European Commission
Directorate-General for Economic and Financial Affairs

Interim Forecast

January 2009

Press conference of 19 January 2009

OVERVIEW

The financial crisis intensified, but a systemic meltdown was avoided...

Conditions in the financial markets deteriorated at breakneck speed last autumn, reinforcing the global economic downturn. Money, interbank and credit markets became dislocated amid a collapse of confidence among market participants, related largely to uncertainty about the ultimate size and location of credit losses. A systemic meltdown was avoided due to massive liquidity injections by several key central banks together with rescue packages put together by national authorities. As a result, several stress indicators have visibly eased recently. However, the overall situation in financial markets remains far from normal. Evidence is mounting that the risk of an adverse feedback loop between the financial and real sectors is now materialising, as the rapidly deteriorating conditions on the real side affect financial institutions. With the banking sector in the eye of the storm, financing costs have increased and bank lending to the private sector is tightening, especially to households.

...though the crisis is bringing the global economy to a recession

As the financial crisis intensified last autumn, economic indicators deteriorated and global economic activity is estimated to have fallen sharply during the last quarter of 2008. Judging from recent survey data, incoming orders and the collapse of the Baltic Dry index of shipping costs, further declines in activity in the short term are in store. Moreover, the downturn is broad-based, with negative spillovers progressively affecting emerging-market economies. The marked deterioration of underlying global growth is, however, expected to be relatively short-lived as a substantial easing of macroeconomic policies across the globe is set to contribute to a certain recovery of growth from the second half of this year. For the year as a whole, world growth is therefore expected to slow from 3.3% in 2008 to ½% this year, before recovering to 2¾% in 2010. It should also be noted that this outlook depends crucially on an assumed fiscal package of some 5½% of GDP in the US spread out over 2009 and 2010 (which appears very likely when this forecast is being finalised, albeit not yet formally adopted).

The risk of a deep recession in the EU called for decisive policy action

As events unfolded late last autumn, it became increasingly clear that the EU would not be spared a deep and protracted recession. Swift and decisive policy action was called for to prevent a downward spiral. The Commission therefore presented 'a European Economic Recovery Plan' in November 2008, which was endorsed by the European Council in December. The plan aims to limit the impact of the crisis on the real economy via a comprehensive package of measures at the EU and national level, including a significant budgetary stimulus amounting to €200 billion (corresponding to 1.5% of EU GDP) on top of the automatic stabilisers already at play, and a set of structural reforms to ensure a longer-lasting impact. The impact of the measures announced so far, amounting to 1% of GDP in 2009 and ½% in 2010, has been included in this forecast.

The euro area is already in a recession, which could last until this summer...

The euro area is already in a recession following a fall in GDP for the second consecutive quarter (as GDP dropped by 0.2% in the third quarter of 2008 in both the EU and the euro area). Following the collapse in survey data across sectors and countries and the marked deterioration in other high-frequency data, the outlook is for a continued fall in GDP throughout the first half of this year.

...as the financial crisis, the global cycle and the collapse of some housing bubbles take a toll...

The downswing is expected to be broad-based across countries, although sizeable differences persist: some countries will be subject to a more pronounced and/or protracted downturn, depending on their exposure to the financial crisis, the global manufacturing cycle, a substantial housing-market correction or other country-specific factors. In the largest Member States, GDP is expected to fall by between 1¾% and 2¾% this year, with the downswing being particularly marked in the United Kingdom and more protracted in Spain.

...and despite the important measures announced

The downturn is also expected to be broad-based across demand components. Except for government consumption and public investment, all demand components are forecast to put a drag on GDP growth. In particular, private investments are severely affected at the current juncture. Both housing and equipment investment are expected to fall by about 9% in the euro area this year, on the back of a substantial drop in capacity utilisation rates, a worsened economic outlook and tighter financing conditions for the latter. Government consumption and public investment, however, are expected to provide considerable support for the economy. In both the EU and the euro area, GDP would have been about ¾ pp. lower this year and around ⅓ to ½ pp. in 2010 in the absence of the national discretionary measures announced so far, though this may vary across countries depending on the nature of the measures taken and the economic circumstances particular to each country.

Overall, real GDP is forecast to fall by less than 2% in 2009 in both the EU and the euro area, although growth is projected to remain positive in nine Member States. GDP growth is expected to turn moderately positive in 2010, to around ½% in both the EU and the euro area, as macroeconomic policies take effect in gradually stabilising economies around the world. Such a severe economic downturn will have a profound impact on labour market developments and public finances over the forecast horizon, though inflation pressures continue to ease from earlier highs.

Unemployment rate set to rise...

The labour market held up relatively well in 2008 in the EU and euro-area as a whole, mainly due to a still-robust development in Germany. The picture at the individual country level is rather different, with the situation having started to weaken in several EU countries already during the first three quarters of 2008. Looking ahead, employment is expected to fall by about 1½% in both the EU and the euro area in 2009 with no marked turnaround in sight (reflecting the usual lag of employment to changes in GDP growth). As a result, the unemployment rate is forecast to increase by some 2½-3 pps. from its low at the start of 2008, to an annual average of 9½% in the EU and 10¼% in the euro area by 2010.

...while inflation eases rapidly

Euro-area inflation fell sharply in the second half of 2008, from a peak of 4% in July to 1.6% in December. The sharp fall in oil and other commodity prices amid the worsening global growth outlook has been the main driver of the reduction in headline inflation. Gloomy prospects for demand in the EU are expected to curb wage growth going forward, although the expected moderation in unit labour costs is limited in the short term due to a cyclical decline in productivity.

Budget deficit to more than double in 2009

Public finances are also being hit hard by the slowdown. This follows from the reversal of past revenue windfalls, a generally less tax-rich composition of growth as well as the impact of significant discretionary measures adopted and/or announced by Member States on top of automatic stabilisers. Overall, the fiscal stimulus amount to around 4% of GDP, spreading over 2009 and

2010. This estimate takes into account discretionary measures taken at national and EU levels, automatic stabilisers as well as extra budgetary measures. The headline deficit is expected to more than double this year in the EU, up from 2% of GDP in 2008 to 4½% in 2009 (up from some 1¾% to 4% in the euro area). As a result, several Member States are projected to breach or stay over the 3% of GDP reference value in 2009. As growth will remain below potential, a further deterioration in the budgetary outlook is expected for 2010. Government debt is also affected by sizeable 'below the line' operations – for example measures taken to rescue financial institutions – and is set to increase to 67½% of GDP in the EU this year and 71% in 2010 (about 73% and 76%, respectively, in the euro area).

Substantial uncertainties prevail

Many of the risks highlighted in the Commission's autumn 2008 forecast have already materialised by the time of this update. Nonetheless, the economic situation and outlook remains exceptionally uncertain as the world faces its worst crisis since the second world war. Downside risks to the outlook for economic activity relate, above all, to the impact of the financial crisis on confidence of economic agents and the real economy (including on the housing sector) and the strength of the negative feedback-loop between the financial and real sectors of the economy. On the other hand, growth could be stronger than expected if *inter alia* the fiscal packages would restore confidence among investors and consumers more swiftly than assumed. Risks to the inflation outlook appear balanced following developments in commodity prices and the deterioration of economic prospects globally.

1. RECESSION IN EUROPE AMID A SHARP GLOBAL DOWNTURN

1.1 SEVERE GLOBAL DOWNTURN DAMPENED BY EXPANSIONARY POLICY STANCE

Financial markets are recovering but remain fragile

In autumn 2008, the strength of the financial system was tested to the extreme. Money, interbank and credit markets were in disarray amid a rarely seen uncertainty about the strength of banks' balance sheets and a complete collapse of confidence among market participants and intermediaries. Subsequent massive liquidity support by central banks and rescue packages engaged by the national authorities have staved off a systemic financial meltdown, but substantial vulnerabilities remain in several parts of the financial system.

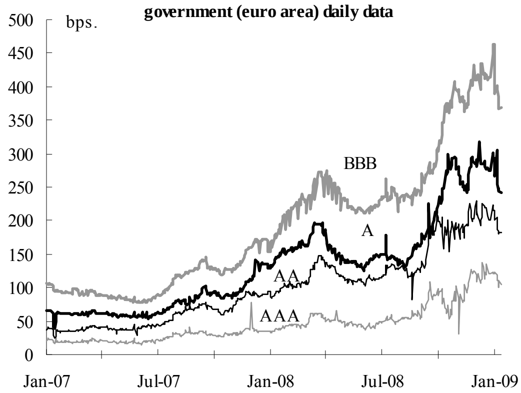
However, some important stress indicators have improved somewhat in recent months. The ECB's interest-rate cuts (from 4.25% to 2.50%) and lending-rule adjustments have helped unsecured interbank-lending rates, which serve as a reference rate for trillions of financial products, to moderate considerably. The spreads between unsecured lending rates for different maturities and corresponding overnight indexed swap rates, which is one measure of the scarcity of liquidity, have declined sharply. They remain stretched, however, and the volumes of deals remain comparatively weak, indicating that financial institutions are still reluctant to lend to each other.

With dysfunctional interbank lending markets and securitisation also adversely affected, banks had to seek alternative funding sources, in particular by aggressively expanding their retail deposit bases and drawing extensively on central bank facilities. However, this led to an increase in banks' financing costs, and, as longer-term wholesale financing has become scarcer, banks had to rely more on short-term funding. The restricted access of banks to money markets and debt securities markets is expected to persist into 2009.

In this adverse climate, bank lending to the private sector is weakening, albeit with substantial differences among Member States. Credit to the private sector contracted in November 2008 (by 0.1% on a monthly basis), reducing the annual rate of increase to 7.1%, reflecting soft demand by borrowers and supply-side constraints. In particular, loans to households contributed to the decline, by moderating to 2.5% year-on-year (y-o-y) as net household borrowing declined by €10 billion in November. The softening of household borrowing is probably a reflection of households postponing purchases because of extremely weak consumer confidence and housing markets. Loans to non-financial corporations, however, slowed only slightly (to 11.1% y-o-y). This figure may be somewhat biased, however, as alternative sources of funding for companies is drying up and companies have been drawing on previously agreed bank credit lines to build a buffer for the future months. Anecdotal evidence suggests that several banks are unwilling to lend even to creditworthy borrowers, indicating that financing conditions are likely to be worse than available data on lending would suggest.

Survey data provide some additional evidence in this regard. Credit standards for loans to enterprises have significantly tightened in the third quarter of 2008 and a further tightening is expected to have taken place in the fourth quarter. Somewhat puzzlingly, large firms are more heavily affected than SMEs and the tightening is more pronounced for enterprises than for households.

Graph 1.1: **Corporate 10 year-spreads versus government (euro area) daily data**



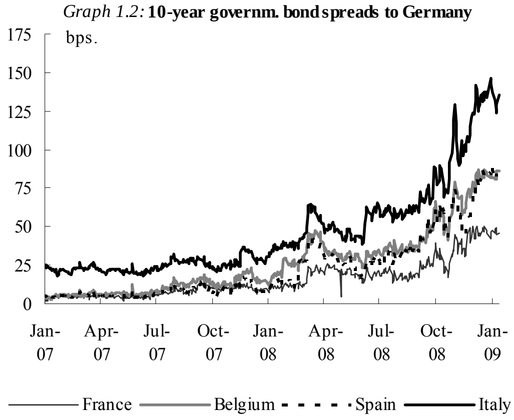
Looking ahead, as banks become more risk-averse and more under pressure to restore their balance sheets, loan growth is expected to weaken further. A downsizing of banks' balance sheets could exert a significant drag on economic growth, as loan supply is a crucial determinant of short-term economic growth, in particular in Europe where banks have a major intermediary function. Moreover, reduced debt-servicing capacity of companies and households could lead to further bank losses, adding to the approximately €300 billion already booked by European financial institutions. Further recapitalisations, above the €300 billion-plus already injected, will be needed to avoid a sustained drag on bank lending. In this regard, it is encouraging that measures are taken to stop the feedback loop between a contracting economy and tighter financial conditions.

Both interbank rates and government bond yields in the euro area have declined significantly in recent months, reflecting the past ECB interest rate cuts as well as market expectations of further reductions in policy rates amid projections of a sharp economic downturn and low inflation. Nonetheless, overall financing costs for euro-area non-financial corporations are still very high due to low stock prices and a sluggish pass-through from market interest rates to bank lending rates. Going forward, financing costs should come down as lower market rates are expected to result in lower bank-lending rates. However, as noted above, banks are still reluctant to lend to each other, and, as they become more risk-averse and the economic downturn materialises, non-price financing conditions could tighten further.

As investors have sought safe havens amid heightened uncertainty, the benchmark Bund has benefited, widening the spread on other euro-denominated government bonds that are seen as either less liquid or more risky. Turning to the corporate bond market, euro-denominated bond spreads seem to have stabilized, albeit at high levels compared with the spreads recorded during previous economic downturns (for AAA bonds at about 125 bps, for BBB at about 370 bps).

In the coming months, governments will have to issue more debt to cover the costs of economic stimulus and financial rescue packages, and to cover widening fiscal deficits. Similarly, as banks had to rely to a larger extent on short-term funding in recent months, they will have sizeable refinancing requirements in 2009 and 2010. The increasing financing requirements of sovereigns and financial institutions may temper the expected moderation in lending rates and, thus, crowd out borrowing by the non-financial private sector.

