	3.1	4.9	5.7	3.9	1.5	6.0	6.0	5.7	5.5
France	2.2	5.5	5.5	1.0	3.5	6.0	6.5	5.3	4.8
Italy	3.3	4.5	4.7	5.7	4.2	4.6	4.6	4.8	4.8
United Kingdom	5.0	4.3	4.5	4.5	4.0	4.3	4.5	4.5	4.3
Canada	7.8	6.6	6.1	10.6	8.0	6.1	6.3	6.0	6.1
Total of above countries	7.1	6.4	5.0	8.4	8.1	6.1	5.4	5.0	4.5
European Union	4.2	5.6	5.8	4.2	4.5	5.9	6.2	5.8	5.6
Euro area	4.0	5.9	6.2	4.0	4.6	6.2	6.6	6.1	5.9
Total OECD	7.4	6.9	5.8	8.7	8.5	6.6	6.2	5.9	5.4
GDP									
United States	3.8	3.1	2.3	3.8	3.8	2.9	2.6	2.3	2.0
Japan	1.4	1.4	1.2	3.3	1.2	1.5	1.4	0.9	1.6
Germany	1.3	2.3	2.5	0.7	3.3	1.9	2.3	2.5	2.7
France	2.4	3.0	2.9	2.0	3.2	2.9	2.9	2.9	2.9
Italy	1.0	2.4	2.7	0.3	2.2	2.5	2.6	2.7	2.7
United Kingdom	1.7	2.7	2.3	1.1	3.1	2.7	2.5	2.3	2.2
Canada	3.7	3.0	2.7	4.1	3.6	2.8	2.8	2.6	2.6
Total of above countries	2.7	2.6	2.2	2.8	3.1	2.5	2.4	2.1	2.2
European Union	2.1	2.8	2.8	1.6	3.1	2.6	2.8	2.7	2.8
Euro area	2.1	2.8	2.8	1.7	3.2	2.6	2.8	2.8	2.9
Total OECD	2.8	2.9	2.6	3.2	3.2	2.8	2.7	2.5	2.5
				Per cent of GDP					
Current account balance									
United States	-3.7	-4.2	-4.2	-3.3	-4.0	-4.3	-4.2	-4.2	-4.1
Japan	2.7	2.8	3.0	2.7	2.8	2.8	2.9	3.0	3.0
Germany	0.0	0.1	0.5	-0.1	0.0	0.1	0.2	0.3	0.6
France	2.4	2.3	2.4	2.4	2.3	2.3	2.3	2.4	2.5
Italy	0.6	0.6	0.9	0.7	0.4	0.5	0.6	0.8	0.9
United Kingdom	-1.5	-1.5	-1.2	-1.8	-1.3	-1.5	-1.4	-1.3	-1.1
Canada	-0.3	-0.1	-0.1	-0.5	0.0	-0.1	-0.1	-0.1	-0.1
Total of above countries	-1.0	-1.2	-1.1	-0.9	-1.1	-1.2	-1.2	-1.1	-1.0
European Union	0.3	0.3	0.4	0.4	0.2	0.2	0.3	0.3	0.5
Total OECD	-0.8	-1.0	-0.9	-0.6	-0.9	-1.0	-1.0	-1.0	-0.9
				$ billions					
Current account balance									
United States	-337.5	-412	-422	-298.7	-376.3	-407	-416	-422	-421
Japan	119.7	135	143	112.8	126.6	132	137	141	145
Germany	-1.1	3	10	-3.1	0.9	1	4	8	13
France	34.3	34	38	35.2	33.3	34	35	37	40
Italy	6.8	7	11	8.5	5.2	5	8	10	12
United Kingdom	-22.0	-22	-20	-25.0	-19.0	-22	-22	-21	-19
Canada	-1.6	-1	-1	-3.1	-0.1	-1	-1	-1	-1
Total of above countries	-201.4	-256	-240	-173.3	-229.5	-257	-256	-249	-230
European Union	27.5	23	37	36.2	18.8	22	24	31	43
Total OECD	-193.2	-259	-259	-148.3	-238.0	-258	-260	-263	-254

