AIECE General Report

Statistisk sentralbyrå • Statistics Norway
Oslo–Kongsvinger

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Abstract

AIECE General Report

Reports 2007/20 • Statistics Norway 2007

The world economy registered one of the highest growth rates ever in 2006. Growth was particularly high in Asia, Latin America and Russia. Also in the euro area, economic growth accelerated through 2006, boosted by exports and a recovery in internal demand. However, international growth is expected to slow down ahead as the ongoing slow-down in the US economy feeds through to the world economy.

Statistics Norway is a member of AIECE (Association d'Instituts Europeens de Conjoncture Economique), an association for politically independent european forecasting institutes. AIECE has 33 member institutes from 20 countries. Twice a year AIECE consensus forecasts are published in a report prepared by one of the member institutes. Spring 2007, the report was written by Statistics Norway.

The report is written by Andreas Benedictow, Roger Bjørnstad, Pål Boug, Torbjørn Eika, Andreas Fagereng, Torfinn Harding, Håvard Hungnes, Eilev Jansen, Jørn-Arne Jørgensen, Dag Kolsrud, Lars Lindholt and Eivind Tveter.

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1. Introduction

The world economy registered one of the highest growth rates ever in 2006. According to the March IMF forecast, world real GDP increased by 5.4 per cent last year, well above the 3.5 per cent average since 1980. However, growth is expected to slow down in 2007. Most important is the significant downturn of the US economy, so far a direct consequence of a sharp decline in the housing sector. In contrast, economic growth in the euro area accelerated through 2006, boosted by exports and a recovery in internal demand. In Asia, the expansion remains strong. Economic growth picked up in Japan in the fourth quarter of 2006 after a dismal performance in the two summer quarters. In India, and particularly in China, activity gathered further momentum in 2006, with GDP growth at 9.2 and 10.7 per cent, respectively.

The general consensus among the AIECE institutes is a moderate slowdown of growth in the world's major economies in 2007 and 2008. US GDP growth is revised downwards for 2007 compared to forecasts made six months ago, and is now expected to drop 0.9 percentage point from 2006, to 2.4 per cent. In 2008 growth is expected to pick up somewhat, to 2.8 per cent. In the euro area growth is expected to moderate this year from 2.7 per cent in 2006, but remain above trend growth throughout the forecast horizon. In China and India growth is also expected to decline slightly, but will stay at a high level.

The AIECE institutes have identified several risks associated with these forecasts. The US economy is most frequently pointed out as the source of downside risks, although most institutes believe in a soft landing in the US. However, decreases in housing investments and housing prices may continue. Both factors can lead to a dampening of the expansion of private consumption. The large trade deficit in the US that eventually has to be reduced is also pointed out as a risk. Portfolio shifts of Chinese, Japanese and other Asian countries may however be a starting point for adjustments. If such shifts favor the euro, it could lead to a strengthening of the currency, but also lower interest rates.

One could argue that the rapid advance of Asian developing countries during the past decades has a positive effect on growth in the OECD area, and that global growth is becoming less reliant on the US economy. Especially the Chinese economy has posted a remarkably high and stable growth for more than two decades. In 1980, the developing countries of Asia accounted for roughly 10 per cent of global output. In 2006, the same countries accounted for 27 per cent of global output.

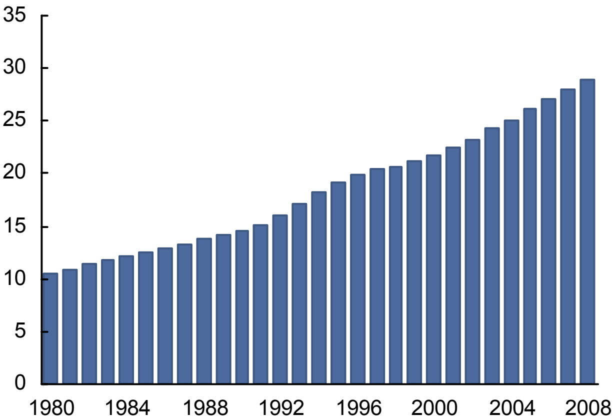
Many of the developing countries have large current account surpluses. China for instance, had a current account surplus of 7.2 per cent relative to GDP in 2005. The surplus increased to 9.1 per cent in 2006, and IMF projects the surplus to exceed 10 per cent of GDP in 2007 and 2008. The US has seen a corresponding increase in the current account deficit. Several institutes point to these imbalances as a source of risk, with potential for causing turmoil in international financial markets and negative implications for growth.

Overview of GDP projections

	Current Projections			Difference from Autumn 2006
	2006	2007	2008	2007
AIECE projections				
United States	3.3	2.4	2.8	-0.2
Japan	2.3	2.2	2.2	0.0
Euro Area	2.7	2.4	2.3	0.4
China		9.8	9.5	0.5
India		7.8	7.6	0.6
IMF projections				
United States	3.3	2.2	2.8	-0.7
Japan	2.2	2.3	1.9	0.2
Euro Area	2.6	2.3	2.3	0.3
China	10.7	10.0	9.5	0.0
India	9.2	8.4	7.8	1.1

Sources: IMF and AIECE

Developing Asia Gross domestic product based on purchasing-power-parity (PPP) share of world total



Source: www.imf.org

The AIECE institutes project an oil price in the area of 60 dollars per barrel over the next two years. There is some variation in the reported oil price projections. The highest reported projection increases to 70 dollar in 2008 (and is based on oil price futures). The lowest projection is around 55 dollars for both years. Some institutes argue why they believe 60 dollars is the equilibrium price for Brent Blend: OPEC and other oil producing countries are not interested in oil prices below 60 dollars per barrel and may lower production to avoid falling prices. Some institutes also argue that an oil price above 60 dollars could stifle economic growth in the major consumer countries, reducing demand for oil. However, there are also risks for higher oil prices. A few institutes mention terrorism, and many are pointing to the situation in the Middle East in general, and Iran and Iraq in particular.

In October 2000 the exchange rate between euro and US dollar was 0.83. In early May 2007 one euro was worth 1.36 US dollars. More than half of the AIECE institutes report they believe the US dollar will weaken (compared to the euro), whereas only about one out of four believe the dollar will appreciate. As an average the institutes expect the exchange rate between euro and US dollar to increase slightly from 1.31 in the first quarter of 2007 to 1.33 in the fourth quarter 2008. The continuing appreciation of the euro is partly explained by a better outlook and expected interest rate increase(s) in the euro area, and expectations of decreasing interest rates in the US and the US current account deficit.

The US dollar is also expected to depreciate compared to the Japanese yen. On average, the institutes believe that one dollar will cost about 114 yen in the last quarter of 2008, compared to 119.4 yen in the first quarter of 2007. The reported projections therefore imply that the yen will appreciate against the euro.

Questions for discussion

1) What is the impact of the advance of developing countries on the global economy?
2) The US economy accounts for a decreasing share of world GDP. Is the global economy becoming less reliant on the US economy?
3) Could portfolio shifts of Chinese, Japanese and other Asian countries from US dollar to euro induce a painful strengthening of the euro?

Central Bank Policy Interest Rates

	2007				2008			
	q1	q2	q3	q4	q1	q2	q3	q4
USA	5.3	5.2	5.1	5.0	4.8	4.7	4.6	4.6
Japan	0.5	0.5	0.7	0.8	0.9	0.9	1.0	1.1
Euro area	3.7	3.9	4.0	4.0	4.1	4.1	4.1	4.1
UK	5.3	5.5	5.6	5.6	5.6	5.4	5.3	5.3

Source: AIECE.

Exchange rates

	2007				2008			
	q1	q2	q3	q4	q1	q2	q3	q4
1 euro = x $	1.31	1.32	1.32	1.32	1.33	1.33	1.33	1.33
1 $ = x yen	120	118	117	117	116	115	114	114
1 euro = x yen (implied)	157	156	155	154	154	153	152	151

Source: AIECE.

BOX 1.1. Methodological issues

How do the institutes form their forecasts? Some institutes did not respond to this section, and a few gave no comments. Responding institutes checked from none to five options. Adding up check marks gave the following totals:

Data based econometric model	Theory dominated economic model	Spread-sheets	Leading indicators. Please specify below	Judge-ment	Other
18	13	13	19	22	3

There appears to be a significant dispersion of the institutes on forecasting methods and practices, from formal and model based to informal and judgmental. While some rely on national accounts data and econometric models, others rely on indicators and sector experts. Most institutes use several sources of information when composing their forecasts.

It is not surprising that Judgement is checked the most. It combines with every other option (including Others). According to the comments by the institutes, judgement is also used to forecast exogenous variables, and decide add factors and other model adjustments. It is used directly for longer term forecasts, and scenario constructions. Forecasters often incorporate sector experts' opinions and judgements.

A data based econometric model is the most used formal forecasting tool. Dynamics, consistency between variables and with data is the dominating benefit, while the main disadvantages are lack of transparency, demanding on resources, and susceptibility to data "problems".

The theory dominated economic model used by the institutes is a small DSGE and a large general equilibrium model. Otherwise, it seems like many institutes have checked both model options when they use a structural econometric model. An important benefit of the modeling approach – economic and/or econometric – is that it fosters discipline.

Survey based leading indicators are used by a lot of the institutes, and in a qualitative as well as quantitative way.

The institutes use estimates and preliminary data as an informal but important source of information. Early estimates are less emphasized, and very preliminary data are used cautiously. There seems to be significant differences between countries when it comes to when estimates and preliminary data are available, and how often and much they are revised. In any case, forecasts starts from national accounts data, and depend on the quality of the data.

2. The International Environment

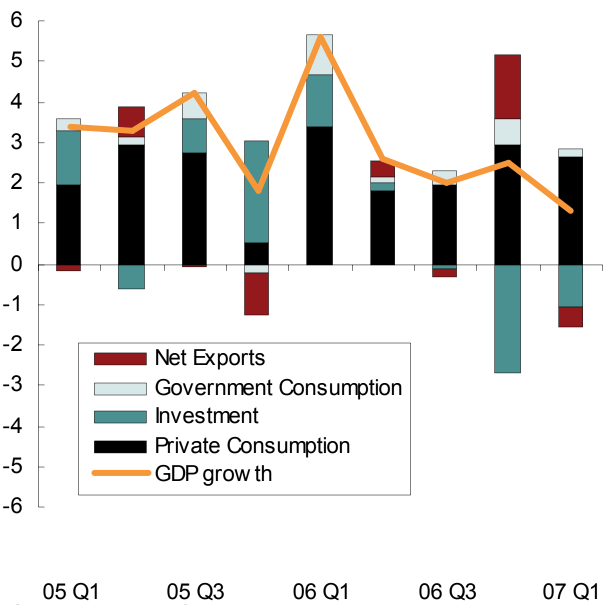
2.1. The US Economy

US GDP growth slowed significantly in the course of 2006. In the three last quarters of 2006, annualized growth was in the range of 2.0 to 2.6 per cent, well below trend growth. The downturn has primarily been isolated to the housing market. Thus far household consumption has proven resilient.

Advance estimates from BEA of April 27 indicate that GDP growth has continued decelerating into 2007. In the first quarter of 2007 the US economy is estimated to grow by 1.3 per cent. Growth in consumer expenditure declined after a strong fourth quarter last year, but is still relatively vigorous at 3.8 per cent. More striking, exports fell by 1.2 per cent after a strong performance throughout 2006. Residential investment is still falling at a rapid pace, and the negative tendency in investment growth in equipment and software continues.

Consumer confidence is clearly on a downward trend according to the University of Michigan Consumer Sentiment Survey. Several factors have deteriorated for consumers since the beginning of the year. The downturn in the housing market is the most important, reducing growth in wealth and mortgage equity withdrawal as well as limiting job gains. In addition, energy prices have been rising rapidly. Support to confidence mainly come from tight labour markets. The latest Philadelphia Business Outlook Survey is reflecting weak manufacturing conditions.

Contribution to GDP growth. Seasonally adjusted rates



Source: Bureau of Economic Analysis

AIECE institutes expect a soft landing with GDP growth rates of 2.4 per cent this year, increasing to 2.8 per cent in 2008. Compared to October 2006, AIECE forecasts for 2007 are now revised downwards for investment growth and upwards for growth in household consumption. This probably reflects that the downturn in the housing market has turned out to be sharper during the last six months than expected and - in spite of this - that consumer spending has been higher. Overall, the GDP growth forecast is revised downwards by 0.2 percentage points in the same period.

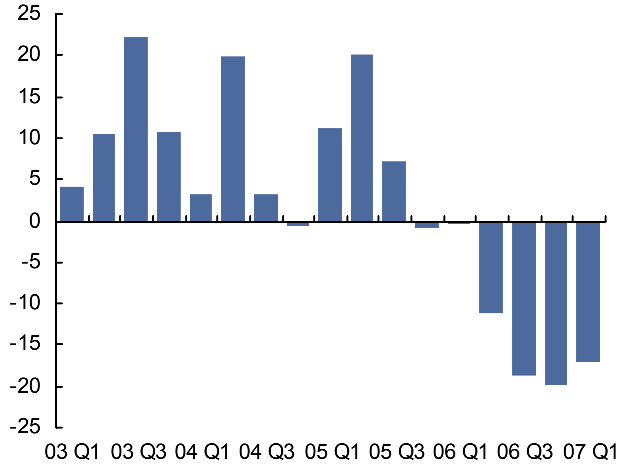
Summary of Key Variables for the US Economy

(Annual average)	2003	2004	2005	2006	2007	2008
Gross domestic product	2.5	3.9	3.2	3.3	2.4 (2.6)	2.8
Private consumption growth	2.8	3.9	3.5	3.2	2.9 (2.3)	2.4
Gross fixed investment growth	3.4	7.3	7.5	2.9	0.0 (3.5)	3.2
Residential investment	8.4	9.9	8.6	-4.2	-9.3	1.5
CPI inflation rate	2.3	2.7	3.4	3.2	2.1	2.4
Unemployment rate	6.0	5.5	5.1	4.6	4.7	5.0

Source: Bureau of Economic Analysis and Bureau of Labour Statistics up to 2006 and AIECE institutes. AIECE forecasts autumn 2006 in parentheses.

The downward spiral of the housing market has consistently surprised analysts since it began early last year. Transmission to the labour market and household consumption is not yet visible, but is expected to materialize to some extent during 2007 by most AIECE institutes. Residential investment has been a substantial drag on GDP since the second quarter of 2006. In early 2007 there were some signs of stabilization as mortgage applications have steadied and sales of existing homes improved somewhat. The rise in sales of existing homes may have been boosted by favorable weather in the early winter. In March existing home sales dropped sharply. New home sales and housing starts are still heading downward and inventories of unsold new homes are at their highest levels since the early 1990s. Furthermore, there has been a rising concern about subprime mortgages, which represent about 12 per cent of the total mortgage market, following a sharp increase in default rates. Increasing problems in this market may have a broader effect on the housing market if rising foreclosures add further to the number of unsold homes. Tightening of lending standards

Residential invcestment, Per cent change from preceding perion, SA, Annual rates

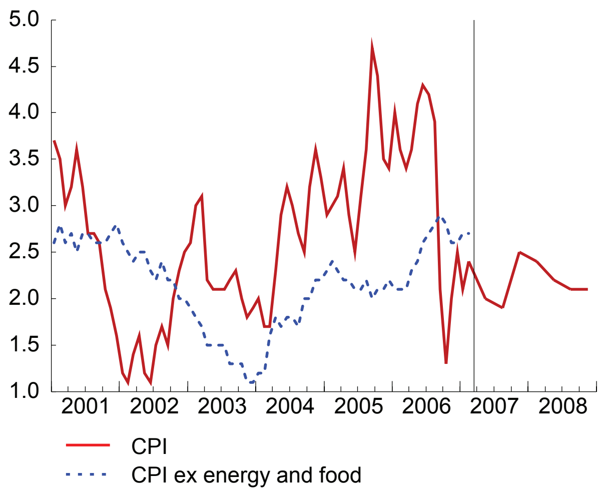


Source: BEA

US Labour Market

Source: US Department of Labor up to 2007M3 and AIECE.

US Inflation
Per cent



Source: US Department of Labor up to 2007M2 and AIECE.

could also follow, depressing housing demand further. House price inflation has dropped towards zero overall, and prices are falling in some market segments and regions. In March, median existing house prices were down 1.3 per cent from a year earlier.

Consumption resistance to the downturn in the housing market has until now been rather remarkable. Household finances still look solid, supported by employment and income growth. Equity gains have boosted wealth. The S&P 500 index is now close to its 2000 peak. Inflation decelerated in the wake of lower oil prices last autumn, counteracting the effect on household consumption of the weakening housing market. The negative impact on the US economy has also been dampened by strong external demand and the ongoing depreciation of the US dollar. However, increasing oil prices this spring will, if persistent, push up price growth again. With falling house price inflation, mortgage equity withdrawal - which allowed households to finance consumption - will fade.

Most AIECE institutes expect a moderate slowdown in household consumption growth in 2007 and 2008 in the wake of the present slowdown in the housing market. A few institutes expect a sharp decline in house prices, but none has a sharp downturn in the US economy as a baseline scenario.

The labour market continues to defy expectations. Employment growth has averaged 152 000 monthly thus far in 2007. Down from 189 000 monthly in 2006, it is still strong enough to absorb new entrants and jobless workers. The unemployment rate was at 4.4 per cent in March, the lowest level since 2001. Thus far, a relatively muted adjustment of employment in the construction sector has kept job growth afloat. The labour market normally lags on GDP. Consistent with the ongoing economic downturn, AIECE institutes forecast unemployment to rise ahead, but level out at 5.0 per cent towards the end of 2007 and stay at this level throughout 2008.

Last autumn falling inflation in the wake of decreasing oil prices stimulated household consumption in spite of the sharp downturn in the housing market. This spring we have seen a rather sharp increase in oil prices again, to 65 - 70 US dollars a barrel in early May. Prices on gasoline and heating oil have been moving up in large steps. There are indications of increasing inflation expectations in the patterns of yields of treasury bonds.

The seasonally adjusted consumer price index was up 0.6 per cent in March from the previous month, following a 0.4 per cent increase in February. Higher energy prices led to acceleration in inflation. The core index, excluding food and energy prices, increased by 0.1 per cent in March, following a 0.2 per cent increase in

February. Over the past year core CPI inflation has run at a 2.5 per cent pace. AIECE institutes expect inflation within the range of 2.0 to 2.5 per cent throughout the forecast horizon.

The Fed Funds Target Rate leveled out last summer at 5.25 per cent. The Federal Reserve now has to deal with slowing GDP growth and increasing inflation. For the moment the Fed seems to consider the two risks broadly balanced, so the Fed funds rate should remain on hold for a while. AIECE institutes expect a gradual decrease from the third quarter this year to 4.5 per cent in late 2008.

The US current account is currently benefiting from the slowdown in the US economy together with robust growth in the rest of the world. Lower interest rate expectations support the depreciation of the USD, which in turn stimulates the US export sector. Weaker development of private consumption and a weaker dollar facilitates lower import growth, and thus also an improvement of the current account. If the rest of the world economy keeps on growing more or less unaffected by a US slowdown, the current account balance could improve significantly. However, and more likely, if economic growth in the rest of the world slows down in the wake of the US downturn, the positive effect on the US current account will be reduced. The recent advance estimates of US national account figures indicate weak export performance in the first quarter of 2007. AIECE institutes expect the current account deficit to stabilize around 6 per cent of GDP over the next two years. None of the institutes foresee a sharp adjustment of the dollar within the forecast horizon.

The deficit in the government budget improved for the third consecutive year in 2006, and accounted for 2.6 per cent of GDP. The IMF expects the deficit to level out at 2.5 per cent the next two years. In 2006, government debt was 43.4 per cent as a share of GDP, well below the EU average.

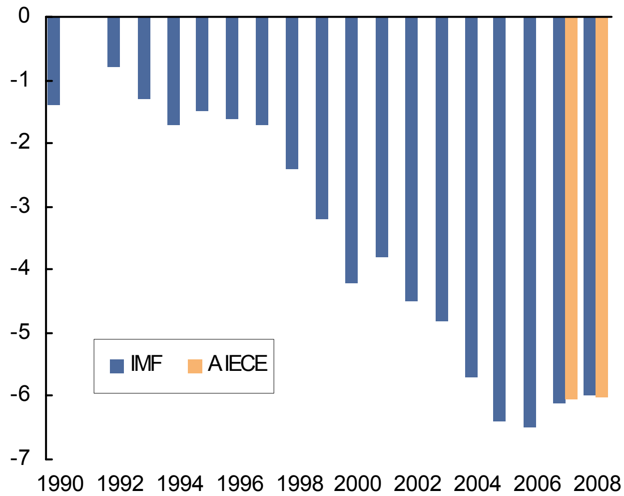
Questions for discussion

1) Will the downturn in the housing market and the recent oil price hike feed through to household consumption and the rest of the economy? Is the current resilience in household consumption reflecting a fundamental change in dynamics between the housing market and consumption?
2) In 2006, there were signs of improvement in the current account deficit due to a slowdown in imports and high export growth following from high growth internationally. Will the US dollar continue to depreciate and provide a smooth unwinding of the current account deficit? Do we see signs of a J-curve effect at work after several years of a depreciating dollar?
3) What explains the drop in exports in the fist quarter of 2007?

Federal Funds Rate
Quarterly averages

Source: Federal Reserve Board up to 2007Q1 and AIECE.

United States Current account balance. Per cent of GDP



Source: www.imf.org and AIECE.

General Government Balance
Per cent of GDP

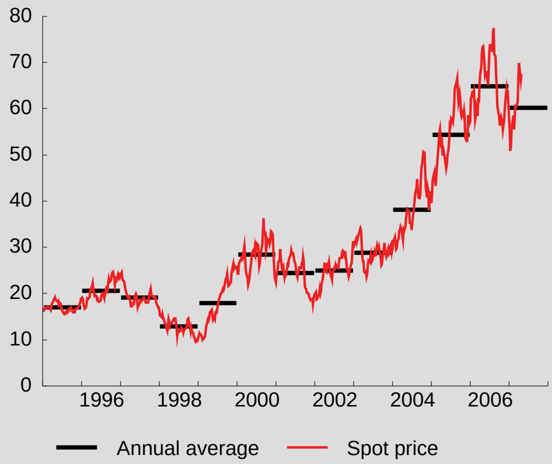
Source: IMF.

BOX 2.1. The international oil market

The spot price on Brent Blend reached $77 per barrel in the middle of August 2006. Thereafter it declined sharply to around $55-60 during October–December. In early 2007 oil prices experienced a short-lived drop, falling to just above $50 per barrel, before rebounding and reaching around $65 in late March. Over the first three months in 2007 the average spot price on Brent Blend has been somewhat above $57, compared to a an average of around $65 in 2006.

There are various reasons why oil prices were lower at the start of 2007 than in the third quarter of last year. The Northern Hemisphere experienced a mild winter reducing the demand for fuel oil. Furthermore, the parties in the Lebanon conflict entered into a cease-fire, leading to less fear that oil production in the Middle East would be affected.

Spot price Brent Blend. 1995 - 2007
Dollar per barrel



Source: Norges Bank.

Prices strengthened in February and March this year primarily due to colder weather. Furthermore, OPEC carried out additional production cuts, while central OECD-countries reduced their stocks. Finally, there was renewed political tension in the Middle East, above all the international discussion concerning the nuclear program in Iran and the fear that future oil supply could be affected.

According to the International Energy Agency (IEA) global oil demand grew by 0.9 million barrels a day (mbd) in 2006, below the 1.2 mbd growth in 2005. Consumption growth was strong in China, India and in many Middle Eastern oil-producing countries last year, while there was actually a small decline in demand from OECD countries.

Overall oil output growth fell to 0.8 mbd in 2006, from 1.3 mbd the preceding year. Non-OPEC supply grew by 0.6 mbd, led by increases in Russia, the Caspian Republics, Brazil and Angola.

OPEC decided to reduce production by 1.2 mbd as from November 2006 and an additional 0.5 from February this year. As a result, spare capacity in OPEC has increased to above 2.0 mbd, compared to an average spare capacity of 1.3 mbd in 2006. This has lead to less concern about OPEC not being able to compensate for a possible disappearance of production, and as a consequence less demand in the oil futures market.

According to the IEA the stocks of crude oil and petroleum products in OECD at the start of 2007 were generally at or above the averages of their five-year level. However, preliminary data based on US and Japanese inventories suggest that there has been an unseasonably large inventory draw in the

World crude oil supply and demand[1]

				Forecast		Forecast							
	2004	2005	2006	2007	2008	07q1	07q2	07q3	07q4	08q1	08q2	08q3	08q4
Demand	**82.4**	**83.6**	**84.5**	**86.0**	**87.6**	**86.1**	**84.6**	**85.8**	**87.2**	**87.6**	**86.5**	**87.4**	**88.9**
OECD	49.3	49.6	49.3	49.6	50.0	50.3	48.2	49.4	50.6	50.6	48.9	49.7	50.9
Europe	15.5	15.5	15.5	15.5	15.5	15.6	15.1	15.5	15.7	15.5	15.2	15.6	15.7
North-America	25.4	25.5	25.4	25.7	26.1	25.6	25.4	25.9	26.1	25.9	25.8	26.1	26.4
Pacific	8.5	8.6	8.5	8.4	8.5	9.2	7.8	8.0	8.8	9.2	7.9	8.0	8.8
FSU	3.8	3.8	3.9	3.9	4.0	4.0	3.7	3.9	4.1	4.0	3.8	3.9	4.1
Rest of the world	29.3	30.2	31.3	32.4	33.6	31.8	32.7	32.5	32.5	33.0	33.8	33.8	33.9
Supply	**83.2**	**84.5**	**85.2**	**85.7**	**87.6**	**85.6**	**85.3**	**85.6**	**86.5**	**87.4**	**87.1**	**87.3**	**88.4**
OPEC[2]	33.1	34.2	34.4	33.4	33.8	33.3	33.3	33.4	33.5	33.6	33.7	33.8	34.0
OECD	21.2	20.3	20.1	20.2	20.3	20.6	20.1	19.9	20.3	20.7	20.0	19.9	20.5
FSU	11.2	11.6	12.1	12.6	12.9	12.4	12.5	12.6	12.7	12.8	12.9	12.9	13.0
Rest of the world	17.7	18.4	18.7	19.6	20.6	19.3	19.4	19.7	20.0	20.3	20.5	20.7	20.9
Stock change (and miscellaneous)	0.8	0.9	0.7	-0.3	0.0	-0.5	0.7	-0.2	-0.7	-0.2	0.6	-0.1	-0.5
Call on OPEC	32.3	33.4	33.6	33.6	33.8	33.9	32.6	33.6	34.3	33.8	33.1	33.8	34.4
Average price (Brent Blend)[3]	38.1	54.2	65.1	60.8	60.8	60.5	61.2	60.5	60.9	61.0	60.8	60.6	60.7

[1] Million barrels per day incl. NGL.
[2] Production in Angola is not included in OPEC. Estimates of OPEC production in 2007 and 2008 made by Statistics Norway.
[3] Average price (Brent Blend) forecasts by AIECE for 2007 and 2008.

Source: Medium-Term Oil Market Report FEBRUARY 2007 first quarter of 2007, reflecting continued strong demand, colder weather in February and March and possibly a reaction to OPEC production cuts.

IEA expects the global demand for crude oil to increase by 1.5 mbd in 2007 and 1.6 mbd in 2008. The increase is above all expected to take place in Asia and the Middle East, as well as in North America. Non-OECD demand is poised to grow over three times faster than in OECD countries. As in later years it is the demand for transportation fuels that provides the structural support for demand growth in both areas, as there are few substitution possibilities for oil in this sector. Due to continued high prices, the IEA projects the demand for fuel oil to stagnate and gradually be replaced by natural gas and particularly by coal.

IEA projects production outside OPEC to increase by 1.5 mbd in 2007 and by 1.4 mbd in 2008 (including Angola). The production increase is above all expected in Russia, the Caspian Republics, Angola and Brazil. An increase in North American and Pacific production will be offset by reductions in Norway, UK and Mexico, leaving OECD supply about unchanged the next two years.

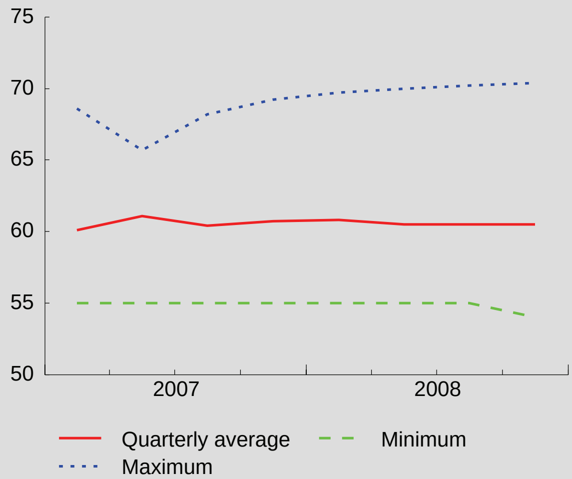
If OPEC (excluding Angola) keeps production levels constant (with a slight increase in NGL production), the stocks of global crude oil will decrease slightly in 2007 and stay constant in 2008. This would entail a seasonable increase in crude stocks of 0.5 mbd, if we look at the second and third quarter in 2007 together, to be refined and build up the gasoline stocks for the driving season from April to September and fuel oil stocks before the increase in winter heating demand. There is uncertainty whether this will be sufficient to satisfy future demand. The Energy Information Administration predicts lower future Non-OPEC supply than IEA and a tighter market in 2007.

The question also remains whether the situation concerning Iran's nuclear program can be solved with peaceful means, and thus, prevent a reduction in the oil production from OPEC´s second largest exporter.

Price sensitivity is a characteristic of the current petroleum markets. Any real or potential disturbance to petroleum demand or supply such as unusual weather, unscheduled refinery disruption or geopolitical uncertainty in oil-exporting regions may all result in large price increases, at least temporarily. Prices can fall rapidly under different sets of circumstances, such as an easing of geopolitical frictions or on the onset of unseasonably mild weather. The question also remains how OPEC will react to price changes, as they have given mixed signals on their preferred price level.

Based on the AIECE institutes the average forecast of the expected oil price is close to $60 per barrel in both 2007 and 2008. The highest and lowest forecast is $70 and $54, respectively. The institutes that predict the highest future oil price generally focus on OPEC and their ability to defend the oil price level, as well as tensions in the Middle East. Institutes expecting lower prices generally base their predictions on a moderate international slow down in growth.

Spot Price Brent Blend
US$ per barrel



Source: AIECE.

Questions for discussion:

1) Oil prices have risen sharply this winter, and well above AIECE forecasts. Are you revising your forecasts due to the recent development?

2.2. Asia

The emerging Asian economies, led by India and China, have contributed strongly to the international cyclical upturn the latest years. The growth rate in Japan dropped somewhat in 2006, after three consecutive years with increasing GDP growth. In the forecast period, the AIECE institutes expect Asian growth rates to drop slightly, which is in line with the international cyclical development. The institutes also expect modest interest rate increases, as inflation rates move upwards. This might strengthen the local currencies.

AIECE and IMF GDP Growth Forecasts

	AIECE		IMF		
	2007	2008	2006	2007	2008
Japan	2.2	2.2	2.2	2.3	1.9
China	9.8	9.5	10.7	10.0	9.5
India	7.8	7.6	9.2	8.4	7.8

2.2.1. Advanced Asia

Japan

The Japanese economy continues to grow at a rate above the trend, although at a lower pace than in 2005. The growth is broadly founded, with increasing exports and private investments as the strongest contributors. Except for a rebound in the third quarter of 2006 due to a drop in private consumption, domestic demand has been relatively strong. On the negative side there is a downward trend in public investments. The domestic and external demand impulses have brought the unemployment rate down to a nine-year low, and have together with improved corporate profits increased the overall employee compensation and paved the way for further growth in private consumption.

The long awaited normalization of interest rates has lately been delayed again by the absence of consumer price inflation. Until mid 2006 prices on imports, domestically produced goods and services showed an underlying positive trend, but growth rates in prices on imported and domestically produced goods then started to fall again. In the short term, inflation is expected to be around zero, but at a positive trend.

The AIECE institutes expect GDP growth to continue at trend level both in 2007 and 2008, which is in line with what is expected by the IMF. IMF regards the risk on their forecast as balanced. On the upside, they point at the possibility for stronger firm investments than expected, and that a lower than expected oil price could boost private consumption. On the downside lies an uncertainty concerning the strength in the underlying consumer spending, and a sharper than expected slowdown in the US.

The AIECE institutes agree on the direction of movements for the interest rate and the yen in their forecasts. That said, the uncertainty of the forecasts is considered to be substantial. Many point out that the period with deflation is not over, and expect only small interest rate increases, leaving the currency weak. Others point to Bank of Japan's eagerness to normalize the interest rates. Conditional on anticipated increases in consumer prices, the interest rate level is forecasted as high as 3¼ per cent towards the end of 2008. On average, however, the institutes expect an interest rate increase to close to 1 per cent at the end of the forecast period.

2.2.2. Emerging Asia

China

Compared to the remarkable growth rates in real GDP of 10.4 in 2005 and 10.7 in 2006, the average projections from the AIECE institutes for 2007 and 2008 are somewhat lower at 9.8 and 9.5 per cent, respectively. The main driving forces behind a somewhat slower GDP growth are believed to be weaker growth in US demand and policy measures taken to dampen investment growth. There is an upside potential for investments due to projects in the run up to the 2008 Olympics. An expected gradual appreciation of the yuan may dampen growth, although AIECE institutes anticipate the effect to be moderate.

The capacity of Chinese firms to finance investments with own funds does to some extent immunize the Chinese economy to the policies implemented to cool down investments.[1] A factor witch potentially may increase private consumption is the planned increases in spending on social services like health care, education and pensions, as pointed out in IMF's recent Economic Outlook. These policies may reduce people's desire to save for their own safety net. Domestic demand could actually cushion the expected lower external demand.

A sharper than expected slowdown in the US, as opposed to a soft landing, would reduce China's growth prospects. There is a danger of real estate and business investment bubbles, which might burst even in the short term. Changing sentiments in developed economies could result in increasing trade-barriers, hampering the region‘s and China's exports.

The AIECE institutes do not believe in a sharp appreciation of the yuan, but they rather expect the Chinese government to continue the policy of a gradual appreciation. Although the government may show some signs of wanting to reduce the priority given to exports, the export industry is still at the center-stage of China's economic development. The situation in international financial markets, with China as a major buyer of US-securities, is likely to dampen the interest outside of

[1] Shang-Jin Wei, based on a paper with David Dollar in the IMF World Economic Outlook, April 2007: "at the present, approximately half of China's investment is financed out of the corporate sector's retained earnings".

