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**AIECE**

**GENERAL REPORT**

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# ***AIECE General Report***

Report submitted at the AIECE Autumn General Meeting  
Brussels, 26th-27th October 2006

## **PART I**

CENTRE D'OBSERVATION ECONOMIQUE DE LA CCIP  
27 avenue de Friedland  
75008 Paris  
<http://www.coe.ccip.fr>  
tel.: 33 1 55 65 55 65

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*Closing date of the report: 19<sup>th</sup> October 2006*

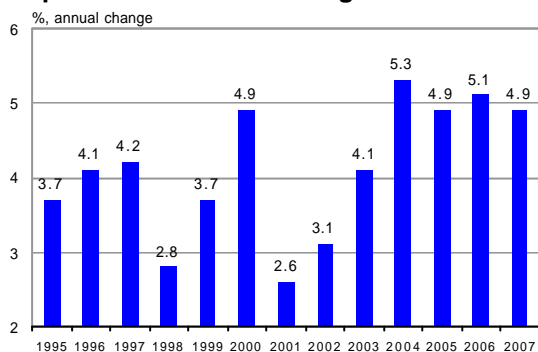
This report has been coordinated by Alain HENRIOT with the participation of Frédérique CERISIER (Euro area, Non Euro Western European countries), Sandrine ROL (Asia) and Jacques ANAS (leading indicators). We would like to thank Charles TILLARD-TETE and Sandrine RANGER for their technical assistance.

# Overview

## ***Strong growth in 2006, although the peak of the cycle has probably already been reached***

The world economy will register one of its highest growth rates in 2006. According to the September IMF forecast, world real GDP could grow by 5.1% this year, a rate which credibly exceeds the long term trend (3.5% yearly average from 1980 to 2005).

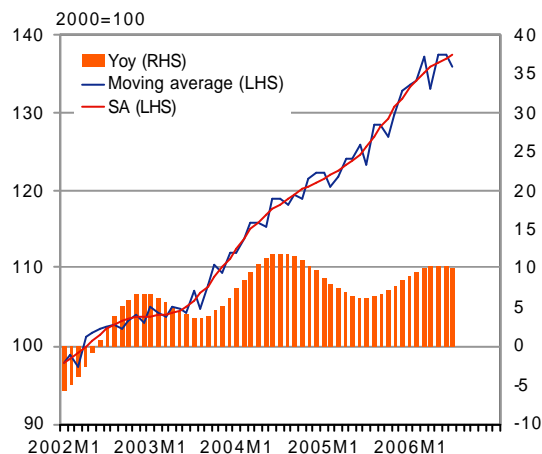
**Graph 1.- World real GDP growth**



Source: IMF

However, signs showing that the upswing phase of the current cycle is close to an end have already emerged, as illustrated by the slight deceleration of the year-on-year increase of world trade growth since last spring.

**Graph 2- World trade volume (goods)**



Source: COE

\* last 3 months compared to the same period a year ago

One of the most striking features in recent months is the significant slowdown of the US economy during the second quarter, as a consequence of the downturn in the housing

sector and its side-effects on private consumption. Meanwhile, on the opposite, economic growth has accelerated in the Euro area, boosted by stronger exports and a recovery in internal demand. In Asia, the expansion remains strong. While Japan economic growth slowed markedly in the second quarter of 2006, the pace of activity gathered momentum in China, with GDP growth exceeding 10% per year.

## ***Milder growth expected in 2007***

The general consensus among the AIECE institutes is that the global expansion might remain strong, although a deceleration is expected. US GDP growth is revised downwards for 2007, compared to projections made six months ago. It would be cut by around one point compared to 2006 (from 3.4% to 2.6%). Remaining above the poor rates registered in the 1990's, Japan GDP growth would moderate to 2.2% next year after having peaked to 2.7% in 2006. Growth expectations have been revised upwards by the AIECE institutes for the Euro area in 2006 in the wake of the strong expansion observed in the first half of the year. However, the forecast for 2007 remains unchanged compared to the spring meeting, suggesting a significant deceleration of growth momentum in the course of the year.

**Table 1.- GDP projections**

	Current projections			Difference from Spring 2006	
	2005	2006	2007	2006	2007
	<b>AIECE</b>				
United States	3.2	3.4	2.6	0.2	-0.4
Japan	2.7	2.7	2.2	-0.1	-0.1
Euro Area <sup>1</sup>	1.4	2.5	2.0	0.4	-
	<b>IMF</b>				
United States	3.2	3.4	2.9	-	-0.4
Japan	2.6	2.7	2.1	-0.1	0.1
Euro Area	1.3	2.4	2.0	0.4	0.1

Sources: AIECE Institutes, IMF

(1) This figure refers probably to annual GDP growth corrected of the number of working days, while IMF figure refers to gross data.

**Main risks associated with the forecast**

AIECE institutes have identified several risks associated with this forecast.

A first set of questions concern the US economy. While on average AIECE institutes make an assumption of a soft landing, downside risks are clearly associated with a worsening of the housing market, including a sharp adjustment in the saving ratio. Conversely, a quick decrease in long term interest rates associated for example with a cut of key rates by the Federal Reserve would contribute to soften the deceleration of activity in the US.

In relation with the intensity of the slowdown of the US economy, another source of concern regards exchange rates developments. Insofar as the world economy is still characterised by large imbalances. Particularly, according to the last IMF forecast, the US current account measured in terms of percentage of GDP would continue to deteriorate to reach 6.6% in 2006 after 6.4% in 2005 and would even become larger in 2007 (6.9%). In this context, the risk of a pronounced decline of the dollar constitutes a permanent threat for global growth. Moreover, the

decoupling of the monetary cycle between the US and the Euro area would lead to a further appreciation of the Euro against the US currency. Around one third of AIECE institutes forecast a Euro/dollar rate equals to or above 1.30 at the end of 2007.

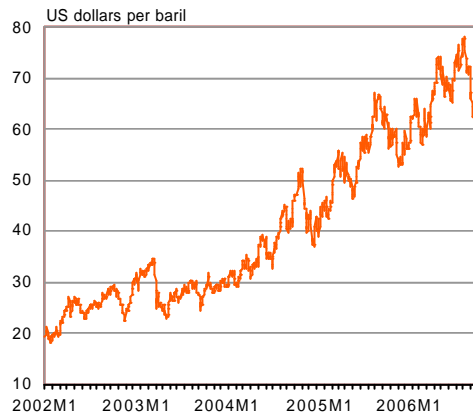
**Table 2.- AIECE exchange rates forecasts**

	Q1	Q2	Q3	Q4
<b>2006</b>				
1 Euro = x \$	1.20	1.26	1.27	1.28
1 \$ = x Yen	116.9	114.5	116.3	115.2
<b>2007</b>				
1 Euro = x \$	1.28	1.29	1.29	1.29
1 \$ = x Yen	114.0	113.0	112.3	111.9

Sources: Global Insight, AIECE Institutes

The main source of uncertainty lies on oil price developments. Last summer, they reached an historical peak approaching 80 US dollars per barrel under the influence of the war between Israel and Lebanon. But once the conflict had eased, oil price tumbled below 60 US dollars per barrel mid-October.

**Graph 3.- Oil price (Brent reference)**



Source: Global Insight

Due to market-volatility, oil price forecast can be considered both as an upward risk and a downward risk for global expansion. Uncertainty is well illustrated by the gap existing between the lowest and the highest forecasts of oil price for the end of 2007 which reaches more than 20 dollars. Another pronounced rise in prices could spur headline inflation and lead to more restrictive monetary policies affecting economic activity. On the opposite, some institutes consider that the downward trend in oil prices observed since the end of the summer will continue in

2007. In this context, inflationary pressures would be quickly reduced, headline inflation being brought back to level close to core inflation currently estimated at 3% in the US and below 1.5% in the Euro area.

**Table 3.- AIECE Brent oil price in US dollar, end-quarter**

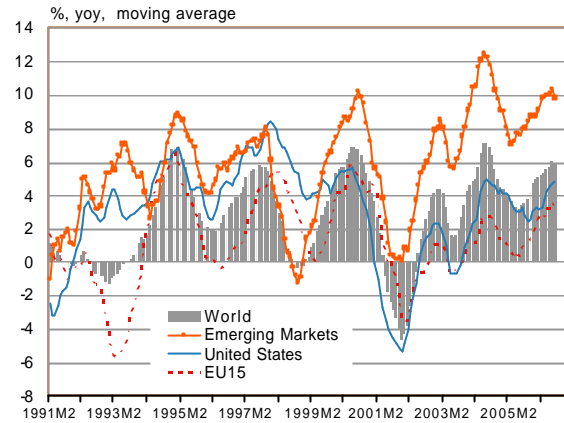
	Q1	Q2	Q3	Q4
<b>2006</b>				
<b>Average</b>	66.1	73.2	59.1	65.3
<b>Max.</b>	-	-	-	75.0
<b>Min.</b>	-	-	-	60.0
<b>2007</b>				
<b>Average</b>	65.4	64.5	64.2	64.4
<b>Max.</b>	72.0	73.0	74.0	75.0
<b>Min.</b>	60.0	55.0	55.0	53.0

Sources: Global Insight, AIECE Institutes

Another issue concerns the synchronisation of the business cycles across main regions. Regarding industry -which still plays a major role in cyclical developments although its weight in Western economies has steadily declined- globalisation of the world economy has led to a pronounced convergence of business cycles. In particular, in the last ten years, no sign of decoupling can be observed between Europe and the United States. Emerging economies cyclical developments are, as well, close to those observed at the world level,

although growth is on a higher trend. Naturally, these observations raise the question of the capacity of Europe and Asia to resist major a slowdown of activity in the United States.

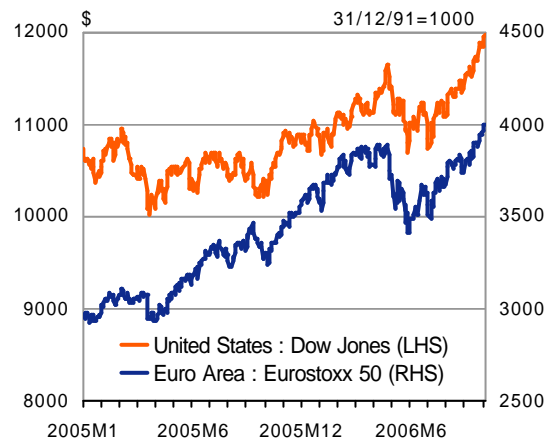
**Graph 4.- Industrial production**



Source: based on CPB data

Equity markets have recently reached historical peaks, offsetting the corrections which occurred in May and June. An interpretation of this upward movement can be twofold. First it could be seen as a bubble, which would constitute a downside risk for the world economy if it bursts. Second, it can signal a high degree of confidence of financial markets about the outlook of world economy.

**Graph 5.- Equity markets**



Source: Global Insight

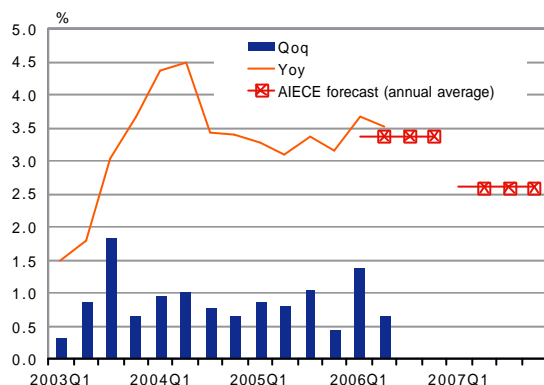
# 1. The International Environment

## 1.1. The US economy

### **Signs of slowdown have been more evident since last spring**

After a strong first quarter, US GDP growth slowed down markedly in the second quarter of 2006 (from an annualized rate of 5.6% at annualised rate to 2.6%, quarter on quarter). It must be reminded that the first three months of the year were the counterpart of a weak fourth quarter in 2005 affected by downside factors such as the impact of Hurricanes Rita and Katrina.

**Graph 6.- US real GDP growth**

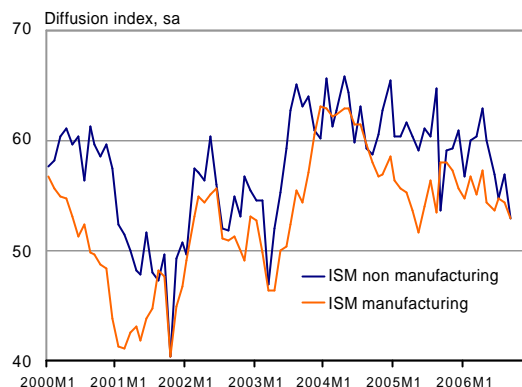


Source: ISM

The most recent surveys regarding the US economy seem to confirm the weakness of activity in the third quarter of this year. In particular, the September ISM survey fell to a low level of 52.9 (with 50 as the threshold delimitating the periods of industrial expansion and recession). The moderation of the activity is also confirmed by recent developments on the labour market, with an average monthly increase of 120 700 jobs in the non farm sectors, a figure in line with the pace of jobs creations in the second quarter (115 000), while on average 165 000 new jobs were created each month in 2005<sup>1</sup>.

**Graph 7.- ISM survey**

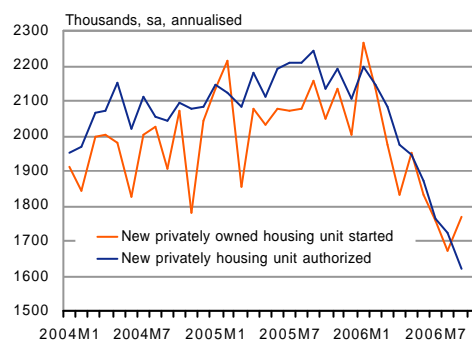
<sup>1</sup> However, it must be noticed that a large discrepancy exists between trends showed in the *Current Population Survey* (carried out among households) and the *Current Employment Statistics* (carried out among firms). The CPS gives a more optimistic view on the labour market with 271 000 jobs creations in September. But this does not refer to the number of people employed.



Source: Global Insight

The main change in the US economy has come from the housing market. A peak was reached in September 2005 for housing permits and in January 2006 for housing starts. The adjustment has been marked so far: -28% in September for housing permits compared to previous peak and -22% for housing sales. Despite this severe correction which has affected the activity in the construction sector, price developments have been very limited so far: At far they have stagnated since mid-2005, but without declining. It must be stressed that since 1975 house prices in nominal terms have never declined in the US on a year-on-year basis (if the reference is the index OFHEO<sup>2</sup>). A soft landing of the housing sector remains the most frequent forecast among AIECE institutes and almost none of them expect a decline in house prices.

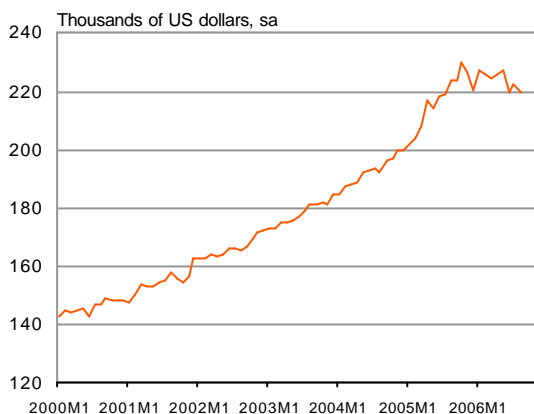
**Graph 8.- Housing market: new starts and permits**



Source: Global Insight

**Graph 9.- House prices (median sales price of existing single-family homes)**

<sup>2</sup> Office of Federal Housing Enterprise Oversight.



Source: Global Insight

The last release of the flows of funds by the Federal Reserve shows that net wealth of US households still marginally increased in the second quarter of 2006 (0.1% quarter on quarter and 7.9% compared to a year ago). Even though financial assets held by US households were reduced by the decline in stocks prices last spring, housing wealth of US households continued to increase. Net wealth of US households should benefit from the recent recovery on financial markets. However, house prices will have a major impact as real estate represents around one third of total assets held by US households against 25% in 2000.

Of course wealth effects are important for private consumption. Signs of weakness of household expenditures have been observed in the second quarter of 2006 with a 2.6% rise (quarter on quarter, annualised rate), compared to 4.8% in the first quarter. July and August figures showed an increase on average by 2.8% in comparison with the second quarter, associated with a negative saving ratio.

***A soft landing of the US economy is the central assumption of the AIECE institutes even though they signal several risks***

On average, AIECE institutes expect the US economy to grow by 2.6% in 2007, less than one point below the rate of 2006.

**Table 4.- Key variables for the US economy**

%	2005	2006	2007
GDP growth	3.2	3.4	2.6
Private consumption growth	3.5	3.0	2.3
Growth fixed	5.4	5.4	3.5

investment			
CPI inflation rate	3.4	3.5	2.8
Unemployment rate	5.1	4.6	5.0
Household saving ratio	-0.4	-0.5	0.5

Sources: BEA, AIECE Institutes

Private consumption growth would be reduced by more than a half point next year compared to 2006, under the assumption of a slight improvement of the household saving ratio. Even though it will be impacted by the adjustment in the non-residential sector, gross fixed capital investment should show signs of resilience, probably thanks to the support of the healthy financial situation of firms. Although economic growth will slow down, unemployment rate is expected to rise only moderately.

In this context, thanks to the deceleration of oil prices and the slowdown of activity, inflationary pressures are expected to diminish, although the rate of capacity utilisation remains high at the moment. After having peaked at 4.3% year-on-year last June, the inflation rate has begun to moderate to come back to 3.8% in August and to 2.1% in September<sup>3</sup>. On average, AIECE institutes expect the inflation rate to come back to 2.8% in 2007, a rate which just equals the current rate of inflation excluding energy.

This should lead the Federal Reserve to ease its monetary policy. A majority of institutes anticipate a decrease of US short term rates in the course of 2007. However, the recent statement of Chairman Bernanke mentioning that the Fed was still concerned about the risks to inflation have led markets to begin to back away from the view that the Fed will cut rates next year.

**Table 5.- Federal funds**

	Q1	Q2	Q3	Q4
2006	4.5	4.9	5.3	5.3
2007	5.2	5.1	4.9	4.8

Sources: Federal Reserve, AIECE Institutes

Most AIECE institutes mention several risks for the US economy. A more pronounced adjustment

<sup>3</sup> A negative base effect on energy prices explains this drop in the inflation rate.

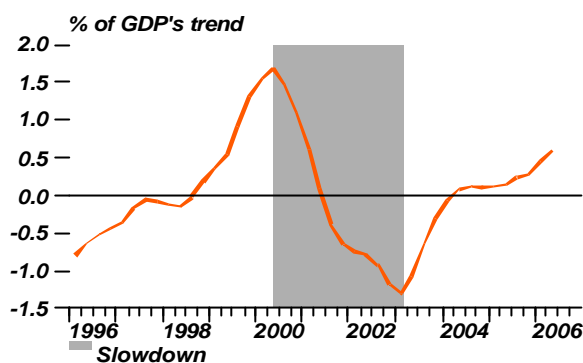
in the housing sector is the most often quoted.

Some institutes also fear an increase of the household saving ratio, which could hamper private consumption. Moreover, most institutes don't expect a significant improvement in the US current account in 2007. Some institutes mention the possible tensions to finance this deficit, a potential threat on the dollar. In the longer run, one institute could the possibility that a growing political demand for stricter environmental regulations will limit production growth.

## Box 1.- Cyclical indicators of the United States

The current ascendant phase of the growth cycle, as displayed below, shows a moderate rise during the first semester 2006. However, the quarterly growth rate has been quite erratic with successively 1.8%, 5.6% and 2.6% in the last three quarters.

Graph B1.1.- United States growth cycle<sup>4</sup>



Source: COE

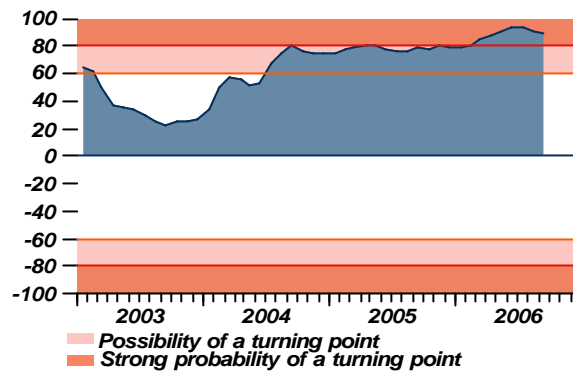
Regarding the future, the COE leading indicator IARC for the United States<sup>5</sup> is used to anticipate the next economic downturn of the growth cycle (since early 2003 when the last trough was reached). The leading indicator gives some prospects for the future of the current ascendant phase of the growth cycle. Since March 2006 the index has markedly climbed over the 80 threshold, which indicated a strong probability of an economic downturn within the next three months.

It means that the year-on-year growth rate should come back at the end of the year or early 2007 under the trend growth rate estimated at 2.5% (3.1% corrected from end-of-point effects). For more than one year, four components have already turned upside down: the Conference Board's consumer confidence expectations Index, the manufacturing ISM index, inventories of manufactured goods and the interest rate spread. More recently, the crumbling of "the privately-owned housing units authorised by building permits" supports the theory of a slowdown.

<sup>4</sup> A double Hodrick Prescott filter is used to estimate the cycle. The parameters are respectively 677 and 1 for a quarterly series, corresponding to filtering cycles of duration between 1,5 and 8 years.

<sup>5</sup> The components of the COE leading Indicator for the United States are: the Conference Board's consumer confidence expectations Index, the manufacturing ISM index, inventories of manufactured goods, privately-owned housing units authorized by building permits, the Standard & Poor's Index, the interest rate spread. The methodology is based on the iterative Bayesian Neftçi's probabilistic formula and on an original weighting system based on first and second order risks. The indicator has been regularly published during the last 8 years on the COE website [www.coe.ccip.fr](http://www.coe.ccip.fr).

**Graph B1.2.- Growth cycle leading indicator (IARC)**

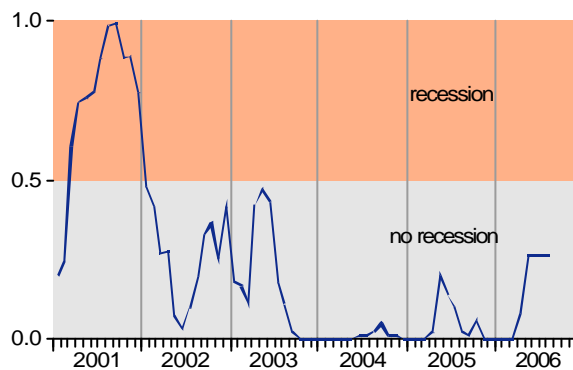


Source: COE

Conversely, the stock market, after a moderate reversal, is still reflecting an optimistic view of the markets. Therefore, the current signal of a downturn does not necessarily imply a new downturn phase of the growth cycle. The coming months will show if the probability of a rebound climbs quickly, which would imply the transitory character of the present downturn. This surely will depend on the durability of the present decline in gas prices and the associated inflation expectations, on employment developments and Fed decisions about interest rates. For now, this probability is low and the prospect is for a growth cycle downturn.

What about a coming recession? It is quite difficult to produce a leading indicator of recession. However, the COE has produced a coincident index of recession<sup>6</sup> for the United States<sup>7</sup> (see working paper N°58, July 2002 on COE website [www.coe.ccip.fr](http://www.coe.ccip.fr)). In August, (last figure available), the index stands at 0.26, i.e. far away from the 0.5 threshold indicating a recession. The help-wanted advertising index is the only one of the four components giving a signal of recession.

**Graph B1.3.- Real-time recession indicator for the United States**



Source: COE

<sup>6</sup> The methodology is based on Markov-Switching processes popularized in economics by Hamilton (1989). Four indicators of industrial production, construction spending, unemployment and help-wanted jobs are the four components used in the indicator.

<sup>7</sup> And more recently for the Euro zone (see working paper n°72, June 2006, on COE website [www.coe.ccip.fr](http://www.coe.ccip.fr)).

## 1.2. Asia

Activity is expected to remain dynamic in Asia in 2007, both in Japan and in emerging countries, even if GDP growth should more or less decelerate in the wake of the slowdown in world demand.

**Table 6.- Real GDP growth**

Annual average, %	2005	2006	2007
Japan	2.7	2.7	2.2
China	8.2	10.2	9.3
India	10.2	7.9	7.2

Source: AIECE Institutes

### 1.2.1. Japan

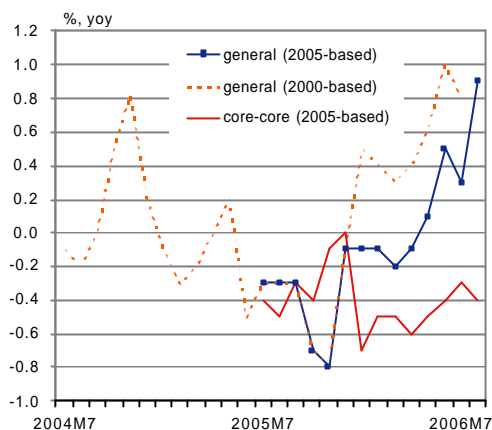
The Japanese growth finally reached 2.7% on average last year. It is not only its best result since 2000, but it represents a third consecutive year of acceleration in GDP.

True, after two consecutive quarters of strong rise, GDP growth was flat in the second quarter of 2006 (+0.2% in volume compared to the previous quarter, against respectively 1% and 0.8% at the end of 2005 and at the beginning of 2006). But even if the peak of the cycle seems behind (on a year on year basis, GDP increased by 4% at the end of 2005; it was only 2.7% in the second quarter of 2006), this is not really a concern: whereas public investment contribution to GDP growth was negative, private consumption and investment remained dynamic. The solidity of private domestic demand has thus been consolidated and has counterbalanced temporary weaker exports.

#### **Deflation is behind**

This “new paradigm” of a more balanced growth (ie. higher private consumption associated with private investment booming and still dynamic exports) is all the more appreciable that it occurs in a new monetary context for Japan: on July 14, the Bank of Japan put an end to its policy of zero interest rate (ZIRP), by raising the interest rates for the first time since February 1999. Deflation is now over, even if it has come to an end very gradually: the decrease in the GDP deflator was lower during the second quarter of 2006 than at the end of 2005; the real estate market has been cleaned and land prices are on a rising trend; domestic credits have been increasing since the end of 2005, putting an end to a seven years’ period of decline.

**Graph 10.- Japan’s CPI**



Source: Global Insight

Turning to inflation, the rebase of the consumer price index, which occurred last August, led to a downward revision of inflation: national CPI was up by 0.9% on a year-on-year basis in August, but excluding food and energy, it was still in negative territory. If the end of deflation is not questionable, the Bank of Japan (BOJ) should remain very cautious in its monetary tightening movement. According to a majority of the AIECE institutes, the next rate rise could intervene at the end of the fiscal year -that is during the first quarter of 2007-, and a second rise could be implemented before the end of 2007. Only two institutes consider that the BOJ will not raise interest rates at all on the period of forecasting.

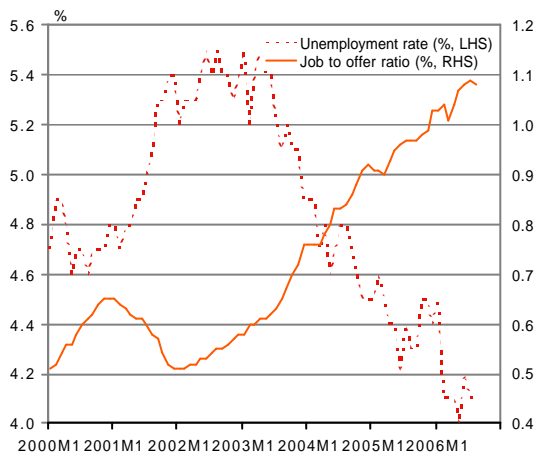
#### **Favourable prospects for growth in 2007**

The prospects for growth remain satisfactory for 2007: the Japanese GDP should increase by almost 3% on average this year, and by 2.3% next year according to the average of the AIECE institutes. Even if world demand should decelerate next year, the past depreciation of the yen should support the competitiveness of the Japanese products. True, a majority of AIECE institutes expect the yen to strengthen again against the dollar in 2007. But this movement should be contained by the interest rates differential with the United States and Europe still negative for the Japanese currency, which should still feed the phenomenon of carry trade.

Moreover, domestic demand is expected to remain resilient and to become the main engine of growth in 2007 according to the AIECE members. Even though the rise in profits is moderating, private investment is expected to keep on rising, even if it is slower. The high level of the rate of capacity utilisation and the ageing of the capital stock mean that new projects are needed, but business climate is still well-oriented.

Private consumption growth should decelerate only gradually until the end of 2007. Households should still benefit from the improvement in the labour market, as structural changes (an ageing population and a decrease in the labour force already on the way) will support job creations even if it is at a lower rate. Concerning the reassessment of potential growth, there seems to be no consensus across the AIECE institutes: potential growth is difficult to estimate for an economy like Japan, which has just gone out of deflation. To sum up the debate, it seems that Japanese potential growth is comprised between 1% and 2% and that it is hindered by demographic concerns (an ageing population and a decreasing working force), which could offset productivity gains.

**Graph 11.- Japanese labour market**



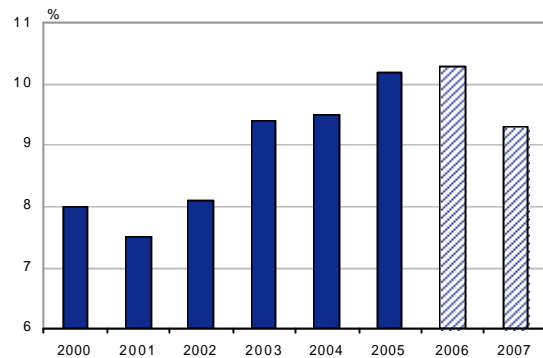
Source: Global Insight

### 1.2.2. China

The Chinese GDP rose by 11.3% on a year on year basis in the second quarter of 2006 (after 10.3% in the first quarter), a twelve years record.

Growth was still driven by investment (30.5% yoy over the first 7 months of 2006, against 27% in 2004 and 2005) and foreign trade (exports' dynamism is higher than that of imports and the trade surplus could reach \$150 billion this year), the two engines which the government has tried to calm for several years. Moreover, bank credits have recorded a new acceleration since the end of 2005, while money supply has grown much more quickly than the target of the Central Bank. With such a new acceleration in economic activity, questions relating to the overheating of the economy and the effectiveness of the economic policy to moderate the activity are really pregnant again.

**Graph 12.- China's GDP (annual average growth rate, %)**



Source: Global Insight

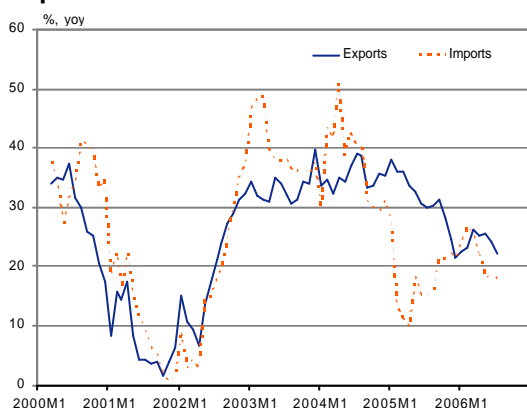
Of course, the Chinese government has multiplied restrictive measures for several quarters. But it has not really changed its policy compared to 2003-2004: administrative measures intended to calm down the real estate sector and the credit market, direct and targeted interventions (closing-down of factories for instance). The impact of such measures on the economy should however remain moderate and temporary: at most, growth could be a little less vigorous in the second half of 2006. As a consequence, China's GDP should register at least a 10% rise on average this year, according to 60% of AIECE Institutes (the maximum forecast for growth is 10.9% while the minimum is 9.5%).

Indeed, investments are mainly financed out of the banking sector and central government's decisions are not always applied at the local level. Moreover, Chinese's imports are decelerating as more and more products are manufactured in the Mainland (iron and steel industry, chemistry, electronics, etc.), whereas exports remain dynamic and support economic growth.

### Is a Yuan rise the best solution?

More and more economists consider that the only means, for China, to reduce the amount of liquidities in the economy and to rebalance the external accounts would be an appreciation of the Yuan. Since its revaluation in July 2005, the Chinese currency has appreciated only by 3% against the dollar (revaluation not included). Fifty percent of AIECE members agree that an appreciation of the Yuan would have some positive implications, both for China and the world economy. It can also be argued that the negative impact on the competitiveness of Chinese product could be more than compensated by cheaper imports and have no influence at all on external imbalances. On the contrary, a sharp rise of the Yuan could have a negative effect on China and, as a consequence, on the rest of the world, according to the other half of AIECE members. This could lead to a financial turmoil, not only because the Chinese financial sector is very fragile, but also because China purchases a large amount of US securities.

**Graph 13.- Chinese external trade**



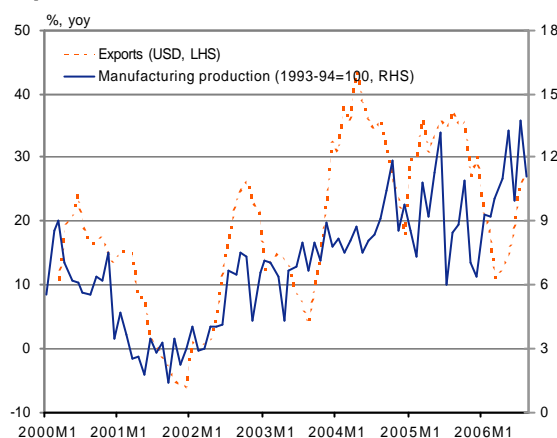
Source: Global Insight

It must be kept in mind that exports will remain a pillar of Chinese growth and a mean to avoid social instability as long as the economy is not rebalanced in favour of consumption. In that sense are the Chinese Authorities ready to take the risk to make the Yuan appreciate markedly? That is all the more uncertain as in 2007 world demand is expected to decelerate and so will Chinese exports. Investment should remain dynamic and will continue to draw economic growth, at least until 2008, year of the Olympic Games in Beijing. For 56% of AIECE members, Chinese GDP growth is expected to decelerate to only 9.5% on average next year.

#### 1.2.3. India

For the second consecutive year, India's growth should reach 8% in 2006 according to AIECE members. What is new is that services have not been the only engine of growth in India in recent years as industry sectors have accelerated. Manufacturing sales have stimulated exports, which have registered a double digit growth. The contribution of internal demand to growth is also a new feature for India: a strong investment cycle and the development of the credit market are on the way since 2004. Yet, India's economy is expected to slow down next year, essentially in the wake of the deceleration of world trade and the tightening of monetary conditions. Indian GDP growth should come down to about 7%.

**Graph 14.- India: industrial production and exports**



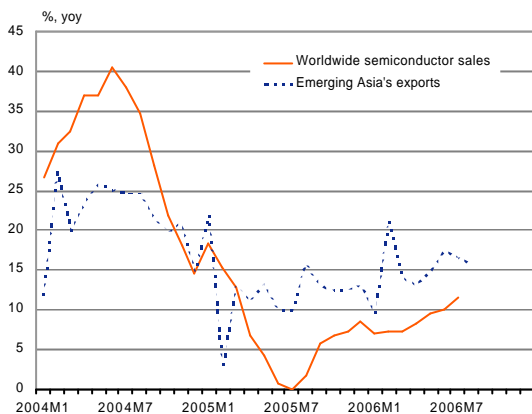
Source: Global Insight

#### 1.2.4. Emerging Asia excluding China and India

On a year-on-year basis, growth of emerging Asia (the eight main countries, except China and India) was still higher than 5% in the second quarter of 2006, but lower compared to the beginning of year (+ 58%), suggesting that the peak of the cycle may have been reached. According to several indicators, the economic situation remains bright: labour markets are still improving, the acceleration in real estate prices during 2003-2006 induces positive wealth effects and contributes to support consumption in different countries (Thailand, Taiwan, Hong Kong, Singapore), exports remain globally dynamic and counterbalance the slowdown in domestic demand observed in some Asian countries. Last but not least, the electronic cycle could still support intra-regional trade for a while. Worldwide semiconductors sales rebounded in the second quarter of 2006 and reached a 10%

rise on a year-on-year basis, their strongest increase since the first quarter of 2005.

**Graph 15.- Worldwide semiconductor sales and emerging Asia's exports**



Source: Global Insight.

Asian growth is expected to decelerate in 2007. There is a large consensus amongst AIECE institutes on the fact that emerging Asia is still very dependant on world trade and that Asian growth would be affected by a slowdown in the US economy. But opinions differ when answering to the question “to what extent?” On the one hand, some institutes argue that Asian GDP still heavily relies on exports and that the share of the United States in Asia's exports is still high, especially in some specific sectors (like electronic goods). On the other hand, Asia seems less vulnerable to US cycles than few years ago, for many reasons listed by AIECE institutes. First, China's role in Asian trade has increased, and so has intra-regional trade. However, some institutes point out that the final demand still comes largely from Western countries. Second, current growth is partly self-sustained thanks to the housing sector, private investment and consumption. Third, local authorities have already shown in the past some high reactivity in response to an external shock while fiscal situation is safe enough to use public expenditures and tax incentives to counterbalance a sharp drop in external demand.

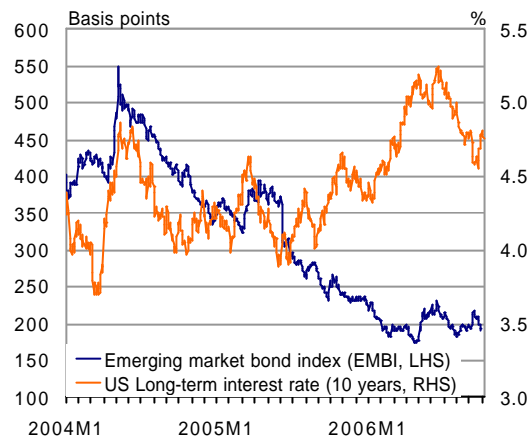
All in all, Asia should be affected by the expected deceleration in world trade next year, even if some domestic factors allow the region to be less dependant on the international cycle. GDP growth of emerging Asia excluding China and India should decrease to less than 5% on average in 2007.

### 1.3. Other emerging countries

#### *Risk premium has been reassessed*

After a period of calm, volatility in financial market increased substantially in the first half of 2006. Exchange rates instability in Iceland was a first signal. Then, early May, a broader correction affected emerging markets' currencies and stock markets. The most significant currencies depreciations took place in countries such as Turkey and South Africa. Those movements happened at the moment when financial markets were reassessing the possibility of tighter monetary policy in the US. Risk premium which fell to historical lows at the beginning of 2006 jumped in May. However, once signs of easing of US interest rates could be perceived, risk premium withdrew.

**Graph 16.- US long term rates and interest rate spreads on emerging markets (EMBI)**



Source: Global Insight

If the turmoil on financial markets has resulted to be only temporary, it can be considered as a useful reminder that the risk has not totally

disappeared, especially in the context of persistent imbalances in the global economy.

**Table 7.- Real GDP growth - selected regions and countries**

<i>in percentage</i>	<b>1998-2007</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Africa	4.3	5.5	5.4	5.4	5.9
Middle East	4.7	5.5	5.7	5.8	5.4
Commonwealth of independent states	5.8	8.4	6.5	6.8	6.5
<i>Of which Russia</i>	5.4	7.2	6.4	6.5	6.5
Latin America	2.8	5.7	4.3	4.8	4.2

*Source:* IMF, World Economic Prospects, September 2006

***Growth prospects remain pretty good for 2007***

Even though the world economic slowdown will contribute to moderate economic growth in emerging economies, growth prospects as assessed by IMF remain pretty good despite a more uncertain financial context. In particular, GDP growth is expected to remain significantly higher than the average of the last ten years.

Latin America is set to register a higher growth in 2006 than in 2005, before moderating in 2007. Exports have been supported by high commodities prices and domestic demand has also contributed to strengthen GDP growth. Moreover, public expenditures are boosted in some countries on the back of buoyant revenues, especially in Venezuela. Although those countries were also concerned by the volatility of financial markets, their vulnerability has been reduced by the apparition of a current account surplus in most countries of the region.

Africa, Middle East and Eastern European countries have benefited from the boom of commodity price. Africa will enjoy this year a GDP growth that will be over 5%, around one point above the last ten years average. Oil exporting countries of the region have largely benefited from the oil price rise, while the increase in the non energy commodity prices has also contributed to boost export revenues of some oil importing countries. Recently, Africa has also hosted increasing FDI from China, especially in extractive industries.

Oil revenues in the Middle East have continued to rise further in the first half of 2006,

because of higher prices and increasing production. Despite the war between Israel and Lebanon last summer, GDP growth would be close to 6% this year. According to IMF estimates, the current account surplus of those countries has doubled in the last two years from \$11.9 Billion in 2004 to \$23.2 in 2006. This upward trend can be interpreted as a sign of wisdom of local authorities in the context of the oil price boom. It can also signal the difficulty to absorb the windfall revenues generated by this boom.

In the countries belonging to the Commonwealth of Independent States (CIS) GDP growth has also been spurred by high commodity prices. Russia, the biggest country of the region, would enjoy this year a GDP growth at least at the same level than in 2005. External and fiscal balances are in strong positive territory. However, the decline of oil price expected by the AIECE institutes and the rapid increase of public spending could translate into lower twin surpluses next year. Ahead of end-2007 parliamentary and early-2008 presidential elections, the question of the ability of the authorities to diversify the economy and stimulate private investment remains the key question for the medium-term potential growth of the Russian economy.