Annex Table 55. **Semiannual price, cost and unemployment projections**

Percentage changes from previous period, seasonally adjusted at annual rates

	1999	2000	2001	1999 I	1999 II	2000 I	2000 II	2001 I	2001 II
Private consumption deflator									
United States	1.6	2.3	2.4	1.6	2.1	2.4	2.3	2.4	2.5
Japan	-0.3	-0.3	-0.3	-0.4	-0.2	-0.3	-0.3	-0.3	-0.3
Germany	0.7	1.4	1.4	0.6	1.0	1.6	1.5	1.4	1.4
France	0.8	1.2	1.3	0.9	0.9	1.2	1.4	1.2	1.2
Italy	1.8	1.8	1.6	1.7	2.1	1.8	1.7	1.6	1.5
United Kingdom	1.7	2.4	2.3	1.5	2.4	2.5	2.4	2.3	2.2
Canada	1.3	2.0	2.1	0.9	1.9	2.1	2.0	2.2	2.1
Total of above countries	1.1	1.6	1.7	1.0	1.5	1.7	1.6	1.7	1.7
Total OECD *less* high inflation countries [a]	1.2	1.8	1.8	1.1	1.5	1.9	1.8	1.8	1.8
European Union	1.4	1.8	1.8	1.4	1.7	1.9	1.8	1.8	1.8
Euro area	1.3	1.7	1.7	1.3	1.5	1.7	1.7	1.7	1.6
Total OECD	2.8	3.0	2.5	2.9	3.1	3.1	2.7	2.4	2.3
GDP deflator									
United States	1.4	1.9	2.3	1.6	1.1	2.2	2.1	2.4	2.4
Japan	-0.6	-0.5	-0.3	0.3	-1.3	-0.1	-0.4	-0.1	-0.5
Germany	1.2	1.3	1.3	1.2	1.2	1.3	1.3	1.3	1.3
France	0.6	1.1	1.3	0.4	1.0	1.1	1.2	1.3	1.3
Italy	1.6	1.6	1.5	1.4	1.7	1.6	1.6	1.6	1.5
United Kingdom	2.0	2.6	2.6	1.5	2.8	2.5	2.6	2.6	2.6
Canada	1.5	2.0	2.1	2.5	2.1	2.0	1.9	2.2	2.2
Total of above countries	1.0	1.4	1.6	1.2	0.9	1.6	1.5	1.7	1.6
Total OECD *less* high inflation countries [a]	1.1	1.5	1.8	1.4	0.9	1.8	1.7	1.8	1.7
European Union	1.5	1.7	1.8	1.5	1.4	1.8	1.8	1.9	1.8
Euro area	1.3	1.5	1.6	1.4	1.1	1.7	1.6	1.6	1.6
Total OECD	2.6	2.7	2.4	2.9	2.5	3.0	2.5	2.4	2.2
Unit labour cost (total economy)									
United States	2.5	3.2	3.2	2.4	2.4	3.5	3.3	3.3	3.0
Japan	-2.5	-0.6	-0.3	-3.2	-0.9	-0.7	-0.4	-0.1	-0.7
Germany	1.2	0.1	0.6	1.9	-0.6	0.3	0.3	0.7	0.6
France	0.7	0.8	0.5	1.4	0.3	1.0	0.9	0.3	0.3
Italy	2.5	0.7	0.4	4.8	1.0	0.6	0.5	0.4	0.4
United Kingdom	3.3	2.6	3.1	3.3	1.8	2.7	3.3	3.1	3.0
Canada	0.1	1.9	2.0	0.0	1.3	2.1	2.1	1.9	2.2
Total of above countries	1.3	1.7	1.8	1.4	1.1	1.9	1.9	1.9	1.6
Total OECD *less* high inflation countries [a]	1.3	1.8	1.9	1.5	1.4	1.9	2.0	2.0	1.8
European Union	2.1	1.3	1.4	3.1	0.9	1.4	1.4	1.4	1.4
Total OECD	2.9	2.9	2.5	2.8	2.9	3.0	2.7	2.5	2.2
	Per cent of labour force								
Unemployment									
United States	4.2	4.2	4.6	4.3	4.2	4.1	4.3	4.5	4.8
Japan	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Germany	9.0	8.7	8.3	9.1	9.0	8.8	8.6	8.4	8.3
France	11.1	10.3	9.6	11.3	10.9	10.5	10.1	9.8	9.5
Italy	11.6	11.2	10.7	11.7	11.5	11.3	11.1	10.9	10.6
United Kingdom	6.1	6.0	5.9	6.1	6.1	6.0	5.9	5.9	5.9
Canada	7.8	7.7	7.7	7.9	7.8	7.7	7.7	7.7	7.7
Total of above countries	6.2	6.1	6.1	6.3	6.2	6.1	6.1	6.1	6.2
European Union	9.4	8.8	8.4	9.5	9.2	9.0	8.7	8.5	8.3
Euro area	10.2	9.6	9.1	10.4	10.1	9.8	9.5	9.2	8.9
Total OECD	6.7	6.4	6.3	6.7	6.6	6.5	6.4	6.4	6.3

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

Annex Table 56. **Contributions to changes in real GDP in major OECD countries**

As a per cent of real GDP in the previous period, seasonally adjusted at annual rates

	1997	1998	1999	2000	2001	1999		2000		2001	
						I	II	I	II	I	II
United States											
Final domestic demand	4.3	5.5	5.5	3.5	2.1	6.0	4.8	3.4	2.5	2.1	1.6
Stockbuilding	0.5	0.1	-0.5	0.0	0.2	-1.0	0.0	-0.1	0.2	0.2	0.3
Net exports	-0.3	-1.3	-1.3	-0.5	0.0	-1.5	-1.2	-0.4	-0.1	0.0	0.1
GDP	4.5	4.3	3.8	3.1	2.3	3.7	3.8	2.9	2.6	2.3	2.0
Japan											
Final domestic demand	0.1	-3.3	1.4	1.0	1.0	4.0	0.1	1.2	1.2	0.8	1.4
Stockbuilding	-0.1	-0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.1	0.0	0.0
Net exports	1.4	0.6	-0.1	0.3	0.1	-0.9	0.9	0.1	0.0	0.1	0.2
GDP	1.4	-2.8	1.4	1.4	1.2	3.2	1.2	1.5	1.4	0.9	1.6
Germany											
Final domestic demand	0.3	1.7	1.8	1.9	2.3	2.3	1.6	2.0	2.2	2.3	2.3
Stockbuilding	0.4	0.7	-0.1	0.0	0.0	-0.8	0.3	-0.2	0.0	0.0	0.0
Net exports	0.8	-0.3	-0.4	0.4	0.3	-0.9	1.4	0.1	0.2	0.2	0.4
GDP	1.5	2.2	1.3	2.3	2.5	0.7	3.3	1.9	2.3	2.5	2.7
France											
Final domestic demand	0.6	3.3	2.8	2.8	2.6	2.4	3.4	2.5	2.8	2.6	2.5
Stockbuilding	0.3	0.4	-0.4	-0.1	0.0	-0.1	-0.8	0.1	0.0	0.1	0.0
Net exports	1.1	-0.4	-0.1	0.3	0.2	-0.3	0.6	0.3	0.2	0.2	0.3
GDP	2.0	3.4	2.4	3.0	2.9	2.0	3.2	2.8	2.9	2.9	2.9
Italy											
Final domestic demand	1.6	1.9	1.8	2.2	2.3	1.7	2.0	2.2	2.2	2.3	2.3
Stockbuilding	0.8	0.6	0.4	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Net exports	-0.9	-1.2	-1.2	0.3	0.4	-2.1	0.2	0.3	0.3	0.4	0.4
GDP	1.5	1.3	1.0	2.4	2.7	0.3	2.2	2.5	2.5	2.7	2.7
United Kingdom											
Final domestic demand	3.5	4.1	4.2	2.8	2.4	4.9	3.1	2.8	2.6	2.4	2.2
Stockbuilding	0.3	0.1	-0.6	0.2	0.0	-1.4	0.3	0.2	0.0	0.0	0.0
Net exports	-0.3	-2.1	-1.7	-0.3	-0.1	-2.2	-0.4	-0.3	-0.2	-0.1	0.0
Compromise adjustment	0.0	0.2	-0.1	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
GDP	3.5	2.2	1.7	2.7	2.3	1.1	3.1	2.6	2.5	2.2	2.2
Canada											
Final domestic demand	4.8	2.6	3.4	2.9	2.6	4.3	3.1	2.8	2.8	2.6	2.6
Stockbuilding	0.7	-0.4	-0.1	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Net exports	-1.7	1.0	0.6	0.1	0.0	-0.5	0.5	0.0	0.0	0.0	0.0
Error of estimate	0.2	-0.1	-0.2	0.0	0.0	-0.5	0.0	0.0	0.0	0.0	0.0
GDP	4.0	3.1	3.7	3.0	2.7	4.1	3.6	2.7	2.7	2.6	2.6
Total of above countries											
Final domestic demand	2.6	2.9	3.7	2.7	2.0	4.5	3.1	2.6	2.3	2.0	1.9
Stockbuilding	0.4	0.2	-0.2	0.1	0.1	-0.4	0.1	0.0	0.1	0.1	0.1
Net exports	0.1	-0.7	-0.8	-0.1	0.1	-1.3	-0.2	-0.1	0.0	0.1	0.2
GDP	3.1	2.3	2.7	2.6	2.2	2.8	3.1	2.5	2.4	2.1	2.1
Total of smaller countries											
Final domestic demand	4.5	1.9	3.3	3.9	4.1	4.0	3.6	4.0	3.9	4.1	4.1
Stockbuilding	-0.2	-0.3	0.6	0.1	0.2	1.1	0.5	0.0	0.0	0.2	0.3
Net exports	0.3	0.9	-0.5	-0.2	-0.5	-0.6	-0.6	0.0	-0.2	-0.5	-0.6
GDP	4.6	2.5	3.4	3.8	3.8	4.5	3.5	3.9	3.7	3.8	3.7
Total OECD											
Final domestic demand	3.0	2.6	3.6	2.9	2.5	4.4	3.2	2.9	2.6	2.5	2.4
Stockbuilding	0.3	0.1	0.0	0.1	0.1	-0.1	0.2	0.0	0.1	0.1	0.1
Net exports	0.2	-0.3	-0.8	-0.1	-0.1	-1.1	-0.3	-0.1	-0.1	-0.1	0.0
GDP	3.5	2.4	2.8	2.9	2.6	3.2	3.2	2.8	2.7	2.5	2.5