China in a sudden change in the value of the yuan. There may also be domestic political considerations making Chinese authorities inclined to avoid a sharp appreciation. Internal tension could be accentuated as locally produced food would become less competitive to imported food in the event of a sharp appreciation. This would harm already disfavoured farmers.

Recently published figures for the year-on-year GDP growth show an increase to 11.1 per cent in the first quarter of 2007. At the same time the year-on-year growth in consumer prices in March has increased to 3.3 per cent. These growth rates indicate a need for a monetary contraction. Earlier interest rate hikes have proven ineffective at curtailing domestic investments. At the time being, there is speculation concerning exactly how the Bank of China will react. Will it allow for increasing inflation and make the currency gradually appreciate in real terms, or is a marked nominal appreciation of the yuan to be preferred? The last choice is commonly regarded as the most attractive.

India
AIECE's assessment of Indian real GDP is 7.8 and 7.6 per cent growth in 2007 and 2008, down from 9.2 per cent in 2006. The current growth in India is supported by investments and consumption, as well as exports. The forecast of a somewhat lower growth rate ahead is based on expectations of tightening of economic policies. Continuing upward inflationary pressure may lead the central bank to carry forward its tightening of monetary policy. Tightening in fiscal policy may be a priority as the current debt level, despite being on a shrinking path, is as high as 80 per cent of GDP. In 2006, India's current account deficit widened, reflecting strong domestic demand and high oil prices.

Questions for discussion:

1) The rate of inflation in Japan was for a while increasing, but has since the middle of 2006 been falling again. On this background, has the problem of deflation again become actualized?

2) Is the carry trading in Japanese yen a source to financial instability?

3) How and to what extent will the Chinese economy be affected in the event of a sharp downturn in the US?

4) Local pollution is becoming increasingly more problematic in China. Do you think that political or other measures in order to reduce these problems will reduce the production possibilities in China in the near future?

5) Current account deficits in the US and EU towards China may become a larger problem in the future. If the yuan does not appreciate sufficiently, will trade barriers scale up soon?

BOX 2.2. The US influence on the European economy

Among the AIECE institutes there are little doubt that a US slowdown will have significant impact on the European economy. But as long as the problem mainly is isolated to the US housing market, effects on the European economy will be more limited. Many put forward that the European economy to a large extent is driven by solid domestic demand at the moment. In this situation, reduced US demand will have less negative consequences compared to a situation with weak domestic demand and low capacity utilisation.

The European economy is influenced by the US economy through several channels. The US demand for European products has a direct impact on European production, and the FEDs interest rate is important for the dollar/euro exchange rate. The channels may be divided into different markets, but influence may also take other ways:

- trade
- financial markets
- global labour market
- decisions in multinational companies
- politics
- culture

In the recent years the external and European internal economic environment has been changing rapidly. The emergence of the Chinese and Indian economies as major exporters of manufacturing products at low cost has led to changes in relative prices in the world economy. For some production sectors in the advanced economies this represent tough competition while on the other hand it also opens a wide range of new business opportunities. The emerging economies have had double digit growth rates for a long time. As a consequence the US economy's share of world GDP as well as of international trade has decreased significantly. At the same time the enlargement of the European Union has created larger internal markets. Structural changes within the European countries may also change the way the European economy works as a whole. This is some of the background for the question whether the European business cycle is less dependent on the US economy than before.

The issue of European economic dependency on the US may be divided into two groups of questions:

- Have the structural transmission mechanisms from the US to the European economy changed? Are the European economies less sensitive to the performance of the US economy?
- Has the stylised business cycle *pattern* concerning the US and the European economies changed? Is the economic performance of the two economic areas less synchronised than before and are leads or lags as they used to be?

There may of course also be strong connections between the two elements, as structural changes are likely to affect the business cycle pattern. AIECE institutes seem to be divided on these general questions, both with respect to the strength of the influence and the business cycle pattern. Trade seems to be the channel in which the institutes put the most emphasis. The main argument in favour of reduced importance is the reduction of US import as a share of European export. On the other hand, there is a link in the opposite direction as the US influence on the development in the emerging economies is high. The US importance for the European economy could then be "restored" through such indirect effects. The general globalisation make all countries more interrelated and this is held up as an argument in favour of increased importance of the US economy, as it still is the largest in the world.

CPB reports that for a local shock in the United States their rule of thumb is that a 1.0 per cent reduction of growth in the US will lead to 0.2 percentage point lower growth in the euro area, and that this relationship is unchanged. The US business cycle is by some institutes assumed to lead the European cycle by two to four quarters.

Some possible sources for changing cyclical relationships internationally reported by the AIECE institutes are that changes in potential and actual growth may become much more volatile for the developing countries. Business cycle impulses coming from these countries may increase, at the expense of impulses from the US, as their share of global trade increases. The single currency, the expanding euro area and the EU enlargement also imply more synchronised European business cycles, and thus point in the direction of a decoupling from the US cycle. The European business cycle will then to a larger degree origin from internal factors. Still, many institutes state that the best approximation to the overall effect is to assume that the underlying cyclical pattern between the two regions remain more or less unchanged.

Questions for discussion

1) Is the sensitivity of the European economy for economic impulses from the US changing?
2) Are cyclical relationships changing internationally?
3) To what extent do European interest rates depend on US interest rates?
4) What is the importance of non-market channels for US influence on the European economy?

3. Europe

3.1. Euro area

Despite high oil prices, increased interest rates, a strong euro and a slowdown in the US economy, economic activity in the euro area accelerated in 2006. In 2007 and 2008 it is forecasted that euro area growth will decrease somewhat compared to 2006.

National Accounts report a euro area growth of 2.7 per cent in 2006. For the report submitted at the AIECE Autumn General Meeting in October last year it was estimated a growth of 2.5 per cent in 2006. Increased exports have been the main driving force in the upswing, even though the euro was strengthened against the dollar during the last year. A moderate wage growth has dampened the weakening of competitiveness, and international demand has been strong. In addition, business investments have been high.

There has been a marked increase in employment in the euro area in 2006. The unemployment rate fell from an average of 8.6 per cent in 2005 to 7.2 per cent seasonally adjusted in March 2007, which is lower than in the previous boom during the late 1990s. The upswing in the labour market has contributed to an increase in household consumption and housing investments.

Strong GDP growth in the fourth quarter last year may be seen in connection with the increase in the VAT rate in Germany January 2007. Then one could expect a decline in growth first quarter this year. After several years with large fiscal deficits, the recent upswing has improved public finances somewhat. The AIECE institutes do not anticipate expansionary fiscal policy in 2007 and 2008. The institutes expect that increased interest rates, a strengthening of the euro and a slowdown in the US economy will decrease euro area growth in the two-year projection period.

Main National Account variables for the Euro Area. y/y growth rate in per cent. Average of direct forecasts for the Euro Area

	2006	2007	2008
Gross domestic product	2.7	2.4	2.3
Private consumption	1.8	2.0	2.2
Gross fixed capital formation	4.3	4.3	3.5
Public consumption	2.3	1.8	1.6
Exports of goods and services	8.1	6.8	5.8
Imports of goods and services	7.5	6.5	6.2

GDP growth in individual euro countries

Country	Institute name	2006	2007	2008
Austria	WIFO	3.2	3.0	2.4
Belgium	Average	3.0	2.2	-
	FPB	3.0	2.2	-
	IRES	3.0	2.2	-
Finland	ETLA	5.5	2.7	2.8
France	Average	2.1	1.9	2.2
	BIPE	2.1	1.6	1.8
	INSEE[1]	2.1	2.3	-
	OFCE	2.1	2.3	2.9
	COE-REXECODE	2.1	1.8	1.8
Germany	Average	2.7	2.4	2.4
	DIW	2.7	2.3	2.5
	HWWI	2.7	2.3	2.4
	IFO	2.7	2.2	2.3
	IFW	2.7	2.8	2.4
	RWI	2.7	2.3	2.6
Greece	KEPE	4.4	3.6	3.5
Ireland	ESRI	6.1	5.4	3.9
Italy	Average	1.9	1.8	1.6
	PROMETEIA	1.9	1.8	1.5
	ISAE	1.9	1.8	1.7
	REF	1.9	1.7	1.6
Netherlands	CPB	3.0	2.8	2.8
Slovenia	SKEP	5.2	4.5	4.3
Spain	Average	3.9	3.5	3.1
	CEPREDE	3.9	3.7	2.8
	SGEI	3.9	3.4	3.3

[1] 2007 I/2006 II, annual rate

A closer look at the real economy

The economic development has improved significantly in the euro area in 2006, and the GDP growth has been steadily high. In the last quarter of 2006 annualised GDP growth reached 3.6 per cent, slightly above the average of 3.4 per cent in 2006, and almost twice the growth rates in the previous two years. This means that the 2006 growth is clearly above its potential for the first time since 2000. It is believed that the growth in the euro area in this cycle peaked last year and that it is now coming down.

That said, sentiment indicators now point in a much more optimistic direction than a couple of months ago. The economic sentiment index for the euro zone (ESI) rose in March to the highest level since 2001. Industry, services, consumer and retail confidence indices rose, leaving construction as the only area without any significant improvement.

The consensus view among AIECE members is that growth will continue at a relatively high level, but somewhat lower in 2007 and 2008 than 2006. In the very short term, the expectations are much lower than the year on year growth rates indicate. A carry over from 2006, at the moment measured to 1.2 per cent, implies a clear reduction in growth through 2007. A majority of the institutes reporting quarterly GDP growth figures, expect GDP to grow less than 1¾ per cent (annualised) in the first quarter of 2007. The German VAT increase is probably the main reason for the particularly low expectation for the first quarter of 2007.

Domestic demand is regarded to be the main driving force of the euro economy ahead. International growth is expected to fall and reduced cost competitiveness caused particularly by stronger euro may dampen the export growth. The current upswing will increase growth in real wages and employment and thus growth in households' real income. Increased interest rates work in the opposite direction with respect to consumption growth. On average it is forecasted that growth in private consumption in the euro area will pick up somewhat in 2007 and 2008. The 2007-8 forecasts are significantly higher than the growth in the years 2002-5.

Investment growth is expected to be lower in 2007 than in 2006, but not by much and stay at a substantially higher level than in the period 2001-2005. Growth in public consumption will probably be reduced from 2006, and stay more or less at the same growth rates as in the previous three years. Export growth is expected to decrease by more than 1 percentage point from 2006 to 2007 and further down by 1 percentage point to 2008. As growth in imports is expected to decrease too, the decrease in the growth contribution from net exports to GDP will be much smaller than the export development may indicate. Still, the development in net exports plays an important role for the decrease in GDP growth rates.

The economic development in the euro area differs between countries. In 2006 Belgium, Netherlands and Germany were close to the average growth, while growth in France and Italy were lower. The economies of Ireland, Finland, Slovenia, Greece and Spain grew much faster. However, the forecasts show that the predicted direction of growth is similar in almost all countries. The countries with especially high growth in 2006 are expected to have a clear decline in growth. In Finland growth is expected to be more than halved. On the other hand, in the forecasts for Italy and France, there are hardly any reductions at all. Thus, the growth rates among the euro area countries are expected to converge in the forecasting period.

Relatively few AIECE institutes have given GDP gap figures for their countries. The six-euro countries having provided such information can be divided in two. Three have a positive gap and three have a negative gap in 2006. Germany and Spain seem to be close to GDP gap neutrality, leaving Italy as the only country with a substantially negative gap of 1-1.5 per cent. The gaps in 2006 for Belgium, Finland and Greece are estimated to 1.0 per cent. The forecasts for 2007 imply in general that output gaps are closing, while some forecasts suggest increased gaps in 2008 for Spain and Germany.

Output gap in individual euro countries. Per cent of potential GDP

Country	Institute name	2006	2007	2008
Belgium	IRES	1.0	0.2	-
Finland	ETLA	1.0	0.6	0.5
Germany	IFW	-0.2	0.1	0.7
Greece	KEPE	1.0	0.5	0.3
Italy	Average	-1.3	-1.0	-0.8
	PROMETEIA	-1.5	-1.1	-1.0
	REF	-1.1	-0.8	-0.5
Spain	Average	-0.3	-0.2	0.1
	CEPREDE	-0.4	-0.2	0.7
	SGEI	-0.1	-0.2	-0.5

Labour market

The upswing in output has improved the situation in the labour market within the euro area. After a period of very stable rate of unemployment around 8.8 per cent in 2003 and 2004, it has been falling continuously since early 2005. In March 2007 it came down to 7.2 per cent, and the development is expected to continue. With a few exceptions, continued reduction seems to be the picture among the euro countries. In Greece, Ireland and Slovenia the institutes believe the unemployment to be more or less stable. France, Germany and Netherlands may have the largest reductions in the rate of unemployment, the first two countries from levels above the euro average.

Unemployment rate in individual euro countries. Per cent of total labour force (according to Eurostat)

Country	Institute name	2006	2007	2008
Austria	WIFO	4.7	4.2	4.1
Belgium	Average	8.4	8.0	–
	FPB	8.3	7.9	–
	IRES	8.4	8.1	–
Finland	ETLA	7.7	7.3	7.1
France	Average	9.2	8.6	8.1
	BIPE	9.1	8.6	8.3
	OFCE	9.4	8.8	8.0
	COE-REXECODE	9.0	8.3	8.0
Germany	Average	8.8	7.7	7.1
	DIW	8.9	8.5	8.1
	IFO	10.3	8.8	8.2
	IFW	8.1	6.9	6.2
	RWI	8.1	6.7	5.7
Greece	KEPE	8.4	8.5	8.3
Ireland	ESRI	4.4	4.4	4.7
Italy	Average	6.8	6.4	6.1
	PROMETEIA	6.8	6.6	6.2
	ISAE	6.8	6.4	6.0
	REF	6.8	6.3	6.0
Netherlands	CPB	5.5	4.7	4.1
Slovenia	SKEP	6.0	6.0	6.0
Spain	Average	8.5	8.2	8.4
	CEPREDE	8.5	8.3	8.9
	SGEI	8.5	8.1	8.0

Euro area inflation

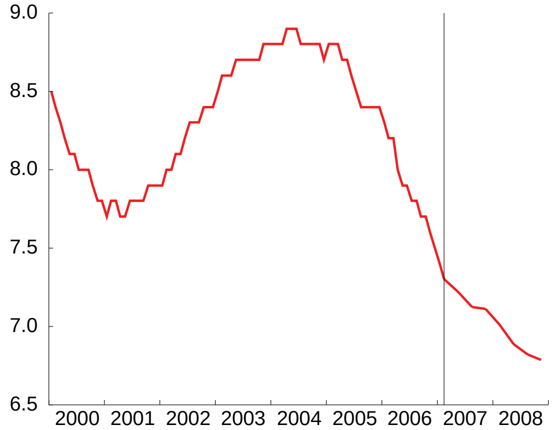
After about seven years of inflation somewhat above 2.0 per cent, the euro inflation went from 2.3 per cent in August 2006 to 1.7 per cent the next month and has now been below the ECB's two per cent ceiling for seven consecutive months. This is the longest period of inflation staying on target since the single currency was introduced in 1999. It is surprising that this happens at a time when the area experiences the strongest economic performance for a very long time. The VAT hike in Germany has also been expected to increase inflation. Stabilisation or reduction of prices of energy and other commodities are explanatory factors behind decreased inflation. There may, however, be a significant time lag before the improvement in the real economy manifests in increased inflation. One may have to wait especially long when other factors like the exchange rate, the integration of major low-cost countries in the world economy, and the EU enlargement work in the direction of low inflation.

Inflation figures for the first quarter of 2007 indicate the pass through of the VAT increase on euro inflation in 2007 to be lower than initially anticipated. Reported estimates of the effect are mainly around ¼ per cent. The improved situation on the European labour market could result in an increased wage pressure, and thus after a while a somewhat higher price inflation.

Most responding institutes assume that inflation will stay below 2 per cent within the forecasting horizon, and no one expects inflation to exceed 2 per cent in the first half of 2007. Only 2 institutes forecast inflation rates above 2.0 per cent in the second half of 2007. The average of the AIECE inflation estimates for the euro area is 1.9 per cent both for 2007 and 2008.

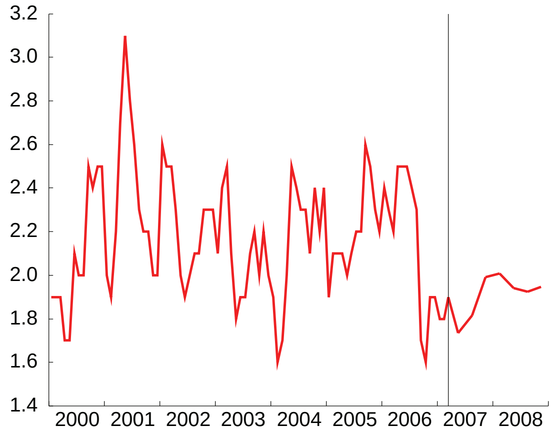
There are large inflation differences among the euro countries. In 2006 Greece, Ireland, Luxembourg, Spain and Portugal saw inflation rates significantly higher than 2 per cent. The Netherlands with 1.1 per cent and Austria with 1.5 per cent inflation delivered the lowest rates. The forecasted inflation rates do not in general differ much from the 2006 levels. Spain is the clear exception with an expected drop in inflation by 1.0 percentage point and is by that steadily moving in the direction of 2.0 per cent. In Ireland CPI growth is expected to increase from 4.0 to 4.6 per cent before dropping down to 2.6 in 2008. In France most institutes expect a significant drop in inflation from 2006 to 2007 and continued low inflation also in 2008. The inflation differences between the "AIECE area" countries are being significantly reduced during the forecasting period.

Euro Area Unemployment Rate
Per cent



Source: Eurostat up to 2007Q1 and AIECE Institutes.

Euro Area Inflation
Per cent



Source: Eurostat up to 2007Q1 and AIECE Institutes.

Inflation in individual euro countries

Country	Institute name	2006	2007	2008
Austria	WIFO	1.5	1.7	1.8
Belgium	Average	1.8	1.8	-
	FPB	1.8	1.8	-
	IRES	1.8	1.7	-
Finland	ETLA	1.6	1.8	1.8
France	Average	1.7	1.3	1.5
	BIPE	1.7	1.7	1.6
	INSEE[1]	1.6	0.8	-
	OFCE	1.7	1.1	1.6
	COE-REXECODE	1.7	1.3	1.4
Germany	Average	1.7	1.7	1.7
	DIW	1.8	1.7	1.9
	HWWI	1.7	1.6	1.5
	IFO	1.7	1.7	1.8
	IFW	1.7	1.5	1.9
	RWI	1.7	1.8	1.5
Greece	KEPE	3.3	3.0	2.9
Ireland	ESRI	4.0	4.6	2.6
Italy	Average	2.1	1.8	2.0
	PROMETEIA	2.1	1.7	1.9
	ISAE	2.1	1.8	2.0
	REF	2.1	1.9	2.0
Netherlands	CPB	1.1	1.2	1.3
Slovenia	SKEP	2.5	2.5	2.6
Spain	CEPREDE	3.5	2.5	2.4

[1] 2007 I/2006 II, annual rate.

BOX 3.1. Empirical Evidence on the New Keynesian Phillips Curve

The answers to the questions concerning methodological issues show that the responding institutes use both data based econometric models and theory-driven economic models in the economic analyses underlying their forecasts (see box 1.1). The latter class includes small DSGE models which entail the New Keynesian Phillips Curve, henceforth NKPC, as the model of inflation. Hence, an evaluation of the empirical relevance of the NKPC compared to traditional econometric models for the inflation process is a relevant topic.

The popularity of the NKPC is particularly widespread among academic researchers as well as policymakers in several European inflation targeting central banks for whom the inflation forecast is a primary concern. The European Central Bank and the Bank of England make use of the NKPC in their conduct of a monetary policy of price stability in the euro area and the UK, respectively. One reason for the popularity is the theoretical microfoundation of the model, which states that inflation is explained by the expected inflation one period ahead and a driving variable, often the wage share, picking up the marginal costs of production. The model is derived by assuming that a firm operates in an imperfectly competitive environment and takes account of the expected future path of nominal marginal costs when setting its price, given the likelihood that its price may remain fixed for multiple periods. Another reason for its popularity is the successful estimation of the model on quarterly time series data. The influential studies by Galí and Gertler (1999)[1] and Galí, Gertler and López-Salido (2001)[2] assert strong evidence in favour of the model using both European and US post-war data within a conventional GMM framework. Specifically, these studies present findings to suggest that European and US inflation dynamics are consistent with a hybrid version of the NKPC that relates inflation to expected future inflation, lagged inflation and real marginal costs, of which forward-looking behaviour plays a dominant role in explaining inflation.

Several recent studies suggest that the empirical success of the NKPC may be non-robust. Bårdsen, Jansen and Nymoen (2004)[3] show that the NKPC estimates for the euro area are not robust to detailed changes in the GMM estimation – changes that should have neglible impact if the NKPC is a reasonable representation of the inflation process. Moreover, the significance of the wage share is fragile, meaning that the persistence of inflation is due to the accumulation of disturbances of the NKPC equation rather than “inherited” from the persistence of the forcing variable. They also show that if variables from the list of instruments are included as explanatory variables a statistically adequate model for the euro area is obtained. In this respecified model the forward term vanishes and the inflation equation that emerges can be reinterpreted as a conventional price markup equation. Finally, they show that NKPC models for the UK and for Norway are encompassed by dynamic econometric incomplete competition models of inflation for those countries.[4]

These findings are further reinforced in Bjørnstad and Nymoen (2006)[5], who use annual data (1960-2004) for a panel of 20 OECD countries[6]. Their estimation results give little support to the main theoretical ideas of the NKPC, namely the hypothesized significant roles of the forward looking term and the wage share as a proxy for marginal costs. The econometric model of inflation would improve markedly by adding lagged real unit labour costs and the ratio between unit labour costs and import prices as separate explanatory variables. When doing so, the estimated coefficient of the forward term drops to zero.

As a final example, Boug, Cappelen and Swensen (2007)[7] re-examine the evidence claimed by Galí and Gertler (1999) and Galí, Gertler and López-Salido (2001) using the same data set and likelihood-based methods. Although including lagged inflation enhances the empirical fit, the improvement is not large enough to yield a NKPC model that passes a likelihood ratio test. They also show that the likelihood surface is rather flat, especially in the European case, indicating that the model may be weakly identified as pointed out by others using alternative methods.

[1] “Inflation dynamics: A structural econometric analysis”, *Journal of Monetary Economics*, 44, 195-222.

[2] “European Inflation Dynamics”, *European Economic Review*, 45, 1237-1270.

[3] ”Econometric Evaluation of the New Keynesian Phillips Curve”, *Oxford Bulletin of Economics and Statistics,* 66, 671-686, Supplement. See also Chp. 7 in G. Bårdsen, Ø. Eitrheim, E. S. Jansen and R. Nymoen (2005): *The Econometrics of Macroeconomic Modelling.* Oxford: Oxford University Press.

[4] This finding is corroborated for the case of Norway in P. Boug, Å. Cappelen and A. Rygh-Swensen (2006): “The New Keynesian Phillips Curve for a Small Open Economy”, *Discussion Paper 460*, Statistics Norway.

[5] ”Will it float ? The New Keynesian Phillips curve tested on OECD data”, *Discussion Paper 463*, Statistics Norway.

[6] Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK, and USA.

[7] ”The New Keynesian Phillips Curve revisited”, *Discussion Paper 500*, Statistics Norway.

The non-robustness of the empirical success of the NKPC model, if that is true, has important implications for both price modelling and monetary policy. The recent findings suggest that the microeconomic foundations of the NKPC are more or less unconnected to the dynamics observed in the real world data for inflation and real marginal costs. Since the empirical fit increases with lagged inflation, expanding the standard NKPC further in this direction may be helpful to make the model perform better in practice. But doing so implies that lagged inflation is not a second order add-on to the microeconomic foundations of the NKPC, rather it *is* the (dominating part of the) model.[8] Since the monetary policy in the standard NKPC acts through its effect on real marginal costs, which recent studies suggest may be weak or even absent, it becomes difficult to attribute changes in inflation to changes in monetary policy in light of the model. That said, this does not necessarily entail that monetary policy have no such effects, but it does suggest that NKPC models used in inflation targeting central banks have difficulties in attributing changes in inflation to monetary policy.

Questions for discussion:

1) How useful are NKPC models compared to conventional price markup models in the conduct of monetary policy?
2) Is there a role for NKPC models in forecasting?

[8] Several authors have found evidence of inflation persistence in the sense of positive serial correlation in inflation, see e.g. Batini, N. (2006): "Euro area inflation persistence", *Empirical Economics* 31, 977-1002 and the references cited therein.

Monetary policy

ECB has increased its signal rates along with the upswing in the real economy. The last hike came on March 14th to 3.75 per cent, close to what many member institutes regard as a neutral level. A large majority of the institutes expect a ¼ percentage point further increase in the signal rates before levelling out at 4.0 per cent.

Most member institutes rely on ECB making reasonable and good decisions. One out of five express some degree of sceptisism, in the sense that ECB overestimates the risks of inflation and that ECB is likely to set rates too high.

In the period of increased euro signal rates, the currency has appreciated. Against the USD the appreciation has been almost 15 per cent in about one and a half year. All member institutes assume a euro appreciation against USD on an average annual basis from 2006 to 2007, and on average the axpected appreciation is about 5 per cent. Most of the institutes assume that the USD euro exchange rate will stay at the same level in 2008 as in 2007. On average it is nevertheless assumed that euro will strengthen slightly in 2008, but there is also a large minority assuming the euro to weaken.

Fiscal stance

According to the latest IMF figures, the structural fiscal deficit as a proportion of potential GDP has been falling the last three years, from 2.7 per cent in 2003 to 1.3 per cent in 2006. The recent upswing has speeded up the improvement in the actual deficit. The improvement from 2005 to 2006 was 0.8 percentage point. The net and gross debt as per cent of GDP, however, is still as high as 59.8 and 69.3 per cent, respectively.

The improvements in the structural balance during the last three years have been high in Germany and France, where deficits have been halved. In Italy on the other hand, there has not been any improvement in this period. AIECE institutes expect the large Italian deficit to be more or less halved from 2006 to 2007, while the French is expected to stay almost unchanged. It is also expected that the German deficit will be reduced further in 2007.

The AIECE institutes do not anticipate that the improvement in public finances will generate expansionary fiscal policy in the euro area in general in 2007 and 2008. Exceptions are France, Ireland and Netherlands where the present fiscal policy stance already is regarded as expansionary, and Slovenia that foresee an expansion in 2008. In Austria, Germany and Italy the present fiscal policy stance is regarded as contractionary. For almost all the remaining countries the fiscal policy stance in 2008 is assumed neutral.

Questions for discussion

1) What will be the main factors driving the euro area economy in 2007 and 2008?
2) To what extent will the European growth be affected by a significant slowdown in the US economy? Is the European business cycle less dependent on the US economy than before?
3) What are the risks concerning the development in the real economy and is there a bias?
4) How may the potential growth in the euro area be influenced by the EU enlargement?

3.2. EU non Euro countries

Denmark

With growth rates of real GDP above 3 per cent in 2005 and 2006, the Danish economy has been performing robustly in recent years. This development has mainly been fuelled by increasing housing prices and strong export performance. Despite high growth and a record low unemployment rate, the inflationary pressure has been moderate due to imports of cheaper goods, services and labour.

There is some fear that the Danish economy is in for a hard landing. The labour market is tight, and shortages of labour are reported in some sectors. Wage bargaining in the private sector for the period 2007-2009 has settled with yearly wage increases by around 4.5 per cent. The increased wage costs may affect net exports negatively in the coming years. Also the years of two digits housing price inflation, fuelling domestic demand, are expected to come to an end. Some also fear the consequences of potentially falling housing prices from today's high levels. For the moment, however, the high level of wealth among households and a declining unemployment rate are projected to keep up the growth of private consumption.

Sweden

Sweden experienced in 2006 the highest GDP growth rate since 1970. In real terms the economy grew by 4.4 per cent, mainly driven by exports. In the coming years, a strong labour market is expected to support high levels of growth, although annual growth rates are projected to come down closer to 3 per cent. Employment was increasing in 2006, and will continue to do so in the forecasting period. The unemployment rate is declining, but the process will to some extent be slowed down by a larger labour supply and cutback in governmental labour market programmes. In the coming period, signs of a weaker US economy and an appreciation of the SEK could affect Swedish net exports negatively.

Inflation was in 2006 well below 2 per cent, but higher wage growth and reduced productivity growth will fuel inflation in the coming years. This process will take time though, and the inflation is expected to reach just 2 per cent in 2008. The Swedish economy is nevertheless operating close to full capacity, and the Riksbank will need to raise interest rates in order to avoid an overheating of the economy. The Riksbank's own forecast indicates that the interest rates are to be raised to 3.5 per cent in the summer of 2007. Further on they are expected to raise rates higher, reaching 4.75 per cent in 2009.

UK

The positive development of the economy from 2006 with real GDP growing at a rate above 2.5 per cent is expected to continue this year, before a tightening in fiscal and monetary policy will dampen growth just below 2.5 per cent in 2008. Growth in real disposable income and a continued accumulation of household wealth are driving forces behind the pick up in domestic demand after a weak period in 2005.

The Bank of England's target measure of inflation reached 3.1 per cent in March this year, exceeding the upper bound of the target range of 1-3 per cent. Projections from January this year indicate that inflation will fall towards the centre of the target range in the period ahead, driven by stabilizing commodity prices, an appreciating sterling exchange rate and lower oil prices. The pick up in domestic demand is driving economic growth, and the economy is operating close to or slightly above full capacity.

Despite the robust performance of the economy, wage inflation is restrained by strong growth in the labour force. The increased supply of labour will result in a slightly rising unemployment rate from today's level at 5.7 per cent, to 5.8 per cent in 2008.

AIECE Forecasts

Country		2006	2007	2008
Denmark	GDP	3.3	2.1	1.7
	Consumer prices*	1.9	2.0	2.0
	Unemployment rate	4.2	3.9	4.0
Sweden	GDP	4.4	3.8	3.2
	Consumer prices	1.4	1.8	2.1
	Unemployment rate	7.1	6.3	5.7
UK	GDP	2.7	2.8	2.4
	Consumer prices	2.3	2.6	2.2
	Unemployment rate	5.5	5.7	5.8

* Danish Consumer prices 2006 from www.imf.org

Czech Republic

The Czech economy reached an all time high economic performance in 2006, with a GDP growth rate reaching 5.9 per cent, unemployment at the lowest since the beginning of the century, a trade balance showing a surplus for the second year in a row and corporate investments growing at an unprecedented pace. In 2007 and 2008 the development in the global economy is expected to slow down the export growth, but net exports will remain high, thus contributing to further growth. Consumption will grow further, though at a slower pace. The main contributor to growth this year and the next will be corporate investment, stemming from foreign direct investments and investments in foreign owned firms. The labour market conditions will also improve.

This favourable outlook, together with low interest rates, will motivate households to decrease the saving rate. To prevent further increase in the government deficit, the new government has proposed a reform of the public finances; it might be implemented as early as in 2008. The Maastricht treaty requirements for the fiscal balance will however not be met before the end of the present decade.

Hungary

An economic slowdown in Hungary began in mid-2006, as a fiscal austerity program induced a decrease in domestic demand, mainly through lower public and private consumption. The external balance improved as export growth was high, due to favourable development among European trading partners and reduced import demand due to lower domestic demand. As a result GDP growth declined only slightly to 3.9 per cent in 2006, from 4.2 per cent the year before.

Favourable expectations in manufacturing industries, will increase the capital accumulation, and be the sole component contributing to growing domestic demand in 2007. Assuming that the fiscal adjustment goes as predicted, real wages and household income will decline in 2007. This leads to a moderate growth of domestic demand along with strong export performance, resulting in a decrease in the trade and current account deficit. In 2006 a VAT hike led to increased inflation. These are temporary impulses leading to high inflation also in 2007. As the monetary policy is aiming at a medium-term inflation target, the central bank can ignore transitory inflation shocks, and is expected to decrease the base rate to 6-6.5 per cent by the end of 2007 from a current level of 8 per cent.

AIECE Forecast

Country		2006	2007	2008
Czech Republic	GDP	6.1	5.0	5.0
	Consumer prices	2.5	2.4	3.0
	Unemployment rate	7.2	6.7	6.5
Hungary	GDP	3.9	2.9	3.5
	Consumer prices	3.9	6.7	3.7
	Unemployment rate	7.5	7.8	7.5
Poland	GDP	5.8	5.6	4.6
	Consumer prices	1.0	2.0	1.9
	Unemployment rate	13.8	12.5	10.5
Slovenia	GDP	5.2	4.5	4.3
	Consumer prices	2.5	2.5	2.6
	Unemployment rate	6.0	6.0	6.0

Poland

The economic expansion in Poland continued in the last quarter of 2006 with a year on year growth of 6.4 per cent. It is fuelled by strong private consumption and rapidly growing investment demand. The latter is stimulated by a credit boom directed to the housing market, successful utilization of European structural funds and a new wave of foreign direct investments in manufacturing and services. Substantial improvement in the labour market and massive emigration led to a fall in the unemployment rate by more than 3 percentage points. Rising inflation may lead to a rise in interest rates in the medium run. Public finances are improving, but the Maastricht target is not yet reached. In 2007 and 2008 investment demand is projected to stay strong, external conditions to deteriorate somewhat and monetary policy to tighten moderately. GDP growth is expected to decelerate, but remain high.

IMF Forecasts for GDP Growth

Country	2006	2007	2008
Estonia	11.4	9.9	7.9
Latvia	11.9	10.5	7.0
Lithuania	7.5	7.0	6.5
Slovak Republic	8.2	8.2	7.5
Romania	7.7	6.5	4.8
Bulgaria	6.2	6.0	6.0
Malta	2.5	2.3	2.3
Cyprus	3.8	3.9	4.0

3.3. Non EU Europe

Norway

For the third consecutive year, GDP for mainland Norway increased by around 4.5 per cent in 2006. The economic upswing materialized in a record high employment growth in 2006, with an unprecedented increase in the number of employed. Stimulated by demand growth abroad and in mainland Norway, the outlook for growth in 2007 is relatively strong. The key interest rate is expected to increase by 0.75 percentage point in the course of 2007 and level out at 4.75 per cent by the end of the year. Given the outlook of increased pressure in the economy, the forecast for 2008 is based on a somewhat less expansionary fiscal policy than implied by a mechanistic application of the fiscal rule for the phasing in of petroleum income into the Norwegian economy.