***Strong external imbalances: a key feature of world economy***

World economy is characterised by strong external imbalances. One paradox of the current situation is that developing economies finance the most advanced economies. While at the end of the 1990's the first group suffered from a large

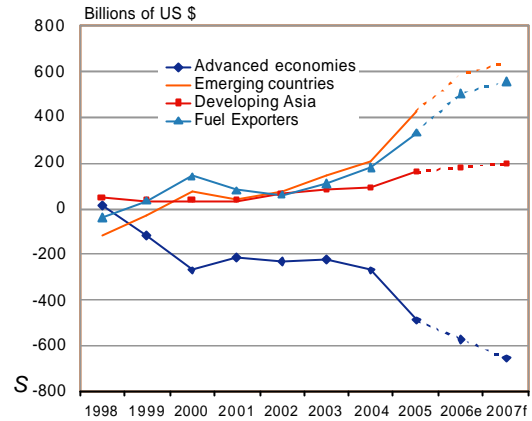
deficit of their current account, it enjoys now a huge surplus, which would reach more than \$500 Billion this year.

This growing gap, which implies huge opposite financial flows, has two origins. Firstly, it is the consequence of a growing trade surplus in developing Asia, especially China in the last two years, which reflects structural changes in the localisation of the production of goods and also perhaps a lack of adjustment of exchange rates. Secondly, the commodity price boom has also contributed to build up large external surplus in exporting countries.

Those imbalances constitute a threat on developments of the world economy and can be

at any moment a source of instability and volatility of financial markets.

**Graph 17.- Current account**



## Questions for discussion

### **Global Trends**

. Do you think that a decoupling is possible between economic growths trends in different regions in the world in case of a US slowdown?

. How do you interpret the recent upsurge of equities markets? Do you think that it is a positive signal for future developments of world economy?

### **US economy**

. Do you think that the housing sector will contract further?

. Do you think that the saving ratio of households can remain negative or very low for a long period? Do you fear major adjustments in the wake of the contraction of the housing sector?

. Do you think that business investment can show signs of resilience even if US economy is slowing down?

. Despite the drop in inflation rate in September, do you think that inflationary pressures are still a threat for the US economy?

. Do you think that long-term interest rates are going to decline further? What are the main reasons explaining the yield curve inversion? Are low long-term interest rates a new paradigm the US economy and more generally for the world economy? What consequences on monetary policy?

### **Asia**

. Do you think that Japan potential growth should be reassessed upwards?

. Do you consider an overheating of Chinese economy has a threat for the world economy?

. Is Yuan appreciation a good deal for the world economy?

### **Other emerging countries**

. Do you think that financial turmoil in emerging countries is definitely over?

. Do you think that oil price exporter's capacity of absorption is now close to a limit?

. Developing countries are now financing developed economies. Do you think that those external imbalances can continue without hampering world economic growth?

## 2. Euro Area

After several years of sluggish performance, economic activity in the Euro area should notably accelerate this year, and enjoy a rate of growth clearly above its potential for the first time since the year 2000.

According to AIECE institutes, growth in the Euro area should reach, on average, 2.5% in 2006. Compared to the spring forecast, this is a clear upward revision of the forecast, as GDP growth was expected at 2.1%. Part of the adjustment comes from a more than previously expected supportive external environment. Nevertheless, the main feature of the acceleration of growth registered in the first semester and of the AIECE's consensus forecast for the whole year 2006 is the key role played by domestic demand. Private investment has rebounded strongly, supported both by construction and by equipment, while improvement in the labour market should more and more feed the recovery of private consumption.

The unemployment rate of the Euro area is following a downward trend since spring 2005. According to AIECE institutes, job creations and the decrease of unemployment rate in the Euro area could go further in the second part of 2006 and in 2007, even though at a lower pace than in previous months. Unemployment rate could reach a low point at 7.5% mid-2007, and remain at that level until the end of the forecasting period.

Turning to economic growth, the forecast for next year has not been revised by the institutes. A less favourable environment, the effects of

monetary tightening on domestic demand and on the Euro exchange rate, and, finally, restrictive fiscal policies in some of the biggest economies of the area are mentioned by AIECE institutes as the main reasons for a progressive softening of economic growth, which could, on average, slow down at 2% for the whole year 2007.

With regards to inflation, the majority of AIECE members do not anticipate a real deceleration of the headline rate on the horizon forecast for the Euro area as a whole. Recovery of the labour market, acceleration of economic growth, as well as the VAT increase in Germany are the main reasons why, on average, headline inflation should stay above the 2% threshold for the seventh and eighth consecutive years. In this respect, the evolution of oil prices now constitutes for some institutes a downward risk for this forecast.

Turning to monetary policy and the evolution of the Euro exchange rate, there is a large consensus among AIECE institutes that the year 2007 will start with the refinancing rate of the ECB at 3.5%. However, scenarios of monetary policy are much more divergent for the remaining of the year. Several institutes forecast a continuation of the monetary tightening with rates ending 2007 between 3.8% and 4.2%. Others rather think that, as soon as the beginning of the year 2007, ECB will take into account a clear perspective of economic slowdown and a risk of sharper appreciation of the Euro exchange rate and stay there. For some institutes, ECB could even cut rates in the course of the year by 25 bp or 50 bp.

**Table 9- Projections for the Euro area**

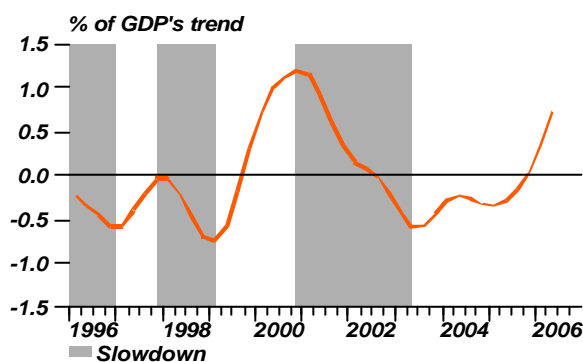
Annual average growth rate (%)	2006		2007		
	2005	Last spring forecast	Last spring forecast	Last spring forecast	
GDP	1.4	2.5	2.1	2.0	2.0
FCBF	2.7	4.1	3.8	3.5	3.3
Private consumption	1.4	1.9	1.4	1.5	1.7
Public consumption	1.4	1.9	1.5	1.5	1.3
Exports	4.5	8.0	5.8	5.3	5.2
Imports	5.4	7.7	6.1	5.3	5.4

		Q1	Q2	Q3	Q4	annual average
GDP (q/q annualized, %)	2006	3.2	3.6	2.3	2.3	2.5
	2007	1.5	1.8	1.8	1.9	2.0
CPI (y/y, %)	2006	2.3	2.5	2.3	2.2	2.2
	2007	2.4	2.1	2.1	2.1	2.3
Unemployment rate (level, %)	2006	8.2	7.9	7.8	7.7	7.9
	2007	7.6	7.5	7.5	7.5	7.6

**Box 2.- Cyclical indicators of the Euro area**

The growth cycle, as displayed below, shows a strong surge during the first semester 2006 in the ascendant phase of the cycle.

**Graph B.2.1.- Growth cycle of the Euro area<sup>8</sup>**



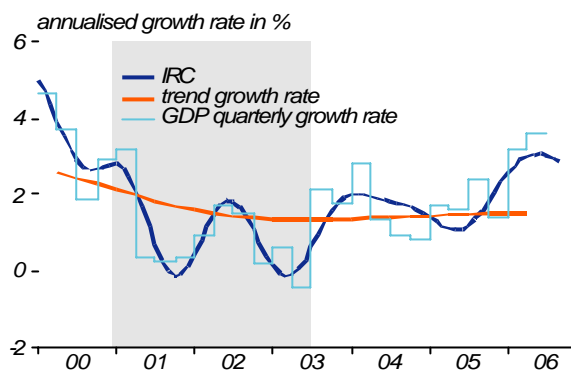
Source: COE

However, the available GDP figures for the Euro area do not give any information about the third quarter 2006. A new indicator, the monthly IRC (indicator of underlying growth) produced by the COE estimates the instantaneous growth in the Euro area, after eliminating the noise in the series.<sup>9</sup>

**Graph B.2.2.- Growth trend in the Euro area**

<sup>8</sup> A double Hodrick Prescott filter is used to estimate the cycle. The parameters are respectively 677 and 1 for a quarterly series, corresponding to filtering cycles of duration between 1.5 and 8 years.

<sup>9</sup> The methodology is based on temporal desegregation techniques linking GDP growth with European surveys evolutions (see Anas and Raffinot, 2006, "L'indicateur du rythme de croissance (IRC)", mimeo COE ).

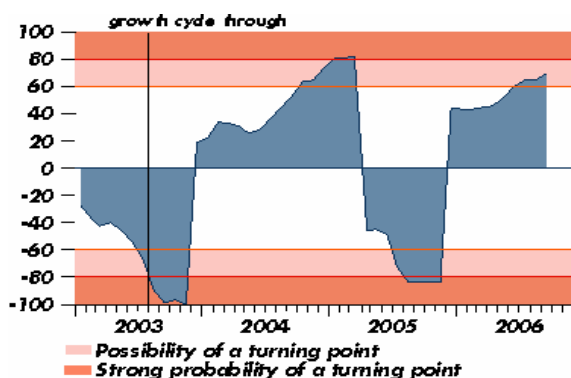


Source: COE

It shows that the instantaneous annualized underlying growth rate, after climbing strongly early 2006, has been slowing down slightly from 3.1% in June to 2.9% in September. But the last figures are provisional and still largely over the trend growth rate estimated at 1.5%.

Regarding the future, the COE leading indicator IARC for the Euro area<sup>10</sup> has been used to anticipate the next economic downturn of the growth cycle since mid-2003 when the last trough was reached. The leading indicator gives some prospects for the future of the current ascendant phase of the growth cycle. In July 2006, the IARC index climbed over the first 60 threshold, indicating a possible downturn in the following nine months. In September, it stands at 69.4, not very far from the significant 80 threshold, which, once over-passed, would indicate a strong probability of an economic downturn in the next quarter. Henceforth, the Euro GDP growth rate should stay, in the near future, over the trend growth rate estimated at 1.5%. If the GDP estimate produced by Eurostat for the two first quarters (0,8% and 0,9%) shows a current strength in growth, the probable coming slowdown in the United States (see box 1: cyclical indicators for the United States) could translate, with a delay of about two quarters, into a slowdown within the Euro area.

Graph B2.3.- Growth cycle leading indicator (IARC)



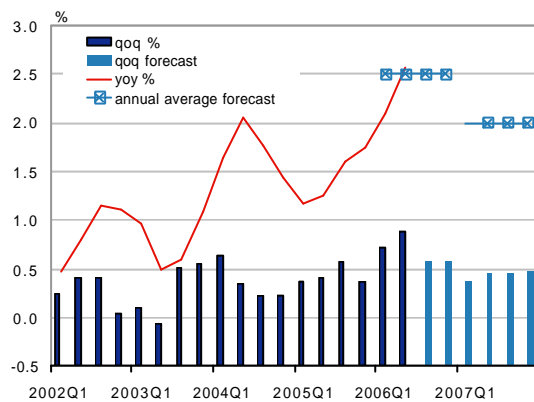
Source: COE

<sup>10</sup> The components of the COE leading Indicator for the Euro area are: a synthetic index of the Euro-area industrial survey (intermediate goods sector), an indicator of the interest rate spread in the Euro area, a weighted aggregate of major stock indices in the Euro area, an indicator of the wholesale price index of the Euro-area, the COE leading indicator for the United States. The methodology is based on the iterative Bayesian Neftçi's probabilistic formula and on an original weighting system based on first and second order risks. The indicator has been regularly published during the last 8 years on the COE website [www.coe.cciip.fr](http://www.coe.cciip.fr).

## 2.1. Buoyant growth in 2006, slow down in 2007

GDP growth reached 0.9% (q/q) in the second quarter of 2006, while the performance of the first quarter was revised up by 0.2 point, to 0.8%. After five years (2001-2005) of slow economic growth (1.4 % a average), the carry-over for the first semester is now 2.2%. This is already 0.1 percentage point above the last spring AIECE's consensus forecast for the whole year 2006. At the same time, this means that, for the first time since 2000, economic growth in the Euro area should clearly be above its potential this year.

**Graph 18.- GDP, Euro area**



Sources: Eurostat, AIECE forecast

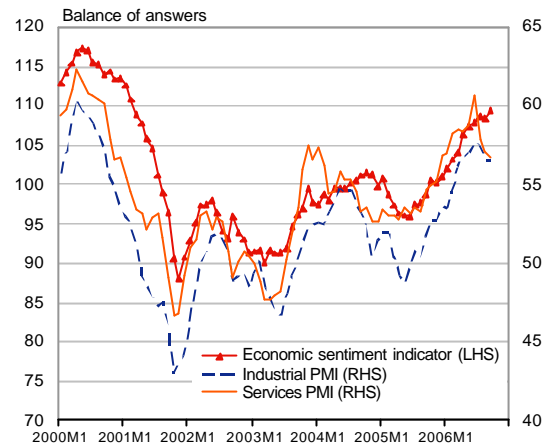
### Has growth in the Euro area already peaked?

After a continuous rise since mid-2005 that led most industrial and services indicators close to their highest level since 2000, the Purchasing Managers Indices, both relative to industry and services, are on a clear downward trend since June 2006. The recent evolution of the Commission surveys does not deliver the same message. After a small drop in August, the Economic Sentiment Indicator (ESI) rebounded in September. If services confidence clearly worsen and fell back to its last-April level, surveys conducted in the industrial sector still keep a slight positive trend.

Nevertheless, it is a fact that several components of the surveys, like exports order books and productions expectations, have not gained much in the third quarter. A majority of institutes agree that confidence surveys –and economic growth– have already started a downswing or are only about to do it. All think that, whatever the exact timing, the levels

reached by these indicators ensure robust growth both in industry and services in the second half of 2006.

**Graph 19.- Industrial and services confidence indicators, Euro area**



Sources: Global insight, European Commission

Turning to national accounts, and besides the carry-over effect, the performances of the first semester seem to define a trend for economic growth in the Euro area substantially above the one drawn by AIECE institutes in the last spring consensus (0.5 - 0.6% q/q for the last three quarters of 2006). This increase in the global trend growth rate in the area was supported by a reduction in the gap between the performances of the various countries of the area. In spite of that, the new consensus for this autumn does not really modify this trend upwards. On average, AIECE institutes forecast quarterly GDP growth around 0.6% q/q for the second half of 2006.

The consensus among AIECE members is that economic growth will be, to a large extent, domestically driven in the year 2007. Higher profitability, employment growth and still rising house prices in some countries will fuel both investment spending and household consumption, except in Germany. Broad-based domestic demand will support economic growth, but not induce any further acceleration in the area. Rather, the performances in the area will be affected by the US slowdown, directly and indirectly through its effects on investment. In 2007, GDP growth rate could fall as of the first quarter below potential growth, down to 1.6% in annualised terms. In the course of the year, GDP accelerate growth could only a little from that low point. GDP growth would hardly reach, according to AIECE institutes, 2.0% on annual average.

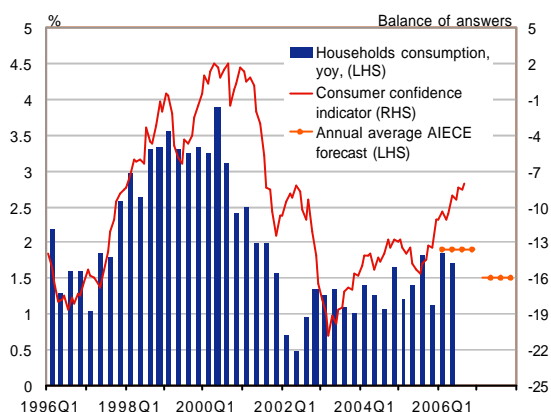
**Table 10.- GDP growth in Euro area members**

Annual average, %				
Country	Institute	2005	2006	2007
<b>AUSTRIA</b>	WIFO	2.0	3.1	2.5
<b>BELGIUM</b>	FPB	<b>1.2</b>	<b>2.8</b>	<b>2.3</b>
	IRES	1.2	2.7	2.2
		1.1	2.8	2.3
<b>FINLAND</b>	ETLA	2.9	4.6	2.7
<b>FRANCE</b>	BIPE	<b>1.2</b>	<b>2.3</b>	<b>1.9</b>
	COE	1.2	2.4	1.8
	INSEE	1.2	2.2	1.9
	OFCE	1.2	2.3	2.2
	REXECODE	1.2	2.3	1.8
<b>GERMANY</b>	DIW	<b>0.9</b>	<b>2.2</b>	<b>1.4</b>
	HWWA	0.9	2.2	1.4
	IFO	0.9	2.1	1.1
	IFW Kiel	0.9	2.1	1.7
	RWI	0.9	2.4	1.0
		0.9	2.2	1.7
<b>GREECE</b>	KEPE	3.7	3.6	3.5
<b>IRELAND</b>	ESRI	5.5	5.9	5.0
<b>ITALY</b>	ISAE	<b>0.1</b>	<b>1.7</b>	<b>1.4</b>
	PROMETEIA	0.1	1.8	1.3
	REF	0.1	1.7	1.3
		0.0	1.6	1.6
<b>NETHERLANDS</b>	CPB	1.5	3.1	3.0
<b>SPAIN</b>	CEPREDE	<b>3.5</b>	<b>3.5</b>	<b>3.2</b>
	SGEI	3.5	3.5	3.2
		3.5	3.4	3.2

### Domestic demand should remain strong

For most observers, the fact that growth gathered such momentum in the first semester was indeed a surprise. But the contribution of the different components of demand was not. In particular, household consumption was the (relative) weak point of the recovery (1.7%-1.8% y-o-y during the first semester), as the bounce back of the first quarter of 2006 was followed by a disappointing performance last spring, mainly due to a significant contraction in Germany and a weak progression in Italy.

**Graph 20.- Households consumption and consumer confidence in the Euro area**



Sources: Eurostat, European Commission

More generally, the outlook for private consumption is improving slowly. Confidence is still recovering. Wages ceased slowing down at the end of last year, but remain hardly above the inflation rate. Only the recovery of job creations is likely to foster revenues and consumption growth.

The general consensus among AIECE members is that private consumption should accelerate in the second half of the year, both boosted by expected inter-temporal substitution effects in Germany (related to the rise in the rate of VAT at the beginning of 2007) and by the continuous improvement in the labour market situation in the whole area. As a result, private consumption could grow by 1.9% this year against 1.2% on average for the last four years.

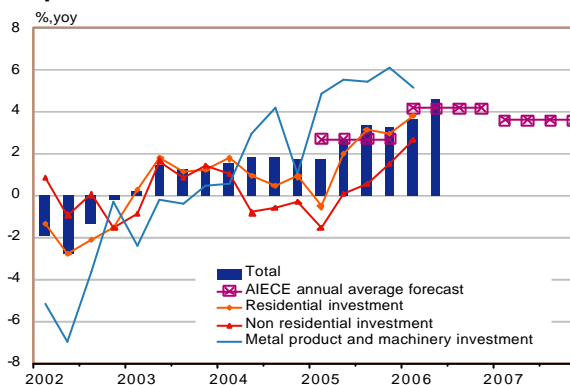
In 2007, according to the AIECE institutes, several countries of the area could enjoy a further acceleration of household consumption, namely, Austria, Ireland and the Netherlands. Meanwhile, Belgium, France, Greece, Italy and Spain could register a marginal slow down. Due to the VAT hike, German consumption would fall to its performance of 2005, a 0.1% increase on annual average. All in all, AIECE institutes forecast a

slowdown of private consumption in 2007 for the whole area, from 1.9% to 1.5%.

The outlook for private investment is also rather positive. After a 5.5% growth on annual average in 2005, investment in equipment could remain buoyant this year. Starting in spring 2005, both residential and non residential investments have experienced a recovery that raised total expenditure around 4.5% y-o-y in mid-2006. In August, credits to the private sector were still slightly accelerating slightly, particularly credits to non-financial corporations (11.3% y-o-y). Even if a deceleration trend for credits to the private sector should be observed in the months to come, yet their high rate of growth still allows for dynamic investment in the second part of the year.

Many institutes underline that higher profitability should allow for resilient investment expenses in 2007, despite the deceleration of world trade. Some note that the revival of the German construction sector will help, while few raise concerns about the impact of higher interest rates. The general consensus among AIECE members is that, after the surge of the second quarter, total investment in the Euro area should stay on an accelerating trend until the end of the year. On annual average, GFCF could grow by 4.1% in 2006 (almost 1.5 points above the rate of 2005) and slightly slow down to 3.5% in 2007.

**Graph 21.- Investment in the Euro area**

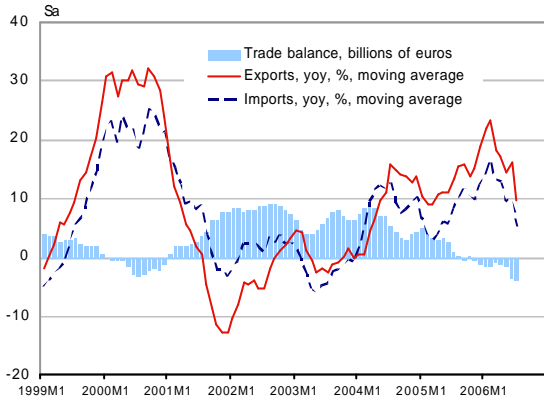


Sources: Eurostat, European Commission

**External demand weakened by a softening international environment and adverse lagged effect of the Euro exchange rate.**

Euro area external trade, evaluated in current prices, started to accelerate and finally reached a peak, in the beginning of 2006, with rates as high as those registered in the beginning of 2001. A majority of AIECE institutes expect the current trend of deceleration to continue.

**Graph 22- Euro area external trade**



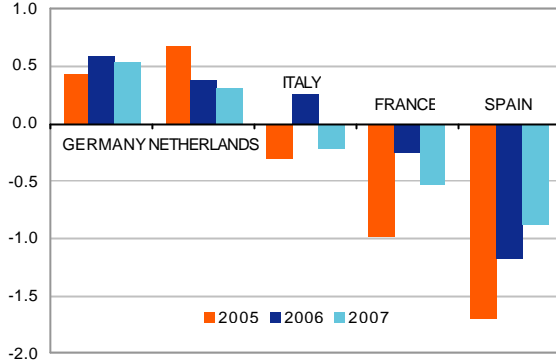
Source: Eurostat

Nevertheless, and after the relatively poor performance of 2005, the contribution of net exports in quarterly national accounts to overall growth in the area should rise in 2006 as, in constant prices, exports have been relatively more dynamic than imports. Benefiting from the depreciation of the Euro exchange rate registered in the course of 2005, the volume of exports of the Euro area countries (including intra area trade) was installed at a rate above 9% y-o-y throughout the first half of 2006.

Since the beginning of the year, exchange rate evolutions have been less favourable, and this will come to weigh on exports dynamism. Should these evolutions persist and a downturn be registered in exports books, the contribution of net trade to GDP growth could soon fall again in negative territory. According to AIECE institutes, the export trend could moderate in 2007, as exporters would both undergo the effects of a world trade deceleration and the firmness of the Euro. At the same time, the still robust domestic

demand in the area would fuel imports. According to AIECE institutes, exports growth would slow from 8.0% down to 5.3%, and imports from 7.7% to 5.3%.

**Graph 23- Contribution to real GDP growth of net trade, Euro area countries**



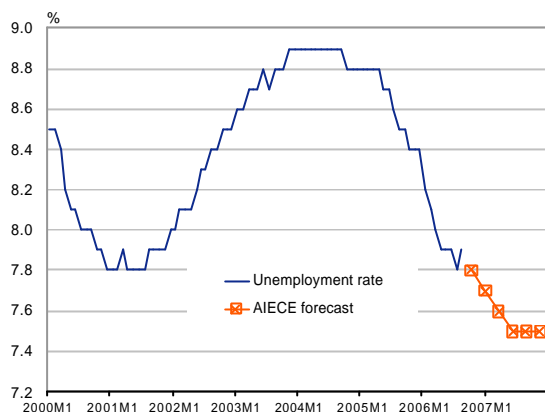
After an improvement in 2006, the contribution of net exports to economic growth is expected to deteriorate next year relatively sharply in Finland, France, Ireland and Italy. It is expected to stay roughly stable in the Netherlands and in Germany, and even to improve in Spain and in Greece.

**2.2. A further improvement in the labour market?**

Labour market statistics confirm that growth in the Euro area succeeded this year in reaching sufficient momentum to visibly impact the situation on the labour market. Quarter-on-quarter employment growth started to accelerate in the beginning of 2005, reaching 0.4% in the second quarter of 2006.

Turning to unemployment rates, the situation is clearly improving. After a peak at 8.9% during the whole year 2004, the unemployment rate for the Euro area has started to decrease, first very slowly. A sharp decrease was then registered in the first months of 2006, during which the unemployment rate lost 0.5 pp, from 8.4% in January to 7.9% in April. After a small increase (0.1 pp), this rate still amount to 7.9% in August 2006, the latest data available.

**Graph 24.- Euro area unemployment rate**



Sources: Eurostat, AIECE institutes

Nevertheless, business surveys still suggest an increase in employment expectations for the months to come, in services as well as in industry and in the construction sector. This predicted

increase in employment is consistent with the expected further recovery of investment (both for equipment and the non residential sector), and with still high firms profitability in the area. According to AIECE institutes, job creations and the decrease in the unemployment rate in the Euro area could go further in the second part of 2006 and in 2007, even if at a lower pace than in the previous months. At a very large majority, AIECE institutes forecast another fall in the unemployment rate of their countries in 2007, with the exceptions of Ireland and Austria, but almost twice smaller than estimated between 2005 and 2006. For the Euro area as a whole, unemployment rate could reach a low point at 7.5% during the second quarter of 2007, and would then stay at that level until the end of the forecasting period. On annual average, the unemployment rate would then fall by only 0.4 pp, from 7.9% in 2006 to 7.5% in 2007.

**Table 11.- Unemployment rate in Euro area members**

%				
Country	Institute	2005	2006	2007
<b>AUSTRIA</b>	WIFO	5.2	5.0	5.0
<b>BELGIUM</b>	FPB	8.4	8.5	8.3
	IRES	8.4	8.4	8.3
<b>FINLAND</b>	ETLA	8.4	7.7	7.4
<b>FRANCE</b>	BIPE	9.9	9.1	8.5
	COE	9.9	9.1	8.4
	INSEE	9.9	9.1	8.6
	OFCE	9.9	9.1	8.4
	REXECODE	9.9	9.0	8.5
<b>GERMANY</b>	HWWA	9.5	8.3	8.0
	IFW Kiel	9.5	8.2	7.6
	DIW	11.2	10.2	10.0
	IFO	11.2	10.4	10.0
	RWI	11.2	10.4	9.7
<b>GREECE</b>	KEPE	10.4	9.6	9.3
<b>IRELAND</b>	ESRI	4.4	4.4	4.4
<b>ITALY</b>		7.7	7.1	6.7

	ISAE	7.7	7.0	6.5
	PROMETEIA	7.7	7.1	6.8
	REF	7.7	7.2	6.8
<b>NETHERLANDS</b>	CPB	6.5	5.4	4.6
<b>SPAIN</b>	CEPREDE	<b>9.2</b>	<b>8.3</b>	<b>7.9</b>
	SGEI	9.2	8.1	7.8

### Box 3.- The Lisbon strategy and the employment rate: where are we and what has been done?

The unemployment rate is only part of the objectives of the labour market policy. At the Lisbon European Council (March 2000), the European Union set itself a strategic goal to become "the most competitive economy in the world". The European Employment Strategy (EEE) is a key element of the Lisbon strategy. The Council considered that the aim should be to raise the overall EU employment rate to 70% and to increase the number of women in employment to more than 60% on average by 2010. Two intermediate targets were added later: the employment rate had to be raised to 67% overall by 2005, 57% for women by 2005 and 50% for older workers by 2010. Of course, all those elements are not only aimed at improving the situation on the labour market, but they are also a key element to increase potential growth in Europe.

In 2005, the intermediate target for women employment rate was reached in EU15 (57.4% in 2005), but not for EU25 (56.3%). The employment rate of older people (55 to 64 years old) was 42.5% in EU25 in 2005 (up by 5.9 percentage points since 2000) and 44.1% in EU15. Overall, the employment rate both in EU15 and EU25 was below the intermediate target decided by the Council. This is particularly true for some new EU members such as Poland and Hungary as well as Italy.

AIECE institutes mention a list of measures which have been undertaken in many countries to increase the employment rate. Three categories can be identified:

- Most of them aim at increasing labour supply through various channels. In the Netherlands, the measures focus on reducing the use of disability insurance, as well as a cut of early retirement benefits. In Ireland, long term unemployed can keep a proportion of their benefits for a period of time when they returned to work or get a "negative" income tax like in France. In Germany, unemployment benefits have been limited to 12 months. Some initiatives focus on specific population as workers over 50 years old in Belgium or over 55 years old in France.

- Another set of measures consists in increasing the efficiency of public employment policy. In the UK, the delivery of benefit, the delivery of all labour market programmes and the public employment service is concentrated in one single point of contact. In Ireland, people who had been in receipt of unemployment payments for more than six months were asked to attend an interview with the state training agency. In the Netherlands, the administration of welfare benefits is now done by municipalities.

- Finally other measures try to increase labour demand like cuts in social security contributions for young low-wage earners and workers aged 50 or more in the case of Belgium.

**Table B3.1.-Main features of the labour market in European countries(2005)**

%	Employment rate (*)	Unemployment rate	Labour force participation rate
<b>Austria</b>	68.6	5.2	72.4
<b>Belgium</b>	61.1	8.4	66.7

<b>Czech Republic</b>	64.8	7.9	70.4
<b>Denmark</b>	75.9	4.8	79.8
<b>Finland</b>	68.4	8.4	74.7
<b>France</b>	63.1	9.7	69.5
<b>Germany</b>	65.4	9.5	73.8
<b>Greece</b>	60.1	9.8	66.8
<b>Hungary</b>	56.9	7.2	61.3
<b>Ireland</b>	67.6	4.3	70.8
<b>Italy</b>	57.6	7.7	62.5
<b>Netherlands</b>	73.2	4.7	76.9
<b>Norway</b>	74.8	4.6	78.3
<b>Poland</b>	52.8	17.7	64.4
<b>Slovenia</b>	66.0	6.5	70.7
<b>Spain</b>	63.3	9.2	69.7
<b>Sweden</b>	72.5	7.8	78.7
<b>Switzerland</b>	77.2	4.5	80.9
<b>UK</b>	71.7	4.7	75.3
<b>EU15</b>	<b>63.8</b>	<b>7.9</b>	<b>71.0</b>
<b>EU25</b>	<b>65.2</b>	<b>8.8</b>	<b>70.2</b>
<b>Euro area</b>	<b>63.5</b>	<b>8.6</b>	<b>69.9</b>

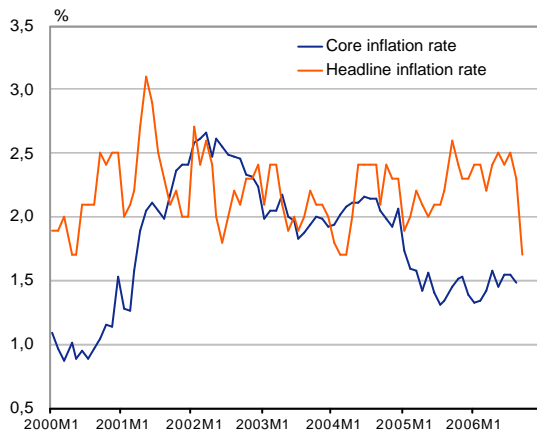
Sources: Eurostat labour force Survey, OECD  
 (\*) persons aged 15-64 years.

### 2.3. Resilient inflation in the Euro area?

The annual rate of inflation (as measured by the HICP) was 2.3% in August 2006, down from 2.5% in June. According to a Eurostat flash estimate, Euro area inflation would have sharply fallen in September down to 1.7%, for the first time below 2% in nineteen months. The flash estimate does not give any elements on the decomposition of the indices, but it seems that this drop is mainly explained by a base effect in energy prices (as the post-Katrina episode is exiting the year-on-year comparison). This base effect was certainly reinforced by the current downward trend in oil prices, but it seems that the index is expected to renew relatively rapidly with rates above 2% because the base effect will not play anymore. The core rate was 1.5% in August, up from 1.3% in January.

Producer prices in the manufacturing sector accelerated in the second quarter from 3.0% (y-o-y) in March to 4.3% in July, mainly driven by a surge in the intermediate sector. Energy prices still have an advance of 15% a year, down from 19.8% in January.

**Graph 25.- Inflation in the Euro area**



Source: Eurostat

According to the AIECE institutes, global inflation rate of the Euro area should, on average, record a marginal increase in 2006, from 2.2% in 2005 to 2.3%.

Turning to inflation rates in various member states, a majority of AIECE institutes have revised their inflation forecast upwards in 2006, taking into account the surge in oil prices during last summer. In this respect, and regarding 2007, the future evolution of oil prices may now be considered as a balanced risk for inflation, if not, for some institutes, a downside one.

Next year, the VAT hike is expected, on average, to induce an increase in the headline inflation rate in Germany of 0.5% on annual average. In this context, inflation rates could increase from 1.7% to 2.3% in that country, by 0.2 pp in Finland (to 1.8%) and by 0.25 pp in the Netherlands (to 1.5%). The developments in these countries would then explain that resilience of inflation could still be at work next year in the Euro area as a whole, with another increase in consumer prices of 2.3% on annual average.

**Table 12- Inflation rate in Euro area members**

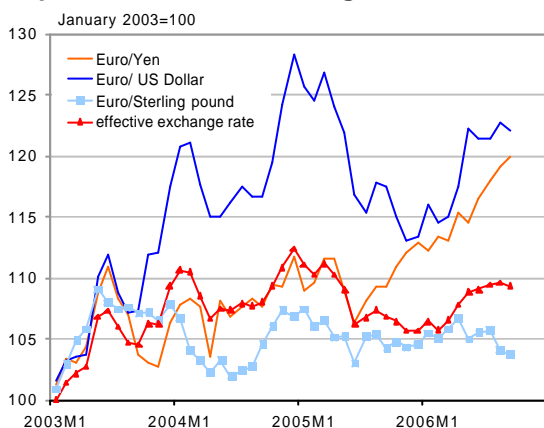
Annual average, %				
Country	Institute	2005	2006	2007
<b>AUSTRIA</b>	WIFO	2.3	1.6	1.7
<b>BELGIUM</b>	FPB	<b>2.8</b> 2.8	<b>1.9</b> 1.9	<b>1.8</b> 2.0
	IRES	2.8	1.8	1.5
<b>FINLAND</b>	ETLA	0.8	1.6	1.8
<b>FRANCE</b>	BIPE	<b>1.8</b> 1.7	<b>1.9</b> 1.9	<b>1.6</b> 1.6
	COE	1.8	1.7	1.3
	INSEE	1.8	1.8	-
	OFCE	1.7	1.9	1.8
	REXECODE	1.8	2.0	1.7
<b>GERMANY</b>	DIW	<b>1.6</b> 0.2	<b>1.7</b> 1.6	<b>2.3</b> 2.2
	HWWA	1.9	1.7	2.2
	IFO	2.0	1.7	2.4
	IFW Kiel	2.0	1.8	2.3
	RWI	2.0	1.8	2.4
<b>GREECE</b>	KEPE	3.5	3.2	3.1
<b>IRELAND</b>	ESRI	2.5	4.0	3.6
<b>ITALY</b>	ISAE	<b>1.9</b> 1.9	<b>2.2</b> 2.2	<b>1.9</b> 2.0
	PROMETEIA	2.0	2.2	1.8
	REF	1.9	2.1	1.9
<b>NETHERLANDS</b>	CPB	1.7	1.3	1.5
<b>SPAIN</b>	CEPREDE	<b>3.4</b> 3.4	<b>3.7</b> 3.7	<b>3.1</b> 3.1

## 2.4. A minor appreciation of the Euro exchange rate is likely

The Euro exchange rate against the dollar has remained broadly unchanged since May 2006, following a six-month period of appreciation. In contrast, it has experienced a sizeable appreciation against the Japanese yen, the continuation of a movement started mid-2005.

Over the last six months (March to September), the appreciation of the Euro exchange rate reached 6% both against the US Dollar and against the Japanese yen. The depreciation of 2% against the Sterling pound over the same period has partly offset the effects of these movements on the effective exchange rate. Against the 23 most important trading partners of the Euro zone, the appreciation of the Euro exchange rate has been less than 3% since March 2006.

**Graph 26.- The Euro exchange rate**



Source: Eurostat

Regarding the Euro/US dollar exchange rate and its evolution over the horizon forecast, a few institutes choose to retain a technical assumption.

Among the others, almost half of them anticipate a Euro equal or above 1.30 US Dollars at the end of 2007. The remaining institutes do not expect any significant movement in their main scenario, but clearly view an appreciation of the Euro to the dollar as the main risk associated with the forecast. However, on average and among all institutes, the exchange rate is expected quasi-stable over the horizon forecast, at 1.29 US Dollar (see table 2 in the overview of the report).

## 2.5. ECB refinancing rate stable... on average

Euro area key interest rates have been increased by 25 basis points at the ECB October meeting, following previous rises of 25 bp in August, June, March 2006 and December 2005. By a very large majority, the AIECE institutes anticipate a further rise in December 2006, leading the ECB main refinancing rate to 3.5%. This forecast is in line with the analysis made by the ECB at the October meeting.

While the main macroeconomic scenario of the Bank is very close to AIECE consensus (robust growth and domestic demand, inflation rates above 2% over the horizon forecast on average), risks are identified by the ECB on the upside in the short to medium term, with the possibility of stronger pass-through of past oil rises in consumer prices, further increases in administrated prices and indirect taxes, and stronger than expected wages developments in a favourable growth context. On the medium to longer term, ECB is still concerned with the rapid expansion rates of money supply (over 8% (y-o-y) in August for M3) and credit (over 11% (y-o-y) for the private sector) which indeed, even if no more accelerating as in the beginning of 2006, give no clear sign of downswing.

**Table 13.- ECB reference rate (%)**

	2006Q4	2007Q1	2007Q2	2007Q3	2007Q4
<b>average forecast</b>	3.39	3.52	3.60	3.60	3.62
<b>max. forecast</b>	3.55	3.75	4.00	4.02	4.22
<b>min. forecast</b>	3.25	3.25	3.25	3.25	3.00

Source: AIECE forecast

Turning to 2007, the opinions of the AIECE institutes are much more divergent. About half of the institutes (11 over 24 that made a forecast) anticipate a continuation of the monetary

tightening with rates ending 2007 between 3.8% and 4.2%. Others rather think that, as soon as the beginning of the year 2007, ECB will take into account a clear perspective of economic slowdown, downward perspectives for inflation and a risk of sharper appreciation of the Euro

exchange rate and stay there. For some institutes, ECB could even cut rates in the course of the year of 25 bp or 50 bp.

## **2.6. Fiscal stance in Euro area member countries**

After a low point in 2003 at - 3.0%, the general government fiscal balance for the Euro area as a whole started to improve in 2004. Despite another slowdown of growth, the effort was increased in 2005, with a reduction of the aggregate deficit of 0.5 percent of GDP, down to -2.2%. In 2006, with GDP growth expected to be clearly above potential for the first time since 2000, the budget deficit is expected to be further reduced, but at a lower pace, down to be further 2.0% according to the IMF. Indeed, according to AIECE institutes, the fiscal policy stance is judged in 2006 restrictive in Ireland and Greece, by one German institute and by one French institute. In other countries it is assumed neutral,

or even expansionary in Finland, the Netherlands and Belgium.

In 2007, the fiscal policy stance is expected to be restrictive by one Italian institute, in Ireland and in Germany. It must be noticed that, regarding the Euro area, several institutes cited fiscal adjustment, especially in Germany and, to a lower extent in Italy, as a complementary factor explaining the magnitude of the economic slowdown of the Euro area in 2007.

Indeed, according to the AIECE institutes, the two countries could sizeably reduce their fiscal deficit in 2007, by 0.9% of GDP in Germany, and by 1.7% in Italy. After France in 2005 and Germany in 2006, Italy could also succeed in keeping its fiscal deficit under the 3% of GDP threshold in 2007. A smaller improvement of the fiscal position is also expected in Austria, while fiscal surpluses could decrease, moderately in Finland and to a larger extent in Spain. Fiscal position could roughly stabilize in other countries.