Note: Components may not add up to GDP due to rounding.

Annex Table 57. **Contributions to changes in real GDP in other OECD countries**

As a per cent of real GDP in the previous period

	1998	1999	2000	2001
Australia				
Final domestic demand	4.5	4.4	3.0	3.3
Stockbuilding	1.7	0.5	-0.4	0.0
Net exports	-1.3	-0.8	0.7	0.3
GDP	5.1	3.9	3.0	4.0
Austria				
Final domestic demand	2.4	2.3	2.6	2.4
Stockbuilding	0.2	0.0	-0.1	0.1
Net exports	0.7	0.0	0.3	0.0
GDP	3.3	2.2	2.9	2.5
Belgium				
Final domestic demand	3.1	2.4	2.3	2.1
Stockbuilding	0.9	-0.2	0.1	0.1
Net exports	-1.1	-0.4	0.4	0.5
GDP	2.9	1.8	2.8	2.7
Czech Republic				
Final domestic demand	-2.6	0.0	1.4	2.3
Stockbuilding	-0.8	-0.3	0.1	0.3
Net exports	1.1	-0.2	-0.1	-0.2
GDP	-2.3	-0.5	1.4	2.3
Denmark				
Final domestic demand	4.0	1.2	1.4	1.7
Stockbuilding	0.4	-0.6	0.0	0.1
Net exports	-1.8	0.7	0.1	0.1
GDP	2.7	1.3	1.5	1.9
Finland				
Final domestic demand	4.7	3.4	3.2	3.4
Stockbuilding	0.8	-0.2	-0.1	0.0
Net exports	1.0	0.5	1.2	1.0
GDP	5.6	3.7	4.2	4.4
Greece				
Final domestic demand	3.5	3.5	4.2	4.7
Stockbuilding	-0.1	0.0	0.0	0.0
Net exports	0.3	-0.2	-0.6	-0.6
GDP	3.7	3.3	3.7	4.1
Hungary				
Final domestic demand	5.0	4.4	4.0	4.3
Stockbuilding	3.1	0.5	0.4	0.3
Net exports	-3.0	-1.1	-0.9	-1.0
GDP	5.1	3.8	3.5	3.7
Iceland				
Final domestic demand	11.5	4.9	3.5	2.8
Stockbuilding	0.3	0.0	0.0	0.0
Net exports	-6.7	1.0	-0.6	-0.2
GDP	5.1	6.0	2.9	2.6
Ireland				
Final domestic demand	8.1	7.1	6.0	5.1
Stockbuilding	0.2	-0.4	0.0	0.0
Net exports	0.6	1.2	1.5	0.6
GDP	8.9	8.6	7.5	5.7
Korea				
Final domestic demand	-12.5	5.8	5.7	5.6
Stockbuilding	-5.6	5.0	0.9	0.9
Net exports	12.2	-1.8	-0.1	-0.8
GDP	-5.8	9.0	6.5	5.7
Luxembourg				
Final domestic demand	1.9	3.5	2.7	2.7
Stockbuilding	0.0	0.0	0.0	0.0
Net exports	3.0	1.6	1.8	1.6
GDP	5.0	5.1	4.3	4.1