The lack of spare capacity is now hampering growth in several areas. A combination of higher interest rates, a stronger currency, reduced growth internationally and moderate growth impetus from the fiscal policy also point in the direction of a more moderate growth in 2008. A tightening of the labour market and high profitability will contribute to an increase in wage growth in the near future.

AIECE Forecast

Country		2006	2007	2008
Norway	GDP Mainland Norway	4.6	3.3	2.3
	Consumer prices	2.3	0.3	1.9
	Unemployment rate	3.4	2.7	2.8
Switzerland	GDP	2.8	2.4	2.5
	Consumer prices	1.1	0.3	0.7
	Unemployment rate	3.3	2.8	2.8

Switzerland

For the last two years Switzerland has experienced growth rates of real GDP above 2 per cent annually. After a moderate slowdown in the middle of 2007 due to slower growth in the world economy, this trend is expected to continue in the forecasting period, with growth rates around 2.5 per cent for the coming years.

Inflation in 2006 was just above 1 per cent, and will in the projection period fall below 1 per cent. The Swiss National Bank is expected to raise interest rates by 25 basis points this summer, to 2.5 per cent after having raised interest rates by 2 percentage points since 2004. The investment boom recently seen in Switzerland will come to an end in 2007. Investment growth in machinery and equipment will fall below 4 per cent in the forecasting period, and construction investments will in 2008 decline after several years of positive growth. The labour market will continue at a positive trend with an increasing number of people in work, driving the unemployment rate down below 3 per cent.

Russia

The Russian economy grew by 6.7 per cent in 2006. According to the IMF, the rate of growth will remain strong as domestic demand is strong, even though output growth is expected to decelerate somewhat, as production appears to be close to full capacity and following an expected slowdown in oil production. The headline inflation came down by 2 percentage points during 2006, reflecting lower administrated price increases and a nominal appreciation of the ruble. Inflation is, however, still half a percentage point above the official target of 8.5 per cent. Even though public spending has accelerated, the primary fiscal balance has improved as a large proportion of the oil revenues have been put in to the Stabilizing Fund. Large oil revenues gives a solid current account surplus, but the trade balance except oil will give a negative impulse to the economy, due to massive demand for imported consumption goods and technology currently not manufactured domestically.

IMF Forecasts for GDP Growth

Country	2006	2007	2008
Russia	6.7	6.4	5.9
Ukraine	7.1	5.0	4.6
Belarus	9.9	5.5	3.9

Questions for discussion

1) Have the EU non-EMU countries performed sufficiently regarding structural reforms?

2) Will labour migration from Eastern and Central European countries to Western Europe continue, increase, or are there signs of a slowdown due to decreasing wage differentials?

BOX 3.2. Predictions of quarterly growth rates of GDP in the US and in the euro area

The institutes have been asked for their predictions of seasonally adjusted quarterly growth rates of GDP in percent for the eight quarters of 2007 and 2008. Figure 1 shows the 28-29 predictions for the US and the euro area as scatters of points. The dashed line is the mean of the institutes' predictions. Overall, the institutes forecast quarterly growth rates that are slightly increasing through 2007 and 2008, after a clear drop from the latest historical growth rates. For the euro area the very significant drop seen in the right panel of Figure 1 may reflect the VAT hike in Germany from January 1st 2007.

The solid graph is data through 2005 and 2006, and thereafter forecasts and uncertainty intervals with coverage probability of 95 per cent. The forecasts and intervals are produced by a structural time series model briefly explained below. By estimating and extending a trend plus cyclical fluctuations, the model forecasts growth rates that are somewhat decreasing through 2007 and 2008. In each panel the uncertainty interval shrinks towards the growth rate of the trend as the stochastic cyclical fluctuations damp down through the forecast period. The forecasts converge toward growth rates around a half percent per quarter or two percent per year. Contrary to the institutes, the purely statistical model cannot foresee economic events like the VAT increase in Germany. Its forecast for the euro area stays high in 2007.1.

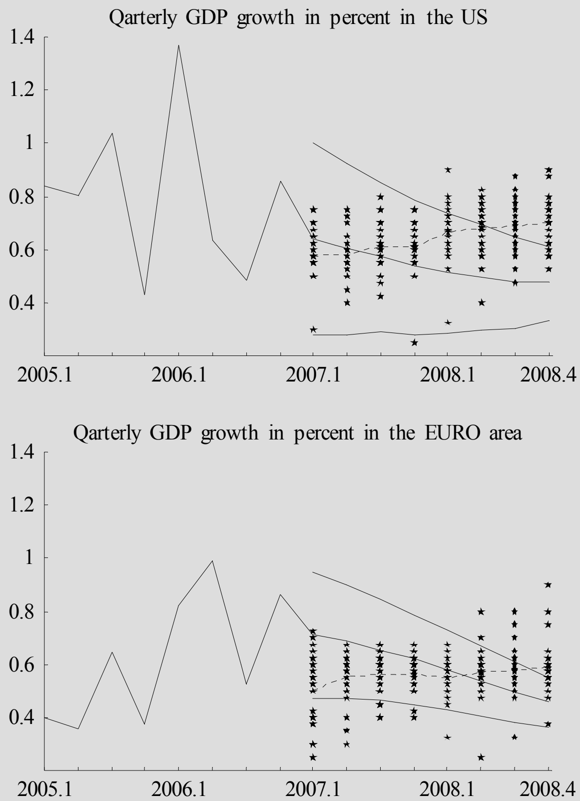
The modeling, estimation and forecasting are done in the program STAMP[1]. The data are seasonally adjusted quarterly GDP volume for 1994/95.1– 2006.4 from BEA and Eurostat. The stochastic structural time series model, also called an unobserved components model[2], is

data = deterministic trend + stochastic cycle.

Bivariate modeling and estimation yield estimated components displayed in Figure 2. The general model is very flexible. The model is chosen because it is simple, fits well and reproduces a stylized fact: The US business cycle leads the euro area cycle. Since the cycles are stochastic, the lead length is varying. The highest correlation occurs for a lead of five quarters. Forecasts are made by extending the fixed trends and damped cycles, and adding uncertainty intervals. Finally, the mean and interval forecasts are transformed to growth rates, and overlaid the institutes' predictions in Figure 1.

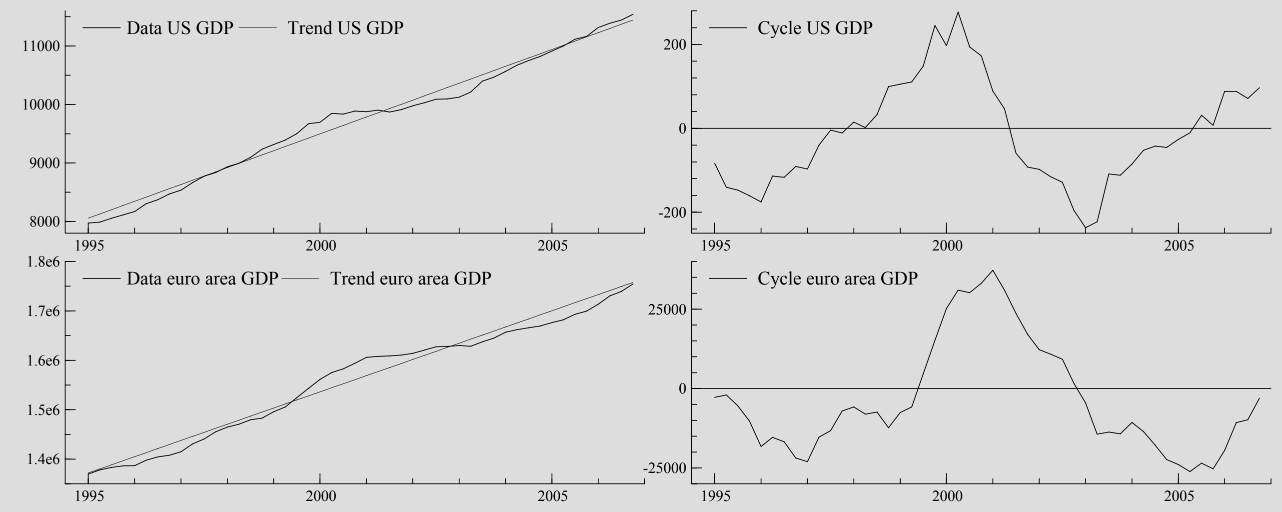
Alternative specifications of the model give results that are quantitatively different, but the qualitative picture often remains. Many models predict lower growth rates in the coming years than in 2006.

Figure 1. Observed quarterly growth rates in per cent, extended with a structural time series model's forecasts of expectations and 95 per cent prediction intervals (solid graphs). Superimposed on the model forecasts are institutes' predictions (dots and dashed means), many of which are equal



[1] Koopman, J. S., Harvey, A. C. , Doornik, J. A. and Shepard, N. (1999). *STAMP – Structural Time Series Analyser, Modeller and Predictor.* London: Timberlake Consultants Press.
[2] Durbin, J. and Koopman, J. S. (2001). *Time Series Analysis by State Space Methods.* Oxford University Press.

Figure 2. Decomposition of quarterly GDP data in a bivariate stochastic structural time series model with trend homogeneity



Appendix

Cross Country Tables

International Forecasts

Country Notes and Tables

Cross Country Tables

GDP

Institute name	2006	2007	2008
Austria WIFO	3.2	3.0	2.4
Belgium FPB	3.0	2.2	
Belgium IRES	3.0	2.2	
Czech Republic CCS & F	6.1	5.0	5.0
Denmark DEC	3.3	2.1	1.7
Finland ETLA	5.5	2.7	2.8
France BIPE	2.1	1.6	1.8
France COE-REXECODE	2.1	1.8	1.8
France INSEE (1)	2.1	2.3	
France OFCE	2.1	2.3	2.9
Germany DIW	2.7	2.3	2.5
Germany HWWI	2.7	2.3	2.4
Germany IFO	2.7	2.2	2.3
Germany IFW	2.7	2.8	2.4
Germany RWI	2.7	2.3	2.6
Greece KEPE	4.4	3.6	3.5
Hungary GKI	3.9	3.0	3.7
Hungary KOPINT	3.9	2.8	3.2
Ireland ESRI	6.1	5.4	3.9
Italy ISAE	1.9	1.8	1.7
Italy PROMETEIA	1.9	1.8	1.5
Italy REF	1.9	1.7	1.6
Netherlands CPB	3.0	2.8	2.8
Norway SN	2.9	3.3	2.6
Poland IKC	5.8	5.6	4.6
Serbia FTRI	5.3	5.7	4.8
Slovenia SKEP	5.2	4.5	4.3
Spain CEPREDE	3.9	3.7	2.8
Spain SGEI	3.9	3.4	3.3
Sweden CSE	4.4	3.7	3.0
Sweden NIER	4.4	3.9	3.4
Switzerland KOF	2.8	2.4	2.5
United Kingdom NIESR	2.7	2.8	2.4

(1) 2007H1/2006H2 annual rate

Lowest value		1.6	1.5
Highest value		5.7	5.0

Private consumption

Institute name	2006	2007	2008
Austria WIFO	1.8	2.2	2.0
Belgium FPB	2.4	2.0	
Belgium IRES	2.4	2.2	
Czech Republic CCS & F	4.6	4.5	4.0
Denmark DEC	3.0	2.0	2.0
Finland ETLA	3.0	2.7	2.4
France BIPE	2.7	2.3	2.6
France COE-REXECODE	2.6	2.1	1.9
France INSEE (1)	2.7	2.8	
France OFCE	2.7	2.8	2.8
Germany DIW	2.1	2.4	3.4
Germany HWWI	0.8	0.5	1.5
Germany IFO	0.8	0.8	1.5
Germany IFW	0.8	1.1	2.2
Germany RWI	0.8	1.2	2.0
Greece KEPE	3.2	3.5	3.5
Hungary GKI	1.2	0.5	1.5
Hungary KOPINT	1.2	-0.5	0.0
Ireland ESRI	6.8	7.8	4.5
Italy ISAE	1.5	1.6	1.4
Italy PROMETEIA	1.5	1.3	1.5
Italy REF	1.5	1.7	1.8
Netherlands CPB	-0.8	2.5	2.3
Norway SN	4.3	3.8	3.1
Poland IKC	5.2	5.0	4.1
Serbia FTRI	9.4	8.6	8.2
Slovenia SKEP	3.3	3.3	3.2
Spain CEPREDE	3.7	3.5	2.6
Spain SGEI	3.7	3.4	3.3
Sweden CSE	2.8	3.6	4.0
Sweden NIER	2.8	3.8	3.5
Switzerland KOF	2.1	2.1	1.8
United Kingdom NIESR	1.9	2.6	1.9

(1) 2007H1/2006H2 annual rate

Lowest value		-0.5	0.0
Highest value		8.6	8.2

Public consumption

Institute name	2006	2007	2008
Austria WIFO	0.9	1.7	1.6
Belgium FPB	1.4	1.7	
Belgium IRES	1.3	1.7	
Czech Republic CCS & F	0.3	0.0	-0.3
Denmark DEC	0.6	1.3	1.1
Finland ETLA	0.9	1.5	1.5
France BIPE	1.9	1.5	0.7
France COE-REXECODE	1.9	1.6	1.4
France INSEE (1)	1.9	1.8	
France OFCE	1.6	1.9	1.4
Germany DIW	1.7	1.8	3.1
Germany HWWI	1.8	0.9	1.3
Germany IFO	1.8	1.1	1.4
Germany IFW	1.8	0.9	1.1
Germany RWI	1.8	1.6	1.5
Greece KEPE	3.8	3.5	3.2
Hungary GKI	-6.0	-6.0	-4.0
Hungary KOPINT	-5.5	-7.0	-5.0
Ireland ESRI	4.7	4.5	3.5
Italy ISAE	-0.3	0.1	0.6
Italy PROMETEIA	-0.3	0.8	0.8
Italy REF	-0.3	-0.1	0.6
Netherlands CPB	8.5	1.5	1.2
Norway SN	2.2	2.8	3.0
Poland IKC	2.4	1.1	0.9
Serbia FTRI	10.4	8.6	8.2
Slovenia SKEP	3.8	3.2	3.2
Spain CEPREDE	4.4	4.1	2.6
Spain SGEI	4.4	4.0	3.9
Sweden CSE	1.8	1.7	1.7
Sweden NIER	1.8	1.4	1.1
Switzerland KOF	-0.2	0.9	1.5
United Kingdom NIESR	2.1	2.4	2.5

(1) 2007H1/2006H2 annual rate

Lowest value		-7.0	-5.0
Highest value		8.6	8.2

Gross fixed capital formation

Institute name	2006	2007	2008
Austria WIFO	4.7	5.5	3.4
Belgium FPB	4.1	2.7	
Belgium IRES	3.6	3.4	
Czech Republic CCS & F	7.3	7.8	7.9
Denmark DEC	13.3	6.0	3.0
Finland ETLA	5.1	3.0	6.1
France BIPE	3.5	2.9	2.6
France COE-REXECODE	4.0	3.1	2.1
France INSEE (1)	4.0	3.4	
France OFCE	4.0	4.9	3.8
Germany DIW	6.3	5.2	5.3
Germany HWWI	5.6	4.9	3.3
Germany IFO	5.6	4.1	4.5
Germany IFW	5.6	5.6	4.0
Germany RWI	5.6	5.5	4.3
Greece KEPE	15.0	3.0	1.8
Hungary GKI	-1.8	4.0	10.0
Hungary KOPINT	-1.8	2.0	3.0
Ireland ESRI	7.5	5.0	3.9
Italy ISAE	2.4	3.0	2.8
Italy PROMETEIA	2.7	3.5	2.7
Italy REF	2.3	2.5	2.1
Netherlands CPB	5.8	4.4	4.2
Norway SN	8.9	5.8	2.3
Poland IKC	16.7	13.9	9.5
Serbia FTRI	16.8	14.6	13.5
Slovenia SKEP	11.9	6.5	6.5
Spain CEPREDE	6.3	6.3	4.7
Spain SGEI	6.3	6.0	5.0
Sweden CSE	8.2	7.0	5.0
Sweden NIER	8.2	9.1	4.7
Switzerland KOF	4.5	3.2	1.4
United Kingdom NIESR	5.9	5.9	2.8

(1) 2007H1/2006H2 annual rate

Lowest value		2.0	1.4
Highest value		14.6	13.5

Total domestic demand

Institute name	2006	2007	2008
Austria WIFO	2.1	2.8	2.2
Belgium FPB	3.3	2.1	
Belgium IRES	3.3	2.2	
Czech Republic CCS & F	5.6	4.2	4.0
Denmark DEC	4.8	2.6	2.1
Finland ETLA	2.9	2.4	3.0
France BIPE	2.3	2.1	2.3
France COE-REXECODE	2.4	2.1	1.9
France INSEE (1)	2.4	2.5	
France OFCE	2.4	2.7	2.8
Germany DIW	2.8	2.6	4.4
Germany HWWI	1.6	1.7	2.0
Germany IFO	1.6	1.8	1.8
Germany IFW	1.6	2.0	2.4
Germany RWI	1.6	2.1	2.4
Greece KEPE	5.5	3.5	3.4
Hungary GKI	0.5	1.0	2.7
Hungary KOPINT	0.5	-0.4	0.7
Ireland ESRI	6.3	5.4	3.9
Italy ISAE			
Italy PROMETEIA	1.7	1.7	1.5
Italy REF	1.6	1.9	1.8
Netherlands CPB	2.8	3.1	2.3
Norway SN	4.5	3.9	3.0
Poland IKC	5.9	5.4	4.3
Serbia FTRI	14.6	12.4	11.8
Slovenia SKEP	5.5	4.8	4.0
Spain CEPREDE	4.6	4.2	3.2
Spain SGEI	4.6	4.3	3.8
Sweden CSE	3.5	4.0	3.7
Sweden NIER	3.5	4.3	3.0
Switzerland KOF	1.9	2.6	2.4
United Kingdom NIESR	2.8	3.1	2.2

(1) 2007H1/2006H2 annual rate

Lowest value		-0.4	0.7
Highest value		12.4	11.8

Exports of goods and services

Institute name	2006	2007	2008
Austria WIFO	8.5	7.4	6.2
Belgium FPB	3.4	6.5	
Belgium IRES	3.6	3.9	
Czech Republic CCS & F	14.6	11.0	11.0
Denmark DEC	9.8	5.0	3.0
Finland ETLA	10.7	4.4	5.4
France BIPE	6.2	2.7	6.1
France COE-REXECODE	6.2	3.3	5.3
France INSEE (1)	6.2	2.4	
France OFCE	6.2	3.4	7.0
Germany DIW	13.5	11.6	8.7
Germany HWWI	12.5	8.8	7.3
Germany IFO	12.5	7.3	7.4
Germany IFW	12.5	11.0	6.8
Germany RWI	12.5	7.7	8.3
Greece KEPE	5.6	4.0	4.0
Hungary GKI	16.7	14.0	11.0
Hungary KOPINT	18.0	13.5	11.0
Ireland ESRI	6.0	5.6	5.2
Italy ISAE	5.5	4.5	4.4
Italy PROMETEIA	5.5	3.8	3.2
Italy REF	5.3	3.1	3.5
Netherlands CPB	7.0	5.8	6.9
Norway SN	1.5	3.6	3.4
Poland IKC	15.1	13.3	13.5
Serbia FTRI	8.4	6.3	5.4
Slovenia SKEP	10.0	9.0	9.0
Spain CEPREDE	6.2	4.7	4.9
Spain SGEI	6.2	5.7	5.1
Sweden CSE	9.1	5.0	4.0
Sweden NIER	9.1	7.1	6.4
Switzerland KOF	9.5	5.0	4.1
United Kingdom NIESR	10.7	-0.7	7.1

(1) 2007H1/2006H2 annual rate

Lowest value		-0.7	3.0
Highest value		14.0	13.5

Imports of goods and services

Institute name	2006	2007	2008
Austria WIFO	6.8	7.5	6.3
Belgium FPB	3.8	6.4	
Belgium IRES	4.1	4.0	
Czech Republic CCS & F	14.2	10.0	10.0
Denmark DEC	13.8	6.3	4.0
Finland ETLA	5.6	4.1	6.6
France BIPE	7.1	4.4	7.4
France COE-REXECODE	7.1	3.9	5.5
France INSEE (1)	7.1	3.0	
France OFCE	7.1	4.6	6.5
Germany DIW	14.7	10.0	11.8
Germany HWWI	11.1	8.0	7.1
Germany IFO	11.1	7.1	7.1
Germany IFW	11.1	10.5	7.6
Germany RWI	11.1	8.0	8.6
Greece KEPE	9.8	3.4	3.6
Hungary GKI	12.6	11.0	10.0
Hungary KOPINT	12.6	9.5	8.5
Ireland ESRI	6.7	7.0	5.7
Italy ISAE	4.5	4.0	4.4
Italy PROMETEIA	4.5	3.6	3.3
Italy REF	4.3	3.8	4.3
Netherlands CPB	7.2	6.5	6.7
Norway SN	9.1	5.2	4.1
Poland IKC	15.4	11.2	10.9
Serbia FTRI	7.6	6.8	6.2
Slovenia SKEP	10.4	8.3	8.6
Spain CEPREDE	8.4	6.9	5.8
Spain SGEI	8.4	7.5	6.5
Sweden CSE	7.8	6.0	5.5
Sweden NIER	7.8	8.6	6.1
Switzerland KOF	8.5	5.9	4.2
United Kingdom NIESR	10.8	0.8	5.9

(1) 2007H1/2006H2 annual rate

Lowest value		0.8	3.3
Highest value		11.2	10.9

Consumer prices

Institute name	2006	2007	2008
Austria WIFO	1.5	1.7	1.8
Belgium FPB	1.8	1.8	
Belgium IRES	1.8	1.7	
Czech Republic CCS & F	2.5	2.4	3.0
Denmark DEC			
Finland ETLA	1.6	1.8	1.8
France BIPE	1.7	1.7	1.6
France COE-REXECODE	1.7	1.3	1.4
France INSEE (1)	1.6	0.8	
France OFCE	1.7	1.1	1.6
Germany DIW	1.8	1.7	1.9
Germany HWWI	1.7	1.6	1.5
Germany IFO	1.7	1.7	1.8
Germany IFW	1.7	1.5	1.9
Germany RWI	1.7	1.8	1.5
Greece KEPE	3.3	3.0	2.9
Hungary GKI	3.9	6.5	3.8
Hungary KOPINT	3.9	6.8	3.5
Ireland ESRI	4.0	4.6	2.6
Italy ISAE	2.1	1.8	2.0
Italy PROMETEIA	2.1	1.7	1.9
Italy REF	2.1	1.9	2.0
Netherlands CPB	1.1	1.2	1.3
Norway SN	2.3	0.3	1.9
Poland IKC	1.0	2.0	1.9
Serbia FTRI	12.7	11.8	9.8
Slovenia SKEP	2.5	2.5	2.6
Spain CEPREDE	3.5	2.5	2.4
Spain SGEI	3.5		
Sweden CSE	1.4	1.8	2.0
Sweden NIER	1.4	1.7	2.2
Switzerland KOF	1.1	0.3	0.7
United Kingdom NIESR	2.3	2.6	2.2

(1) 2007H1/2006H2 annual rate

Lowest value		0.3	0.7
Highest value		11.8	9.8

Output gap

Percent of potential GDP

Institute name	2006	2007	2008
Austria WIFO			
Belgium FPB			
Belgium IRES	1.0	0.2	
Czech Republic CCS & F	0.7		
Denmark DEC			
Finland ETLA	1.0	0.6	0.5
France BIPE			
France COE-REXECODE			
France INSEE (1)			
France OFCE			
Germany DIW			
Germany HWWI			
Germany IFO			
Germany IFW	-0.2	0.1	0.7
Germany RWI			
Greece KEPE	1.0	0.5	0.3
Hungary GKI			
Hungary KOPINT			
Ireland ESRI			
Italy ISAE			
Italy PROMETEIA	-1.5	-1.1	-1.0
Italy REF	-1.1	-0.8	-0.5
Netherlands CPB			
Norway SN	1.3	1.6	1.1
Poland IKC	-0.1	0.3	0.1
Serbia FTRI			
Slovenia SKEP			
Spain CEPREDE	-0.4	-0.2	0.7
Spain SGEI	-0.1	-0.2	-0.5
Sweden CSE			
Sweden NIER	-1.1	-0.1	0.6
Switzerland KOF	-0.7	0.1	-0.1
United Kingdom NIESR	-0.1	0.1	0.0

(1) 2007H1/2006H2 annual rate

Lowest value		-1.1	-1.0
Highest value		1.6	1.0

Unit labor costs

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

Institute name	2006	2007	2008
Austria WIFO	0.8	0.9	0.6
Belgium FPB	0.8	1.7	
Belgium IRES	0.6	1.0	
Czech Republic CCS & F	1.5	2.2	2.0
Denmark DEC	2.5	3.2	2.0
Finland ETLA	-0.9	1.1	1.7
France BIPE			
France COE-REXECODE	1.5	1.3	1.5
France INSEE (1)	1.8	1.6	
France OFCE	1.9	1.4	1.7
Germany DIW			
Germany HWWI	-1.3	-0.3	0.1
Germany IFO	-1.3	-0.2	1.6
Germany IFW	-1.3	0.2	2.3
Germany RWI	-1.3	0.3	0.9
Greece KEPE			
Hungary GKI			
Hungary KOPINT	-8.5	-0.1	-4.8
Ireland ESRI			
Italy ISAE	2.4	1.3	1.9
Italy PROMETEIA	2.6	1.2	2.2
Italy REF	2.0	2.5	2.6
Netherlands CPB	-2.3	-0.5	-0.2
Norway SN			
Poland IKC	1.6	1.0	1.1
Serbia FTRI			
Slovenia SKEP			
Spain CEPREDE	2.7	2.1	2.0
Spain SGEI	2.7	2.2	2.0
Sweden CSE			
Sweden NIER	-1.3	2.8	2.7
Switzerland KOF	1.6	1.8	0.3
United Kingdom NIESR	2.5	2.1	2.7

(1) 2007H1/2006H2 annual rate

Lowest value		-0.5	-4.8
Highest value		3.2	2.7

Unemployment rate

Percent of total labour force (according to Eurostat)

Institute name	2006	2007	2008
Austria WIFO	4.7	4.2	4.1
Belgium FPB	8.3	7.9	
Belgium IRES	8.4	8.1	
Czech Republic CCS & F	7.2	6.7	6.5
Denmark DEC	4.2	3.9	4.0
Finland ETLA	7.7	7.3	7.1
France BIPE	9.1	8.6	8.3
France COE-REXECODE	9.0	8.3	8.0
France INSEE (1)			
France OFCE	9.4	8.8	8.0
Germany DIW	8.9	8.5	8.1
Germany HWWI			
Germany IFO	10.3	8.8	8.2
Germany IFW	8.1	6.9	6.2
Germany RWI	8.1	6.7	5.7
Greece KEPE	8.4	8.5	8.3
Hungary GKI	7.5	7.8	7.5
Hungary KOPINT	7.5	7.8	7.5
Ireland ESRI	4.4	4.4	4.7
Italy ISAE	6.8	6.4	6.0
Italy PROMETEIA	6.8	6.6	6.2
Italy REF	6.8	6.3	6.0
Netherlands CPB	5.5	4.7	4.1
Norway SN	3.4	2.7	2.8
Poland IKC	13.8	12.5	10.5
Serbia FTRI	20.9	22.3	25.8
Slovenia SKEP	6.0	6.0	6.0
Spain CEPREDE	8.5	8.3	8.9
Spain SGEI	8.5	8.1	8.0
Sweden CSE	7.1	6.4	5.7
Sweden NIER	7.0	6.1	5.6
Switzerland KOF	3.3	2.8	2.8
United Kingdom NIESR	5.5	5.7	5.8

(1) 2007H1/2006H2 annual rate

Lowest value		2.7	2.8
Highest value		22.3	25.8

Net saving ratio (households)

Percent of net disposable income

Institute name	2006	2007	2008
Austria WIFO	9.4	9.4	9.1
Belgium FPB	13.3	13.3	
Belgium IRES	13.6	13.5	
Czech Republic CCS & F	5.2	4.7	3.6
Denmark DEC			
Finland ETLA	-0.8	-1.1	-0.6
France BIPE	14.8	14.8	14.8
France COE-REXECODE	15.1	15.3	15.2
France INSEE (1)	15.1	15.7	
France OFCE	15.1	15.2	15.0
Germany DIW	10.6	10.6	10.8
Germany HWWI	10.5	10.6	10.7
Germany IFO	10.5	10.6	10.5
Germany IFW	10.5	10.5	10.5
Germany RWI	10.5	10.5	10.3
Greece KEPE			
Hungary GKI			
Hungary KOPINT	3.6	3.6	4.2
Ireland ESRI	9.5	8.9	8.8
Italy ISAE	15.5	14.9	15.1
Italy PROMETEIA	13.2	13.2	13.3
Italy REF	13.3	13.1	13.0
Netherlands CPB	5.2	5.0	4.5
Norway SN	1.5	4.2	4.8
Poland IKC	9.0	9.2	9.5
Serbia FTRI			
Slovenia SKEP			
Spain CEPREDE	9.6	9.8	9.5
Spain SGEI	10.4	10.5	10.7
Sweden CSE	8.0	8.4	7.7
Sweden NIER	8.0	9.3	8.8
Switzerland KOF	6.6	7.8	8.2
United Kingdom NIESR	5.4	5.5	6.2

(1) 2007H1/2006H2 annual rate

Lowest value		-1.1	-0.6
Highest value		15.2	15.7

Public sector fiscal balance

Percent of GDP, EMU definition

Institute name	2006	2007	2008
Austria WIFO	-1.1	-1.0	-1.0
Belgium FPB			
Belgium IRES	0.0	0.3	
Czech Republic CCS & F	-3.0	-4.0	-3.5
Denmark DEC	4.2	3.5	3.3
Finland ETLA	3.9	3.7	3.6
France BIPE	2.6	2.5	2.2
France COE-REXECODE	2.5	2.7	2.5
France INSEE (1)	-2.5		
France OFCE	-2.5	-2.6	-2.2
Germany DIW	-1.2	-0.5	-0.2
Germany HWWI	-1.7	-0.6	-0.6
Germany IFO	-1.7	-1.1	-0.5
Germany IFW	-1.7	-0.6	-0.4
Germany RWI	-1.7	-0.7	-0.1
Greece KEPE	-2.6	-2.4	-1.8
Hungary GKI	9.5	6.5	4.6
Hungary KOPINT			
Ireland ESRI	2.5	1.7	1.7
Italy ISAE	-4.4	-2.3	-2.4
Italy PROMETEIA	4.4	2.6	2.6
Italy REF	-4.4	-2.0	-1.9
Netherlands CPB (2)	0.2	-0.1	0.7
Norway SN	22.5		
Poland IKC	-3.5	-3.2	-3.2
Serbia FTRI			
Slovenia SKEP	-1.4	-1.5	-1.5
Spain CEPREDE	1.8	1.1	0.5
Spain SGEI	1.8	1.4	1.2
Sweden CSE	2.0	2.4	2.6
Sweden NIER	2.1	2.3	2.7
Switzerland KOF	1.2	1.3	1.5
United Kingdom NIESR	-2.9	-2.9	-2.8

(1) 2007H1/2006H2 annual rate
(2) Public sector purplus, per cent of GDP

Lowest value		-4.0	-3.5
Highest value		6.5	4.6

Gross public debt

Percent of GDP, EMU definition

Institute name	2006	2007	2008
Austria WIFO	62.6	61.8	60.7
Belgium FPB			
Belgium IRES	90.0	87.2	
Czech Republic CCS & F	30.4	31.7	32.4
Denmark DEC	28.0	24.0	19.0
Finland ETLA	39.1	36.8	34.8
France BIPE	66.5	65.5	65.0
France COE-REXECODE	63.9	64.2	64.7
France INSEE (1)	63.9		
France OFCE			
Germany DIW			
Germany HWWI			
Germany IFO			
Germany IFW	67.9	65.8	63.6
Germany RWI			
Greece KEPE	104.1	100.1	95.9
Hungary GKI	68.5	71.3	72.3
Hungary KOPINT			
Ireland ESRI	24.8	22.4	21.1
Italy ISAE	106.8	105.6	104.6
Italy PROMETEIA	106.8	105.6	104.1
Italy REF	107.6	106.5	104.8
Netherlands CPB	48.7	47.2	45.1
Norway SN	44.7		
Poland IKC	48.5	49.5	50.0
Serbia FTRI			
Slovenia SKEP	28.0	30.0	30.0
Spain CEPREDE	40.0	38.8	37.0
Spain SGEI	39.8	36.9	34.4
Sweden CSE	47.0	40.0	36.0
Sweden NIER	47.3	40.7	35.8
Switzerland KOF	47.6	45.0	43.2
United Kingdom NIESR	43.1	43.4	44.0

(1) 2007H1/2006H2 annual rate

Lowest value		22.4	19.0
Highest value		106.5	104.8

Current account balance

Percent of GDP

Institute name	2006	2007	2008
Austria WIFO	2.2	2.2	2.3
Belgium FPB	2.2	2.6	
Belgium IRES			
Czech Republic CCS & F	-4.2	-3.5	-2.8
Denmark DEC	2.2	2.0	1.9
Finland ETLA	5.9	6.0	5.4
France BIPE			
France COE-REXECODE	-1.6	-1.9	-2.1
France INSEE (1)			
France OFCE	-1.8	-1.9	-1.9
Germany DIW			
Germany HWWI	5.1	5.6	5.9
Germany IFO			
Germany IFW	4.8	5.2	5.6
Germany RWI	4.4	4.6	4.8
Greece KEPE	-10.0	-7.7	-7.2
Hungary GKI	-5.4	-4.0	-4.2
Hungary KOPINT	-5.8	-4.3	-3.9
Ireland ESRI	-3.8	-4.5	-4.7
Italy ISAE	-2.2	-1.7	-1.6
Italy PROMETEIA	-2.2	-1.2	-0.6
Italy REF	-2.3	-1.3	-1.2
Netherlands CPB			
Norway SN	19.7	15.6	14.8
Poland IKC	-2.1	-2.5	-2.3
Serbia FTRI	-11.5	-12.8	-11.9
Slovenia SKEP	-2.6	-2.0	-1.9
Spain CEPREDE	-8.8	-9.1	-9.3
Spain SGEI	-8.8	-8.7	-8.9
Sweden CSE	7.4	7.0	6.4
Sweden NIER	7.0	7.1	7.2
Switzerland KOF	14.7	14.1	14.0
United Kingdom NIESR	-2.9	-3.1	-2.8