**Table 14.- Fiscal balance in Euro area members**

Public sector fiscal balance, % of GDP				
Country	Institute	2005	2006	2007
<b>AUSTRIA</b>	WIFO	-1.5	-1.6	-1.3
<b>BELGIUM</b>	IRES	0.1	-0.2	-0.8
<b>FINLAND</b>	ETLA	2.5	3.2	2.9
<b>FRANCE</b>	BIPE	<b>-2.9</b>	<b>-2.8</b>	<b>-2.8</b>
	COE	-2.9	-2.9	-2.8
	OFCE	-2.9	-2.9	-2.9
	OFCE	-2.9	-2.7	-2.9
	REXECODE	-2.9	-2.8	-2.7
<b>GERMANY</b>	DIW	<b>-3.2</b>	<b>-2.4</b>	<b>-1.5</b>
	DIW	-3.3	-2.5	-1.5
	HWWA	-3.2	-2.4	-1.4
	IFO	-3.2	-2.4	-1.4
	IFW Kiel	-3.2	-2.4	-1.9
	RWI	-3.2	-2.4	-1.4
<b>GREECE</b>	KEPE	-5.1	-2.7	-2.6
<b>IRELAND</b>	ESRI	1.0	1.0	0.9
<b>ITALY</b>	ISAE	<b>-4.1</b>	<b>-4.7</b>	<b>-3.0</b>
	ISAE	-4.1	-4.6	-2.7
	PROMETEIA	-4.1	-4.8	-3.1
	REF	-4.1	-4.7	-3.1
<b>NETHERLANDS</b>	CPB	-0.3	-0.1	0.0
<b>SPAIN</b>	CEPREDE	<b>1.1</b>	<b>1.4</b>	<b>0.6</b>
	CEPREDE	1.1	1.3	0.5
	SGEI	1.1	1.4	0.7

## Questions for discussion

### ***Euro area, economic developments***

- . What do institutes attribute the “surprising” momentum of growth in the first half of 2006 to?
- . Why did this “surprise” not lead to a substantial revision of the trend of the forecast, especially in the second half of the current year?
- . Do institutes consider the evolution of the Euro/USD exchange rate as an important risk for the growth forecast of the Euro area, regarding the contribution of external trade?
- . What are the main reasons for the resilience of domestic demand forecasted next year? Could it be prolonged over the horizon forecast?
- . In Germany, is the expected VAT hike responsible for the slow down forecasted in 2007, more important than in other countries of the area?
- . With rates around 4% on annual average, has the investment cycle in the area reached a peak in 2006?
- . Have structural reforms in some countries played an important role in the decrease in unemployment in the recent quarters? What consequences for the years to come?
- . In the light of recent developments in oil prices, would some institutes like to revise their forecast on inflation in the Euro area? With which consequences?

### ***Economic policy in the Euro area***

- . Is it possible to reach a consensus on the monetary policy which could be associated with our main forecast for the Euro area? What is the expected impact? On housing markets and consumption? In which countries? On investment in equipment?
- . Shall we see as a success of the “reformed” SGP the fact that, by next year, all countries represented at the AIECE could register fiscal deficits less or equal to 3%? Is the impact of these adjustments on the growth cycle of the area important?

### 3. Growth performances in Europe outside the Euro area

On average, economic growth in the European countries that are not members of the EMU has been stronger than in the Euro area since the beginning of the decade (2.6% on average from 2000 to 2005 against 1.8%). Several factors can explain this growth differential.

First of all, new EU member states are in a catching up process vis-à-vis EU15, a factor that has clearly boosted economic growth in the poorest countries of the region (see graph 29). Other specific factors have played a role like the increase of oil price, which has benefited to Norway and UK.

But economic policy stance adopted after the economic downswing at the beginning of the decade has also contributed to this growth differential. Monetary policy has been a bit more reactive in non Euro area countries, but the difference with the Euro area is not huge. The main difference lies in exchange rates, as the effective exchange rate of the Euro appreciated by more than 20% between 2000 and 2005, while other European currencies appreciated more modestly or even slightly depreciated in Sweden and in the United Kingdom. Fiscal policy stance is another major difference. At the peak of the cycle in 2000, public finances were just balanced in the Euro area whereas they were in strong positive territory in other European countries (2.3% of GDP in Denmark, 3.8% in the UK, 5% in Sweden and 15.6% in Norway). It has given room of manoeuvre for those countries to react to the deceleration of activity at the beginning of the decade. On the opposite, in the Euro area, although the situation of public finances deteriorated with a public deficit reaching 3.1% of GDP in 2003 on average, fiscal policy only gave a minor impulse to activity as it is shown by the very limited change in the cyclically-

adjusted general government balance between 2000 and 2003.

**Table 15.- Economic policy stance**

	Short-term interest rates 2000-2005 (percentage points)	Effective exchange rates 2000-2005 (percent)	Cyclically-adjusted general government balances 2000-2003 (percent of potential GDP)
Denmark	-2.7	+8.7	-0.5
Norway	-4.5	+10.3	-5.3
Sweden	--2.3	-1.3	-3.7
Switzerland	-2.4	+10.7	-2.6
United Kingdom	-2.4 (1)	-0.7	-4.5
Euro Area	-2.2	+22.0	-0.8
United States	-5.3 (1)	-7.3	-5.3

1- 2000-2003, as 2003 corresponds to a trough.

### 3.1 Non – Euro Western European countries

As in the Euro area, economic growth has been surprisingly buoyant in the first part of 2006. As a result, and with the exception of the United Kingdom, the growth forecasts for these countries, namely Denmark, Norway, Sweden and Switzerland, have been revised up from 0.5 to 0.8 percentage points for the year 2006. Next year, growth is expected to register an important slowdown in Denmark and Sweden, very less pronounced in Switzerland. In the United Kingdom and in Norway (mainland), growth would roughly stabilize to the rate reached in 2006.

Both in 2006 and 2007, the growth performances for these countries are expected to be at least equal to those of the Euro area. All of

them have registered buoyant domestic demand this year (ranging from a 2.5% growth rate in Switzerland and the United Kingdom to 4.6% in Denmark) and expect to do so, even if at a lower extent, in 2007.

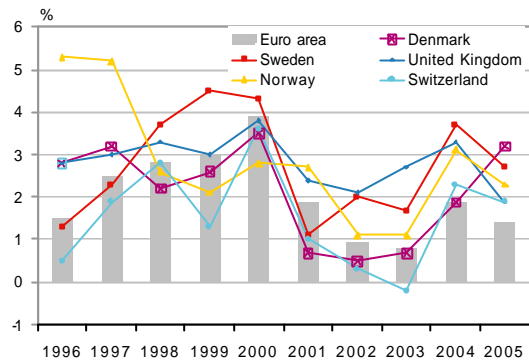
Besides the specificities of each country, there are of course a certain number of common features in the growth cycles of these countries. As in the Euro area, the addition of a resilient domestic demand, fuelling imports, and of a deceleration of exports should in some of these countries (Sweden, Switzerland), next year, deteriorate the contribution of net trade to economic growth. In others (Denmark, Sweden), which had already registered high growth rates in 2005, the business cycle may be more advanced than in the Euro area. In these countries, investment is expected to sizeably slowdown in 2007.

**Table 16.- Non-Euro Western Europe, AIECE forecast**

(%)	2005	2006	2007
<b>DENMARK</b>			
GDP growth rate	3.6	3.0	2.0
Inflation rate	2.1	1.8	1.8
Unemployment rate	5.4	4.4	4.1
Fiscal balance	3.9	3.0	2.8
<b>SWEDEN</b>			
GDP growth rate	2.7	4.3	3.0
Inflation rate	0.5	1.5	1.8
Unemployment rate	7.8	7.3	7.2
Fiscal balance	2.7	2.4	2.5
<b>UNITED KINGDOM</b>			
GDP growth rate	2.5	2.6	2.6
Inflation rate	2.1	2.1	2.3
Unemployment rate	4.8	5.4	5.5
Fiscal balance	-3.1	-2.9	-2.5
<b>NORWAY</b> (mainland)			
GDP growth rate	3.7	3.2	2.1
Inflation rate	1.6	2.4	1.5
Unemployment rate	4.6	3.4	3.3
Fiscal balance	-	-	-
<b>SWITZERLAND</b>			
GDP growth rate	1.9	2.6	2.1
Inflation rate	1.2	1.2	0.8
Unemployment rate	3.8	3.4	3.0
Fiscal balance	0.0	0.8	1.0

Inflationary pressures are expected to be relatively subdued, with increases in consumer prices ranging from 1.2% (Switzerland) to 2.4% (Norway) in 2006, and from 0.8% (Switzerland) to 2.3% (United Kingdom) in 2007. Already relatively low in most countries, the unemployment rate is not expected to decrease much next year (Sweden, United Kingdom, Norway).

**Graph 25.- Non-Euro Western Europe, GDP growth rates**



Source: Eurostat

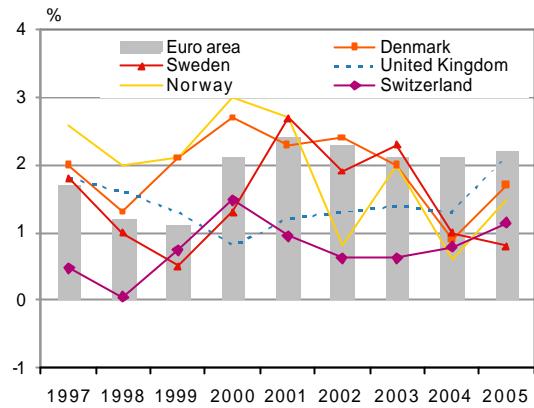
**Net trade will explain the major part of the slowdown expected next year in Sweden and Switzerland**

More precisely, the outlook for Sweden and Switzerland is quite similar to the one drawn for the Euro area as a whole. These economies should register an acceleration of economic growth between 2005 and 2006, from 1.9% to 2.6% for Switzerland, and from 2.7% to 4.3% on average in Sweden.

The Swiss economy has benefited this year of an acceleration of domestic demand, with both buoyant private consumption and resilient investment expenses. Next year, the external support will weaken, under both the effects of the world trade slowdown and of a slight appreciation of the Swiss franc against the Euro (and hence against the dollar).

The Swiss economy is then expected to take advantage from a robust growth of private consumption. The basis for the unusually strong consumption growth will be above-average increases in labour compensation and in incomes from business and wealth. With rising employment and wages, real household disposable income could grow by 2% in 2007, fuelling consumption and growth. Even if they will slow down, imports will stay relatively robust while exports will undergo an important slowdown, driving GDP growth down to 2.1%.

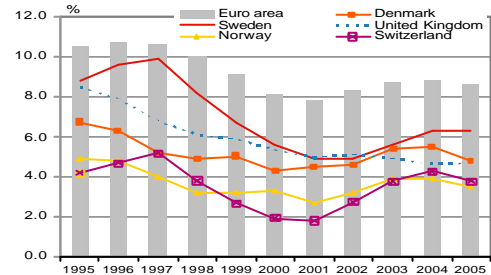
**Graph 26.- Non-Euro Western Europe, inflation rates**



Source: Eurostat

The current upswing of the Swedish economy appears very broadly based. Already booming in 2005, private investment is still very robust, while household consumption has largely benefited from the increase in employment and both monetary and fiscal expansionist policies. Consumer prices increase strengthens in 2006, and should do so in 2007. Domestic demand is fuelling import growth, but that will not prevent a sizeable increase in the contribution of net trade to economic growth for the current year. In 2007, the Swedish economy is expected to be impacted by the deceleration of world trade, with the deterioration of trade balance being the main element responsible for the slowing down of growth to 3% on average. Monetary and fiscal policies should nevertheless progressively withdraw stimulus in the course of 2007, maybe starting to bite on private consumption, while the investment cycle will clearly start a downswing.

**Graph 27.- Non-Euro Western Europe, unemployment rates**



Sources: Eurostat, and IMF for Norway and Switzerland

### End of the investment cycle in Denmark

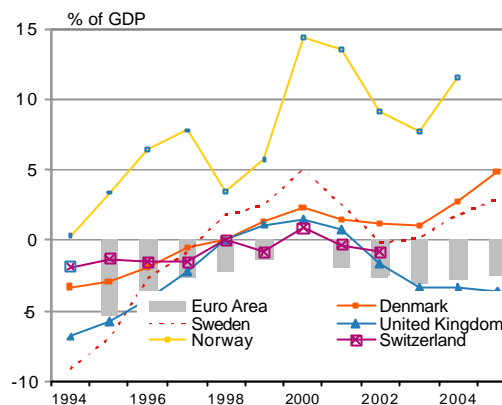
After a boom at 3.6% on average in 2005, the Danish GDP growth rate could slightly slow to 3% in 2006. With unemployment rate falling to an historical low level of 4.4%, very strong domestic demand has led to massive increase in imports (more than 15% y-o-y in the second quarter of 2006), weighting on the contribution of net trade to growth, despite the acceleration of exports. In 2007, the Danish economy is expected to slow down, around 2% growth rate of GDP. If the combination of a strong housing sector, falling unemployment and high level of consumer confidence is expected to still fuel private consumption, the investment cycle could start next year a relatively rapid downswing, from 10.6% to 4% growth rate on average. Exports would also register an important slowdown, but the fall in the domestic demand trend would positively impact the contribution of net trade. Even if not part of the main scenario, the Danish forecast raises concerns about a possible overheating of the economy. In this respect, the stance of fiscal and monetary policies are of particular interest. Still judged expansionary this year, the monetary policy should progressively be tightened over the period, while fiscal policy is expected to keep a neutral stance.

### Growth stabilised in Norway and in the United Kingdom

After a period of below trend growth, the economy of the United Kingdom could grow around its trend rate of 2.5% this year and next year. The economic recovery is occurring despite a relatively subdued consumer spending, expected to increase by 1.9% in 2006 and 2007. GDP growth will be helped by resilient growth of business investment. Inflation will stay a bit higher than the 2.0 % target set by the Bank of England. It seems that there is hardly any spare capacity in the economy. However, upward pressures on inflation will be moderated by the recent

appreciation in the exchange rate. The public finances are looking healthier: the deficit on the public sector current budget narrowed from 1.6 per cent of GDP in 2004–5 to 1.0 per cent in 2005–6. It is forecast to fall to 0.8 per cent of GDP in 2006–7 and 0.3 per cent in 2007–8.

**Graph 28.- Non-Euro Western Europe, fiscal balances**



Source: Eurostat

GDP growth in Norway in the first half of 2006 was almost 4% in annual terms. Unemployment is now almost as low as during the peak of the economy at the end of the 1990s. Despite the high rate of economic growth, inflation is extremely low. Wage growth and price increase, however, are set to rise. High growth in Norway has been experienced in both the demand from the Mainland economy, oil investments and the export of goods and services from Mainland Norway. This has contributed to stimulate activity in most industries. In response to growth, Norges Bank increased the key interest rates by 1.25 pp during the course of the year. In 2007, the slowdown of the US and Euro area economies is expected to contribute to a poorer export performance. Oil investments could, in real terms, fall slightly next year. Coupled with slightly higher interest rates, this will weigh on the economic growth of Norway. Unemployment, however, is expected to remain at roughly the same low level as today.

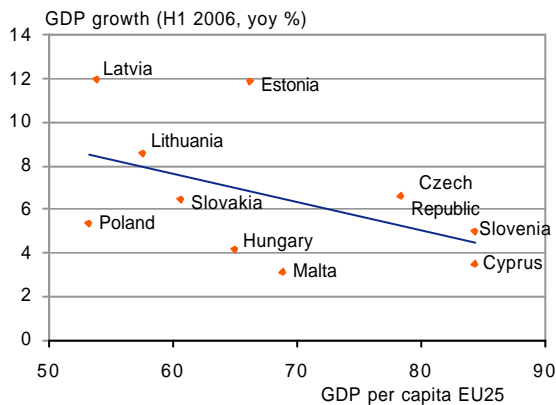
### 3.2. Candidate countries to the accession to the EMU

#### Strong growth in new EU members States

GDP growth in the ten new EU member states (NMS) remained buoyant in the first half of 2006. On average, it reached about 6% compared to the first half of 2005, a record high since the beginning of the 1990's. The Baltic States range among the best performers, with a double digit GDP growth in Estonia and Latvia. Hungary faces the lowest growth in the region, showing early signs of the consequence of the stabilisation program which the government had to implement to reduce the huge fiscal deficit (about 10% of GDP in 2006).

It can be noticed that growth differentials in the region reflects largely the level of GDP capita, a trend which corresponds to a catching up process.

**Graph 29.- GDP trends in New EU member states**



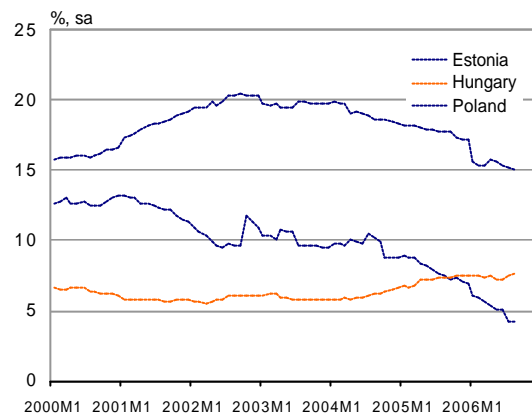
Sources: Global Insight, Eurostat

Growth performance in this region is driven by manufacturing industries, especially those which have benefited FDI inflows as transport equipment, and the construction sector. In some cases, especially in Baltic States, the services sector is also very dynamic.

Among the main forces supporting economic growth, exports have continued to be one key element. In this context, although the rise of energy prices put a drag on trade balances they have generally improved (Hungary) or have stopped worsening (Slovakia). Latvia is an exception. Internal demand, both private investment and consumption, have also largely contributed to growth performance in recent months.

A very positive consequence of strong GDP growth was the improvement in the labour market, even if unemployment rate remains high in a few countries. In Poland, which was one of the countries of the region which has had the worst performance regarding the labour market situation until recently, the unemployment rate has been markedly reduced in the last three years. Hungary is an exception in the region, as this country has registered an increase of the unemployment rate since 2004. In some countries, emigration flows have led to a situation of full employment. To some extent, this also reduces the growth potential of these countries in the future.

**Graph 30.- Unemployment rate**



Source: Global Insight

In 2007, economic performances are expected to remain pretty good in the region. GDP growth would only moderate marginally, except in Hungary where the tightening of fiscal policy would take a toll on economic growth.

#### ***The convergence process towards the integration in the economic and monetary system (EMU)***

Although a large proportion of their population think that the NMS have the choice between adopting the Euro or not, the NMS have actually the obligation to adopt the common currency once

they have fulfilled the economic stability criteria defined in the Maastricht Treaty. However, there is no common program or timetable with regard of the introduction of the Euro in those countries. Seven out of ten have joined the exchange rate

mechanism II (ERM II), the three largest countries, namely Poland, the Czech Republic and Hungary, remain outside the common exchange rate mechanism.

**Table 17.- Current performance of the NMS in relation to convergence**

	Inflation HICP August 2006 (1)	Government budgetary position (2)		Long-term interest rates August 2006 (3)	ERM II Participation (4)	National target date for Euro adoption (5)
		Deficit or surplus (% of GDP) 2006	Debt (% of GDP) 2006			
<b>Reference value</b>	3.0	-3.0	60.0	5.87		
Czech Republic	2.6	-3.6	30.8	3.85	No	January 2010 (under revision)
Estonia	5.0	1.4	3.6	-	Since 28 <sup>th</sup> June 2004	January 2008
Cyprus	2.7	-2.1	69.1	4.28	Since 2 <sup>nd</sup> May 2005	January 2008
Latvia	6.8	-1.0	11.3	4.36	Since 2 <sup>nd</sup> May 2005	January 2008 (under revision)
Lithuania	4.3	-0.6	18.9	4.28	Since 28 <sup>th</sup> June 2004	January 2007 (rejected, under revision)
Hungary	4.7	-10.1	68.5	7.49	No	January 2010 (revised to 2012 or 2013 ?)
Malta	3.0	-2.9	74.0	4.34	Since 2 <sup>nd</sup> May 2005	January 2008
Poland	1.7	-2.1	42.5	5.62	No	2012-2013 ?
Slovenia	3.1	-1.5	30.0	3.92	Since 28 <sup>th</sup> June 2004	January 2007
Slovakia	5.0	-2.7	34.3	5.13	Since 28 <sup>th</sup> November 2005	January 2009

Sources: Global Insight, Eurostat, national sources

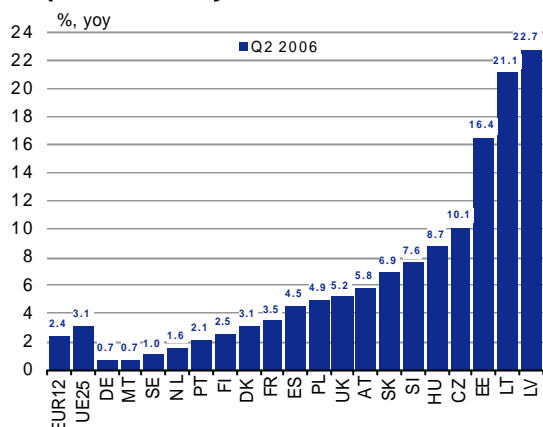
- (1) The reference value has been calculated as the average inflation rates in the three best-performing member states plus 1.5 percentage points.
- (2) AIECE institutes or European Commission Spring forecasts of not available
- (3) The reference value has been calculated as the average of the long-term interest rates of the three best-performing member states plus 2 percentage points.
- (4) A minimum stay of two years in ERM II is required
- (5) Based on the third report on the practical preparations for the future enlargement of the Euro area prepared by the European Commission, June 2006. Revised according to press statements and AIECE institutes expectations.

Most of NMS are characterised by inflation rates above the reference value which could be assessed to 3% in August 2006. Only Poland, the Czech Republic and Cyprus fulfilled this criterion. As a consequence of strong economic growth

and in a context of a catching up process in real terms, inflationary pressures are rather strong in the Baltic States. This is also illustrated by a strong increase of nominal wages: hourly labour costs increased by more than 20% between the

second quarter of 2005 and the second quarter of 2006 in Lithuania and Latvia.

**Graph 31.- Hourly labour costs**



Source: Eurostat

Regarding the government budgetary position, most of countries are in line with the Maastricht criteria, with the major exception of Hungary.

Slovenia will be the first NMS to adopt the Euro, the 1<sup>st</sup> January of 2007. Lithuania who was also candidate to join at the same date was rejected because of a slightly higher inflation rate than the reference value. In most countries, governments seem to be keen to postpone the entry of their country. The most realistic date in a large number of cases seems now to be 2010.

Although governments do not show any hurry to adopt the Euro, a majority of the population of those countries (52% in April 2006)<sup>11</sup> believe that adoption of the Euro will have positive consequences for their country. Main positive effects expected by the population of joining the Euro area are the facility to travel, the possibility to compare prices with other countries that use the Euro and to save money by eliminating currency exchange charges in other countries that use the Euro. However, only a minority of respondents (about 40%) believe that the accession to the EMU will protect their country in case of international crisis. Regarding economic aspects, people believe that the accession to the EMU will have a positive effect on public finances, but they are more sceptical about the impact of the introduction of the Euro on economic growth and employment.

AIECE institutes consider that the use of the Euro would be positive as it would broaden the use of the common currency. It would also

reduce the risk on exchange rate and would reduce the debt burden on fiscal deficit keeping interest rates at a lower level, factors that hamper growth developments in some countries, like in Hungary.

A widespread fear is that the adoption of the Euro will increase inflation (46% are pessimistic in this respect while only 29% of respondents to the Euro barometer believe that the Euro will maintain price stability).

However, the main fear regarding the adoption of the Euro concerns the abuses and cheating on prices during the changeover (about 75% of respondents). Most people are not concerned by the risk that their country will lose control over its economic policy.

### ***The spring crisis has been overcome***

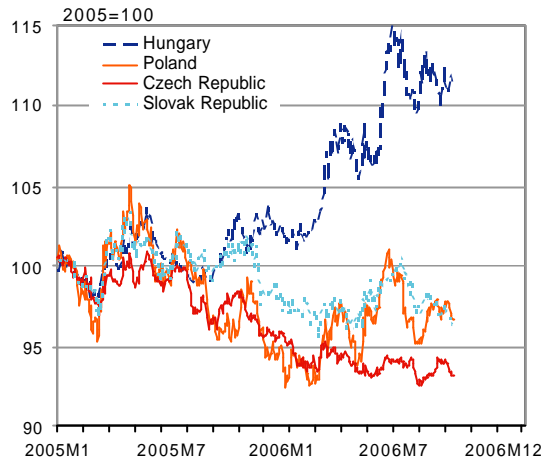
The turmoil that has affected financial markets last May has also affected the NMS. But focusing on exchange rates, those tensions have been easily overcome. Against the Euro, mid-October 2005, the Polish zloty, the Slovak and Czech kronas were close to their level of the beginning of the year. Only the Hungarian forint shows a depreciation against the Euro (about 10% between January 2006 and mid-October 2006). However, stock markets have not fully recovered as, except in Poland, their current level stands still below the peaks reached at the end of 2005 or early 2006.

<sup>11</sup> European Commission, Flash Eurobarometer, June 2006.

In general, AIECE institutes of the NMS do not consider that the turmoil that has affected the

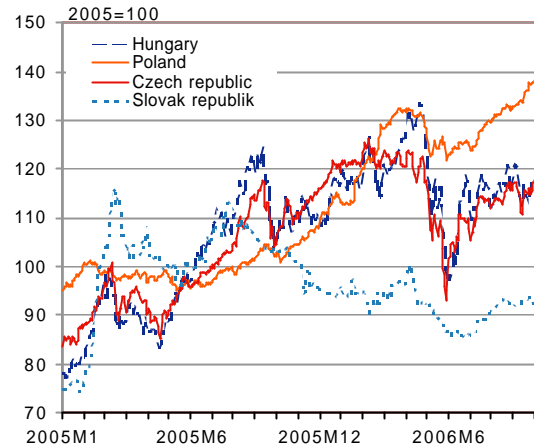
financial markets will have an impact on the process of adherence to the EMU.

**Graph 32- Exchange rates developments in the NMS (Euro against national currencies)**



Source: Global Insight

**Graph 33- Stock markets developments in the NMS**



Source: Global Insight

### Questions for discussion

#### ***Non-Euro western European countries***

- . What do institutes of the countries concerned attribute their relative better economic performances in the recent years to?
- . Why should the British economy be less affected than others by the expected world economic slowdown?

#### ***Candidates countries to the accession to the EMU***

- . Do you believe that real convergence is compatible with joining the EMU in the short run?
- . Do you have fears about financial aspects (including exchange rates)?

ASSOCIATION D'INSTITUTS EUROPEENS DE CONJONCTURE ECONOMIQUE

# ***AIECE General Report***

Report submitted at the AIECE Autumn General Meeting  
Brussels, 26th-27th October 2006

## **PART II**

### **Appendix**

CENTRE D'OBSERVATION ECONOMIQUE DE LA CCIP  
27 avenue de Friedland  
75008 Paris  
<http://www.coe.ccip.fr>  
tel.: 33 1 55 65 55 65



*l'institut de conjoncture de la*



Chambre de commerce  
et d'industrie de Paris



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# **CROSS COUNTRY TABLES**

# GDP – UNITED STATES

Percentage change from previous year					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		3.2	3.3	2.5
		WIFO	3.2	3.3	2.5
	<b>BELGIUM</b>		3.2	3.4	2.5
		DULBEA			
		FPB	3.2	3.4	2.7
		IRES	3.2	3.3	2.3
	<b>CZECH Republic</b>		3.5	3.3	2.9
		CCS&F	3.5	3.3	2.9
	<b>DENMARK</b>		3.5	3.2	2.7
		DEC	3.5	3.2	2.7
	<b>FINLAND</b>		3.2	3.5	2.9
		ETLA	3.2	3.5	2.9
	<b>FRANCE</b>		3.2	3.3	2.3
		BIPE	3.2	3.1	2.2
		COE	3.2	3.2	2.6
		INSEE	3.2	3.5	
		OFCE	3.2	3.2	1.9
		REXECODE	3.2	3.4	2.5
	<b>GERMANY</b>		3.2	3.5	2.7
		DIW	3.2	3.5	2.7
		HWWA	3.2	3.5	2.7
		IFO	3.2	3.5	2.7
		IFW	3.2	3.5	2.7
		RWI	3.2	3.4	2.8
	<b>GREECE</b>		3.5	3.2	2.6
		KEPE	3.5	3.2	2.6
	<b>HUNGARY</b>		3.4	3.3	2.6
		GKI	3.5	3.2	2.7
		KOPINT DATORG	3.2	3.4	2.5
	<b>IRELAND</b>		3.2	3.4	2.5
		ESRI	3.2	3.4	2.5
	<b>ITALY</b>		3.2	3.3	2.2
		CONFINDUSTRIA			
		ISAE	3.2	3.3	2.3
		PROMETEIA	3.2	3.3	2.3
		REF	3.2	3.3	2.0
	<b>NETHERLANDS</b>		3.2	3.5	2.5
		CPB	3.2	3.5	2.5
	<b>NORWAY</b>				
		SN			
	<b>POLAND</b>		3.3	3.5	2.8
		IKCHZ	3.3	3.5	2.8
	<b>SERBIA &amp; MONTENEGRO</b>				
		FTRI			
	<b>SLOVENIA</b>		3.2	3.4	3.0
		SKEP	3.2	3.4	3.0
	<b>SPAIN</b>		3.2	3.5	2.9
		CEPREDE	3.2	3.5	2.9
		SGEI	3.2	3.4	2.9
	<b>SWEDEN</b>		3.2	3.5	2.6
		CSE	3.2	3.4	2.2
		NIER	3.2	3.5	3.0
	<b>SWITZERLAND</b>		3.2	3.5	2.5
		KOF	3.2	3.5	2.5
	<b>UNITED KINGDOM</b>		3.5	3.6	3.1
		NIESR	3.5	3.6	3.1
	Maximum		3.5	3.6	3.1
	Minimum		3.2	3.1	1.9
	<b>Average</b>		<b>3.3</b>	<b>3.4</b>	<b>2.6</b>

# GDP – JAPAN

Percentage change from previous year					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		2.6	2.8	2.5
		WIFO	2.6	2.8	2.5
	<b>BELGIUM</b>		2.6	2.5	2.0
		DULBEA			
		FPB	2.6	2.4	2.2
		IRES	2.6	2.5	1.8
	<b>CZECH Republic</b>		2.6	2.6	2.3
		CCS&F	2.6	2.6	2.3
	<b>DENMARK</b>		2.7	2.7	2.4
		DEC	2.7	2.7	2.4
	<b>FINLAND</b>		2.6	2.8	2.4
		ETLA	2.6	2.8	2.4
	<b>FRANCE</b>		2.6	2.7	2.2
		BIPE	2.6	2.5	2.0
		COE	2.7	2.8	2.1
		INSEE	2.6	2.7	
		OFCE	2.6	2.8	2.5
		REXECODE	2.6	2.8	2.1
	<b>GERMANY</b>		2.6	2.7	2.2
		DIW	2.6	2.7	2.0
		HWWA	2.6	2.6	2.3
		IHO	2.6	2.7	2.2
		IFW	2.6	2.8	2.6
		RWI	2.6	2.7	2.1
	<b>GREECE</b>		2.8	2.8	2.3
		KEPE	2.8	2.8	2.3
	<b>HUNGARY</b>		2.7	2.5	2.2
		GKI	2.7	2.2	2.1
		KOPINT DATORG	2.6	2.7	2.2
	<b>IRELAND</b>		2.6	2.6	2.3
		ESRI	2.6	2.6	2.3
	<b>ITALY</b>		2.6	2.7	2.2
		CONFINDUSTRIA			
		ISAE	2.6	2.6	2.1
		PROMETEIA	2.6	2.9	2.0
		REF	2.6	2.6	2.4
	<b>NETHERLANDS</b>		2.6	2.8	2.3
		CPB	2.6	2.8	2.3
	<b>NORWAY</b>				
		SN			
	<b>POLAND</b>		2.6	2.8	2.3
		IKCHZ	2.6	2.8	2.3
	<b>SERBIA &amp; MONTENEGRO</b>				
		FTRI			
	<b>SLOVENIA</b>		2.6	2.6	2.2
		SKEP	2.6	2.6	2.2
	<b>SPAIN</b>		2.6	2.6	1.9
		CEPREDE	2.6	2.6	1.8
		SGEI	2.6	2.7	2.1
	<b>SWEDEN</b>		2.6	3.0	2.6
		CSE	2.6	3.2	2.7
		NIER	2.6	2.8	2.5
	<b>SWITZERLAND</b>		2.6	2.8	2.0
		KOF	2.6	2.8	2.0
	<b>UNITED KINGDOM</b>		2.6	3.1	2.6
		NIESR	2.6	3.1	2.6
	Maximum		2.8	3.2	2.7
	Minimum		2.6	2.2	1.8
	<b>Average</b>		<b>2.6</b>	<b>2.7</b>	<b>2.2</b>

# GDP – EURO AREA

Percentage change from previous year					
All institutes	Country	Institute			
			2005		
			2006		
			2007		
Forecast					
	<b>AUSTRIA</b>		1.4	2.6	2.3
		WIFO	1.4	2.6	2.3
	<b>BELGIUM</b>		1.5	2.6	2.0
		DULBEA			
		FPB	1.5	2.5	1.9
		IRES	1.5	2.6	2.0
	<b>CZECH Republic</b>		1.3	1.9	2.1
		CCS&F	1.3	1.9	2.1
	<b>DENMARK</b>		1.3	2.1	1.8
		DEC	1.3	2.1	1.8
	<b>FINLAND</b>		1.2	2.5	1.9
		ETLA	1.2	2.5	1.9
	<b>FRANCE</b>		1.4	2.4	1.9
		BIPE	1.3	2.5	1.8
		COE	1.4	2.0	1.8
		INSEE	1.5	2.6	
		OFCE	1.5	2.5	2.2
		REXECODE	1.4	2.4	1.9
	<b>GERMANY</b>		1.4	2.6	2.1
		DIW	1.4	2.6	2.2
		HWWA	1.5	2.6	1.8
		IFO	1.4	2.6	2.1
		IFW	1.4	2.7	2.0
		RWI	1.4	2.5	2.2
	<b>GREECE</b>		1.4	2.5	2.3
		KEPE	1.4	2.5	2.3
	<b>HUNGARY</b>		1.4	2.4	1.9
		GKI	1.3	2.4	2.0
		KOPINT DATORG	1.4	2.4	1.7
	<b>IRELAND</b>		1.5	2.6	1.9
		ESRI	1.5	2.6	1.9
	<b>ITALY</b>		1.5	2.5	2.0
		CONFINDUSTRIA			
		ISAE	1.5	2.6	2.0
		PROMETEIA	1.5	2.5	1.9
		REF	1.5	2.5	2.0
	<b>NETHERLANDS</b>		1.4	2.5	2.3
		CPB	1.4	2.5	2.3
	<b>NORWAY</b>				
		SN			
	<b>POLAND</b>		1.4	2.4	1.9
		IKCHZ	1.4	2.4	1.9
	<b>SERBIA &amp; MONTENEGRO</b>				
		FTRI			
	<b>SLOVENIA</b>		1.3	2.5	2.2
		SKEP	1.3	2.5	2.2
	<b>SPAIN</b>		1.4	2.5	2.0
		CEPREDE	1.5	2.5	1.8
		SGEI	1.4	2.5	2.1
	<b>SWEDEN</b>		1.4	2.4	2.0
		CSE	1.3	2.4	1.8
		NIER	1.4	2.3	2.1
	<b>SWITZERLAND</b>		1.5	2.6	2.0
		KOF	1.5	2.6	2.0
	<b>UNITED KINGDOM</b>		1.4	2.1	1.9
		NIESR	1.4	2.1	1.9
	Maximum		1.5	2.7	2.3
	Minimum		1.2	1.9	1.7
	<b>Average</b>		<b>1.4</b>	<b>2.5</b>	<b>2.0</b>

## WORLD TRADE VOLUME (GOODS)

Percentage change from previous year			2005	2006	2007
All institutes	Country	Institute			
<b>Forecast</b>					
	<b>AUSTRIA</b>		7.1	8.5	7.5
		WIFO	7.1	8.5	7.5
	<b>BELGIUM</b>		7.4	9.0	7.1
		DULBEA			
		FPB			
		IRES	7.4	9.0	7.1
	<b>CZECH Republic</b>		8.1	10.3	7.7
		CCS&F	8.1	10.3	7.7
	<b>DENMARK</b>				
		DEC			
	<b>FINLAND</b>		7.4	7.4	5.0
		ETLA	7.4	7.4	5.0
	<b>FRANCE</b>		7.9	9.7	7.5
		BIPE			
		COE	7.5	9.9	7.4
		INSEE			
		OFCE	8.2	9.0	7.5
		REXECODE	8.1	10.3	7.7
	<b>GERMANY</b>		7.2	8.6	7.1
		DIW	7.0	9.0	7.0
		HWWA	7.0	8.7	7.2
		IFO	7.1	8.6	7.4
		IFW	7.6	8.5	7.0
		RWI	7.5	8.0	7.0
	<b>GREECE</b>		7.0	8.8	7.5
		KEPE	7.0	8.8	7.5
	<b>HUNGARY</b>		6.8	8.8	7.5
		GKI	7.5	9.0	7.5
		KOPINT DATORG	6.0	8.5	7.5
	<b>IRELAND</b>		7.0	8.8	6.4
		ESRI	7.0	8.8	6.4
	<b>ITALY</b>		6.9	8.5	6.9
		CONFINDUSTRIA			
		ISAE	7.6	9.4	7.4
		PROMETEIA	7.4	8.9	6.5
		REF	5.7	7.1	6.7
	<b>NETHERLANDS</b>		5.5	7.7	6.7
		CPB	5.5	7.7	6.7
	<b>NORWAY</b>				
		SN			
	<b>POLAND</b>		7.6	9.4	7.5
		IKCHZ	7.6	9.4	7.5
	<b>SERBIA &amp; MONTENEGRO</b>				
		FTRI			
	<b>SLOVENIA</b>		7.4	9.0	8.0
		SKEP	7.4	9.0	8.0
	<b>SPAIN</b>		7.5	9.3	7.8
		CEPREDE	7.4	9.0	7.8
		SGEI	7.5	9.5	7.8
	<b>SWEDEN</b>		7.3	9.5	6.6
		CSE	7.1	10.0	6.5
		NIER	7.5	8.9	6.7
	<b>SWITZERLAND</b>		3.8	7.1	3.5
		KOF	3.8	7.1	3.5
	<b>UNITED KINGDOM</b>		7.0	7.7	5.0
		NIESR	7.0	7.7	5.0
	Maximum		8.2	10.3	8.0
	Minimum		3.8	7.1	3.5
	<b>Average</b>		<b>7.1</b>	<b>8.8</b>	<b>6.9</b>

# UNITED STATES FEDERAL FUNDS RATE

Percentage					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>				
		WIFO			
	<b>BELGIUM</b>				
		DULBEA			
		FPB			
		IRES			
	<b>CZECH Republic</b>		4.25	4.50	4.50
		CC&F	4.25	4.50	4.50
	<b>DENMARK</b>		3.20	5.00	5.50
		DEC	3.20	5.00	5.50
	<b>FINLAND</b>		4.25	4.94	5.15
		ETLA	4.25	4.94	5.15
	<b>FRANCE</b>		3.46	4.97	5.01
		BIPE	4.28	4.94	5.05
		COE	3.20	5.00	5.10
		INSEE	3.20	5.00	5.00
		OFCE	3.40	5.00	4.90
		REXECODE	3.20	4.90	5.00
	<b>GERMANY</b>		3.10	4.90	4.95
		DIW			
		HWWA	3.10	4.80	4.90
		IFO		5.00	5.00
		IFW			
		RWI			
	<b>GREECE</b>				
		KEPE			
	<b>HUNGARY</b>		4.50	5.25	5.00
		GKI			
		KOPINT DATORG	4.50	5.25	5.00
	<b>IRELAND</b>				
		ESRI			
	<b>ITALY</b>		3.50	5.11	5.10
		CONFINDUSTRIA			
		ISAE			
		PROMETEIA	3.50	5.10	4.90
		REF	3.50	5.11	5.30
	<b>NETHERLANDS</b>		3.50	5.25	5.30
		CPB	3.50	5.25	5.30
	<b>NORWAY</b>		3.20		
		SN	3.20		
	<b>POLAND</b>				
		IKCHZ			
	<b>SERBIA &amp; MONTENEGRO</b>				
		FTRI			
	<b>SLOVENIA</b>				
		SKEP			
	<b>SPAIN</b>		3.88	5.21	5.02
		CEPREDE	3.51	5.16	5.30
		SGEI	4.25	5.25	4.75
	<b>SWEDEN</b>		3.73	5.25	4.88
		CSE	3.20	5.00	4.50
		NIER	4.25	5.50	5.25
	<b>SWITZERLAND</b>		3.50	5.10	4.80
		KOF	3.50	5.10	4.80
	<b>UNITED KINGDOM</b>				
		NIESR			
Maximum			4.50	5.50	5.50
Minimum			3.10	4.50	4.50
<b>Average</b>			<b>3.63</b>	<b>5.04</b>	<b>5.01</b>