Graph 1.2: **10-year governm. bond spreads to Germany**



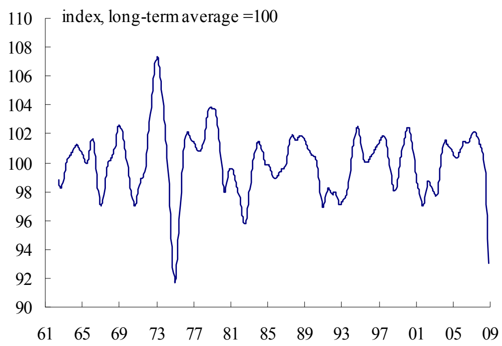
Besides changes in the economic outlook for the euro area and its most important trading partners, large portfolio shifts result from the financial crisis and changes in the price of risk also contributed to sizable exchange-rate fluctuations. The real effective exchange rate of the euro depreciated from July to November 2008, before increasing more recently, and it was about 5% above its long-term average in December 2008. Thereafter, the euro has depreciated by about 1% against the US dollar, the yen and the pound sterling.

A global recession in 2009

The speed of economic slowdown was the most striking characteristic of the unfolding crisis in 2008. First, the survey indicators of global economic activity dropped steeply. The OECD leading indicator for the OECD plus six large emerging economies fell to its lowest level since mid-1975 in November and the global composite PMI reached an historical low (35.5) in December. The deep downturn started to be visible in hard data, such as industrial production and trade figures, during the last quarter of 2008. The collapse of the Baltic Dry index of shipping costs in the second half of 2008 suggested that a significant deceleration in world trade lies ahead. Trade has also been hit by the apparent lack of trade credit in Asia and Latin America.

Global growth is not expected to resume before the second half of 2009, when massive global monetary easing and substantial fiscal relaxation are expected to gain traction. The main issue is whether the recovery will be a lasting one. For the euro area as a whole, the absence of major imbalances favours a return to sustained growth in the medium term and disinflation, helped by the fall in oil prices, will support purchasing power and profit margins. Improvements in the functioning of the financial system, however, will be critical to a lasting recovery.

Graph 1.3: **OECD leading indicator for the OECD plus six large emerging economies**



Following an estimated growth of about 4% in 2008, economies outside the EU are projected to slow sharply in 2009, to some 1¼%. The recovery of the global is expected to be gradual, reflecting a weak underlying trend. GDP growth is projected to recover to about 3¼% in 2010.

Despite sharply lower energy prices, the short-term outlook for the *US* economy is grim. GDP is projected to contract by 1.2% and 0.9% quarter-on-quarter (q-o-q) in 2008Q4-2009Q1. Subsequently, the significant monetary and fiscal stimulus should gradually help economic activity to recover. This forecast is based on the assumption that a fiscal stimulus package will be adopted in early 2009 and implemented relatively quickly. More specifically, it assumes a $775 billion package (corresponding to almost 5½% of GDP) spread out over 2009–10, which consists of higher public spending (60% of the package), mainly on investment, and tax cuts (40%), especially in income taxes.

This package is set to lead to a massive increase in the fiscal deficit (to 10% of GDP in 2009 and even higher in 2010), but it should, in conjunction with the ongoing monetary expansion, halt the contraction of the economy by mid-2009 and ensure a recovery during the rest of the forecast period. growth could reach its long-term potential (now estimated at about 2½%) in the final quarter of 2010. Thus, growth in is projected to be -1.6% in 2009 and 1.7% in 2010. However, given the large accumulated imbalances, it remains to be seen whether the recovery will be sustainable beyond the forecast horizon.

Headline inflation is forecast to fall temporarily below zero in 2009. A protracted deflationary scenario is, however, unlikely, given remaining inflation expectations and the Federal Reserve's determination to counter deflationary trends. The unemployment rate is forecast to rise steadily in 2009 before stabilising at about 9¼% in 2010.

The *Japanese* economy is also in a technical recession. A further contraction of GDP in the coming quarters is expected, as domestic demand will be very weak (underlined by significant worsening in business and consumer confidence). Moreover, the substantial real effective appreciation of the yen will further dampen already lacklustre exports. GDP will contract by almost 2½% in 2009 (after -0.1% in 2008) and contract further in 2010 (-¼%).

The recession in advanced economies is affecting *emerging and developing economies* through a sharp slowdown in trade and private capital inflows. Most of these countries, however, still have some room for manoeuvre to cushion the impact of the global slowdown as both fiscal and monetary policies can still be further relaxed. Therefore, although slowing significantly, growth in the largest emerging economies is expected to remain positive.

Economic growth in *China* has started to decelerate rapidly. To stem the slowdown, the policy rate has been lowered on several occasions and a large fiscal stimulus package – focused on infrastructure investment – has been announced for 2009-2010. Nevertheless, GDP growth is expected to decelerate further in 2009, to 6¾%, and to recover only in 2010 (to 8%).

Russia is expected to avoid a recession because of a large fiscal stimulus package and the favourable effects of a more flexible exchange-rate framework on demand for domestically produced goods and services. Growth is expected to slow from 5.9% in 2008 to about 1% in 2009, and rebound to about 2¼% in 2010.

1.2 EU ECONOMY: CONTRACTION IN ACTIVITY BEFORE A GRADUAL RECOVERY IN THE COURSE OF NEXT YEAR

European economy in recession since 2008

With events evolving at breakneck speed in financial markets last year, the impact on the real economy became more pronounced. By the third quarter of 2008 the euro-area economy entered its first technical recession, as GDP contracted for the second consecutive quarter.

GDP fell by 0.2% (q-o-q) in both the euro area and the EU in the third quarter of 2008, slightly below the Commission's autumn projection. In particular, economic activity came in weaker than expected in Germany, Italy, Finland, Denmark, Estonia, Sweden and the UK. France, which posted a slight increase, was the only positive surprise among the large euro-area Member States.

After contracting in the previous quarter, private consumption stagnated in the third quarter. Household spending was held back by the combined effects of sluggish real disposable income growth on the back of still high inflation and a slow but progressive rise in unemployment (from 7.2% in 08Q1 to 7.5% in 08Q3) as well as confidence effects. A marked decline in the capacity utilization rate (by 1 pp. between 08Q2 and 08Q3) and a significant worsening in the outlook for economic activity contributed to a further fall in investment (-0.6% q-o-q). As world trade continued to lose momentum, exports were flat in 08Q3, resulting in a decrease in the annual growth rate to 2%, the lowest rate since late 2003. However, imports rebounded strongly – and somewhat surprisingly (to 1.4% q-o-q) – leaving net exports as a significant drag on GDP growth (-0.6 pp.).

Based on recent hard and soft data, GDP is projected to have decreased by 1.5% (q-o-q) in the last quarter of 2008 in the euro area and by 1.3% in the EU. In October, industrial production fell by 1.2% (m-o-m) in both the euro area and the EU (and was about 5% lower than a year earlier). Industrial new orders were down by 15.1% (y-o-y) in the euro area and by 17.9% in the EU. Evidence from the automotive industry, where factories have been closed for several weeks in some cases, suggests that a more severe drop in industrial production is imminent. In November, car registrations fell by 24% (y-o-y), compared to a decline of 8% in 08Q3.

On a slightly more positive note, retail sales rebounded in November – by 0.6% m-o-m in the euro area and by 0.3% in the EU – but were still contracting on a year-on-year basis, particularly in the euro area (-1.5%). In addition, consumer confidence fell to an all-time low in December, the annual growth rate of loans to households is decelerating and firms are cutting back on their recruitment plans. Overall, these data suggest a renewed deterioration of private consumption in the fourth quarter of 2008 and persistent weakness in the near future.

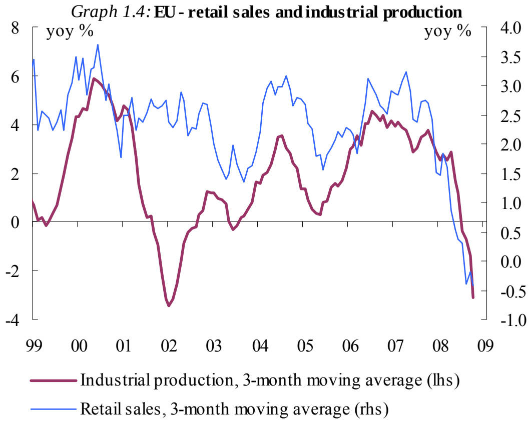
Table 1.1:

Main features of the January 2009 interim forecast - EU

(Real annual percentage change unless otherwise stated)				January 2009 forecast [1]			Difference vs autumn 2008 (a)	
	2005	2006	2007	2008	2009	2010	2009	2010
GDP	2.0	3.1	2.9	1.0	-1.8	0.5	-2.0	-0.6
Private consumption	2.0	2.3	2.2	1.0	-0.4	0.4	-0.6	-0.4
Public consumption	1.6	1.9	2.0	2.2	1.5	1.1	0.2	-0.1
Total investment	3.6	6.1	5.4	0.4	-5.9	-0.6	-4.0	-1.5
Employment	0.8	1.5	1.7	0.9	-1.6	-0.5	-1.1	-0.6
Unemployment rate (b)	8.9	8.2	7.1	7.0	8.7	9.5	0.9	1.4
Inflation (c)	2.3	2.3	2.4	3.7	1.2	1.9	-1.2	-0.3
Government balance (% GDP)	-2.4	-1.4	-0.9	-2.0	-4.4	-4.8	-2.1	-2.2
Government debt (% GDP)	62.7	61.3	58.7	60.6	67.4	70.9	6.5	9.1
Adjusted current account balance (% GDP)	-0.2	-0.8	-0.7	-1.0	-1.5	-1.4	-0.8	-0.8

[1] The Commission services' January 2009 Forecast is based on available data up to January 12, 2009.
(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to autumn 2008.
(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.

Graph 1.4: **EU - retail sales and industrial production**



Recession expected to continue until mid 2009

Turning to the outlook for this year, the recession is expected to continue, with a further decline of GDP in the first two quarters. Confidence indicators plunged to record lows in December. The manufacturing PMI in the euro area fell further in December, leaving the headline index at a record low (33.9), and the services PMI came in at 42.1. As a result, the composite PMI index decreased to 38.2 in December, also at a new historical low, confirming that a strong correction in economic activity is ongoing in the euro area. In December the Commission's business and consumer survey indicators fell significantly to reach their lowest levels since January 1985. The services confidence indicator has marked a new record low level since the introduction of the survey twelve years ago. The Economic Sentiment Indicator (ESI) continued the sharp fall already observed in October and November. It fell by 7 points in the EU and by almost 8 points in the euro area, to 63.5 and 67.1, respectively, the lowest levels ever. Based on these data, an Economic Climate Tracer can be constructed comparing the level and change of a (smoothed and standardised) business cycle indicator. ([1]) This tracer displays how different the current situation is compared with earlier downswings (see Graph 1.5).

Broad-based downswing

The current recession is broad-based and affects all demand components except government consumption and public investment. With the labour market reacting with a time lag of about 2–3 quarters, disposable income growth is expected to be adversely impacted by higher unemployment and lower wage growth in 2009. In addition, concerns about the outlook for the economy and adverse consequences on labour markets could prompt households to remain cautious, in spite of lower inflation and considerable efforts by

([1]) The business cycle indicator is made up from a weighted average of the five principle components from the survey series conducted in industry, services, building, retail trade and consumers.

Table 1.2:

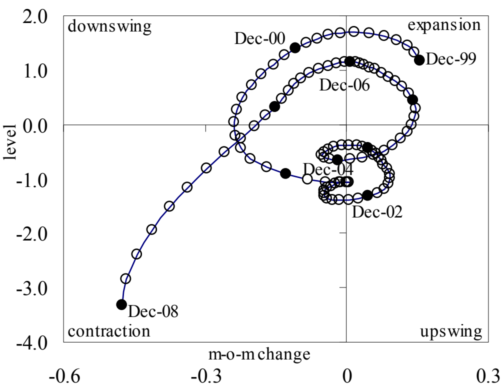
Main features of the January 2009 interim forecast - Euro area

(Real annual percentage change unless otherwise stated)	2005	2006	2007	January 2009 forecast [1] 2008	2009	2010	Difference vs autumn 2008 (a) 2009	2010
GDP	1.7	2.9	2.7	0.9	-1.9	0.4	-2.0	-0.5
Private consumption	1.8	2.0	1.6	0.5	-0.1	0.3	-0.5	-0.7
Public consumption	1.5	1.9	2.3	2.1	1.6	1.2	0.4	0.2
Total investment	3.3	5.5	4.3	0.6	-5.5	-0.7	-2.9	-0.9
Employment	0.7	1.4	1.7	0.7	-1.6	-0.7	-1.2	-0.8
Unemployment rate (b)	9.0	8.3	7.5	7.5	9.3	10.2	0.9	1.5
Inflation (c)	2.2	2.2	2.1	3.3	1.0	1.8	-1.2	-0.3
Government balance (% GDP)	-2.5	-1.3	-0.6	-1.7	-4.0	-4.4	-2.2	-2.4
Government debt (% GDP)	70.0	68.3	66.1	68.7	72.7	75.8	5.5	8.2
Adjusted current account balance (% GDP)	0.1	-0.1	0.1	-0.5	-0.7	-0.7	-0.6	-0.6

[1] The Commission services' January 2009 Forecast is based on available data up to January 12, 2009.
(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to autumn 2008.
(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.

governments and central banks to boost confidence. Consequently, private consumption is forecast to contract slightly in 2009, and to regain some ground only in 2010.