(1) 2007H1/2006H2 annual rate

Lowest value		-12.8	-11.9
Highest value		15.6	14.8

Central bank policy rate

Non-EMU countries

Institute name	2006	2007	2008
Austria WIFO			
Belgium FPB			
Belgium IRES			
Czech Republic CCS & F	2.5	3.0	3.5
Denmark DEC	3.0	4.1	4.3
Finland ETLA			
France BIPE			
France COE-REXECODE			
France INSEE (1)			
France OFCE			
Germany DIW			
Germany HWWI			
Germany IFO			
Germany IFW			
Germany RWI			
Greece KEPE			
Hungary GKI	8.0	6.0	5.5
Hungary KOPINT	8.0	6.8	6.0
Ireland ESRI			
Italy ISAE			
Italy PROMETEIA			
Italy REF			
Netherlands CPB			
Norway SN	2.9	4.2	4.8
Poland IKC	4.1	4.3	4.6
Serbia FTRI			
Slovenia SKEP	3.7		
Spain CEPREDE			
Spain SGEI			
Sweden CSE	2.2	3.4	4.0
Sweden NIER	2.2	3.3	3.7
Switzerland KOF	1.5	2.4	2.5
United Kingdom NIESR			

(1) 2007H1/2006H2 annual rate

Lowest value		2.4	2.5
Highest value		6.8	6.0

Short-term interest rate

Three months

Institute name	2006	2007	2008
Austria WIFO	3.1	4.1	4.0
Belgium FPB	3.1	4.0	
Belgium IRES	3.1	4.1	
Czech Republic CCS & F	2.3	2.8	2.9
Denmark DEC			
Finland ETLA	3.1	4.0	4.1
France BIPE	3.1	3.8	4.3
France COE-REXECODE	3.1	4.0	3.9
France INSEE (1)	3.1	3.7	
France OFCE	3.1	4.0	4.1
Germany DIW			
Germany HWWI			
Germany IFO	3.1	4.0	4.1
Germany IFW	3.1	4.1	4.3
Germany RWI			
Greece KEPE	3.8	4.0	4.2
Hungary GKI	8.0	8.0	6.4
Hungary KOPINT	8.0	6.5	6.0
Ireland ESRI			
Italy ISAE			
Italy PROMETEIA	2.9	3.9	3.9
Italy REF	3.0	4.2	4.5
Netherlands CPB	3.1	3.9	4.0
Norway SN	3.1	4.6	5.0
Poland IKC	4.2	4.4	4.7
Serbia FTRI			
Slovenia SKEP	3.4	3.4	3.5
Spain CEPREDE	2.8	3.9	4.3
Spain SGEI	3.1	3.7	3.6
Sweden CSE	2.3	3.4	4.0
Sweden NIER	2.3	3.4	3.8
Switzerland KOF	1.4	2.3	2.4
United Kingdom NIESR	4.8	5.7	5.6

(1) 2007H1/2006H2 annual rate

Lowest value		2.3	2.4
Highest value		8.0	6.4

Long-term interest rate

10 years

Institute name	2006	2007	2008
Austria WIFO	3.8	4.0	4.2
Belgium FPB	3.8	4.2	
Belgium IRES	3.8	4.4	
Czech Republic CCS & F	3.8	4.2	3.9
Denmark DEC	3.8	4.1	4.3
Finland ETLA			
France BIPE	3.8	4.1	4.5
France COE-REXECODE	3.8	4.1	4.2
France INSEE (1)	3.9	4.0	
France OFCE	3.9	4.2	4.4
Germany DIW			
Germany HWWI			
Germany IFO	3.8	4.2	4.3
Germany IFW	3.8	4.2	4.6
Germany RWI			
Greece KEPE	4.0	4.4	4.2
Hungary GKI	7.0	6.5	5.5
Hungary KOPINT	6.9	6.2	6.0
Ireland ESRI			
Italy ISAE			
Italy PROMETEIA	4.1	4.4	4.5
Italy REF			
Netherlands CPB	3.8	4.1	4.2
Norway SN	4.1		
Poland IKC	5.3	5.4	5.3
Serbia FTRI			
Slovenia SKEP	3.9	4.2	4.2
Spain CEPREDE	3.8	4.3	4.8
Spain SGEI	3.9	4.0	4.2
Sweden CSE	3.7	4.0	4.5
Sweden NIER	3.7	3.9	4.3
Switzerland KOF	2.5	2.5	2.6
United Kingdom NIESR	4.5	4.9	4.9

(1) 2007H1/2006H2 annual rate

Lowest value		2.5	2.6
Highest value		6.5	6.0

International Forecasts

United States Federal funds rate

Institute name	2006	2007	2008
Austria WIFO			
Belgium FPB			
Belgium IRES	5.2	5.3	
Czech Republic CCS & F			
Denmark DEC	5.0	5.2	4.4
Finland ETLA	5.0	5.1	4.3
France BIPE			
France COE-REXECODE	5.0	5.2	4.3
France INSEE (1)	5.2	5.4	
France OFCE	5.0	5.0	4.3
Germany DIW			
Germany HWWI	5.0	5.2	5.0
Germany IFO			
Germany IFW	5.0	5.1	4.5
Germany RWI			
Greece KEPE			
Hungary GKI	4.9	5.3	5.0
Hungary KOPINT	5.3	5.0	5.0
Ireland ESRI (2)	5.3	4.8	4.5
Italy ISAE			
Italy PROMETEIA	5.2	5.2	4.5
Italy REF	5.1	5.3	5.3
Netherlands CPB			
Norway SN	4.9		
Poland IKC			
Serbia FTRI			
Slovenia SKEP	5.2	5.2	4.4
Spain CEPREDE	5.3	5.3	5.4
Spain SGEI	5.3	5.0	5.0
Sweden CSE	5.0	5.0	4.2
Sweden NIER	5.0	5.3	5.0
Switzerland KOF	5.1	5.0	4.6
United Kingdom NIESR			

(1) 2007H1 average
(2) End of year

	2006	2007	2008
Lowest value		4.8	4.2
Average	5.1	5.1	4.7
Highest value		5.4	5.4

GDP USA

Institute name	2006	2007	2008
Austria WIFO	3.3	2.0	2.3
Belgium FPB	3.3	2.4	
Belgium IRES	3.3	2.2	
Czech Republic CCS & F	3.3	2.6	2.9
Denmark DEC	3.3	2.4	2.8
Finland ETLA	3.3	2.8	2.8
France BIPE	3.3	2.2	3.0
France COE-REXECODE	3.3	2.6	2.8
France INSEE (1)	3.3	1.9	
France OFCE	3.3	2.0	2.5
Germany DIW	3.4	2.7	3.1
Germany HWWI	3.3	2.5	3.0
Germany IFO	3.4	2.7	3.2
Germany IFW	3.3	2.6	3.0
Germany RWI	3.3	2.6	3.2
Greece KEPE	3.3	2.3	2.7
Hungary GKI	3.3	3.0	2.8
Hungary KOPINT	3.3	2.5	2.8
Ireland ESRI	3.3	2.4	2.3
Italy ISAE	3.3	2.0	2.8
Italy PROMETEIA	3.3	2.3	2.1
Italy REF	3.3	2.2	2.6
Netherlands CPB	3.3	2.3	2.8
Norway SN	3.4		
Poland IKC	3.3	2.4	2.7
Serbia FTRI			
Slovenia SKEP	3.3	2.6	2.8
Spain CEPREDE	3.3	2.3	3.1
Spain SGEI	3.3	2.4	3.0
Sweden CSE	3.3	2.2	2.5
Sweden NIER	3.3	2.6	2.8
Switzerland KOF	3.3	2.2	2.9
United Kingdom NIESR	3.4	2.9	2.5

(1) 2007H1/2006H2 annual rate

Lowest value		1.9	2.1
Average	3.3	2.4	2.8
Highest value		3.0	3.2

GDP Japan

Institute name	2006	2007	2008
Austria WIFO	2.2	1.9	1.6
Belgium FPB	2.8	2.0	
Belgium IRES	2.2	2.1	
Czech Republic CCS & F	2.2	2.5	2.2
Denmark DEC	2.2	2.4	2.3
Finland ETLA	2.2	2.2	2.2
France BIPE	2.2	2.3	2.4
France COE-REXECODE	2.2	2.3	2.0
France INSEE (1)	2.8	1.9	
France OFCE	2.2	2.3	2.5
Germany DIW	2.2	1.8	1.9
Germany HWWI	2.2	2.5	2.0
Germany IFO	2.2	2.3	2.4
Germany IFW	2.2	2.4	2.2
Germany RWI	2.2	2.0	1.7
Greece KEPE	2.2	2.1	2.2
Hungary GKI	2.7	2.3	2.1
Hungary KOPINT	2.2	2.2	2.3
Ireland ESRI	2.2	2.3	2.1
Italy ISAE	2.2	2.2	2.1
Italy PROMETEIA	2.3	2.1	2.1
Italy REF	2.2	2.0	2.5
Netherlands CPB	2.2	2.3	2.0
Norway SN	2.2		
Poland IKC	2.2	2.3	2.2
Serbia FTRI			
Slovenia SKEP	2.2	2.3	2.0
Spain CEPREDE	2.2	2.0	2.6
Spain SGEI	2.2	2.1	2.2
Sweden CSE	2.2	2.4	2.5
Sweden NIER	2.2	2.7	2.3
Switzerland KOF	2.2	2.2	1.9
United Kingdom NIESR	2.1	2.4	2.5

(1) 2007H1/2006H2 annual rate

Lowest value		1.8	1.6
Average	2.3	2.2	2.2
Highest value		2.7	2.6

GDP Euro Area

Institute name	2006	2007	2008
Austria WIFO	2.6	2.7	2.2
Belgium FPB	2.6	2.2	
Belgium IRES	2.7	2.3	
Czech Republic CCS & F	2.8	2.1	1.9
Denmark DEC	2.6	2.6	2.4
Finland ETLA	2.6	2.6	2.4
France BIPE	2.9	2.1	2.3
France COE-REXECODE	2.8	2.1	1.9
France INSEE (1)	2.8	1.7	
France OFCE	2.8	2.6	2.7
Germany DIW	2.9	2.4	2.6
Germany HWWI	2.8	2.6	2.5
Germany IFO	2.7	2.5	2.5
Germany IFW	2.6	2.7	2.3
Germany RWI	2.6	2.4	2.5
Greece KEPE	2.6	2.3	2.4
Hungary GKI	2.7	2.4	2.2
Hungary KOPINT	2.7	2.4	2.1
Ireland ESRI	2.8	2.5	2.2
Italy ISAE	2.8	2.3	2.2
Italy PROMETEIA	2.8	2.4	2.2
Italy REF	2.8	2.6	2.5
Netherlands CPB	2.6	2.3	2.3
Norway SN	2.8		
Poland IKC	2.7	2.4	2.3
Serbia FTRI			
Slovenia SKEP	2.8	2.2	2.1
Spain CEPREDE	2.8	2.4	2.7
Spain SGEI	2.6	2.5	2.4
Sweden CSE	2.6	2.7	2.4
Sweden NIER	2.8	2.5	2.2
Switzerland KOF	2.8	2.2	2.1
United Kingdom NIESR	2.7	2.2	2.1

(1) 2007H1/2006H2 annual rate

Lowest value		1.7	1.9
Average	2.7	2.4	2.3
Highest value		2.7	2.7

World trade

Goods, volume

Institute name	2006	2007	2008
Austria WIFO	9.3	7.0	6.5
Belgium FPB			
Belgium IRES	8.6	7.4	-
Czech Republic CCS & F	9.8	6.5	5.9
Denmark DEC			
Finland ETLA	9.2	6.5	6.5
France BIPE			
France COE-REXECODE	9.9	7.6	8.4
France INSEE			
France OFCE	9.6	7.9	8.4
Germany DIW	9.0	8.5	8.0
Germany HWWI	8.9	7.5	7.0
Germany IFO	8.5	7.5	7.5
Germany IFW	9.2	7.5	7.5
Germany RWI	8.8	7.5	8.0
Greece KEPE	9.0	7.5	7.0
Hungary GKI	9.2	8.5	8.0
Hungary KOPINT	9.0	8.0	7.5
Ireland ESRI	9.0	6.4	6.2
Italy ISAE	9.4	7.2	8.1
Italy PROMETEIA	9.0	6.7	7.1
Italy REF	6.7	5.9	6.5
Netherlands CPB (1)	7.6	5.7	6.4
Norway SN (2)	9.4	6.5	3.7
Poland IKC	9.4	7.3	7.6
Serbia FTRI			
Slovenia SKEP	9.9	8.0	8.4
Spain CEPREDE	9.0	7.2	7.9
Spain SGEI	9.2	7.5	7.5
Sweden CSE	9.0	8.0	7.0
Sweden NIER			
Switzerland KOF	8.4	6.1	6.9
United Kingdom NIESR (3)	9.2	6.8	6.5

(1) Weighted average of volume changes of non-energy imports of customers countries, with Dutch export shares as weights.
(2) Norway's trading partners
(3) Goods and services

	2006	2007	2008
Lowest value		5.7	3.7
Average	9.0	7.2	7.2
Highest value		8.5	8.4

Oil price

Brent, USD/barrel, annual average

Institute name	2006	2007	2008
Austria WIFO (1)	61.1	61.0	62.0
Belgium FPB	65.2	59.4	
Belgium IRES	65.6	61.0	
Czech Republic CCS & F	68.5	64.0	60.0
Denmark DEC	65.0	62.0	60.0
Finland ETLA	65.2	58.3	59.0
France BIPE	66.1	61.0	63.0
France COE-REXECODE	65.2	60.0	60.0
France INSEE (2)	65.0	61.0	
France OFCE	65.2	59.5	62.3
Germany DIW	64.7	62.0	62.0
Germany HWWI	65.2	59.9	60.5
Germany IFO		60.0	60.0
Germany IFW	66.0	58.0	58.0
Germany RWI	65.5	60.0	60.0
Greece KEPE	63.0	58.0	59.0
Hungary GKI	65.4	60.0	60.0
Hungary KOPINT	63.0	63.5	64.0
Ireland ESRI (3)	63.4	57.8	59.5
Italy ISAE	65.6	57.0	56.0
Italy PROMETEIA	66.3	60.3	61.4
Italy REF	66.3	62.8	63.4
Netherlands CPB	65.2	55.0	55.0
Norway SN	64.7	55.0	55.0
Poland IKC	65.4	60.8	61.2
Serbia FTRI			
Slovenia SKEP	64.0	60.0	60.0
Spain CEPREDE	65.2	63.8	67.0
Spain SGEI	61.6	66.5	68.0
Sweden CSE	65.0	60.0	60.0
Sweden NIER	64.8	58.9	55.8
Switzerland KOF	65.4	59.5	60.0
United Kingdom NIESR (4)	63.5	55.6	55.7

(1) Average import price for OECD countries.
(2) 2007H1/2006H2 annual rate
(3) Annual average of Brent, WTI and Dubia.
(4) Average of Dubai and Brent.

Lowest value		55.0	55.0
Average	64.9	60.1	60.3
Highest value		66.5	67.0

Exchange rate USD/EUR

Institute name	2006	2007	2008
Austria WIFO	1.26	1.33	1.40
Belgium FPB	1.26	1.31	
Belgium IRES	1.26	1.32	
Czech Republic CCS & F	1.26	1.35	1.28
Denmark DEC	1.26	1.33	1.33
Finland ETLA	1.30	1.30	1.30
France BIPE	1.26	1.35	1.37
France COE-REXECODE	1.25	1.30	1.25
France INSEE (1)	1.26	1.33	
France OFCE	1.26	1.32	1.35
Germany DIW	1.26	1.32	1.32
Germany HWWI	1.25	1.35	1.35
Germany IFO	1.26	1.32	1.32
Germany IFW	1.26	1.30	1.30
Germany RWI	1.26	1.30	1.30
Greece KEPE	1.26	1.33	1.37
Hungary GKI	1.25	1.30	1.30
Hungary KOPINT	1.29	1.30	1.30
Ireland ESRI (2)	1.30	1.35	1.40
Italy ISAE	1.26	1.32	1.29
Italy PROMETEIA	1.26	1.32	1.36
Italy REF	1.26	1.34	1.36
Netherlands CPB	1.26	1.30	1.30
Norway SN	1.26	1.31	1.31
Poland IKC	1.26	1.33	1.35
Serbia FTRI			
Slovenia SKEP	1.26	1.32	1.31
Spain CEPREDE	1.25	1.32	1.28
Spain SGEI	1.25	1.30	1.30
Sweden CSE	1.26	1.31	1.34
Sweden NIER (3)	1.32	1.32	1.32
Switzerland KOF	1.26	1.33	1.37
United Kingdom NIESR	1.26	1.30	1.31

(1) 2007H1 average
(2), (3) End of year

Lowest value		1.30	1.25
Average	1.27	1.32	1.33
Highest value		1.35	1.40

Country Notes and Tables

Austria – WIFO

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	256.4	3.2	3.0	2.4
Private consumption	142.1	1.8	2.2	2.0
Public consumption	45.9	0.9	1.7	1.6
Gross fixed capital formation, of which:	53.6	4.7	5.5	3.4
Equipment (1)	23.3	4.9	8.0	4.5
Construction	30.3	4.6	3.5	2.5
Increase in stocks (2)	0.4			
Total domestic demand	242.1	2.1	2.8	2.2
Exports of goods & services	147.6	8.5	7.4	6.2
Imports of goods & services	133.4	6.8	7.5	6.3
Net Exports (2)				
GDP deflator		1.3	1.8	1.7
Consumer prices		1.5	1.7	1.8
Private consumption deflator		1.4	1.7	1.8
Output gap				
Unit labour costs (total economy) (%)		0.8	0.9	0.6
Hourly wages (manufacturing)				
Employment (thousands)		4 215.8	4 269.2	4 285.3
Unemployment rate (3) (%)		4.7	4.2	4.1
Real household disposable income		2.1	2.2	1.6
Saving ratio (households) (%)		9.4	9.4	9.1
Public sector fiscal balance (4) (% of GDP)		-1.1	-1.0	-1.0
Gross public debt (4) (% of GDP)		62.6	61.8	60.7
Current account balance (% of GDP)		2.2	2.2	2.3
Central bank policy rate (non-EMU countries)				
Short-term interest rate (3 months) (%)		3.1	4.1	4.0
Long-term interest rate (10 years) (%)		3.8	4.0	4.2
United States Federal funds rate (%)				
GDP				
USA		3.3	2.0	2.3
Japan		2.2	1.9	1.6
Euro Area		2.6	2.7	2.2
World trade volume (%)		9.3	7.0	6.5
Oil prices (5) (US $/b)		61.1	61.0	62.0
Exchange rate				
Dollar/Euro		1.26	1.33	1.40
Yen/Euro				
Local currency/Euro for non-EMU countries				

(1) Including intangible fixed assets, other products, and products of agriculture, forestry, fisheries and aquaculture.
(2) Percent of GDP of previous period (contribution to growth).
(3) Percent of total labour force (according to Eurostat).
(4) EMU definition.
(5) Average import price for OECD countries.

Austria – WIFO

Date of forecast: March 27, 2007

The strong cyclical activity of last year is extending into 2007. After an increase of 3.2 percent in 2006, real GDP is expected to grow by 3.0 percent. While exports are slightly losing momentum, investment is gaining strength. Private household consumption is also picking up, though trailing the overall rate of economic growth. The positive trend on the labour market continues, with a further healthy gain in the number of new jobs and a continued fall in unemployment. In 2008, economic growth is set to moderate to a rate of 2.4 percent.

The regular WIFO business survey among domestic companies shows still no sign of slackening of the current lively economic activity. The strong momentum of demand and output will boost Austrian real GDP again by 3 percent this year. Only by 2008, the deceleration in the US and the strength of the euro will dampen the pace of growth in the EU and in Austria.

Manufacturing and construction are the sectors currently posting the strongest expansion, with construction activity having also been sustained by the mild weather in the 1st quarter. Likewise, business services, to which also belong the cyclically sensitive personnel service agencies, benefit from booming activity to an above-average degree.

With the slackening of business activity in the US, export demand is set to ebb in the course of the year, although strength within the euro area will dampen the negative repercussions on Austria's foreign trade. Exports of goods are projected to increase by 8¼ percent in volume this year, abating to a gain of 7 percent in 2008.

Both the semi-annual WIFO investment survey and the quarterly business survey among capital goods manufacturers indicate an extraordinary strength of investment demand. WIFO expects purchases of machinery and equipment to go up by 8 percent in 2007 and by 4½ percent in 2008. Construction investment, for its part, will decelerate from +4½ percent last year to +3½ percent in 2007 and further to +2½ percent in 2008.

At a projected rate of 2¼ percent, consumption of private households will pick up from last year, although the upswing remains relatively modest when compared with previous cyclical episodes. A genuine business cycle upturn will only be attained when consumer demand starts to rebound strongly. Labour incomes are boosted mainly by the rising number of jobs, while the increase in hourly wages remains subdued. The moderate wage development accounts for the absence of cost pressure, while the resulting sluggishness of private consumption holds down prices from the demand side. Against this background, inflation will hardly accelerate.

The labour market is reacting unusually strongly to the lively activity. The number of persons in dependent active employment is set to increase by 56,000 or 1.8 percent, while unemployment will fall by 23,000, pushing the jobless rate down to 6.1 percent of the dependent labour force (national definition). Both trends are expected to continue at a somewhat slower pace in 2008, with employment rising by 25,000 or 0.8 percent and unemployment declining by 5,000 to a rate of 5.9 percent.

Thanks to the strong growth of demand and output, the general government deficit narrowed markedly in 2006, to a ratio of 1.1 percent of GDP. In the current year too, tax revenues will post healthy gains, lowering the deficit ratio to 1 percent. The present projections were made, before information on the Federal budget drafts for 2007 and 2008 became available. Thus, notably the assumption of the deficit remaining unchanged at 1 percent of GDP in 2008 is surrounded by a considerable margin of uncertainty.

Belgium – FPB

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	313.2	3.0	2.2	
Private consumption	166.2	2.4	2.0	
Public consumption	71.3	1.4	1.7	
Gross fixed capital formation	63.1	4.1	2.7	
Private, excl. dwellings	42.1	4.4	4.2	
Dwellings	15.6	4.7	3.6	
Change in stocks (1)	3.9	0.8	0.0	
Total domestic demand	304.4	3.3	2.1	
Exports of goods and services	277.6	3.4	6.5	
Imports of goods and services	268.8	3.8	6.4	
Net exports (1)	8.8	-0.2	0.2	
GDP deflator		1.8	2.3	
Consumer prices		1.8	1.8	
Private consumption deflator		2.3	1.8	
Output gap (2)				
Unit labour costs (3)		0.8	1.7	
Nominal hourly gross wage rate		2.4	2.4	
Employment (thousands)		44.1	45.6	
Unemployment rate (4)		8.3	7.9	
Real household disposable income		2.6	2.0	
Net saving ratio (households) (5)		13.3	13.3	
Public sector fiscal balance (6,7)				
Gross public debt (6,7)				
Current account balance (6)		2.2	2.6	
Central bank policy rate (non-EMU countries)				
Short-term interest rate (3 months) (8)		3.1	4.0	
Long-term interest rate (10 years) (8)		3.8	4.2	
United States Federal funds rate				
GDP				
USA		3.3	2.4	
Japan		2.8	2.0	
Euro Area		2.6	2.2	
World trade volume (goods)				
Oil price (9)		65.2	59.4	
Exchange rate				
Dollar/Euro		1.26	1.31	
Yen/Euro		146.10	155.20	
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 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

Belgium – FPB

Date of forecast: March 2007

In 2006, Belgian economic growth amounted to 3%. In line with the international business cycle, Belgian GDP growth slowed down from 0.9% in the first quarter to 0.7% in the second quarter and to 0.6% in the third and the fourth quarters. This year, quarterly economic growth should stabilise around 0.5%. On a yearly basis, real GDP growth should reach 2.2% in 2007.

As a result of its weak performance in the first half of 2006, Belgian export growth (3.4%) strongly fell short of growth in the relevant export markets (8.7%) last year. The strong increase in exports during the second half of the year, however, provided a favourable starting point at the beginning of 2007, leading to stronger export growth this year than in 2006 (6.5%). As a consequence, the loss of market shares (measured as the growth differential between the relevant export markets and Belgian exports) in 2007 would be limited to 0.8%-points. Although imports increase at the same pace, the current account surplus should rise to 2.6% of the GDP (compared to 2.2% of GDP in 2006). Indeed, the lower oil prices and the appreciation of the euro should lead to a 0.3% improvement in terms of trade.

This year, domestic demand should increase by 2%, compared to 3.3% in 2006. This drop is mainly related to the evolution of private consumption, public investment and stock building. After a quasi stabilisation between 2002 and 2005, the real disposable income of Belgian households increased by 2.6% in 2006, mainly as a result of the rise in labour income and the implementation of the last stage of the personal income tax reform. As a consequence, private consumption growth sped up to 2.4% and the household savings rate slightly increased after a four-year decline. In 2007, the personal income tax reform will no longer give an additional boost to disposable income. Nevertheless, purchasing power will still increase by 2% due to a further increase in employment, an indexation of wages and social allowances that is higher than inflation, and an increase in property income (due to higher interest rates). Those factors should support consumer confidence resulting in a stabilisation of the savings rate and a rise in private consumption of 2%.

This year, growth of gross fixed capital formation (2.7%) should finally be much lower than in 2006 (4.1%). This is mainly due to the growth path of public investment, which is largely determined by local authorities' infrastructure works. They once again boomed in view of the local elections in October 2006. If the sales of public buildings are not taken into account, public investment rose by almost 10% in 2006 and should drop by the same extent this year. Quarterly growth of housing investment strongly accelerated until the third quarter of 2006, but slowed down afterwards due to the increase in mortgage rates which raised financing costs and the deceleration in real disposable income growth. Consequently, real housing investment growth in 2007 should slightly weaken to 3.6% (compared to 4.7% in 2006). Despite the relatively strong quarterly growth rates of business investment in 2006, the yearly growth rate remained limited to 3.2% (corrected for the purchase of public buildings) because some major investments (in the maritime transport sector) were completed in 2005. In line with GDP growth, the average quarterly growth of business investment should be lower this year than in 2006. Nevertheless, due to a favourable carry-over from 2006, business investment growth should still exceed 4% in 2007. This year, stock building should be neutral for economic growth, after a significant contribution (0.8%-points) in 2006.

The average annual rise in domestic employment amounted to 44,000 persons in 2006. As employment reacts with a time-lag to changes in growth in economic activity, employment should increase even more in 2007 (45,600 jobs) in spite of the slowdown in economic growth. Moreover, job creation should be stimulated for both years by a limited rise in wage costs. The employment rate should rise from 62.2% in 2006 to 62.5% in 2007. As employment increases faster than the labour force, the number of unemployed should diminish by 17,500 persons. The harmonised Eurostat unemployment rate is expected to fall from 8.3% in 2006 to 7.9% in 2007.

This year, inflation, as measured by the yoy increase in the national index of consumer prices (NICP), should amount to 1.8%, as in 2006. The health index, which is not affected by changes in the price of fuel, tobacco and alcoholic beverages, should increase by 2% (compared to 1.8% in 2006). According to the monthly forecasts for the health index, the pivotal index (currently 106.22) should be exceeded in September 2007.

Since January 2006, both index figures have been measured by a new basket of products (based on the Household Budget Survey conducted in 2004), which had a downward effect on their average increase in 2006. The deflator of private consumption, which is not affected by this technical factor, clearly indicates an easing of inflation to 1.8% in 2007, compared to 2.3% in 2006. The decline in inflation mainly results from moderation in wage cost increases, the appreciation of the euro and the decrease in oil prices. The packaging tax levied from 1 July 2007 onwards and the raise in excise duties on tobacco, two measures decided within the framework of the Budget for 2007, should add about 0.2%-points to inflation.

Belgium – IRES

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006*	2006**	2007**	2008
GDP	313.7	3.0	2.2	
Private consumption	166.1	2.4	2.2	
Public consumption	70.9	1.3	1.7	
Gross fixed capital formation	63.1	3.6	3.4	
Private, excl. dwellings	42.2	3.1	4.7	
Dwellings	15.7	4.5	3.4	
Change in stocks (1)	4.6	0.9	-0.1	
Total domestic demand	304.7	3.3	2.2	
Exports of goods and services	278.9	3.6	3.9	
Imports of goods and services	269.9	4.1	4.0	
Net exports (1)	9.0	-0.3	0.1	
GDP deflator		1.9	1.7	
Consumer prices		1.8	1.7	
Private consumption deflator		1.8	1.7	
Output gap (2)		1.0	0.2	
Unit labour costs (3)		0.6	1.0	
Nominal hourly gross wage rate		2.4		
Employment (thousands)		43.0	45.0	
Unemployment rate (4)		8.4	8.1	
Real household disposable income		2.7	1.9	
Net saving ratio (households) (5)		13.6	13.5	
Public sector fiscal balance (6,7)		0.0	0.3	
Gross public debt (6,7)	279.5	90.0	87.2	
Current account balance (6)				
Central bank policy rate (non-EMU countries)				
Short-term interest rate (3 months) (8)		3.1	4.1	
Long-term interest rate (10 years) (8)		3.8	4.4	
United States Federal funds rate		5.2	5.3	
GDP				
USA		3.3	2.2	
Japan		2.2	2.1	
Euro Area		2.7	2.3	
World trade volume (goods)		8.6	7.4	
Oil price (9)		65.6	61.0	
Exchange rate				
Dollar/Euro		1.26	1.32	
Yen/Euro		146.00		
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 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
* Estimation from the National Bank of Belgium.
** IRES forecast

Belgium – IRES

Date of forecast: April 4, 2007

Au quatrième trimestre 2006, le volume du PIB belge s'est relevé de 0,6% par rapport au trimestre précédent. Grâce à ce résultat, la croissance moyenne de l'économie belge en 2006 s'élève à 3,0%, ce qui est sa progression la plus forte depuis le début de la décennie.

La vigueur de la croissance économique a eu des effets bénéfiques sur la situation du marché du travail. D'une part, les créations nettes d'emplois ont été nombreuses en 2006 : selon les données disponibles, 42.000 emplois nets auraient été créés entre janvier et septembre et, selon nos estimations, l'emploi aurait encore augmenté de 12 milliers d'unités au dernier trimestre. Sur un an, la progression de l'emploi atteindrait 1,3% au dernier trimestre. D'autre part, un repli du chômage s'est amorcé en 2006. Au terme de cette évolution, la Belgique comptait en décembre 40 000 chômeurs de moins qu'en décembre 2005[1].

Malgré l'accélération de l'activité économique, et le relèvement important des prix pétroliers en milieu d'année, l'inflation fut modérée en 2006. Entre janvier et décembre 2006, la hausse totale de l'indice général des prix à la consommation fut de 1,6%, ce qui est nettement moins que la progression enregistrée durant la même période en 2005 (+2,6%). En moyenne sur l'ensemble de l'année, l'inflation globale s'est élevée à 1,8% en 2006, contre 2,8% en 2005.

Selon plusieurs indicateurs avancés du cycle de l'économie belge, la bonne performance économique enregistrée en 2006 ne devrait pas se répéter en 2007: le taux de variation à 6 mois de l'indicateur composite avancé de l'OCDE pour la Belgique est en effet en baisse depuis de nombreux mois ; de même, l'indicateur synthétique de conjoncture de la BNB connaît une évolution négative depuis bientôt 6 mois[2].

Durant l'année sous revue, la croissance de l'économie belge aura essentiellement à souffrir d'un environnement international qui sera moins porteur qu'il ne l'a été l'an passé, en raison essentiellement du ralentissement de l'économie américaine et de l'appréciation de la monnaie européenne par rapport au dollar (+12% sur un an en décembre). A l'heure actuelle, l'économie belge semble néanmoins être en mesure de pouvoir résister à la décélération de la demande étrangère. Bien qu'en baisse, la confiance des industriels est en effet toujours élevée et, dans les autres secteurs (construction, commerce, services aux entreprises), le climat des affaires apparaît bien orienté en ce début d'année. Nous ne prévoyons dés lors qu'une modération très légère du niveau de la croissance en 2007. Concrètement, le rythme de croissance attendu devrait être d'environ 0,5% par trimestre, un rythme égal au potentiel de l'économie belge. Cette évolution trimestrielle donnerait une croissance annuelle moyenne de 2,2% en 2007.

La demande intérieure soutiendrait la croissance durant l'année sous revue. Après avoir augmenté de 2,4% en 2006, la consommation privée des ménages continuerait à bien progresser en 2007 (+2,2%). Bien que l'investissement productif ait bien progressé au cours des trois dernières années, les entreprises maintiendraient un effort d'investissement important durant l'année sous revue, comme le suggèrent notamment les résultats très positifs de la dernière enquête de la BNB sur les perspectives d'investissement dans l'industrie manufacturière.

Dans le contexte des perspectives de croissance économique qui vient d'être décrit, l'emploi continuerait à progresser de façon appréciable en 2007. Sur l'ensemble de l'année, environ 40.000 emplois nets seraient crées. Compte tenu d'une croissance de la population active qui serait de 0,4%, le nombre de chômeurs serait, fin 2007, en baisse de 20 000 unités par rapport à fin 2006.

Le rythme de croissance annuelle de l'indice général des prix à la consommation est resté stable en ce début d'année, à un niveau toujours très modéré : 1,7% en janvier et 1,8% en février et mars. Les pressions inflationnistes devraient rester modérées durant le reste de l'année en cours. En moyenne sur l'ensemble de l'année, le taux d'inflation globale s'établirait à 1,7%.

[1] L'évolution du chômage est ici établie à partir des statistiques de demandeurs d'emplois inoccupés publiées par les organismes régionaux d'emploi. L'interprétation de ces statistiques nécessite la prudence, en raison des changements toujours en cours dans les méthodologies de comptage des chômeurs utilisées par les organismes régionaux d'emploi.

[2] La dernière observation est janvier 2007 pour l'indicateur OCDE et mars 2007 pour l'indicateur BNB.