	1998	1999	2000	2001
Mexico				
Final domestic demand	6.1	3.5	3.8	4.7
Stockbuilding	-0.1	-0.3	0.0	0.0
Net exports	-1.1	0.3	-0.5	-0.8
GDP	4.8	3.4	3.3	4.0
Netherlands				
Final domestic demand	3.9	3.2	2.4	2.4
Stockbuilding	0.1	0.0	0.1	0.0
Net exports	-0.3	-0.2	0.2	0.2
GDP	3.7	3.0	2.7	2.6
New Zealand				
Final domestic demand	0.5	4.3	3.3	2.9
Stockbuilding	-0.7	0.7	0.0	0.0
Net exports	-0.5	-2.4	0.3	0.4
GDP	-0.7	2.7	3.5	3.3
Norway				
Final domestic demand	4.0	-1.0	-1.2	1.4
Stockbuilding	0.9	-0.1	0.0	0.0
Net exports	-3.1	1.7	4.4	0.4
GDP	2.1	0.6	3.3	1.8
Poland				
Final domestic demand	6.7	5.3	5.9	6.3
Stockbuilding	0.7	0.0	0.1	0.0
Net exports	-1.5	-2.0	-0.6	-0.1
GDP	4.8	3.5	5.2	5.8
Portugal				
Final domestic demand	6.9	5.7	5.3	4.8
Stockbuilding	0.5	-0.2	0.0	0.0
Net exports	-3.5	-2.5	-1.8	-1.6
GDP	3.9	3.1	3.4	3.2
Spain				
Final domestic demand	4.8	4.9	4.8	4.7
Stockbuilding	0.1	0.1	0.0	0.0
Net exports	-1.0	-1.3	-1.1	-1.2
GDP	4.0	3.7	3.7	3.5
Sweden				
Final domestic demand	2.9	3.2	2.7	2.5
Stockbuilding	0.3	-0.3	0.0	0.0
Net exports	-0.5	1.0	0.4	0.3
GDP	2.6	3.9	3.0	2.7
Switzerland				
Final domestic demand	2.4	2.4	2.3	2.6
Stockbuilding	1.7	-0.2	0.3	0.2
Net exports	-2.0	-0.8	-0.8	-0.7
GDP	2.1	1.4	1.8	2.2
Turkey				
Final domestic demand	-0.3	-3.5	6.0	5.7
Stockbuilding	1.1	0.0	0.0	0.0
Net exports	2.2	1.2	-1.4	-1.8
GDP	2.8	-2.3	4.6	3.9
European Union				
Final domestic demand	3.1	2.9	2.7	2.7
Stockbuilding	0.4	-0.1	0.0	0.0
Net exports	-0.8	-0.7	0.1	0.1
GDP	2.7	2.1	2.8	2.8
Euro area				
Final domestic demand	2.8	2.6	2.6	2.7
Stockbuilding	0.5	-0.1	0.0	0.0
Net exports	-0.5	-0.5	0.2	0.2
GDP	2.8	2.1	2.8	2.8

Note: Totals may not add up due to rounding and/or statistical discrepancy.

Annex Table 58. **Household saving, net wealth and indebtedness**[a]