Graph 1.5: **Economic Climate Tracer, euro area**



Private investment is severely affected by the economic downswing in general, as well as by the ongoing housing crises in some economies. Housing investment in the euro area is set to fall by about 9% in 2009 and to continue shrinking, albeit at a smaller rate, in 2010. A similar pattern is expected for investment in machinery and equipment, on the back of the current strong fall in capacity utilisation rates and the worsening of the outlook for 2009 along with a slight further decline in 2010. This also reflects tighter credit conditions including higher financing costs for corporations as spreads have increased against risk-free interest rates that have fallen recently.

However, government consumption and public investment are expected to support growth. Government consumption is expected to continue growing at 1½% this year and above 1% in 2010, while public investment is expected to soar by more than 9% this year. Growth prospects would have been substantially worse without the fiscal packages (see also box providing a detailed impact analysis by Member State based on the QUEST model). In the absence of the discretionary measures announced so far, for the EU and the euro area as a whole growth would have been lower by about ¾ pp. in 2009 and about ⅓ pp. to ½ pp. in 2010 than predicted in this forecast.

International trade has already become severely affected by the global downswing. Exports of goods and services are expected to fall further, by about 3½% in 2009 in the EU and more than 4% the euro area, and to grow again only modestly in 2010. Reflecting the decline in both domestic demand and exports, imports are also projected to fall in 2009 with a gradual recovery thereafter. As a consequence, the growth contribution of net external demand is forecast to become negative in 2009, while making an only marginally positive contribution in 2010. The current account balances for the euro area and the EU are expected to deteriorate in 2009, but not in 2010. However, substantial differences among Member States in this regard are expected to persist throughout the forecast horizon.

U-shaped profile but with a gradual recovery in 2010

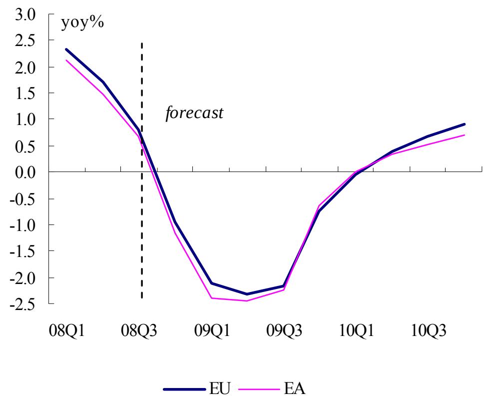
Overall and in light of recent hard and soft data, the trough of quarterly GDP growth is expected during this winter with a stabilisation towards the end of 2009. Consequently, for the year as a whole, GDP is projected fall by less than 2% in 2009. This compares with an increase of about 1% in 2008, even though the y-o-y rate in the fourth quarter of 2009 is less negative than that in 2008 (Table 1.3). Moreover, the annual average for 2009 does not reveal the predicted turnaround in the course of the year (Graph 1.6).

Table 1.3:
Decomposition of the GDP growth forecast

EU	**2008**	**2009**	**2010**
Carry-over from preceding year	0.8	-1.1	0.0
YoY in Q4	-1.0	-0.7	0.9
Annual average	1.0	-1.8	0.5
euro area	**2008**	**2009**	**2010**
Carry-over from preceding year	0.6	-1.2	0.1
YoY in Q4	-1.2	-0.6	0.7
Annual average	0.9	-1.9	0.4

Reflecting the impact of the fiscal packages and monetary easing, economic growth is expected to turn positive again in 2010, but remains relatively subdued until the end of the forecast horizon (Graph 1.6).

Graph 1.6: **EU and EA growth profile**



Labour market to weaken

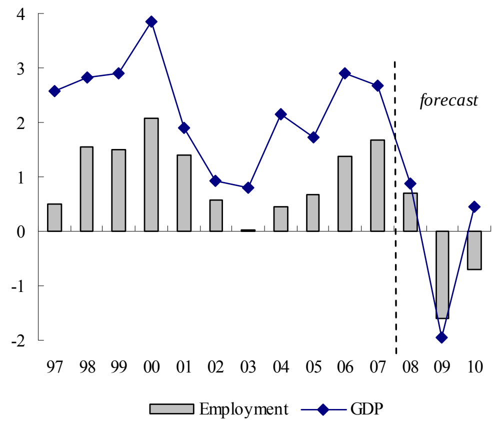
After favourable developments during 2005–2007, the labour market started to weaken in most Member States in the course of 2008, although robust job creation in Germany during the first three quarters limited the impact for the euro area and the EU as a whole. In the third quarter of 2008, employment in the euro area declined by 0.1% from the previous quarter, while it stagnated in the EU. The unemployment rate stood at 7.8% in the euro area and at 7.2% in the EU in November 2008, up by about ½ percentage point from the lows of early 2008.

Looking ahead, survey indicators point to a weak short-term outlook. Together with other indicators, recent business and household surveys suggest that a deterioration in the labour-market situation took place in late 2008 and can increasingly be foreseen for early 2009. For example, in December 2008, the Commission's survey indices of employment expectations in manufacturing and services in the euro area were at their lowest levels for more than 10 years.

Further ahead, the labour market situation is forecast to deteriorate markedly as companies react increasingly to reduced demand and tighter financing conditions (Graph 1.7). After slowing in 2008, employment is expected to contract by more than 1½% in both the euro area and in the EU in 2009. The pace of decline is expected to slow in 2010, with employment contracting by around ½% in both areas. As a result, the unemployment rate is forecast to increase by close to 3 percentage points from the lows of early 2008, averaging 10.2% in 2010 in the euro area and 9.5% in the EU .

So far, the greatest increases in the unemployment rate have been recorded in Spain, Estonia, Ireland and Latvia, all affected by severe housing market downturns. These countries are also expected to experience some of the strongest cumulative increases in the unemployment rate over the forecast period. While in several other Member States the labour market has not weakened markedly so far, they are also unlikely to escape the effects of the deep international economic downturn this year.

Graph 1.7: **Growth of GDP and employment, euro area**



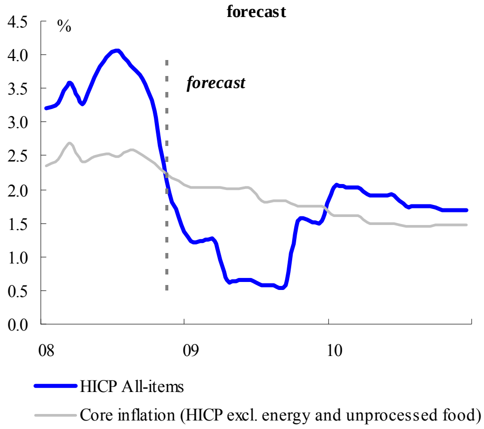
Employment developments are forecast to follow changes in GDP growth with a time lag of 2–3 quarters. Labour-productivity growth is thus expected to reach a low in 2009, and a gradual cyclical improvement is expected in 2010.

Inflation falling rapidly

One of the few bright spots at the current juncture is the recent fall in commodity prices and inflation, which should lend support to real household disposable income and cushion the fall in household consumption.

Euro-area headline inflation has remained above 3% until October 2008, peaking in June – July at 4%. Since then, the rate of inflation has been almost halved, reaching 2.1% in November. In December, inflation decreased further to 1.6% according to the Eurostat flash estimate. Core inflation (including processed food) showed a similar, but markedly less pronounced trend, ranging between 2.3–2.7% in the same period (2.2% in November) (Graph 1.8).

Graph 1.8: **Euro-area headline and core inflation - forecast**



Looking forward, recent developments have triggered a significant downward revision of the projected rate of inflation both in the short and medium term. Inflation in the euro area is now expected to come down rapidly and reach a trough of ½% in the third quarter of 2009. By end-2009, inflation is set to rebound to 2% and stabilise thereafter at 1¾%.

Lower inflation will stem in particular from the further and substantial worsening of the economic outlook for both the euro area and the global economy. This is already putting substantial downward pressure on commodity prices and should also curb wage growth and, thus, lead to a gradual decrease in core inflation as well. Economic agents seem to have incorporated the recent developments into their inflation expectations, which have decreased sharply since the summer of 2008.

Base effects ([2]) are an additional important factor for the inflation outlook. In general, they will put a downward pressure on the headline inflation rate until June 2009 (amounting to ¼ pp. each month on average). Thereafter, the base effects will add to the inflation rate by about 0.1 pp., as the turnaround in energy prices observed since July 2008 cease to influence the year-on-year rate.

The easing in inflation is geographically broad-based, and persisting divergences in inflation rates in the EU are expected to diminish. This is particularly the case for some of the New Member States, which have until recently experienced double-digit inflation rates which are now projected to decline to below 5% by the end of the forecast horizon.

The probability of second-round on inflation effects has markedly diminished since the publication of the Commission's autumn 2008 forecast. Whilst there will be some lagged effects on wage growth (and, thus, services and core inflation) in 2009 as a result of collective wage agreements in 2008 in both the private and the public sectors – which partly took into account the past inflation shock – their effect will progressively disappear. The economic downturn and an ensuing deterioration in labour-market trends, together with international competition, are likely to put a lid on future wage agreements. Following years of marked increases, profit margins are expected to decline or stagnate in 2009 as competition strengthens and activity slows, absorbing some of the inflationary pressures from higher unit labour costs and import price increases.

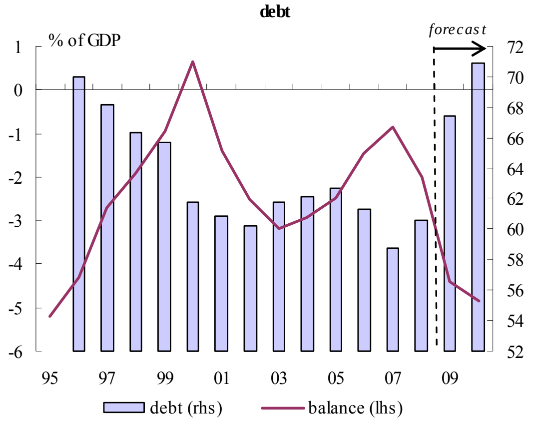
Significant deterioration in public finances

The economic downturn is having a significant negative impact on public finances over the forecast horizon. In 2008, the budget deficit in the EU stood at 2.0% of GDP, up from 0.9% of GDP in 2007. Similarly, in the euro area the deficit rose from 0.6% of GDP in 2007 to 1.7% in 2008. In both regions, this represents an upward revision of the projections for the deficit in 2008 by 0.4 pp. compared with last year's autumn forecast.

A further worsening of fiscal balances is foreseen for 2009 and 2010. In 2009, the headline deficit in the EU is projected to rise sharply, by some 2½ pps. to 4½% of GDP. In the euro area, the deficit is projected to rise to 4% of GDP. In both areas, this would represent the highest general government deficit in almost fifteen years. A further increase by almost ½ pp. is foreseen for 2010 in both regions, leading to deficits of just below 5 and 4½% of GDP in the EU and the euro area, respectively. Compared with the autumn forecast, deficits relative to GDP have been revised upwards by around 2–2½ pps. in both 2009 and 2010.

([2]) Base effects are defined as the contribution to the change in the year-on-year inflation rate in a particular month that stem from a deviation of the (non-seasonally adjusted) month-on-month rate of change in the base month (i.e. the same month one year earlier) from the usual seasonal pattern.

Graph 1.9: **EU - General government balance and gross debt**



The increase in budget deficits in 2009 is due to both cyclical and structural factors. The sharp downturn in GDP growth implies a significant increase in government deficits via the cyclical component of the government balance. On top of this, the reversal of past revenue windfalls (from high corporate profits and asset prices) and a generally less tax-rich growth composition are expected to lead to additional revenue shortfalls in 2009. Finally, governments have announced or already adopted significant discretionary fiscal stimulus measures in response to the downturn.

By 13 January, Member States have adopted or announced fiscal stimulus measures in response to the economic downturn amounting to a total of more than € 130 billion in 2009 (1% of EU GDP) (see box). In the euro area, the corresponding figure is around € 100 billion (1% of GDP). Moreover, certain Member States have already taken measures that would take effect in 2010. The measures already known for 2010 amount to more than € 60 billion in the EU (0.5% of GDP). The amounts included in these figures relate to all measures (adopted/announced) since late summer 2008 that have a direct impact on the general government budget and can be considered to be a response to the economic downturn. On top of these measures, Member States have also adopted numerous extra-budgetary measures to support demand (currently estimated at about ½% of GDP). Together with the impact of automatic stabilisers (of around 2% of GDP over the forecast period, with over 1½% in 2009), the overall stimulus provided by the public sector in response to the downturn is thus estimated to be around 4% of GDP over 2009–10.

Budget deficits increase in almost all Member States

In 2009, budgetary positions are projected to worsen in almost all euro-area Member States. In the euro area, the budget deficit is set to breach the 3%-of-GDP reference value in Ireland, Greece, Spain, France, Italy, Portugal and Slovenia in 2009, with Ireland experiencing a particularly sharp deterioration. Further fives countries (Belgium, Germany, Malta, Austria and Slovakia) will see their budget deficit rise to a range of 2½ to 3% of GDP.

In 2010, budgetary positions are projected to further worsen in the majority of Member States, albeit at a reduced pace. Deficits in Belgium, Germany, Austria and Slovakia are projected to rise beyond the 3%-of-GDP reference value.