## EXCHANGE RATE - Dollar/Euro

1 € = ...\$		2005	2006	2007
All institutes	Country Institute			
<b>Forecast</b>				
<b>AUSTRIA</b>		1.25	1.25	1.25
	WIFO	1.25	1.25	1.25
<b>BELGIUM</b>		1.25	1.26	1.29
	DULBEA			
	FPB	1.24	1.26	1.31
	IRES	1.25	1.25	1.26
<b>CZECH Republic</b>		1.25	1.21	1.17
	CCS&F	1.25	1.21	1.17
<b>DENMARK</b>		1.24	1.25	1.28
	DEC	1.24	1.25	1.28
<b>FINLAND</b>		1.25	1.26	1.30
	ETLA	1.25	1.26	1.30
<b>FRANCE</b>		1.24	1.26	1.32
	BIPE	1.24	1.26	1.37
	COE	1.25	1.26	1.33
	INSEE	1.25	1.25	
	OFCE	1.24	1.26	1.32
	REXECODE	1.24	1.25	1.25
<b>GERMANY</b>		1.24	1.27	1.27
	DIW		1.28	1.28
	HWWA			
	IFO	1.24	1.25	1.25
	IFW	1.24	1.26	1.28
	RWI	1.24	1.28	1.28
<b>GREECE</b>		1.24	1.28	1.28
	KEPE	1.24	1.28	1.28
<b>HUNGARY</b>		1.24	1.25	1.28
	GKI	1.24	1.25	1.28
	KOPINT DATORG	1.24	1.25	1.28
<b>IRELAND</b>		1.24	1.30	1.32
	ESRI	1.24	1.30	1.32
<b>ITALY</b>		1.25	1.26	1.31
	CONFINDUSTRIA			
	ISAE	1.25	1.26	1.30
	PROMETEIA	1.25	1.26	1.32
	REF	1.24	1.26	1.32
<b>NETHERLANDS</b>		1.24	1.24	1.25
	CPB	1.24	1.24	1.25
<b>NORWAY</b>		1.24	1.26	1.30
	SN	1.24	1.26	1.30
<b>POLAND</b>		1.24	1.26	1.29
	IKCHZ	1.24	1.26	1.29
<b>SERBIA &amp; MONTENEGRO</b>				
	FTRI			
<b>SLOVENIA</b>		1.24	1.25	1.25
	SKEP	1.24	1.25	1.25
<b>SPAIN</b>		1.24	1.26	1.27
	CEPREDE	1.24	1.25	1.26
	SGEI	1.24	1.26	1.28
<b>SWEDEN</b>		1.22	1.27	1.32
	CSE	1.24	1.26	1.34
	NIER	1.19	1.28	1.29
<b>SWITZERLAND</b>		1.25	1.24	1.37
	KOF	1.25	1.24	1.37
<b>UNITED KINGDOM</b>		1.25	1.25	1.29
	NIESR	1.25	1.25	1.29
Maximum		1.25	1.30	1.37
Minimum		1.19	1.21	1.17
<b>Average</b>		<b>1.24</b>	<b>1.26</b>	<b>1.29</b>

# EXCHANGE RATE - Yen/Euro

1 € = ...Yen					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>				
		WIFO			
	<b>BELGIUM</b>		137.1	144.7	144.4
		DULBEA			
		FPB	137.1	144.7	144.4
		IRES			
	<b>CZECH Republic</b>				
		CCS&F			
	<b>DENMARK</b>		137.0	145.0	148.0
		DEC	137.0	145.0	148.0
	<b>FINLAND</b>		136.9	145.0	147.0
		ETLA	136.9	145.0	147.0
	<b>FRANCE</b>		137.5	144.6	147.4
		BIPE	136.8	143.6	147.1
		COE	136.9	146.2	153.3
		INSEE	137.0	145.3	
		OFCE	140.0	143.0	156.0
		REXECODE	137.0	145.0	133.0
	<b>GERMANY</b>				
		DIW			
		HWWA			
		IFO			
		IFW			
		RWI			
	<b>GREECE</b>		136.0	147.0	143.0
		KEPE	136.0	147.0	143.0
	<b>HUNGARY</b>				
		GKI			
		KOPINT DATORG			
	<b>IRELAND</b>				
		ESRI			
	<b>ITALY</b>		137.6	143.7	140.4
		CONFINDUSTRIA			
		ISAE	137.6	144.0	138.0
		PROMETEIA	137.6	143.4	142.8
		REF			
	<b>NETHERLANDS</b>		137.0	143.0	143.0
		CPB	137.0	143.0	143.0
	<b>NORWAY</b>		137.0	92.2	90.2
		SN	137.0	92.2	90.2
	<b>POLAND</b>		136.8		
		IKCHZ	136.8		
	<b>SERBIA &amp; MONTENEGRO</b>				
		FTRI			
	<b>SLOVENIA</b>				
		SKEP			
	<b>SPAIN</b>		136.9	144.9	143.9
		CEPREDE	136.9	144.6	147.8
		SGEI	136.9	145.2	140.0
	<b>SWEDEN</b>		141.0	147.0	142.0
		CSE			
		NIER	141.0	147.0	142.0
	<b>SWITZERLAND</b>		136.9	142.9	149.2
		KOF	136.9	142.9	149.2
	<b>UNITED KINGDOM</b>		137.9	144.6	145.4
		NIESR	137.9	144.6	145.4
	Maximum		141.0	147.0	156.0
	Minimum		136.0	92.2	90.2
	<b>Average</b>		<b>137.4</b>	<b>141.8</b>	<b>141.8</b>

# OIL PRICE (BRENT)

Dollars / BARREL (annual average)					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		50.3	65.0	65.0
		WIFO	50.3	65.0	65.0
	<b>BELGIUM</b>		54.6	67.4	68.7
		DULBEA			
		FPB	54.5	68.0	72.4
		IRES	54.7	66.8	65.0
	<b>CZECH Republic</b>		54.5	68.5	65.5
		CCS&F	54.5	68.5	65.5
	<b>DENMARK</b>		54.0	70.0	63.0
		DEC	54.0	70.0	63.0
	<b>FINLAND</b>		54.9	70.0	72.0
		ETLA	54.9	70.0	72.0
	<b>FRANCE</b>		54.6	67.5	67.4
		BIPE	55.0	68.6	65.5
		COE	54.5	68.5	73.9
		INSEE	54.5	66.5	
		OFCE	54.4	65.5	64.8
		REXECODE	54.5	68.5	65.5
	<b>GERMANY</b>		54.8	66.5	63.4
		DIW		65.0	62.0
		HWWA		65.0	60.0
		IIFO	55.0	65.0	60.0
		IFW	54.4	69.7	70.0
		RWI	55.0	68.0	65.0
	<b>GREECE</b>		54.0	68.0	61.0
		KEPE	54.0	68.0	61.0
	<b>HUNGARY</b>		54.4	66.3	63.5
		GKI	54.4	66.0	63.0
		KOPINT DATORG	54.4	66.5	64.0
	<b>IRELAND</b>		51.8	66.8	67.6
		ESRI	51.8	66.8	67.6
	<b>ITALY</b>		55.0	66.3	61.5
		CONFINDUSTRIA			
		ISAE	54.7	66.5	64.8
		PROMETEIA	55.1	66.6	60.3
		REF	55.2	65.7	59.3
	<b>NETHERLANDS</b>		54.4	68.0	70.0
		CPB	54.4	68.0	70.0
	<b>NORWAY</b>		54.0	66.0	58.0
		SN	54.0	66.0	58.0
	<b>POLAND</b>		54.4	65.0	60.0
		IKCHZ	54.4	65.0	60.0
	<b>SERBIA &amp; MONTENEGRO</b>				
		FTRI			
	<b>SLOVENIA</b>		55.0	66.0	60.0
		SKEP	55.0	66.0	60.0
	<b>SPAIN</b>		57.8	67.8	71.3
		CEPREDE	61.1	66.7	71.5
		SGEI	54.5	68.9	71.0
	<b>SWEDEN</b>		54.3	66.4	60.4
		CSE	54.4	64.0	55.0
		NIER	54.2	68.7	65.7
	<b>SWITZERLAND</b>		54.4	65.9	70.0
		KOF	54.4	65.9	70.0
	<b>UNITED KINGDOM</b>		51.8	65.0	64.2
		NIESR	51.8	65.0	64.2
Maximum			61.1	70.0	73.9
Minimum			50.3	64.0	55.0
<b>Average</b>			<b>54.5</b>	<b>66.9</b>	<b>64.8</b>

## COUNTRY SPECIFIC GDP

Volume, percentage change from previous year					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		2.0	3.1	2.5
		WIFO	2.0	3.1	2.5
	<b>BELGIUM</b>		1.2	2.8	2.3
		DULBEA			
		FPB	1.2	2.7	2.2
		IRES	1.1	2.8	2.3
	<b>CZECH Republic</b>		6.1	6.3	5.1
		CCS&F	6.1	6.3	5.1
	<b>DENMARK</b>		3.6	3.0	2.0
		DEC	3.6	3.0	2.0
	<b>FINLAND</b>		2.9	4.6	2.7
		ETLA	2.9	4.6	2.7
	<b>FRANCE</b>		1.2	2.3	1.9
		BIPE	1.2	2.4	1.8
		COE	1.2	2.2	1.9
		INSEE	1.2	2.3	
		OFCE	1.2	2.3	2.2
		REXECODE	1.2	2.2	1.8
	<b>GERMANY</b>		0.9	2.2	1.4
		DIW	0.9	2.2	1.4
		HWWA	0.9	2.1	1.1
		IFO	0.9	2.1	1.7
		IFW	0.9	2.4	1.0
		RWI	0.9	2.2	1.7
	<b>GREECE</b>		3.7	3.6	3.5
		KEPE	3.7	3.6	3.5
	<b>HUNGARY</b>		4.1	4.0	2.9
		GKI	4.1	4.0	3.0
		KOPINT DATORG	4.1	4.0	2.8
	<b>IRELAND</b>		5.5	5.9	5.0
		ESRI	5.5	5.9	5.0
	<b>ITALY</b>		0.1	1.7	1.4
		CONFINDUSTRIA			
		ISAE	0.1	1.8	1.3
		PROMETEIA	0.1	1.7	1.3
		REF	0.0	1.6	1.6
	<b>NETHERLANDS</b>		1.5	3.1	3.0
		CPB	1.5	3.1	3.0
	<b>NORWAY</b>		2.3	2.1	2.9
		SN	2.3	2.1	2.9
	<b>POLAND</b>		3.4	5.1	4.5
		IKCHZ	3.4	5.1	4.5
	<b>SERBIA &amp; MONTENEGRO</b>		6.5	6.0	7.0
		FTRI	6.5	6.0	7.0
	<b>SLOVENIA</b>		4.0	4.5	4.3
		SKEP	4.0	4.5	4.3
	<b>SPAIN</b>		3.5	3.5	3.2
		CEPREDE	3.5	3.5	3.2
		SGEI	3.5	3.4	3.2
	<b>SWEDEN</b>		2.7	4.3	3.0
		CSE	2.7	4.5	2.7
		NIER	2.7	4.1	3.3
	<b>SWITZERLAND</b>		1.9	2.6	2.1
		KOF	1.9	2.6	2.1
	<b>UNITED KINGDOM</b>		2.5	2.6	2.6
		NIESR	2.5	2.6	2.6
	Maximum		6.5	6.3	7.0
	Minimum		0.0	1.6	1.0

# TOTAL DOMESTIC DEMAND

Volume, percentage change from previous year					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		1.2	2.3	2.3
		WIFO	1.2	2.3	2.3
	<b>BELGIUM</b>		2.1	2.6	2.3
		DULBEA			
		FPB	2.6	2.1	2.2
		IRES	1.6	3.1	2.4
	<b>CZECH Republic</b>		2.2	3.5	3.3
		CCS&F	2.2	3.5	3.3
	<b>DENMARK</b>		4.3	4.6	2.5
		DEC	4.3	4.6	2.5
	<b>FINLAND</b>		4.4	2.7	2.7
		ETLA	4.4	2.7	2.7
	<b>FRANCE</b>		2.1	2.5	2.4
		BIPE	2.2	2.4	2.3
		COE	2.1	2.5	2.6
		INSEE	2.2	2.9	
		OFCE	2.1	2.5	2.6
		REXECODE	2.1	2.4	2.2
	<b>GERMANY</b>		0.5	1.7	0.8
		DIW	0.5	1.6	1.1
		HWWA	0.5	1.8	0.3
		IFO	0.5	1.4	1.0
		IFW	0.5	1.9	0.4
		RWI	0.5	1.8	1.4
	<b>GREECE</b>		2.4	4.1	3.7
		KEPE	2.4	4.1	3.7
	<b>HUNGARY</b>		0.8	1.4	-0.3
		GKI	0.8	1.5	0.1
		KOPINT DATORG	0.8	1.3	-0.6
	<b>IRELAND</b>		8.0	6.9	6.6
		ESRI	8.0	6.9	6.6
	<b>ITALY</b>		0.3	1.4	1.7
		CONFINDUSTRIA			
		ISAE			
		PROMETEIA	0.4	1.4	1.5
		REF	0.2	1.4	1.9
	<b>NETHERLANDS</b>		0.9	3.0	2.9
		CPB	0.9	3.0	2.9
	<b>NORWAY</b>		3.8	3.9	2.8
		SN	3.8	3.9	2.8
	<b>POLAND</b>		2.2	4.9	4.7
		IKCHZ	2.2	4.9	4.7
	<b>SERBIA &amp; MONTENEGRO</b>		1.1	7.4	6.2
		FTRI	1.1	7.4	6.2
	<b>SLOVENIA</b>		2.0	4.1	3.6
		SKEP	2.0	4.1	3.6
	<b>SPAIN</b>		5.0	4.4	3.8
		CEPREDE	5.0	4.5	4.0
		SGEI	5.0	4.3	3.7
	<b>SWEDEN</b>		2.7	3.6	3.1
		CSE	2.8	3.6	2.8
		NIER	2.7	3.6	3.3
	<b>SWITZERLAND</b>		0.8	2.5	2.8
		KOF	0.8	2.5	2.8
	<b>UNITED KINGDOM</b>		1.8	2.5	2.4
		NIESR	1.8	2.5	2.4
	Maximum		8.0	7.4	6.6
	Minimum		0.2	1.3	-0.6

# PRIVATE CONSUMPTION

Volume, percentage change from previous year					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		1.7	1.9	2.1
		WIFO	1.7	1.9	2.1
	<b>BELGIUM</b>		1.0	2.4	2.1
		DULBEA			
		FPB	1.1	2.3	2.0
		IRES	0.9	2.4	2.1
	<b>CZECH Republic</b>		2.4	3.4	3.5
		CCS&F	2.4	3.4	3.5
	<b>DENMARK</b>		3.8	4.0	3.0
		DEC	3.8	4.0	3.0
	<b>FINLAND</b>		3.8	3.2	2.4
		ETLA	3.8	3.2	2.4
	<b>FRANCE</b>		2.2	2.8	2.3
		BIPE	2.2	2.8	2.2
		COE	2.2	2.7	2.5
		INSEE	2.2	2.9	
		OFCE	2.2	2.8	2.5
		REXECODE	2.1	2.6	2.2
	<b>GERMANY</b>		0.1	0.9	0.0
		DIW	0.1	1.0	0.1
		HWWA	0.1	0.8	-0.1
		IFO	0.1	0.8	0.1
		IFW	0.1	1.0	0.0
		RWI	0.1	0.8	0.2
	<b>GREECE</b>		3.7	3.5	3.4
		KEPE	3.7	3.5	3.4
	<b>HUNGARY</b>		1.4	2.1	0.2
		GKI	1.4	2.5	1.0
		KOPINT DATORG	1.4	1.7	-0.7
	<b>IRELAND</b>		6.6	6.8	7.4
		ESRI	6.6	6.8	7.4
	<b>ITALY</b>		0.1	1.6	1.3
		CONFINDUSTRIA			
		ISAE	0.1	1.5	1.2
		PROMETEIA	0.1	1.6	1.4
		REF	0.1	1.7	1.4
	<b>NETHERLANDS</b>		0.7	-1.3	1.9
		CPB	0.7	-1.3	1.9
	<b>NORWAY</b>		3.4	3.5	3.7
		SN	3.4	3.5	3.7
	<b>POLAND</b>		2.0	4.0	3.7
		IKCHZ	2.0	4.0	3.7
	<b>SERBIA &amp; MONTENEGRO</b>		20.1	20.6	14.1
		FTRI	20.1	20.6	14.1
	<b>SLOVENIA</b>		3.6	3.1	3.1
		SKEP	3.6	3.1	3.1
	<b>SPAIN</b>		4.2	3.6	3.1
		CEPREDE	4.2	3.6	3.2
		SGEI	4.2	3.6	3.1
	<b>SWEDEN</b>		2.4	3.2	3.1
		CSE	2.4	3.3	2.7
		NIER	2.4	3.1	3.4
	<b>SWITZERLAND</b>		1.3	1.9	2.1
		KOF	1.3	1.9	2.1
	<b>UNITED KINGDOM</b>		1.4	1.9	1.9
		NIESR	1.4	1.9	1.9
	Maximum		20.1	20.6	14.1
	Minimum		0.1	-1.3	-0.7

# PUBLIC CONSUMPTION

Volume, percentage change from previous year					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		1.9	1.7	1.5
		WIFO	1.9	1.7	1.5
	<b>BELGIUM</b>		0.1	2.3	2.2
		DULBEA			
		FPB	0.7	1.8	2.4
		IRES	-0.6	2.8	2.0
	<b>CZECH Republic</b>		0.7	0.0	0.0
		CCS&F	0.7	0.0	0.0
	<b>DENMARK</b>		1.2	1.1	1.0
		DEC	1.2	1.1	1.0
	<b>FINLAND</b>		1.6	1.9	1.9
		ETLA	1.6	1.9	1.9
	<b>FRANCE</b>		1.1	1.8	1.4
		BIPE	1.1	1.7	1.4
		COE	1.1	1.7	1.7
		INSEE	0.9	2.0	
		OFCE	1.1	2.1	1.2
		REXECODE	1.1	1.7	1.5
	<b>GERMANY</b>		0.6	1.3	0.9
		DIW	0.6	1.6	1.6
		HWWA	0.6	1.2	0.5
		IFO	0.6	1.4	0.8
		IFW	0.6	1.3	0.5
		RWI	0.6	1.1	0.9
	<b>GREECE</b>		3.1	2.1	2.2
		KEPE	3.1	2.1	2.2
	<b>HUNGARY</b>		-0.9	-2.5	-5.5
		GKI	-0.9	-3.0	-6.0
		KOPINT DATORG	-0.9	-2.0	-5.0
	<b>IRELAND</b>		4.6	4.5	4.1
		ESRI	4.6	4.5	4.1
	<b>ITALY</b>		1.2	0.7	0.7
		CONFINDUSTRIA			
		ISAE	1.2	0.6	0.5
		PROMETEIA	1.2	0.9	0.3
		REF	1.2	0.7	1.3
	<b>NETHERLANDS</b>		0.3	2.3	2.2
		CPB	0.3	2.3	2.2
	<b>NORWAY</b>		1.5	2.5	2.4
		SN	1.5	2.5	2.4
	<b>POLAND</b>		4.9	2.9	2.7
		IKCHZ	4.9	2.9	2.7
	<b>SERBIA &amp; MONTENEGRO</b>		25.3	18.6	14.6
		FTRI	25.3	18.6	14.6
	<b>SLOVENIA</b>		2.2	3.0	2.9
		SKEP	2.2	3.0	2.9
	<b>SPAIN</b>		4.8	4.3	3.7
		CEPREDE	4.8	4.3	3.5
		SGEI	4.8	4.3	3.9
	<b>SWEDEN</b>		0.7	1.6	1.7
		CSE	0.7	1.3	1.7
		NIER	0.7	1.8	1.6
	<b>SWITZERLAND</b>		-1.6	-0.3	0.4
		KOF	-1.6	-0.3	0.4
	<b>UNITED KINGDOM</b>		2.6	2.0	2.8
		NIESR	2.6	2.0	2.8
	Maximum		25.3	18.6	14.6
	Minimum		-1.6	-3.0	-6.0

## GROSS FIXED CAPITAL FORMATION

Volume, percentage change from previous year					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		0.3	5.0	4.0
		WIFO	0.3	5.0	4.0
	<b>BELGIUM</b>		6.2	3.2	2.6
		DULBEA			
		FPB	8.4	2.2	2.4
		IRES	4.0	4.2	2.8
	<b>CZECH Republic</b>		2.9	6.0	5.0
		CCS&F	2.9	6.0	5.0
	<b>DENMARK</b>		9.3	10.6	4.0
		DEC	9.3	10.6	4.0
	<b>FINLAND</b>		3.1	6.0	5.2
		ETLA	3.1	6.0	5.2
	<b>FRANCE</b>		3.7	3.7	2.9
		BIPE	3.7	3.9	2.9
		COE	3.7	3.5	3.0
		INSEE	3.7	3.8	
		OFCE	3.7	3.7	3.1
		REXECODE	3.7	3.5	2.6
	<b>GERMANY</b>		0.8	4.2	3.8
		DIW	0.8	4.3	3.8
		HWWA	0.8	3.9	3.3
		IFO	0.8	3.5	3.5
		IFW	0.8	4.7	3.0
		RWI	0.8	4.6	5.2
	<b>GREECE</b>		-1.4	7.0	5.3
		KEPE	-1.4	7.0	5.3
	<b>HUNGARY</b>		6.6	4.5	5.3
		GKI	6.6	7.0	8.0
		KOPINT DATORG	6.6	2.0	2.5
	<b>IRELAND</b>		12.8	8.3	6.5
		ESRI	12.8	8.3	6.5
	<b>ITALY</b>		-0.5	3.4	2.2
		CONFINDUSTRIA			
		ISAE	-0.4	3.2	2.2
		PROMETEIA	-0.4	3.4	1.9
		REF	-0.6	3.5	2.6
	<b>NETHERLANDS</b>		3.6	4.8	4.0
		CPB	3.6	4.8	4.0
	<b>NORWAY</b>		10.9	7.7	-0.1
		SN	10.9	7.7	-0.1
	<b>POLAND</b>		6.5	10.4	9.3
		IKCHZ	6.5	10.4	9.3
	<b>SERBIA &amp; MONTENEGRO</b>		2.3	16.2	15.8
		FTRI	2.3	16.2	15.8
	<b>SLOVENIA</b>		1.5	7.5	5.5
		SKEP	1.5	7.5	5.5
	<b>SPAIN</b>		7.0	6.0	5.2
		CEPREDE	7.0	6.2	5.4
		SGEI	7.0	5.8	4.9
	<b>SWEDEN</b>		8.5	8.7	4.3
		CSE	8.5	9.0	3.5
		NIER	8.5	8.3	5.0
	<b>SWITZERLAND</b>		3.2	3.6	2.8
		KOF	3.2	3.6	2.8
	<b>UNITED KINGDOM</b>		3.0	5.3	3.2
		NIESR	3.0	5.3	3.2
	Maximum		12.8	16.2	15.8
	Minimum		-1.4	2.0	-0.1

# NET EXPORTS

Volume, Percentage of GDP contribution to growth					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
<b>AUSTRIA</b>					
		WIFO			
<b>BELGIUM</b>			-0.9	0.2	0.0
		DULBEA			
		FPB	-1.2	0.6	0.1
		IRES	-0.5	-0.3	-0.1
<b>CZECH Republic</b>			4.0	2.6	1.5
		CCS&F	4.0	2.6	1.5
<b>DENMARK</b>			-0.5	-1.6	-0.2
		DEC	-0.5	-1.6	-0.2
<b>FINLAND</b>			-1.0	2.0	0.3
		ETLA	-1.0	2.0	0.3
<b>FRANCE</b>			-1.0	-0.3	-0.5
		BIPE	-1.0	-0.1	-0.5
		COE	-1.0	-0.3	-0.8
		INSEE	-1.0	-0.4	
		OFCE	-1.0	-0.2	-0.4
		REXECODE	-1.0	-0.3	-0.4
<b>GERMANY</b>			0.4	1.8	1.8
		DIW		5.4	5.8
		HWWA			
		IFO	0.5	0.8	0.7
		IFW	0.5	0.6	0.6
		RWI	0.4	0.4	0.3
<b>GREECE</b>			1.1	-0.9	-0.5
		KEPE	1.1	-0.9	-0.5
<b>HUNGARY</b>			-2.4	0.3	3.1
		GKI	-2.4	0.3	3.1
		KOPINT DATORG			
<b>IRELAND</b>			-1.2	-0.1	-0.9
		ESRI	-1.2	-0.1	-0.9
<b>ITALY</b>			-0.3	0.2	-0.2
		CONFINDUSTRIA			
		ISAE	-0.3	0.2	-0.1
		PROMETEIA	-0.3	0.3	-0.2
		REF	-0.3	0.2	-0.4
<b>NETHERLANDS</b>			0.7	0.4	0.3
		CPB	0.7	0.4	0.3
<b>NORWAY</b>			-1.1	-1.2	-0.6
		SN	-1.1	-1.2	-0.6
<b>POLAND</b>			1.1	0.2	-0.2
		IKCHZ	1.1	0.2	-0.2
<b>SERBIA &amp; MONTENEGRO</b>			-21.9	-22.5	-21.5
		FTRI	-21.9	-22.5	-21.5
<b>SLOVENIA</b>			2.0	0.4	0.6
		SKEP	2.0	0.4	0.6
<b>SPAIN</b>			-1.7	-1.2	-0.9
		CEPREDE	-1.7	-1.2	-1.0
		SGEI	-1.7	-1.1	-0.8
<b>SWEDEN</b>			0.3	1.2	0.2
		CSE	0.3	1.6	0.3
		NIER	0.2	0.8	0.2
<b>SWITZERLAND</b>			1.2	0.4	-0.4
		KOF	1.2	0.4	-0.4
<b>UNITED KINGDOM</b>			0.0	-0.1	0.1
		NIESR	0.0	-0.1	0.1
Maximum			4.0	5.4	5.8
Minimum			-21.9	-22.5	-21.5

## EXPORTS OF GOODS AND SERVICES

Volume, percentage change from previous year					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		6.4	8.5	6.1
		WIFO	6.4	8.5	6.1
	<b>BELGIUM</b>		2.3	5.1	4.7
		DULBEA			
		FPB	1.8	5.4	4.9
		IRES	2.8	4.7	4.5
	<b>CZECH Republic</b>		10.6	12.0	10.0
		CCS&F	10.6	12.0	10.0
	<b>DENMARK</b>		8.7	10.0	3.4
		DEC	8.7	10.0	3.4
	<b>FINLAND</b>		7.3	10.4	6.5
		ETLA	7.3	10.4	6.5
	<b>FRANCE</b>		3.2	8.2	5.2
		BIPE	3.1	8.6	5.7
		COE	3.2	8.1	5.1
		INSEE	3.2	7.6	
		OFCE	3.2	8.2	5.8
		REXECODE	3.2	8.3	4.3
	<b>GERMANY</b>		6.9	9.9	5.8
		DIW	6.9	10.0	5.6
		HWWA	6.9	9.6	5.4
		IFO	6.9	9.9	7.3
		IFW	6.9	9.9	3.8
		RWI	6.9	10.3	7.1
	<b>GREECE</b>		2.9	4.5	3.3
		KEPE	2.9	4.5	3.3
	<b>HUNGARY</b>		10.8	14.5	11.0
		GKI	10.8	14.0	12.0
		KOPINT DATORG	10.8	15.0	9.9
	<b>IRELAND</b>		3.9	6.4	5.1
		ESRI	3.9	6.4	5.1
	<b>ITALY</b>		0.6	5.3	2.9
		CONFINDUSTRIA			
		ISAE	0.7	5.1	3.3
		PROMETEIA	0.7	5.5	2.6
		REF	0.3	5.3	2.8
	<b>NETHERLANDS</b>		5.5	6.6	6.3
		CPB	5.5	6.6	6.3
	<b>NORWAY</b>		5.8	5.0	1.9
		SN	5.8	5.0	1.9
	<b>POLAND</b>		8.1	11.0	9.0
		IKCHZ	8.1	11.0	9.0
	<b>SERBIA &amp; MONTENEGRO</b>		20.9	18.4	16.5
		FTRI	20.9	18.4	16.5
	<b>SLOVENIA</b>		10.5	9.2	8.2
		SKEP	10.5	9.2	8.2
	<b>SPAIN</b>		1.5	5.7	4.8
		CEPREDE	1.5	5.7	4.1
		SGEI	1.5	5.8	5.4
	<b>SWEDEN</b>		6.4	8.9	5.4
		CSE	6.4	9.0	3.8
		NIER	6.4	8.8	6.9
	<b>SWITZERLAND</b>		6.8	7.0	2.7
		KOF	6.8	7.0	2.7
	<b>UNITED KINGDOM</b>		6.5	9.8	2.8
		NIESR	6.5	9.8	2.8
	Maximum		20.9	18.4	16.5
	Minimum		0.3	4.5	1.9

# IMPORTS OF GOODS AND SERVICES

Volume, percentage change from previous year					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		5.2	7.7	6.2
		WIFO	5.2	7.7	6.2
	<b>BELGIUM</b>		3.5	5.0	4.9
		DULBEA			
		FPB	3.4	4.8	5.0
		IRES	3.5	5.2	4.7
	<b>CZECH Republic</b>		4.9	9.0	8.0
		CCS&F	4.9	9.0	8.0
	<b>DENMARK</b>		10.6	15.0	4.5
		DEC	10.6	15.0	4.5
	<b>FINLAND</b>		12.3	7.2	7.2
		ETLA	12.3	7.2	7.2
	<b>FRANCE</b>		7.1	9.0	6.5
		BIPE	6.5	8.6	6.9
		COE	6.5	8.6	7.3
		INSEE	9.6	10.3	
		OFCE	6.4	8.9	6.6
		REXECODE	6.5	8.5	5.3
	<b>GERMANY</b>		6.5	9.8	5.1
		DIW	6.5	9.9	5.3
		HWWA	6.5	9.7	4.0
		IFO	6.5	9.0	6.4
		IFW	6.5	9.8	2.9
		RWI	6.5	10.4	7.1
	<b>GREECE</b>		-1.2	5.9	4.0
		KEPE	-1.2	5.9	4.0
	<b>HUNGARY</b>		6.5	10.9	7.3
		GKI	6.5	10.0	8.0
		KOPINT DATORG	6.5	11.7	6.5
	<b>IRELAND</b>		6.5	7.8	7.2
		ESRI	6.5	7.8	7.2
	<b>ITALY</b>		1.7	4.2	3.7
		CONFINDUSTRIA			
		ISAE	1.8	4.2	3.7
		PROMETEIA	1.8	4.2	3.4
		REF	1.4	4.2	4.1
	<b>NETHERLANDS</b>		5.1	6.8	6.6
		CPB	5.1	6.8	6.6
	<b>NORWAY</b>		8.3	7.7	3.4
		SN	8.3	7.7	3.4
	<b>POLAND</b>		4.9	10.5	10.0
		IKCHZ	4.9	10.5	10.0
	<b>SERBIA &amp; MONTENEGRO</b>		1.5	12.6	14.4
		FTRI	1.5	12.6	14.4
	<b>SLOVENIA</b>		7.0	8.5	7.2
		SKEP	7.0	8.5	7.2
	<b>SPAIN</b>		7.0	8.5	6.6
		CEPREDE	7.0	8.7	6.3
		SGEI	7.0	8.4	6.8
	<b>SWEDEN</b>		7.3	8.0	6.0
		CSE	7.3	7.5	4.2
		NIER	7.3	8.4	7.7
	<b>SWITZERLAND</b>		4.9	7.7	4.3
		KOF	4.9	7.7	4.3
	<b>UNITED KINGDOM</b>		5.9	9.2	2.3
		NIESR	5.9	9.2	2.3
Maximum			12.3	15.0	14.4
Minimum			-1.2	4.2	2.3

# GDP DEFLATOR

Volume, percentage change from previous year					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		1.9	1.6	1.7
		WIFO	1.9	1.6	1.7
	<b>BELGIUM</b>		2.2	2.2	2.0
		DULBEA			
		FPB	2.2	2.2	2.0
		IRES			
	<b>CZECH Republic</b>		0.9	1.5	2.4
		CCS&F	0.9	1.5	2.4
	<b>DENMARK</b>		2.2	2.4	2.3
		DEC	2.2	2.4	2.3
	<b>FINLAND</b>		0.6	0.5	1.5
		ETLA	0.6	0.5	1.5
	<b>FRANCE</b>		1.8	2.0	1.8
		BIPE	1.8	1.9	2.0
		COE	1.8	1.9	1.7
		INSEE	1.8	2.0	
		OFCE			
		REXECODE	1.8	2.0	1.8
	<b>GERMANY</b>		0.6	0.6	1.5
		DIW	0.6	0.6	2.0
		HWWA	0.6	0.7	1.5
		IFO	0.6	0.5	1.0
		IFW	0.6	0.5	1.9
		RWI	0.6	0.8	1.2
	<b>GREECE</b>		3.7	3.1	3.3
		KEPE	3.7	3.1	3.3
	<b>HUNGARY</b>		2.5	4.0	6.0
		GKI			
		KOPINT DATORG	2.5	4.0	6.0
	<b>IRELAND</b>		3.5	4.8	4.0
		ESRI	3.5	4.8	4.0
	<b>ITALY</b>		2.1	1.6	2.6
		CONFINDUSTRIA			
		ISAE	2.1	2.1	2.3
		PROMETEIA	2.1	1.8	2.5
		REF	2.1	1.0	3.0
	<b>NETHERLANDS</b>		1.7	1.4	1.7
		CPB	1.7	1.4	1.7
	<b>NORWAY</b>		2.1	4.1	2.6
		SN	2.1	4.1	2.6
	<b>POLAND</b>		2.7	0.5	2.1
		IKCHZ	2.7	0.5	2.1
	<b>SERBIA &amp; MONTENEGRO</b>		16.7	16.8	10.0
		FTRI	16.7	16.8	10.0
	<b>SLOVENIA</b>		1.5	2.5	2.5
		SKEP	1.5	2.5	2.5
	<b>SPAIN</b>		4.1	3.8	3.3
		CEPREDE	4.1	3.9	3.2
		SGEI	4.1	3.8	3.4
	<b>SWEDEN</b>		1.1	1.6	2.0
		CSE	1.1	1.6	1.7
		NIER	1.1	1.5	2.2
	<b>SWITZERLAND</b>				
		KOF			
	<b>UNITED KINGDOM</b>		2.2	2.8	2.7
		NIESR	2.2	2.8	2.7
	Maximum		16.7	16.8	10.0
	Minimum		0.6	0.5	1.0

## NET SAVING RATIO (HOUSEHOLDS)

Percentage						
All institutes	Country	Institute	2005	2006	2007	
<b>Forecast</b>						
	<b>AUSTRIA</b>		9.1	9.5	9.4	
		WIFO	9.1	9.5	9.4	
	<b>BELGIUM</b>		13.1	12.7	12.9	
		DULBEA				
		FPB	12.8	11.9	12.1	
		IRES	13.3	13.5	13.6	
	<b>CZECH Republic</b>		7.8	7.6	7.4	
		CCS&F	7.8	7.6	7.4	
	<b>DENMARK</b>					
		DEC				
	<b>FINLAND</b>		-0.1	-0.4	-0.2	
		ETLA	-0.1	-0.4	-0.2	
	<b>FRANCE</b>		15.0	14.6	14.6	
		BIPE	14.9	14.4	14.3	
		COE	15.0	14.7	14.7	
		INSEE				
		OFCE	15.0	14.7	14.8	
		REXECODE	15.0	14.7	14.8	
	<b>GERMANY</b>		10.6	10.4	10.7	
		DIW	10.6	10.6	11.2	
		HWWA	10.6	10.6	10.9	
		IFO	10.6	10.4	10.3	
		IFW	10.6	10.3	10.5	
		RWI	10.6	10.3	10.6	
	<b>GREECE</b>		2.3	2.3	2.4	
		KEPE	2.3	2.3	2.4	
	<b>HUNGARY</b>		5.6	4.3	4.8	
		GKI				
		KOPINT DATORG	5.6	4.3	4.8	
	<b>IRELAND</b>		14.7	13.1	12.1	
		ESRI	14.7	13.1	12.1	
	<b>ITALY</b>		48.2	48.3	48.4	
		CONFINDUSTRIA				
		ISAE				
		PROMETEIA	13.9	13.9	13.7	
		REF	82.5	82.8	83.1	
	<b>NETHERLANDS</b>		6.5	5.4	5.6	
		CPB	6.5	5.4	5.6	
	<b>NORWAY</b>		12.6	4.3	6.2	
		SN	12.6	4.3	6.2	
	<b>POLAND</b>		6.2	5.5	5.3	
		IKCHZ	6.2	5.5	5.3	
	<b>SERBIA &amp; MONTENEGRO</b>					
		FTRI				
	<b>SLOVENIA</b>					
		SKEP				
	<b>SPAIN</b>		9.5	9.1	9.0	
		CEPREDE	9.0	9.0	8.8	
		SGEI	10.0	9.2	9.1	
	<b>SWEDEN</b>		7.8	8.4	8.3	
		CSE	7.8	8.3	8.4	
		NIER	7.8	8.4	8.1	
	<b>SWITZERLAND</b>		6.8	6.0	5.9	
		KOF	6.8	6.0	5.9	
	<b>UNITED KINGDOM</b>		4.8	5.6	6.2	
		NIESR	4.8	5.6	6.2	
	Maximum		82.5	82.8	83.1	
	Minimum		-0.1	-0.4	-0.2	

# CONSUMER PRICES

Percentage change from previous year					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		2.3	1.6	1.7
		WIFO	2.3	1.6	1.7
	<b>BELGIUM</b>		2.8	1.9	1.8
		DULBEA			
		FPB	2.8	1.9	2.0
		IRES	2.8	1.8	1.5
	<b>CZECH Republic</b>		1.9	2.8	3.0
		CCS&F	1.9	2.8	3.0
	<b>DENMARK</b>		2.1	1.8	1.8
		DEC	2.1	1.8	1.8
	<b>FINLAND</b>		0.8	1.6	1.8
		ETLA	0.8	1.6	1.8
	<b>FRANCE</b>		1.8	1.9	1.6
		BIPE	1.7	1.9	1.6
		COE	1.8	1.7	1.3
		INSEE	1.8	1.8	
		OFCE	1.7	1.9	1.8
		REXECODE	1.8	2.0	1.7
	<b>GERMANY</b>		1.6	1.7	2.3
		DIW	0.2	1.6	2.2
		HWWA	1.9	1.7	2.2
		IFO	2.0	1.7	2.4
		IFW	2.0	1.8	2.3
		RWI	2.0	1.8	2.4
	<b>GREECE</b>		3.5	3.2	3.1
		KEPE	3.5	3.2	3.1
	<b>HUNGARY</b>		3.6	3.6	5.8
		GKI	3.6	3.7	5.8
		KOPINT DATORG	3.6	3.5	5.8
	<b>IRELAND</b>		2.5	4.0	3.6
		ESRI	2.5	4.0	3.6
	<b>ITALY</b>		1.9	2.2	1.9
		CONFINDUSTRIA			
		ISAE	1.9	2.2	2.0
		PROMETEIA	2.0	2.2	1.8
		REF	1.9	2.1	1.9
	<b>NETHERLANDS</b>		1.7	1.3	1.5
		CPB	1.7	1.3	1.5
	<b>NORWAY</b>		1.6	2.4	1.5
		SN	1.6	2.4	1.5
	<b>POLAND</b>		2.1	1.5	2.3
		IKCHZ	2.1	1.5	2.3
	<b>SERBIA &amp; MONTENEGRO</b>		17.8	7.4	8.2
		FTRI	17.8	7.4	8.2
	<b>SLOVENIA</b>		2.5	2.5	2.5
		SKEP	2.5	2.5	2.5
	<b>SPAIN</b>		3.4	3.7	3.1
		CEPREDE	3.4	3.7	3.1
		SGEI	3.4		
	<b>SWEDEN</b>		0.5	1.5	1.8
		CSE	0.5	1.5	1.7
		NIER	0.5	1.5	1.9
	<b>SWITZERLAND</b>		1.2	1.2	0.8
		KOF	1.2	1.2	0.8
	<b>UNITED KINGDOM</b>		2.1	2.1	2.3
		NIESR	2.1	2.1	2.3
Maximum			17.8	7.4	8.2
Minimum			0.2	1.2	0.8