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
United States													
Saving ratio	8.2	7.3	7.8	7.5	7.8	8.3	8.7	7.1	6.1	5.6	4.8	4.5	3.7
Net wealth	484.5	486.2	489.9	502.2	479.8	492.7	483.3	488.2	479.8	507.2	528.8	563.1	594.7
Net financial wealth	265.4	262.9	266.0	275.4	262.6	281.1	278.7	286.0	280.1	308.3	329.5	361.0	388.7
Real assets	219.0	223.3	223.8	226.8	217.2	211.6	204.7	202.2	199.7	199.0	199.3	202.1	206.1
Financial assets	344.7	344.8	349.0	360.0	348.3	367.6	363.7	372.9	369.4	400.1	423.4	456.3	487.3
Corporate equities	52.9	50.3	54.0	60.9	52.8	70.6	76.3	84.8	78.0	96.3	106.3	121.1	137.4
Liabilities	79.3	81.9	82.9	84.6	85.7	86.5	85.1	86.9	89.3	91.9	93.9	95.3	98.7
Home mortgages	50.2	53.8	55.4	57.1	59.2	60.7	60.2	60.8	61.4	61.7	62.7	63.5	66.3
Japan													
Saving ratio	15.6	13.8	13.0	12.9	12.1	13.2	13.1	13.4	13.3	13.7	13.4	12.6	13.5
Net wealth	636.9	758.3	797.3	866.4	849.0	775.7	697.6	680.6	668.9	659.9	646.2	632.9	..
Net financial wealth	184.0	202.4	222.6	251.6	222.2	221.5	210.3	216.5	224.1	232.7	235.7	233.6	..
Real assets	452.9	555.9	574.7	614.8	626.8	554.2	487.3	464.1	444.8	427.1	410.5	399.3	..
Financial assets	275.7	303.3	330.1	363.1	338.7	336.6	320.9	326.5	334.6	344.5	344.8	340.8	..
Corporate equities	41.8	52.4	70.2	89.9	58.1	54.4	34.7	32.7	36.2	35.4	32.8	25.0	..
Liabilities	91.6	100.9	107.5	111.5	116.5	115.1	110.6	110.0	110.5	111.7	109.1	107.2	..
Home mortgages	37.1	40.1	42.7	45.8	47.8	48.0	48.7	50.4	52.1	53.8	53.9	55.3	..
Germany[b]													
Saving ratio	10.4	10.7	10.9	10.5	12.0	12.9	12.8	12.2	11.6	11.4	11.5	11.0	11.0
Net wealth	..	..	..	..	543.5	479.2	473.3	489.7	496.2	507.0	510.0	521.4	531.1
Net financial wealth	177.6	175.9	182.1	185.4	130.8	117.8	116.4	124.3	124.7	131.1	134.3	143.6	154.8
Real assets	..	..	..	..	404.8	354.6	350.0	357.7	364.3	369.0	368.7	369.8	374.4
Financial assets	194.2	192.8	199.2	203.1	208.7	186.3	184.5	196.4	199.9	208.8	214.4	227.7	234.6
Shares[c]	14.8	10.7	12.9	15.1	11.6	10.0	9.0	11.4	10.9	11.7	13.6	18.8	20.3
Liabilities	16.6	16.9	17.1	17.8	70.0	61.7	61.3	64.4	68.0	70.8	73.0	76.1	78.0
Building loans	10.7	11.2	11.6	12.1	53.6	46.3	45.8	48.9	52.4	55.2	57.6	60.6	62.6
France													
Saving ratio	14.2	12.2	12.3	13.1	13.9	14.5	14.9	15.7	14.8	16.0	15.1	16.3	15.5
Net wealth	435.7	421.9	438.5	446.5	416.1	437.8	436.5	465.4	451.6	449.1	472.7	495.9	..
Net financial wealth	131.0	117.5	137.8	155.2	130.0	150.0	155.9	189.1	177.8	179.8	200.1	224.2	..
Real assets	304.7	304.4	300.7	291.3	286.0	287.9	280.7	276.2	273.7	269.3	272.6	271.7	..
Financial assets	198.2	194.6	223.1	242.7	218.0	233.2	237.7	266.2	253.6	251.6	273.6	298.2	..
Corporate equities	69.7	63.7	90.0	108.5	86.9	102.6	102.0	121.5	101.6	90.3	103.1	119.0	..
Liabilities	67.3	77.1	85.4	87.6	87.9	83.2	81.8	77.1	75.8	71.8	73.5	73.9	..
Medium- and long-term credit	45.6	49.5	52.0	51.5	51.7	50.5	48.3	51.7	50.5	48.8	49.3	49.2	..
Italy[b]													
Saving ratio	18.5	17.9	16.9	15.5	17.0	17.2	17.1	15.1	14.8	14.5	13.8	11.9	11.2
Net wealth[c]	337.8	340.9	362.3	425.0	438.6	443.3	455.0	499.8	481.9	480.8	476.5	..	..
Net financial wealth	156.0	155.8	165.6	199.3	199.8	206.0	210.6	235.0	230.4	230.6	232.2	266.1	293.1
Real assets[d]	181.8	185.1	196.7	225.7	238.7	237.4	244.5	264.8	251.4	250.3	244.3	..	..
Financial assets	166.2	166.6	177.5	228.1	229.4	236.3	241.8	267.6	263.2	263.7	265.9	292.7	321.5
Corporate equities	22.6	16.3	17.3	49.6	46.8	48.7	48.7	55.7	50.7	54.6	51.4	72.4	97.8
Liabilities	10.2	10.8	12.0	28.9	29.6	30.4	31.2	32.6	32.8	33.2	33.6	26.7	28.4
Medium- and long-term credit	7.0	7.8	8.7	13.3	13.9	14.5	14.6	15.3	15.6	16.1	16.3	18.4	20.0
United Kingdom													
Saving ratio	7.9	5.8	4.1	5.9	7.7	9.7	11.8	11.2	9.6	10.5	9.7	9.6	6.6
Net wealth	579.5	620.8	694.2	704.4	619.8	594.9	560.0	597.4	557.2	572.5	573.9	..	..
Net financial wealth	220.2	221.5	220.7	244.4	212.2	223.3	236.4	280.7	256.9	284.8	296.6	343.2	366.1
Real assets	359.4	400.8	476.2	463.0	411.5	373.8	325.4	315.9	299.2	285.4	278.9	..	..
Financial assets	320.1	325.2	332.9	360.9	329.3	338.4	346.5	387.7	365.0	392.2	402.8	449.7	477.3
Domestic equities	38.3	51.8	49.4	55.6	57.0	59.8	61.7	74.1	70.6	76.3	80.9	96.9	94.9
Liabilities	100.0	103.7	112.3	116.5	117.1	115.0	110.2	107.1	108.1	107.3	106.2	106.5	111.2
Mortgages	63.7	91.8	100.7	105.0	106.0	103.7	99.6	97.0	98.5	97.4	96.7	96.9	101.2
Canada													
Saving ratio	11.9	10.3	10.7	11.5	11.5	11.7	11.4	10.3	7.7	7.5	5.2	2.8	2.4
Net wealth	405.1	416.3	417.4	422.6	416.1	424.8	436.5	452.5	474.2	478.6	491.2	496.3	493.5
Net financial wealth	170.2	169.6	166.2	169.5	168.3	175.7	184.7	194.8	207.2	214.4	224.2	228.6	226.3
Real assets	234.9	246.7	251.2	253.2	247.9	249.1	251.8	257.7	267.0	264.2	267.0	267.7	267.2
Financial assets	252.3	258.7	258.5	263.8	265.2	273.1	284.3	296.5	312.8	321.0	334.4	341.5	342.3
Equities	59.8	63.8	60.4	58.5	58.2	60.8	62.8	71.7	79.8	80.0	88.5	95.4	101.8
Liabilities	82.1	89.2	92.3	94.3	97.0	97.4	99.7	101.7	105.6	106.6	110.2	112.9	116.1
Mortgages	51.4	55.7	58.0	60.0	61.7	64.0	66.9	68.5	71.1	71.5	73.6	74.5	75.5

a) Households and private unincorporated enterprises. The series are expressed as a percentage of household nominal disposable income. Assets and liabilities refer to year-end nominal values. Real assets and net wealth include durable goods for the United States, Germany, Italy, the United Kingdom, and Canada.

b) Beginning in 1987, 1989 and 1990, the financial accounts statistics for the United Kingdom, Italy and Germany, respectively, are constructed with a new methodology. They are, therefore, not comparable with the historical series.

c) Quoted and unquoted.

d) Do not include the real assets of private unincorporated enterprises.

Sources: United States, Federal Reserve Board, Flow of Funds Accounts, *Balance Sheets for the U.S. Economy*; Japan, Economic Planning Agency, *Annual Report on National Accounts*; Germany, Deutsche Bundesbank, *Ergebnisse der gesamtwirtschaftlichen Finanzierungsrechnung der Deutschen Bundesbank*; France, INSEE, *25 ans de Comptes de Patrimoine (1969-1993) and Rapport sur les Comptes de la Nation*; Italy, Banca d'Italia, *Supplementi al Bolletino Statistico*; Ando A., Guiso L., Visco I. (1994). *Saving and the Accumulation of Wealth; OECD Financial Accounts of OECD countries*; United Kingdom, Central Statistical Office, *United Kingdom National Accounts, Financial Statistics*; Canada, Statistics Canada, *National Balance Sheet Accounts.*

For Saving ratio, see Annex table 26.