Outside the euro area, government balances are also forecast to see a broad-based deterioration. As to the countries currently subject to the excessive deficit procedure, the downturn combined with

Table 1.4:

General government budgetary position - Euro area and EU

(% of GDP)	Euro area				Difference vs autumn 2008		EU				Difference vs autumn 2008	
	2007	2008	2009	2010	2009	2010	2007	2008	2009	2010	2009	2010
Total receipts (1)	45.5	44.8	44.7	44.4	-0.3	-0.5	45.1	44.5	44.3	44.1	-0.3	-0.3
Total expenditure (2)	46.1	46.6	48.7	48.8	1.8	1.9	46.0	46.5	48.7	49.0	1.8	1.9
Actual balance (3) = (1)-(2)	-0.6	-1.7	-4.0	-4.4	-2.2	-2.4	-0.9	-2.0	-4.4	-4.8	-2.1	-2.2
Interest expenditure (4)	3.0	3.0	3.0	3.0	0.1	0.1	2.7	2.7	2.8	2.9	0.1	0.1
Primary balance (5) = (3)+(4)	2.3	1.3	-1.0	-1.3	-2.1	-2.2	1.9	0.7	-1.6	-2.0	-2.0	-2.1
Cyclically adjusted budget balance	-1.6	-2.4	-3.2	-3.3	-1.8	-1.9	-1.9	-2.7	-3.7	-3.8	-1.8	-1.8
Cyclically adjusted primary balance	1.3	0.6	-0.2	-0.3	-1.7	-1.8	0.9	0.1	-0.9	-0.9	-1.7	-1.7
Structural budget balance	-1.6	-2.3	-3.2	-3.3	-1.7	-1.9	-1.8	-2.6	-3.7	-3.8	-1.7	-1.8
Change in structural budget balance	0.3	-0.8	-0.9	-0.1	-1.0	-0.2	0.2	-0.8	-1.1	-0.1	-1.0	-0.1
Gross debt	66.1	68.7	72.7	75.8	5.5	8.2	58.7	60.6	67.4	70.9	6.5	9.1

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

expansionary discretionary measures is projected to widen the deficit in the United Kingdom by more than 4 pps. to 8¾% of GDP in 2009. By contrast, in Hungary continued tight fiscal policy is expected to bring the deficit to slightly below the reference value in 2009, the deadline set by the Council for the correction of the excessive deficit. In Romania and Latvia, the deficit is projected to rise above the 3%-of-GDP reference value from 2008 on. In Estonia and Poland, deficits are projected to rise beyond 3% of GDP from 2009 onward.

Projections for government debt positions have been revised upwards markedly as a result of rising deficits but also significant "below-the-line" operations, such as bank recapitalisations and loans to private enterprises. ([3]) In the EU, the gross debt ratio is forecast to rise by more than 10 pps. between 2008 and 2010. In the euro area, the projected rise in the gross debt ratio amounts to somewhat more than 7 pps. over the same period. The surge in government debt relative to GDP between 2008 and 2010 is mainly driven by mounting primary deficits and low nominal GDP growth (Table 1.5).

Table 1.5:
Euro area - Debt dynamics

% of GDP	average 2002-2006	2007	2008	2009	2010
Gross debt ratio[1]	**69.1**	**66.1**	**68.7**	**72.7**	**75.8**
Change in the ratio	0.5	-2.2	2.6	4.0	3.1
Contributions[2] *:*					
1. Primary balance	**-0.4**	**-2.3**	**-1.3**	**1.0**	**1.3**
2. “Snow-ball” effect	**0.8**	**-0.3**	**0.8**	**3.0**	**1.5**
Of which:					
Interest expenditure	3.2	3.0	3.0	3.0	3.0
Growth effect	-0.9	-1.7	-0.6	1.3	-0.3
Inflation effect	-1.4	-1.5	-1.6	-1.4	-1.2
3. Stock-flow adjustment	**0.1**	**0.5**	**3.0**	**0.1**	**0.3**

Notes:
[1] End of preiod.
[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Government debt is increasing steeply, in particular, in Ireland, Latvia, the UK, Spain and Romania. Unless the recent rise in yield spreads relative to the German Bund (Graph 1.2) reverses, for a number of countries the cost of financing government debt is likely to increase appreciably in the coming years. However, given the assumed decline in the German Bund rate compared with past years, in the euro area as a whole, interest payments relative to GDP are projected to remain broadly steady over the forecast horizon.

Substantial uncertainties prevail at this juncture

The economic situation and outlook for the EU are unprecedentedly uncertain, as the world economy faces its worst crisis in the post-World War II era. While many of the downside risks to the growth outlook that were identified in the autumn have begun to materialise, leading to the significant downward revision in the current baseline projection, several other important risks factors also mentioned last November still loom on the horizon, and are discussed below. Moreover, an additional layer of uncertainty has been added by the lack of information on the implementation of the sizable rescue and recovery packages announced in the EU and abroad (e.g. in the US and China). However, what is certain at this stage is that without such packages, the outlook would have been weaker and the risk profile of the current projections would have been markedly skewed to the downside.

The financial crisis, which is now widely recognised as the most severe financial shock to the global economy since the 1930s, is still a source of substantial downside risks to the current growth forecast. The decisive actions taken by policy makers so far have prevented a systemic meltdown and the situation has improved in some market segments, but the overall situation remains fragile. The financial crisis is now taking a toll on the real economy. With growth prospects deteriorating rapidly, there is a marked risk of a "negative feedback loop" between the real and financial sectors that is stronger and longer lasting than assumed in the current projections. Business and consumer confidence have experienced an unprecedented deterioration in the last few months, plunging to historic lows, and it cannot be ruled out that very weak economic sentiment may continue for some time as concerns about a long and deep recession spread, particularly with unemployment now on the rise. In addition, in this context, the negative wealth effect caused by falling real and financial asset prices could hamper domestic demand still further.

([3]) The impact of bank recapitalisations on the government debt is reflected in the so-called stock-flow adjustment, which amounted to 3.0 % of GDP in 2008 (see table 1.5). For 2009 and 2010, only a limited number of further recapitalisations are known in sufficient detail so far to be included in the forecast.

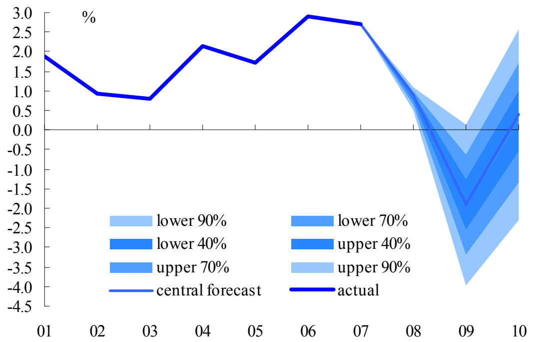
The financial crisis has also aggravated the downside risks associated with ongoing corrections in housing markets in several Member States (especially in Ireland and Spain, but also in Denmark, France, Sweden and the UK), as the tightening of lending conditions and reduced credit availability may lead to more pronounced and protracted housing downturns than presently assumed. The distress in financial markets could also have a large adverse impact on Member States with high external deficit and debt, both inside and outside the euro area. A high external debt servicing burden implies a loss of domestically available income, which may ultimately limit growth. The ongoing financial market crisis, by hampering the smooth flow of funds, increases the risks for the financing of large current account deficits.

Other downside risks to the growth outlook relate to the possibility of disruptive exchange-rate developments associated with the continuation of significant global imbalances. The euro has depreciated significantly since the summer, coming more in line with fundamentals, partly because markets have reassessed the outlook for GDP growth and interest rates in the major economies. However, foreign exchange markets have also experienced phases of volatility, reacting strongly to financial sector developments and efforts to safeguard financial stability. This suggests that as long as the financial crisis lasts, there is a heightened risk of abrupt exchange-rate movements. Furthermore, the possibility of rising protectionist and other measures distorting trade and capital flows represents an additional downside risk to the current growth projections. Finally, with the financial crisis having spread globally, emerging markets may turn out to be even less resilient to the global downturn than currently anticipated (as in addition to tighter financing conditions they also face sudden stops and pressure on exchange rates), thereby depressing world and trade growth more than expected in the current projections.

On the upside, the swift and full implementation of the announced recovery and rescue packages could be more effective than currently anticipated in restoring confidence among investors and consumers. Another upside risk is related to the possibility that, on the back of deteriorating growth prospects and plunging commodity prices, inflation could recede somewhat faster than currently assumed, thus freeing up more disposable income to support private consumption expenditure than envisaged in this forecast.

Graph 1.10 quantifies the risks in terms of the possible deviation of output growth from the central forecast. It shows the impact that various combinations of risks could have on euro-area GDP growth, the outcomes being weighted by the probability of their occurrence. At a 90% confidence interval, GDP growth in the euro area in 2009 could be about 2 pps. lower than the central scenario if all negative factors materialise, but it could also be up to 2 pps. higher if the positive risks to the outlook were all to materialise. In 2010, uncertainties surrounding the forecast become more pronounced and risks, at the same time, somewhat skewed to the downside.

Graph 1.10: **Euro area GDP forecasts - Uncertainty linked to the balance of risks**



As regards *the inflation outlook*, risks appear to be broadly balanced. On the one hand, with the European and global economy slowing sharply, implying an easing of labour markets and decreasing capacity utilisation, there is a risk of a somewhat more pronounced decline in inflation than currently projected. Moreover, if emerging market economies were to be less resilient than currently assumed, commodity prices could decline further, posing another downside risk to the inflation outlook. On the other hand, commodity prices surprised on the upside for several years in a row and there can be no certainty that they will decline further or even remain at the current relatively low levels in the coming years. Global oil inventories are still relatively low and the oil market is prone to geopolitical tensions, which are currently rising in Russia and the Ukraine and in the Middle-East. On the domestic front, positive surprises on the growth side may also lead to a quicker rebound in inflation.

To sum up, the outlook for the EU remains surrounded by major uncertainties. However, with the pronounced deterioration in growth prospects compared with the autumn and taking into account the various rescue and recovery packages, risks to the growth outlook appear to be broadly balanced at the current juncture. Risks to the inflation outlook also seem broadly balanced.

Box: Model-based estimates of impact of announced fiscal measures 2009 and 2010

In response to the sharp decline in growth many countries have announced measures raising public expenditure and/or reducing taxes. All such packages that have been announced in sufficient detail have been incorporated in this forecast. In order to assess their impact, this box presents model-based estimates of the GDP effect of discretionary fiscal measures for 2009 and 2010 (announced since August 2008).

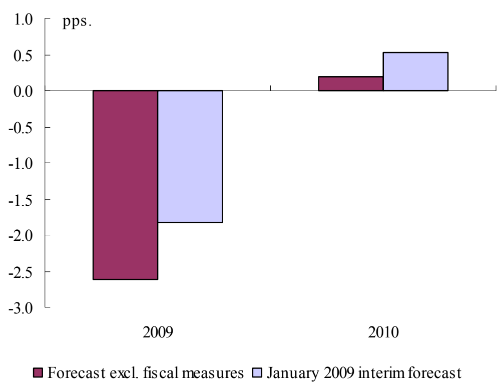
Generally, temporary fiscal-policy measures have sizeable GDP effects in the Commission's QUEST III model, which is a multi-country dynamic stochastic general equilibrium model. The effects are larger for public spending (government consumption and investment) than for tax reductions and/or transfers to households, since measures to support households' purchasing power (reductions in wage taxes and consumption taxes and increases in transfer payments) partly result in an increase in the savings rate. Temporary reductions in corporate profit taxes have a negligible impact on growth, while investment subsidies, even when temporary, boost capital accumulation and have a sizeable impact ([1]). Permanent shocks generally have much smaller GDP effects, offset by the anticipatory effects of larger tax liabilities in the future with the exception of corporate profit tax reductions. The large difference between temporary and permanent fiscal shocks means that for the effectiveness of the fiscal policy measures it is of crucial importance that measures are believed by private agents not to become permanent.

Table 1:

Fiscal measures as % of GDP	2009	2010
Supporting household purchasing power	0.5	0.2
Labour market	0.1	0.0
Measures aimed at companies (excl. investment incentives)	0.2	0.1
Increasing/bringing forward investment	0.3	0.1
Total	1.0	0.5
GDP growth impact	**0.8**	**0.3**

In many cases, information is limited at this stage and assumptions have had to be made on the composition of the fiscal packages. It is assumed that the announced measures do not become permanent. Differences across countries may depend on the size of the fiscal packages and their composition, but there are also other factors at play. In general, small open economies will have lower fiscal multipliers when acting alone, but at the present juncture this is partly compensated by positive spillover effects from the fiscal stimuli in other EU Member States. In addition, measures implemented only in the second half of 2009 may have a stronger impact on the GDP growth rate of 2010 than on the 2009 figure. Consequently, the positive impact on 2009 growth might be overestimated, while that for 2010 might be on the low side. Moreover, a temporary VAT cut for 2009 (e.g. that in the UK) might lead to anticipation effects for private consumption, with a marked positive impact on growth in 2009 but a potentially even stronger negative effect when the measure is reversed in 2010. As a consequence of these arguments, the results should be interpreted with caution.

Graph 1: **Growth impact of fiscal stimulus, EU**



Overall, it is clear that growth prospects would have been considerably worse without the measures to alleviate the recession. When this forecast was finalised, Member States had announced fiscal measures of some 1% of GDP in 2009 and about ½% in 2010. According to the model simulations, these measures alone will lead to a growth stimulus of slightly more than ¾ pp. in 2009 and about ⅓ pp. to ½ pp. in 2010 for the EU and euro area as a whole. However, as the overall fiscal stimulus (not only taking these national discretionary stimuli but also measures taken at EU level, automatic stabilisers as well as extra budgetary measures into account) would be around 4% of GDP spread over 2009 and 2010, the total growth impact might be larger.

([1]) In the QUEST model, fiscal multipliers for transitory shocks range from 0.6 for tax reductions and transfer shocks to 1 for government consumption and slightly larger than 1 for government investment shocks (assuming a large degree of monetary accommodation and no implementation lags).