# UNEMPLOYMENT RATE

Percentage of total labour force (according to Eurostat)					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		5.2	5.0	5.0
		WIFO	5.2	5.0	5.0
	<b>BELGIUM</b>		8.4	8.5	8.3
		DULBEA			
		FPB	8.4	8.6	8.3
		IRES	8.4	8.4	8.3
	<b>CZECH Republic</b>		7.9	7.5	7.3
		CCS&F	7.9	7.5	7.3
	<b>DENMARK</b>		5.4	4.4	4.1
		DEC	5.4	4.4	4.1
	<b>FINLAND</b>		8.4	7.7	7.4
		ETLA	8.4	7.7	7.4
	<b>FRANCE</b>		9.9	9.1	8.5
		BIPE	9.9	9.1	8.4
		COE	9.9	9.1	8.6
		INSEE	9.9	9.0	
		OFCE	9.9	9.1	8.4
		REXECODE	9.9	9.0	8.5
	<b>GERMANY</b>		10.5	9.5	9.1
		DIW	11.2	10.2	10.0
		HWWA	9.5	8.3	8.0
		IFO	11.2	10.4	10.0
		IFW	9.5	8.2	7.6
		RWI	11.2	10.4	9.7
	<b>GREECE</b>		10.4	9.6	9.3
		KEPE	10.4	9.6	9.3
	<b>HUNGARY</b>		7.2	7.5	7.8
		GKI	7.2	7.2	7.5
		KOPINT DATORG	7.2	7.7	8.0
	<b>IRELAND</b>		4.4	4.4	4.4
		ESRI	4.4	4.4	4.4
	<b>ITALY</b>		7.7	7.1	6.7
		CONFINDUSTRIA			
		ISAE	7.7	7.0	6.5
		PROMETEIA	7.7	7.1	6.8
		REF	7.7	7.2	6.8
	<b>NETHERLANDS</b>		6.5	5.4	4.6
		CPB	6.5	5.4	4.6
	<b>NORWAY</b>		4.6	3.4	3.3
		SN	4.6	3.4	3.3
	<b>POLAND</b>		16.7	14.4	13.2
		IKCHZ	16.7	14.4	13.2
	<b>SERBIA &amp; MONTENEGRO</b>		20.8	22.6	25.2
		FTRI	20.8	22.6	25.2
	<b>SLOVENIA</b>		6.5	6.6	6.7
		SKEP	6.5	6.6	6.7
	<b>SPAIN</b>		9.2	8.3	7.9
		CEPREDE	9.2	8.4	8.0
		SGEI	9.2	8.1	7.8
	<b>SWEDEN</b>		6.9	6.4	5.9
		CSE	7.8	7.3	7.2
		NIER	5.9	5.4	4.6
	<b>SWITZERLAND</b>		3.8	3.4	3.0
		KOF	3.8	3.4	3.0
	<b>UNITED KINGDOM</b>		4.8	5.4	5.5
		NIESR	4.8	5.4	5.5
	Maximum		20.8	22.6	25.2
	Minimum		3.8	3.4	3.0

# CURRENT ACCOUNT BALANCE

Percentage of GDP					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		1.2	1.3	1.2
		WIFO	1.2	1.3	1.2
	<b>BELGIUM</b>		2.7	2.9	2.8
		DULBEA			
		FPB	2.7	2.9	2.8
		IRES			
	<b>CZECH Republic</b>		-2.1	-2.3	-1.6
		CCS&F	-2.1	-2.3	-1.6
	<b>DENMARK</b>		3.0	1.6	1.7
		DEC	3.0	1.6	1.7
	<b>FINLAND</b>		4.6	4.8	4.6
		ETLA	4.6	4.8	4.6
	<b>FRANCE</b>		-1.7	-1.8	-2.0
		BIPE	-1.6	-1.5	-1.5
		COE	-1.5	-1.5	-2.2
		INSEE			
		OFCE	-2.0	-2.3	-2.8
		REXECODE	-1.8	-1.7	-1.6
	<b>GERMANY</b>		62.7	66.3	71.9
		DIW	116.0	120.0	134.0
		HWWA	5.2	5.4	5.6
		IFO	92.6	93.6	102.3
		IFW	7.1	7.3	7.6
		RWI	92.6	105.0	110.0
	<b>GREECE</b>		-7.2	-7.8	-7.6
		KEPE	-7.2	-7.8	-7.6
	<b>HUNGARY</b>		-6.7	-6.3	-5.0
		GKI	-6.0	-6.2	-5.3
		KOPINT DATORG	-7.4	-6.4	-4.7
	<b>IRELAND</b>		-3.0	-4.2	-5.3
		ESRI	-3.0	-4.2	-5.3
	<b>ITALY</b>		-1.5	-2.1	-1.3
		CONFINDUSTRIA			
		ISAE			
		PROMETEIA	-1.4	-1.7	-1.3
		REF	-1.6	-2.5	-1.3
	<b>NETHERLANDS</b>		7.3	7.2	7.0
		CPB	7.3	7.2	7.0
	<b>NORWAY</b>		16.6	18.6	17.2
		SN	16.6	18.6	17.2
	<b>POLAND</b>		-1.4	-1.7	-2.5
		IKCHZ	-1.4	-1.7	-2.5
	<b>SERBIA &amp; MONTENEGRO</b>		-9.8	-11.2	-10.4
		FTRI	-9.8	-11.2	-10.4
	<b>SLOVENIA</b>		-2.0	-1.9	-1.7
		SKEP	-2.0	-1.9	-1.7
	<b>SPAIN</b>		-7.0	-8.4	-9.4
		CEPREDE	-7.4	-9.0	-10.2
		SGEI	-6.5	-7.7	-8.5
	<b>SWEDEN</b>		6.2	6.5	6.6
		CSE	6.4	6.7	6.7
		NIER	5.9	6.3	6.5
	<b>SWITZERLAND</b>		14.0	13.2	12.7
		KOF	14.0	13.2	12.7
	<b>UNITED KINGDOM</b>		-2.2	-2.8	-3.0
		NIESR	-2.2	-2.8	-3.0
	Maximum		116.0	120.0	134.0
	Minimum		-9.8	-11.2	-10.4

## SHORT-TERM INTEREST RATE (3 MONTHS)

Percentage					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		2.2	3.1	3.8
		WIFO	2.2	3.1	3.8
	<b>BELGIUM</b>		2.2	3.0	3.8
		DULBEA			
		FPB	2.2	3.0	3.8
		IRES			
	<b>CZECH Republic</b>		2.0	2.1	2.4
		CCS&F	2.0	2.1	2.4
	<b>DENMARK</b>		2.3	3.1	3.6
		DEC	2.3	3.1	3.6
	<b>FINLAND</b>		2.2	3.1	3.8
		ETLA	2.2	3.1	3.8
	<b>FRANCE</b>		2.2	2.9	3.4
		BIPE	2.2	3.1	3.3
		COE	2.2	2.7	2.9
		INSEE	2.1	2.9	
		OFCE	2.2	3.1	3.8
		REXECODE	2.2	3.0	3.5
	<b>GERMANY</b>		2.8	3.3	3.8
		DIW			
		HWWA			
		IFO		3.1	3.7
		IFW	2.2	3.1	3.7
		RWI	3.4	3.7	4.0
	<b>GREECE</b>		2.2	3.3	3.6
		KEPE	2.2	3.3	3.6
	<b>HUNGARY</b>		6.9	7.8	6.2
		GKI	7.8	7.9	6.4
		KOPINT DATORG	6.0	7.7	6.0
	<b>IRELAND</b>		2.3	3.5	3.8
		ESRI	2.3	3.5	3.8
	<b>ITALY</b>		2.1	2.9	3.5
		CONFINDUSTRIA			
		ISAE			
		PROMETEIA	2.0	2.8	3.2
		REF	2.1	2.9	3.9
	<b>NETHERLANDS</b>		2.2	3.1	3.5
		CPB	2.2	3.1	3.5
	<b>NORWAY</b>		2.2	3.1	3.8
		SN	2.2	3.1	3.8
	<b>POLAND</b>		5.3		
		IKCHZ	5.3		
	<b>SERBIA &amp; MONTENEGRO</b>				
		FTRI			
	<b>SLOVENIA</b>		3.6	3.8	3.9
		SKEP	3.6	3.8	3.9
	<b>SPAIN</b>		2.2	3.1	3.8
		CEPREDE	2.2	3.0	3.7
		SGEI	2.2	3.1	3.9
	<b>SWEDEN</b>		1.7	2.5	3.6
		CSE	1.7	2.3	3.5
		NIER	1.7	2.6	3.7
	<b>SWITZERLAND</b>		0.7	1.4	2.1
		KOF	0.7	1.4	2.1
	<b>UNITED KINGDOM</b>		4.7	4.7	5.2
		NIESR	4.7	4.7	5.2
Maximum			7.8	7.9	6.4
Minimum			0.7	1.4	2.1

## LONG-TERM INTEREST RATE (10 YEARS)

Percentage					
All institutes	Country	Institute	2005	2006	2007
Forecast					
	<b>AUSTRIA</b>		3.4	3.8	4.2
		WIFO	3.4	3.8	4.2
	<b>BELGIUM</b>		3.4	3.9	4.2
		DULBEA			
		FPB	3.4	3.9	4.2
		IRES			
	<b>CZECH Republic</b>		3.6	3.6	4.0
		CCS&F	3.6	3.6	4.0
	<b>DENMARK</b>		3.4	4.0	4.4
		DEC	3.4	4.0	4.4
	<b>FINLAND</b>				
		ETLA			
	<b>FRANCE</b>		3.4	3.9	4.2
		BIPE	3.4	4.0	4.0
		COE	3.5	4.2	4.8
		INSEE	3.4	3.8	
		OFCE	3.4	3.9	4.1
		REXECODE	3.4	3.8	4.0
	<b>GERMANY</b>		3.6	3.8	4.0
		DIW		3.3	3.5
		HWWA		3.6	3.9
		IFO		3.9	4.1
		IFW	3.4	3.9	4.1
		RWI	3.7	4.2	4.5
	<b>GREECE</b>		3.6	3.9	4.1
		KEPE	3.6	3.9	4.1
	<b>HUNGARY</b>		7.3	7.9	6.3
		GKI	7.5	8.1	6.1
		KOPINT DATORG	7.0	7.7	6.5
	<b>IRELAND</b>		3.4	3.9	4.1
		ESRI	3.4	3.9	4.1
	<b>ITALY</b>		3.6	4.1	4.0
		CONFINDUSTRIA			
		ISAE			
		PROMETEIA	3.6	4.1	4.0
		REF			
	<b>NETHERLANDS</b>		3.4	3.9	4.3
		CPB	3.4	3.9	4.3
	<b>NORWAY</b>		3.7		
		SN	3.7		
	<b>POLAND</b>		5.2		
		IKCHZ	5.2		
	<b>SERBIA &amp; MONTENEGRO</b>				
		FTRI			
	<b>SLOVENIA</b>		3.8	4.1	4.2
		SKEP	3.8	4.1	4.2
	<b>SPAIN</b>		3.4	3.9	4.2
		CEPREDE	3.4	3.9	4.3
		SGEI	3.4	3.9	4.1
	<b>SWEDEN</b>		3.4	4.0	4.3
		CSE	3.4	3.7	4.0
		NIER	3.4	4.2	4.6
	<b>SWITZERLAND</b>		2.1	2.6	2.3
		KOF	2.1	2.6	2.3
	<b>UNITED KINGDOM</b>		4.4	4.6	4.9
		NIESR	4.4	4.6	4.9
Maximum			7.5	8.1	6.5
Minimum			2.1	2.6	2.3

# PUBLIC SECTOR FISCAL BALANCE

Percentage of GDP					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		-1,5	-1,6	-1,3
		WIFO	-1,5	-1,6	-1,3
	<b>BELGIUM</b>		0,1	-0,2	-0,8
		DULBEA			
		FPB			
		IRES	0,1	-0,2	-0,8
	<b>CZECH Republic</b>		-2,6	-3,6	-3,0
		CCS&F	-2,6	-3,6	-3,0
	<b>DENMARK</b>		3,9	3,1	2,8
		DEC	3,9	3,1	2,8
	<b>FINLAND</b>		2,5	3,2	2,9
		ETLA	2,5	3,2	2,9
	<b>FRANCE</b>		-2,9	-2,8	-2,8
		BIPE	-2,9	-2,9	-2,8
		COE	-2,9	-2,9	-2,9
		INSEE			
		OFCE	-2,9	-2,7	-2,9
		REXECODE	-2,9	-2,8	-2,7
	<b>GERMANY</b>		-3,2	-2,4	-1,5
		DIW	-3,3	-2,5	-1,5
		HWWA	-3,2	-2,4	-1,4
		IFO	-3,2	-2,4	-1,4
		IFW	-3,2	-2,4	-1,9
		IRWI	-3,2	-2,4	-1,4
	<b>GREECE</b>		-5,1	-2,7	-2,6
		KEPE	-5,1	-2,7	-2,6
	<b>HUNGARY</b>		-7,5	-9,8	-6,3
		GKI	-7,5	-9,5	-5,7
		KOPINT DATORG	-7,5	-10,1	-6,8
	<b>IRELAND</b>		1,0	1,0	0,9
		ESRI	1,0	1,0	0,9
	<b>ITALY</b>		-1,4	-1,5	-0,9
		CONFINDUSTRIA			
		ISAE	-4,1	-4,6	-2,7
		PROMETEIA	4,1	4,8	3,1
		REF	-4,1	-4,7	-3,1
	<b>NETHERLANDS</b>		-0,3	-0,1	0,0
		CPB	-0,3	-0,1	0,0
	<b>NORWAY</b>				
		SN			
	<b>POLAND</b>		-2,0	-2,1	-2,0
		IKCHZ	-2,0	-2,1	-2,0
	<b>SERBIA &amp; MONTENEGRO</b>				
		FTRI			
	<b>SLOVENIA</b>		-1,8	-1,5	-2,0
		SKEP	-1,8	-1,5	-2,0
	<b>SPAIN</b>		1,1	1,4	0,6
		CEPREDE	1,1	1,3	0,5
		SGEI	1,1	1,4	0,7
	<b>SWEDEN</b>		2,7	2,4	2,5
		CSE	2,5	2,0	2,0
		NIER	2,8	2,8	2,9
	<b>SWITZERLAND</b>		0,0	0,8	1,0
		KOF	0,0	0,8	1,0
	<b>UNITED KINGDOM</b>		-3,1	-2,9	-2,5
		NIESR	-3,1	-2,9	-2,5
	Maximum		4,1	4,8	3,1
	Minimum		-7,5	-10,1	-6,8

# GROSS PUBLIC DEBT

Percentage of GDP					
All institutes	Country	Institute	2005	2006	2007
<b>Forecast</b>					
	<b>AUSTRIA</b>		63.3	62.4	
		WIFO	63.3	62.4	
	<b>BELGIUM</b>				
		DULBEA			
		FPB			
		IRES			
	<b>CZECH Republic</b>		30.5	30.8	30.0
		CCS&F	30.5	30.8	30.0
	<b>DENMARK</b>		35.9	28.6	24.6
		DEC	35.9	28.6	24.6
	<b>FINLAND</b>		40.5	38.7	37.4
		ETLA	40.5	38.7	37.4
	<b>FRANCE</b>		66.6	66.1	66.2
		BIPE	66.6	66.5	66.4
		COE	66.6	66.2	66.8
		INSEE			
		OFCE	66.6	64.6	64.0
		REXECODE	66.6	66.9	67.5
	<b>GERMANY</b>		67.9	67.9	67.2
		DIW			
		HWWA			
		IFO			
		IFW	67.9	67.9	67.2
		RWI			
	<b>GREECE</b>		107.5	104.8	100.9
		KEPE	107.5	104.8	100.9
	<b>HUNGARY</b>		62.3	68.5	71.3
		GKI			
		KOPINT DATORG	62.3	68.5	71.3
	<b>IRELAND</b>		27.4	24.9	23.0
		ESRI	27.4	24.9	23.0
	<b>ITALY</b>		106.4	107.5	106.7
		CONFINDUSTRIA			
		ISAE	106.4	107.3	106.6
		PROMETEIA	106.4	107.5	106.6
		REF	106.4	107.8	106.8
	<b>NETHERLANDS</b>		52.7	50.2	47.9
		CPB	52.7	50.2	47.9
	<b>NORWAY</b>				
		SN			
	<b>POLAND</b>		41.9	42.5	43.5
		IKCHZ	41.9	42.5	43.5
	<b>SERBIA &amp; MONTENEGRO</b>				
		FTRI			
	<b>SLOVENIA</b>		29.1	30.0	30.0
		SKEP	29.1	30.0	30.0
	<b>SPAIN</b>		23.7	22.0	20.9
		CEPREDE	4.3	4.2	4.1
		SGEI	43.1	39.8	37.7
	<b>SWEDEN</b>		47.3	45.7	44.3
		CSE	48.0	47.5	47.0
		NIER	46.6	43.8	41.5
	<b>SWITZERLAND</b>		49.2	47.0	44.6
		KOF	49.2	47.0	44.6
	<b>UNITED KINGDOM</b>		42.9	43.4	43.7
		NIESR	42.9	43.4	43.7
	Maximum		107.5	107.8	106.8
	Minimum		4.3	4.2	4.1

# **COUNTRY NOTES AND TABLES**

## AUSTRIA – WIFO

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
	2005	2005	2006	2007
GDP	245,10	2,04	3,05	2,52
Private consumption	137,58	1,70	1,90	2,10
Public consumption	44,47	1,92	1,70	1,50
Gross fixed capital formation	50,25	0,31	5,04	3,96
Private, excl. dwellings	22,12	0,13	7,00	5,50
Dwellings	28,13	0,45	3,50	2,70
Change in stocks (1)	0,65	-	-	-
Total domestic demand	233,45	1,25	2,34	2,35
Exports of goods and services	133,06	6,41	8,54	6,14
Imports of goods and services	121,40	5,20	7,70	6,20
Net exports (1)	-	-	-	-
GDP deflator	-	1,86	1,58	1,68
Consumer prices	-	2,30	1,60	1,70
Private consumption deflator	-	1,72	1,60	1,70
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	0,19	1,09	0,82
Nominal hourly gross wage rate	-	-	-	-
Employment (thousands)	-	4158,14	4200,12	4235,28
Unemployment rate (4)	-	5,15	5,00	5,00
Real household disposable income	-	2,06	2,33	2,06
Net saving ratio (households) (5)	-	9,11	9,49	9,44
Public sector fiscal balance (6,7)	-	-1,46	-1,58	-1,31
Gross public debt (6,7)	-	63,30	62,40	-
Current account balance (6)	-	1,23	1,27	1,19
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	2,20	3,10	3,80
Long-term interest rate (10 years) (8)	-	3,40	3,80	4,20
United States Federal funds rate	-	-	-	-
GDP	-	-	-	-
USA	-	3,20	3,30	2,50
Japan	-	2,60	2,80	2,50
Euro Area	-	1,40	2,60	2,30
World trade volume (goods)	-	7,10	8,50	7,50
Oil price (9)	-	50,30	65,00	65,00
Exchange rate	-	-	-	-
Dollar/Euro	-	1,25	1,25	1,25
Yen/Euro	-	-	-	-
Local currency/ Euro for non-EMU countries	-	-	-	-

- (1) Percent of GDP of previous period (contribution to growth)  
(2) Percent of potential GDP  
(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employees  
(4) Percent of total labour force (according to Eurostat)  
(5) Percent of net disposable income  
(6) Percent of GDP  
(7) EMU definition.  
(8) Percent, the benchmark yield of corresponding government securities  
(9) Brent, USD/barrel, annual average

The second quarter 2006 saw the economic upswing in Austria gather momentum. Sentiment among companies in the manufacturing sector is currently as optimistic as it was last in the year 2000. The economy is expected to grow by 3.1 percent in volume in 2006. Given the international framework conditions, the pace of economic expansion is expected to slow at 2.5 percent in 2007. While in the last year the main stimulus to growth has come from abroad, we are seeing now a marked rise in domestic demand. Gross fixed capital formation will rise at 5 percent in real terms in 2006 and at 4 percent in 2007. The high profits accumulated in the last years and the increased sales expectations in the industrial sector are leading to an upswing in machinery and equipment capital formation.

Austria's exports are currently benefiting from the strong expansion of the world economy. Fuelled by the booming exports, the industrial sector is expanding at around 7 percent. In 2006 merchandise exports are expected to advance by 10.1 percent in volume, driven by additional demand stimulus from Germany. The rise in the German standard VAT rate from 16 to 19 percent as from January 1<sup>st</sup> 2007 will lead to front-loading of purchase of durable consumer goods, especially motor cars. This is expected to boost orders of the Austrian suppliers this year clearly. In 2007, the one-off effects from Germany will turn negative and slow down exports and manufacturing.

With an ongoing high level of household savings ratio, private consumption has so far not picked up substantially. We expect a growth rate of 1.9 percent in 2006. Due to the fact that consumer confidence has been improving recently, growth rates should accelerate slightly next year.

The cyclical revival this year is raising overall employment by 1.5 percent. Besides the ongoing increase in part time jobs, job opportunities became also brighter in sectors with full time employed. However, job creation is not sufficient to meet the rise in the labor force effectively. Thus, the unemployment rate could be decreased only slightly from 5.2 percent in 2005 to 5 percent of the total labor force. For 2006 and 2007 government funds for active labor market policy were increased, leading to a higher number of people in labor market training.

The general government deficit is expected at 1.6 percent this year and 1.3 percent next year.

Even despite of higher energy prices, inflation remains low in 2006 and 2007. Consumer prices are expected to rise 1.6 percent this year and 1.7 percent in the year 2007. Spill-over effects have so far been largely absent.

## BELGIUM – Plan office – Federal Planning Bureau (FPB)

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2006	2007
GDP	270,65	1,20	2,70	2,20
Private consumption	143,19	1,10	2,30	2,00
Public consumption	59,71	0,70	1,80	2,40
Gross fixed capital formation	57,63	8,40	2,20	2,40
Private, excl. dwellings	39,87	9,50	2,10	2,20
Dwellings	12,67	3,20	4,00	2,30
Change in stocks (1)	21,27	0,10	0,00	0,00
Total domestic demand	262,70	2,60	2,10	2,20
Exports of goods and services	241,94	1,80	5,40	4,90
Imports of goods and services	234,00	3,40	4,80	5,00
Net exports (1)	7,94	-1,20	0,60	0,10
GDP deflator	-	2,20	2,20	2,00
Consumer prices	-	2,80	1,90	2,00
Private consumption deflator	-	2,80	2,40	1,90
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	2,10	1,10	1,20
Nominal hourly gross wage rate	-	2,60	2,50	2,10
Employment (thousands)	-	38,50	41,00	45,60
Unemployment rate (4)	-	8,40	8,60	8,30
Real household disposable income	-	1,00	2,80	2,30
Net saving ratio (households) (5)	-	12,80	11,90	12,10
Public sector fiscal balance (6,7)	-	-	-	-
Gross public debt (6,7)	-	-	-	-
Current account balance (6)	-	2,70	2,90	2,80
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	2,20	3,00	3,80
Long-term interest rate (10 years) (8)	-	3,40	3,90	4,20
United States Federal funds rate	-	-	-	-
GDP	-	-	-	-
USA	-	3,20	3,40	2,70
Japan	-	-	2,40	2,20
Euro Area	-	-	2,50	1,90
World trade volume (goods)	-	-	-	-
Oil price (9)	-	54,50	68,00	72,40
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,26	1,31
Yen/Euro	-	137,10	144,70	144,40
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employees

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

As a result of robust quarterly growth during the first half of 2006 (0.8% on average) the Belgian economy should register GDP growth of 2.7% this year. Economic growth should slow down to 0.6% on average during the second half of the year. In 2007, quarterly GDP growth should stabilise at roughly 0.5%, implying 2.2% for the year. This year Belgian economic growth should improve thanks to exports, private consumption and public investment. In 2007, less dynamic exports and lower public investments will weigh on GDP growth.

After a very weak performance in 2005, Belgian export growth should accelerate up to 5.4% this year as a result of the favourable international economic situation. The expected slowdown of the international economy, however, will limit Belgian export growth to 4.9% next year, causing a deceleration in economic growth in 2007. While net exports would contribute significantly to GDP growth in 2006, it should be roughly neutral for economic growth next year. Nevertheless, the current account surplus will probably increase very little in 2006 due to the high level of oil prices, which should lead to a deterioration of the terms of trade.

Domestic demand should increase by 2.1% in 2006 and by 2.2% in 2007. The deceleration of domestic demand growth with respect to 2005 is due to business investment. In fact, business investment remains at a high level thanks to the further increase in profitability, the high capacity utilisation rate, and benign demand prospects, but its growth rate is restrained somewhat after the substantial catching-up in 2005.

In 2006 and 2007, the increase in households' real disposable income should be supported by the ongoing rise in employment, the personal income tax reform, the gradual easing of inflation and the increase in property income (due to higher interest rates). Partially as a result of this, the increase in private consumption should accelerate to 2.3% this year, which is two times higher than the average growth rate of the last five years. Consequently, private consumption should significantly contribute to the economic recovery. This year, the household savings rate should continue its downward path due to increased consumer confidence. Private consumption growth in 2007 (2%) should fall short of the increase in real disposable income (2.3%) as the propensity to consume is smaller for property income than for other income categories. The quarterly growth rate of housing investment accelerated considerably in 2005, but should drop in the second half of 2006 due to the increase in financing costs.

The evolution of public investment is largely determined by local authorities' infrastructure works, which have strongly increased in view of the local elections in October 2006, and by sales of public buildings to the private sector. If the sales of public buildings are not taken into account, public investment should increase by 10% in 2006 (at constant prices) and drop to the same extent next year.

#### *Strong employment growth pushes back unemployment*

Domestic employment should increase by on average 41,000 units in 2006 and 45,600 units in 2007. As the number of jobs is growing faster than the labour force, the unemployment rate (large administrative definition) is expected to diminish from 14.3% in 2005 to 13.7% in 2007. Nevertheless, the harmonised Eurostat unemployment rate (based on labour force surveys) should still increase from 8.4% in 2005 to 8.6% in 2006, only to drop to 8.3% next year.

#### *Inflation falls to 1.9%*

Headline inflation, as measured by the national index of consumer prices (NICP), should amount to 1.9% in 2006 and 2007 (after 2.8% in 2005). This year, the inflation picture is blurred by the introduction of a new NICP-basket based on the household budget survey of 2004. Measured by the deflator of private consumption, which is not affected by this technical factor, inflation should only drop to 2.4% in 2006 and ease further to 1.9% in 2007. The steady decline in inflation mainly results from the moderate wage cost increase, the appreciation of the euro and the stabilisation of oil prices expected in the course of 2007.

## BELGIUM – IRES

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2006	2007
GDP	298540,90	1,10	2,80	2,30
Private consumption	155773,90	0,90	2,40	2,10
Public consumption	68496,20	-0,60	2,80	2,00
Gross fixed capital formation	59035,70	4,00	4,20	2,80
Private, excl. dwellings	-	3,20	2,10	4,00
Dwellings	-	3,20	5,30	3,00
Change in stocks (1)	3390,20	0,40	0,30	0,10
Total domestic demand	289595,10	1,60	3,10	2,40
Exports of goods and services	257696,50	2,80	4,70	4,50
Imports of goods and services	248750,70	3,50	5,20	4,70
Net exports (1)	8945,80	-0,50	-0,30	-0,10
GDP deflator	-	-	-	-
Consumer prices	-	2,80	1,80	1,50
Private consumption deflator	-	-	-	-
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	2,80	0,00	1,10
Nominal hourly gross wage rate	-	-	-	-
Employment (thousands)	4263,80	41,40	37,10	35,90
Unemployment rate (4)	-	8,40	8,40	8,30
Real household disposable income	-	0,80	2,40	2,00
Net saving ratio (households) (5)	-	13,30	13,50	13,60
Public sector fiscal balance (6,7)	-	0,10	-0,20	-0,80
Gross public debt (6,7)	-	-	-	-
Current account balance (6)	-	-	-	-
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	-	-	-
Long-term interest rate (10 years) (8)	-	-	-	-
United States Federal funds rate	-	-	-	-
GDP	-	-	-	-
USA	-	3,20	3,30	2,30
Japan	-	2,60	2,50	1,80
Euro Area	-	1,50	2,60	2,00
World trade volume (goods)	-	7,40	9,00	7,10
Oil price (9)	-	54,70	66,80	65,00
Exchange rate	-	-	-	-
Dollar/Euro	-	0,80	0,80	0,79
Yen/Euro	-	-	-	-
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

La croissance économique de la Belgique est apparue très vigoureuse durant la première partie de l'année en cours. Selon les données des comptes nationaux trimestriels, le PIB belge a progressé, en termes réels, de 0,9 % au premier trimestre et de 0,8 % au deuxième trimestre. Grâce à ces rythmes trimestriels de croissance élevés, le PIB affichait au deuxième trimestre une hausse de 2,8 % par rapport au deuxième trimestre 2005. L'acquis de croissance pour 2006 était quant à lui de 2,3 %.

En affichant un rythme trimestriel de croissance de 1,5 % au premier trimestre et de 1,2 % au deuxième trimestre, la demande intérieure (non compris la formation des stocks) fut un moteur important du développement de l'activité économique en Belgique durant la première partie de l'année<sup>1</sup>. Les dépenses de consommation privée ont en effet bien progressé au premier semestre mais, durant la période sous revue, on a surtout assisté à une accélération des dépenses d'investissement productif, lesquelles se sont accrues de 1,9 % au premier trimestre et de 3,7 % au deuxième trimestre. Durant la première partie de l'année, le solde de la balance commerciale s'est en revanche sensiblement détérioré, le freinage exercé sur la croissance atteignant 0,4 point de pourcentage du PIB au deuxième trimestre. Malgré la forte croissance du commerce international et une forte hausse du carnet de commandes étrangères des entreprises belges, les exportations de biens et services ont, assez étonnamment, progressé faiblement au premier semestre (+ 0,6 % au cours de chaque trimestre). Suite à l'évolution favorable de la demande intérieure, la progression des importations fut plus rapide que celle des exportations, mais sans pour autant être soutenue. S'agissant de l'offre, l'évolution de l'activité au premier trimestre fut très favorable dans chacun des trois principaux secteurs productifs, à savoir l'industrie, la construction et les services. Dans l'industrie et les services, le rythme de croissance de la production fut dans chaque secteur de l'ordre de 0,7 % au premier et au deuxième trimestres. Il fut un peu plus soutenu dans la construction, où il a atteint 1,2 % au premier trimestre et 1,8 % au deuxième trimestre.

L'économie belge devrait continuer à évoluer favorablement durant la seconde partie de l'année en cours et l'an prochain. La confiance des entreprises était toujours très bonne au troisième trimestre. Dans l'industrie, les carnets de commande étaient encore bien garnis en septembre tandis que dans la construction, de nombreux travaux de construction résidentielle étaient toujours en attente d'être réalisés. Au cours de prochains mois, la croissance devrait continuer à être soutenue par l'investissement des entreprises, les taux d'intérêt étant toujours très bas et les tensions sur les capacités de production étant très vives au troisième trimestre. Par ailleurs, si la descente des prix pétroliers se confirme, la demande des ménages pourrait être encouragée par une amélioration du pouvoir d'achat.

L'expansion de l'activité devrait néanmoins se modérer à l'avenir. L'évolution récente de plusieurs indicateurs conjoncturels nous incite en effet à penser que la phase d'accélération de la croissance s'est terminée au début de l'été. La modération de la croissance proviendrait avant tout d'une décélération de la demande étrangère. Suite au ralentissement de l'économie américaine, la croissance du commerce international a en effet commencé à perdre de son élan au deuxième trimestre et, selon les indicateurs prospectifs, cette tendance devrait se prolonger à l'avenir. Il apparaît aujourd'hui fort probable que la modération de la croissance américaine devrait persister au deuxième semestre et en 2007, de sorte que l'économie américaine ne devrait plus soutenir la croissance des échanges internationaux avec autant de vigueur que par le passé. L'impulsion donnée à la croissance belge par les marchés à l'exportation depuis le début de la reprise économique devrait donc progressivement fléchir à l'avenir. Dans le même temps, compte tenu de l'amélioration plutôt modeste de la situation du marché du travail depuis le début de la reprise économique, nous doutons fortement que la demande intérieure puisse à l'avenir être suffisamment vigoureuse pour compenser le ralentissement de la demande étrangère et ainsi maintenir la croissance économique à un niveau aussi élevé que celui observé durant la première partie de l'année en cours. Par ailleurs, au terme des élections locales, une forte contraction des dépenses d'investissement public devrait intervenir.

De l'analyse qui précède, nous prévoyons un léger tassement de la croissance durant le second semestre 2006. En rythme trimestriel, elle devrait être d'environ 0,6 % à 0,7 %, ce qui est toujours supérieur au taux de croissance potentiel. En 2007, notre scénario implique un ralentissement plus marqué de la croissance, qui ne devrait plus dépasser 0,5 % en rythme trimestriel. Etant donné ces prévisions, la croissance annuelle moyenne du PIB atteindrait 2,8 % en 2006 et 2,3 % en 2007.

L'emploi augmenterait de 0,9 % en 2006 et de 0,8 % en 2007. En raison d'une croissance toujours importante de la population active, le chômage ne diminuerait que faiblement sur la période de projection.

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<sup>1</sup> Si on tient compte de la formation des stocks, la croissance de la demande intérieure s'élève à 1,1 % au premier trimestre et à 1,2 % au deuxième trimestre.

Les pressions inflationnistes se sont fortement détendues au troisième trimestre. Le rythme de croissance de prix devrait rester modéré à l'avenir. De ce fait, le niveau annuel moyen de l'inflation générale passerait de 1,8 % en 2006 à 1,5 % en 2007.



## CZECH REPUBLIC – CCSF

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2006	2007
GDP	99,99	6,09	6,30	5,05
Private consumption	48,65	2,36	3,40	3,50
Public consumption	22,29	0,66	0,00	0,00
Gross fixed capital formation	26,49	2,86	6,00	5,00
Private, excl. dwellings	-	-	-	-
Dwellings	-	-	-	-
Change in stocks (1)	1,01	-	-	-
Total domestic demand	98,44	2,17	3,50	3,25
Exports of goods and services	71,71	10,58	12,00	10,00
Imports of goods and services	69,77	4,95	9,00	8,00
Net exports (1)	1,94	4,00	2,60	1,50
GDP deflator	113,80	0,90	1,50	2,45
Consumer prices	111,72	1,86	2,80	3,00
Private consumption deflator	109,70	1,80	2,10	2,50
Output gap (2)	0,50	0,50	1,80	2,30
Unit labour costs (3)	42,75	0,51	1,20	1,70
Nominal hourly gross wage rate	3,79	5,52	6,50	6,00
Employment (thousands)	4764,02	1,22	1,00	0,73
Unemployment rate (4)	-	7,93	7,50	7,30
Real household disposable income	45,73	1,91	2,04	2,74
Net saving ratio (households) (5)	-	7,79	7,59	7,43
Public sector fiscal balance (6,7)	-	-2,60	-3,60	-3,00
Gross public debt (6,7)	-	30,50	30,80	30,00
Current account balance (6)	-	-2,10	-2,34	-1,56
Central bank policy rate (non-EMU countries)	-	2,00	2,25	2,50
Short-term interest rate (3 months) (8)	-	2,01	2,11	2,38
Long-term interest rate (10 years) (8)	-	3,56	3,63	4,01
United States Federal funds rate	-	4,25	4,50	4,50
GDP	-	-	-	-
USA	-	3,50	3,30	2,90
Japan	-	2,60	2,60	2,30
Euro Area	-	1,30	1,90	2,10
World trade volume (goods)	-	8,10	10,30	7,70
Oil price (9)	54,40	54,50	68,50	65,50
Exchange rate	-	-	-	-
Dollar/Euro	1,24	1,25	1,21	1,17
Yen/Euro	-	-	-	-
Local currency/Euro for non-EMU countries	29,78	27,80	26,69	26,16

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employees

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

The performance of the Czech economy during the first 9 months of 2006 was better than expected, mainly thanks to a spectacular increase of exports. As new export-capacities are coming currently on line, we expect exports to increase further in 2007. Though high costs of imports of fuels will prevent the surplus of the trade balance to increase substantially, we expect exports to remain one of the main factors of growth also in 2007. The other one will be GFCF, which is going to accelerate especially in industry, due to an increased inflow of foreign direct investment and modernisation measures which had been launched recently also in numerous domestic enterprises.

We assume, that this development will translate into a further (modest) growth of employment (which could be observed already since 2005). But the unemployment rate will decrease only marginally, as it is mostly of a structural nature. In spite of this we assume the growth of private consumption to accelerate, not only because of the gradual increase of wages and salaries, but also because of the increase of the ratio of bank loans to disposable incomes of house-holds.

Though the envisaged deregulation of energy prices and of rents will increase housing costs, we do not expect the inflation rate to surmount Maastricht norms (among others also because of the successful inflation-rate targeting, which is operated by the Czech national bank).

In 2006 the budgetary deficit will be lower than originally anticipated, thanks to the increase of fiscal revenues and first steps undertaken in the framework of the reform of public finances, which was introduced in 2005 (and described in detail in our 2005 report). But the growth of social benefits, resulting from the recent increase of the subsistence minimum, as well as the envisaged increase of welfare benefits for families with children, and a stronger than originally envisaged valorisation of pensions, which had been proposed in parliament, might increase social mandatory expenditures insofar, that the deficit of the state budget might surmount 3% of the GDP in 2007. This would require a slight postponement of the EMU-accession of the Czech Republic. Though this can hardly be regarded as a welcome development, we believe that the awareness of the financial health of the Czech Republic in the international community will enable it to overcome this small delay without undue risks and problems.

We also expect, that the new government will regard an early introduction of a viable reform of the pension system and of health care as one of its main policy priorities, preventing thus an acceleration of the growth of the public debt of the Czech Republic, at least in the medium term. Besides, the recently adopted tax reform – which is stimulating entrepreneurship – will contribute to the growth of fiscal revenues and thus to the improvement of the general government balance.

We thus assume, that the fiscal and exchange-rate policy of the Czech republic will preserve its present neutral stance, that the positive sentiment among its population and business community will persist, and that also the robust inflow of FDI into its economy will continue, contributing thus to the improvement of its export performance. Provided no further turbulence on commodity markets will occur (that price-levels reached in this year will not be surmounted) and that the present favourable conjunctural situation in the European union will persist, we regard the good performance of the Czech economy as sustainable. We therefore expect, that – after a 6 – 6,3% increase of its GDP in 2006, its growth rate could still reach – or even slightly surmount – 5% even in 2007, in spite of the expected “cooling down” of the world economy.

## DENMARK – Danish Economic Council (DEC)

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2005	2006
GDP	208,66	3,63	3,00	1,98
Private consumption	101,06	3,80	4,00	3,00
Public consumption	53,96	1,21	1,10	1,00
Gross fixed capital formation	43,44	9,35	10,64	4,03
Private, excl. dwellings	31,79	8,34	10,86	3,36
Dwellings	11,65	12,36	10,00	6,00
Change in stocks (1)	0,08	0,04	0,12	-0,02
Total domestic demand	198,50	4,30	4,60	2,50
Exports of goods and services	100,74	8,66	10,00	3,36
Imports of goods and services	90,57	10,56	15,00	4,50
Net exports (1)	10,17	-0,49	-1,58	-0,17
GDP deflator	-	2,23	2,41	2,27
Consumer prices	-	2,07	1,84	1,80
Private consumption deflator	-	-	-	-
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	-0,13	1,04	2,22
Nominal hourly gross wage rate	-	3,50	3,70	4,20
Employment (thousands)	-	29,23	33,20	7,40
Unemployment rate (4)	-	5,44	4,38	4,15
Real household disposable income	-	-	-	-
Net saving ratio (households) (5)	-	-	-	-
Public sector fiscal balance (6,7)	-	3,94	3,07	2,80
Gross public debt (6,7)	-	35,87	28,65	24,58
Current account balance (6)	-	2,98	1,63	1,66
Central bank policy rate (non-EMU countries)	-	2,00	2,80	3,70
Short-term interest rate (3 months) (8)	-	2,30	3,10	3,60
Long-term interest rate (10 years) (8)	-	3,40	4,00	4,40
United States Federal funds rate	-	3,20	5,00	5,50
GDP	-	-	-	-
USA	-	3,50	3,20	2,70
Japan	-	2,70	2,70	2,40
Euro Area	-	1,30	2,10	1,80
World trade volume (goods)	-	-	-	-
Oil price (9)	-	54,00	70,00	63,00
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,25	1,28
Yen/Euro	-	137,00	145,00	148,00
Local currency/Euro for non-EMU countries	-	7,45	7,46	7,46

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

The Danish economy has regained momentum after a temporary slowdown in the second half of 2005 and beginning of 2006. GDP-growth in the second quarter of 2006 was almost 2 per cent q-o-q, and an annual growth rate of around 3 per cent is likely this year. Growth is primarily driven by private consumption, which is fuelled by high and still rising house prices. The combination of a strong housing market, falling unemployment, and a high level of consumer confidence is expected to lead to a prolonged period of strong demand. Private consumption is expected to grow by close to 4 per cent this year and around 3 per cent next year. For both years the growth rate of private consumption is expected to be around 1 percentage point above the expected growth rate of GDP.

The very strong domestic demand has led to a massive increase in imports, which in the second quarter of 2006 was more than 15 per cent above the same quarter the year before. Even though exports have increased as well, net-exports will contribute significantly negative to growth both in 2006 and 2007.

The unemployment has fallen to a historical low level of 4.4 per cent, and is currently well below the estimated structural level of around 5 per cent. However, wage increases has until recently remained subdued. Even though there is uncertainty related to the level of structural unemployment, it is projected, that wage increases will rise from around 3 per cent in 2005 to between 4 and 5 per cent in 2007-08. This will of course lead to a deterioration of competitiveness, a reduction of exports, and a deterioration of the balance of payments.

The low unemployment rate and the strong demand mean that there is a real risk of overheating. The unemployment in some sectors is very low, and labour shortages in the construction sector (among others) could easily lead to wage claims and increased profit margins. In the 1980'ies Danish economy overheated, and the situation in the 1980'ies resembles to some extent the situation to day: Quickly rising house prices, strong private consumption, and an unemployment rate approaching the lower limit. Twenty years ago this led to very high wage claims and seven years with rising and high unemployment. However, the Danish labour market to day is believed to be much more flexible due the labour market reforms in the 1990'ies. At the same time the much higher openness of the economy means, that a large portion of the increased demand is satisfied more or less automatically by imports. Also unions and firms behave more disciplined (among other things due to the threat of outsourcing), and apparently the possibilities of importing labour seems better. Because of these more benign features, a situation of a serious overheating leading to a prolonged period of high unemployment is not seen as very likely – despite the fact that demand is expected to remain strong for several years, and despite unemployment is not expected to be able to fall much further.