Czech Republic – CCS & F

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	113.1	6.1	5.0	5.0
Private consumption	55.7	4.6	4.5	4.0
Public consumption	24.4	0.3	0.0	-0.3
Gross fixed capital formation	28.3	7.3	7.8	7.9
Private, excl. dwellings				
Dwellings				
Change in stocks (1)		2.4		
Total domestic demand	111.1	5.6	4.2	4.0
Exports of goods and services	85.2	14.6	11.0	11.0
Imports of goods and services	83.1	14.2	10.0	10.0
Net exports (1)		0.5	0.8	1.1
GDP deflator		1.7	2.5	2.9
Consumer prices		2.5	2.4	3.0
Private consumption deflator		2.0	2.3	3.0
Output gap (2)		0.7		
Unit labour costs (3)		1.5	2.2	2.0
Nominal monthly gross wage rate		6.6	6.6	7.0
Employment (thousands)	4 827.0	1.3	1.2	0.5
Unemployment rate (4)		7.2	6.7	6.5
Real household disposable income		2.9	3.8	2.7
Net saving ratio (households) (5)		5.2	4.7	3.6
Public sector fiscal balance (6,7)		-3.0	-4.0	-3.5
Gross public debt (6,7)		30.4	31.7	32.4
Current account balance (6)		-4.2	-3.5	-2.8
Central bank policy rate (non-EMU countries)		2.5	3.0	3.5
Short-term interest rate (3 months) (8)		2.3	2.8	2.9
Long-term interest rate (10 years) (8)		3.8	4.2	3.9
United States Federal funds rate				
GDP				
USA		3.3	2.6	2.9
Japan		2.2	2.5	2.2
Euro Area		2.8	2.1	1.9
World trade volume (goods)		9.8	6.5	5.9
Oil price (9)		68.5	64.0	60.0
Exchange rate				
Dollar/Euro		1.26	1.35	1.28
Yen/Euro				
Local currency/Euro for non-EMU countries		28.30	27.10	26.20

(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 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

Czech Republic – CCSF & F

Date of forecast: March 29, 2007

In 2006 the performance of the Czech economy reached its all-time high (with its growth rate reaching 5,9%, unemployment at the lowest point since the beginning of the century, its trade balance showing a surplus the second year running and corporate investments growing at an unprecedented pace). As most of these good results relate directly or indirectly to last year´s favourable developments in the economic environment of Czechia we assume, that the expected deceleration of world trade and the slow-down of growth anticipated in the USA and in the EU, will negatively affect also the perspectives of the Czech economy in the subsequent two years. But in our forecast we have taken into account also domestic determinants.

Though the above mentioned developments in the global economy will cause exports of Czechia to decelerate somewhat, we expect that they will still ensure a substantial surplus of its trade-balance in 2007, as well as in 2008, contributing thus to the growth of its GDP. We assume, that - due to the favourable income situation of households (and their massive use of bank-loans), personal consumption will increase further, - though at a somewhat slower pace then in 2006 – reinforcing thus the growth of total domestic demand. But the continuing strong inflow of foreign direct investment and increasing profits - mainly in foreign-controlled firms - as well as efforts of domestic enterprises to accelerate the modernisation of their equipment let us assume, that corporate investments will be the main factor of growth of the Czech economy in the subsequent two years.

From this we inferred, that the strong growth of factor productivity, which was observed in Czechia in the recent past will persist, maybe even accelerate, thanks to the start-up of new modern production capacities and the lowering of rates in corporate taxation, which was introduced recently. To achieve this increase of productivity will be of major importance, as only in this manner will Czech companies be able to avoid a loss of competitiveness, which otherwise would be caused by the continuing appreciation of the Czech koruna vis-a-vis the Euro and the USdollar.

We assume, that under these conditions the situation on the Czech labour market will improve. Less so because of a further decrease of the unemployment rate, - for this is still restrained by qualification discrepancies in supply of and demand for the workforce - but rather thanks to the creation of new jobs in prosperous industrial enterprises and in some branches of the service sector and to the extension of the work activity period (set by law and caused by the willingness of higher-aged categories of employees to accept less remunerated engagements).

This favourable outlook, as well as low interest rates, will motivate households to consume, rather then to save. Though in the corporate sector savings are considerable, we expect their volume to decrease in coming years, as with further hikes of interest rates, numerous corporate investments will probably be self-financed and profits of foreign-owned companies will be increasingly syphoned off by foreign investors, (causing the deficit of the balance of current accounts to increase further). And in the public sector the propensity to save is obviously lacking, as the magnitude of the deficit of the general government balance of the Czech republic clearly shows.

In order to prevent a further increase of this deficit, the new governement presented in April 2007 the proposal of a complex reform of public finances, which envisages – among others – the introduction of a single-level personal tax, an increase of the VAT, the curtailing of some mandatory expenditures, as well as the introduction of stringent austerity measures in public spending. Provided this proposal will be passed in parliament presently, its implementation might already in 2008 bring about the easing of tensions between fiscal revenues and necessary budgetary expenditures. But we assume, that bringing the budgetary deficit down to the level stipulated by the Maastricht criteria, will hardly be possible before the end of the present decade – necessitating thus a slight postponement of the time-limit in which Czechia will be able to join the EMU.

In between, the coverage of this deficit will cause the public debt of the Czech republic to increase somewhat. But as its indebtedness will still not reach a third of its GDP, we consider it to be well sustainable the more so, as the prospects of its economy outlined above, together with the conscientious inflation-rate-targeting conducted by its central bank, represent a guarantee of the countries´ financial stability.

Denmark – DEC

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	220.0	3.3	2.1	1.7
Private consumption	106.0	3.0	2.0	2.0
Public consumption	56.0	0.6	1.3	1.1
Gross fixed capital formation	51.0	13.3	6.0	3.0
Private, excl. dwellings	33.0	15.8	5.0	4.0
Dwellings	14.0	9.5	8.0	3.0
Change in stocks (1)	0.0	0.4	0.0	0.0
Total domestic demand	213.0	4.8	2.6	2.1
Exports of goods and services	113.0	9.8	5.0	3.0
Imports of goods and services	107.0	13.8	6.3	4.0
Net exports (1)		-1.7	-0.7	-0.2
GDP deflator		1.8	1.9	2.1
Consumer prices				
Private consumption deflator		2.1	2.2	2.0
Output gap (2)				
Unit labour costs (3)		2.5	3.2	2.0
Nominal hourly gross wage rate		3.4	4.3	4.5
Employment (thousands)		1.8	0.8	0.3
Unemployment rate (4)		4.2	3.9	4.0
Real household disposable income				
Net saving ratio (households) (5)				
Public sector fiscal balance (6,7)		4.2	3.5	3.3
Gross public debt (6,7)		28.0	24.0	19.0
Current account balance (6)		2.2	2.0	1.9
Central bank policy rate (non-EMU countries)		3.0	4.1	4.3
Short-term interest rate (3 months) (8)				
Long-term interest rate (10 years) (8)		3.8	4.1	4.3
United States Federal funds rate		5.0	5.2	4.4
GDP				
USA		3.3	2.4	2.8
Japan		2.2	2.4	2.3
Euro Area		2.6	2.6	2.4
World trade volume (goods)				
Oil price (9)		65.0	62.0	60.0
Exchange rate				
Dollar/Euro		1.26	1.33	1.33
Yen/Euro		146.00	156.00	156.00
Local currency/Euro for non-EMU countries		7.46	7.45	7.45

(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.

Denmark – DEC

Date of forecast: April 2007

The Danish economy has been booming in the last years, experiencing growth rates above 3 per cent per year in 2005 and 2006. Demand has been strong with consumption fuelled by increasing house prices and exports doing surprisingly well. Employment has risen and unemployment has fallen to a record low of 3¾ per cent of the labour force. Inflationary pressures have been moderate despite the tight labour market, and wages have been increasing by just over 3 per cent. With the economy operating close to its capacity limit increasing imports of goods, services and labour have kept the inflationary pressures subdued. At the same time the development on the labour market has surprised positively – leading to a cautious reduction of the estimate of the structural unemployment from around 5 to perhaps 4½ per cent.

Despite the good performance of the Danish economy the risk of overheating is eminent. Labour shortages are widespread, and unemployment rates in construction and many other sectors very close to zero. The collective bargainings for the majority of the private sector have just been finalized, with centrally negotiated wage rates increasing by around 4½ per cent per year for the period 2007-2009. However, for the largest part of the labour market wages are to be negotiated locally, and these negotiation rounds have not yet taken place. Wage increases of 4-4½ percent are from an economic point of view clearly in the high end, but it should to a large extent be seen as a natural market reaction to the business cycle situation in general and the labour market situation in specific.

The outlook for the Danish economy is balanced with both upside and downside risks. The central projection is growth rates around 2 per cent in 2007 and between 1½ and 1¾ per cent in 2008-09. This projection is consistent with a very small reduction of the output gap and a very slight increase the unemployment rate towards the structural level.

On the "upside", domestic demand could be stronger than expected. The last years strongly increasing house prices have lead to a high level of the wealth to income ratio. If stronger than expected demand turns out there is a significant risk that wage increases will become unsustainable, and a sharp reaction in exports (and imports) could come around. The result will very likely be a hard landing. An additional risk in this direction comes from fiscal policy, where large surpluses might tempt the politicians to reduce taxes and/or increase spending. Actually, in 2007 the fiscal policy is forecasted to affect GDP-growth positively by 0.4 per cent.

On the "downside", one risk is that the housing market could turn around after several years of two-digit house price increases. The latest indicators points to at stabilization of house prices, but a significant drop in nominal house prices (may be up to 20 per cent) can not be ruled out. Surprisingly weak figures on private consumption in second half of 2006 and the beginning of 2007 could point to more pronounced reduction in growth. However, the high level of wealth, the continued drop in unemployment combined positive business and consumer sentiments supports the central projection of continued growth in private consumption.

Finland – ETLA

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	167.9	5.5	2.7	2.8
Private consumption	85.2	3.0	2.7	2.4
Public consumption	35.9	0.9	1.5	1.5
Gross fixed capital formation	32.3	5.1	3.0	6.1
Private, excl. dwellings	18.2	8.2	5.9	8.5
Dwellings	9.7	5.9	2.0	2.5
Change in stocks (1)	3.5	0.0	0.0	0.0
Total domestic demand	157.0	2.9	2.4	3.0
Exports of goods and services	74.5	10.7	4.4	5.4
Imports of goods and services	63.6	5.6	4.1	6.6
Net exports (1)				
GDP deflator		1.3	1.6	1.4
Consumer prices		1.6	1.8	1.8
Private consumption deflator		1.9	1.4	1.3
Output gap (2)		1.0	0.6	0.5
Unit labour costs (3)		-0.9	1.1	1.7
Nominal hourly gross wage rate		3.0	2.7	3.7
Employment (thousands)	2 444.0	1.8	0.9	0.4
Unemployment rate (4)	204.0	7.7	7.3	7.1
Real household disposable income		1.6	2.4	3.0
Net saving ratio (households) (5)		-0.8	-1.1	-0.6
Public sector fiscal balance (6,7)	6.5	3.9	3.7	3.6
Gross public debt (6,7)	65.7	39.1	36.8	34.8
Current account balance (6)		5.9	6.0	5.4
Central bank policy rate (non-EMU countries)				
Short-term interest rate (3 months) (8)		3.1	4.0	4.1
Long-term interest rate (10 years) (8)				
United States Federal funds rate		5.0	5.1	4.3
GDP				
USA		3.3	2.8	2.8
Japan		2.2	2.2	2.2
Euro Area		2.6	2.6	2.4
World trade volume (goods)		9.2	6.5	6.5
Oil price (9)		65.2	58.3	59.0
Exchange rate				
Dollar/Euro		1.30	1.30	1.30
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

Finland – ETLA

Date of forecast: March 21, 2007

According to preliminary figures from Statistics Finland, Finland's GDP increased last year by 5.5 per cent. The economy grew on a wide front. It was fuelled by all components of aggregate demand, especially exports due to strong international demand. Production volumes increased in all main sectors except for primary production. Production growth was especially swift in manufacturing and construction. Industrial production was driven by the technology sector and the paper industry, the latter of which experienced a seemingly large increase in output owing primarily to the prolonged production shutdown of the previous year.

The growth in exports this year will be driven primarily by the electronics industry, machinery and equipment, metal refining as well as the metal products industry. Despite completion of several ships for delivery, exports of transport equipment will decline since cutbacks in subcontracting of car manufacturing will reduce car exports by about a third. Paper exports will grow by 3.5 per cent while the exports of the chemical industry will climb by slightly less than 5 per cent. Merchandise exports excluding electronics will increase by slightly more than 2 per cent. In 2008 the volume of exports is expected to increase by slightly less than 6 per cent boosted mostly by the technology sector.

The growth forecast for investment has been lowered to 3 per cent for this year while for next year it has been raised to slightly over 6 per cent. Delays in construction of the new nuclear power plant will shift acquisitions of the reactor and other large equipment from the end of this year to far into the year 2008. The postponement will decrease machinery and equipment investment and imports this year and increase both next year.

The continuation of the favourable trend in world economic growth has made us revise our view more bullish regarding Finland's economic prospects over the next few years. We nevertheless estimate the growth rate of GDP to decelerate significantly in the forecast period from last year, to 2.7 per cent this year and 2.8 per cent in 2008. This year's forecast has remained unchanged, but the forecast for 2008 has been raised by half a percentage point. Economic growth hinges largely on domestic demand, because net exports will give a significant boost to growth only this year.

Our view on Finnish economic development has changed more than can be concluded based on mere GDP growth figures. The forecast has changed most with respect to the development of exports, imports and investments.

France – BIPE

Variables	Levels 2005 billion euro's 2000 prices	Volumes, average growth			
	2006	2005	2006	2007	2008
GDP volume	1 552.3	1.2	2.1	1.6	1.8
Private consumption	876.8	2.2	2.7	2.3	2.6
Public consumption	378.6	1.1	1.9	1.5	0.7
Gross fixed capital formation	308.2	3.7	3.5	2.9	2.6
Non financial firms	169.9	3.8	3.8	3.7	3.9
Households	77.2	4.1	2.5	0.1	-0.2
Public sector (and ISBLM)	60.9	3.9	3.0	3.7	2.0
Change in stocks (1)		0.0	-0.3	-0.1	0.2
Total domestic demand (including stocks)	1 569.1	1.9	2.3	2.1	2.3
Exports of goods and services	453.2	3.2	6.2	2.7	6.1
Imports of goods and services	474.0	6.4	7.1	4.4	7.4
Net exports (1)		-0.9	-0.4	-0.6	-0.6
GDP deflator (1995=100)		1.8	2.1	1.7	1.7
Consumer prices (2000=100)		1.7	1.7	1.7	1.6
Nominal hourly gross wage rate		3.0	3.0	2.6	2.7
Employment (* 1000 persons >= 12 hrs)	24 963.0	65.0	184.0	134.0	129.0
Unemployment rate % (2)		9.9	9.1	8.6	8.3
Real household disposable income		1.1	2.6	2.3	2.5
Saving ratio (households)		14.9	14.8	14.8	14.8
Public sector surplus (% of GDP) (3)		2.9	2.6	2.5	2.2
Gross public debt (% of GDP) (3)		66.6	66.5	65.5	65.0
Short-term interest rate (3 months)		2.2	3.1	3.8	4.3
Long-term interest rate (10 years)		3.4	3.8	4.1	4.5
GDP					
USA			3.3	2.2	3.0
Japan			2.2	2.3	2.4
Euro Area			2.9	2.1	2.3
Oil prices (US-dollar per barrel, Brent)		54.40	66.10	61.00	63.00
Exchange rate					
Dollar/Euro		0.80	0.80	0.74	0.73
Yen/Euro		137.00	146.00	164.00	166.00

(1) In % of GDP of previous period (contribution to growth).
(2) In % of total labour force; excluding DOM-TOM
(3) EMU-definition.

France – BIPE

Date of forecast: April 2007

France recent performance has been poor, even by Europe standards. 2.1 % GDP growth in 2006 is the 2nd worst performance (behind Portugal) in per capita GDP growth of the EU27.

Growth has been fuelled those last years by increasing debt and credit (housing), as well as strong wage growth (relatively to at least Germany). Those factors should diminish in scope over the next two years as we are forecasting a housing market correction. As a result household's consumption should slow down. Residential investment will be stagnant for the next two years. We do not expect budgetary policy to make up for the loss (even if uncertainties abound because of the presidential election and we are in the middle of the electoral cycle with local elections in 2008). Nor do we expect a positive contribution from external trade to growth: France has lost external competitively as shown by its 16 billions euros trade deficit with Germany. It shall take time and legislative modifications to help turn the tide. The only positive is on the non residential investment front as firms will keep investing. Also unemployment is said to be declining.

As a result, France will, in 2007-08, under perform the EU for the third and fourth years in a row and should keep presenting one of the worst performances in the zone. Our projections are doubtless erring on the low side (especially given the latest revisions for 2006 figures) and upside risks are present. But the main message is that contrary to its partners, French growth could stay under its potential even in 2008. Such assumptions are of course not including potential effects from reforms after the elections.

France – Coe-Rexecode

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	1 779.9	2.1	1.8	1.8
Private consumption	1 012.1	2.6	2.1	1.9
Public consumption	418.4	1.9	1.6	1.4
Gross fixed capital formation	362.2	4.0	3.1	2.1
Private, excl. dwellings	199.5	4.9	3.9	3.1
Dwellings	101.8	2.5	1.0	-0.2
Change in stocks (1)		-0.3	-0.1	0.0
Total domestic demand	1 808.8	2.4	2.1	1.9
Exports of goods and services	478.1	6.2	3.3	5.3
Imports of goods and services	507.5	7.1	3.9	5.5
Net exports (1)		-0.4	-0.3	-0.2
GDP deflator		2.1	1.9	1.5
Consumer prices		1.7	1.3	1.4
Private consumption deflator		1.2	1.0	1.4
Output gap (2)				
Unit labour costs (3)		1.5	1.3	1.5
Nominal hourly gross wage rate		3.0	2.6	2.5
Employment (thousands)	25 236.0	0.8	0.6	0.4
Unemployment rate (4)		9.0	8.3	8.0
Real household disposable income		2.8	2.6	1.9
Net saving ratio (households) (5)		15.1	15.3	15.2
Public sector fiscal balance (6,7)	-45.8	2.5	2.7	2.5
Gross public debt (6,7)	1 142.2	63.9	64.2	64.7
Current account balance (6)	-27.7	-1.6	-1.9	-2.1
Central bank policy rate (non-EMU countries)				
Short-term interest rate (3 months) (8)		3.1	4.0	3.9
Long-term interest rate (10 years) (8)		3.8	4.1	4.2
United States Federal funds rate		5.0	5.2	4.3
GDP				
USA		3.3	2.6	2.8
Japan		2.2	2.3	2.0
Euro Area		2.8	2.1	1.9
World trade volume (goods)		9.9	7.6	8.4
Oil price (9)		65.2	60.0	60.0
Exchange rate				
Dollar/Euro		0.80	0.77	0.80
Yen/Euro		146.00	151.00	138.00
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 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

France – Coe-Rexecode

Date of forecast: April 5, 2007

Pour la seconde année consécutive, la croissance française est restée inférieure à celle observée dans l'ensemble de la zone euro. Elle ne paraît pas à même de combler ce retard en 2007. L'acquis de croissance en début d'exercice se situe déjà en retrait de quatre dixièmes de point de PIB en France par rapport à celui obtenu pour la zone euro du fait d'une croissance plus faible en fin d'année que celle observée dans l'Union monétaire. Plus encore, le plafonnement, sinon le tassement des enquêtes de conjoncture perceptible dans l'ensemble de la zone euro, paraît plus accusé dans le cas de la France. Cette observation est particulièrement aigue dans le cas de l'industrie, secteur pour lequel l'indice synthétique de l'enquête réalisée auprès des directeurs d'achat est revenu sur sa moyenne de longue période dans le cas de la France quand il continue à la dépasser largement dans l'ensemble de l'Europe. Perceptible dans les données qualitatives, le décrochage de l'activité industrielle est encore plus marquée dans les indices d'activité. Entre 2004 et 2006, l'indice de la production industrielle en France a progressé de 1 % quand il avançait de 5,2 % dans l'ensemble de la zone euro.

Ce décrochage de la croissance reflète pour l'essentiel le handicap de compétitivité dont pâtit l'économie française et qui ne s'est toujours pas inversé. Il s'est même plutôt accentué au cours des derniers mois, la part des exportations françaises dans celles de la zone euro ne ressortant plus qu'à hauteur de 13,5 % au quatrième trimestre 2006 quand elles s'inscrivaient à hauteur de 17 % en moyenne en 1998. Ce décrochage de la compétitivité n'est pas propre à l'industrie. Il s'étend aux activités de services dont les exportations, exprimées en valeur, restent en 2006 à un niveau inférieur à celui observé en 2002.

Outre que l'environnement mondial et européen pourrait s'avérer moins porteur début 2007 qu'au cours de l'exercice passé, ce handicap de compétitivité paraît devoir rester le principal frein à une franche reprise de l'activité en France. Qui plus est, les exportations françaises ont été soutenues de manière quasi-exclusive par les ventes à destination de l'Allemagne pendant la seconde partie de l'année dernière. Or celles-ci ont marqué le pas au cours des derniers mois en ligne probablement avec l'arrêt des achats effectués en anticipation de la hausse de la TVA intervenue outre-Rhin début 2007. En conséquence, et dans un contexte où l'appréciation présente de l'euro viendrait peser sur la compétitivité prix des exportations françaises, la croissance de ces dernières en volume resterait encore significativement inférieure à celle de la demande mondiale en 2007 et à nouveau, mais dans une ampleur moindre en 2008. L'écart négatif qui s'observe entre progression de la demande mondiale adressée et exportations depuis 2001 se prolongerait ainsi, occasionnant de nouvelles pertes de parts de marché. Du reste, les industriels ont fait état récemment d'une nouvelle dégradation de leur position compétitive sur quelque marché que ce soit (marché mondial, de l'Union européenne ou marché intérieur).

Un second moteur d'activité et de l'emploi pourrait progressivement faire défaut au cours de l'exercice 2007, voire 2008. Les signes de ralentissement dans le secteur immobilier et de la construction résidentielle se sont multipliés au cours des derniers mois : tassement des permis de construire et recul des mises en chantier de logements depuis un an, plafonnement du chiffre d'affaires dans les activités immobilières comme des flux de nouveaux crédits à l'habitat et allongement des délais d'écoulement des stocks. Si une baisse des prix dans l'immobilier résidentiel ne semble pas encore d'actualité, les conditions d'un atterrissage sont désormais réunies. Le recours à certains expédients comme un nouvel allongement de la durée des prêts immobiliers ne viendrait qu'atténuer l'ampleur de cet atterrissage dans un contexte de remontée graduelle des taux d'intérêt (+ 50 points de base pour les taux moyens sur les crédits nouveaux à l'habitat d'une échéance supérieure à un an en décembre 2006 par rapport à l'année précédente).

Enfin, l'entrée dans un cycle électoral prolongé du fait de la succession d'élections nationales puis municipales en 2007 et 2008 risque d'exercer un effet sédatif sur les dépenses d'investissement effectuées par les administrations publiques. Or, au cours des quatre derniers exercices, ces dépenses ont exercé une contribution positive à la croissance à hauteur d'un dixième de point de PIB chaque année, contribution qui ne s'observera probablement plus au cours de ces deux années. Les dépenses d'investissement public se modéreraient ainsi significativement, sans pour autant se retourner à la baisse, avant de rebondir quelque peu fin 2008.

Handicapée sur le plan extérieur, la (faible) croissance française continuerait de trouver ses ressorts au sein de sa demande interne. A l'inverse du tassement très progressif de leurs dépenses d'investissement qui s'est observé tout au long de l'exercice passé et que nous prolongeons sur l'horizon de la prévision, les ménages n'ont pas entamé le dynamisme de leurs dépenses de consommation. En début d'année, les achats de produits manufacturés ont même à nouveau rebondi à 7,5 % l'an en moyenne mobile sur trois mois. De fait, le pouvoir d'achat du revenu disponible des ménages serait soutenu par le paquet fiscal 2007 (versé en début d'année pour ce qui concerne la baisse attendue de l'impôt sur les revenus) qui portera sur un montant total équivalent à 0,5 point de RDB, d'une part, et par la modération attendue de l'inflation en ligne avec le recul des prix des produits énergétiques, d'autre part. Toutefois, le contexte de remontée de taux aidant, l'incitation à la réduction de l'effort d'épargne comme au recours à l'endettement paraît fléchir.

En conséquence, le rythme de progression de la consommation des ménages se rapprocherait de celui de l'avance du pouvoir d'achat de leur revenu après l'avoir systématiquement dépassé au cours des trois derniers exercices. La progression du pouvoir d'achat du revenu disponible resterait à nouveau légèrement supérieure à celle du PIB prolongeant ainsi la situation qui s'observe en moyenne depuis 2001 (à l'exception de l'exercice 2003). Il serait soutenu notamment par une progression encore forte de l'emploi, forte relativement à la croissance somme toute modérée que nous attendons pour les deux exercices, mais également par une progression un peu plus vive des salaires sous l'effet d'une « redilatation » progressive de l'échelle des salaires. L'écrasement de cette dernière observée depuis dix ans à la suite des relèvements successifs du SMIC opérés au cours des dernières années s'inverserait ainsi très lentement.

La progression des dépenses d'investissement des sociétés resterait pour sa part comprise dans la bande étroite qu'elle connaît depuis 2004. Les comptes des sociétés non financières paraissent avoir cessé de se dégrader ; les principaux ratios restent toutefois au voisinage d'un niveau plancher. Cette situation relève du registre d'une quasi-exception française dans le concert européen. En effet, seules les sociétés non financières françaises et italiennes ont vu leur taux de marge reculer au cours de la période de basses eaux conjoncturelles qui a été observée de 2000 à 2005 (dernier point connu pour la zone euro). Outre que le repli de l'investissement productif a été bien moins prononcé en France que celui observé dans l'ensemble de la zone euro au cours de cette même période, c'est probablement dans cette situation que doivent être recherchées les explications à la progression certes régulière mais lente des dépenses d'investissement productif. Pour autant, la progression de 3,8 puis 3,1 % de ces dépenses que nous attendons respectivement pour 2007 et 2008 conduira à positionner fin 2008 le taux d'investissement (exprimé en valeur) des sociétés un peu en dessous de ses niveaux records touchés en 1980 et 1990. Par ailleurs, les variations de stocks ne pèseraient plus sur la croissance ainsi que cela a été le cas en 2006.

Dans un contexte de croissance molle ouvrant peu de marges de manœuvre pour la politique budgétaire, et sous réserve de l'introduction d'une nouvelle soulte non anticipée pour l'heure sans parler du résultat des élections présidentielles, le solde des administrations publiques afficherait en 2007 un déficit à hauteur de 2,7 % du PIB (après 2,5 % en 2006) avant qu'il ne revienne à 2,5 % en 2008. Après avoir atteint un point haut à 44,4 % en 2006, le taux de prélèvements obligatoires se stabiliserait à hauteur de 44 % du PIB.

France – INSEE

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	1 779.9	2.1	2.3(*)	
Private consumption	989.7	2.7	2.8(*)	
Public consumption	145.2	1.9	1.8(*)	
Gross fixed capital formation	362.2	4.0	3.4(*)	
Private. excl. dwellings				
Dwellings				
Change in stocks (1)	16.6	-0.3	0(*)	
Total domestic demand	1 809.2	2.4	2.5(*)	
Exports of goods and services	478.1	6.2	2.4(*)	
Imports of goods and services	507.5	7.1	3.0(*)	
Net exports (1)	-29.3	-0.4	-0.2(*)	
GDP deflator	1.1	2.1	1.9(*)	
Consumer prices		1.6	0.8(*)	
Private consumption deflator	1.1	1.2	0.3(*)	
Output gap (2)				
Unit labour costs (3)		1.8	1.6(*)	
Nominal hourly gross wage rate		3.0	3.0(*)	
Employment (thousands)	25 123.0	1.0	0.8(*)	
Unemployment rate (4)				
Real household disposable income	1 165.8	2.8	2.6(*)	
Net saving ratio (households) (5)	15.1	15.1	15.7(**)	
Public sector fiscal balance (6.7)	45.8	-2.5		
Gross public debt (6.7)	1 142.2	63.9		
Current account balance (6)				
Central bank policy rate (non-EMU countries)				
Short-term interest rate (3 months) (8)		3.1	3.7(**)	
Long-term interest rate (10 years) (8)		3.9	4.0(**)	
United States Federal funds rate		5.2	5.4(**)	
GDP				
USA		3.3	1.9(*)	
Japan		2.8	1.9(*)	
Euro Area		2.8	1.7(*)	
World trade volume (goods)				
Oil price (9)		65.00	61.00(*)	
Exchange rate				
Dollar/Euro		1.26	1.33(**)	
Yen/Euro		146.00	158.00(**)	
Local currency/Euro for non-EMU countries				

(*) 2007H1/2006H2 annual rate
(**) 2007H1 average

(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

France – INSEE

Date of forecast: April 16, 2007

In 2006 the French economy has accelerated from 1,2% in 2005 to 2.0% in 2006. Yet the euro-zone acceleration outpaced our own, giving the impression that France had trouble keeping up with the flow. Three factors dampened the impact of a buoyant international environment: first our difficulty in preserving market shares, in an admittedly exacerbated competitive climate; second an ever greater penetration of imports; third a milder business-investment rebound than in earlier cyclical upswings. The only robust component was household consumption. While it did not surpass the average increase in household income, it remained the true engine of the French economy. These mixed economic results are reflected in the persistence of the soft-growth pattern that has characterized France since 2004, making the "classical" interpretation in cyclical terms somewhat inoperative.

As the other euro area economies, France will be affected by the international slowdown but will benefit from two positive factors: on the one hand, the moderation in oil prices; on the other hand, the acceleration of households real income, triggered by this moderation in oil prices, but also by a rather dynamic labor market and tax cuts for a total amount of 5 Mds . Business surveys have even slightly improved since the start of the year and have moved closer to their euro area counterparts: the disappointing 2006 results are at least partly of a temporary nature.

Growth is therefore expected to range between approximately 0.5% and 0.6% per quarter in the first half of 2007, with the mild winter exerting a slightly negative effect in Q1 but, conversely a positive effect in Q2.

French exports are projected to register a moderate increase due to weaker growth among a number of our economic partners, but domestic demand should hold firm. In fact consumption is likely to remain a growth engine. The improved labor market which is driving up wage earnings, the tax cuts scheduled for 2007 and the easing of inflation, are all sustaining real personal income. After stabilizing in 2006, the household saving rate is even expected to rise slightly in 2007, without breaking the consumption momentum.

The French productive capacity utilization rate is close to its medium-term level which means that business investment should continue to grow in step with the economy.

As a result, job creations are forecast to continue at a robust pace, totaling about 110,000 in H1.

France – OFCE

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	1 583,5	2.1	2.3	2.9
Private consumption	905,4	2.7	2.8	2.8
Public consumption	365,2	1.6	1.9	1.4
Gross fixed capital formation	319,7	4.0	4.9	3.8
Private, excl. dwellings	188,3	4.6	5.1	4.7
Dwellings	79,1	2.5	2.1	2.1
Change in stocks (1)		-0.3	-0.1	0.0
Total domestic demand	1 611,4	2.4	2.7	2.8
Exports of goods and services	480,1	6.2	3.4	7.0
Imports of goods and services	508,1	7.1	4.6	6.5
Net exports (1)		-0.4	-0.4	0,0
GDP deflator	112,4	2.1	1.6	1.3
Consumer prices	114,2	1.7	1.1	1.6
Private consumption deflator	109,3	1.2	0.8	1.6
Output gap (2)				
Unit labour costs (3)		1.9	1.4	1.7
Nominal hourly gross wage rate		3.2	2.9	3.5
Employment (thousands)		205.0	232.0	353.0
Unemployment rate (4)		9,4	8,8	8,0
Real household disposable income		2.6	2.9	2.5
Gross saving ratio (households) (5)		15.1	15.2	15.0
Public sector fiscal balance (6,7)		-2.5	-2.6	-2.2
Gross public debt (6,7)				
Current account balance (6)		-1.8	-1.9	-1.9
Central bank policy rate (non-EMU countries)				
Short-term interest rate (3 months) (8)		3.1	4,0	4.1
Long-term interest rate (10 years) (8)		3.9	4.2	4.4
United States Federal funds rate		5,0	5,0	4.3
GDP				
USA		3.3	2,0	2.5
Japan		2.2	2.3	2.5
Euro Area		2.8	2.6	2.7
World trade volume (goods)		9.6	7.9	8.4
Oil price (9)		65.2	59.5	62.3
Exchange rate				
Dollar/Euro		1.26	1.32	1.35
Yen/Euro		146.10	156.40	152.60
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 gross 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 – OFCE

Date of forecast: April 2007

The performance of the French economy was mixed in 2006. On the one hand, GDP growth accelerated, reaching 2.5% on a y-o-y basis at the end of 2006 instead of 1.0% only a year earlier and this allowed for a decrease in the unemployment rate. On the other hand, the French economy did not manage to benefit from buoyant world GDP growth, with French GDP growing less rapidly than the aggregate euro area (2.1% versus 2.8%). French domestic demand excluding stockbuilding grew substantially more rapidly than output. Households' consumption remained the main engine for growth. A reduction in inventories cut growth by 0.3 percentage point. The contribution of net external trade to GDP growth remained negative for the fourth year in a row, although by a smaller extent, reducing output growth by 0.4 percentage point in 2006, after an average annual 0.8 percentage point from 2003 to 2005.

We expect the euro area to grow by 2.6% in 2007, with the French economy sill lagging behind at 2.3%. The euro area interest rates rises in 2006 and the increase in the German VAT from January 1st 2007 will be the main causes for a moderate growth in France in 2007. In 2008, these constraints will disappear, which will support both exports and business investment and thus job creation. Export market shares will almost stabilise and fiscal policy may be slightly expansionary this year and close to neutral next year. We expect French to grow by 2.9% in 2008.

Inflation has remained subdued, with the HCPI rising by an annual 1.2 % only in March 2007 (as compared to 1.9% in the euro area) and there are hardly any signs of rising inflationary pressures in the coming months. We expect HCPI inflation to accelerate only slightly from 1.3% in 2007 to 1.8 in 2008. Under our GDP growth assumptions, the unemployment rate would settle at around 8% in 2008 down from 9.4% in 2006.