2. BELGIUM

The slowdown of the Belgian economy continued in 2008 in a context of weakening foreign demand (leading to a strong negative contribution from net exports) and rising inflation. On top of this, the financial crisis hit the country particularly hard in the fourth quarter, when activity is expected to have sharply contracted. Annual GDP growth in 2008 is likely to come out at 1.3%.

In 2009, activity is forecast to continue decreasing in the first three quarters. Confidence and wealth effects are expected to lead to a fall in private consumption in spite of the expansion of real disposable income. Investment is set to decline as a result of unfavourable demand prospects for businesses, decreasing capacity utilisation rates and stricter lending conditions. At the same time, lower foreign demand as well as falling market shares as a result of a loss in competitiveness, partly related to the indexation of wages to high inflation, will act as a drag on exports. GDP is projected to fall by 1.9%. Growth in 2010 is expected to come out at 0.3%. Demand should gradually recover in view of the fading out of negative wealth and confidence effects on consumption, easing credit conditions and the improvement of the international environment.

Inflation in 2008 amounted to 4.5%, compared to 3.3% in the euro area, reflecting the sharp rise in energy prices. Given the recent fall in these prices, inflation is projected to decline to 1.1% in 2009.

The general government deficit rose from 0.3% of GDP in 2007 to an estimated 0.9% in 2008, mainly driven by strong expenditure growth. In 2009, the deficit is expected to increase to 3.0% of GDP. In addition to the impact of the automatic stabilisers, this reflects discretionary measures, in particular the recovery plan (with a budgetary impact of 0.4% of GDP) and the additional interest costs of the debt-increasing operations to stabilise the financial system (0.3% of GDP). In 2010, the deficit is projected to widen further as expenditure remains buoyant, while revenue growth continues to be lacklustre. Government debt increased from 83.9% of GDP in 2007 to 88.3% in 2008, reflecting the financial support given to several major financial institutions. The debt-to-GDP ratio is forecast to rise further, to 94% in 2010.

Table 2.1:

Main features of country forecast - BELGIUM

		2007		Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		334.9	100.0	2.0	1.8	3.0	2.8	1.3	-1.9	0.3
Private consumption		175.0	52.3	1.6	1.2	2.1	2.1	0.9	-0.4	0.3
Public consumption		74.3	22.2	1.7	0.4	0.1	2.3	1.9	1.6	1.7
Gross fixed capital formation		72.5	21.7	2.1	6.9	4.7	6.2	4.6	-3.0	-0.5
of which : equipment		32.4	9.7	2.1	5.4	5.1	8.2	6.4	-4.2	0.3
Exports (goods and services)		297.4	88.8	4.3	3.6	2.6	4.0	2.4	-3.1	0.3
Imports (goods and services)		287.4	85.8	4.1	4.1	2.7	4.6	3.7	-2.0	0.6
GNI at previous year prices (GDP deflator)		336.7	100.5	2.0	1.4	3.2	2.6	1.3	-1.8	0.2
Contribution to GDP growth :	Domestic demand			1.7	2.1	2.1	2.9	1.9	-0.5	0.5
	Stockbuilding			0.0	0.1	0.9	0.3	0.4	-0.3	0.0
	Foreign balance			0.3	-0.3	0.0	-0.4	-1.0	-1.0	-0.3
Employment				0.6	1.3	1.4	1.8	1.5	-0.7	-0.9
Unemployment rate (a)				8.4	8.5	8.3	7.5	6.9	8.0	9.2
Compensation of employees/head				2.9	2.1	3.3	3.7	3.8	2.6	2.0
Unit labour costs whole economy				1.6	1.5	1.7	2.8	4.0	3.8	0.8
Real unit labour costs				-0.3	-0.9	-0.6	0.4	1.9	1.5	-1.0
Savings rate of households (b)				-	-	12.9	13.7	12.7	14.8	15.1
GDP deflator				1.9	2.4	2.3	2.4	2.0	2.3	1.8
Harmonised index of consumer prices				1.8	2.5	2.3	1.8	4.5	1.1	2.0
Terms of trade of goods				-0.4	0.1	-0.3	0.5	-2.5	0.9	-0.1
Trade balance (c)				3.3	1.9	1.3	1.2	-1.6	-1.7	-2.0
Current account balance (c)				4.6	2.9	2.5	2.4	-0.7	-1.0	-1.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				4.5	2.8	2.5	2.1	-1.0	-1.2	-1.8
General government balance (c)				-2.3	-2.6	0.3	-0.3	-0.9	-3.0	-4.3
Cyclically-adjusted budget balance (c)				-2.1	-2.9	-0.5	-1.5	-1.7	-2.1	-2.9
Structural budget balance (c)				-	-0.9	-1.4	-1.4	-1.7	-2.3	-2.9
General government gross debt (c)				116.6	92.1	87.8	83.9	88.3	91.2	94.0

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

3. BULGARIA

Real GDP growth in the first three quarters of 2008 remained robust at an average of 7% y-o-y, driven by buoyant domestic demand and very strong investment. However, financing constraints and lower returns have started to affect FDI, inducing a noticeable decline in nominal terms. Yet, buoyant credit growth has sustained both investment and private consumption, which have grown at around 19% and 5% respectively. The growth contribution of the external sector has become less negative, reflecting accelerating exports and slowing imports. All in all, GDP is estimated to have grown by almost 6½% in 2008.

Economic activity in Bulgaria is expected to slow substantially in 2009, as weaker external demand and tighter credit conditions take their toll on exports and domestic demand. Real GDP growth is projected to decrease to around 1¾% in 2009 and to recover only slightly in 2010. Due to expected lower FDI inflows, investment growth should slow sharply to around 1¾% this year and 3% next. The projected considerable deceleration in wage and employment growth and more moderate credit growth would lead to a deceleration of private consumption expenditure. Driven by lower external and domestic demand, growth of both exports and imports is set to decelerate markedly. As import volumes and prices are expected to fall, the trade deficit should narrow, albeit gradually. The very high current account deficit should thus fall below 20% of GDP.

Employment growth is expected to decline substantially in 2009-2010. Despite lower productivity growth, the more moderate projected nominal wage increases will lead to a deceleration in nominal unit labour costs. With global commodity prices falling and nominal wages growing at a slower pace, HICP inflation could decline to below 6% in 2009. However, relatively high wage growth should continue to weigh on profit prospects.

Despite the expenditure-reducing contingency buffer in the budget, the general government surplus is projected at around 2% of GDP in 2009, below the official target of 3% of GDP. The lower-than-budgeted surplus reflects a less favourable growth scenario and a less tax-intensive composition of growth. The public debt level should continue to decline to below 11% of GDP.

Table 3.1:

Main features of country forecast - BULGARIA

		2007			Annual percentage change						
	bn BGN	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		56.5	100.0	0.9	6.2	6.3	6.2	6.4	1.8	2.5
Private consumption		39.1	69.1	1.6	6.1	9.5	5.3	5.0	1.2	2.4
Public consumption		9.1	16.2	-3.2	2.5	-1.3	3.1	1.9	2.2	2.2
Gross fixed capital formation		16.8	29.8	-	23.3	14.7	21.7	19.0	1.8	2.9
of which : equipment		-	-	-	-	-	-	-	-	-
Exports (goods and services)		35.8	63.4	-	8.5	8.7	5.2	5.2	0.1	3.4
Imports (goods and services)		48.3	85.5	-	13.1	14.0	9.9	7.7	0.5	3.3
GNI at previous year prices (GDP deflator)		55.6	98.4	-	5.9	2.7	7.2	6.3	2.1	2.8
Contribution to GDP growth :	Domestic demand			-	9.5	10.0	9.9	9.4	1.8	2.9
	Stockbuilding			-	1.7	1.8	1.2	0.3	0.4	0.2
	Foreign balance			-	-4.1	-5.4	-4.9	-3.3	-0.4	-0.6
Employment				-0.4	2.7	3.3	2.8	3.2	0.9	0.7
Unemployment rate (a)				15.1	10.1	9.0	6.9	6.0	6.3	6.4
Compensation of employees/head				-	5.9	7.4	17.9	19.0	10.9	9.0
Unit labour costs whole economy				-	2.4	4.4	14.2	15.4	9.9	7.1
Real unit labour costs				-	-1.3	-3.8	5.9	4.8	3.2	2.7
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				53.2	3.8	8.5	7.9	10.1	6.5	4.3
Harmonised index of consumer prices				-	6.0	7.4	7.6	12.0	5.4	4.8
Terms of trade of goods				-	-2.2	5.1	-1.4	-0.1	0.8	1.3
Trade balance (c)				-6.2	-20.2	-22.0	-25.5	-27.4	-24.0	-23.5
Current account balance (c)				-3.8	-11.5	-18.6	-22.5	-24.7	-20.8	-19.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-3.8	-10.6	-17.9	-21.3	-23.3	-19.1	-17.6
General government balance (c)				-	1.9	3.0	0.1	3.2	2.0	2.0
Cyclically-adjusted budget balance (c)				-	1.2	2.2	-0.8	2.2	2.1	2.8
Structural budget balance (c)				-	1.4	2.3	2.5	2.2	2.1	2.8
General government gross debt (c)				-	29.2	22.7	18.2	13.8	12.2	10.7

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
Note : Contributions to GDP growth may not add up due to statistical discrepancies.

4. THE CZECH REPUBLIC

The highly open Czech economy is set to slow down considerably, affected by the deteriorating outlook for its main trading partners. Although GDP growth was still solid in Q3 2008, both exports and imports growth slowed significantly. The global crisis is expected to adversely impact the real economy particularly from the fourth quarter of 2008. Overall, GDP is expected to have grown by 4.2% in 2008 with a strong contribution from the external balance.

GDP growth is anticipated to decelerate to 1.7% of GDP in 2009 and to edge up again to 2.3% of GDP in 2010. Private consumption is expected to hold up relatively well in 2009, because the effects of the 2008 fiscal stabilisation package should fade away, while real wage growth is expected to remain relatively strong. Pessimistic consumer expectations, tight credit conditions and growing unemployment are, however, risk factors. Negative repercussions of weak external demand on business activity will weigh on export performance and investment activity despite the weakening of the Czech koruna. Export growth is to decelerate strongly from an estimated 7.8% in 2008 to below 1% in 2009 and the trade surplus is expected to decline, though it will remain in positive territory.

The current account deficit is still moderate in a regional comparison. Weaker business activity will be a drag on employment growth. Due to the impact of falling demand, the unemployment rate is projected to rise by more than one percentage point over the next two years.

The general government deficit is forecast to be 1.2% of GDP in 2008. This reflects a much-lower-than-expected deficit of 1% of GDP in 2007 and the positive fiscal impact of revenue and expenditure measures. For 2009, the general government deficit is expected to widen somewhat due to pressure on revenues and expenditure through falling activity, rising unemployment and a number of fiscal stimulus measures. In particular, revenues from direct taxation will be affected by a stimulus measure cutting social security contributions by 1.5 p.p.. Overall, the forecast is for the general government deficit to widen to 2.5% of GDP in 2009 and to contract to 2.3% in 2010. The debt-to-GDP ratio is forecast to rise to above 30% by 2010.

Table 4.1:

Main features of country forecast - THE CZECH REPUBLIC

		2007		Annual percentage change						
	bn CZK	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		3530.2	100.0	2.1	6.3	6.8	6.0	4.2	1.7	2.3
Private consumption		1697.6	48.1	3.8	2.5	5.4	5.3	3.0	3.1	3.1
Public consumption		718.5	20.4	0.8	2.9	-0.7	0.4	1.1	1.3	0.6
Gross fixed capital formation		857.7	24.3	4.9	1.8	6.5	6.7	4.5	2.8	3.3
of which : equipment		354.7	10.0	9.0	1.2	8.1	5.2	4.0	1.7	1.7
Exports (goods and services)		2830.3	80.2	9.9	11.6	15.8	14.9	7.6	0.5	2.3
Imports (goods and services)		2652.7	75.1	13.7	5.0	14.2	14.2	6.3	1.9	2.6
GNI at previous year prices (GDP deflator)		3317.0	94.0	-	7.4	5.8	5.2	3.8	0.9	1.5
Contribution to GDP growth :	Domestic demand			3.4	2.4	4.1	4.3	2.8	2.4	2.5
	Stockbuilding			0.3	-0.7	1.1	0.6	0.1	0.1	0.0
	Foreign balance			-1.6	4.6	1.6	1.0	1.3	-0.9	-0.1
Employment				-	1.1	1.7	2.7	1.1	-0.2	-0.5
Unemployment rate (a)				-	7.9	7.2	5.3	5.0	5.7	6.6
Compensation of employees/head				-	4.7	6.3	6.4	7.9	5.4	5.3
Unit labour costs whole economy				-	-0.4	1.3	3.1	4.8	3.5	2.4
Real unit labour costs				-	-0.1	0.4	-0.5	0.9	1.5	0.7
Savings rate of households (b)				-	-	9.1	8.8	9.2	10.3	9.8
GDP deflator				7.9	-0.3	0.9	3.6	3.9	1.9	1.7
Harmonised index of consumer prices				-	1.6	2.1	3.0	6.3	2.6	2.3
Terms of trade of goods				-	-1.7	-1.7	1.3	0.1	-0.5	-0.4
Trade balance (c)				-4.5	2.0	2.0	3.4	3.9	2.8	2.3
Current account balance (c)				-3.8	-1.7	-2.2	-1.5	-0.9	-2.1	-2.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-4.0	-2.3	-1.8	-0.8	-0.3	-0.8	-1.1
General government balance (c)				-	-3.6	-2.7	-1.0	-1.2	-2.5	-2.3
Cyclically-adjusted budget balance (c)				-	-3.5	-3.5	-2.3	-2.4	-2.8	-1.9
Structural budget balance (c)				-	-2.3	-3.4	-2.1	-2.4	-2.8	-1.9
General government gross debt (c)				-	29.8	29.6	28.9	27.9	29.4	30.6

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

5. DENMARK

The slow-down in economic activity in 2008 has been rapid and pronounced, most likely leading to a contraction of GDP. Domestic demand began to decline right from the start of the year, spurred on by a cooling housing market, mounting inflation and deteriorating confidence. Moreover, real growth in general government consumption has been surprisingly weak. Investment has been volatile, but a negative trend is apparent, most notably in construction. Net exports acted as a drag on activity due to strong growth in imports. Although starting to diminish, employment remained at a high level. Productivity thus weakened significantly and unit labour costs increased markedly.