The buoyant economy has led the very strong public finances. The surplus reached 4 per cent of GDP in 2005, and is expected be around 3 per cent in 2006 and 2007. These surpluses means that public debt is reduced rather quickly, and the government's medium term goal of reducing the debt to around 25 per cent of GDP in 2010 seems likely to be met already in 2007.

Fiscal policy has been to the expansionary side due to explicit tax reductions (in 2004), implicit tax reductions (due to the tax freeze), and rather strong growth in public consumption. In 2007 fiscal policy is planned to be neutral, but historical the government has not been able to stick to the plan. Even though, the risk of overheating is seen to be limited, some tightening of the fiscal policy probably would have been more prudent.

In the spring a majority in the parliament agreed upon a comprehensive welfare reform. The purpose of the reform is to tackle the demographic challenges. The main instrument is an indexation of the pension age. The pension age will be increased from around 2020 from 65 years to 67 years (and the age for early retirement from 60 to 62). From then on the pension age (and early retirement age) will be increased if longevity increases (as it is expected to). This indexation of the pension age is assessed to make a significant contribution to make the public finances sustainable. Other element of the welfare reform is to increase the share of a cohort getting a qualifying education, and there are some (not very specific) measures aimed at increasing the participation rates of immigrants and descendants.

## FINLAND - ETLA

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2006	2007
GDP	157,40	2,90	4,60	2,70
Private consumption	81,50	3,80	3,20	2,40
Public consumption	34,80	1,60	1,90	1,90
Gross fixed capital formation	29,60	3,10	6,00	5,20
Private, excl. dwellings	16,50	5,20	6,70	7,20
Dwellings	8,90	5,60	5,90	2,00
Change in stocks (1)	-	1,10	-0,70	-0,20
Total domestic demand	148,40	4,40	2,70	2,70
Exports of goods and services	65,80	7,30	10,40	6,50
Imports of goods and services	56,90	12,30	7,20	7,20
Net exports (1)	-	-1,00	2,00	0,30
GDP deflator	-	0,60	0,50	1,50
Consumer prices	-	0,80	1,60	1,80
Private consumption deflator	-	0,40	1,70	1,50
Output gap (2)	-	0,00	0,70	0,70
Unit labour costs (3)	-	2,10	0,00	1,00
Nominal hourly gross wage rate	-	3,60	2,90	2,70
Employment (thousands)	2401,00	1,50	1,40	0,70
Unemployment rate (4)	-	8,40	7,70	7,40
Real household disposable income	76,70	1,10	2,90	2,60
Net saving ratio (households) (5)	-	-0,10	-0,40	-0,20
Public sector fiscal balance (6,7)	-	2,50	3,20	2,90
Gross public debt (6,7)	-	40,50	38,70	37,40
Current account balance (6)	-	4,60	4,80	4,60
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	2,20	3,10	3,80
Long-term interest rate (10 years) (8)	-	-	-	-
United States Federal funds rate	-	4,25	4,94	5,15
GDP	-	-	-	-
USA	-	3,20	3,50	2,90
Japan	-	2,60	2,80	2,40
Euro Area	-	1,20	2,50	1,90
World trade volume (goods)	-	7,40	7,40	5,00
Oil price (9)	-	54,90	70,00	72,00
Exchange rate	-	-	-	-
Dollar/Euro	-	1,25	1,26	1,30
Yen/Euro	-	136,85	145,00	147,00
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

The Finnish economy is currently performing better than for a long time. Export demand has speeded up economic activity more than was anticipated, with domestic demand also contributing positively. Year 2006 will be extraordinary from the economic point of view, much better than expected, but the peak cycle may soon be over.

According to Board of Customs figures, the value of exports of Finnish goods increased in the first half of 2006 by almost 20 % over the corresponding period in the previous year. Last year's long stoppage in the paper industry explains only part of this year's rapid growth. Strong export demand boosted industrial production, which grew by 10 % in January-July.

ETLA estimates that this year's GDP growth in Finland will rise to 4.6 %. Exports will increase by more than 10 %, fixed investment by approximately 6 % and private consumption by more than 3 %. The extended labor dispute in summer 2005 and consequent stoppage in production in the paper industry provides a technical boost to this year's GDP growth figure through strong base effects. Without this special factor, the growth figure would be around one percentage point lower.

Our view of the economic development in the near future has not changed much since spring. Of the components of total demand and supply, only the estimates for next year's exports, imports and total production have been revised slightly upwards. We expect that total production will increase in Finland by 2.7 % in 2007 and by 2.3 % in 2008. In the forecasting period, GDP growth will depend mainly on domestic demand. Net exports will contribute to the growth only modestly. New jobs will be created at a decelerating pace. In order to support employment, it might be advisable to consider boosting the households' purchasing power and domestic demand growth with additional income tax cuts in 2008, as we proposed in our spring forecast.

The Finnish economy is in a good balance. Unemployment is high but it has declining rapidly in recent years and will be below 8 per cent this year. Inflation is lower than the Euro Area average, current account is well in surplus and public sector surplus provides a buffer against the effects from rapidly aging population.

## FRANCE – BIPE

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2006	2007
GDP	1707,00	1,20	2,40	1,80
Private consumption	951,60	2,20	2,80	2,20
Public consumption	428,10	1,10	1,70	1,40
Gross fixed capital formation	335,90	3,70	3,90	2,90
Private, excl. dwellings	175,90	3,80	4,00	3,90
Dwellings	93,10	4,10	3,60	0,10
Change in stocks (1)	-	0,00	-0,30	0,20
Total domestic demand	1724,00	2,20	2,40	2,30
Exports of goods and services	444,30	3,10	8,60	5,70
Imports of goods and services	461,20	6,50	8,60	6,90
Net exports (1)	-	-1,00	-0,10	-0,50
GDP deflator	-	1,80	1,90	2,00
Consumer prices	-	1,70	1,90	1,60
Private consumption deflator	-	1,80	1,60	1,70
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	-	-	-
Nominal hourly gross wage rate	-	3,10	2,90	2,60
Employment (thousands)	-	0,30	0,70	0,60
Unemployment rate (4)	-	9,90	9,10	8,40
Real household disposable income	-	1,10	2,30	2,10
Net saving ratio (households) (5)	-	14,90	14,40	14,30
Public sector fiscal balance (6,7)	-	-2,90	-2,90	-2,80
Gross public debt (6,7)	-	66,60	66,50	66,40
Current account balance (6)	-	-1,60	-1,50	-1,50
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	2,18	3,06	3,31
Long-term interest rate (10 years) (8)	-	3,40	3,97	3,98
United States Federal funds rate	-	4,28	4,94	5,05
GDP	-	-	-	-
USA	10025,60	3,20	3,10	2,20
Japan	3673,10	2,60	2,50	2,00
Euro Area	7966,80	1,30	2,50	1,80
World trade volume (goods)	-	-	-	-
Oil price (9)	-	55,00	68,60	65,50
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,26	1,37
Yen/Euro	-	136,80	143,60	147,10
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

## France : l'atterrissage de l'immobilier résidentiel en 2007 freinera la croissance

### *Un environnement conjoncturel redynamisé.*

Les derniers comptes trimestriels de l'INSEE ont confirmé que la conjoncture française connaissait une embellie notable. Ainsi, après avoir enregistré une progression de 0,5% au premier trimestre 2006, le PIB a bondi de 1,1% au second (avec une petite incertitude à la baisse relative au traitement de la Pentecôte nouvellement travaillée dans l'ajustement saisonnier). L'acquis de croissance s'établit à 1,9%. De plus, les indicateurs instantanés de l'activité incitent à penser que le troisième trimestre devrait rester dynamique. En conséquence, le marché du travail (emploi et chômage) confirme son embellie.

### *Des menaces à l'horizon.*

Il ne nous semble pas que cette euphorie conjoncturelle puisse se poursuivre en 2007, année pour laquelle nous devrions assister à un tassement du dynamisme de la croissance. Plusieurs facteurs tant internationaux que proprement nationaux expliqueront ce mouvement de modération. Sur le plan international, on assistera à un ralentissement de la croissance, notamment aux États-Unis et chez nos principaux partenaires européens, ce qui pèsera sur nos débouchés extérieurs en tandem avec l'appréciation de l'euro que nous anticipons.

Un coup de frein marqué au crédit mais la consommation ne se tasserait que légèrement en 2007 grâce aux créations d'emplois. La vigueur du marché de l'immobilier et du crédit habitat depuis quatre ans ont été au cœur de la bonne santé relative de la consommation, en organisant une baisse du taux d'épargne. Or, actuellement un durcissement des conditions de crédit s'organise (hausse des taux d'intérêt, conditions hors prix). Il devrait entraîner une baisse de la production de crédits habitat et donc une stabilisation du taux d'épargne. Non seulement l'investissement logement dans le neuf se tasserait en 2007, mais de plus, la consommation des ménages ne pourrait plus compter sur une baisse du taux d'épargne pour assurer une croissance supérieure à celle du revenu. Elle serait donc à nouveau dépendante du marché du travail.

La consommation privée est restée, au second trimestre, le principal pilier de l'activité française (0,7% t/t, 2,9 % en glissement annuel). Au second trimestre 2006, les créations nettes d'emplois salariés ont été de 50 000. Dans ce cadre, le taux de chômage a diminué, revenant à 9,0% à la mi 2006. Ces éléments ont contribué, couplé à un crédit habitat encore dynamique au premier semestre, à l'excellente performance de la consommation des ménages. Pour 2007, les créations d'emplois qui sont une variable retardée de l'activité, seront encore dynamiques en moyenne annuelle ; leur point d'inflexion se situerait aux alentours du T2 2007. Au global, nous prévoyons environ 150 000 créations nettes d'emplois en 2007 après 173 000 en 2006 et 65 000 en 2005. Cela devrait permettre une progression honnête de la consommation des ménages (+2,3%) quoiqu'en ralentissement (imputable à l'arrêt de la baisse du taux d'épargne) comparé à 2006 (2,8%).

### *La croissance de l'investissement restera insuffisante.*

L'investissement a enregistré un rebond marqué au second trimestre 2006 (+1,1 % t/t après 0 % au premier) grâce notamment aux entreprises (+1,8 % t/t). Celles-ci ont accru leurs dépenses d'investissement en réponse à une hausse significative du taux d'utilisation de leurs capacités de production et aussi à un besoin criant de modernisation de l'appareil productif, dans un environnement financier clément. Le ralentissement de la conjoncture internationale et l'appréciation de l'euro (qui pénalise leurs marges) sont d'après les modèles, deux éléments qui incitent les entreprises à une certaine prudence : ainsi, après avoir crû de 4% en 2006, l'investissement productif n'enregistrerait pas l'accélération nécessaire pour permettre les conditions d'un retour à une meilleure compétitivité de notre industrie.

### *Une réduction limitée du déficit public.*

La meilleure tenue de la conjoncture s'est traduite par un supplément de recettes fiscales. Cependant, plusieurs promesses, d'actualité en période pré-électorale (augmentation de la prime pour l'emploi, suppression des cotisations patronales sur le SMIC pour les PME de moins de 20 salariés...) pèseront sur la capacité de réduction du déficit en 2007.

Les suppléments de recettes fiscales devraient désormais être réservés à la réduction de la dette. Les pouvoirs publics devraient utiliser la majeure partie des recettes des privatisations et de la « cagnotte fiscale » au remboursement de la dette publique. Toutefois dans un contexte d'élections présidentielles, il est difficile de tableur sur une politique budgétaire restrictive. Nous tablons sur une amélioration très modérée du déficit public et sur réduction limitée du ratio dette/PIB en 2006 et 2007.

Au total, après avoir crû de près de 2,5% en 2006, le PIB devrait encore progresser de 1,8% en 2007, soit un rythme de croissance en ligne avec la zone euro dans son ensemble. Certes, l'arrêt de l'expansion du crédit

habitat nous pénalisera plus que la moyenne de la zone euro où l'endettement immobilier a été moins dynamique. Certes, notre compétitivité est affaiblie, notamment face à notre principal partenaire commercial. Mais, nous ne connaissons pas la même restriction budgétaire que l'Allemagne et l'Italie.



## FRANCE – COE

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
	2005	2005	2006	2007
GDP	-	1,20	2,20	1,90
Private consumption	-	2,20	2,70	2,50
Public consumption	-	1,10	1,70	1,70
Gross fixed capital formation	-	3,70	3,50	3,00
Private, excl. dwellings	-	3,80	3,70	3,60
Dwellings	-	4,10	2,80	1,80
Change in stocks (1)	-	0,00	-0,10	0,30
Total domestic demand	-	2,10	2,50	2,60
Exports of goods and services	-	3,20	8,10	5,10
Imports of goods and services	-	6,50	8,60	7,30
Net exports (1)	-	-1,00	-0,30	-0,80
GDP deflator	-	1,80	1,90	1,70
Consumer prices	-	1,80	1,70	1,30
Private consumption deflator	-	1,80	1,70	1,40
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	2,10	1,80	1,50
Nominal hourly gross wage rate	-	3,00	3,20	2,60
Employment (thousands)	-	25030,00	25237,00	25429,00
Unemployment rate (4)	-	9,90	9,10	8,60
Real household disposable income	-	1,20	2,30	2,40
Net saving ratio (households) (5)	-	15,00	14,70	14,70
Public sector fiscal balance (6,7)	-	-2,90	-2,90	-2,90
Gross public debt (6,7)	-	66,60	66,20	66,80
Current account balance (6)	-	-1,50	-1,50	-2,20
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	2,20	2,70	2,90
Long-term interest rate (10 years) (8)	-	3,50	4,20	4,80
United States Federal funds rate	-	3,20	5,00	5,10
GDP	-	-	-	-
USA	-	3,20	3,20	2,60
Japan	-	2,70	2,80	2,10
Euro Area	-	1,40	2,00	1,80
World trade volume (goods)	-	7,50	9,90	7,40
Oil price (9)	-	42,90	25,70	7,60
Exchange rate	-	-	-	-
Dollar/Euro	-	1,25	1,26	1,33
Yen/Euro	-	136,90	146,20	153,30
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

French GDP showed a strong increase in the second quarter of this year. But those gains were boosted by technical factors regarding the number of working days. Both internal demand and exports have contributed to economic growth. Because of slowing world trade growth and the negative consequences of the appreciation of the Euro exports have shown signs of weakness during last summer. This slowdown could continue in 2007. Private consumption would show signs of resilience, as job creations might accelerate at the beginning of next year and as inflation would come down thanks to a lower impact of oil price. Unemployment would continue to decline, but in the middle of next year it could stabilize as some measures which have contributed to reduce labor force will wane (especially some measures which favored early retirement). Because of a lack of support of economic growth, employment path may also be reduced in the second half of next year. Meanwhile, private investment would remain in line with the development of activity, which will be translated into a moderation of the business investment growth rate. All in all GDP growth might reach 1.9% next year, after 2.2% this year. This will not be enough to allow a significant decline in fiscal deficit, which will be stuck at 2.9% in 2007, as in 2005 and 2006.

## FRANCE – INSEE

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2005	2006
GDP	1550,60	1,20	2,30	-
Private consumption	881,50	2,20	2,90	-
Public consumption	379,30	0,90	2,00	-
Gross fixed capital formation	307,40	3,70	3,80	-
Private, excl. dwellings	19,20	4,60	2,00	-
Dwellings	57,90	3,90	2,80	-
Change in stocks (1)	4,60	0,00	-0,20	-
Total domestic demand	1568,20	2,20	2,90	-
Exports of goods and services	452,10	3,20	7,60	-
Imports of goods and services	474,70	9,60	10,30	-
Net exports (1)	-22,60	-1,00	-0,40	-
GDP deflator	110,10	1,80	2,00	-
Consumer prices	112,40	1,80	1,80	-
Private consumption deflator	108,00	1,80	1,60	-
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	-	-	-
Nominal hourly gross wage rate	-	-	-	-
Employment (thousands)	-	-	-	-
Unemployment rate (4)	-	9,90	9,00	-
Real household disposable income	1120,00	1,30	2,30	-
Net saving ratio (households) (5)	-	-	-	-
Public sector fiscal balance (6,7)	-	-	-	-
Gross public debt (6,7)	-	-	-	-
Current account balance (6)	-	-	-	-
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	2,10	2,90	-
Long-term interest rate (10 years) (8)	-	3,40	3,80	-
United States Federal funds rate	-	3,20	5,00	-
GDP	-	-	-	-
USA	-	3,20	3,50	-
Japan	-	2,60	2,70	-
Euro Area	-	1,50	2,60	-
World trade volume (goods)	-	-	-	-
Oil price (9)	-	54,50	66,50	-
Exchange rate	-	-	-	-
Dollar/Euro	-	0,80	0,80	-
Yen/Euro	-	0,01	0,01	-
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

In France, the favourable effects of the improvement in the international environment took concrete shape in the strong growth recorded in 2006Q2, with industrial output finally taking off. The return to a more moderate evolution in activity in this sector is likely to mean less brilliant results in 2006H2. However, with household demand showing no signs of losing momentum, being driven by purchasing power gains and a continuing decline in the saving ratio, and with continuing positive growth in corporate investment, France should be able to count on a growth base of 0.5% to 0.6% per quarter between now and the end of the year, 2.3% for 2006 as a whole. This would enable the unemployment rate to continue to decline, reaching 8.6% in December 2006.

## FRANCE – OFCE

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
	2005	2005	2006	2007
GDP	236,38	1,19	2,34	2,21
Private consumption	134,38	2,20	2,77	2,49
Public consumption	58,04	1,10	2,10	1,18
Gross fixed capital formation	46,86	3,68	3,70	3,10
Private, excl. dwellings	27,35	3,47	4,20	3,50
Dwellings	11,76	4,09	2,60	2,40
Change in stocks (1)	-	0,00	-0,09	0,20
Total domestic demand	239,84	2,15	2,48	2,57
Exports of goods and services	68,92	3,20	8,20	5,80
Imports of goods and services	72,38	6,40	8,90	6,60
Net exports (1)	-	-0,97	-0,18	-0,40
GDP deflator	-	-	-	-
Consumer prices	100,00	1,70	1,90	1,80
Private consumption deflator	107,95	1,77	1,60	1,70
Output gap (2)	-	0,50	-0,80	-1,30
Unit labour costs (3)	0,64	1,62	1,48	1,63
Nominal hourly gross wage rate	20,77	2,92	3,52	3,46
Employment (thousands)	-	25075,25	25279,80	25460,45
Unemployment rate (4)	-	9,93	9,10	8,40
Real household disposable income	1119761,00	1,23	2,37	2,61
Net saving ratio (households) (5)	-	15,02	14,68	14,79
Public sector fiscal balance (6,7)	-	-2,85	-2,70	-2,90
Gross public debt (6,7)	-	66,60	64,60	64,00
Current account balance (6)	-	-2,04	-2,34	-2,77
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	2,18	3,06	3,76
Long-term interest rate (10 years) (8)	-	3,41	3,87	4,14
United States Federal funds rate	-	3,40	5,00	4,90
GDP	-	-	-	-
USA	10031,63	3,22	3,25	1,89
Japan	-	2,60	2,80	2,50
Euro Area	-	1,50	2,50	2,20
World trade volume (goods)	-	8,20	9,00	7,50
Oil price (9)	-	54,40	65,46	64,75
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,26	1,32
Yen/Euro	-	140,00	143,00	156,00
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

In 2005, France experienced low GDP growth (1.4%), mainly due to the negative contribution of the external balance (-1%) and despite the improvement observed in confidence indicators.

The rebound awaited into 2005 occurred in 2006: first, export order books have improved, thanks to the depreciation of the euro exchange rate with respect to the dollar and export growth has accelerated. Second, low interest rates have supported simultaneously productive investment growth and job creation. Moreover, household consumption has been and should remain dynamic (+2.8% in 2006 and +2.5% in 2007). Thus, French GDP is expected to grow by 2.3% in 2006.

However, German competitive disinflation will be strengthened in 2007 by a decrease in social contributions and an increase in the VAT. This policy, combined with world growth deceleration, will be the main cause of growth slowing down in France in 2007 (2.2%).

Government expenditure will rise less rapidly than GDP (by around 1.2% each year) and private domestic demand will remain the main engine for growth. Fiscal policy will be contractionary this year and close to neutral next year bringing the government deficit to 2.9% of GDP

Inflation has remained subdued despite the rise in energy prices. The HCPI rose by 2.1% in August (as compared to 2.4% in the euro area) and we expect inflation to decelerate to 1.8% in 2007. The combined effects of output growth and employment policies will help bring the unemployment rate down from 9.9% in 2005 to 9.1% this year and 8.2% at the end of 2007.

Of course, downside risks persist, relating to the international environment: oil prices, over-reaction of monetary policies, recession in the US economy... They could lead to lower than currently expected GDP growth in 2007.

## FRANCE – REXECODE

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2005	2006
GDP	1710,00	1,20	2,20	1,80
Private consumption	976,10	2,10	2,60	2,20
Public consumption	405,60	1,10	1,70	1,50
Gross fixed capital formation	336,60	3,70	3,50	2,60
Private, excl. dwellings	188,00	3,80	3,70	3,50
Dwellings	93,10	4,10	2,80	0,20
Change in stocks (1)	-	-0,10	-0,20	0,10
Total domestic demand	1726,40	2,10	2,40	2,20
Exports of goods and services	446,30	3,20	8,30	4,30
Imports of goods and services	462,60	6,50	8,50	5,30
Net exports (1)	-	-1,00	-0,30	-0,40
GDP deflator	-	1,80	2,00	1,80
Consumer prices	-	1,80	2,00	1,70
Private consumption deflator	-	1,80	1,80	1,80
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	1,70	0,90	1,40
Nominal hourly gross wage rate	-	3,00	2,90	2,60
Employment (thousands)	25028,00	0,30	0,70	0,70
Unemployment rate (4)	-	9,90	9,00	8,50
Real household disposable income	-	1,30	2,20	2,30
Net saving ratio (households) (5)	-	15,00	14,70	14,80
Public sector fiscal balance (6,7)	-	-2,90	-2,80	-2,70
Gross public debt (6,7)	-	66,60	66,90	67,50
Current account balance (6)	-	-1,80	-1,70	-1,60
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	2,20	3,00	3,50
Long-term interest rate (10 years) (8)	-	3,40	3,80	4,00
United States Federal funds rate	-	3,20	4,90	5,00
GDP	-	-	-	-
USA	-	3,20	3,40	2,50
Japan	-	2,60	2,80	2,10
Euro Area	-	1,40	2,40	1,90
World trade volume (goods)	-	8,10	10,30	7,70
Oil price (9)	-	54,50	68,50	65,50
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,25	1,25
Yen/Euro	-	137,00	145,00	133,00
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

La croissance française a vivement accéléré au cours du printemps. Tous les postes de la demande se sont mis au diapason pour aboutir à une progression du volume du PIB de 4,7 % l'an qui n'avait plus été observée depuis la fin de l'exercice 2000. S'il apparaît peu probable que l'économie française soit à même de maintenir un rythme de progression aussi élevé, les interrogations portent désormais sur la durabilité de ce retour sur un sentier de croissance soutenue. Rappelons qu'à plusieurs reprises déjà au cours des cinq dernières années, des signes de reprise de l'activité ont rapidement fait place à des déceptions renouvelées comme autant d'illustrations de phases courtes de « *stop and go* ».

Etablir un parallèle avec la situation qui prévalait lors de la précédente phase de hautes eaux conjoncturelles en 1999-2000, et la situation présente conduit à mettre l'accent sur le fait que l'environnement est probablement moins porteur actuellement qu'il ne l'était alors :

- Les marges de manœuvre sont quasi-inexistantes du côté des finances publiques du fait d'un solde déficitaire du compte des administrations publiques qui paraît devoir s'inscrire aux environs de 3 % du PIB.
- Les taux courts s'inscrivaient à un sommet en 2000 alors que leur hausse n'est qu'amorcée aujourd'hui. En outre, la BCE maintient le cap d'une remontée graduelle des taux d'intérêt. Bien que les parties longues de la courbe des taux ne donnent pas signe de réaction, cette remontée risque de freiner à terme la distribution de crédit aux agents privés. Or, celle-ci a fortement contribué à la bonne orientation persistante de la demande des ménages (consommation + investissement), qui risquerait ainsi de se voir priver d'un de ses principaux carburants.
- L'euro était orienté à la baisse contre le dollar et ressortait à un niveau tel que les coûts salariaux horaires de part et d'autre de l'Atlantique s'inscrivaient à parité. Depuis, l'euro s'est régulièrement renforcé, y compris en ce début d'année, que ce soit contre le dollar et plus encore contre le yen, de sorte que les coûts salariaux européens et français en particulier dépassent largement les coûts américains et plus encore japonais.

Les points de ressemblance avec la période de 2000 peuvent être trouvés tout d'abord dans une situation financière des entreprises passablement dégradée.

- L'autofinancement des sociétés non financières s'inscrit même à un niveau inférieur de 6,5 % à celui qui était le sien en 2000, ce qui risque de handicaper l'effort d'investissement réalisé sur le territoire par les sociétés, quand le taux d'endettement des sociétés non financières avait atteint un sommet en 2000, sommet qu'il a d'ailleurs franchi à la hausse au début de cette année.
- Par ailleurs, l'environnement international sera probablement moins porteur en 2007 qu'il ne l'a été cette année ainsi que cela avait été le cas en 2001. La faute en incombe à un ralentissement attendu de la demande mondiale notamment en provenance d'Allemagne mais également au surcroît de compétitivité qu'assurera aux exportateurs allemands l'abaissement attendu en 2007 des taux de cotisations sociales et d'impôt sur les sociétés.
- Enfin, le dynamisme de l'activité mondiale s'est traduit aujourd'hui comme en 2000 par un prélèvement conséquent associé à la progression régulière des cours des matières premières.

La mise en écho des éléments précédents valide un scénario dans lequel le résultat de la croissance au deuxième trimestre resterait de l'ordre de l'heureux accident. Pour autant, une décélération majeure de l'activité ne semble pas devoir être à l'ordre du jour.

Du côté du comportement des ménages, à moins de privilégier l'hypothèse d'une chute brutale des prix de l'immobilier, ce que nous ne faisons pas, l'envolée passée de la valeur de leur patrimoine net autorise les ménages à modérer de nouveau leur effort d'épargne, en dépit de la remontée attendue des taux courts. De plus, l'accélération récente des créations d'emplois dans le secteur marchand paraît devoir se prolonger d'ici à la fin de l'année, au moins. Les anticipations d'évolution d'effectifs dont font état les chefs d'entreprise dans la plupart des secteurs restent bien orientées. Elles s'améliorent même sensiblement dans le secteur industriel. Les contrats d'intérim sont pour leur part repartis à la hausse. Dans un contexte où les difficultés de recrutement pour de nombreuses catégories de personnel ont commencé à réapparaître ou se sont encore renforcées, une reprise progressive des salaires pourrait s'opérer. Celle-ci est d'autant plus probable que les hausses régulières du salaire minimum opérées au cours des derniers exercices ont abouti à un écrasement sans précédent de l'échelle des salaires, écrasement qui appellera une probable correction à terme.

Un peu plus d'emploi et une moindre modération salariale viendront ainsi soutenir un pouvoir d'achat du revenu des ménages en réaccélération (2,2 % en 2006). L'affaiblissement attendu des pressions inflationnistes en 2007 en ligne avec le recul, modeste, que nous attendons pour les cours du baril de pétrole aboutirait à une nouvelle progression de l'ordre de 2,3 % en 2007 soit un demi point de plus que la tendance longue des gains de pouvoir d'achat (1,7 % par an en moyenne entre 1978 et 2005). En revanche, l'investissement des ménages

pourrait quelque peu décélérer, sinon s'inverser, courant 2007 en ligne avec la remontée graduelle des taux d'intérêt.

Le comportement des entreprises paraît plus délicat à tracer. Le solde des opinions sur le niveau des stocks sont proches de leur moyenne de longue période que ce soit dans l'industrie ou le commerce de détail de sorte que les variations de stocks ne sauraient exercer de contributions significativement positives à la croissance à l'horizon 2007. Pour sa part, l'investissement productif a rebondi au printemps progressant de 7,6 % l'an dans un contexte où les besoins d'investissement paraissent croissants comme en témoigne le franchissement de sa moyenne de longue période effectué par le taux d'utilisation des capacités de production dans l'industrie. Même si les indices synthétiques des enquêtes PMI ont probablement atteint un pic, le climat des affaires reste bien orienté dans l'ensemble des secteurs. Il a même encore progressé dans celui de la construction. Toutefois l'amélioration patente du climat des affaires depuis le début de l'année ne s'est pas traduite dans une accélération des prévisions d'investissement, du moins dans l'industrie. Point positif, en revanche, les entrées d'IDE en France, comme dans l'ensemble de la zone euro sont reparties franchement à la hausse depuis le début de l'année alors que les sorties de capitaux s'inscrivent à un niveau proche de celui de l'année précédente. Le frein majeur à toute accélération des dépenses d'investissement réside dans la faiblesse des marges de manœuvre dont semblent disposer l'ensemble des sociétés non financières. L'encours de leur endettement a déjà fortement accéléré palliant une faiblesse récurrente de leur autofinancement.

Au total, la progression de la demande interne paraît devoir rester un socle relativement solide pour la progression de l'activité. L'inconnue majeure réside probablement une fois de plus dans l'aptitude de l'économie française à surmonter le handicap associé à une compétitivité défailante. Depuis quelques mois, la part des exportations françaises dans les exportations européennes a cessé de reculer. De même, les industriels jugent de manière moins négative l'évolution de leur position compétitive, sur quelque marché que ce soit, que ce n'était le cas au cours de la période allant de 2000 à 2005 durant laquelle un recul sans précédent des parts de marché a été observé. La probable nouvelle amélioration de la compétitivité-coût allemande à l'horizon 2007 ne permet cependant pas d'anticiper un rattrapage des parts de marché à l'exportation qui ont été perdues depuis 2000 à l'horizon de la fin de l'année prochaine. Il est ainsi probable qu'à nouveau la progression des exportations françaises restera très en-deçà de celle de la demande mondiale qui est adressée à la France.



## GERMANY – DIW

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2005	2006
GDP	-	0,90	2,20	1,40
Private consumption	-	0,10	1,00	0,10
Public consumption	-	0,60	1,60	1,60
Gross fixed capital formation	-	0,80	4,30	3,80
Private, excl. dwellings	-	6,10	6,90	6,30
Dwellings	-	-3,60	2,30	1,60
Change in stocks (1)	-	-0,10	-0,20	0,00
Total domestic demand	-	0,50	1,60	1,10
Exports of goods and services	-	6,90	10,00	5,60
Imports of goods and services	-	6,50	9,90	5,30
Net exports (1)	-	-	5,40	5,80
GDP deflator	-	0,60	0,60	2,00
Consumer prices	-	0,20	1,60	2,20
Private consumption deflator	-	1,30	1,50	2,40
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	-0,90	0,10	-0,70
Nominal hourly gross wage rate	-	1,00	1,90	2,10
Employment (thousands)	-	-0,40	0,40	0,60
Unemployment rate (4)	-	11,20	10,20	10,00
Real household disposable income	-	-	-	-
Net saving ratio (households) (5)	-	10,60	10,60	11,20
Public sector fiscal balance (6,7)	-	3,30	2,50	1,50
Gross public debt (6,7)	-	-	-	-
Current account balance (6)	-	116,00	120,00	134,00
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	-	-	-
Long-term interest rate (10 years) (8)	-	-	3,30	3,50
United States Federal funds rate	-	-	-	-
GDP	-	-	-	-
USA	-	3,20	3,50	2,70
Japan	-	2,60	2,70	2,00
Euro Area	-	1,40	2,60	2,20
World trade volume (goods)	-	7,00	9,00	7,00
Oil price (9)	-	-	65,00	62,00
Exchange rate	-	-	-	-
Dollar/Euro	-	-	1,28	1,28
Yen/Euro	-	-	-	-
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average



## GERMANY – RWI

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2005	2006
GDP	2241,00	0,90	2,20	1,70
Private consumption	1321,06	0,10	0,80	0,20
Public consumption	419,64	0,60	1,10	0,90
Gross fixed capital formation	386,90	0,80	4,60	5,20
Private, excl. dwellings	-	-	-	-
Dwellings	-	-	-	-
Change in stocks (1)	-2,61	0,10	0,20	0,00
Total domestic demand	2124,99	0,50	1,80	1,40
Exports of goods and services	912,27	6,90	10,30	7,10
Imports of goods and services	796,26	6,50	10,40	7,10
Net exports (1)	116,01	0,40	0,40	0,30
GDP deflator	105,25	0,60	0,80	1,20
Consumer prices	108,30	2,00	1,80	2,40
Private consumption deflator	107,59	1,30	1,60	2,40
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	-1,10	-1,40	-0,30
Nominal hourly gross wage rate	-	1,00	1,50	1,80
Employment (thousands)	-	38725,00	38960,00	39250,00
Unemployment rate (4)	-	11,20	10,40	9,70
Real household disposable income	-	0,40	0,40	0,30
Net saving ratio (households) (5)	-	10,60	10,30	10,60
Public sector fiscal balance (6,7)	-	-3,20	-2,40	-1,40
Gross public debt (6,7)	-	-	-	-
Current account balance (6)	-	92,60	105,00	110,00
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	3,40	3,70	4,00
Long-term interest rate (10 years) (8)	-	3,70	4,20	4,50
United States Federal funds rate	-	-	-	-
GDP	-	-	-	-
USA	-	3,20	3,40	2,80
Japan	-	2,60	2,70	2,10
Euro Area	-	1,40	2,50	2,20
World trade volume (goods)	-	7,50	8,00	7,00
Oil price (9)	-	55,00	68,00	65,00
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,28	1,28
Yen/Euro	-	-	-	-
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

At the moment the German economy is in a strong upswing with the main driver being domestic demand, especially investment. Concerning construction investment, the decline that lasted for ten years, seems now to be over. Still weak though is private consumption. The labor market situation has improved noticeably. From the beginning of the year the number of employees has risen by 250,000. At the same time, the number of vacancies has increased.

During the forecast period, the upswing is likely to continue, although at a lower pace. The main driver will still be domestic demand, whereas external demand barely boosts growth due to the slowing world economy.

For this year, we are expecting real GDP growth to be 2,2 %. Investment is likely to continue to grow strong whereas private consumption will be boosted by the anticipated rise in VAT. Exports and imports are likely to increase at the same pace.

We are expecting a slower expansion in 2007. The rise in VAT as well as premium tax will increase inflation by one percentage point. Therefore, private households will lose purchasing power. It is unlikely, that this will be compensated by lower social insurance contributions. However, we do not anticipate an end of the upswing. Investment is likely to grow as strong as this year and because of a still high capacity utilization, employment will continue to rise. Real GDP will grow by 1,7% and the unemployment rate (by national definition) is likely to decline from 10,4% (2006) to 9,7%.

The general government deficit will decline markedly, as tax revenue will rise strongly. The deficit quota is likely to decline to 2,4% this year. In 2007, we expect a further decline, as the tax rise will boost revenues. Yet, a consolidation would have had to be aimed at the expenditure side.

The current upswing is mostly cyclical as the previous structural reforms should not have lifted the growth trend of the economy. Therefore, there is still a strong need for economic reforms.

## GERMANY – HWWA

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2005	2006
GDP	2241,00	0,90	2,10	1,10
Private consumption	1321,10	0,10	0,80	-0,10
Public consumption	419,60	0,60	1,20	0,50
Gross fixed capital formation	386,90	0,80	3,90	3,30
Private, excl. dwellings	159,40	6,10	7,20	6,10
Dwellings	202,30	-3,60	1,10	0,30
Change in stocks (1)	-2,60	-0,10	-0,20	0,00
Total domestic demand	2125,00	0,50	1,80	0,30
Exports of goods and services	912,30	6,90	9,60	5,40
Imports of goods and services	796,30	6,50	9,70	4,00
Net exports (1)	116,00	-	-	-
GDP deflator	-	0,60	0,70	1,50
Consumer prices	-	1,90	1,70	2,20
Private consumption deflator	-	1,30	1,40	2,10
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	-0,90	-0,50	-0,20
Nominal hourly gross wage rate	-	1,00	1,80	2,00
Employment (thousands)	-	-0,40	0,30	-0,20
Unemployment rate (4)	-	9,50	8,30	8,00
Real household disposable income	-	-0,20	0,20	-0,20
Net saving ratio (households) (5)	-	10,60	10,60	10,90
Public sector fiscal balance (6,7)	-	-3,20	-2,40	-1,40
Gross public debt (6,7)	-	-	-	-
Current account balance (6)	-	5,20	5,40	5,60
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	-	-	-
Long-term interest rate (10 years) (8)	-	-	3,60	3,90
United States Federal funds rate	-	3,10	4,80	4,90
GDP	-	-	-	-
USA	-	3,20	3,50	2,70
Japan	-	2,60	2,60	2,30
Euro Area	-	1,50	2,60	1,80
World trade volume (goods)	-	7,00	8,70	7,20
Oil price (9)	-	-	65,00	60,00
Exchange rate	-	-	1,28	1,28
Dollar/Euro	-	-	-	-
Yen/Euro	-	-	-	-
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

The German economy is in a strong upswing. While export growth continued to be very dynamic domestic demand expanded stronger than before. Thanks to an improved profit situation, success in restructuring, and increasing capacity utilisation enterprises increased investment in machinery and equipment considerably. Their construction investment was upward again, too - after years of decrease. The same applies to investment in housing that had receded since the unification boom. Private consumption though volatile increased, too, albeit at a moderate rate. The upswing also spilled over to the labour market. The increase in employment was not only due to policy measures concerning the so called second labour market. Firms also expanded their "regular" staff, that is persons paying social security contributions.

Consumers' and firms' confidence and expectations indicate a continuation of demand expanding much faster than production potential also in the second half of this year. On the whole German gdp will be more than 2 % higher in 2006 than last year. This is much more than German institutes had expected last spring. So, did we miss the upswing? It is always difficult to forecast cyclical turning points or an acceleration of a cyclical upward tendency with the right timing after an unusual long period of weakness. This the more, when real time data don't give any indications for this. Gdp data available in spring indicated a much slower production pace than we see now. While data then showed a stagnation for the fourth quarter of 2005 growth is now reported to have been 0,3 %, implying more dynamics and a higher carry over.

Another question is whether the upswing will continue next year. Uncertainty arises especially from a significant restrictive stance in fiscal policy. While the regular VAT rate will be increased by 3 percentage points to 19% from 2007 and other fiscal measures causing a contractive impulse of 0,9% of gdp – especially private consumption will be weaker again. After a strong decrease in the first quarter it is expected to recover slightly fostered by lower oil prices; for the year as a whole it will hardly reach the level of 2006, irrespective employment continuing to increase, however, slightly. The higher VAT and temporary fiscal incentives for investment in housing construction petering out in 2006 will also weaken private households' investment in housing construction next year. With the global upswing losing some momentum and a slightly higher real effective euro rate export dynamics will be lower, too. All this may also cause private enterprises to expand their investment more slowly, despite favourable depreciation conditions ending in 2007 and perspectives of a corporation tax reform - with the net reduction of tax still uncertain – in 2008. Gdp will be 1,1 % higher than this year. The labour market conditions will improve further albeit less pronounced than this year. Consumer prices will be 2,4 % higher next year than in 2006, due to a price push of about 1 percentage point from fiscal measures. This will, however, not trigger much stronger wage rises, though we expect some acceleration. The public sector deficit will continue to fall to 1,4 %, mainly as a result of tax increases, after 2,4% this year. The structural deficit will be reduced similarly strong.

## GERMANY – IFW

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2005	2006
GDP	2241,00	0,90	2,36	0,96
Private consumption	1321,06	0,08	0,97	-0,04
Public consumption	419,64	0,62	1,29	0,50
Gross fixed capital formation	386,90	0,79	4,67	3,00
Private, excl. dwellings	269,69	2,40	5,54	4,33
Dwellings	117,21	-4,00	2,63	0,48
Change in stocks (1)	-	0,15	0,18	-0,21
Total domestic demand	2124,99	0,47	1,90	0,41
Exports of goods and services	912,27	6,87	9,88	3,80
Imports of goods and services	796,26	6,54	9,75	2,86
Net exports (1)	-	0,46	0,56	0,57
GDP deflator	-	0,62	0,54	1,91
Consumer prices	-	2,00	1,83	2,29
Private consumption deflator	-	1,31	1,65	2,13
Output gap (2)	-	-0,80	0,51	0,71
Unit labour costs (3)	-	-1,13	-0,68	0,87
Nominal hourly gross wage rate	-	-0,25	1,00	1,43
Employment (thousands)	-	34428,00	34701,89	34979,41
Unemployment rate (4)	-	9,50	8,21	7,64
Real household disposable income	-	0,36	0,55	0,16
Net saving ratio (households) (5)	-	10,61	10,31	10,54
Public sector fiscal balance (6,7)	-	-3,24	-2,37	-1,87
Gross public debt (6,7)	-	67,86	67,90	67,17
Current account balance (6)	-	7,10	7,30	7,60
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	2,20	3,10	3,70
Long-term interest rate (10 years) (8)	-	3,40	3,90	4,10
United States Federal funds rate	-	-	-	-
GDP	-	-	-	-
USA	-	3,20	3,50	2,70
Japan	-	2,60	2,80	2,60
Euro Area	-	1,40	2,70	2,00
World trade volume (goods)	-	7,60	8,50	7,00
Oil price (9)	-	54,40	69,70	70,00
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,26	1,28
Yen/Euro	-	-	-	-
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

## **Germany: Passing the Cyclical Peak**

In the second quarter of 2006, Germany recorded the highest growth in more than six years. With an annualised quarter-on-quarter real GDP growth of 3.7 percent year-on-year growth has risen to 2.4 percent, considerably above the growth rate of potential output. The upswing has broadened during this year as domestic demand has picked up. The growth contribution of domestic demand was double that of foreign demand which had been the main source of economic growth over the past years. On the labor market, the situation continued to improve. The unemployment rate was 10.6 percent in August, down from 11.4 percent in January. Inflation remained close to 2 percent and the federal budget deficit decreased to 2.5 percent in relation to GDP in the first half of 2006, mainly due to cyclical reasons.