Germany – DIW

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP		2.7	2.3	2.5
Private consumption		2.1	2.4	3.4
Public consumption		1.7	1.8	3.1
Gross fixed capital formation		6.3	5.2	5.3
Private, excl. Dwellings (construction)		6.4	4.4	6.2
Dwellings (construction)		6.7	6.3	5.2
Change in stocks (1) bill.	-2.2	-2.2	-7.0	8.4
Total domestic demand		2.8	2.6	4.4
Exports of goods and services		13.5	11.6	8.7
Imports of goods and services		14.7	10.0	11.8
Net exports (1) bil.	112.9	112.9	130.8	136.9
GDP deflator		0.3	1.3	0.9
Consumer prices		1.8	1.7	1.9
Private consumption deflator		1.3	1.9	1.2
Output gap (2)				
Unit labour costs (3)				
Nominal hourly gross wage rate		1.0	2.1	2.6
Employment (thousands) change in %		0.7	1.1	0.8
Unemployment rate (4)		8.9	8.5	8.1
Real household disposable income				
Net saving ratio (households) (5)		10.6	10.6	10.8
Public sector fiscal balance (6,7)		-1.2	-0.5	-0.2
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		3.4	2.7	3.1
Japan		2.2	1.8	1.9
Euro Area		2.9	2.4	2.6
World trade volume (goods)		9.0	8.5	8.0
Oil price (9)		64.7	62.0	62.0
Exchange rate				
Dollar/Euro		1.26	1.32	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 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

Germany – HWWI

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	2307.2	2.7	2.3	2.4
Private consumption		0.8	0.5	1.5
Public consumption		1.8	0.9	1.3
Gross fixed capital formation		5.6	4.9	3.3
Private, excl. dwellings				
Dwellings				
Change in stocks (1)		-0.4	0.2	0.3
Total domestic demand		1.6	1.7	2.0
Exports of goods and services		12.5	8.8	7.3
Imports of goods and services		11.1	8.0	7.1
Net exports (1)		1.1	0.8	0.6
GDP deflator		0.3	1.5	1.0
Consumer prices		1.7	1.6	1.5
Private consumption deflator		1.3	1.6	1.5
Output gap (2)				
Unit labour costs (3)		-1.3	-0.3	0.1
Nominal hourly gross wage rate		0.9	1.9	2.4
Employment (thousands)		34 624.3	34 998.0	35 164.0
Unemployment rate (4)				
Real household disposable income		0.5	0.5	1.5
Net saving ratio (households) (5)		10.5	10.6	10.7
Public sector fiscal balance (6,7)		-1.7	-0.6	-0.6
Gross public debt (6,7)				
Current account balance (6)		5.1	5.6	5.9
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		5.0	5.2	5.0
GDP				
USA		3.3	2.5	3.0
Japan		2.2	2.5	2.0
Euro Area		2.8	2.6	2.5
World trade volume (goods)		8.9	7.5	7.0
Oil price (9)		65.2	59.9	60.5
Exchange rate				
Dollar/Euro		1.25	1.35	1.35
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

Germany – HWWI

Date of forecast: April 2, 2007

The upswing in Germany carried well into the first months of 2007. Main driving forces of the expansion were not only exports but also investment in machinery and equipment. At the same time, labor market conditions have improved considerably. Despite the VAT increase at the beginning of 2007 consumer prices increased by less than 2 %.

We expect the upswing to continue on a firmer domestic footing. On the one hand, exports will loose some momentum, mainly due to slackening growth of the world economy, but also because of diminshed international competitiveness as a result of the apreciation. Domestic demand on the other hand will gain more momentum, as the situation on the labor market is going to improve further and the number of unemployed will decline. These developments will foster gains in incomes, and we therefore are expecting consumption growth to pick up. Alltogether, for this year we expect GDP to grow by about 2.3 %. Because of the VAT increase, inflation will come in higher than last year, at 1.8 %. For 2008 we expect GDP growth to lie around 2.4 %. In spite of higher wage increases inflation is likely to slow down slightly to 1.5 %.

Government finances are improving markedly. This year, the fiscal deficit should decrease to 0.6 % of GDP. In 2008 we don´t expect a further reduction because of the reduction of business-taxes.

Germany – IFO

Variables	Level Local curreny, current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	2 307.2	2.7	2.2	2.3
Private consumption	1 348.7	0.8	0.8	1.5
Public consumption	426.6	1.8	1.1	1.4
Gross fixed capital formation	411.5	5.6	4.1	4.5
Non-Residential	195.5	7.1	6.4	7.6
Residential	215.9	4.2	2.0	1.8
Change in stocks (1)	-2.2	-0.2	0.4	-0.2
Total domestic demand	2 184.5	1.6	1.8	1.8
Exports of goods and services	1 035.7	12.5	7.3	7.4
Imports of goods and services	913.0	11.1	7.1	7.1
Net exports (1)	122.7	1.1	0.5	0.5
GDP deflator		0.3	1.7	1.0
Consumer prices		1.7	1.7	1.8
Private consumption deflator		1.3	1.4	1.6
Output gap (2)				
Unit labour costs (3)		-1.3	-0.2	1.6
Nominal hourly gross wage rate		1.1	2.0	3.0
Employment (thousands)		39 106.0	39 580.0	39 880.0
Unemployment rate (4)		10.3	8.8	8.2
Real household disposable income		0.5	0.8	1.2
Net saving ratio (households) (5)		10.5	10.6	10.5
Public sector fiscal balance (6,7)		-1.7	-1.1	-0.5
Gross public debt (6,7)				
Current account balance (6)				
Central bank policy rate (non-EMU countries)				
Short-term interest rate (3 months) (8)		3.1	4.0	4.1
Long-term interest rate (10 years) (8)		3.8	4.2	4.3
United States Federal funds rate				
GDP				
USA		3.4	2.7	3.2
Japan		2.2	2.3	2.4
Euro Area		2.7	2.5	2.5
World trade volume (goods)		8.5	7.5	7.5
Oil price (9)			60.0	60.0
Exchange rate				
Dollar/Euro		1.26	1.32	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 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

Germany – IFW

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	2 307.2	2.7	2.8	2.4
Private consumption	1 348.7	0.8	1.1	2.2
Public consumption	426.6	1.8	0.9	1.1
Gross fixed capital formation	411.5	5.6	5.6	4.0
Private, excl. dwellings	286.7	6.2	7.8	4.9
Dwellings	124.7	4.0	0.3	1.6
Change in stocks (1)		-0.2	0.1	0.1
Total domestic demand	2 184.5	1.6	2.0	2.4
Exports of goods and services	1 035.7	12.5	11.0	6.8
Imports of goods and services	913.0	11.1	10.5	7.6
Net exports (1)		1.1	0.8	0.1
GDP deflator		0.3	1.5	1.9
Consumer prices		1.7	1.5	1.9
Private consumption deflator		1.3	1.6	1.9
Output gap (2)		-0.2	0.1	0.7
Unit labour costs (3)		-1.3	0.2	2.3
Nominal hourly gross wage rate		0.8	1.9	3.4
Employment (thousands)		39 106.0	39 573.0	40 068.0
Unemployment rate (4)		8.1	6.9	6.2
Real household disposable income		0.5	1.1	2.1
Net saving ratio (households) (5)		10.5	10.5	10.5
Public sector fiscal balance (6,7)		-1.7	-0.6	-0.4
Gross public debt (6,7)		67.9	65.8	63.6
Current account balance (6)		4.8	5.2	5.6
Central bank policy rate (non-EMU countries)				
Short-term interest rate (3 months) (8)		3.1	4.1	4.3
Long-term interest rate (10 years) (8)		3.8	4.2	4.6
United States Federal funds rate		5.0	5.1	4.5
GDP				
USA		3.3	2.6	3.0
Japan		2.2	2.4	2.2
Euro Area		2.6	2.7	2.3
World trade volume (goods)		9.2	7.5	7.5
Oil price (9)		66.0	58.0	58.0
Exchange rate				
Dollar/Euro		1.26	1.30	1.30
Yen/Euro		116.00	120.00	120.00
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 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

Germany – IFW

Date of forecast: March 9, 2007

2006 was a year of strong recovery in Germany. Real GDP rose by 2.7 per cent (2.9 per cent in working days adjusted terms). In the second half of the year, real GDP continued to rise by almost 1 per cent per quarter following the significant acceleration of growth in the first two quarters after the modest quarterly growth in 2005. During the whole year, the economic expansion was driven by exports and a substantial acceleration in fixed investment. Especially important was the turnaround in construction activity. Private consumption also showed some improvement but remained relatively sluggish. Growth in the final quarter of 2006, according to current official estimates, was exclusively due to net exports as domestic demand fell due to a massive reduction in inventories. There is, however, some scepticism warranted whether the jump in exports in the statistics really reflects an increase in export activity, and the statistical office has reduced inventories massively in response. Imports rose only moderately in line with final domestic demand. The recovery of the labour market continued forcefully, helped by favourable weather conditions. The seasonally adjusted number of unemployed fell below 4 million in the first three months of this year for the first time since May 2002, and the unemployment rate dropped by more than one percentage point to 7.7 per cent from the year before (standardized unemployment rate). Employment growth has been substantial, with the number of regular jobs having risen by almost 2 percent since the trough in early 2006.[3]

Our current forecast for GDP growth in 2007 is 2.8 percent, slightly above the growth rate of last year, and given most recent indicators of production in the first and second quarters the risk to this forecast is even tilted to the upside, in our view. This is a substantial upward revision from our forecast made in last September. Back then, we expected a significant slowdown of the German economy, partly as a result of the fiscal package that includes an increase of the regular VAT rate by 3 percentage points and which became effective from the start of this year. Contrary to our expectation of a reduction in output in the first months of 2007 in response to advanced purchases at the end of 2006, production seems to have continued expanding. In January 2007, industrial production including construction increased substantially and was significantly above its level in the fourth quarter of 2006. This raises the question whether the effects of the VAT increase on the quarterly pattern of demand has been grossly overestimated. A look at demand indicators, however, reveals that purchases of some important durables have been advanced to 2006 as expected. Car registrations, for example, have seen a steep rise at the end of last year followed by a major fall in the first months of this year. Similarly, retail sales surged in December and were weak in January. In those sectors that had been expected to be especially affected by the VAT hike such as retail trade and residential construction the business climate has fallen significantly after the turn of the year. The impact on consumer prices also seems to have been largely in line with expectations. According to our estimates, inflation has been pushed up by about three quarters of a percentage point. This estimate is also consistent with the development of core inflation (excluding energy and food), which rose by 1.1 percentage points between June 2006 and January 2007. The observation of an only slight increase in the inflation rate in January is partly due to the coincidence of falling energy prices and partly due to the fact that apparently some of the increase in prices has taken place already in previous months.

One of the reasons that output has held up in the first months of 2007 lies in the backlog of orders which remained at record levels – surpassing even the levels seen during the peak of the reunification boom – despite the fact that order inflows have been stagnant around the turn of the year. As well, exports seem to have been especially vibrant, corporate investment has contributed to keep production up and construction activity has benefited from unusually mild winter weather. All in all leading indicators point to robust GDP growth in the first half of the year. In the second part of this year we expect the upswing to continue and become increasingly self-sustained. Investments should rise rapidly in view of high capacity utilization and the improved outlook for domestic demand, although part of the momentum is borrowed from the coming years as some investment may be brought forward to escape a change in the tax code that will lead to stricter depreciation rules from 2008 onwards. not only to escape a change in the tax code that will lead to stricter depreciation rules from 2008 onwards, but due to better expectations for internal demand, too: private consumption is forecast to accelerate, reflecting stronger growth in real disposable incomes which is the result of higher wage

[3] The substantial rise in employment is difficult to reconcile with the estimate of only modest growth of disposable income in the fourth quarter given in the Quarterly National Accounts. Similarly, a strong increase in VAT revenues is somehow at odds with the estimated moderate expansion of private consumption. Therefore, there seems to be scope for substantial upward revisions in the QNA (as we have seen in previous quarters).

increases and increasing employment. Export growth, by contrast, will lose some momentum since the world economy is expected to grow at a more moderate pace. In 2008, real GDP is expected to grow by 2.4 per cent, with private consumption being an increasingly important pillar of demand. Fiscal policy is expected to be broadly neutral after a significant restriction in both 2006 and 2007, but given the robust economic growth, and under the assumption that better than projected revenue growth will not loosen the strings on the purse of the treasury too much, the deficit should shrink further to 0.5 per cent from 0.7 percent expected to be achieved this year. While government expenditures will continue to rise slower than GDP, although less pronounced than in previous years, and the income tax burden will rise due to tax progression, the reform of corporate taxation will cost around 6.5 bill. (0.3 per cent of GDP). Unemployment is expected to decline further to 6.2 per cent in 2008, from 6.9 per cent in 2007 (2006: 8.1 per cent). Consumer price inflation is projected to be 1.5 per cent in 2007 (currently this forecast looks somewhat low given oil prices being higher and wage growth even stronger than assumed) and increase to 1.9 per cent in 2008 due to higher wage growth and increased pricing power of firms.

Germany – RWI

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	2307.2	2.7	2.3	2.6
Private consumption		0.8	1.2	2.0
Public consumption		1.8	1.6	1.5
Gross fixed capital formation		5.6	5.5	4.3
Private, excl. dwellings				
Dwellings				
Change in stocks (1)		-0.4	0.0	0.0
Total domestic demand		1.6	2.1	2.4
Exports of goods and services		12.5	7.7	8.3
Imports of goods and services		11.1	8.0	8.6
Net exports (1)		1.1	0.3	0.4
GDP deflator		0.3	1.5	1.3
Consumer prices		1.7	1.8	1.5
Private consumption deflator		1.3	1.5	1.2
Output gap (2)				
Unit labour costs (3)		-1.3	0.3	0.9
Nominal hourly gross wage rate		0.9	2.0	2.3
Employment (thousands)		34 624.3	34 990.3	35 249.3
Unemployment rate (4)		8.1	6.7	5.7
Real household disposable income		1.8	2.7	2.9
Net saving ratio (households) (5)		10.5	10.5	10.3
Public sector fiscal balance (6,7)		-1.7	-0.7	-0.1
Gross public debt (6,7)				
Current account balance (6)		4.4	4.6	4.8
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		3.3	2.6	3.2
Japan		2.2	2.0	1.7
Euro Area		2.6	2.4	2.5
World trade volume (goods)		8.8	7.5	8.0
Oil price (9)		65.5	60.0	60.0
Exchange rate				
Dollar/Euro		1.26	1.30	1.30
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

Germany – RWI

Date of forecast: March 15, 2007

The strong upswing in Germany continued in the second half of 2006. Gross Domestic Product grew by 2.7 % – the largest increase since 2000. Expansion was sustained by exports and investments in machinery and transport equipment. Construction investment and private consumption have recently accelerated. Yet, this may be caused by the increase in VAT at the beginning of 2007.

The situation on the labor market has improved considerably. In the course of 2006, the number of employed persons increased by nearly 500,000. At the same time, the number of employees subject to social insurance contribution increased for the first time since 2000. Thus, disposable incomes are supposed to grow faster, thereby putting the upswing on a firm footing. Growing capacity utilization and ample liquidity did so far not have serious consequences for inflation. At the beginning of 2007 consumer prices increased by 1.6 % only. Reflected in this is the decrease in energy prices. In our opinion, the increase in VAT has so far been passed on half to the consumer.

There are many signs that the upswing continues. Yet, it is supposed to loose momentum initially, as the world economy is growing more restrained, the competitiveness of Germany has decreased because of the appreciation of the Euro since January 2006, but mainly because fiscal policy is weighing on growth. For 2007 we are expecting GDP growth to reach 2.3 %. It is mainly driven by domestic demand, in particular investment. As the improved deprecation allowances are only in force until the end of the year, this should boost business investment in 2007 and lower investment growth in 2008. With growing employment we ware expecting a more brisk consumption growth. External demand is supposed to contribute a lot less to economic growth. The situation on the labor market is going to improve further and the unemployment rate is declining from 10.3 % to 8.9 %. With 1.8 % Inflation is supposed to lie above last year's because of the VAT increase.

For 2008 we are expecting GDP growth to be 2.6 %. Thereby employment is expected to increase further and the unemployment rate should decrease to 8.2 %. Inflation is likely to drop to 1.5 %.

In light of our GDP forecast, the government finances are improving markedly. We are expecting that the deficit should decrease in 2007 to 0.7 % of GDP. In 2008, a further reduction to 0.1 % is likely. Thus, the goal of a balanced budget is very near.

Risks on the domestic side stem from a large increase in wages, which could cause a wage-price spiral obliging the ECB to act upon.

Greece – KEPE

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	245.9	4.4	3.6	3.5
Private consumption	167.3	3.2	3.5	3.5
Public consumption	34.9	3.8	3.5	3.2
Gross fixed capital formation	63.1	15.0	3.0	1.8
Private, excl. dwellings	27.4	3.2	6.5	7.0
Dwellings	28.3	32.3	-1.0	-5.0
Change in stocks (1)	1.1	-0.4	0.2	0.4
Total domestic demand	266.5	5.5	3.5	3.4
Exports of goods and services	45.8	5.6	4.0	4.0
Imports of goods and services	66.4	9.8	3.4	3.6
Net exports (1)		-1.7	-0.2	-0.3
GDP deflator		3.2	4.4	3.4
Consumer prices		3.3	3.0	2.9
Private consumption deflator		3.4	3.1	3.0
Output gap (2)		1.0	0.5	0.3
Unit labour costs (3)				
Nominal hourly gross wage rate				
Employment (thousands)	4 735.0	2.4	0.8	0.6
Unemployment rate (4)		8.4	8.5	8.3
Real household disposable income				
Net saving ratio (households) (5)				
Public sector fiscal balance (6,7)		-2.6	-2.4	-1.8
Gross public debt (6,7)		104.1	100.1	95.9
Current account balance (6)		-10.0	-7.7	-7.2
Central bank policy rate (non-EMU countries)				
Short-term interest rate (3 months) (8)		3.8	4.0	4.2
Long-term interest rate (10 years) (8)		4.0	4.4	4.2
United States Federal funds rate				
GDP				
USA		3.3	2.3	2.7
Japan		2.2	2.1	2.2
Euro Area		2.6	2.3	2.4
World trade volume (goods)		9.0	7.5	7.0
Oil price (9)		63.0	58.0	59.0
Exchange rate				
Dollar/Euro		1.26	1.33	1.37
Yen/Euro		146.52	154.00	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 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

Greece – KEPE

Date of forecast: April 2007

Greek economic activity continued to expand at a strong pace in 2006. The rate of growth of GDP was 4.4% following a growth rate of 3.8% in 2005. Economic activity was driven by domestic demand, whereas the contribution of the external sector turned negative.

Domestic expenditure was supported primarily by the growth of private investment, which increased by 15% as a result of 32% increase in housing investment. The expansion of the housing sector follows a record increase in housing permits, during the last quarter of 2005, which was induced by the anticipated introduction of VAT on housing construction activity. On the other hand, growth of non residential private investment was very modest in 2006 in comparison with previous years as it increased by 3.2% while the annual average of the period 2000-05 was 7.5%. Public investment rebounded by 6.3%, after a sharp reduction (-15%) in 2005.

Even though private consumption is, still, being fuelled by increased incomes, and continuing rapid credit expansion, the rate of growth has slowed down to 3.2%, from 3.7% in 2005 and 4.6% in 2004.

Following a marked improvement of the external balance in 2005, the current account deficit widened substantially, in 2006, reaching a record 10% of GDP. Net exports had a substantial negative contribution to GDP growth, -1.7 percentage points, while the corresponding contribution in 2005 was 1.3 percentage points. Developments in the external sector were dominated by the substantial increase in imports (9.8%), -following a 2.6% decline in 2005- which lead to a significant deterioration of the merchandise balance, even though exports of goods registered a very significant increase (11%). Even though the services surplus was marginally increased, the overall current account deficit deteriorated further, as the transfers and incomes account continued to remain in deficit.

After a long period of modest employment growth, GDP growth appears to have a substantial impact on job creation, in 2006, as employment increased by 2.4% compared to an average annual increase of 1.3% between 2000 and 2005. Nevertheless, the unemployment rate is still very high in comparison to EU average.

According to the latest figures, inflation rate, as measured by CPI, was running at 2.6% in March, compared to 2.9% in December 2006. Nevertheless, core inflation is substantially higher at 3.1% and more importantly continues to exceed Euro-zone average by 1.4 percentage points.

There has been good progress in the process of public consolidation. The general government balance recorded a deficit of 2.6% of GDP in 2006, following a 5.2% 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, mainly, as a result of weakening of the housing sector. Inflation pressures are expected to ease, somewhat, on the assumption of appreciating Euro and stable energy prices.

Increased economic activity is expected to have some further impact on employment, however, the reduction in unemployment is expected to be rather modest, because labour force is also increasing.

Hungary – GKI

Variables	Level, Euro bn., current prices 2006	Volume, percentage change from previous year if otherwise not specified 2006	2007	2008
GDP	22 886.0	3.9	3.0	3.7
Private consumption	15 213.0	1.2	0.5	1.5
Public consumption	2 059.0	-6.0	-6.0	-4.0
n.a.	5 095.0	-1.8	4.0	10.0
Private, excl. dwellings				
Dwellings				
Change in stocks (1)	-24.0	-0.1	-0.2	0.3
Total domestic demand	22 494.0	0.5	1.0	2.7
Exports of goods and services	16 966.0	16.7	14.0	11.0
Imports of goods and services	16 575.0	12.6	11.0	10.0
Net exports (1)	392.0	1.7	4.0	3.5
GDP deflator				
Consumer prices		3.9	6.5	3.8
Private consumption deflator				
Output gap (2)				
Unit labour costs (3)				
Nominal hourly gross wage rate		8.1	7.5	6.5
Employment (thousands)		0.7	0.1	0.4
Unemployment rate (4)		7.5	7.8	7.5
Real household disposable income				
Net saving ratio (households) (5)				
Public sector fiscal balance (6,7)	-2 034.0	9.5	6.5	4.6
Gross public debt (6,7)		68.5	71.3	72.3
Current account balance (6) (10)	EUR -4.8 bn	-5.4	-4.0	-4.2
Central bank policy rate (non-EMU countries)		8.0	6.0	5.5
Short-term interest rate (3 months) (8)		8.0	8.0	6.4
Long-term interest rate (10 years) (8)		7.0	6.5	5.5
United States Federal funds rate		4.9	5.3	5.0
GDP				
USA		3.3	3.0	2.8
Japan		2.7	2.3	2.1
Euro Area		2.7	2.4	2.2
World trade volume (goods)		9.2	8.5	8.0
Oil price (9)		65.4	60.0	60.0
Exchange rate				
Dollar/Euro		1.25	1.30	1.30
Yen/Euro		145.90	145.00	140.00
Local currency/Euro for non-EMU countries		264.30	252.00	250.00

(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
(10) Current and capital account (external financing need)

Hungary – GKI

Date of forecast: April 5, 2007

The change in economic policy that started in mid-2006 consists of a fiscal adjustment package affecting general government revenues and disbursements and the initiation of structural reforms. From 2006 onward, the switch has had a substantial effect on economic trends and created political and social frictions. Earlier trends have undergone substantial changes in three areas so far. Since the beginning of September, growth in general government deficit has slowed down, inflation has accelerated, whereas the previous rapid rise in real wages and incomes has declined. With these changes in trends and the subsequent improvement in external balance, the Hungarian economy avoided the threatening financial crisis in the second half of 2006. The convergence program was approved of by every EU institution.

However, the general government deficit relative to GDP exceeded the planned 4.7% and the prior year's 7.5%, amounting to about 9.5%. Government debt as a percentage of GDP rose from 62% at the beginning of the year to some 67%. The external balance, however, improved as the trade deficit decreased to EUR2 billion (from EUR2.8 billion in 2005), despite a 1.5% deterioration in the terms of trade. The surplus in services increased. The current account deficit dropped, and considering the slightly increasing EU transfers, the external financing requirement fell to EUR4.8 billion, or about 5.4% of the GDP (compared with 6% in the previous year). The rate of economic growth slowed down despite the improving European business climate. The annual GDP rose by 3.9% following the 4.2% increase in 2005, but the growth rate dropped in each quarter, the last quarter no longer exceeding the EU average. Inflation developed along a U-shaped curve, and after bottoming out in February-March, it started to accelerate substantially in September. The annual rate of inflation was 3.9% y-o-y, with 6.5% in December m-o-m, and 7.8% in January 2007 m-o-m.

Over 2006, gross earnings rose by 8.1% while real earnings were up by 3.5%. In the first half of the year, real wages increased by more than 5%, but in the wake of the adjustment the drop compared to August was some 4%. The volume of wages jumped in August and December, i.e., in the months preceding the increase of taxes and social security contributions, which indicates that earnings were "brought forward." Household consumption rose by 1.2%. Investments were down 1.8%. The announcement of the fiscal adjustment failed to increase the confidence of financial markets; this took place only after the political and economic tensions had increased. It was only at that point that markets started to believe that the government would go through with its program.

On annual average, the euro exchange rate was HUF264.3, i.e. the forint was more than 6% weaker than a year before. The devaluation exceeded 10% in the middle of the year, but then there was a HUF254 average exchange rate in December 2006 and January 2007, reflecting a 4% strengthening compared with the 2006 annual average (and essentially a return to the exchange rate of previous years). In the wake of the temporary weakening of the forint, the central bank's base rate rose in several steps from 6% at the beginning of the year to 8% by autumn, and it has been unchanged since then.

Last year's economic development featured favourable, deteriorating and worrisome trends at the same time. Favourable trends include the start of a general improvement in deficit figures; the stabilisation of the money market; (often modest) structural and efficiency changes in employment, reduction in the size and improvement of the institutional structure of the government sector and decline in the share of the grey economy. There is unavoidable deterioration (slowdown) in economic growth, (acceleration of) inflation, (the rise of) unemployment and in the business and consumer confidence in the domestic economy. The drop in investments is worrisome.

Global political tensions are slightly increasing, but, for the time being, they are barely affecting the growth rate of the global economy, although they lift risks, particularly through the globalisation of the money markets. The average price of oil (Brent) will likely to fall to USD60, and the US dollar to the euro will probably weaken to EUR1.30 on annual average (2006: EUR1.25). Interest rates will likely to stop rising. The economic development of the EU accelerated from 1.7% in 2005 to 2.9% in 2006, and it will be expected tot total 2.7% in 2007. The eurozone will likely to see a growth rate that is a few tenths of a percent lower, while Germany's growth rate will barely exceed 2%.

The expectations of the business sector deteriorated only slightly in mid-2006 in the wake of the adjustment package, and they have slightly improved since then with some fluctuation. In contrast, the consumer confidence index dropped precipitously after the adjustment was announced, and it has continued to fall since then, with minor fluctuations.

Given the pressure to achieve a rapid and substantial improvement in the general government balance, the pace of Hungary's economic development will temporarily diverge from that of other eastern European countries in 2007. In Hungary, buoyant export demand is coupled with a stagnating domestic consumer demand and uncertain investor intentions. By contrast, in neighbouring countries the positive European business climate is accompanied by soaring domestic demand. As a result, Hungary's growth this year will be differentiated and slower, while neighbouring countries will see continued rapid growth. The situation will be reversed in terms of inflation: Hungary's fleeting inflationary shock will contrast with the decelerating or slightly accelerating inflation of its neighbours. Hungarian reforms, on the other hand, might result in a competitive advantage.

The budget deficit target of 6.8% of GDP is within safe reach given a continued strict budget policy. Since the 2006 situation ended up being better than what had been expected by the Ministry of Finance and since tax receipts were higher than expected, the 2007 deficit will be 6.5% of the GDP. The gross government debt will likely only approach 70% of GDP. A higher figure is possible if there is a higher-than-expected utilisation of previously frozen appropriations or debt assumptions. The external equilibrium will continue to improve; the trade deficit of goods will shrink to about EUR1 billion. (The terms of trade will be unchanged.) The current account deficit (EUR5 billion) and the external financing requirement (EUR4 billion) will both decline substantially, the latter to 4% of GDP.

At this moment the reaction of the business sector to the fiscal adjustment cannot be clearly assessed. The more stable macroeconomic conditions have a stimulating effect on the extremely flagging investment activity of medium-sized and large companies and on their ability to attract capital. The response of small businesses is more in question as their exposure and vulnerability is greater. One of the key issues in terms of inflation is the wage policy of the business sector. The trend of previous years is expected to continue with 7-8% gross wage increases. The government sector will see an annual average wage increase of about 6% owing to the fact that half of the "13th month" bonus will be spent on increased salaries in the second half of 2007, but without further action, January 2008 wages will fall because of the early payment. (The solution is witty, and the readiness to compromise in order to avert a strike is understandable. However, part of the trick-which does not affect the convergence program-is a further fiscal promise which leaves the 2008 adjustment in limbo, which is highly questionable. After all, even if the economic situation is better than what the convergence program envisages, the deficit will still be the highest in the EU, and it is hardly appropriate to spend the funds arising this way on increasing wages in the public sector, without demanding extra performance.) Gross wages in the entire economy will rise by 7%, while net wages by 3%, with real wages declining by 3.5%. The latter reflects a drop back to the 2005 level. Governed by automatic mechanisms, pensions will rise by 4.7%, reflecting a 1.7% drop in real terms. Considering the adjustment of older pensions, the real value of pensions will fall by 0.5% only.

Although the demand barrier may be effective in curbing intentions to raise prices, GKI Co. is raising its 2007 inflation forecasts somewhat. This is due mostly to methodological reasons: the Hungarian Central Statistical Office recorded the major part of the increases of various tariffs and fees in January-February raising the annual average rate of inflation to 6.5%. Inflation is expected to peak in the first quarter at 8.5-9%, but it is possible that the monthly price index will start falling in September to about 4.5% by the end of the year.

Owing to the drop in real wages and the negative real interest rates (considering the interest tax), the rise in gross savings will remain below the rate of GDP growth, and the gross savings rate may also shrink. The net savings rate, on the other hand, may rise slightly as borrowing expands more slowly. While consumption stagnates, household investments will decline.

Investments will probably rise at a rate of around 4% in 2007. Motorway construction will continue, although much more slowly than before, while projects supported by the EU (particularly those originally financed under the First National Development Plan) will pick up markedly. Few projects under the Second National Development Plan will actually be started this year (given that the EU was long delayed in approving of its own budget). The business sector will see more investment activity on the basis of the favourable European business climate. The investment rate at current prices will continue to decline, however, to about 21%.

Economic growth will drop significantly to about 3% as domestic demand shrinks. As a result of the expanding European market, industrial production will rise by 9%. Following a period of hesitation last year, construction will increase its output by some 3%. Business services will grow dynamically, but public services will expand very modestly. Over the year employment is expected to be down 0.5% as the business sector's actual growth and increasingly legalised employment will not be sufficient to make up for the job cuts in the public sector. The unemployment rate will only shrink slightly (from

7.5% to 7.8%) as some of the people laid off in the public sector will retire.

Under this type of economic development the money market will remain basically balanced on account of domestic reasons. The average exchange rate of the euro will be about HUF252 , fluctuating between HUF248 and HUF258. Further strengthening of the forint is expected in the middle of the year. Monetary policy, which is aimed at a medium-term inflationary target, can simply ignore the transient inflationary shock and does not need to follow it; in fact interest rates can be cut in the second half of the year. The central bank's base rate will decrease to 6-6.5% by the end of 2007.

The effects of the new economic policy will become increasingly palpable in the second half of 2007. There is a good chance that the fiscal adjustment will prove to be effective. At the same time, several reform measures are yet to be taken. It is clear that the government is committed to take them in principle, but it is still possible that unfavourable political developments will loosen up the continuation, completion and social acceptance of the reforms. Should this happen, there might be serious difficulties as early as 2008, but especially in 2009-2010.

Hungary – KOPINT

Variables	Level, HUF bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	89.2	3.9	2.8	3.2
Private consumption	59.7	1.2	-0.5	0.0
Public consumption	9.0	-5.5	-7.0	-5.0
Gross fixed capital formation	19.5	-1.8	2.0	3.0
Private, excl. dwellings				
Dwellings				
Change in stocks (1, 10)	1.5			
Total domestic demand	88.3	0.5	-0.4	0.7
Exports of goods and services	69.5	18.0	13.5	11.0
Imports of goods and services	68.8	12.6	9.5	8.5
Net exports (1)	0.8			
GDP deflator		2.9	6.0	2.9
Consumer prices		3.9	6.8	3.5
Private consumption deflator				
Output gap (2)				
Unit labour costs (3, 11)		-8.5	-0.1	-4.8
Nominal hourly gross wage rate (12)	648.0	8.1	6.8	4.0
Employment (thousands)	3 930.0	0.7	0.0	0.5
Unemployment rate (4)		7.5	7.8	7.5
Real household disposable income		2.3	-1.6	0.7
Net saving ratio (households) (5)		3.6	3.6	4.2
Public sector fiscal balance (6,7)				
Gross public debt (6,7)				
Current account balance (6)	-5.2	-5.8	-4.3	-3.9
Central bank policy rate (non-EMU countries) (13)		8.00	6.75	6.0
Short-term interest rate (3 months) (8)		8.0	6.5	6.0
Long-term interest rate (10 years) (8)		6.9	6.2	6.0
United States Federal funds rate		5.3	5.0	5.0
GDP				
USA		3.3	2.5	2.8
Japan		2.2	2.2	2.3
Euro Area		2.7	2.4	2.1
World trade volume (goods)		9.0	8.0	7.5
Oil price (9)		63.0	63.5	64.0
Exchange rate				
Dollar/Euro		1.29	1.30	1.30
Yen/Euro				
Local currency/Euro for non-EMU countries		264.00	250.00	250.00

(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
(10) According to Hungarian methodology "change in stocks" includes changes in inventories and other non-specificated use.
(11) Manufacturing, gross value added, based on monthly average compensation of employees in euro (including allocations in cash and in kind).
(12) Nominal monthly gross wage rate (EUR and % change over previous period)
(13) End of period.

Hungary – KOPINT

Date of forecast: April 14, 2007

In 2006 an economic slowdown began, due to the sluggish domestic demand. Yet, as a result of the very strong exports performance (and the much less dynamic imports) the slowdown remained moderate.

For 2007 we expect a basically similar pattern: the fiscal austerity program will induce an outright decrease in domestic demand. Public consumption will suffer the most significant fall. As a result of a real wage decrease of more than 3%, private consumption will also decline somewhat, but households will struggle to maintain their consumption level, even with the means of growing indebtedness.
Considering some recent favorable changes in the production expectations of manufacturing enterprises, and their low rate of capacity/orders, we expect a moderate recovery in fixed investments this year. Unlike in 2006, capital accumulation will be the sole component of domestic demand in 2007 with a positive growth rate.