In light of the deteriorating external environment, Denmark's growth outlook for 2009 and 2010 is bleaker than a mere reversal of the cycle would suggest. With dampened exports and investment further constrained by tighter credit conditions, GDP is likely to contract in 2009 by around 1%, and to edge up only slightly in 2010 by ½%.

The decline in private consumption is foreseen to continue at the beginning of 2009, driven by weak consumer confidence, but a gradual pick-up should take place subsequently given a drop in inflation, high real wage growth, falling interest rates, the further implementation in 2009 of tax cuts agreed in 2007, and the strong automatic stabilisers at play. The lower interest rates and narrowing spreads are expected to cushion the downward correction in the housing market. General government consumption should also sustain domestic demand.

The general government balance is marked by a cyclical deterioration, diminishing revenue from volatile sources, as well as discretionary expansionary measures in 2009 (tax cuts agreed in 2007 and expenditure increases, totalling 1% of GDP). One-off capital transfers to households as part of recent tax reforms explain the difference between the cyclically-adjusted and structural balance in 2008-2010. Gross debt developments are strongly affected by the response to the financial crisis, increasing the gross debt ratio by around 8 percentage points in 2008.

Table 5.1:

Main features of country forecast - DENMARK

		2007		Annual percentage change						
	bn DKK	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		1687.9	100.0	2.2	2.4	3.3	1.6	-0.6	-1.0	0.6
Private consumption		826.7	49.0	1.9	3.8	4.4	2.4	0.7	-0.4	1.1
Public consumption		438.8	26.0	2.2	1.3	2.1	1.3	1.1	1.2	1.1
Gross fixed capital formation		374.3	22.2	3.8	4.7	13.5	3.1	-1.9	-4.7	-2.3
of which : equipment		137.4	8.1	3.6	1.6	13.2	5.4	-0.2	-3.2	-0.1
Exports (goods and services)		882.8	52.3	4.5	8.0	9.1	2.2	3.3	-0.9	1.8
Imports (goods and services)		846.6	50.2	5.5	11.1	13.9	2.8	5.4	-0.8	1.5
GNI at previous year prices (GDP deflator)		1696.2	100.5	2.4	3.4	3.8	0.3	0.2	-1.3	0.5
Contribution to GDP growth :	Domestic demand			2.2	3.1	5.3	2.2	0.2	-0.9	0.4
	Stockbuilding			0.1	0.2	-0.3	-0.3	0.2	0.0	0.0
	Foreign balance			-0.1	-0.8	-1.7	-0.2	-1.0	-0.1	0.2
Employment				0.3	1.0	2.0	2.7	0.2	-1.7	-1.8
Unemployment rate (a)				6.0	4.8	3.9	3.8	3.5	4.5	5.6
Compensation of employees/head				3.5	3.6	3.6	3.1	4.1	3.9	3.3
Unit labour costs whole economy				1.6	2.2	2.2	4.2	4.9	3.1	0.9
Real unit labour costs				-0.2	-0.7	0.3	2.2	0.9	0.4	-1.2
Savings rate of households (b)				-	-	6.4	5.1	6.0	8.1	6.7
GDP deflator				1.8	2.9	2.0	2.0	4.0	2.8	2.1
Harmonised index of consumer prices				1.9	1.7	1.9	1.7	3.6	1.6	1.9
Terms of trade of goods				0.9	1.3	0.6	-1.1	3.2	0.7	-0.1
Trade balance (c)				3.3	2.3	0.4	-0.8	-0.7	-0.6	-0.6
Current account balance (c)				1.9	4.3	2.9	0.7	1.5	1.3	1.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				1.9	4.5	2.9	0.7	1.7	1.5	1.5
General government balance (c)				-0.4	5.2	5.2	4.5	3.1	-0.3	-1.5
Cyclically-adjusted budget balance (c)				-0.2	4.9	3.9	3.3	3.2	1.0	0.1
Structural budget balance (c)				-	4.9	3.9	3.3	3.8	1.1	0.9
General government gross debt (c)				60.4	36.4	30.7	26.3	30.3	28.4	27.0

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

6. GERMANY

Real GDP growth decelerated markedly during 2008 on the back of falling exports. Private consumption was held back in the first half of the year by high inflation, but picked up again in the third quarter as inflationary pressures eased. Having contracted in the second and third quarter, real GDP is estimated to have fallen further by almost 2% q-o-q in the fourth quarter. For 2008, real GDP growth is expected to have reached 1¼%.

In 2009 and 2010, the slump in world trade will continue to weigh heavily on exports. As a strongly export-oriented economy, Germany is particularly affected, losing market shares also because of its specialisation in investment goods. The gloomier business outlook and tighter financing conditions are also set to trigger a sharp decrease in investment activity. Private consumption should be boosted by currently high employment and wages, rapidly easing inflation as well as tax and other relief measures included in the fiscal stimulus packages of autumn 2008 and January 2009. Higher public infrastructure investment should also have a stabilising impact from the second half of 2009 onward. Together with a bottoming-out of the global economic crisis this would lay the basis for a more benign development from end-2009.

Wages are projected to continue to grow relatively strongly in 2009, but to slow down considerably as unemployment rises. In line with falling productivity, unit labour costs will rise temporarily in 2009. Inflation should drop below 1% in 2009 and pick up only moderately thereafter.

From an expected close-to-balance position in 2008, the general government budget is projected to relapse into a deficit of almost 3% of GDP in 2009, increasing further in 2010. The widening deficit will be fuelled by sizeable tax revenue losses and higher expenditure due to automatic stabilisers and the two fiscal stimulus packages (1½% of GDP for 2009 and 2% of GDP for 2010). In both years, the budget will be affected by one-off events such as court rulings. The debt ratio is projected to increase from 65% of GDP in 2007 to over 72% of GDP by 2010 on the back of new borrowing and large-scale bank rescue operations.

Table 6.1:

Main features of country forecast - GERMANY

		2007		Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		2422.9	100.0	1.4	0.8	3.0	2.5	1.3	-2.3	0.7
Private consumption		1373.7	56.7	1.4	0.2	1.0	-0.4	0.0	0.8	0.0
Public consumption		435.6	18.0	1.4	0.4	0.6	2.2	2.2	2.1	2.1
Gross fixed capital formation		453.5	18.7	0.4	1.1	7.7	4.3	4.4	-5.2	1.1
of which : equipment		189.4	7.8	1.0	6.0	11.1	6.9	5.6	-10.0	-1.1
Exports (goods and services)		1137.2	46.9	5.8	7.7	12.7	7.5	3.9	-6.1	1.4
Imports (goods and services)		966.2	39.9	4.9	6.5	11.9	5.0	5.0	-2.4	1.2
GNI at previous year prices (GDP deflator)		2464.2	101.7	1.4	1.0	3.5	2.4	1.3	-2.3	0.7
Contribution to GDP growth :	Domestic demand			1.2	0.4	2.1	1.0	1.2	-0.2	0.6
	Stockbuilding			-0.2	-0.4	-0.1	0.1	0.3	-0.2	0.0
	Foreign balance			0.4	0.8	1.0	1.4	-0.2	-1.9	0.1
Employment				-0.8	-0.5	0.2	1.6	1.3	-0.8	-0.5
Unemployment rate (a)				8.3	10.7	9.8	8.4	7.1	7.7	8.1
Compensation of employees/f.t.e.				3.4	0.5	1.5	1.3	2.6	2.2	1.4
Unit labour costs whole economy				1.2	-0.8	-1.2	0.4	2.6	3.8	0.2
Real unit labour costs				-0.2	-1.5	-1.7	-1.4	0.8	2.4	-1.1
Savings rate of households (b)				-	-	16.2	16.7	17.1	17.8	18.6
GDP deflator				1.4	0.7	0.5	1.9	1.8	1.3	1.3
Harmonised index of consumer prices				-	1.9	1.8	2.3	2.8	0.8	1.4
Terms of trade of goods				0.7	-1.8	-1.8	0.8	-0.6	0.6	0.5
Trade balance (c)				3.7	7.1	7.1	8.4	7.9	6.2	6.6
Current account balance (c)				0.0	5.3	6.3	7.6	7.1	5.2	5.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.0	5.3	6.3	7.6	7.1	5.2	5.4
General government balance (c)				-2.6	-3.3	-1.5	-0.2	-0.1	-2.9	-4.2
Cyclically-adjusted budget balance (c)				-2.6	-2.7	-2.0	-1.3	-1.3	-2.4	-3.6
Structural budget balance (c)				-	-2.8	-2.0	-1.0	-0.9	-2.4	-3.4
General government gross debt (c)				56.8	67.8	67.6	65.1	65.6	69.6	72.3

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

7. ESTONIA

The contraction of economic activity deepened throughout 2008, as the turn of the cycle was exacerbated by the increasingly unfavourable external outlook and financing conditions. Pessimistic expectations among households and businesses resulted in a sharp fall in private consumption and investment, and consequently a sharp contraction in merchandise imports. On the output side, the decline was concentrated in the previously booming construction, retail and wholesale trade, and financial intermediation sectors. For the year as a whole, economic activity is expected to have contracted by over 2%.

The economic slump is expected to deepen further in 2009 and GDP is expected to contract by 4¾% on the back of decline in domestic demand, due inter alia to fiscal restraint, and contracting external demand. Growth is expected to turn modestly positive in 2010, when subsiding inflation should strengthen consumer confidence and external demand is expected to start improving. However, the recovery is likely to be slow, as the ongoing process of financial deleveraging and the adjustment in the labour market will curb private consumption. Wage growth is expected to ease considerably to compensate for the losses in price competitiveness over recent years.

The recession and moderating world commodity prices will result in a sharp adjustment in external and internal imbalances. The external deficit is expected to have almost halved in 2008 compared to 2007 and to decline further in 2009 and 2010; the adjustment is particularly pronounced in merchandise trade. Consumer price inflation is expected to dip to around 3% in 2009 and to below 3% in 2010, with approximately two thirds of the moderation due to slowing core inflation and one third the result of lower world commodity prices.

The scale of the downturn of the economy is set to severely affect public finances. Even though the government plans significant fiscal restraint, there is a risk that the deficit-to-GDP ratio will breach the 3% reference value in 2009 and 2010. The accumulation of assets over the years of high growth and fiscal surpluses should however act as a buffer. There has been no state intervention to date to support the financial sector and no such intervention is assumed in the forecast period.

Table 7.1:

Main features of country forecast - ESTONIA

		2007			Annual percentage change					
	bn EEK	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		238.9	100.0	-	9.2	10.4	6.3	-2.4	-4.7	1.2
Private consumption		131.8	55.2	-	9.9	12.7	7.9	-2.3	-3.4	0.8
Public consumption		41.2	17.2	-	1.9	1.8	3.9	4.7	-2.1	-0.3
Gross fixed capital formation		77.6	32.5	-	9.4	19.5	4.8	-5.7	-12.3	-0.2
of which : equipment		31.2	13.1	-	-	-	-	-7.0	-15.0	1.0
Exports (goods and services)		177.7	74.4	-	20.9	11.6	0.0	0.5	-1.6	1.5
Imports (goods and services)		203.7	85.3	-	17.5	20.4	4.2	-5.5	-3.2	0.5
GNI at previous year prices (GDP deflator)		220.2	92.2	-	10.3	8.7	3.5	-1.4	-4.1	1.5
Contribution to GDP growth :	Domestic demand			-	8.8	13.6	6.7	-2.3	-5.8	0.4
	Stockbuilding			-	0.7	1.6	1.7	-5.1	-0.2	0.0
	Foreign balance			-	1.0	-8.3	-3.9	5.1	1.4	0.8
Employment				-	1.8	5.6	0.4	-0.8	-4.0	-1.1
Unemployment rate (a)				-	7.9	5.9	4.7	5.1	8.8	9.7
Compensation of employees/f.t.e.				-	11.0	14.0	26.5	14.8	4.3	2.8
Unit labour costs whole economy				-	3.5	9.1	19.4	16.6	5.1	0.5
Real unit labour costs				-	-1.7	1.9	9.0	7.5	1.3	-1.4
Savings rate of households (b)				-	-	-3.0	0.8	8.7	11.8	11.3
GDP deflator				-	5.3	7.0	9.6	8.5	3.7	2.0
Harmonised index of consumer prices				-	4.1	4.4	6.7	10.6	3.2	2.7
Terms of trade of goods				-	1.3	2.7	3.3	1.5	3.6	0.0
Trade balance (c)				-	-13.9	-18.3	-17.6	-11.7	-8.2	-7.6
Current account balance (c)				-	-10.1	-16.7	-18.3	-10.1	-5.7	-4.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-9.4	-14.7	-17.1	-8.8	-4.2	-2.6
General government balance (c)				-	1.5	2.9	2.7	-2.0	-3.2	-3.2
Cyclically-adjusted budget balance (c)				-	0.3	0.5	-0.1	-2.6	-1.6	-1.3
Structural budget balance (c)				-	0.3	-0.1	-0.4	-2.8	-1.6	-1.3
General government gross debt (c)				-	4.5	4.3	3.5	4.3	6.1	7.6

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
Note : Contributions to GDP growth may not add up due to statistical discrepancies.