Annex Table 60 . **Central government financial balances**

Surplus (+) or deficit (-) as a percentage of nominal GDP

	1993	1994	1995	1996	1997	1998	Estimates and projections		
							1999	2000	2001
United States	-4.4	-3.2	-2.6	-1.9	-0.5	0.6	1.3	1.4	1.7
excluding social security[a]	-5.1	-4.0	-3.5	-2.7	-1.6	-0.6	-0.2	-0.1	0.1
Japan[b,c]	-2.8	-3.7	-4.1	-4.4	-3.9	-5.3	-6.5	-6.5	-6.3
Germany	-2.1	-1.5	-1.4	-2.2	-1.7	-1.5	-1.4	-1.0	-0.6
France	-4.9	-4.9	-4.2	-3.7	-3.5	-3.0	-2.7	-2.4	-1.9
Italy	-9.3	-9.0	-7.5	-6.4	-2.5	-2.6	-2.3	-1.6	-1.3
United Kingdom	-7.3	-5.8	-5.1	-4.0	-1.7	0.3	0.9	1.1	1.1
Canada	-4.6	-3.7	-3.1	-1.3	1.0	1.1	1.1	1.1	1.1
Total of above countries	-4.4	-3.8	-3.4	-2.9	-1.6	-1.2	-0.9	-0.7	-0.5

a) OECD estimates, derived from fiscal year data converted to a calendar year basis.
b) For the fiscal years beginning April 1 of the year shown.
c) The 1998 deficit would have risen by 5.4 percentage points of GDP if account were taken of the assumption by the central government of the debt of the Japan Railway Settlement Corporation and the National Forest Special Account.

Annex Table 61. **Maastricht definition of general government gross public debt[a]**

As a percentage of nominal GDP

	1993	1994	1995	1996	1997	1998	Estimates and projections		
							1999	2000	2001
Austria	62.7	65.4	69.4	69.8	64.1	63.0	63.0	62.9	62.7
Belgium	135.1	133.3	132.0	128.8	123.4	118.2	116.0	113.0	109.6
Denmark	80.7	76.5	72.1	67.7	63.9	58.0	53.8	50.0	46.2
Finland	58.0	59.6	58.1	57.6	55.0	49.7	44.9	40.6	36.0
France	45.3	48.5	52.8	55.7	58.1	58.8	59.1	58.4	57.3
Germany	48.0	50.2	58.3	60.8	61.5	61.1	60.4	59.5	58.1
Greece	111.6	109.3	110.1	112.3	109.5	106.3	104.7	103.9	103.4
Ireland	96.3	88.2	78.4	68.6	59.9	49.5	40.8	32.6	25.4
Italy	119.1	124.9	125.3	124.6	122.4	118.7	118.3	115.8	112.9
Luxembourg	6.1	5.7	5.8	6.3	6.4	6.9	..	..	..
Netherlands	81.2	77.9	77.9	76.1	70.8	67.5	65.4	63.1	60.8
Portugal	63.1	63.8	65.9	64.9	61.7	57.8	56.7	55.5	54.0
Spain	60.1	62.6	64.2	68.5	67.1	65.1	65.2	65.4	63.4
Sweden	75.8	79.0	77.6	76.7	76.1	74.2	68.8	64.9	60.1
United Kingdom	48.5	50.3	52.5	53.1	51.5	48.7	46.3	43.5	40.9

a) The debt-to-GDP ratios up to 1998 are provided by the Commission of the European Communities. The 1999 to 2001 debt ratios are projected forward in line with the OECD projections for general government gross financial liabilities and GDP.

Annex Table 62. **Monetary and credit aggregates: recent trends and targets**

Annualised percentage change, seasonally adjusted

		Annual change (to 4th quarter)					Latest twelve months		From target base period	Current target or projection
		1994	1995	1996	1997	1998				
United States	M2	0.6	3.9	4.6	5.7	8.5	6.9	(Sep. 1999)	6.0	1-5
	M3	1.7	6.1	6.8	8.8	10.9	7.6	(Sep. 1999)	6.4	2-6
	BL[a]	7.6	10.7	6.1	8.6	9.9	4.5	(Sep. 1999)		
Japan	M2+CD	2.7	3.0	3.2	3.3	4.6	2.4	(Sep. 1999)		
	BL[a]	-0.6	0.8	-0.3	0.2	-0.9	-4.1	(Aug. 1999)		
Euro area	M2	4.1	4.1	5.1	3.9	4.9	7.0	(Aug. 1999)		
	M3	3.0	4.9	4.5	4.4	4.6	6.1	(Sep. 1999)	5.9	4.5
	BL[a]	..	..	..	..	..	8.3	(Aug. 1999)		
United Kingdom	M0	7.2	5.5	6.9	6.6	5.2	7.1	(Sep. 1999)		
	M4	4.4	9.4	10.3	5.4	8.5	2.8	(Sep. 1999)	2.8	
	BL[a]	4.7	13.7	11.7	12.6	5.4	7.0	(Sep. 1999)		
Canada	M2	2.7	3.8	2.6	-1.4	1.5	3.6	(Sep. 1999)		
	BL[a]	7.3	5.5	13.1	18.6	-3.1	-2.4	(Sep. 1999)		

a) BL= Commercial bank lending.