### *At the Cyclical Peak*

After the forceful acceleration in the first half of the year, which, according to the leading indicators has continued in the third quarter, the economic cycle should currently be close to its peak. In manufacturing, surveys show capacity utilisation in the second quarter to have been as high as during the boom of the year 2000, and in the total economy there is also relatively little slack left when irregularities associated with the timing of the school summer break in the various federal states are accounted for. In the course of the current upswing, inflation has picked up and interest rates have risen. The strongest indication that the economy is about to peak in terms of capacity utilization is business expectations, which usually are leading capacity utilisation by 1 to 2 quarters and have been falling steadily since April. Following the pattern of past cycles, one would expect that production growth loses momentum and that capacity utilisation will fall over the next months. However, manufacturing industries have received an unusual number of large item orders over the past 12 months, which can be expected to support the level of production for some time to come. In fact, surveys show that firms currently judge their order backlog being as high as during the unification boom in the early 1990s. Moreover, the increase in the VAT rate announced for the beginning of next year will lead to a considerable frontloading of purchases mainly of durable consumption goods and of residential investment from next year into this year. As a result, we expect GDP growth to slow down only slightly in the second half of 2006. Average real GDP growth is forecast to amount to 2.4 percent in 2006.

### *Facing a marked slowdown of economic activity*

In 2007, the upturn will lose momentum. External demand will decelerate reflecting slower growth in the world economy and the stronger euro. Monetary stimulus which has been gradually reduced since the end of last year will continue to decline as the ECB will finally reach a neutral stance with key interest rates expected to be raised to 3.5 percent by the end of 2006. The most important factor, however, is a significant tightening of fiscal policy with the increase in the regular VAT rate scheduled to be raised from 16 to 19 percent in the beginning of 2007 being the most prominent measure. At the same time social security contributions will be reduced by 1.2 percentage points with a decline in the rate of contribution to the public unemployment insurance scheme by 2 percentage points and an increase in the contribution rates to the public health insurance schemes and to the public old age pension system by a total of 0.8 percentage points.

Our model simulations show that the overall effect of this fiscal package is to dampen GDP growth in 2007 by 0.4 percentage points. As private consumption and residential investment is expected to be brought forward from 2007 into 2006 in response to the announced VAT rate hike growth in the second half of 2006 will be raised at the expense of the first half of 2007. Assuming that purchases amounting to 0.2 percent of GDP are shifted into this year, GDP growth will be lifted by 0.2 percentage points in 2006 and dampened by 0.4 percentage points in 2007 due to this effect. In total, the fiscal package alone is likely to reduce average GDP growth by 0.8 percentage points in 2007. We expect the annual growth rate to fall to 1.0 percent in 2007.

As regards the effect of the fiscal package on consumer prices, our model simulations indicate an increase by 0.75 percentage points. Part of this effect will already materialize in the course of 2006 and may partly explain the increase in inflation over recent months. All in all we expect consumer prices to rise by 2.3 percent in 2007, following 1.8 percent in 2006. Reflecting slower economic growth the improvement in the labor market next year will be small.

## GERMANY – IFO

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2005	2006
GDP	2241,00	0,91	2,14	1,66
Private consumption	1321,06	0,08	0,84	0,06
Public consumption	419,64	0,62	1,36	0,76
Gross fixed capital formation	386,90	0,78	3,50	3,47
Private, excl. dwellings	184,59	5,92	6,50	5,50
Dwellings	202,31	-3,57	1,21	1,72
Change in stocks (1)	-2,61	0,15	-0,03	0,15
Total domestic demand	2124,99	0,47	1,40	0,99
Exports of goods and services	912,27	6,88	9,86	7,29
Imports of goods and services	796,26	6,54	9,01	6,43
Net exports (1)	116,01	0,46	0,81	0,73
GDP deflator	-	0,62	0,52	0,97
Consumer prices	-	1,98	1,66	2,36
Private consumption deflator	-	1,31	1,43	2,30
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	-1,13	-1,13	0,28
Nominal hourly gross wage rate	-	0,99	1,46	2,00
Employment (thousands)	-	38823,00	39014,97	39284,84
Unemployment rate (4)	-	11,15	10,43	9,95
Real household disposable income	-	0,36	0,45	-0,02
Net saving ratio (households) (5)	-	10,61	10,39	10,34
Public sector fiscal balance (6,7)	-	-3,24	-2,36	-1,43
Gross public debt (6,7)	-	-	-	-
Current account balance (6)	-	92,60	93,60	102,30
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	-	3,10	3,70
Long-term interest rate (10 years) (8)	-	-	3,90	4,10
United States Federal funds rate	-	-	5,00	5,00
GDP	-	-	-	-
USA	-	3,20	3,50	2,70
Japan	-	2,60	2,70	2,20
Euro Area	-	1,40	2,60	2,10
World trade volume (goods)	-	7,10	8,60	7,40
Oil price (9)	-	55,00	65,00	60,00
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,25	1,25
Yen/Euro	-	-	-	-
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average



## GREECE – KEPE

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2005	2006
GDP	181,08	3,72	3,60	3,50
Private consumption	121,54	3,71	3,50	3,40
Public consumption	29,62	3,11	2,10	2,20
Gross fixed capital formation	43,01	-1,39	7,00	5,30
Private, excl. dwellings	28,60	1,80	8,20	6,10
Dwellings	8,10	-1,40	5,50	2,10
Change in stocks (1)	0,10	0,40	-0,02	-0,08
Total domestic demand	194,20	2,41	4,10	3,70
Exports of goods and services	37,66	2,91	4,50	3,30
Imports of goods and services	50,75	-1,21	5,90	4,00
Net exports (1)	-	1,10	-0,90	-0,50
GDP deflator	-	3,70	3,10	3,30
Consumer prices	-	3,55	3,20	3,10
Private consumption deflator	-	3,70	3,40	3,40
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	1,00	0,60	0,50
Nominal hourly gross wage rate	-	-	-	-
Employment (thousands)	4148,20	1,30	1,10	0,80
Unemployment rate (4)	-	10,40	9,60	9,30
Real household disposable income	-	-	-	-
Net saving ratio (households) (5)	-	2,30	2,30	2,40
Public sector fiscal balance (6,7)	-	-5,10	-2,70	-2,60
Gross public debt (6,7)	-	107,50	104,80	100,90
Current account balance (6)	-	-7,20	-7,80	-7,60
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	2,20	3,30	3,60
Long-term interest rate (10 years) (8)	-	3,59	3,90	4,10
United States Federal funds rate	-	-	-	-
GDP	-	-	-	-
USA	-	3,50	3,20	2,60
Japan	-	2,80	2,80	2,30
Euro Area	-	1,40	2,50	2,30
World trade volume (goods)	-	7,00	8,80	7,50
Oil price (9)	-	54,00	68,00	61,00
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,28	1,28
Yen/Euro	-	136,00	147,00	143,00
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

Following a satisfactory growth performance in 2005 (3.7%), the Greek GDP increased by 4.0% in the first half of 2006 and is expected to register a 3.7% annual growth rate for the current year<sup>2</sup>. Growth of domestic demand remains the predominant factor whereas the contribution from net exports is expected to be negative. Aggregate expenditure is primarily supported by a high rate of private investment growth which is estimated to increase by 7%. At the same time, the growth rate of private consumption remains high at 3.5% even though somewhat lower than the rates achieved in the previous two years.

Private consumption has been supported by increased incomes, as well as, continuing high credit expansion. Although public investment remains at a very moderate track in relation to the period prior to 2005 (close to 4%), the growth of private investment, has rebounded after a disappointing performance in 2005. Investment in the housing sector is expected to grow at a rates above 5%, following a swift increase in housing permits in the second half of 2005 partly in reaction to expected increases in taxation.

Following an improvement in the external balance in 2005, which was associated to a large extent with a decline in imports, developments in the external sector are mixed in the current year but overall current account deficit is widening. Despite a significant increase in exports of goods, the strong rebound of imports has resulted in significant deterioration of the merchandise balance. On the other hand, the positive developments in the tourist sector are being counterbalanced by poor performance of other services. The overall current account deficit is expected to increase from 7.2% to 7.8% of GDP. The contribution of the external sector to GDP, which was 1.1 in 2005, is estimated at 0.8 in the current year.

In the labour market, total employment is expected to increase by 1.1%, following a 1.3% increase in 2005. The unemployment rate is estimated decline, from 10.4% in 2005, to 9.6%. According to the latest figure, inflation rate, as measured by the twelve-month harmonised consumer index, is running at 3.4% compared to an annual average of 3.5% in 2005, thus remaining above the Euro-zone average by 1.1 percentage points. Inflation is expected to remain above 3.0% as energy price increases are, to some extent incorporated to prices of other sectors. The difference in inflation rates between Greece and Euro zone is expected to remain unchanged.

There has been good progress in the process of public consolidation. The general government deficit for 2006 is expected to be reduced to 2.6% of GDP following a 5.1% of GDP deficit in 2005. The government is budgeting a further slight reduction, to 2.4%, for 2007, but both expenditure and revenue targets are somewhat optimistic.

The outlook, for 2007 is one of somewhat weaker growth. Inflation pressures are expected to persist especially since price increase are to a certain extent related to lack of sufficient competition in certain goods markets. Increased economic activity is expected to have some further impact on employment in the with a further small reduction in unemployment

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<sup>2</sup> The National statistical Service of Greece has recently completed a revision of National Accounts statistics for the period 2000-2005. From the available information it appears that the revision is substantial. The data are still preliminary and are not used in the current report as a substantial part of necessary information is yet not available.

## HUNGARY – GKI

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2005	2006
GDP	21802,00	4,10	4,00	3,00
Private consumption	14864,00	1,40	2,50	1,00
Public consumption	2247,00	-0,90	-3,00	-6,00
Gross fixed capital formation	5057,00	6,60	7,00	8,00
Private, excl. dwellings	-	-	-	-
Dwellings	-	-	-	-
Change in stocks (1)	104,00	0,50	-1,00	-2,80
Total domestic demand	22273,00	0,80	1,50	0,10
Exports of goods and services	14470,00	10,80	14,00	12,00
Imports of goods and services	14940,00	6,50	10,00	8,00
Net exports (1)	-470,00	-2,40	0,30	3,10
GDP deflator	-	-	-	-
Consumer prices	-	3,60	3,70	5,80
Private consumption deflator	-	-	-	-
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	2,10	1,80	1,00
Nominal hourly gross wage rate	-	8,80	6,00	5,50
Employment (thousands)	3910,00	0,10	0,30	0,40
Unemployment rate (4)	-	7,20	7,20	7,50
Real household disposable income	-	-	-	-
Net saving ratio (households) (5)	-	-	-	-
Public sector fiscal balance (6,7)	-	-7,50	-9,50	-5,70
Gross public debt (6,7)	-	-	-	-
Current account balance (6)	-	-6,00	-6,20	-5,30
Central bank policy rate (non-EMU countries)	-	-	6,25	6,25
Short-term interest rate (3 months) (8)	-	7,80	7,90	6,40
Long-term interest rate (10 years) (8)	-	7,50	8,10	6,10
United States Federal funds rate	-	-	-	-
GDP	-	-	-	-
USA	-	3,50	3,20	2,70
Japan	-	2,70	2,20	2,10
Euro Area	-	1,30	2,40	2,00
World trade volume (goods)	-	7,50	9,00	7,50
Oil price (9)	-	54,40	66,00	63,00
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,25	1,28
Yen/Euro	-	-	-	-
Local currency/Euro for non-EMU countries	-	248,00	266,00	258,00

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

The rate of growth of the Hungarian economy slowed a little in the second quarter of 2006, but it accelerated a bit in July. In the second quarter, industrial production expanded by the same rate as in the first one. In July, the production of road motor vehicles increased by almost one third compared to the same period of the previous year. The volume of orders in general and that of the new orders in particular is high. In the first seven months, industrial production declined by 5.5% in Southern Transdanubia but increased by 18% in Northern Hungary. After several months of contraction, recorded output of the construction industry increased modestly in July. Retail trade turnover slowed down further, sales of new cars continued to fell. Sales of automotive fuels were up by 10% p.a. in spite of the high price.

Inflation bottomed out in March and April at 2.3%; since then the rate of inflation has been accelerating: in August it equalled to 3.5%. As a consequence of the increase of energy prices in August and that of the preferential VAT rate in September, the rate of inflation may reach 5.8% in December and 3.7% on annual average. Inflation will reach its highest point in early summer 2007 and will drop sharply after that.

In the first seven months of the year, gross earnings increased by 7.4%, net earnings by 8.2%, real earnings by 5.5%. In the business sector, the rate of increase was by one percentage point higher than the average of the national economy. In the rest of the year, the rate of increase of gross earnings is likely to slow down, net earnings will decrease compared to the first half of the year, but they will be higher than in 2005. In the year as a whole - as a result of the fiscal adjustment - only an approximately 2.5% average real income growth is probable.

This year the number of people employed stagnates; with a modest increase in the business sector and a small drop in the public sector. Unemployment decreased in the second quarter, but later started to go up again. Further increase is expected by the end of the year, due partly to seasonality, partly to the reorganization of the government sector.

The combined deficit of the current and capital accounts in the first half of the year was €400 million higher than a year earlier, but this is due mainly to the fact that most of the EU transfers will accrue only in the second half of the year. Foreign trade deficit decreased, that of services deteriorated. The net outflow of income accelerated.

The short-term austerity measures as well as long-term structural reforms outlined by the government in the Program of new equilibrium released in mid-June and Hungary's convergence program submitted to the European Commission in early September intended to put economic development onto a sustainable path. The envisaged steps and the introduction of some specific measures aimed at reducing general government deficit triggered social unrest in September which culminated in the defeat of the incumbent government coalition at the municipal elections held on October 1<sup>st</sup> by the opposition parties. GKI Economic Research Ltd. assumes that the present government will remain in office, and political tensions will fade away gradually without any significant impact on the economy. The confidence of foreign investors will turn more upbeat and the national currency will strengthen gradually. Nevertheless, any major improvement in the sentiment towards Hungary is likely to take place not sooner than next year. The austerity measures aim at decreasing general government deficit relative to GDP by 3.8 percentage points in 2007 by raising tax revenues and cutting expenditures. The short-term austerity measures are likely to push up temporarily the rate of inflation, slow down that of public and private consumption and thereby GDP.

## HUNGARY – KOPINT

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2006	2007
GDP	87,90	4,10	4,00	2,80
Private consumption	59,90	1,40	1,70	-0,70
Public consumption	9,10	-0,90	-2,00	-5,00
Gross fixed capital formation	20,40	6,60	2,00	2,50
Private, excl. dwellings	-	-	-	-
Dwellings	-	-	-	-
Change in stocks (1)	-	0,40	-	-
Total domestic demand	89,80	0,80	1,30	-0,60
Exports of goods and services	58,30	10,80	15,00	9,90
Imports of goods and services	60,20	6,50	11,70	6,50
Net exports (1)	-1,90	-	-	-
GDP deflator	-	2,50	4,00	6,00
Consumer prices	-	3,60	3,50	5,80
Private consumption deflator	-	-	-	-
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	-0,50	-7,20	-2,80
Nominal hourly gross wage rate	638,00	5,40	7,00	4,90
Employment (thousands)	3902,00	0,00	0,00	0,00
Unemployment rate (4)	-	7,20	7,70	8,00
Real household disposable income	-	4,50	2,00	-1,80
Net saving ratio (households) (5)	-	5,60	4,30	4,80
Public sector fiscal balance (6,7)	-	-7,50	-10,10	-6,80
Gross public debt (6,7)	-	62,30	68,50	71,30
Current account balance (6)	-6,50	-7,40	-6,40	-4,70
Central bank policy rate (non-EMU countries)	-	6,00	7,75	6,00
Short-term interest rate (3 months) (8)	-	6,00	7,70	6,00
Long-term interest rate (10 years) (8)	-	7,00	7,70	6,50
United States Federal funds rate	-	4,50	5,25	5,00
GDP	-	-	-	-
USA	-	3,20	3,40	2,50
Japan	-	2,60	2,70	2,20
Euro Area	-	1,40	2,40	1,70
World trade volume (goods)	-	6,00	8,50	7,50
Oil price (9)	-	54,40	66,50	64,00
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,25	1,28
Yen/Euro	-	-	-	-
Local currency/Euro for non-EMU countries	-	248,00	268,00	266,00

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

In 2006, economic growth in Hungary will reach about 4 per cent (in the first half it has been 4,1 per cent). As a result of the substantial increase in real net wages (about 3,5 per cent), private consumption may rise by 1,7 per cent. The main driving force of the GDP growth is the net export (3,3 percent of GDP), which is a result both of acceleration of the export growth and slow down of the growth rate of imports.

In September, there have been a strong political turmoil, unprecedented in Hungary since the transition: continuous demonstrations on the streets (at the beginning of the crisis with bloody violence), political tension, speeches of the opposition calling upon the prime minister for resignation.

One of the main causes of the crisis has been the Austerity Program of the government (with tax increases, introduction of new taxes, decreasing price subsidies, lower real income) published in July, being in contradiction to the promises of the Socialist Party in the election campaign. After the election the government published that the budget deficit of the state will be over 10 per cent, contrary to the earlier official declaration of 6,6 percent (without pension payments adjustment). In order to decrease the deficit to 6,8 per cent next year, the Austerity Program was amended by the Socialist majority of the Parliament, resulting a fall of households real income by 3 per cent next year.

On the other side, the current protests in Hungary have been triggered by a speech of Prime Minister Ferenc Gyurcsány in May, who acknowledged that he had been lying about the extent of the problems in public finances before the elections.

According to the Convergence Program presented to the EU Commission at the 1<sup>st</sup> of September, and accepted by the Commission in early October, the Austerity Program will lead to a significantly lower growth rate and higher inflation in the next two years than expected before. For 2007 the Convergence Program forecasts 2,2 GDP growth rate, 6,2 per cent inflation and a fall of 0,7 per cent of household consumption. KOPINT-DATORG forecast is – on an unusual way – more optimistic: expects higher growth (2,8%), lower inflation (5,5-6%). The major assumption behind the higher growth forecast is the fact, that the fall of household consumption and lower investment will have a strong negative effect on import growth; consequently the net export may rise in 2007. Due to lower growth rate and higher labor tax wedge, the employment rate will stagnate and the rate of unemployment might increase to 8 per cent.

## IRELAND – ESRI

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2005	2006
GDP	161163,00	5,50	5,90	5,00
Private consumption	74114,10	6,64	6,80	7,40
Public consumption	22951,53	4,65	4,50	4,10
Gross fixed capital formation	43581,59	12,76	8,26	6,52
Private, excl. dwellings	11278,86	6,51	12,00	10,00
Dwellings	20890,15	12,63	4,00	1,00
Change in stocks (1)	97,98	0,07	0,12	0,12
Total domestic demand	140745,19	7,99	6,88	6,59
Exports of goods and services	131000,56	3,88	6,40	5,10
Imports of goods and services	110553,17	6,48	7,80	7,20
Net exports (1)	20447,39	-1,22	-0,15	-0,87
GDP deflator	-	3,49	4,81	3,95
Consumer prices	-	2,49	4,00	3,60
Private consumption deflator	-	1,14	3,50	3,20
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	0,50	0,50	0,60
Nominal hourly gross wage rate	-	5,55	5,80	5,50
Employment (thousands)	1952,05	4,67	4,70	3,50
Unemployment rate (4)	-	4,35	4,36	4,45
Real household disposable income	-	8,53	4,50	5,95
Net saving ratio (households) (5)	-	14,69	13,09	12,06
Public sector fiscal balance (6,7)	1622,70	1,01	1,04	0,92
Gross public debt (6,7)	-	27,42	24,95	22,96
Current account balance (6)	-4059,00	-2,98	-4,23	-5,34
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	2,25	3,50	3,75
Long-term interest rate (10 years) (8)	-	3,40	3,90	4,10
United States Federal funds rate	-	-	-	-
GDP	-	-	-	-
USA	-	3,20	3,40	2,50
Japan	-	2,60	2,60	2,30
Euro Area	-	1,50	2,60	1,90
World trade volume (goods)	-	7,00	8,80	6,40
Oil price (9)	51,80	44,30	29,00	1,20
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,30	1,32
Yen/Euro	-	-	-	-
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

Following a year of strong economic growth in 2005, with real GNP growth of 5.4 per cent, 2006 looks set to post an even stronger performance. We are forecasting real GNP growth of 5.8 per cent for 2006 (5.9 per cent in GDP terms). The corresponding figures for 2007 are 4.9 per cent and 5 per cent.

The moderation in growth in 2007 is in response to a growing likelihood of a slowdown in the United States in 2007. With house prices softening in the US, there is a growing expectation of reduced rates of growth in consumption in the US and in residential investment. These effects are expected to contribute to reducing real GDP growth in the US from 3.4 per cent in 2006 to 2.5 per cent in 2007. This will impact upon Irish exports and hence on GNP growth.

While the US slowdown will act to reduce growth here, it may also reduce the likelihood of further interest rate increases in 2007. We expect the ECB to raise interest rates by 25 basis points on two more occasions in 2006 and on one occasion in 2007, thereby bringing the European Central Bank main refinancing rate to 3.75 per cent.

Consumption will be the main driver of growth in 2006 and 2007, with growth rates forecast of 6.8 per cent and 7.4 per cent respectively. Investment is also forecast to grow strongly – our growth forecasts are 8.3 per cent and 6.5 per cent for 2006 and 2007 respectively. Although exports will rebound from the poor performance of 2005, net exports will make a negative contribution to growth over our forecast horizon.

Employment is expected to continue to grow strongly, by 4.7 per cent in 2006 and 3.5 per cent in 2007. Net migration is forecast to be 70,000 in 2006 and 55,000 in 2007. Even with this high level of inward migration, increases in participation will be required to fill the jobs created. This suggests that wages will continue to rise strongly – we forecast nominal earnings growth of 5.8 per cent in 2006 and 5.5 per cent in 2007.

While nominal wage growth will be strong, our forecasts for CPI inflation of 4 per cent in 2006 and 3.6 per cent in 2007 suggest that real wage growth will be significantly more modest. It may happen that inflation will feed into wage demands whereby the nominal increases will be higher than those forecast.

## ITALY – REF

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
	2005	2005	2006	2007
GDP	-	-0,04	1,62	1,55
Private consumption	-	0,06	1,67	1,36
Public consumption	-	1,19	0,72	1,27
Gross fixed capital formation	-	-0,62	3,50	2,62
Private, excl. dwellings	-	-1,62	4,59	4,30
Dwellings	-	0,54	2,30	0,50
Change in stocks (1)	-	0,10	-0,51	0,27
Total domestic demand	-	0,24	1,36	1,87
Exports of goods and services	-	0,26	5,28	2,85
Imports of goods and services	-	1,36	4,24	4,07
Net exports (1)	-	-0,29	0,25	-0,36
GDP deflator	-	2,08	1,04	2,95
Consumer prices	-	1,90	2,10	1,90
Private consumption deflator	-	2,33	2,26	2,00
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	2,42	2,25	1,66
Nominal hourly gross wage rate	-	3,06	3,33	3,19
Employment (thousands)	-	-0,42	1,01	0,67
Unemployment rate (4)	-	7,72	7,21	6,84
Real household disposable income	-	0,52	1,80	0,97
Net saving ratio (households) (5)	-	82,48	82,78	83,08
Public sector fiscal balance (6,7)	-	-4,09	-4,70	-3,10
Gross public debt (6,7)	-	106,38	107,84	106,80
Current account balance (6)	-	-1,56	-2,52	-1,33
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	2,14	2,92	3,85
Long-term interest rate (10 years) (8)	-	-	-	-
United States Federal funds rate	-	3,50	5,11	5,30
GDP	-	-	-	-
USA	-	3,20	3,30	2,00
Japan	-	2,60	2,60	2,40
Euro Area	-	1,50	2,50	2,00
World trade volume (goods)	-	5,70	7,10	6,70
Oil price (9)	-	55,20	65,70	59,30
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,26	1,32
Yen/Euro	-	-	-	-
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

Recent economic indicators show that the Italian economy is recovering. The growth rate remains quite robust, at least for the Italian standard, and, for the first time after a few years, forecasts for Italy have been revised upward.

However recent results are not a good reason to be too optimistic about the future as a GDP growth rate between 1.5% and 2% during the recovery phase is coherent with the estimates of a potential output growth near 1%.

As the medium run outlook remains quite gloomy, there are also two points to remark: the first is that at the beginning of the recovery there have already been signs of unemployment reduction and wages acceleration (that are behind the increase in domestic consumption); the second is that capacity utilization is getting up and Investment has already started to recover. It seems that the economy behaves as if the phase of economic expansion had been much stronger than reported. This would allow to be quite optimistic with respect to the Investment demand.

However, Italy is also quite vulnerable to the increase in interest rates. The Residential Investment cycle has been very strong in the last years and we share with other European countries the risk of a collapsing housing market. There is to remark that in Italy the most popular category of mortgages in the last years has been at adjustable rates.

There is also to draw the attention to one other point which is related to the specialization of the Italian economy. It is possible that the reduction in the barriers to the textile trade has been a sort of asymmetric shock for Italy, given the high specialization in this sector. Figures on industrial production show that this shock has been absorbed, as the production in the textile and leather products has recently stabilized.

The last point is that of the fiscal policy. The deficit reduction is quite remarkable from 4.1 percent of GDP in 2005 to 3% in 2007. The rebound in 2007 to 4.7% of GDP is due to the temporary effect of the decision by the European Court of Justice requiring the re-imbursment of €10bn in VAT deduction for the purchase of company cars over the last four years.

In the whole period there is a modest negative impact of the fiscal restriction on the economy. There are also some uncertainties related to the composition of the fiscal policy as the level of public receipts is expected to grow much to compensate the reduce the deficit and compensate the increase in public spending. Government primary expenditure as percent of GDP is expected to meet an all time record in 2007 and this does not seem to be a good way to support the economic development.

## ITALY – ISAE

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2005	2006
GDP	1417,00	0,10	1,80	1,30
Private consumption	828,90	0,10	1,50	1,20
Public consumption	292,90	1,20	0,60	0,50
Gross fixed capital formation	291,90	-0,40	3,20	2,20
Private, excl. dwellings	154,00	-1,40	4,10	3,50
Dwellings	137,90	0,80	2,20	0,80
Change in stocks (1)	-	0,20	-0,10	0,10
Total domestic demand	-	-	-	-
Exports of goods and services	373,40	0,70	5,10	3,30
Imports of goods and services	374,10	1,80	4,20	3,70
Net exports (1)	-	-0,30	0,20	-0,10
GDP deflator	-	2,10	2,10	2,30
Consumer prices	-	1,90	2,20	2,00
Private consumption deflator	-	2,30	2,60	2,20
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	2,30	2,40	2,00
Nominal hourly gross wage rate	-	3,10	3,40	2,30
Employment (thousands)	-	-	-	-
Unemployment rate (4)	-	7,70	7,00	6,50
Real household disposable income	-	0,40	1,20	1,20
Net saving ratio (households) (5)	-	-	-	-
Public sector fiscal balance (6,7)	-	-4,10	-4,60	-2,70
Gross public debt (6,7)	-	106,40	107,30	106,60
Current account balance (6)	-	-	-	-
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	-	-	-
Long-term interest rate (10 years) (8)	-	-	-	-
United States Federal funds rate	-	-	-	-
GDP	-	-	-	-
USA	-	3,20	3,30	2,30
Japan	-	2,60	2,60	2,10
Euro Area	-	1,50	2,60	2,00
World trade volume (goods)	-	7,60	9,40	7,40
Oil price (9)	-	54,70	66,50	64,80
Exchange rate	-	-	-	-
Dollar/Euro	-	1,25	1,26	1,30
Yen/Euro	-	110,10	114,30	106,20
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

First half of 2006 was better than expected. GDP grew by 0.7% in Q1 and 0.5% in Q2 (+1.5% in H1-06 over H1-05). Recovery was driven, on the demand side, by both exports and domestic expenditure components. On the supply side, the gradual upsurge of industrial activity, coming out from a long period of stagnation/recession (there was no real recovery in manufacturing, except a couple of false dawns, since the downfall of 2001), and positive evolution of the service sector supported GDP acceleration.

Strengthening of the economic cycle was accompanied by a very favourable performance of labour market: unemployment rate reduced to 6.5% in Q2 (3.4% in the Northern regions, 12% in the South), while structural indicators of labour market conditions improved significantly (increase of the employment rate, particularly the female and older workers rates, and of the participation rate). These improvements were basically free from the influence of regularization policies of foreign (underground) workers that mostly affected labour market trends in 2004 and 2005.

Short run indicators point to a still positive economic activity in H-2, although at a more moderate rate than H-1. There are signals of some slowdown of exports, particularly in the extra-EU destinations, while domestic demand components seem to keep holding on. Household confidence improved in recent few months. Firms' sentiment – on the rise for more than one year – stabilized during summer (down in July and August, up in September); the most recent reading (September) pointed out a remarkable rebound in production expectations and downsizing .

All in all, GDP should grow by 1.7 (wda) in 2006 (0.1% in 2005), thanks to positive contribution of both domestic demand and (marginally) net external demand. In 2007, taking into account the influence of the measures indicated in the financial law to correct the deficit (to 2.8% of GDP, with a primary surplus rising from around zero to 2% of GDP) and to sustain the economy, GDP growth rate could be 1.2-1.3%. Inflation would set at about 2% (2.2% in 2006).

## ITALY – PROMETEIA

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2006	2007
GDP	1417,74	0,10	1,70	1,30
Private consumption	828,95	0,10	1,60	1,40
Public consumption	292,91	1,20	0,90	0,30
Gross fixed capital formation	291,98	-0,40	3,40	1,90
Private, excl. dwellings	-	-	-	-
Dwellings	-	-	-	-
Change in stocks (1)	4,63	0,20	-0,40	0,20
Total domestic demand	1418,47	0,40	1,40	1,50
Exports of goods and services	373,38	0,70	5,50	2,60
Imports of goods and services	374,10	1,80	4,20	3,40
Net exports (1)	-	-0,30	0,30	-0,20
GDP deflator	115,26	2,10	1,80	2,50
Consumer prices	127,10	2,00	2,20	1,80
Private consumption deflator	113,96	2,30	2,60	2,10
Output gap (2)	-	-1,60	-1,00	-0,80
Unit labour costs (3)	-	2,90	2,70	2,10
Nominal hourly gross wage rate	-	2,50	4,10	2,60
Employment (thousands)	24192,00	-0,40	0,90	0,60
Unemployment rate (4)	-	7,70	7,10	6,80
Real household disposable income	739,26	0,40	1,60	1,20
Net saving ratio (households) (5)	-	13,90	13,90	13,70
Public sector fiscal balance (6,7)	58,20	4,10	4,80	3,10
Gross public debt (6,7)	1507,60	106,40	107,50	106,60
Current account balance (6)	-20,28	-1,40	-1,70	-1,30
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	2,00	2,80	3,20
Long-term interest rate (10 years) (8)	-	3,60	4,10	4,00
United States Federal funds rate	-	3,50	5,10	4,90
GDP	-	-	-	-
USA	-	3,20	3,30	2,30
Japan	-	2,60	2,90	2,00
Euro Area	-	1,50	2,50	1,90
World trade volume (goods)	-	7,40	8,90	6,50
Oil price (9)	-	55,10	66,60	60,30
Exchange rate	-	-	-	-
Dollar/Euro	-	1,25	1,26	1,32
Yen/Euro	-	110,10	115,40	108,20
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

In the first half of 2006 GDP growth in Italy was above trend (1.6 per cent year-on-year), the highest since 2001, but still lower than the Euro Area average (2.4 per cent over the same period).

The recovery was driven mainly by exports with business investment and household consumption also contributing positively to GDP growth. However, growth was spread over all GDP components, which points to a stable improvement in prospects with respect to the recent past. Strong growth is expected to be supported by an improvement in labour market conditions, even accounting for some measurement effect due to the regularisation of formerly illegal immigrants. In the first half of the year, employment rose by 1 per cent on a year-on-year basis, mainly driven by developments in the services sector but with some improvement in the industry sector as well. The unemployment rate has fallen to 7.0 per cent, its lowest level in over 20 years.

Overall HICP inflation was 2.2 per cent in September (2.3 per cent in the average of the first nine months) and is almost stable since the beginning of this year. So far, the increase in energy prices has been affecting Italian prices less than those in other European countries.

The latest information suggests that the recovery seems to be losing momentum, and that the peak of the cycle might be passed. Data on industrial production for July and survey measures, such as business confidence, imply that GDP growth may remain as strong in the third quarter as in the second quarter (0.5 per cent on a quarter-on-quarter basis) or slightly weaker, while the same data point towards a slowdown in the fourth quarter. The deceleration expected for the second half of this year is driven both by the slowing down in the international and European business cycles and by some fiscal tightening, following the first fiscal measures the new Government approved during the summer. Known as "Bersani Decree", it mainly aims to foster market liberalisation in some sheltered markets and therefore to encourage price competition, but it also contains some consolidation measures that are expected to exert a positive influence on the fiscal balance. Under this scenario, our forecast is for GDP to grow by 1.7 per cent in 2006. Both net exports and domestic demand are expected to make a positive contribution to GDP growth.

As far as 2007 is concerned, the two key variables in our assessment are the size of the international business cycle slowdown and, on the domestic side, the Budget Law presented by the Government at the end of September. The Government declared to be willing to reduce the fiscal deficit and debt in order to take advantage of the current economic recovery to consolidate fiscal balances. This will result in a restrictive fiscal policy for the next two years.

Under this outlook, we forecast GDP growth to slow markedly in the first quarter before gradually picking up at the end of the year, with growth averaging 1.3 per cent for 2007 as a whole. On average, the growth expected for 2006-2008 (1.4 per cent) is in line with the long run trend growth of the Italian economy and it represents a significant recovery phase from the stagnation of the previous three years. This signals that some adjustment of the Italian manufacturing sector is under way but the available information precludes stating that potential growth has actually increased.

As the improvement of the fiscal balance this year has been due to both cyclical and random factors, the budget plans for 2007 still remain quite ambitious. Even if the 2007 budget is implemented strictly, it may require more than one year to be completely effective. For these reasons, at this stage we forecast that the Italian fiscal balance will be below 3 per cent in two years.

## NETHERLANDS – CPB

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2005	2006
GDP	505,65	1,53	3,14	3,02
Private consumption	247,05	0,69	-1,30	1,91
Public consumption	121,84	0,32	2,33	2,19
Gross fixed capital formation	97,71	3,65	4,83	4,01
Private, excl. dwellings	51,56	3,15	5,69	4,64
Dwellings	32,00	5,28	5,39	4,10
Change in stocks (1)	0,06	-0,25	0,27	0,47
Total domestic demand	466,67	0,93	2,99	2,94
Exports of goods and services	353,60	5,54	6,63	6,31
Imports of goods and services	314,62	5,09	6,84	6,57
Net exports (1)	38,98	0,66	0,38	0,31
GDP deflator	-	1,67	1,45	1,71
Consumer prices	-	1,70	1,26	1,52
Private consumption deflator	-	1,62	2,22	1,92
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	-0,84	-2,82	-1,47
Nominal hourly gross wage rate	-	-	-	-
Employment (thousands)	7,09	0,00	1,98	1,90
Unemployment rate (4)	0,48	6,52	5,39	4,58
Real household disposable income	-	-0,62	-1,40	2,42
Net saving ratio (households) (5)	-	6,47	5,43	5,61
Public sector fiscal balance (6,7)	-	-0,33	-0,10	0,00
Gross public debt (6,7)	-	52,67	50,20	47,90
Current account balance (6)	-	7,26	7,23	7,02
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	2,19	3,10	3,53
Long-term interest rate (10 years) (8)	-	3,37	3,87	4,32
United States Federal funds rate	-	3,50	5,25	5,30
GDP	-	-	-	-
USA	-	3,20	3,50	2,50
Japan	-	2,60	2,75	2,25
Euro Area	-	1,40	2,50	2,25
World trade volume (goods)	-	5,49	7,70	6,72
Oil price (9)	-	54,40	68,01	70,00
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,24	1,25
Yen/Euro	-	137,00	143,00	143,00
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

The Dutch economy is performing well, with an expected economic growth of 3.25% this year and 3% next year. This marks the second phase of recovery, after an already substantially higher growth rate in the previous two years, compared to the meagre years 2002-2003. Adjusted for seasonal influences and workday effects, GDP volume was 1.2% higher in the second quarter of this year than in the first quarter. The output gap (i.e. the difference between the actual and the (estimated) potential level of production) was still negative last year, but will probably turn out to be positive in 2006 and 2007. This indicates that the economy is tightening more and more, which can be observed in both the labour market and the commodity markets. Since employment increases substantially faster than labour supply, unemployment will decline rapidly, with growing tensions in the labour market as a result. In 2006, unemployment is expected to be 4.5% on average: lower than the equilibrium rate of unemployment. The capacity utilisation rate, which indicates how tight commodity markets are, is expected to rise this year and next. The forecasted investments are not enough to make capacity development keep pace with production growth.

Economic growth is broad-based. Consumption is picking up as a result of an increase in purchasing power and employment growth. The increased private consumption manifests itself especially in more consumption of durable goods. Thanks to the higher production and the favourable level of profitability, producer confidence has risen sharply and entrepreneurs are more inclined to expand their capital stock. Gross fixed investment will probably increase for the first time since 1999. Export growth remains high. Re-exports in particular continues to be boosted by globalisation and the integration of China in the world economy.

Contractual wage rises in the market sector are expected to pick up to 1.75% in 2006 and 2% in 2007. The acceleration of the contractual wage rise is moderate in light of the rapid recovery of the labour-market situation. This is partly caused by the fact that collective labour agreements have already been effected for about one-third of the employees; the business cycle was less favourable at the time of the negotiations. The rise of contractual wages is somewhat higher than the expected inflation of 1.25% in 2006 and 1.5% in 2007. In both years, several government measures will have a mitigating effect on inflation.

The economic forecasts are surrounded with uncertainties. It is assumed that the oil price (Brent) will be \$70 per barrel in the second half of this year and next year. If the price would decrease to \$60 dollar in 2007, economic growth will be 0.4% higher next year. The projected exchange rate of the euro to de US dollar, which is assumed to be 1.25 next year, is also surrounded with considerable uncertainties. Finally, growth of private consumption is uncertain. During the last four years, consumers were particularly not inclined to spend much on durable goods. Now the economic climate is more favourable, consumers have decided to replace depreciated durables. In the projection, it is assumed that this so called pent-up demand will end this year. However, if this pent-up effect will be continued next year, private consumption growth in 2007 could be higher.

## NORWAY – STATISTICS NORWAY

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
	2005	2005	2006	2007
GDP	237683,02	2,30	2,10	2,90
Private consumption	99338,83	3,40	3,50	3,70
Public consumption	48378,90	1,50	2,50	2,40
Gross fixed capital formation	44486,02	10,90	7,70	-0,10
Private, excl. dwellings	-	-	-	-
Dwellings	9926,09	14,50	5,80	-0,20
Change in stocks (1)	-	0,20	0,20	0,00
Total domestic demand	179182,52	3,80	3,90	2,80
Exports of goods and services	28658,43	5,80	5,00	1,90
Imports of goods and services	43836,20	8,30	7,70	3,40
Net exports (1)	-	-1,10	-1,20	-0,60
GDP deflator	-	2,10	4,10	2,60
Consumer prices	-	1,60	2,40	1,50
Private consumption deflator	-	1,20	2,30	1,70
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	-	-	-
Nominal hourly gross wage rate	-	3,60	4,00	5,00
Employment (thousands)	-	0,70	2,50	1,00
Unemployment rate (4)	-	4,60	3,40	3,30
Real household disposable income	-	6,70	-5,70	5,50
Net saving ratio (households) (5)	-	12,60	4,30	6,20
Public sector fiscal balance (6,7)	-	-	-	-
Gross public debt (6,7)	-	-	-	-
Current account balance (6)	-	16,60	18,60	17,20
Central bank policy rate (non-EMU countries)	-	1,90	-	-
Short-term interest rate (3 months) (8)	-	2,20	3,10	3,80
Long-term interest rate (10 years) (8)	-	3,74	-	-
United States Federal funds rate	-	3,20	-	-
GDP	-	-	-	-
USA	-	-	-	-
Japan	-	-	-	-
Euro Area	-	-	-	-
World trade volume (goods)	-	-	-	-
Oil price (9)	-	54,00	66,00	58,00
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,26	1,30
Yen/Euro	-	137,00	92,20	90,15
Local currency/Euro for non-EMU countries	-	8,01	8,02	8,10

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

GNP growth in Norway in the first half of 2006 was almost 4 per cent in annual terms. Unemployment is now almost as low as during the peak in the economy at the end of the 1990s. Despite the high rate of economic growth, inflation is extremely low. Wage growth and price growth, however, are set to rise.