8. IRELAND

Real GDP has been on a broad downward trend since mid-2007, which is expected to have intensified in the final quarter of 2008. The ongoing adjustment in the construction sector has been aggravated by the impact of the financial crisis and the worldwide downturn. Domestic demand is estimated to have declined in 2008 as a result of a significant fall in investment. In addition, faltering demand in Ireland's main trading partners and adverse exchange rate movements on top of an already-weakened competitive position lowered export growth. However, with imports dropping sharply, net exports still contributed positively to growth.

The Irish economy is particularly exposed to the global economic downturn and the financial crisis given the importance to it of foreign trade and financial services. It is thus expected to contract by 5% in 2009, though it should stabilise at the end of the year. A prolonged sharp fall in domestic demand will drive the recession. A continued marked decline in residential and commercial construction is expected to be accompanied by a downward revision of public investment in the budget for 2009 (which will nonetheless remain at a high level). Private consumption should decrease by 3¼% in 2009 owing to a sharp moderation of wages and job losses in some sectors.

In the course of 2010, a very mild recovery should begin. Exports are set to gradually pick up in line with the assumed more benign global developments, helped by the projected downward wage and price adjustment. However, it is assumed that business and consumer confidence will recover only gradually.

The marked deterioration of the public finances in 2008 is due to a significant tax undershoot reflecting not only the correction in the property market but also the wider recession. The budget for 2009 aimed at containing a further worsening of the fiscal position but much weaker tax revenue than envisaged is likely increase the deficit to some 11% of GDP. This, together with some technical factors, is expected to lead to a very rapid rise in government debt, to above 60% of GDP by 2010. No impact is included on the public finances of the bank guarantees and recapitalisations.

Table 8.1:

Main features of country forecast - IRELAND

		2007		Annual percentage change						
bn Euro		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		190.6	100.0	7.0	6.4	5.7	6.0	-2.0	-5.0	0.0
Private consumption		88.1	46.2	5.3	7.2	7.0	6.0	-0.9	-3.3	0.4
Public consumption		30.3	15.9	4.7	3.1	5.3	6.8	4.0	0.5	0.8
Gross fixed capital formation		50.1	26.3	8.1	14.0	4.0	1.3	-18.4	-26.3	-4.1
of which : equipment		10.1	5.3	8.2	21.7	-4.5	14.1	-10.0	-20.0	3.0
Exports (goods and services)		151.4	79.4	12.8	5.2	5.7	6.8	1.2	-2.6	1.4
Imports (goods and services)		131.0	68.7	11.7	8.2	6.2	4.1	-2.3	-6.1	1.3
GNI at previous year prices (GDP deflator)		162.1	85.1	6.4	6.5	6.9	4.0	-3.6	-5.4	0.2
Contribution to GDP growth :	Domestic demand			5.0	7.1	5.1	4.1	-4.6	-7.1	-0.3
	Stockbuilding			0.0	0.3	0.4	-0.8	0.0	0.0	0.0
	Foreign balance			2.2	-1.2	0.3	2.6	2.6	2.1	0.3
Employment				3.6	4.7	4.3	3.6	-0.9	-4.0	-1.5
Unemployment rate (a)				8.8	4.4	4.5	4.6	6.5	9.7	10.7
Compensation of employees/head				5.3	6.4	4.6	6.0	3.5	0.9	1.6
Unit labour costs whole economy				2.0	4.7	3.2	3.6	4.7	1.9	0.1
Real unit labour costs				-1.8	2.3	-0.2	2.2	5.1	2.0	-1.1
Savings rate of households (b)				-	-	10.3	11.4	14.6	16.8	19.3
GDP deflator				3.8	2.3	3.4	1.4	-0.3	-0.1	1.3
Harmonised index of consumer prices				-	2.2	2.7	2.9	3.1	0.7	1.8
Terms of trade of goods				-0.5	0.0	-3.7	-4.9	-4.8	0.0	-1.1
Trade balance (c)				20.9	17.4	14.1	11.8	11.5	13.8	13.6
Current account balance (c)				1.3	-3.1	-3.6	-5.4	-5.7	-3.5	-3.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				2.2	-3.0	-3.4	-5.4	-5.7	-3.3	-3.2
General government balance (c)				0.4	1.7	3.0	0.2	-6.3	-11.0	-13.0
Cyclically-adjusted budget balance (c)				0.5	1.0	2.0	-1.5	-6.3	-9.1	-11.3
Structural budget balance (c)				-	1.3	2.0	-1.5	-6.3	-9.4	-11.3
General government gross debt (c)				58.4	27.3	24.7	24.8	40.8	54.8	68.2

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

9. GREECE

Economic activity decelerated in 2008, especially in the second half of the year. Weakening domestic demand was the main reason. In parallel, exports of services, especially transportation, experienced a major decline. Economic activity is however estimated to have continued to grow above the euro area average at close to 3% in 2008, on the back of relatively resilient private consumption.

Activity is expected to be significantly affected by the international economic crisis. Albeit remaining in positive territory, economic growth will be sluggish in 2009, exclusively driven by domestic demand. In a context of uncertainty in the global markets, tightening credit conditions should put a brake on private consumption, while investment should contract further. The deteriorating economic outlook in the euro-area and south-eastern Europe, in conjunction with rising unit labour costs above the euro area average, will impact on merchandise exports, which are expected to decline in 2009. Transportation and tourism services are also increasingly vulnerable to the adverse international outlook and are foreseen to contract, implying a neutral contribution to GDP growth from net exports. The current account balance should still remain above 12½% of GDP over the period.

The deceleration of economic activity is set to lead to an almost flat employment growth profile until 2010. The decline in unemployment observed in recent years is accordingly expected to end and the unemployment rate will increase. Inflationary pressures are expected to ease in 2009, reflecting the expected stabilisation of oil prices. However, wages and unit labour costs should continue to grow at a relatively high rate, implying a significant deterioration in profits.

After staying above 3% of GDP also in 2008, the deficit is projected to reach 3¾% of GDP in 2009, on account of a less favourable growth scenario, with the structural balance improving however, by ¼ of a percentage point. The 2010 deficit is projected to exceed 4% of GDP, assuming the discontinuation of one-off measures under the customary no policy change assumption. The debt-to-GDP ratio is projected to increase to 98½% of GDP by 2010.

Table 9.1:

Main features of country forecast - GREECE

		2007		Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		228.2	100.0	3.0	2.9	4.5	4.0	2.9	0.2	0.7
Private consumption		162.5	71.2	2.8	4.3	4.8	3.0	2.4	0.7	0.7
Public consumption		38.1	16.7	2.7	1.2	0.0	7.7	2.8	2.4	2.3
Gross fixed capital formation		51.3	22.5	4.9	-0.5	9.2	4.9	-0.5	-2.8	-0.1
of which : equipment		19.7	8.7	10.2	-1.0	14.2	9.1	4.3	-1.4	0.5
Exports (goods and services)		52.5	23.0	6.5	4.2	10.9	3.1	3.7	-1.5	0.8
Imports (goods and services)		76.4	33.5	5.9	1.4	9.7	6.7	-0.2	-0.9	1.1
GNI at constant prices (GDP deflator)		221.7	97.1	2.7	2.0	4.0	3.2	2.6	0.0	0.6
Contribution to GDP growth :	Domestic demand			3.5	3.1	5.5	4.6	2.1	0.3	0.9
	Stockbuilding			-0.1	-0.7	-0.3	1.0	-0.1	0.0	0.0
	Foreign balance			-0.4	0.5	-0.6	-1.5	1.0	0.0	-0.2
Employment				1.1	1.0	2.1	1.3	0.8	-0.1	0.2
Unemployment rate (a)				9.9	9.9	8.9	8.3	8.3	9.0	9.4
Compensation of employees/head				8.5	4.9	1.0	9.1	7.6	6.7	6.3
Unit labour costs whole economy				6.5	2.9	-1.3	6.3	5.4	6.4	5.8
Real unit labour costs				-0.5	-0.5	-4.4	3.3	1.1	3.2	3.0
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				7.0	3.4	3.2	2.9	4.2	3.1	2.7
Harmonised index of consumer prices				-	3.5	3.3	3.0	4.2	2.5	2.7
Terms of trade of goods				0.1	-7.8	1.3	0.0	0.3	3.0	-0.7
Trade balance (c)				-15.4	-16.8	-16.8	-18.7	-18.1	-16.9	-17.2
Current account balance (c)				-5.6	-10.6	-11.4	-14.0	-13.4	-12.8	-13.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-9.3	-9.1	-12.1	-11.7	-11.2	-11.6
General government balance (c)				-6.8	-5.1	-2.8	-3.5	-3.4	-3.7	-4.2
Cyclically-adjusted budget balance (c)				-6.4	-5.7	-3.8	-4.8	-4.7	-3.9	-3.7
Structural budget balance (c)				-	-5.7	-4.3	-4.6	-5.0	-4.7	-3.7
General government gross debt (c)				99.4	98.8	95.9	94.8	94.0	96.2	98.4

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

10. SPAIN

Economic activity worsened rapidly in 2008. The ongoing tightening of credit conditions depressed private consumption and investment. In fact, GDP growth had already contracted by 0.2% in the 3rd quarter. A further, stronger, contraction is expected for the 4th quarter. The growth of exports decelerated and imports lost steam in line with domestic demand. Net exports are likely to have contributed more than half a point to growth. All in all, GDP is estimated to have grown at 1¼% in 2008.

GDP is expected to contract by 2% in 2009 and to remain subdued in 2010, when it should continue to fall by ¼%. Deteriorating labour market prospects, further tightening of credit conditions, and adverse wealth effects are set to lead to a significant contraction in private consumption. Reflecting the increase in borrowing costs and lower demand expectations, investment in equipment should join residential investment in a sharp decline. However, the fiscal stimulus adopted for 2009, mainly consisting of infrastructure investment, will limit the fall in construction investment. Exports are projected to contract in line with world trade in 2009, although they should move to positive territory next year in parallel with developments in global demand. Imports are set to fall in line with domestic demand over the forecast horizon. Overall, the external sector should continue to contribute positively to growth. However, this will be insufficient to fully correct the external deficit, which will still remain high by 2010. The labour market is also projected to continue worsening. The unemployment rate may edge close to 19% by 2010, in line with deteriorating economic activity. Inflation should decline, due to falling energy prices and sluggish demand.

After growing to 3.4% of GDP in 2008, the public deficit is projected at 6.2% of GDP in 2009, reflecting the impact of both discretionary measures, including the November 2008 fiscal package (1.1% of GDP), and automatic stabilisers. In 2010, assuming the discontinuation of the package, the deficit is forecast at 5¾%. By that year, the combination of high deficits and low nominal growth will have pushed the public debt up to 53% of GDP.

Table 10.1:

Main features of country forecast - SPAIN

		2007		Annual percentage change						
bn Euro		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		1050.6	100.0	2.9	3.6	3.9	3.7	1.2	-2.0	-0.2
Private consumption		602.4	57.3	2.8	4.2	3.9	3.5	0.4	-2.6	0.0
Public consumption		192.0	18.3	3.5	5.5	4.6	4.9	5.2	2.3	0.2
Gross fixed capital formation		325.8	31.0	3.8	7.0	7.1	5.3	-1.9	-6.0	-3.7
of which : equipment		81.5	7.8	3.9	9.2	10.2	10.0	0.1	-12.7	-4.5
Exports (goods and services)		278.3	26.5	8.1	2.5	6.7	4.9	2.9	-2.7	0.6
Imports (goods and services)		349.5	33.3	8.3	7.7	10.3	6.2	0.5	-4.6	-2.1
GNI at previous year prices (GDP deflator)		1025.1	97.6	2.9	3.5	3.6	2.9	1.0	-2.2	-0.4
Contribution to GDP growth :	Domestic demand			3.2	5.4	5.2	4.5	0.6	-2.8	-1.0
	Stockbuilding			0.0	-0.1	0.2	-0.1	0.0	0.0	0.0
	Foreign balance			-0.3	-1.7	-1.5	-0.8	0.6	0.8	0.8
Employment				2.0	3.2	3.2	3.0	-0.7	-3.9	-2.0
Unemployment rate (a)				14.4	9.2	8.5	8.3	11.3	16.1	18.7
Compensation of employees/f.t.e.				4.0	3.7	3.9	3.6	5.0	3.0	2.2
Unit labour costs whole economy				3.1	3.3	3.2	2.9	3.1	1.1	0.4
Real unit labour costs				-0.8	-0.9	-0.8	-0.3	-0.2	-1.9	-1.6
Savings rate of households (b)				-	-	11.4	10.2	11.8	14.3	14.3
GDP deflator				3.9	4.3	4.0	3.2	3.4	3.0	2.0
Harmonised index of consumer prices				-	3.4	3.6	2.8	4.1	0.6	2.4
Terms of trade of goods				0.3	0.8	0.4	0.1	-0.4	6.4	-1.0
Trade balance (c)				-4.3	-7.5	-8.5	-8.5	-8.1	-5.5	-5.1
Current account balance (c)				-2.5	-7.5	-9.0	-10.1	-9.4	-7.1	-6.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.6	-6.5	-8.4	-9.7	-9.0	-6.7	-6.2
General government balance (c)				-3.0	1.0	2.0	2.2	-3.4	-6.2	-5.7
Cyclically-adjusted budget balance (c)				-2.5	0.9	1.6	1.6	-3.7	-5.2	-4.2
Structural budget balance (c)				-	0.9	1.6	1.6	-3.3	-4.6	-4.2
General government gross debt (c)				57.3	43.0	39.6	36.2	39.8	46.9	53.0

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

11. FRANCE

In 2008, GDP grew by an estimated 0.7%, down from 2.2% in 2007. After the surprising positive growth of +0.1% in the third quarter of 2008, GDP is predicted to contract by 1.6% in the fourth quarter. In 2008, domestic demand provided limited support to growth: households' real disposable income was hit by high inflation, while investment suffered from the downturns in the investment cycle and the housing market and from tighter credit conditions prompted by the financial turmoil. However, on the back of a marked slowdown of imports the drag on growth from net exports almost disappeared.