While we expect the growth rate of exports of goods and services to decelerate somewhat compared to the outstanding rate of 2006, net export remains the main driving force of economic growth in 2007. The international conditions (especially imports demand within the EU) improved further during the recent months, while on the other hand, decreasing consumption demand limits imports growth. Thus we assume that the positive difference between exports and imports volume growth will prevail in 2007, although at a somewhat lower level. This will result in a certain decrease in the trade and current account deficits.

In our forecast on industrial production growth we assume that the strong imports demand within the EU – and, consequently, the dynamic growth of industrial export sales – can maintain the buoyant industrial production growth even in the midst of the very meager domestic sales dynamism.
A marked surge of inflation began in the last third of 2006, and it continued this year. The surge is mostly due to several raises in regulated prices, and a one-off VAT tax rate increase in the autumn of 2006. Therefore we assume that although the annual inflation rate will be quite high in 2007, the inflation surge will be temporary, and we expect a marked slowdown of inflation in 2008.
As for the curtailing the general government deficit as scheduled in the convergence program, it seems to be quite achievable. It must be noted, however, that the budget data of January-March suggests that some necessary steps – including the cut in the operating expenditures of the central budget institutes – have not taken place yet.

Since the brunt of the austerity program falls to 2007, we expect – assuming that the fiscal adjustment goes as predicted – that the decline in real wages and real household incomes comes to an end in 2008. Therefore private consumption will not decline again, while fixed investments may get a moderate boost from the improvement of general business climate due to the ongoing fiscal consolidation. Thus, a moderate growth of domestic demand is projected for 2008, along with the continuing strong exports performance.

Ireland – ESRI

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	177.6	6.1	5.4	3.9
Private consumption	81.9	6.8	7.8	4.5
Public consumption	25.4	4.7	4.5	3.5
Gross fixed capital formation	50.1	7.5	5.0	3.9
Private, excl. dwellings	13.0	9.0	10.0	10.0
Dwellings	23.9	4.0	-1.0	-3.0
Change in stocks (1)		0.1	0.1	0.1
Total domestic demand	150.2	6.3	5.4	3.9
Exports of goods and services	142.2	6.0	5.6	5.2
Imports of goods and services	121.6	6.7	7.0	5.7
Net exports (1)		12.7	11.9	11.5
GDP deflator		3.8	4.2	2.7
Consumer prices		4.0	4.6	2.6
Private consumption deflator		3.0	3.5	2.0
Output gap (2)				
Unit labour costs (3)				
Nominal hourly gross wage rate (Annual % change in Non-Agricultural Wage Rate)		5.3	5.8	4.0
Employment (thousands)	2 039.0	4.5	3.8	1.5
Unemployment rate (4)	4.4	4.4	4.4	4.7
Real household disposable income	90.5	8.2	10.8	6.5
Net saving ratio (households) (5)	9.5	9.5	8.9	8.8
Public sector fiscal balance (6,7)	2.5	2.5	1.7	1.7
Gross public debt (6,7)	24.8	24.8	22.4	21.1
Current account balance (6)	-3.8	-3.8	-4.5	-4.7
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 (end of year)	5.3	5.3	4.8	4.5
GDP				
USA		3.3	2.4	2.3
Japan		2.2	2.3	2.1
Euro Area		2.8	2.5	2.2
World trade volume (goods)		9.0	6.4	6.2
Oil price (9) Annual Average(Brent, WTI & Dubai prices)	63.4	63.4	57.8	59.5
Exchange rate				
Dollar/Euro (end of year)		1.30	1.35	1.40
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

Ireland – ESRI

Date of forecast: March 2007

Real GNP is likely to have grown by 6.3 per cent in 2006, driven mainly by strong growth in both consumption and investment. For 2007, we expect another strong year of growth, with real GNP forecast to grow by 5.4 per cent. Looking ahead to 2008, we expect a return to a more sustainable growth rate and forecast real GNP growth of 3.9 per cent. In terms of GNP per capita, the growth rate for 2006 is likely to have been 3.7 per cent, with the corresponding figures for 2007 and 2008 being 3.2 per cent and 2.2 per cent respectively.

The external environment is likely to be generally positive for Ireland in 2007 and 2008. The Euro Area is experiencing a period of strong growth. Real GDP increased by 2.8 per cent in 2006 and growth rates of 2.5 per cent and 2.2 per cent are expected for 2007 and 2008 respectively. For the US, the situation is more uncertain. Growth in 2006 was 3.3 per cent. The growth rates in 2007 and 2008 are likely to be lower but there is disagreement among commentators about precisely how much lower.
In spite of the positive external environment, we expect domestic demand to contribute most to growth in 2007 and 2008, with net external trade making a limited contribution. Import growth is forecast to exceed export growth in both years. Partly as a result of these trends, the current account deficit (as a per cent of GNP) is forecast to rise from 4.5 per cent in 2006 to 5.4 per cent in 2007 and to 5.6 per cent in 2008.

The slower rate of growth in 2008 relative to 2007 will have a number of implications. Growth in current public revenues is anticipated at 9.9 per cent in 2007 but this is forecast to fall to 6.6 per cent in 2008. Net inward migration is projected to fall from 55,000 in 2007 to 35,000 in 2008. The rate of unemployment is forecast to rise from 4.4 per cent in 2007 to 4.7 per cent in 2008.
Consumer Price Index (CPI) inflation is expected to average 4.6 per cent in 2007 and a much lower 2.6 per cent in 2008. Most of the difference between the two periods relates to an assumption of no further interest rate increases after the European Central Bank's main refinancing rate reaches 4 per cent later this year.

We have noted concerns about the increasing deficit on the current account. A more detailed look at data on the international flow of funds to and from Ireland suggests that much of the increase in activity in house building has been linked to an inflow of borrowed funds. This suggests that the economy is building up foreign debt to invest in an asset with a long-run low rate of return. House prices appear to remain over-valued. This is based on the estimation of an equation which suggests that fundamental drivers of house prices cannot explain the current levels of those prices. Finally increases in the CPI in Ireland tend to feed into wage increases in a rapid manner. A repeat of this phenomenon in the current context of high growth in the CPI would be particularly damaging to competitiveness.

Italy – ISAE

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	1476.7	1.9	1.8	1.7
Private consumption	869.2	1.5	1.6	1.4
Public consumption	305.2	-0.3	0.1	0.6
Gross fixed capital formation	307.1	2.4	3.0	2.8
Private, excl. dwellings				
Dwellings	65.4	4.1	0.9	1.0
Change in stocks (1)	7.1	0.4	0.0	0.1
Total domestic demand				
Exports of goods and services	412.0	5.5	4.5	4.4
Imports of goods and services	424.0	4.5	4.0	4.4
Net exports (1)	-12.0	0.2	0.1	0.0
GDP deflator		1.8	2.3	2.4
Consumer prices		2.1	1.8	2.0
Private consumption deflator		2.7	2.1	2.3
Output gap (2)				
Unit labour costs (3)		2.4	1.3	1.9
Nominal hourly gross wage rate		2.8	2.1	2.7
Employment (thousands)				
Unemployment rate (4)		6.8	6.4	6.0
Real household disposable income		1.0	1.0	1.5
Net saving ratio (households) (5)		15.5	14.9	15.1
Public sector fiscal balance (6,7)		-4.4	-2.3	-2.4
Gross public debt (6,7)		106.8	105.6	104.6
Current account balance (6)		-2.2	-1.7	-1.6
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		3.3	2.0	2.8
Japan		2.2	2.2	2.1
Euro Area		2.8	2.3	2.2
World trade volume (goods)		9.4	7.2	8.1
Oil price (9)		65.6	57.0	56.0
Exchange rate				
Dollar/Euro		1.26	1.32	1.29
Yen/Euro		116.40	118.00	114.70
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

Italy – ISAE

Date of forecast: March 26, 2007

Italy grew by 1.9% in 2006; this was a considerable improvement after a dismal 0.4% registered, on average, in the four-year period 2002-05. Recovery was mainly driven by the positive European cycle and particularly by the return of Germany to growth. Yet, the Italian recovery was made possible also by the restructuring process of the industrial sector, after the long period of competitive crisis started in 2000. Thanks to the acceleration experienced in the IVth quarter of last year, 2007 benefits from a positive carry-over which is as high as 1.2%.

Given the still positive external environment (global Gdp growth should slightly decelerate this year) and the favorable developments of the factors affecting domestic demand (terms of trade, households' disposable income, profitability), Italy should keep on growing by a rate just a bit less than 2% in 2007-08; particularly, GDP, on a wda basis, should expand by 1.8% this year and 1.7% in 2008; not adjusting for the calendar, rates of increase would be respectively 1.9% (as in 2006) and 1.7 % (in 2008, working days do not affect the estimate).

Main contributions to economic activity growth would come from private consumption and investment; contribution of net external demand would be still positive this year and neutral in 2008. Export market shares would keep contracting in volume terms, but reduction would be considerably lower then in the last few years.

Labor market should further improve. Employment (on a Fte basis) grew by 1.6% last year; it would rise by 1% in 2007 and 0.9% next year. The unemployment rate should continue to fall, reaching 6% next year: it is a level never touched since the late sixties.

As for inflation, consumer price dynamics should slowdown this year to 1.8% (from 2.1%) and set at 2% in 2008. In 2007, diminishing external pressures from international prices (Brent at 57 dollar on average) would compensate for some pass through to final stage of former price increase of imported raw materials; in 2008, some slight pressure from per capita compensation (there are wage negotiations in 2008) would be partially compensated by productivity increase.

The better condition of public finance accounts, that emerged in 2006 thanks to higher revenues than expected, should be confirmed in 2007-08: according to estimates 8-10 billion of the 2006 extra-revenue may be considered as structural. In 2007, public deficit as % of Gdp should set at 2.3% (2.4% in 2006 not considering one-off expenditures; -4.4% gross of these extraordinary expenditures); in 2008, in a trend scenario, the deficit would stay at 2.4% of Gdp.

Italy – PROMETEIA

Variables	Level, Euro bn., current prices 2006	Volume, percentage change from previous year if otherwise not specified 2006	2007	2008
GDP		1.9	1.8	1.5
Private consumption		1.5	1.3	1.5
Public consumption		-0.3	0.8	0.8
Gross fixed capital formation		2.7	3.5	2.7
Private, excl. dwellings				
Dwellings				
Change in stocks (1)		0.4	0.2	0.1
Total domestic demand		1.7	1.7	1.5
Exports of goods and services		5.5	3.8	3.2
Imports of goods and services		4.5	3.6	3.3
Net exports (1)		0.2	0.0	0.0
GDP deflator		1.8	2.3	2.8
Consumer prices		2.1	1.7	1.9
Private consumption deflator		2.7	2.3	2.3
Output gap (2)		-1.5	-1.1	-1.0
Unit labour costs (3)		2.6	1.2	2.2
Nominal hourly gross wage rate				
Employment (thousands)		22 986.0	23 209.0	23 459.0
Unemployment rate (4)		6.8	6.6	6.2
Real household disposable income		0.7	1.3	1.6
Net saving ratio (households) (5)		13.2	13.2	13.3
Public sector fiscal balance (6,7)		4.4	2.6	2.6
Gross public debt (6,7)		106.8	105.6	104.1
Current account balance (6)		-2.2	-1.2	-0.6
Central bank policy rate (non-EMU countries)				
Short-term interest rate (3 months) (8)		2.9	3.9	3.9
Long-term interest rate (10 years) (8)		4.1	4.4	4.5
United States Federal funds rate		5.2	5.2	4.5
GDP				
USA		3.3	2.3	2.1
Japan		2.3	2.1	2.1
Euro Area		2.8	2.4	2.2
World trade volume (goods)		9.0	6.7	7.1
Oil price (9)		66.3	60.3	61.4
Exchange rate				
Dollar/Euro		1.26	1.32	1.36
Yen/Euro		116.30	117.30	110.50
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

Italy – PROMETEIA

Date of forecast: March 30, 2007

Italian GDP grew by 1.9 per cent in 2006, largely due to strong and unexpected growth in the fourth quarter (1.1 per cent q-o-q, partly due to exceptional factors). This constitutes a significant improvement from the 0.1 per cent growth rate recorded in 2005. The main driving force was the recovery in industrial production which grew by 2.3 per cent and so ended a five year long recession. The recovery was spread across most components but especially concentrated among export-oriented industries. In fact, Italian exporters took good advantage of the German recovery, and of investment demand especially. In addition, signs of a shift in exports towards higher quality products and the effect of a deep restructuring of manufacturing production through off-shoring and re-branding of products may have improved the competitive position of firms.

The industrial production index decreased by 1.4 per cent (m-o-m) in January, after a downwardly-revised increase of 1.4 per cent (m-o-m) in December. This confirms our forecast of a deceleration in the first quarter of 2007, due to a pay-back from the stronger-than-expected increase in the fourth quarter, in addition to the likely unwinding of German orders (due to the VAT hike) and the increase in Italian personal tax rates. Taking account of the reduction in the pace of recovery in the first half of the year, our GDP forecast for 2007 has been revised to 1.8 per cent (y-o-y), given that 1.2 per cent is carried over growth.

Unemployment has continued to decline and the rate currently stands at 6.5 per cent, while employment grew by 1.6 per cent after declining for six quarters. This is likely to reflect the regularisations of immigrants, but also a strong increase in employment in industry, after seven years of decline. Notwithstanding the employment increase, productivity growth accelerated last year. The apparent increase in the labour intensiveness of production appears to be a structural phenomenon and, with labour force participation rates among women and older workers quite low for European averages, this process could continue for some time.

We expect Italian CPI inflation to moderate from 2.1 per cent in 2006 to 1.7 per cent this year. Other than common factors driving the Euro Area inflation dynamics – favourable energy base effects and the impact of euro appreciation – the moderation of annual CPI inflation will also reflect Italy's specific factors. First, the effects of the Bersani Decree should help to contain inflation by lowering prices of some medicines and certain type of services; second, the reduction of the payroll tax wedge should be translated to lower prices.

The deficit-to-GDP ratio increased from 4.1 per cent in 2005 to 4.4 per cent in 2006. Net of extraordinary burdens the deficit-to-GDP ratio decreased to 2.4 per cent. The sharp improvement in Italy's government balance in 2006 came from the huge increase in tax revenues. Several factors played a role: the favourable economic situation has enlarged tax basis especially affecting corporate taxes and VAT; the measures introduced by the Budget law for 2006 were more effective than expected and finally, some consolidation measures (introduced in July by the so called "Decreto Bersani") exerted a positive influence on fiscal balances. Due to these factors, revenue grew by 10 per cent with respect to 2005 (37.7 billion euro): according to the government, 8.1 billion euro are due to one-off factors, 5 billion from the Budget Law, 10 billion from the economic recovery. The difference, around 37 per cent of total increase, is linked to the anti tax evasion measures and to an improvement of tax compliance. As a result, the tax burden increased by 1.7 percentage points of GDP, from 40.6 to 42.3 per cent.

On March 16th the update of the government forecast was released: the deficit to GDP ratio has been revised downwards to 2.3 per cent for both 2007 and 2008, due to an upward revision of GDP growth and to the better than expected results for 2006, that carry over into 2007.

Because the nature of the extraordinary revenue increases in 2006 is not completely clear, we consider them as being brought forward in anticipation of the measures included in the Budget Law for 2007 aimed at increasing tax compliance and reducing tax evasion. Keeping the cyclically adjusted budget balance unchanged, we expect the deficit to-GDP ratio to be coherent with the SP target of 2.8 per cent this year, due to the adoption of a restrictive fiscal package, that set permanent measures in place of temporary ones, and the favourable macroeconomic scenario. This will result in a less restrictive fiscal impulse this year, as part of the measures introduced by the Budget law in order to reduce tax evasion and increase tax compliance had already come into effect in 2006.

Looking ahead, cuts in the social contributions leading to a reduction in labour costs should facilitate export performance and business investment. Adding to that a steady decline in the unemployment rate, coupled with a stabilisation of inflation at around 2.0 per cent, supporting consumption growth, GDP growth is forecast to rise to around 1.5 per cent in 2008.

Italy – REF

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP		1.9	1.7	1.6
Private consumption		1.5	1.7	1.8
Public consumption		-0.3	-0.1	0.6
Gross fixed capital formation		2.3	2.5	2.1
Private, excl. dwellings		2.6	3.3	3.1
Dwellings		2.1	1.7	0.8
Change in stocks (1)		0.3	0.3	0.1
Total domestic demand		1.6	1.9	1.8
Exports of goods and services		5.3	3.1	3.5
Imports of goods and services		4.3	3.8	4.3
Net exports (1)		0.2	-0.2	-0.3
GDP deflator		1.8	2.3	2.2
Consumer prices		2.1	1.9	2.0
Private consumption deflator		2.7	2.1	2.0
Output gap (2)		-1.1	-0.8	-0.5
Unit labour costs (3)		2.0	2.5	2.6
Nominal hourly gross wage rate		2.8	3.1	3.2
Employment (thousands)		1.6	1.2	0.9
Unemployment rate (4)		6.8	6.3	6.0
Real household disposable income		1.0	1.4	1.7
Net saving ratio (households) (5)		13.3	13.1	13.0
Public sector fiscal balance (6,7)		-4.4	-2.0	-1.9
Gross public debt (6,7)		107.6	106.5	104.8
Current account balance (6)		-2.3	-1.3	-1.2
Central bank policy rate (non-EMU countries)				
Short-term interest rate (3 months) (8)		3.0	4.2	4.5
Long-term interest rate (10 years) (8)				
United States Federal funds rate		5.1	5.3	5.3
GDP				
USA		3.3	2.2	2.6
Japan		2.2	2.0	2.5
Euro Area		2.8	2.6	2.5
World trade volume (goods)		6.7	5.9	6.5
Oil price (9)		66.3	62.8	63.4
Exchange rate				
Dollar/Euro		1.26	1.34	1.36
Yen/Euro		116.48	116.36	109.86
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

Italy – REF

Date of forecast: March 15, 2007

The economy in Italy is experiencing a recovery driven by the improvement of foreign demand conditions, also thanks to the positive impact of the positive performance of the German industry. A second source of positive impulses to the demand is in the monetary conditions, The low level of interest rates is supporting the consumer credit and the demand of mortgages remains quite robust. However the recovery in the business cycle didn't affect until now the consumers' demand. This also depends on the huge increase in the fiscal pressure. The Government total receipts have grown by 2 percent of GDP. There has been a wide adjustment in two years. From more than 4 percent of GDP, the fiscal balance in 2007 is expected to stay around 2 percent. All the reduction in the public deficit GDP ratio is due to an increase of taxes which was partly unexpected. It partly depends on an increase in tax compliance.

Our forecast for the 2007 year average is affected by the expectation of a negative first quarter (GDP qoq -0.1 percent) the offsets the strong rebound in the previous quarter (+1.1 percent).

Netherlands – CPB

Variables	Levels 2005 billion euro's 1995 prices	Volumes, average growth			
	2006	2005	2006	2007	2008
GDP volume	360.2	1.5	3.0	2.8	2.8
Private consumption	179.0	0.7	-0.8	2.5	2.3
Public consumption	86.8	0.3	8.5	1.5	1.2
Gross fixed capital formation	69.2	3.6	5.8	4.4	4.2
Non-residential	39.4	3.1	7.0	4.5	5.9
Residential	17.9	5.3	5.5	5.1	2.9
Change in stocks (1)		-0.2	-0.2	0.4	-0.1
Total domestic demand (including stocks)	335.5	0.9	2.8	3.1	2.3
Exports of goods and services	269.1	5.5	7.0	5.8	6.9
Imports of goods and services	243.7	5.1	7.2	6.5	6.7
Net exports (1)		0.7	0.5	0.0	0.6
GDP deflator (1995=100)		1.7	1.6	1.3	1.1
Consumer prices (2000=100)		1.7	1.1	1.2	1.3
Private consumption deflator (1995=100)		1.6	2.0	1.6	1.3
Output gap					
Unit labour costs		-0.8	-2.3	-0.5	-0.2
Nominal hourly gross wage rate					
Employment (* 1000 persons >= 12 hrs)	7 088.0	0.0	2.4	1.8	1.6
Unemployment rate % (2)	482.7	6.5	5.5	4.7	4.1
Real household disposable income		-0.6	-1.1	2.7	1.9
Saving ratio (households)		6.5	5.2	5.0	4.5
Public sector surplus (% of GDP) (3)		-0.3	0.2	-0.1	0.7
Gross public debt (% of GDP) (3)		52.7	48.7	47.2	45.1
Short-term interest rate (3 months)		2.2	3.1	3.9	4.0
Long-term interest rate (10 years)		3.4	3.8	4.1	4.2
GDP					
USA			3.3	2.3	2.8
Japan			2.2	2.3	2.0
Euro Area			2.6	2.3	2.3
Relevant world trade volume (4)		5.4	7.6	5.7	6.4
Oil prices (US-dollar per barrel, Brent)		54.4	65.2	55.0	55.0
Exchange rate					
Dollar/Euro		0.80	0.80	0.77	0.77
Yen/Euro			146.59	152.10	152.10

(1) In % of GDP of previous period (contribution to growth).
(2) In % of total labour force
(3) EMU-definition.
(4) Weighted average of volume changes of non-energy imports of customers countries, with Dutch export shares as weights.

Netherlands – CPB

Date of forecast: March 2007

Economic prospects for both 2007 and 2008 are favourable, with an expected growth of 2.75% in both years. Economic growth, 2.75% is broad-based: domestic expenditure and exports each account for approximately half of this growth. This rosy outlook for the Dutch economy is even more remarkable if placed in an international context. For the first time in six years, Dutch GDP growth will probably be higher than its counterpart in the US. Moreover, the Dutch economy is expected to grow faster than that of the euro area as a whole during each year of the period 2006-2008.

Employment is increasing substantially faster than labour supply in the years 2006 through 2008, resulting in a rapidly declining unemployment figure. Unemployment is assessed to be, on average, 4% of the labour force in 2008, 1.5%-point lower than the estimated equilibrium rate of unemployment. The number of vacancies has by now reached an all-time high. Moreover, the capacity utilisation rate in the market sector is rising both this year and next. As a consequence of these developments, the output gap will be approximately 1.5% in 2008. In other words: actual production in 2008 is expected to be 1.5% higher than the potential level of production.

The rapidly tightening labour market causes a rise in the expected contractual wage increase, from 2.25% this year to 3.25% in 2008. In addition to this, employers will have to pay higher social security contributions because of the increase in the income-related medical insurance contributions from 6.5% to 7.3%. In total, the rise in labour costs accelerates from 1.3% in 2006 to 2.5% this year and 4.25% in 2008.

Despite the increases described above, inflation is estimated to be only 1.25% in both 2007 and 2008, thanks to the expected decrease in the oil price and the appreciation of the euro vis-à-vis the US dollar. Core inflation— excluding changes in energy prices (among other things)— is picking up from 0.8% last year to 1.25% this year and 1.75% in 2008. The increase in core inflation reflects the cyclical upsurge.

The projections are surrounded by considerable uncertainties. An important issue is that it wasn't possible to implement the effects of the coalition agreement in the forecasts. Furthermore, wages could rise faster than is assumed in this projection. There are also international risks, which haven't changed much since the last projection. It is assumed that the oil-price will be 55 US dollar this year and next year. The exchange rate of the euro against the dollar is set at 1,30 for both years.

Norway – SN

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP (see below for mainland Norway)	266.8	2.9	3.3	2.6
Private consumption	108.5	4.3	3.8	3.1
Public consumption	51.5	2.2	2.8	3.0
Gross fixed capital formation	50.2	8.9	5.8	2.3
Private, excl. dwellings				
Dwellings	11.4	6.4	4.4	0.3
Change in stocks (1)		0.6	0.0	0.0
Total domestic demand	195.7	4.5	3.9	3.0
Exports of goods and services (see below for traditional goods)	123.9	1.5	3.6	3.4
Imports of goods and services	76.3	9.1	5.2	4.1
Net exports (1)		-2.1	-0.2	0.0
GDP deflator		7.4	-3.0	1.1
Consumer prices		2.3	0.3	1.9
Private consumption deflator		2.1	0.8	1.9
Output gap (2)		1.3	1.6	1.1
Unit labour costs (3)				
Nominal hourly gross wage rate		4.1	5.5	4.8
Employment (thousands)		3.1	2.0	1.0
Unemployment rate (4)		3.4	2.7	2.8
Real household disposable income		-3.5	5.4	3.7
Net saving ratio (households) (5)		1.5	4.2	4.8
Public sector fiscal balance (6,7)*		22.5		
Gross public debt (6,7)**		44.7		
Current account balance (6)		19.7	15.6	14.8
Central bank policy rate (non-EMU countries)		2.9	4.2	4.8
Short-term interest rate (3 months) (8)		3.1	4.6	5.0
Long-term interest rate (10 years) (8)		4.1		
United States Federal funds rate		4.9		
GDP				
USA		3.4		
Japan		2.2		
Euro Area		2.8		
World trade volume (goods)***		9.4	6.5	3.7
Oil price (9)		64.7	55.0	55.0
Exchange rate				
Dollar/Euro		1.26	1.31	1.31
Yen/Euro		146.00	159.00	143.90
Local currency/Euro for non-EMU countries		8.05	8.06	7.92
GDP mainland Norway		4.6	3.3	2.3
Exports, traditional goods		6.5	3.1	3.1

(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
*Including income from the petroleum sector. Exclusive petro, the figure for 2006 is 1,3
**In spite of significant surplus in the general government, gross public debt as per cent of gross domestic product (GDP) has increased over the past years. This is due to the repurchase agreements of the Government Pension Fund- Global. Such agreements imply that both assets and liabilities increase. The Maastricht Treaty definition is usually used in international comparisons of gross public debt. The definition does not include internal accounts payable and liabilities in general government. According to this delimitation, Norway's public debt was 44.7 per cent of GDP at the end of 2005.
***Norway's trading partners

Norway – SN

Date of forecast: February 20, 2007

For the third consecutive year, GDP for mainland Norway increased by around 4.5 per cent in 2006. The economic upswing materialised in record high employment growth in 2006, with an unprecedented increase in number of employees. Unemployment fell sharply and is now on par with the cyclical peak of the late 1990s. Despite the tightening labour market, there have been few indications of increased inflation or wage growth, although there are exceptions. In response, Norges Bank has raised the benchmark rate by 2.25 percentage points in the last one and a half years.

Stimulated by demand growth abroad and in mainland Norway, our growth outlook for 2007 is relatively strong. In addition, we anticipate slightly higher interest rates in the euro zone. This leads us to believe that Norges Bank will raise the interest rate during the projection period. We expect the key interest rate to be increased by a 1 percentage point and that the money market rate will thus reach 5 per cent at the end of 2007, but it will remain at this level throughout 2008. This means that the interest rate difference between Norway and the euro zone will reach 1 percentage point in the course of the current year, which will probably result in a strengthening of the NOK in the time ahead. Given the outlook of increased pressure in the economy, the forecast for 2008 is based on a somewhat less expansionary fiscal policy than a mechanic application of the fiscal rule would imply. These are some of the factors behind our anticipation of unchanged interest rates after 2007.

The lack of spare capacity is now hampering growth ahead in several areas. The combination of higher interest rates, a stronger NOK, reduced growth internationally and moderate growth impetus from the fiscal policy also point in the direction of a more moderate growth in 2008. Despite this, we believe that the Norwegian economy will be characterised by a boom and that unemployment will remain below 3 per cent in 2008. We anticipate that the tightening of the labour market combined with high profitability in business and industry will contribute to an increase in wage growth in the time ahead. A pronounced decline in electricity prices from 2006 to 2007, together with a relatively strong NOK may push CPI growth down to below 0.5 per cent this year. Thus, real wage growth may reach record levels. Despite anticipated nominal wage growth of 5 per cent in the following year, we anticipate that the stronger NOK and negative price impulses from low cost countries will contribute to an inflation rate which is clearly below 2.5 per cent during the projection period.

Poland – IKC

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	269.8	5.8	5.6	4.6
Private consumption	168.6	5.2	5.0	4.1
Public consumption	48.3	2.4	1.1	0.9
Gross fixed capital formation	54.0	16.7	13.9	9.5
Private, excl. dwellings				
Dwellings				
Change in stocks (1)	0.7	-0.8	0.0	0.0
Total domestic demand	271.6	5.9	5.4	4.3
Exports of goods and services	109.7	15.1	13.3	13.5
Imports of goods and services	111.5	15.4	11.2	10.9
Net exports (1)	-1.8	-0.2	0.2	0.3
GDP deflator		1.3	2.1	2.0
Consumer prices		1.0	2.0	1.9
Private consumption deflator		1.3	2.0	1.9
Output gap (2)		-0.1	0.3	0.1
Unit labour costs (3)		1.6	1.0	1.1
Nominal hourly gross wage rate		4.9	4.7	4.0
Employment (thousands)	14 590.0	2.5	2.0	1.7
Unemployment rate (4)		13.8	12.5	10.5
Real household disposable income		4.9	4.5	4.5
Net saving ratio (households) (5)		9.0	9.2	9.5
Public sector fiscal balance (6,7)		-3.5	-3.2	-3.2
Gross public debt (6,7)		48.5	49.5	50.0
Current account balance (6)		-2.1	-2.5	-2.3
Central bank policy rate (non-EMU countries)		4.1	4.3	4.6
Short-term interest rate (3 months) (8)		4.2	4.4	4.7
Long-term interest rate (10 years) (8)		5.3	5.4	5.3
United States Federal funds rate				
GDP				
USA		3.3	2.4	2.7
Japan		2.2	2.3	2.2
Euro Area		2.7	2.4	2.3
World trade volume (goods)		9.4	7.3	7.6
Oil price (9)		65.4	60.8	61.2
Exchange rate				
Dollar/Euro		1.26	1.33	1.35
Yen/Euro		146.20	155.00	150.00
Local currency/Euro for non-EMU countries		3.90	3.92	3.95

(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

Poland – IKC

Date of forecast: April 4, 2007

The GDP peaked to 6.4% in the last quarter of 2006 and continues the expansion in first months of 2007. It is fueled by a prevailing strong private consumption and rapidly growing investment demand. The latter is stimulated by a credit boom directed to the housing market, successful utilization of European structural funds and a new wave of foreign direct investments in manufacturing and services.

The economy reported substantial improvements in labor market conditions, adding more 400,000 new jobs in 2006. Simultaneously, the unemployment rate fell by more than 3 percentage points. A massive emigration to the UK, Ireland and Sweden has also heavily contributed to this result. Low inflation encouraged the NBP to keep interest rates unchanged. However, consumer prices increases are expected to accelerate during 2007 and monetary authorities have warned that interest rate rise might be needed to contain medium-term inflation risks, though growth in labor productivity should dampen production costs and price pressures stemming from supply side. Budget stance has considerably improved primarily due to cyclical effects. However Poland has not yet reached the Maastricht target and is still a subject of the Excessive Deficit Procedure.

In our forecast for 2007 and 2008 we assume that investment demand will keep strong due to a healthy financial position of business sector, external conditions will only slightly deteriorate and an expected tightening of monetary policy will be moderate.

Serbia – FTRI

Variables	Level, $ bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	31.7	5.3	5.7	4.8
Private consumption	26.7	9.4	8.6	8.2
Public consumption	4.2	10.4	8.6	8.2
Gross fixed capital formation	0.8	16.8	14.6	13.5
Private, excl. dwellings				
Dwellings				
Change in stocks (1)				
Total domestic demand		14.6	12.4	11.8
Exports of goods and services	8.6	8.4	6.3	5.4
Imports of goods and services	14.9	7.6	6.8	6.2
Net exports (1)	6.3	-12.4	-9.6	-8.4
GDP deflator		9.6	7.8	6.4
Consumer prices		12.7	11.8	9.8
Private consumption deflator				
Output gap (2)				
Unit labour costs (3)				
Nominal hourly gross wage rate				
Employment (thousands)		-2.4	-5.7	6.1
Unemployment rate (4)		20.9	22.3	25.8
Real household disposable income				
Net saving ratio (households) (5)				
Public sector fiscal balance (6,7)				
Gross public debt (6,7)				
Current account balance (6)		-11.5	-12.8	-11.9
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		80 dinars	87 dinars	94 dinars

(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

Serbia – FTRI

Date of forecast: April 5, 2007

It was estimated that total economic activity in 2006, measured by gross domestic product and expressed at constant 2002 prices, increased by 5.7 % in comparison to the previous year. The greatest increase was noted in the following sections: transport, financial intermediation and construction. Activities of all other sections also increased, but considerably less, excluding tourism, government sector and health care.

Industrial production, that slightly increased by 0.8% in 2005, increased by 4.4% in 2006. The greatest increase was noted in manufacturing and it was 5.0 %. Growth of agricultural production in 2006 was estimated to be 0.9 %.

Construction section had the most significant growth in 2006, related to the previous several years and it was 11.8 %. Retail trade increased by 6.5 %, while increase of wholesale trade was even greater and it reached 7.5 %. Catering trade activities decreased in 2006, as was the case during the previous years, and the decrease in 2006 was 8.4 %. Transport continued to have the increasing trend, with the increase of 11.4 % in 2006, as is the case with telecommunication, which showed growth of 38.7 %. Increase of post activities in 2006 was 7.9 %.

The number of employees in 2006 decreased by 1.3 %, and the decrease was greater in female part of population.

Salaries and wages, tax and contributions deducted, continued to increase in 2006, and in comparison to 2005, they showed growth of 24.1 % in nominal terms, while in real terms, they grew by 11.2%.

Annual retail price growth in 2006 was 12.7 %. Retail prices of industrial products increased by 12.2%, while growth of agricultural products' prices in 2006 was 17.7%. Increase of consumer prices was 11.6%. Producers' prices of manufactured goods in 2006 had the average annual growth of 13.3%, while producers' prices of agricultural and fishery products grew by 9.1 %.

On the demand side, domestic demand remained the main pillar of growth. Nonetheless, private consumption grew more slowly, as is indicated by moderate retail sales growth, given the monetary restrictions imposed by the NBS in the first half of 2006 with a view to curbing credit growth. In contrast, investments have picked up, given major successes achieved in privatization of state-owned enterprises. Public consumption also accelerated toward year-end 2006 in the run-up to early elections. Although exports grew nearly twice as fast as imports, the foreign trade deficit widened given the higher base level of imports.