Annex Table 63. **Export market growth and performance in manufactured goods**

Percentage changes from previous year

	Import volume				Export market growth[a]				Export volume				Export performance[b]			
	1998	1999	2000	2001	1998	1999	2000	2001	1998	1999	2000	2001	1998	1999	2000	2001
United States	12.9	14.7	9.4	5.5	4.5	6.0	7.5	7.0	3.8	5.3	8.2	8.3	-0.7	-0.7	0.6	1.2
Japan	-5.9	8.6	4.4	3.7	2.4	10.0	9.3	7.2	-1.6	0.7	5.3	3.9	-3.9	-8.5	-3.7	-3.0
Germany	8.6	6.2	5.3	6.1	8.0	4.7	6.9	6.5	8.9	5.4	6.3	6.4	0.8	0.7	-0.6	-0.1
France	10.0	3.3	6.0	5.9	8.1	5.0	6.9	6.6	7.9	4.2	6.4	6.1	-0.2	-0.7	-0.5	-0.5
Italy	11.7	4.9	5.1	5.4	7.5	4.5	7.0	6.6	1.6	-2.3	5.1	5.7	-5.5	-6.5	-1.8	-0.9
United Kingdom	10.7	2.0	5.2	5.4	8.2	6.1	7.3	6.5	2.1	-2.9	4.4	5.7	-5.6	-8.5	-2.7	-0.8
Canada	7.9	9.6	7.2	6.4	11.6	13.5	9.2	5.7	9.8	12.4	6.7	5.9	-1.6	-1.0	-2.3	0.2
Total of the above countries	9.4	9.0	7.1	5.6	6.3	6.8	7.7	6.7	4.3	3.4	6.3	6.3	-1.9	-3.2	-1.3	-0.4
Australia	5.4	4.4	3.7	5.3	-3.6	9.8	9.1	7.7	-1.6	5.0	8.7	8.7	2.1	-4.3	-0.4	0.9
Austria	7.5	3.8	6.1	6.6	9.1	5.0	6.4	6.7	8.7	1.3	6.4	7.4	-0.3	-3.6	0.0	0.6
Belgium[c]	8.5	2.7	5.8	5.9	8.6	4.8	6.3	6.2	5.0	1.3	6.2	6.3	-3.3	-3.3	-0.1	0.1
Czech Republic	11.0	5.6	6.9	7.7	7.6	1.2	5.7	6.4	14.3	7.1	7.7	8.7	6.2	5.9	1.9	2.2
Denmark	4.3	1.0	3.7	4.3	8.7	4.1	5.9	6.1	0.5	2.5	4.8	4.9	-7.6	-1.5	-1.0	-1.1
Finland	8.1	0.9	5.6	5.5	7.4	3.6	6.5	6.3	6.0	0.5	7.3	6.5	-1.4	-3.0	0.7	0.2
Greece	-1.1	4.1	7.6	7.7	7.9	2.2	6.1	6.2	-7.8	-0.3	7.1	7.1	-14.5	-2.5	0.9	0.8
Hungary	27.4	13.3	11.9	11.5	8.0	2.3	5.8	6.2	26.4	15.2	11.9	12.2	17.0	12.6	5.8	5.7
Iceland	30.3	4.8	8.7	6.7	7.8	5.8	5.6	5.8	-8.9	8.0	6.9	4.3	-15.5	2.1	1.2	-1.4
Ireland	19.8	11.5	11.6	10.2	8.8	5.2	6.3	5.9	26.5	13.2	10.8	8.6	16.3	7.6	4.2	2.6
Korea	-20.3	38.5	20.1	19.8	3.1	7.4	8.0	6.1	14.7	14.5	13.3	11.6	11.3	6.7	4.9	5.2
Mexico	16.1	8.6	9.7	8.6	11.9	12.6	9.0	5.6	12.0	11.4	8.3	6.3	0.1	-1.0	-0.6	0.6
Netherlands	7.0	4.4	5.7	5.6	8.5	4.5	6.3	6.3	10.8	6.0	5.8	5.8	2.2	1.5	-0.4	-0.4
New Zealand	1.1	7.0	5.4	5.3	2.2	7.3	6.2	6.0	0.8	5.6	7.1	7.3	-1.4	-1.7	0.9	1.3
Norway	11.7	-3.4	-4.3	3.6	7.9	4.7	6.8	6.1	6.9	2.4	3.4	5.2	-0.9	-2.2	-3.2	-0.9
Poland	14.0	4.1	7.0	8.5	8.1	3.4	5.9	6.2	9.3	-2.8	6.5	10.0	1.2	-6.0	0.6	3.6
Portugal	15.6	8.4	7.7	7.2	9.7	5.5	6.8	6.7	6.4	5.5	7.4	6.6	-3.0	0.0	0.6	-0.1
Spain	14.8	12.0	11.2	10.9	9.0	4.0	6.3	6.2	7.0	5.8	7.3	7.1	-1.8	1.7	0.9	0.9
Sweden	11.4	4.1	8.4	5.6	7.8	4.4	5.8	6.0	8.3	8.2	6.8	4.8	0.5	3.7	0.9	-1.1
Switzerland	10.2	7.8	6.1	6.4	7.0	5.4	6.7	6.3	5.3	2.3	4.6	5.1	-1.6	-3.0	-2.0	-1.1
Turkey	-4.6	-8.8	10.8	8.6	7.5	2.6	6.4	6.3	-3.7	-9.6	5.6	2.1	-10.4	-11.9	-0.8	-3.9
Total of smaller countries	7.3	7.4	8.1	8.3	7.6	5.6	6.8	6.2	9.3	6.6	8.0	7.5	1.6	1.0	1.1	1.2
Total OECD	8.7	8.4	7.4	6.5	6.7	6.4	7.5	6.6	5.9	4.4	6.9	6.7	-0.8	-1.9	-0.5	0.1
China	10.1	21.9	11.5	8.3	-0.3	8.1	8.3	6.5	11.8	9.8	11.3	6.8	9.3	-4.0	-1.9	2.0
Dynamic Asia[d]	-11.4	5.7	10.0	6.9	3.1	9.9	8.7	6.5	3.9	7.0	8.3	5.8	0.4	-1.7	-2.0	2.7
Other Asia	13.6	4.8	5.8	5.5	5.9	6.9	7.6	6.2	7.4	4.7	5.6	7.8	1.5	-2.0	-1.9	1.6
Latin America	6.7	-11.0	3.4	6.0	7.2	2.4	6.8	6.2	6.7	3.1	5.8	6.0	-0.6	-1.9	-1.8	2.3
Africa and Middle-East	6.0	-1.3	7.7	6.4	6.3	5.5	7.4	6.3	4.5	6.8	6.9	5.8	1.4	2.0	-0.6	3.6
Central and Eastern Europe	1.3	-18.6	3.1	5.5	5.9	-0.3	6.5	6.6	-3.0	-7.7	2.3	3.6	-7.4	-7.4	-3.9	-2.8
Total of non-OECD countries	-1.2	1.7	8.2	6.7	3.5	7.5	8.1	6.5	5.1	6.1	8.1	6.0	1.5	-1.4	0.0	-0.4
World	6.0	6.7	7.6	6.5	6.0	6.7	7.6	6.5	5.7	4.8	7.2	6.5	-0.3	-1.8	-0.4	0.0
Memorandum item																
European Union	9.7	4.7	6.1	6.3	8.1	4.8	6.7	6.4	6.9	3.2	6.1	6.2	-1.2	-1.6	-0.6	-0.2