High international growth and low interest rates are two of the factors behind the 3-year economic recovery in Norway. High growth has been experienced in both the demand from the mainland economy, oil investments and the export of goods and services from Mainland Norway. This has contributed to growth in most industries. In response to the activity growth, Norges Bank increased the key interest rates by 1.25 percentage points during the course of a year. We anticipate that the key interest rates will be further increased by 0.5 percentage points and that the money market interest rate will thus reach around 3.75 per cent at the end of the year.

As in the past, we have based our assumptions on a moderate economic downturn in the USA in 2007 and 2008, and on the development in the euro area also slowing down next year. This will contribute to a poorer future export development. We also anticipate that oil investments will, in real terms, fall slightly from this year to next. Coupled with slightly higher interest rates, we believe that this will contribute to the growth in the Norwegian economy being somewhat muted in the future. Unemployment, however, is expected to remain at roughly the same low level as today.

Considering the activity level in the Norwegian economy and the increase in energy prices, the growth in wages and consumer prices is very moderate. Wage growth this year is estimated at 4 per cent, but high profitability in trade and industry and relatively great pressure in the labour market are expected to take the wage growth up to 5 per cent next year.

The low growth in the Consumer Price Index adjusted for taxation changes and excluding energy goods (CPI-ATE) in August this year has not been seen since 2004. While the prices of oil-related products may have peaked, we are now facing strong growth in household electricity prices this autumn. The total CPI will increase considerably in the months to come, and is likely to exceed 3 per cent before Christmas. Electricity prices, however, are expected to fall somewhat during next spring, whereby the year average for the CPI could fall to 1.5 per cent in 2007, compared with 2.4 per cent this year. Combined with a weaker NOK, slightly higher wage growth and lower productivity growth can contribute to the underlying price growth (measured by the CPI-ATE) increasing from an average of roughly 0.8 per cent this year to around 1.5 per cent next year.

## POLAND – IKCHZ

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
	2005	2005	2006	2007
GDP	243,70	3,40	5,10	4,50
Private consumption	150,70	2,00	4,00	3,70
Public consumption	47,30	4,90	2,90	2,70
Gross fixed capital formation	44,30	6,50	10,40	9,30
Private, excl. dwellings	-	-	-	-
Dwellings	-	-	-	-
Change in stocks (1)	2,10	-1,00	0,00	0,00
Total domestic demand	244,40	2,20	4,90	4,70
Exports of goods and services	90,10	8,10	11,00	9,00
Imports of goods and services	90,80	4,90	10,50	10,00
Net exports (1)	-0,70	1,10	0,20	-0,20
GDP deflator	-	2,70	0,50	2,10
Consumer prices	-	2,10	1,50	2,30
Private consumption deflator	-	1,90	1,40	2,20
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	2,90	0,80	1,00
Nominal hourly gross wage rate	-	4,70	4,50	4,30
Employment (thousands)	-	1,30	1,40	1,00
Unemployment rate (4)	-	16,70	14,40	13,20
Real household disposable income	-	2,50	3,80	3,50
Net saving ratio (households) (5)	-	6,20	5,50	5,30
Public sector fiscal balance (6,7)	-	-2,00	-2,10	-2,00
Gross public debt (6,7)	-	41,90	42,50	43,50
Current account balance (6)	-	-1,40	-1,70	-2,50
Central bank policy rate (non-EMU countries)	-	5,40	4,10	4,25
Short-term interest rate (3 months) (8)	-	5,30	-	-
Long-term interest rate (10 years) (8)	-	5,20	-	-
United States Federal funds rate	-	-	-	-
GDP	-	-	-	-
USA	-	3,30	3,50	2,80
Japan	-	2,60	2,80	2,30
Euro Area	-	1,40	2,40	1,90
World trade volume (goods)	-	7,60	9,40	7,50
Oil price (9)	-	54,40	65,00	60,00
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,26	1,29
Yen/Euro	-	136,80	-	-
Local currency/Euro for non-EMU countries	-	4,03	3,94	3,91

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

The outlook for Poland's economy in 2006-2007 remains buoyant despite the political turmoil in recent months. The GDP forecast for 2006 has been upgraded to 5.1%. This largely reflects the accelerating trend in economic activity induced mainly by advancing domestic demand. Both private consumption and gross fixed investment increased remarkably. The current strength in consumer spending is underpinned by double-digit credit growth, inflow of remittances from abroad and improvement in labour market conditions. Moreover the exports volume is still growing at a double-digit pace.

Compared with a year ago the unemployment rate fell by more than 2 percentage points, with the growing demand for skilled workers exerting upward pressure on wages. However annual inflation remains significantly below the official 2.5% target, making a near-term tightening of monetary policy unlikely. The central bank (NBP) though, has indicated that wage pressures are a key risk to the medium-term outlook for price stability. With €7.5bn deficit treated as an anchor and operations of open pension funds included in the public sector (which is permitted by Eurostat till 2007) there are no significant threats to the fiscal position in the forecast horizon. However, a likely postponing of public expenditures reform may create a real challenge to the fiscal position in coming years.

## SERBIA MONTENEGRO – FTRI

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
	2005	2005	2006	2007
GDP	21,10	6,50	6,00	7,00
Private consumption	17,60	20,10	20,60	14,10
Public consumption	3,10	25,30	18,60	14,60
Gross fixed capital formation	0,40	2,30	16,20	15,80
Private, excl. dwellings	-	-	-	-
Dwellings	-	-	-	-
Change in stocks (1)	-	-	-	-
Total domestic demand	-	1,10	7,40	6,20
Exports of goods and services	6,30	20,90	18,40	16,50
Imports of goods and services	-11,80	1,50	12,60	14,40
Net exports (1)	-5,50	-21,90	-22,50	-21,50
GDP deflator	-	16,70	16,80	10,00
Consumer prices	-	17,80	7,40	8,20
Private consumption deflator	-	16,50	7,20	8,00
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	-	-	-
Nominal hourly gross wage rate	-	-	-	-
Employment (thousands)	-	2069,00	2028,00	1990,00
Unemployment rate (4)	-	20,80	22,60	25,20
Real household disposable income	-	-	-	-
Net saving ratio (households) (5)	-	-	-	-
Public sector fiscal balance (6,7)	-	-	-	-
Gross public debt (6,7)	-	-	-	-
Current account balance (6)	-	-9,80	-11,20	-10,40
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	-	-	-
Long-term interest rate (10 years) (8)	-	-	-	-
United States Federal funds rate	-	-	-	-
GDP	-	-	-	-
USA	-	-	-	-
Japan	-	-	-	-
Euro Area	-	-	-	-
World trade volume (goods)	-	-	-	-
Oil price (9)	-	-	-	-
Exchange rate	-	-	-	-
Dollar/Euro	-	-	-	-
Yen/Euro	-	-	-	-
Local currency/Euro for non-EMU countries	-	84,00	85,00	94,00

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employees

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

The trend of pronounced credit expansion by commercial banks continued in Q1 and Q2 2006. Total credit to enterprises and households in the first three months rose by an additional 457 mn euros, or almost 60% up on Q1 2005. Where structure is concerned, there was a marked rise in household borrowing (165 mn euros in Q1, or triple the Q1 2005 figure). Enterprises borrowed 292 mn euros, 56 mn more than in the same period last year. In all likelihood, it was this rapid acceleration of credit to households that prompted the monetary authorities to raise the reserve rate on banks' foreign borrowing. The effects of the measure – a significant rise in active interest rates and a resultant decline in the borrowing of the non-government sector, in particular households - will become apparent in the next quarter. It is noteworthy that the government in this quarter became a net creditor instead of net debtor as thus far. This change in the position of the government with commercial banks occurred primarily because of the significant increase in government dinar deposits. With regard to the structure of bank credits, Q1 saw a sharp rise in repo transactions (by 163 mn euros), of which more below.

The payroll tax accounts for the bulk of the personal income tax – around 80% - and in the observed period it grew by more than 13% in real terms. Such a high increase seems to be the consequence of an increase in the number of registered employees, as well as of a rise in average wages, not only in public institutions, but also in the private sector. In all likelihood, it is a consequence of the curbing of the gray economy rather than of a real rise in employment.

Developments are similar in the case of social security contributions – 12.5% in real terms on an accrual basis . Local communities «gained» thanks to such a high rise in the PIT .Although the corporate income tax (CIT) has remained almost negligible in the composition of public revenue, the exceptionally high rate of its growth – more than 70% in real terms – is analytically interesting. A rapid increase in the CIT began as early as last year. As noted in the previous issue of QM, the presentation of profit was encouraged by a range of circumstances: the probability of obtaining bank credit on the basis of high stated profit; an exceptionally low rate of the CIT, not only compared to other countries, but also compared to other types of taxes in this country; the obvious economy-wide process of reducing the informal sector.

## SLOVENIA – SKEP

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2006	2007
GDP	27,60	4,00	4,50	4,30
Private consumption	15,20	3,60	3,10	3,10
Public consumption	5,40	2,20	3,00	2,90
Gross fixed capital formation	6,70	1,50	7,50	5,50
Private, excl. dwellings	-	-	-	-
Dwellings	-	-	-	-
Change in stocks (1)	0,50	-0,60	-	-
Total domestic demand	27,80	2,00	4,10	3,60
Exports of goods and services	17,80	10,50	9,20	8,20
Imports of goods and services	18,00	7,00	8,50	7,20
Net exports (1)	-	2,00	0,40	0,60
GDP deflator	-	1,50	2,50	2,50
Consumer prices	-	2,50	2,50	2,50
Private consumption deflator	-	-	-	-
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	-1,00	-1,50	-1,40
Nominal hourly gross wage rate	-	4,80	4,60	4,60
Employment (thousands)	-	0,70	0,80	0,70
Unemployment rate (4)	-	6,50	6,60	6,70
Real household disposable income	-	-	3,00	3,00
Net saving ratio (households) (5)	-	-	-	-
Public sector fiscal balance (6,7)	-	-1,80	-1,50	-2,00
Gross public debt (6,7)	-	29,10	30,00	30,00
Current account balance (6)	-	-2,00	-1,90	-1,70
Central bank policy rate (non-EMU countries)	-	4,00	3,50	-
Short-term interest rate (3 months) (8)	-	3,60	3,80	3,90
Long-term interest rate (10 years) (8)	-	3,80	4,10	4,20
United States Federal funds rate	-	-	-	-
GDP	-	-	-	-
USA	-	3,20	3,40	3,00
Japan	-	2,60	2,60	2,20
Euro Area	-	1,30	2,50	2,20
World trade volume (goods)	-	7,40	9,00	8,00
Oil price (9)	-	55,00	66,00	60,00
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,25	1,25
Yen/Euro	-	-	-	-
Local currency/Euro for non-EMU countries	-	239,64	239,64	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

Slovenian economic activity has been more dynamic in the first half of 2006 as previously expected. With slight upward revision of our spring forecast, the GDP growth could reach 4.5 percent in 2006 and 4.3 percent in 2007. Alongside very positive impulses from foreign trade, also domestic investment are coming on stream again, as one of the principal factors contributing to a healthy economic growth. Regarding private and public consumption with around 3-percentage growth, they are seen to lag behind economic growth, in both years.

On international markets, Slovenia confirmed dynamic foreign trade developments. According to final data for 2005, the exports growth was even higher than previously estimated. Slovenia saw a robust growth in exports and imports also in the first half of 2006, in line with ameliorated economic cycle in EU countries. The export growth in real terms doubled compared to the GDP growth. On the EU markets exports of goods boosted, mainly arising from strong road vehicles exports to Great Britain and Germany. This year strong increase was also recorded in exports to Austria and Italy, especially by exports of electricity. Alongside, in Slovenia high imports were driven by domestic demand and increasing industrial production. Towards the end of 2006 there is to expect the foreign trade dynamism to calm down and 9.2 percent of exports and 8.5 percent of imports is foreseen over the whole 2006. Forecast for 2007 is 8.2-percentage rise in exports and 7.2-percentage in imports. Current account balance will stay at deficit of 1.9 percent in 2006 and 1.7 percent of GDP in 2007.

Inflation is seen to maintain the average annual level of 2.5 percent from 2005 also in 2006 and 2007. Potential concerns in price developments could arise from unstable world commodity prices, possible price effects after Euro adoption in the year 2007 and inflation pattern in other EMU countries.

Taking into account the forecasted inflation rate, the real gross wage growth should reach 2.1 percent in both 2006 and 2007. According to the set wage policy, we expect the real gross wage growth to lag behind productivity growth. Collectively agreed wage adjustments are moderate, on average even below the inflation rate.

After a modest positive employment trend in 2005 the Slovenian labor market is to see only moderate improvement in 2006 and in 2007, with 0.8 and 0.7 percent employment growth, respectively. Favorable economic growth should enhance new employment to some extent, however obstacles that cause employers' precariousness regarding hiring remain: payroll tax, high social contributions, rigid employment legislation. Nevertheless, new employment is to arise mostly from services sector and small and fast growing businesses. Based on our calculations, the tax reform envisaged for 2007, should not bring about any significant labor cost reduction. Consequently the pressure of the high tax burden on labor will remain a disadvantage, especially in labor intensive activities, which face severe restructuring already. On the other hand, we believe that the gradual diminishing of unemployment has brought to a halt. The ILO unemployment rate could therefore even rise somewhat – in 2006 and 2007 to 6.6 and 6.7 percent respectively.

In early autumn 2006 the Slovenian government proposed a set of changes in fundamental tax laws. From the business sector's point of view the proposed changes are not sufficient for the actual improvement of the business environment and strengthening the competitiveness of the companies. Payroll tax will be abolished only gradually until 2009. Similarly, corporate tax rate is announced to lower from 25%, to reach 20% until 2010. Personal income tax is leading to lower progressiveness, with no evident effect on labour cost. Still, some improvements in taxing procedures are welcome.

After Slovenia met criteria for the introduction of euro, the conversion rate of Slovenian tolar to euro was fixed by the Council of the EU on 11 July 2006. The conversion rate is set at 239,640 Slovenian tolar per euro, which is equal to central parity rate, being in force during the stay in the ERM2 regime. It will become effective rate as of 1 January 2007. Slovenia will join Euro area by the so called "big bang" scenario, without any transitional period, for cash and non-cash activities. Business sector does not expect major price increases, while on the other hand consumers, being well informed of previous euro introduction experiences in neighboring countries, see some fear. To minimize the risks of introducing new currency double pricing has been introduced by law since March 2006. Along, the Consumers' rights organization is performing "price watch" and some companies volunteered and announced €-price commitment, as a part of their promotional and market campaign.

## SPAIN – CEPREDE

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2005	2006
GDP	905455,00	3,53	3,50	3,17
Private consumption	524065,00	4,20	3,57	3,15
Public consumption	162634,00	4,81	4,35	3,54
Gross fixed capital formation	265387,00	6,99	6,19	5,45
Private, excl. dwellings	152787,00	7,74	6,84	6,50
Dwellings	80182,00	5,82	6,46	4,62
Change in stocks (1)	2005,00	-0,01	0,12	0,03
Total domestic demand	954091,00	5,04	4,50	3,96
Exports of goods and services	231001,00	1,46	5,66	4,12
Imports of goods and services	279637,00	6,96	8,69	6,30
Net exports (1)	-48636,00	-1,71	-1,24	-0,97
GDP deflator	122,51	4,10	3,86	3,21
Consumer prices	117,40	3,43	3,70	3,13
Private consumption deflator	117,40	3,43	3,70	3,13
Output gap (2)	-	0,53	0,50	0,17
Unit labour costs (3)	-	2,23	2,28	2,06
Nominal hourly gross wage rate	-	2,62	3,04	3,08
Employment (thousands)	18973,25	5,58	4,11	2,97
Unemployment rate (4)	-	9,16	8,40	8,02
Real household disposable income	489792,93	2,67	3,62	2,83
Net saving ratio (households) (5)	-	9,00	9,00	8,80
Public sector fiscal balance (6,7)	8091,15	1,10	1,30	0,50
Gross public debt (6,7)	390765,47	4,32	4,22	4,10
Current account balance (6)	-66627,07	-7,40	-9,00	-10,20
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	2,18	3,01	3,73
Long-term interest rate (10 years) (8)	-	3,44	3,92	4,33
United States Federal funds rate	-	3,51	5,16	5,30
GDP	-	-	-	-
USA	-	3,22	3,51	2,88
Japan	-	2,62	2,55	1,79
Euro Area	-	1,48	2,50	1,83
World trade volume (goods)	-	7,40	9,00	7,80
Oil price (9)	-	61,06	66,68	71,50
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,25	1,26
Yen/Euro	-	136,86	144,59	147,79
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

Spanish growth model is still on track, keeping GDP growth rates over 3,7% ( yoy) in second quarter. The strong internal demand, fueled by construction investment, and the high rates of employment generation, also induced by that construction activity, will continue being the main underlying growth forces. So, in absence of external shocks, the Spanish economy would grow at a stable path over 3%, at least in the near quarters.

In fact, while most of the analysts were estimating a slight deceleration on GDP growth rates for current year, last figures published by National Statistics Institute (INE) shown a small acceleration by one tenth in second quarter related to the previous one ( y o y ).

Nevertheless, if we look at the GDP components we can easily find out that the internal demand continues in a downward trend, started at the end of 2004 where a peak was reached with a 5.2 % .In the second quarter the internal demand yoy growth rate was 4.6% and we are forecasting a 4,3% at the end of this year, coming down to a 3,5% at the end of 2007.

So, that small acceleration on the aggregate GDP growth was due to a reduction in the negative effect of external demand, which would have passed from a net growth contribution of -1,4% in first quarter, to a -1,1 in the second.

Looking at the future, we can not expect further improvement in exports growth rate, having in mind that world trade volume will stay at the same rates and the Spanish competitiveness is not going to advance significantly.

Summing up the downward trend on internal demand and this stabilization (if no deceleration) on exports growth we get a slight deceleration trend in GDP growth rates for coming quarters that in any case will keep average rates over 3% in the short term.

That internal demand deceleration will be driven by private consumption which would be affected by two different forces:

First, recent monetary policy tightening would have dragged some disposable incomes in indebted households at the time that would have induced some slight saving increase in other non-indebted ones.

Second, the high rates of new employments showed in 2005, ( 5,6% in EAPS terms) are becoming more moderated in recent quarters (4,2% in 2<sup>nd</sup>. Quarter) and we are forecasting a further deceleration for next quarters going to a more reasonable labor productivity growth rates. Thus, it will come into a new household income moderation.

Construction investment will continue showing a quite good dynamic with growth rates around 5%, but also with a slight downward trend.

Spanish external imbalance is suffering and additional widening this year with an expected current account deficit around 9% of GDP (7,4 in 2005) and we don't see any significant improvement in the short term because of the strength of investment and the shortage of internal saving.

Fortunately, Public sector is acting as a counterbalance in that financial disequilibrium with an expected surplus over 1,3% of GDP for this year and a bit smaller for 2007.

Concerning inflation paths, once we have reached a peak over 4% at the beginning of the year, we can expect a continuous downturn trend for coming months, because, in absence of new external shocks, the underlying fundamentals will support this trend. Wage moderation joint with some advances in productivity gains will push down Unit Labor Cost while the higher interest rates will reduce monetary demand pressures.

## SPAIN – SGEI

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2005	2006
GDP	905,50	3,50	3,40	3,20
Private consumption	524,10	4,20	3,60	3,10
Public consumption	162,60	4,80	4,30	3,90
Gross fixed capital formation	265,40	7,00	5,80	4,90
Private, excl. dwellings	-	8,80	7,00	6,50
Dwellings	-	6,00	4,90	3,80
Change in stocks (1)	-	0,00	0,00	0,00
Total domestic demand	954,10	5,00	4,30	3,70
Exports of goods and services	231,00	1,50	5,80	5,40
Imports of goods and services	279,60	7,00	8,40	6,80
Net exports (1)	-	-1,70	-1,10	-0,80
GDP deflator	-	4,10	3,80	3,40
Consumer prices	-	3,40	-	-
Private consumption deflator	-	3,40	3,70	3,30
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	2,20	2,20	1,90
Nominal hourly gross wage rate	-	-	-	-
Employment (thousands)	-	546,20	520,30	454,20
Unemployment rate (4)	-	9,20	8,10	7,80
Real household disposable income	-	-	-	-
Net saving ratio (households) (5)	-	10,00	9,20	9,10
Public sector fiscal balance (6,7)	-	1,10	1,40	0,70
Gross public debt (6,7)	-	43,10	39,80	37,70
Current account balance (6)	-	-6,50	-7,70	-8,50
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	2,20	3,10	3,90
Long-term interest rate (10 years) (8)	-	3,40	3,90	4,10
United States Federal funds rate	-	4,25	5,25	4,75
GDP	-	-	-	-
USA	-	3,20	3,40	2,90
Japan	-	2,60	2,70	2,10
Euro Area	-	1,40	2,50	2,10
World trade volume (goods)	-	7,50	9,50	7,80
Oil price (9)	-	54,50	68,90	71,00
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,26	1,28
Yen/Euro	-	136,90	145,20	140,00
Local currency/Euro for non-EMU countries	-	-	-	-

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

Les coordonnées de l'économie espagnole en 2006 prolongent le cycle de croissance ininterrompue qui a démarré à la fin de la première moitié des années quatre-vingt-dix. Au cours du premier semestre écoulé la croissance du PIB accélérât en atteignant un taux de 3,7 % en glissement annuel, face au 3,5% en 2005, malgré la hausse et la forte volatilité des prix de matières premières énergétiques et autres.

Le dynamisme soutenu de l'économie espagnole pendant la dernière décennie a permis l'absorption d'accroissements de population très forts, de telle façon que le revenu par habitant n'a cessé d'augmenter. En 2005 il atteignait 92,8 pourcent de la moyenne de la zone Euro en termes de parité de pouvoir d'achat. Au même temps, le taux de chômage en perdant les valeurs à deux chiffres qu'il affichait encore en 2004, vient de se rapprocher du 8%, taux moyen de la même zone.

Sur le moyen terme, le moteur principal de la croissance a été la demande nationale, alors que la demande externe nette contribuait négativement à l'expansion du PIB de façon persistante. Au cours des derniers trimestres un certain rééquilibrage est en train d'avoir lieu, puisque la contribution de la demande nationale tend à se modérer, alors que la contribution négative du secteur extérieur se rétrécit. Celle-ci était juste supérieure à 1 point pourcent au deuxième trimestre, alors qu'elle atteignait 2 points à la même période de 2005. Telle sera aussi la composition de la croissance pour l'ensemble de l'année selon notre prévision, alors qu'on anticipe une contribution de ce secteur de -0,8 point en 2007.

Parmi les composantes principales de la demande nationale, au premier semestre la consommation des ménages augmentait au même rythme annuel de 3,7% que le PIB, grâce à la bonne tenue de l'emploi et le niveau relativement bas des taux d'intérêt réels. Pour l'ensemble de l'année son rythme d'expansion devrait être similaire, selon nos prévisions, avant de décélérer d'un demi-point pourcent en 2007.

Pour sa part, l'investissement des entreprises en biens d'équipement tourne autour de 9,0 % en glissement annuel au cours des six derniers trimestres; ce qui rend à portée de la main la prévision de 7% pour l'ensemble de l'année. Par ailleurs, l'investissement dans la construction reste toujours dynamique. On anticipe une croissance de celle-ci autour de 5 % en moyenne annuelle, presque un point au dessous de celle observée au premier semestre.

Cette longue période d'expansion a permis de corriger certains déséquilibres, mais elle a contribué aussi à faire augmenter d'autres. En plus de la baisse du chômage, l'assainissement budgétaire soutenu est à la base d'un excédent des comptes publics de l'ordre de 1,5 % du PIB en 2006 et aussi d'une réduction très forte du poids de la dette publique, celle-là atteignant 27 points pourcent de PIB entre 1996 et 2006.

## SWEDEN – CSE

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2006	2007
GDP	287,97	2,70	4,50	2,70
Private consumption	138,21	2,40	3,30	2,70
Public consumption	78,39	0,70	1,30	1,70
Gross fixed capital formation	48,98	8,50	9,00	3,50
Private, excl. dwellings	33,09	9,10	9,00	3,00
Dwellings	8,06	16,90	10,10	6,70
Change in stocks (1)	0,10	-0,10	-0,30	0,20
Total domestic demand	265,76	2,79	3,64	2,83
Exports of goods and services	139,92	6,40	9,00	3,80
Imports of goods and services	117,71	7,30	7,50	4,20
Net exports (1)	-	0,31	1,55	0,27
GDP deflator	-	1,10	1,60	1,70
Consumer prices	-	0,50	1,50	1,70
Private consumption deflator	-	1,00	1,30	1,50
Output gap (2)	-	-	-	-
Unit labour costs (3)	-	-	-	-
Nominal hourly gross wage rate	-	-	-	-
Employment (thousands)	4258,00	0,70	1,90	1,00
Unemployment rate (4)	-	7,80	7,30	7,20
Real household disposable income	144,10	1,80	3,80	2,80
Net saving ratio (households) (5)	-	7,80	8,30	8,40
Public sector fiscal balance (6,7)	-	2,50	2,00	2,00
Gross public debt (6,7)	-	48,00	47,50	47,00
Current account balance (6)	-	6,40	6,70	6,70
Central bank policy rate (non-EMU countries)	-	1,70	2,20	3,30
Short-term interest rate (3 months) (8)	-	1,70	2,30	3,50
Long-term interest rate (10 years) (8)	-	3,40	3,70	4,00
United States Federal funds rate	-	3,20	5,00	4,50
GDP	-	-	-	-
USA	-	3,20	3,40	2,20
Japan	-	2,60	3,20	2,70
Euro Area	-	1,30	2,40	1,80
World trade volume (goods)	-	7,10	10,00	6,50
Oil price (9)	-	54,40	64,00	55,00
Exchange rate	-	-	-	-
Dollar/Euro	-	1,24	1,26	1,34
Yen/Euro	-	-	-	-
Local currency/Euro for non-EMU countries	-	9,30	9,30	9,00

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

During the first half of 2006 Swedish economic growth averaged 4.6 percent on an annual basis, which can be compared with a potential growth rate of less than 2.5 percent. The high economic growth has been driven by a strong increase in world trade combined with a recovery of domestic demand.

Private investments have grown massively during the past couple of years, after three consecutive years of falling investment volumes. Simultaneously household consumption has been boosted by a combination of real interest rates close to zero, rapidly increasing house prices, and an expansionary fiscal policy. The relatively loose fiscal policy, with increasing transfer payments and escalating labor market programs, was to a large extent a result of this year being an election year.

With the new liberal/conservative government in office, we expect a certain change in the fiscal policy, with a stronger focus on lower taxes and reduced transfer payments. As a result, employment will increase more rapidly compared with what would otherwise have been the case, especially in the service sector. We expect total employment to increase with 3 percent over the course of 2006 and 2007 compared with 2005. However, with an increasing labor force, partly due to demographical factors, the open unemployment rate will decrease rather slowly, from 7.8 percent in 2005 to 7.2 percent in 2007 (*Eurostat definition of unemployment*).

With gradually increasing consumer prices and booming house prices, the Swedish Riksbank is expected to continue raising its repo rate, from 2.5 percent today to 3.5 percent by the end of next year. As a result, private consumption will grow somewhat slower next year compared with 2006.

World trade is expected to slow down during the course of next year, not least due to weaker growth in the US economy. This, combined with a slight appreciation of the Swedish Krona, is expected to affect Swedish exports negatively. A relatively large share of Swedish exports, such as wood, pulp and paper products, is relatively sensitive to exchange rate movements. At the same time, sectors with a strong focus on the American market, such as the chemical sector and the transport equipment sector, are expected to face a weak demand. According to our forecast, exports of goods and services will increase with less than 4 percent in 2007, which can be compared with an annual increase of around 9 percent in 2006.

With the general business cycle already having peaked, we expect private investments to grow with just over 3 percent in 2007, which can be compared with a growth rate of almost 10 percent in 2006. In conclusion, we expect GDP to grow with 4.5 percent this year and 2.7 percent in 2007, with a mild development of net exports and a moderate development of domestic demand.

## SWEDEN – NIER

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2006	2007
GDP	SEK 2673 billion	2,70	4,10	3,30
Private consumption	SEK 1283 billion	2,40	3,10	3,40
Public consumption	SEK 728 billion	0,70	1,80	1,60
Gross fixed capital formation	SEK 455 billion	8,50	8,30	5,00
Private, excl. dwellings	SEK 307 billion	8,90	8,10	4,80
Dwellings	SEK 75 billion	16,90	11,10	7,50
Change in stocks (1)	SEK 1,6 billion	0,00	-0,10	0,10
Total domestic demand	SEK 2467 billion	2,70	3,60	3,30
Exports of goods and services	SEK 1299 billion	6,40	8,80	6,90
Imports of goods and services	SEK 1093 billion	7,30	8,40	7,70
Net exports (1)	SEK 206 billion	0,20	0,80	0,20
GDP deflator	-	1,10	1,50	2,20
Consumer prices	-	0,50	1,50	1,90
Private consumption deflator	-	1,00	1,20	1,20
Output gap (2)	-	-1,90	-0,40	0,30
Unit labour costs (3)	-	1,40	-1,30	2,90
Nominal hourly gross wage rate	-	3,10	3,30	3,80
Employment (thousands)	-	4258,00	4324,00	4383,00
Unemployment rate (4)	-	5,90	5,40	4,60
Real household disposable income	SEK 1338 billion	1,80	3,70	3,10
Net saving ratio (households) (5)	SEK 109 billion	7,80	8,40	8,10
Public sector fiscal balance (6,7)	SEK 74 billion	2,80	2,80	2,90
Gross public debt (6,7)	SEK 1346 billion	46,60	43,80	41,50
Current account balance (6)	SEK 159 billion	5,90	6,30	6,50
Central bank policy rate (non-EMU countries)	-	1,50	2,50	3,50
Short-term interest rate (3 months) (8)	-	1,70	2,60	3,70
Long-term interest rate (10 years) (8)	-	3,40	4,20	4,60
United States Federal funds rate	-	4,25	5,50	5,25
GDP	-	-	-	-
USA	-	3,20	3,50	3,00
Japan	-	2,60	2,80	2,50
Euro Area	-	1,40	2,30	2,10
World trade volume (goods)	-	7,50	8,90	6,70
Oil price (9)	-	54,20	68,70	65,70
Exchange rate	-	-	-	-
Dollar/Euro	-	1,19	1,28	1,29
Yen/Euro	-	141,00	147,00	142,00
Local currency/Euro for non-EMU countries	-	9,44	9,21	9,20

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

Sweden's economic upswing is continuing. Conditions for vigorous economic growth during 2006 and 2007 are highly favourable. International demand is showing relatively strong growth, and both monetary and fiscal policies are expansionary this year. In addition, the very solid balance sheets of firms and households and in the local government sector are fuelling increased investment and consumption. Encouraged by these favourable demand conditions, GDP is growing relatively fast, and without threatening the inflation target, as resource utilization on the labour market is fairly low to begin with. But growth will slow down in the period ahead. This will be due partly to slackening international demand, and partly to a less expansionary fiscal policy in Sweden and a Swedish monetary policy that will be tightened as growth is increasingly limited by the supply side of the economy. All factors considered, GDP will be up by 4.1 percent this year and 3.3 percent in 2007. Adjusted for inter-year variations in the number of working days – a more accurate measure of the economic tendency – growth will be 4.5 percent this year, and 3.4 percent in 2007.

## SWITZERLAND – KOF

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2006	2007
GDP	294,30	1,90	2,60	2,10
Private consumption	177,50	1,30	1,90	2,10
Public consumption	33,60	-1,60	-0,30	0,40
Gross fixed capital formation	63,10	3,20	3,60	2,80
Private, excl. dwellings	29,60	3,50	2,30	1,10
Dwellings	33,50	2,90	4,70	4,20
Change in stocks (1)	-1,30	-0,50	0,80	0,50
Total domestic demand	272,80	0,80	2,50	2,80
Exports of goods and services	137,40	6,80	7,00	2,70
Imports of goods and services	116,00	4,90	7,70	4,30
Net exports (1)	21,50	1,20	0,40	-0,40
GDP deflator	100,50	-	-	-
Consumer prices	104,30	1,20	1,20	0,80
Private consumption deflator	101,70	0,80	1,20	1,20
Output gap (2)	-	1,20	0,50	0,00
Unit labour costs (3)	-	1,20	0,80	1,30
Nominal hourly gross wage rate	-	2,80	2,70	2,70
Employment (thousands)	3105,00	0,30	0,70	0,70
Unemployment rate (4)	-	3,80	3,40	3,00
Real household disposable income	289,80	0,90	1,00	2,00
Net saving ratio (households) (5)	-	6,80	6,00	5,90
Public sector fiscal balance (6,7)	-	0,00	0,80	1,00
Gross public debt (6,7)	-	49,20	47,00	44,60
Current account balance (6)	-	14,00	13,20	12,70
Central bank policy rate (non-EMU countries)	-	0,70	1,50	2,00
Short-term interest rate (3 months) (8)	-	0,70	1,40	2,10
Long-term interest rate (10 years) (8)	-	2,10	2,60	2,30
United States Federal funds rate	-	3,50	5,10	4,80
GDP	-	-	-	-
USA	-	3,20	3,50	2,50
Japan	-	2,60	2,80	2,00
Euro Area	-	1,50	2,60	2,00
World trade volume (goods)	-	3,80	7,10	3,50
Oil price (9)	-	54,40	65,90	70,00
Exchange rate	-	-	-	-
Dollar/Euro	-	1,25	1,24	1,37
Yen/Euro	-	136,93	142,85	149,18
Local currency/Euro for non-EMU countries	-	1,55	1,57	1,56

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

The upswing the Swiss economy currently finds itself in will continue until the end of the year. GDP growth is broadly based and will reach 2.6 per cent this year. It is worth stressing that investment in machinery and equipment, which made only moderate advances in 2005, has been developing more dynamically in 2006. Overall, growth will increasingly be driven by the domestic economy. From 2007 onwards, quarterly GDP growth rates will stabilise around 1.5 per cent while the annual rates will recede from 2.6 per cent in 2006 to 2.1 per cent in 2007. Next year, the momentum from abroad will weaken. The Swiss economy will to a large extent be able to defy the slowdown in the world economy thanks to a robust growth in private consumption. The investment boom will be over in 2007, however, even though the growth rates remain positive up through the end of our forecast horizon. Employment will rise until the end of the forecast period, and unemployment will fall.

Private consumption will remain the genuine pillar of economic growth during next year. Growth rates will stay high up to the end of 2007. The basis for the unusually strong consumption growth will be above-average increases in labor compensation and also – particularly next year – in incomes from business and wealth. With a rate of 2 per cent, the growth in real disposable household income will next year turn out to be higher than it has ever been since 2001. The rise in employment as well as in wages, but also the good corporate results which raise incomes from business and wealth and encourage bonus payouts explain this strong income growth. The savings ratio will continue to sink up through the end of the forecast horizon, something that underscores again the heightened optimism of Swiss consumers in an environment of reduced uncertainty.

As in recent years, the prospects for low consumer price inflation are favorable. Next year, the rate of inflation will drop to 0.8 per cent from 1.2 per cent this year. However, the upswing pushes prices up to a certain amount as is evident from the course of KOF core inflation. The latter will rise next year to 1.0 per cent, to some extent due to increasing labor costs. While prices for goods will remain under pressure, services will become more expensive. The strongest inflationary impulse will once again come from residential rents.

Against the background of a sustained upswing, the SNB will once again adjust the target range for three-month Libor by 0.25 percentage points in December. In view of almost non-existent risks for price stability, the focus of monetary policy will remain on the development of real economic variables. While an additional interest rate hike by 0.25 per cent cannot be ruled out, if it comes, then at the latest the short-term interest rate will have reached its peak. The short-term real interest rate will rise to about 1.4 per cent, which corresponds roughly to its average over the last 25 years. On the international bond markets, the returns have probably already passed their peak this past summer. The Swiss franc, being relatively low priced currently, will rise somewhat against the euro in the forecast period, as the narrowing of interest rate differentials suggests. By the end of 2007, the exchange rate will be around 1.56 CHF/EUR.

## UNITED KINGDOM – NIESR

Variables	Level, Euro bn., Current price	Volume, percentage change from previous year if otherwise not specified		
		2005	2006	2007
GDP	1167,80	2,50	2,60	2,60
Private consumption	759,40	1,40	1,90	1,90
Public consumption	246,50	2,60	2,00	2,80
Gross fixed capital formation	195,10	3,00	5,30	3,20
Private, excl. dwellings	115,10	3,00	4,40	3,20
Dwellings	57,00	-1,50	2,00	1,90
Change in stocks (1)	2,90	-0,10	0,10	0,10
Total domestic demand	1203,90	1,80	2,50	2,40
Exports of goods and services	318,60	6,50	9,80	2,80
Imports of goods and services	355,60	5,90	9,20	2,30
Net exports (1)	-37,00	0,00	-0,10	0,10
GDP deflator	-	2,20	2,80	2,70
Consumer prices	-	2,10	2,10	2,30
Private consumption deflator	-	2,50	2,70	2,80
Output gap (2)	-	-0,10	-0,10	-0,10
Unit labour costs (3)	-	3,60	3,20	2,30
Nominal hourly gross wage rate	-	-	-	-
Employment (thousands)	30834,00	0,80	0,50	0,30
Unemployment rate (4)	-	4,80	5,40	5,50
Real household disposable income	768,60	2,10	2,10	2,80
Net saving ratio (households) (5)	-	4,80	5,60	6,20
Public sector fiscal balance (6,7)	-	-3,10	-2,90	-2,50
Gross public debt (6,7)	-	42,90	43,40	43,70
Current account balance (6)	-	-2,20	-2,80	-3,00
Central bank policy rate (non-EMU countries)	-	-	-	-
Short-term interest rate (3 months) (8)	-	4,70	4,70	5,20
Long-term interest rate (10 years) (8)	-	4,40	4,60	4,90
United States Federal funds rate	-	-	-	-
GDP	-	-	-	-
USA	-	3,50	3,60	3,10
Japan	-	2,60	3,10	2,60
Euro Area	-	1,40	2,10	1,90
World trade volume (goods)	-	7,00	7,70	5,00
Oil price (9)	-	51,80	65,00	64,20
Exchange rate	-	-	-	-
Dollar/Euro	-	1,25	1,25	1,29
Yen/Euro	-	137,86	144,62	145,42
Local currency/Euro for non-EMU countries	-	0,68	0,69	0,70

(1) Percent of GDP of previous period (contribution to growth)

(2) Percent of potential GDP

(3) Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employees

(4) Percent of total labour force (according to Eurostat)

(5) Percent of net disposable income

(6) Percent of GDP

(7) EMU definition.

(8) Percent, the benchmark yield of corresponding government securities

(9) Brent, USD/barrel, annual average

After a period of below trend growth, the economy will grow at around its trend rate of 2.5 per cent this year and next. The economic recovery is occurring despite relatively subdued consumer spending, due to expand by 1.9 per cent a year in 2006 and 2007. GDP growth will be helped this year by a 4.4 per cent rise in business investment.

Inflation will stay a bit higher than the 2.0 per cent target set for the Bank of England. Consumer prices will rise, for example, by 2.3 per cent in the year to the final quarter of 2007. Our estimates show that there is hardly any spare capacity in the economy. However, upward pressures on inflation from higher oil prices and the switchback from falling to rising prices of non-oil goods imports will be moderated by the recent appreciation in the exchange rate.

Consumer-price inflation will also be tempered by subdued pay pressures. One reason is the big increase in immigration from Eastern Europe which is raising the supply of labour. Another is that employers are having to pump big amounts into their pension funds. These payments together with higher national insurance contributions have risen from 13.0 per cent of total labour costs in 2001 to 17.1 per cent in the first quarter of 2006. Companies will seek to shift this rise in their non-wage labour costs to their employees by offering less generous pay settlements.

The public finances are looking healthier: the deficit on the public sector current budget narrowed from 1.6 per cent of GDP in 2004–5 to 1.0 per cent in 2005–6. It is forecast to fall to 0.8 per cent of GDP in 2006–7 and 0.3 per cent in 2007–8. As a result, we expect that the Treasury will only just fail to meet its 'golden rule' of borrowing only to invest over the period from 1997–8 to 2008–9.

There will be intense political debate about the scale of government in the run-up to the Comprehensive Spending Review in 2007. However, there is little evidence that Britain's economic performance would be much affected for better or for worse by a smaller or a bigger public sector. Much more important, however, is the design of benefit and tax regimes, which can have a big impact on incentives.

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