Slovenia – SKEP

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	29 736.3	5.2	4.5	4.3
Private consumption	16 058.4	3.3	3.3	3.2
Public consumption	5 727.7	3.8	3.2	3.2
Gross fixed capital formation	7 683.6	11.9	6.5	6.5
Private, excl. dwellings				
Dwellings				
Change in stocks (1)	479.2	1.7		
Total domestic demand	29 948.9	5.5	4.8	4.0
Exports of goods and services	20 578.3	10.0	9.0	9.0
Imports of goods and services	20 790.7	10.4	8.3	8.6
Net exports (1)		-0.8	0.4	0.2
GDP deflator		2.3	2.5	2.5
Consumer prices		2.5	2.5	2.6
Private consumption deflator				
Output gap (2)				
Unit labour costs (3)				
Nominal hourly gross wage rate		4.8	4.9	4.7
Employment (thousands)		1.4	0.8	0.7
Unemployment rate (4)		6.0	6.0	6.0
Real household disposable income				
Net saving ratio (households) (5)				
Public sector fiscal balance (6,7)		-1.4	-1.5	-1.5
Gross public debt (6,7)		28.0	30.0	30.0
Current account balance (6)		-2.6	-2.0	-1.9
Central bank policy rate (non-EMU countries)		3.7		
Short-term interest rate (3 months) (8)		3.4	3.4	3.5
Long-term interest rate (10 years) (8)		3.9	4.2	4.2
United States Federal funds rate		5.2	5.2	4.4
GDP				
USA		3.3	2.6	2.8
Japan		2.2	2.3	2.0
Euro Area - 13		2.8	2.2	2.1
World trade volume (goods)		9.9	8.0	8.4
Oil price (9)		64.0	60.0	60.0
Exchange rate				
Dollar/Euro		1.26	1.32	1.31
Yen/Euro				
Local currency/Euro for non-EMU countries		239.60		

(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

Slovenia – SKEP

Date of forecast: April 4, 2007

The most important event to report is the “big bang” - a very successful introduction of the euro at the beginning of 2007 and Slovenia is the thirteenth country in the euro area.

In 2006, the year prior to euro adoption, Slovenian economy grew at 5.2 percent in real terms year-on-year, the highest rate in this decade. Along with impressive build-up investments and moderate private consumption, exports were the major impulse to high GDP growth. Very positive trends in the trading partner countries were reflected in a strong growth of exports of goods and services (10% in real terms) and imports by 10.4 percent. In 2007 and 2008 still high, but somewhat slower economic growth of 4.5 percent and 4.3 percent, respectively, is to expect. This corresponds to overall trends in EU. Inflation remains low, the first two months of 2007 even saw the deflation. Combined with the easing of relative consumer prices and the domestic versus foreign inflation rate, price competitiveness of Slovenian companies is improving.

The exports growth surpassed all the expectations in 2006. Compared to services, trade of goods has witnessed faster growth. In line with the economic upturn in the EU countries, Slovenia saw a robust growth in exports and imports also in the first months of 2007. Further high imports dynamics are driven by domestic demand and increasing industrial production. In 2006, trade deficit widened, furthermore current account deficit reached 2.6 percent of GDP, which additionally originated from deficits in transfers and in factor incomes. In 2007 and 2008 further high export and import growth is forecasted, export at around 9 percent, import lagging somewhat behind.

For 2007 and 2008 the average inflation is forecasted at 2.5 percent, confirming the continuing trend of price stability. Our expectations though do not imply any significant influence of euro adoption on general price trends. The dual pricing will continue to the end of June 2007. The risks arise in some services price rise. Besides, the inflation in Slovenia could stem from the rising domestic costs of companies, especially from the expected higher electricity price in the first half of 2007. On the other hand, trends in the international environment indicate some easing of commodity prices.

After a fairly positive employment trend in 2006 with 1.4 percent employment growth, the Slovenian labor market is to see further but a bit more moderate improvement in 2007 and in 2008, with 0.8 and 0.7 percent employment growth, respectively. Still favorable economic growth should continue enhancing new employment to some extent, however obstacles that cause employers' precariousness regarding hiring remain: payroll tax, high social contributions, rigid employment legislation. The reforms in this field are still not in force. Nevertheless, new employment is to arise mostly from services sector and small and fast growing businesses. On the other hand, we believe that the decline in unemployment has brought to a halt with 6% in 2006. ILO unemployment rate should remain at the same level in 2007 and 2008. Wages continue to grow steadily, with 2.2 percent real gross wage growth in 2006, and the same expected for next two years.

The pace of structural reforms in Slovenia has been somewhat less dynamic than expected. by the business sector. Changes in tax system took place at the beginning of 2007. The burden of the companies has lowered somewhat, mostly with gradual abolition of payroll tax. The decrease in corporate tax rate together with more restricted tax deductions still enables to estimate the effects. Further reforms are expected in the field of labor market, where companies appeal for more flexibility in terms of labor relations. Reforms should also concern the pension schemes, aiming at stimulating longer working age period.

Spain – CEPREDE

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	976 189.0	3.9	3.7	2.8
Private consumption	562 952.0	3.7	3.5	2.6
Public consumption	175 148.0	4.4	4.1	2.6
Gross fixed capital formation	295 564.0	6.3	6.3	4.7
Private, excl. dwellings	169 560.0	7.1	7.0	5.1
Dwellings	91 069.0	6.4	6.0	4.2
Change in stocks (1)	0.1	0.1	0.0	0.1
Total domestic demand	1 036 462.0	4.6	4.2	3.2
Exports of goods and services	254 985.0	6.2	4.7	4.9
Imports of goods and services	315 258.0	8.4	6.9	5.8
Net exports (1)	-1.0	-1.0	-1.0	-0.9
GDP deflator	127.2	3.8	3.5	2.9
Consumer prices	100.0	3.5	2.5	2.4
Private consumption deflator	121.6	3.6	2.6	2.5
Output gap (2)	-0.4	-0.4	-0.2	0.7
Unit labour costs (3)	2.7	2.7	2.1	2.0
Nominal hourly gross wage rate	17.3	3.4	3.2	3.1
Employment (thousands)	18 492.3	3.1	2.5	1.6
Unemployment rate (4)	8.5	8.5	8.3	8.9
Real household disposable income	511 573.4	4.4	3.7	2.2
Net saving ratio (households) (5)	9.6	9.6	9.8	9.5
Public sector fiscal balance (6,7)	1.8	1.8	1.1	0.5
Gross public debt (6,7)	40.0	40.0	38.8	37.0
Current account balance (6)	-8.8	-8.8	-9.1	-9.3
Central bank policy rate (non-EMU countries)				
Short-term interest rate (3 months) (8)	2.8	2.8	3.9	4.3
Long-term interest rate (10 years) (8)	3.8	3.8	4.3	4.8
United States Federal funds rate	5.3	5.3	5.3	5.4
GDP				
USA		3.3	2.3	3.1
Japan		2.2	2.0	2.6
Euro Area		2.8	2.4	2.7
World trade volume (goods)		9.0	7.2	7.9
Oil price (9)	65.2	19.6	-2.0	4.9
Exchange rate				
Dollar/Euro	1.25	0.95	4.95	-2.97
Yen/Euro	156.89	6.62	8.71	1.00
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 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

Spain – CEPREDE

Date of forecast: March 26, 2007

The Spanish economy has closed another year of expansion, in this case 3,9% of GDP, four tenth more than in 2005. It continues with a pattern based in the development of the internal demand, strong growth of employment, and an enlargement of the external deficit. Prices have been very influenced by the movements of the oil prices and the appreciation of the euro versus dollar.

The GDP have continued growing in 2006, the last quarter grew at 4% (yoy basis) which means two tenth upper the third quarter. At this point, we think that we have already reached a growth peak and we couldn't expect further acceleration in coming quarters.

The main forces underlying these forecasts concerns the deceleration path shown by employment generation that have slowdown form near 5% in the first quarter of 2006, to 3,6 % (yoy) an the end of the year.

This employment growth moderation, join with the monetary policy tightening, would induce some kind of internal demand deceleration, both in private consumption and investment, that can't be compensated by external sector as in previous quarters.

So, having in mind, a less dynamic world trade as a hole and a more specific intra European markets deceleration, we can' expect further improvements in Spanish exports, penalized by the strength of the Euro.

Although, It is expected a less dynamic imports, following the upper mentioned internal demand deceleration, the net exports effects could not be better than those registered in the forth quarter (-0,9).

Summing up all these effects, our current forecasts shows a slowdown growth path from the 4% peak reached at the end of 2006 to somewhat around 2,5% at the end of 2008.

In that framework, employment growths will suffer a deceleration path, too, accompanied with some productivity growth gains and a slight increase in unemployment rate that could return to 9,2% of labor force at the end of 2008 (8,3 in 2006 q4).

Inflation rates has been coming down since the beginning of 2006, when we shown a 4% rate as an average for the first quarter, and we could expect a continuity of his downward trend, as least in a short term, while oil prices and monetary tightening still play a positive role.

Global imbalance will keep concentrated in external sector, with a current account deficit close to 10% of GDP, with no signs of clear improvements, and a public surplus, that, even could be reduced from the 1,8 of GDP reached in 2006, it still keeps in positive values in the coming years.

Spain – SGEI

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	976 189.0	3.9	3.4	3.3
Private consumption	553 867.0	3.7	3.4	3.3
Public consumption	175 148.0	4.4	4.0	3.9
Gross fixed capital formation	295 564.0	6.3	6.0	5.0
Private, excl. dwellings	204 496.0	7.2	6.6	5.7
Dwellings	91 068.0	5.9	5.6	4.5
Change in stocks (1)		0.1	0.1	0.0
Total domestic demand	1 036 464.0	4.6	4.3	3.8
Exports of goods and services	254 985.0	6.2	5.7	5.1
Imports of goods and services	315 258.0	8.4	7.5	6.5
Net exports (1)		-1.0	-0.9	-0.8
GDP deflator		3.8	3.1	3.1
Consumer prices		3.5		
Private consumption deflator		3.6	2.4	2.5
Output gap (2)		-0.1	-0.2	-0.5
Unit labour costs (3)		2.7	2.2	2.0
Nominal hourly gross wage rate		3.5		
Employment (thousands)		550.1	497.4	433.0
Unemployment rate (4)		8.5	8.1	8.0
Real household disposable income				
Net saving ratio (households) (5)		10.4	10.5	10.7
Public sector fiscal balance (6,7)		1.8	1.4	1.2
Gross public debt (6,7)		39.8	36.9	34.4
Current account balance (6)		-8.8	-8.7	-8.9
Central bank policy rate (non-EMU countries)				
Short-term interest rate (3 months) (8)		3.1	3.7	3.6
Long-term interest rate (10 years) (8)		3.9	4.0	4.2
United States Federal funds rate		5.3	5.0	5.0
GDP				
USA		3.3	2.4	3.0
Japan		2.2	2.1	2.2
Euro Area		2.6	2.5	2.4
World trade volume (goods)		9.2	7.5	7.5
Oil price (9)		61.6	66.5	68.0
Exchange rate				
Dollar/Euro		1.25	1.30	1.30
Yen/Euro		146.10	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 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

Spain – SGEI

Date of forecast: April 18, 2007

Le cycle de croissance le plus prolongé de l'économie espagnole dans son histoire récente atteint en 2007 sa quatorzième année. Or ce qui est le plus remarquable n'est pas tant qu'il le fasse avec un rythme d'expansion au-dessus de la moyenne de cinq dernières années, mais qu'il y parvienne sans aiguiser les déséquilibres traditionnels. Encore que le haut niveau d'endettement du secteur privé auquel vient associé celui du déficit extérieur, pourraient poser certains risques pour l'atterrissage en douceur, que l'on escompte.

En effet, après avoir enregistré l'année dernière une croissance de son PIB de 3,9%, notre prévision anticipe une décélération graduelle en 2007-2008, jusqu'aux alentours de 3,5%, en ligne avec le potentiel estimé de croissance. En 2006 avait lieu simultanément une modification des composantes de cette croissance en faveur de l'investissement des entreprises en biens d'équipement et des exportations, alors que la consommation privée et le bâtiment décéléraient doucement. La contribution négative de la demande externe nette se réduisait ainsi notablement. Ce rééquilibre de la croissance devrait persister en 2007-2008.

L'intense création d'emploi et la réduction du taux de chômage, malgré la forte augmentation de la population active ont permis de rapprocher le niveau moyen de chômage de la zone euro, après des décennies. L'assainissement des comptes publics n'est pas moins remarquable, puisqu'il vient de se solder par un excédent de 1,8 points de pourcentage du PIB en 2006, alors que le poids de la dette publique se situait au dessous de 40% du PIB, après une réduction de l'ordre de 25 points pendant le dix dernières années. Cet excédent devrait se consolider pendant les deux années de prévision, la dette se situant alors au dessous de 35 %.

Même si le taux d'inflation de 3,5 % en moyenne annuelle reste au-dessus de la moyenne de la zone euro en 2006, la décélération subie en glissement annuel depuis le mois d'août dernier, sous les effets de la chute des prix de l'énergie, a été plus aiguë dans le cas de l'économie espagnole. Au cours des premiers mois de 2007, la modération de l'inflation continue. Au mois de mars, l'Indice des Prix à la Consommation Harmonisé restait stable à 2,5 %; alors que pour la zone euro il augmentait jusqu' à 1,9%. Le différentiel était ainsi proche du demi point de pourcentage; un résultat non observé depuis 2001 en moyenne annuelle. Les perspectives pour le premier semestre étaient favorables, mais la remontée du prix du pétrole des dernières semaines vient de les perturber pour l'ensemble de l'année.

Or, le cercle vertueux qui sou tend ce long cycle actuel de croissance n'est pas parfait, car le modèle de croissance axé sur l'impulsion prépondérante de la demande interne a donné lieu à un déficit extérieur par compte courant au-dessus de 8,5% du PIB en 2006, dont le financement dans le cadre de l'UME ne pose pas de problèmes pour l'instant ni va pas déclencher aucune crise de taux de change de la monnaie, tel qu'il arrivait autrefois, étant données les expectatives de rentabilité de l'économie espagnole très attirantes par les flux d'épargne disponibles à l'intérieur et à l'extérieur de l'UME. Ceci ne veut pas dire que la restriction extérieure à l'intérieur de l'UME n'existe plus, mais qu'elle est assouplie radicalement.

Pour évaluer si ce déficit, équivalent au besoin de financement extérieur en termes de comptes nationaux et qui représentait l'année dernière - 7,8 % du PIB, (une fois escomptés les transferts nets de capital et d'autres différences méthodologiques), est soutenable à l'avenir, il est très pertinent de tenir compte de sa distribution par secteurs institutionnels. Le secteur des Administrations Publiques et celui des institutions financiers affichent cette année-là des excédents de financement équivalents à 1,8 % et 0,7 % du PIB respectivement, alors que le besoin de financement des entreprises atteint –8,1% du PIB. Cette grandeur étant importante, semble d'autre part cohérente avec leur nature d'agents investisseurs, sans que ces entreprises subissent des primes des risques dans les marches financiers.

Or, les familles aussi enregistrent un besoin de financement équivalent à –2,2 % du PIB; en 2005 il était de –1,6% et il était nul en 2003. Puisque ce besoin de financement résulte de la différence entre l'épargne (en plus des transferts nets de capital) et l 'investissement des agents du secteur, dans ce cas les familles, il convient de préciser que sur cette différence a eu une incidence la baisse de l'épargne des familles (en descendent de 10,6 % de son revenu disponible en 2005, à 10,1%), mais surtout l'augmentation de leur investissement fondamentalement en logement, de 11,9 % en glissement annuel.

C'est dans ce domaine que l'ajustement du déséquilibre extérieur semble se dessiner, car la hausse de taux d'intérêts au cours des derniers dix-huit mois fait augmenter les montants de remboursements des prêts hypothécaires, indexés pour la plupart d'eux. Ceci a contribué déjà à modérer le rythme de demande des nouveaux crédits et à faire augmenter les délais de remboursement, sans que la morosité bancaire augmente à peine. Selon certaines analyses, les risques sont particulièrement significatifs dans le cas d'un segment de familles avec un haut niveau d'endettement et des bas niveaux relatifs de revenu; encore que ces risques concernent surtout les décisions de réduire les dépenses d'autres types de biens. En aucun cas, l'ajustement du déséquilibre extérieur devrait déclencher une crise de crédit, tout au moins si l'atterrissage du secteur immobilier ne se fait pas brusquement.

Sweden – CSE

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	306.8	4.4	3.7	3.0
Private consumption	144.7	2.8	3.6	4.0
Public consumption	82.0	1.8	1.7	1.7
Gross fixed capital formation	55.0	8.2	7.0	5.0
Private, excl. dwellings	36.2	6.4	6.3	5.3
Dwellings	9.8	16.5	9.1	5.2
Change in stocks (1)		-0.1	0.3	0.1
Gross domestic final expenditure	281.7	3.5	4.0	3.7
Exports of goods and services	157.4	9.1	5.0	4.0
Imports of goods and services	132.3	7.8	6.0	5.5
Net exports (1)		8.2	7.9	7.3
GDP deflator		1.8	2.0	2.0
Consumer prices		1.4	1.8	2.0
Private consumption deflator		1.3	1.6	1.8
Employment (thousands)		4 340.0	4 427.0	4 498.0
Unemployment rate (4)		7.1	6.4	5.7
Real household disposable income		1.9	4.8	2.5
Net saving ratio (households) (5)		8.0	8.4	7.7
Public sector fiscal balance (6,7)		2.0	2.4	2.6
Gross public debt (6,7)		47.0	40.0	36.0
Current account balance (6)		7.4	7.0	6.4
Central bank policy rate (non-EMU countries)		2.2	3.4	4.0
Short-term interest rate (3 months) (8)		2.3	3.4	4.0
Long-term interest rate (10 years) (8)		3.7	4.0	4.5
United States Federal funds rate		5.0	5.0	4.2
GDP				
USA		3.3	2.2	2.5
Japan		2.2	2.4	2.5
Euro Area		2.6	2.7	2.4
World trade volume (goods)		9.0	8.0	7.0
Oil price (9)		65.0	60.0	60.0
Exchange rate				
Dollar/Euro		1.26	1.31	1.34
Yen/Euro		146.00	154.39	152.32
Local currency/Euro for non-EMU countries		9.25	9.20	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 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

Sweden – CSE

Date of forecast: March 2007

During the past decade, Swedish economic growth has to a large extent been driven by a strong development of net exports. The development of domestic demand, on the other hand, has been very weak, and in fact not stronger than that of the Euro area. The pattern of economic growth is, however, currently experiencing a change in focus. With a robust improvement on the Swedish labor market, we expect domestic demand to be the main driving force of the Swedish economy during the next couple of years.

Even though the new, more liberal, Government has only been in office for a little more than half a year, there has been a clear change in policy in several areas. Perhaps most importantly, reduced unemployment benefits coupled with lower income taxes is expected to have a significantly positive effect on labor supply. Total employment increased with almost 2 percent in 2006, and we expect employment to increase with roughly 2 percent a year in 2007 and 2008 as well. This should be put in light with the more or less stagnating development on the Swedish labor market in 2002-2005.

The positive outlook on the Swedish labor market and the reduced taxes on labor income, combined with modest price increases and a soft monetary policy, are currently boosting disposable incomes. We expect strong growth of private consumption during the next couple of years, not least concerning durable goods and private services.

Simultaneously, private capital expenditure is increasing steadily, not least in the mining-, energy-, and large parts of the manufacturing sector. The strong investment growth of the past two or three years in the construction sector, especially with regards to dwellings, is expected to continue. Added to this, the Government is currently considering introducing a wider scope of PPP-solutions (Public Private Partnership) concerning investments in infrastructure. Further, the Government recently announced a plan to abolish the wealth tax; this will probably have a small, but still significant, effect on the potential growth rate of capital expenditure. The level of business investment, as a share of GDP, is nevertheless expected to stay below the EU average.

World trade is expected to slow down somewhat in 2007 and 2008 due to the weaker growth of 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 also expected to face a weak demand. According to our forecast, exports of goods and services will increase with 5 percent in 2007, which can be compared with an increase of around 9 percent in 2006.

In conclusion, we expect GDP to grow with 3.7 percent this year and 3.0 percent in 2008, with a mild development of net exports and a relatively strong development of domestic demand.

Sweden – NIER

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP		4.4	3.9	3.4
Private consumption		2.8	3.8	3.5
Public consumption		1.8	1.4	1.1
Gross fixed capital formation		8.2	9.1	4.7
Private, excl. dwellings		6.1	8.7	5.4
Dwellings		16.5	12.8	3.9
Change in stocks (1)		0.0	0.2	0.0
Total domestic demand		3.5	4.3	3.0
Exports of goods and services		9.1	7.1	6.4
Imports of goods and services		7.8	8.6	6.1
Net exports (1)		1.2	0.0	0.6
GDP deflator		1.8	2.5	1.8
Consumer prices		1.4	1.7	2.2
Private consumption deflator		1.3	0.9	1.6
Output gap (2)		-1.1	-0.1	0.6
Unit labour costs (3)		-1.3	2.8	2.7
Nominal hourly gross wage rate		3.1	4.1	4.4
Employment (thousands)		4 341.0	4 436.0	4 489.0
Unemployment rate (4)		7.0	6.1	5.6
Real household disposable income		1.9	5.3	2.8
Net saving ratio (households) (5)		8.0	9.3	8.8
Public sector fiscal balance (6,7)		2.1	2.3	2.7
Gross public debt (6,7)		47.3	40.7	35.8
Current account balance (6)		7.0	7.1	7.2
Central bank policy rate (non-EMU countries)		2.2	3.3	3.7
Short-term interest rate (3 months) (8)		2.3	3.4	3.8
Long-term interest rate (10 years) (8)		3.7	3.9	4.3
United States Federal funds rate		5.0	5.3	5.0
GDP				
USA		3.3	2.6	2.8
Japan		2.2	2.7	2.3
Euro Area		2.8	2.5	2.2
World trade volume (goods)				
Oil price (9)		64.8	58.9	55.8
Exchange rate				
Dollar/Euro		1.32	1.32	1.32
Yen/Euro		154.80	150.10	145.20
Local currency/Euro for non-EMU countries		9.04	9.21	9.10

(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 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

Sweden – NIER

The Swedish economy grew more in 2006 than at any time since 1970, and growth remains high. GDP will be up by 3.9 percent in 2007 and 3.4 percent in 2008. The labour market is still strong, and employment will increase by 148 000 persons in 2007 and 2008. The unemployment rate will drop to 4.3 percent in 2008. Lower unemployment will contribute to extremely solid public finances. The state of the economy, the labour-market situation and higher negotiated wage settlements will result in larger wage increases. Inflation will accelerate, and the Riksbank is expected to increase the repo rate to 4 percent in 2008 and to 4.75 percent in 2009.

Sweden's exports accounted for more than half of the growth in 2006. With global demand still surging, a strong tendency in both household income and local government revenue, and a somewhat expansionary monetary policy, GDP growth will remain high. The income tax cuts effective January 1, together with more jobs, will lead to very strong growth of 5.3 percent in household disposable income in 2007. This powerful boost to income will generate a vigorous increase in household consumption both this year and next year. GDP will rise by 3.9 percent in 2007, easing off to 3.4 percent in 2008.

Employment was up by 83 000 persons in 2006 and will increase by a further 148 000 through 2008. With employment rapidly rising, unemployment will continue to go down. A larger labour supply and cutbacks in labour market programmes will slow the decrease to some extent. But the unemployment rate will still drop from 5.4 percent in 2006 to 4.3 percent in 2008.

The first collective bargaining agreements have been concluded in manufacturing, and several of them provide for labour-cost increases of 10.2 percent over a three-year period. This outcome is higher than in the preceding round of negotiations, when most settlements entailed labour-cost increases of 7.3 percent. In view of these latest agreements in manufacturing, the NIER has raised its forecast for wage increases. Hourly earnings are expected to rise by 4.1 percent in 2007 and 4.5 percent in 2008. In the forecast we have considered the agreements reached as of March 21. Thus, there is still a possibility that the wage increases in the remaining agreements will exceed the forecast.

Inflation is expected to recede in the next few months as energy prices drop back. But accelerating wages and slackening productivity growth will fuel greater inflation in the period ahead. It will take time, though, before higher costs of firms begin having an impact, and inflation will stay below 2 percent in 2008. By mid-2009, however, inflation will exceed 2 percent, and it will continue upward to 2.4 percent in 2010. Given the strong tendency of the economy, the Riksbank will need to keep raising the repo rate in the period ahead. The Riksbank's own forecast indicates that the repo rate will be raised to 3.50 percent in the summer of 2007. The NIER's assessment is that the Riksbank will increase the repo rate further to 4 percent by the end of 2008. If the economy is to avoid overheating in subsequent years, a clearly restrictive monetary policy will be required. The Riksbank is thus expected to continue jacking up the repo rate to 4.75 percent in 2009.

A buoyant economy and a favourable labour market will contribute to solid public finances in 2007 and 2008. General government expenditure will go down, primarily because of lower unemployment, reduced compensation levels, less ill health and cutbacks in labour market programmes. In 2007, the number of persons living on social welfare benefits will be 970 000, below one million for the first time since 1992.

The stronger labour market will mean a larger tax base, offsetting the loss of tax revenue resulting from the Government's reforms. Consequently, general government net lending, which is already high, will rise further in 2007 and 2008 despite substantial cuts in income taxes.

Net lending is expected to reach 2.3 percent of GDP in 2007 and 2.7 percent in 2008. With the transfer of the premium pension system from the general government sector to the household sector, general government net lending will decrease by roughly 1 percent of GDP. The Government has therefore announced their intention to lower the net lending target to 1 percent. Even if this target is exceeded, the Government should avoid taking measures that would negatively affect net lending, as there will be no need to stimulate the growth of the Swedish economy any further in the next few years.

Switzerland – KOF

Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	299.3	2.8	2.4	2.5
Private consumption	180.4	2.1	2.1	1.8
Public consumption	33.4	-0.2	0.9	1.5
Gross fixed capital formation	65.1	4.5	3.2	1.4
Private, excl. dwellings	30.4	2.6	1.3	-0.3
Dwellings	34.7	6.1	5.0	2.9
Change in stocks (1)	-3.1	-0.2	0.2	0.9
Total domestic demand	275.8	1.9	2.6	2.4
Exports of goods and services	151.2	9.5	5.0	4.1
Imports of goods and services	127.8	8.5	5.9	4.2
Net exports (1)	23.5	1.2	0.1	0.4
GDP deflator	101.0	0.5	1.0	0.8
Consumer prices	105.4	1.1	0.3	0.7
Private consumption deflator	102.8	1.1	0.8	0.9
Output gap (2)	-0.7	-0.7	0.1	-0.1
Unit labour costs (3)	1.6	1.6	1.8	0.3
Nominal hourly gross wage rate	3.3	3.3	2.9	2.1
Employment (thousands)	3 136.0	1.1	1.4	0.6
Unemployment rate (4)	3.3	3.3	2.8	2.8
Real household disposable income	295.3	2.0	3.5	2.3
Net saving ratio (households) (5)	6.6	6.6	7.8	8.2
Public sector fiscal balance (6,7)	1.2	1.2	1.3	1.5
Gross public debt (6,7)	47.6	47.6	45.0	43.2
Current account balance (6)	14.7	14.7	14.1	14.0
Central bank policy rate (non-EMU countries)		1.5	2.4	2.5
Short-term interest rate (3 months) (8)	1.4	1.4	2.3	2.4
Long-term interest rate (10 years) (8)	2.5	2.5	2.5	2.6
United States Federal funds rate	5.1	5.1	5.0	4.6
GDP				
USA	116.3	3.3	2.2	2.9
Japan	109.0	2.2	2.2	1.9
Euro Area	110.0	2.8	2.2	2.1
World trade volume (goods)	130.0	8.4	6.1	6.9
Oil price (9)	65.4	65.4	59.5	60.0
Exchange rate				
Dollar/Euro	1.26	1.26	1.33	1.37
Yen/Euro	146.12	146.12	159.67	157.39
Local currency/Euro for non-EMU countries	1.57	1.57	1.61	1.59

(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

Switzerland – KOF

Date of forecast: April 2007

In April 2007, Switzerland can look back at eight quarters of continuous GDP growth rates of over 2 per cent. In the course of a small decline in world economic expansion, GDP growth will temporarily fall in the 2nd and 3rd quarters. But, towards the end of the year the quarterly growth rates will already return to figures above 2 per cent and remain there until the end of the forecast horizon. In comparison to the previous year, the current year and the next will see annual growth rates of around two and a half percent. The overall economic outlook remains optimistic: the broad-based economic growth will be accompanied by price stability and falling unemployment.

Switzerland's public spending budget will continue to show surpluses in the forecast period. In the total of state, cantons, municipalities, and social security, the positive balance will be 1.3 per cent of the GDP this year and 1.5 per cent in the next. Fiscal policy will continue to have a neutral effect on the economy during the forecast period after having a restrictive impact between 2003 and 2006.

The key interest rate which has been raised by the Swiss National Bank by a total of two percentage points since 2004 and we expect further interest rate increase amounting to 25 basis points this summer. The target value for the three-month Libor will then be 2.5 per cent. The returns on ten-year federal government bonds will remain at 2.6 per cent in the forecast period. After having lost value against the euro in recent years, the euro became two centimes cheaper within a short period of time at the end of February. In the forecast period the franc should appreciate against the euro, partly because the European Central Bank will leave its key interest rate unchanged.

In the current year, the economic stimuli from abroad will diminish temporarily, and thus, exports will suffer. Nevertheless, as early as the end of this year, stronger growth in the world economy and, hence, in Swiss exports can be expected. The ability of the Swiss economy to largely defy the slowdown in the world economy in the current year is primarily due to a robust growth in private consumption. Public consumption is also rising after having declined in the previous years. The investment boom, however, will come to an end in 2007. Quarterly growth rates of investments in machinery and equipment will fall below 4 per cent across the whole forecast period. In 2008, construction investments will show a decrease for the first time in years. The labour market will benefit from the sustained economic growth. The number of employed persons will continue to rise until the end of 2008, mainly in the service sector.

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Variables	Level, Euro bn., current prices	Volume, percentage change from previous year if otherwise not specified		
	2006	2006	2007	2008
GDP	1 200.3	2.7	2.8	2.4
Private consumption	773.3	1.9	2.6	1.9
Public consumption	252.7	2.1	2.4	2.5
Gross fixed capital formation	207.5	5.9	5.9	2.8
Private, excl. dwellings	123.8	-5.5	6.6	3.4
Dwellings	59.0	2.8	2.4	1.9
Change in stocks (1)	6.0	0.2	0.0	0.0
Total domestic demand	1 239.6	2.8	3.1	2.2
Exports of goods and services	357.3	10.7	-0.7	7.1
Imports of goods and services	398.1	10.8	0.8	5.9
Net exports (1)	-40.8	-0.4	-0.4	0.1
GDP deflator		2.5	3.2	2.5
Consumer prices		2.3	2.6	2.2
Private consumption deflator		2.5	2.7	2.7
Output gap (2)		-0.1	0.1	0.0
Unit labour costs (3)		2.5	2.1	2.7
Nominal hourly gross wage rate				
Employment (thousands)	31 072.0	0.8	0.4	0.4
Unemployment rate (4)		5.5	5.7	5.8
Real household disposable income	782.9	1.4	2.9	2.7
Net saving ratio (households) (5)		5.4	5.5	6.2
Public sector fiscal balance (6,7)		-2.9	-2.9	-2.8
Gross public debt (6,7)		43.1	43.4	44.0
Current account balance (6)		-2.9	-3.1	-2.8
Central bank policy rate (non-EMU countries)				
Short-term interest rate (3 months) (8)		4.8	5.7	5.6
Long-term interest rate (10 years) (8)		4.5	4.9	4.9
United States Federal funds rate				
GDP				
USA		3.4	2.9	2.5
Japan		2.1	2.4	2.5
Euro Area		2.7	2.2	2.1
World trade volume (goods)		9.2	6.8	6.5
Oil price (9)		63.5	55.6	55.7
Exchange rate				
Dollar/Euro		1.26	1.30	1.31
Yen/Euro		146.52	155.23	152.55
Local currency/Euro for non-EMU countries		0.68	0.67	0.68

(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

UK – NIESR

Date of forecast: January 16, 2007

The economy continues to expand at a robust pace. We now expect GDP to rise by 2¾ per cent in 2007 after similar growth in 2006. This is an upward revision to our forecast for economic growth in 2006 and 2007 of approximately ¼ percentage point since October. Underlying these changes to the forecast for 2006 are upward revisions to the data for the first half of last year and stronger than expected growth for the third quarter of last year. The healthy pace of expansion forecast for this year is supported by a further acceleration in domestic demand growth after the weakness observed in 2005. This is led by a pick-up in consumer spending, supported by stronger growth in real disposable incomes and rapid accumulation of household wealth, and the continued strength of investment demand. In 2008 we expect economic growth to slow to 2.4 per cent per annum. Both a fiscal and a monetary tightening dampen growth and inflation ahead.

The Bank of England's target measure of inflation (equivalent to HICP) rose to 3 per cent in December last year, reach the 1 percentage point upper bound of the symmetric inflation target. We expect inflation to fall back towards the target in the second half of this year. This occurs not only because commodity prices have stopped rising and the price of oil is expected to be reduced by $8 this year in comparison to last. The appreciation of the sterling effective exchange rate over the course of last year, which slows import price inflation in the forecast, has also helped.

Nevertheless, due to our projection of stronger growth and stronger than expected inflation outcomes for the final quarter of last year, we expect inflation to fall back to target less quickly than we anticipated three months ago at the time of our last forecast. With strong economic growth driven by a pick-up in domestic demand, we now think that the economy is operating above capacity, albeit only marginally. We expect economic growth to be running a little ahead of trend this year.

Despite the rise in output above capacity, wage inflation is likely to be restrained by rising unemployment, resulting from strong labour force growth. An upside risk to the inflation forecast is that the sharp acceleration in inflation in the retail prices index from 2.2 per cent in December 2005 to 4.4 per cent in December last year finds its way into pay settlements, due to be arranged in the coming months. It is likely that the Monetary Policy Committee raised interest rates in January to pre-empt this happening. We have revised up our forecast of wage inflation in light of the recent data. However, we assume that recent increases in interest rates, and the associated change in expectations of interest rates over the past year, are enough to maintain wage inflation at normal levels. Simulations using our model of the economy suggest that, in and of itself, the change in interest expectations over the past twelve months should reduce inflation by on average ½ percentage point over the next few years.