a) The calculation of export markets is based on a weighted average of import volumes in each exporting country's market, with weights based on manufacturing trade flows in 1995.

b) Export performance is calculated as the percentage change in the ratio of export volumes to export markets.

c) Including Luxembourg until 1994.

d) Dynamic Asia include Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore and Thailand.

Sources: Direction of trade data - United Nations Statistical Office; OECD, *Foreign Trade by Commodities*.

Annex Table 64. **Geographical structure of OECD trade**

Percentage of nominal GDP

Area or country	Source/destination		Source of imports						Destination of exports					
			1962	1972	1982	1992	1997	1998	1962	1972	1982	1992	1997	1998
OECD [a]	**OECD**		**5.85**	**7.77**	**10.13**	**10.67**	**12.79**	**13.18**	**5.75**	**7.60**	**9.79**	**10.48**	**12.87**	**13.28**
	of which:	European Union	3.33	4.54	5.70	6.13	6.98	7.27	3.41	4.42	5.90	6.26	7.13	7.52
		United States	1.19	1.25	1.61	1.64	2.20	2.22	0.83	1.36	1.65	1.83	2.50	2.65
		Other	1.33	1.97	2.82	2.89	3.61	3.69	1.52	1.82	2.24	2.40	3.24	3.12
	Non-OECD		**2.26**	**2.28**	**4.46**	**3.03**	**4.13**	**3.89**	**2.12**	**2.17**	**4.05**	**2.92**	**4.00**	**3.64**
	of which:	DAEs + China [b]	0.24	0.34	0.75	1.19	1.83	1.84	0.27	0.37	0.74	1.14	1.70	1.41
		OPEC	0.63	0.77	2.07	0.69	0.78	0.59	0.32	0.39	1.38	0.53	0.52	0.46
United States	**OECD**		**1.80**	**3.45**	**4.94**	**5.74**	**6.97**	**7.03**	**2.51**	**2.93**	**4.22**	**5.07**	**5.81**	**5.54**
	of which:	European Union	0.69	1.15	1.45	1.60	1.90	2.01	1.15	1.13	1.69	1.70	1.69	1.70
		Other	1.11	2.30	3.49	4.14	5.08	5.02	1.37	1.80	2.53	3.37	4.12	3.84
	Non-OECD		**0.99**	**1.03**	**2.55**	**2.67**	**3.51**	**3.40**	**1.19**	**1.08**	**2.29**	**2.01**	**2.47**	**2.23**
	of which:	DAEs + China [b]	0.14	0.30	0.72	1.45	2.01	2.03	0.14	0.18	0.54	0.83	1.10	0.94
		OPEC	0.24	0.21	0.90	0.49	0.53	0.39	0.18	0.21	0.67	0.33	0.31	0.29
Japan	**OECD**		**5.43**	**4.21**	**4.72**	**3.38**	**4.04**	**3.89**	**4.19**	**5.67**	**6.68**	**5.54**	**5.61**	**6.15**
	of which:	European Union	0.90	0.73	0.79	0.91	1.07	1.03	0.98	1.42	1.82	1.80	1.56	1.89
		United States	2.97	1.95	2.21	1.40	1.80	1.77	2.30	2.95	3.33	2.58	2.79	3.13
		Other	1.56	1.52	1.71	1.07	1.16	1.08	0.90	1.30	1.54	1.16	1.26	1.13
	Non-OECD		**3.84**	**3.62**	**7.35**	**2.89**	**4.03**	**3.52**	**3.90**	**3.86**	**6.04**	**3.60**	**4.42**	**4.11**
	of which:	DAEs + China [b]	1.09	0.76	1.45	1.25	2.11	1.98	1.26	1.52	2.12	2.39	3.21	2.88
		OPEC	1.11	1.50	4.44	1.04	1.19	0.91	0.52	0.61	1.98	0.50	0.46	0.39
European Union	**OECD**		**10.28**	**12.39**	**16.62**	**16.39**	**19.95**	**20.35**	**9.54**	**12.32**	**15.74**	**15.67**	**21.01**	**21.44**
	of which:	European Union	6.92	9.27	12.10	12.31	14.73	14.95	6.77	9.13	12.14	12.31	15.76	16.13
		United States	1.66	1.37	1.92	1.46	2.00	2.07	0.95	1.29	1.49	1.25	1.93	2.08
		Other	1.70	1.76	2.60	2.62	3.22	3.33	1.82	1.91	2.12	2.11	3.32	3.23
	Non-OECD		**4.00**	**3.53**	**5.87**	**3.23**	**4.34**	**4.21**	**3.25**	**2.95**	**5.27**	**3.01**	**4.63**	**4.22**
	of which:	DAEs + China [b]	0.26	0.27	0.54	0.91	1.41	1.49	0.26	0.23	0.41	0.61	1.16	0.93
		OPEC	1.15	1.30	2.64	0.66	0.70	0.56	0.52	0.56	1.98	0.67	0.69	0.61

a) OECD includes Korea from 1988.

b) DAEs are the Dynamic Asian Economies (Chines Taipei; Hong Kong, China; Malaysia; Philippines; Singapore and Thailand).

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