After contracting in the first half of 2009, GDP is expected to remain almost flat in the second semester, which, in addition to a negative carry-over from 2008, will lead to GDP falling on average by 1.8% in 2009. This figure is explained by: (i) the recent dramatic plunge in industrial production and confidence, (ii) the continued effects of the financial crisis in terms of tighter financing conditions and falling stock markets, (iii) the sharp slowdown experienced by France's trade partners. In 2010, the economy will only gradually recover, with GDP growing by 0.4%. The recovery plan announced on 4 December 2008 should help mitigate the downturn starting from the second quarter of 2009, although its effects will be spread across both 2009 and 2010 (+0.4 pp. and +0.2 pp. respectively). In the wake of the economic downturn, the unemployment rate is expected to rise markedly in 2009 after two years of significant decrease. In 2010, despite the slight economic recovery, the unemployment rate will further increase reflecting the traditional lag between activity and employment.

The general government deficit is expected to have risen from 2.7% of GDP in 2007 to 3.2% in 2008. This is not only explained by worsening economic conditions but also by other factors including the tax cuts adopted in 2007. In 2009, the deficit is expected to increase significantly to 5.4% of GDP, taking into account the recovery plan, which will have an estimated impact of 0.8 pp., and the effect of automatic stabilisers. The deficit for 2010 is expected to fall to 5% of GDP as the recovery plan is phased out. Taking into consideration the bank recapitalisations and the participation in the Strategic Investment Fund, debt is set to reach 67% of GDP in 2008, and to rise by some 9 pp in 2010.

Table 11.1:

Main features of country forecast - FRANCE

		2007		Annual percentage change						
bn Euro		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		1892.2	100.0	1.9	1.9	2.2	2.2	0.7	-1.8	0.4
Private consumption		1072.0	56.7	2.0	2.6	2.3	2.4	1.1	0.1	0.3
Public consumption		438.0	23.1	1.6	1.2	1.3	1.4	1.7	1.5	0.9
Gross fixed capital formation		406.3	21.5	1.9	4.4	4.8	4.9	-0.2	-5.3	-0.6
of which : equipment		105.3	5.6	3.2	3.2	2.8	5.8	1.3	-7.8	-0.4
Exports (goods and services)		501.9	26.5	5.4	3.1	5.4	3.1	1.5	-3.5	1.3
Imports (goods and services)		538.3	28.4	5.2	5.9	6.1	5.5	2.3	-1.4	0.7
GNI at previous year prices (GDP deflator)		1902.1	100.5	2.0	1.7	2.2	2.0	0.6	-1.8	0.4
Contribution to GDP growth :	Domestic demand			1.8	2.6	2.6	2.7	1.0	-0.7	0.3
	Stockbuilding			0.0	0.0	-0.1	0.2	-0.1	-0.5	0.0
	Foreign balance			0.1	-0.7	-0.2	-0.7	-0.2	-0.5	0.1
Employment				0.6	0.6	0.8	1.4	0.8	-1.9	-0.7
Unemployment rate (a)				10.2	9.2	9.2	8.3	7.8	9.8	10.6
Compensation of employees/f.t.e.				2.6	3.1	3.4	2.9	2.6	2.1	2.0
Unit labour costs whole economy				1.2	1.8	2.0	2.1	2.7	2.1	0.8
Real unit labour costs				-0.3	-0.3	-0.5	-0.4	0.3	0.1	-0.7
Savings rate of households (b)				-	-	14.9	15.6	15.6	16.0	15.8
GDP deflator				1.5	2.0	2.5	2.5	2.4	2.0	1.6
Harmonised index of consumer prices				1.8	1.9	1.9	1.6	3.2	0.8	1.5
Terms of trade of goods				0.1	-1.3	-0.5	0.1	-3.0	2.4	-0.2
Trade balance (c)				0.6	-1.3	-1.5	-2.0	-2.9	-2.8	-2.7
Current account balance (c)				1.0	-1.8	-2.1	-2.8	-3.8	-4.0	-3.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				1.0	-1.8	-2.0	-2.8	-3.8	-4.0	-3.9
General government balance (c)				-3.5	-2.9	-2.4	-2.7	-3.2	-5.4	-5.0
Cyclically-adjusted budget balance (c)				-3.2	-3.3	-3.0	-3.5	-3.7	-4.6	-3.8
Structural budget balance (c)				-	-3.9	-3.3	-3.6	-3.8	-4.6	-3.8
General government gross debt (c)				55.5	66.4	63.6	63.9	67.1	72.4	76.0

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

12. ITALY

The Italian economy moved into recession in 2008 as domestic demand faltered. Real GDP fell at an increasing pace and is projected to have decreased by 0.6% for the year as a whole. High inflation, adverse wealth effects and heightened uncertainty held back private consumption, while falling demand and tighter financing conditions led to lower investment. Net exports contributed positively to real GDP growth only because the reduction of imports outpaced that of exports.

An estimated sizeable quarterly contraction in Q4-2008 will act as a drag on growth in 2009, when real GDP is projected to contract by 2% overall, while slowly improving over the year. An economic recovery package, amounting to around 0.4% of GDP in 2009 and mainly compensated through additional one-off revenues, will provide some support to households and firms most affected by the crisis. Also thanks to lower inflation, private consumption will slowly recover. Government support to the banking system should ease credit conditions. Public investment is set to accelerate. Still, gross fixed capital formation will contribute negatively to growth throughout 2009. An external pull on exports is expected to set in by end-2009, in line with the assumed more benign global developments. Annual growth is forecast to be 0.3% in 2010, with no impulse from 2009.

The impact of the economic slowdown on the labour market has so far been more visible in terms of hours worked than of headcount employment. Job losses are expected to ratchet up in 2009, resulting in a significant increase in the unemployment rate. In 2009, unit labour cost growth will moderate, after the strong acceleration recorded in 2008. However, given the expected adverse exchange rate developments, the country's competitive position will not improve.

The very high public debt prevents the government from extensively using discretionary fiscal instruments. Automatic stabilisers will bring the general government deficit well above the 3% of GDP threshold in 2009, with only a marginal improvement expected in 2010. This, together with subdued growth, implies debt rising over the forecast horizon. Possible bank recapitalizations would drive the gross debt ratio further up.

Table 12.1:

Main features of country forecast - ITALY

		2007		Annual percentage change						
		bn Euro Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		1535.5	100.0	1.4	0.6	1.8	1.5	-0.6	-2.0	0.3
Private consumption		906.3	59.0	1.3	0.9	1.1	1.5	-0.4	-0.3	0.7
Public consumption		304.0	19.8	0.8	1.9	0.8	1.2	1.1	0.5	0.5
Gross fixed capital formation		323.3	21.1	1.5	0.7	2.5	1.2	-1.9	-6.3	-0.5
of which : equipment		138.8	9.0	2.0	1.3	3.5	-0.1	-2.9	-10.2	0.3
Exports (goods and services)		448.3	29.2	4.6	1.0	6.2	5.0	-1.5	-5.8	0.9
Imports (goods and services)		453.0	29.5	3.9	2.2	5.9	4.4	-2.7	-4.3	1.5
GNI at previous year prices (GDP deflator)		1527.4	99.5	1.5	0.8	2.0	1.1	-1.1	-2.0	0.3
Contribution to GDP growth :	Domestic demand			1.2	1.1	1.3	1.4	-0.5	-1.4	0.4
	Stockbuilding			0.0	-0.2	0.4	0.0	-0.5	-0.2	0.1
	Foreign balance			0.2	-0.3	0.1	0.1	0.4	-0.4	-0.2
Employment				0.2	0.2	1.7	1.0	0.3	-1.8	-0.2
Unemployment rate (a)				10.0	7.7	6.8	6.1	6.7	8.2	8.7
Compensation of employees/f.t.e.				3.4	3.2	2.5	1.9	4.1	1.9	2.1
Unit labour costs whole economy				2.2	2.8	2.3	1.5	5.1	2.2	1.6
Real unit labour costs				-1.0	0.7	0.6	-0.8	2.0	0.1	-0.3
Savings rate of households (b)				-	-	15.1	14.2	14.8	15.3	15.1
GDP deflator				3.3	2.1	1.7	2.3	3.0	2.0	1.9
Harmonised index of consumer prices				3.2	2.2	2.2	2.0	3.5	1.2	2.2
Terms of trade of goods				0.0	-2.3	-3.3	1.5	-1.6	7.0	0.0
Trade balance (c)				2.0	0.0	-0.7	0.1	0.0	1.0	0.9
Current account balance (c)				0.7	-1.2	-2.0	-1.7	-2.2	-1.2	-1.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.8	-1.1	-1.8	-1.6	-2.2	-1.3	-1.5
General government balance (c)				-4.8	-4.3	-3.4	-1.6	-2.8	-3.8	-3.7
Cyclically-adjusted budget balance (c)				-4.6	-4.6	-4.1	-2.5	-2.9	-2.7	-2.4
Structural budget balance (c)				-	-5.2	-3.7	-2.6	-3.1	-2.8	-2.5
General government gross debt (c)				112.6	105.9	106.9	104.1	105.7	109.3	110.3

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

13. CYPRUS

Economic activity in Cyprus remained strong in the first three quarters of 2008. However, due to the worsening external environment, GDP is expected to have decelerated in the last quarter of the year, which should lead to an annual growth rate of 3½%. Activity was almost exclusively driven by domestic demand, underpinned by strong private consumption. Investment decelerated from the unusually high levels of last year while remaining dynamic. The deteriorating external environment had an adverse effect on exports, particularly tourism.

Economic growth is expected to slow down significantly in 2009 but still remain in positive territory. Domestic demand will continue being the main driver of growth. In the face of a rising household debt burden and an uncertain environment, private consumption is projected to moderate. Housing investment should decelerate strongly, mainly due to subdued foreign demand.

The projected slowdown in private consumption and investment should put a brake on import growth. Exports of goods are set to stall, while services are expected to contract. The contribution of net exports to GDP growth should remain negative. Economic activity is projected to recover only mildly in the second half of 2010, led by a soft rebound in exports. The current account deficit is expected to decline somewhat, while staying above 10% of GDP.

In line with economic activity, employment growth is projected to decelerate, leading unemployment to rise. Following the developments in oil and in commodities, inflation is projected to decrease in 2009 and to edge up in 2010. Due to a modest acceleration in wages, unit labour cost growth is expected to exceed 5% in 2009 before decelerating towards the end of the forecast period.

After posting a surplus of 1% of GDP in 2008, public finances are projected to move into the red in 2009, on account of subdued revenues, though a rise in current expenditure is offset by a reduction in interest payments. The 2010 deficit is projected at 1% on a no-policy-change basis, due to the increasing trend of current expenditure. The debt-to-GDP ratio is projected to fall to almost 46% of GDP by 2010.

Table 13.1:

Main features of country forecast - CYPRUS

	2007			Annual percentage change						
mio Euro	Curr. prices	% GDP		92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	15596.3	100.0		4.4	3.9	4.1	4.4	3.6	1.1	2.0
Private consumption	10342.7	66.3		-	4.0	4.5	8.2	5.7	1.9	2.2
Public consumption	2764.6	17.7		-	3.4	7.4	0.1	5.2	5.5	3.3
Gross fixed capital formation	3340.3	21.4		-	3.3	10.5	7.6	4.2	1.0	1.2
of which : equipment	923.0	5.9		-	-5.6	15.5	4.9	5.0	1.2	1.2
Exports (goods and services)	7611.7	48.8		-	4.7	3.9	7.2	5.5	-0.4	2.7
Imports (goods and services)	8605.8	55.2		-	3.1	6.6	12.5	7.1	1.8	2.9
GNI at constant prices (GDP deflator)	14692.0	94.2		4.2	4.2	3.5	3.3	4.0	2.0	2.8
Contribution to GDP growth :	Domestic demand			-	3.8	6.2	6.9	5.6	2.4	2.4
	Stockbuilding			-	-0.6	-0.5	0.8	-0.7	0.0	0.0
	Foreign balance			-	0.7	-1.6	-3.2	-1.3	-1.3	-0.4
Employment				-	3.6	1.8	3.2	2.0	0.1	1.0
Unemployment rate (a)				-	5.3	4.6	4.0	3.9	5.1	5.5
Compensation of employees/head				-	1.8	3.0	3.3	5.5	5.7	4.5
Unit labour costs whole economy				-	1.4	0.6	2.1	3.9	4.7	3.4
Real unit labour costs				-	-0.9	-2.3	-1.3	-0.5	1.1	0.6
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				3.3	2.4	3.0	3.4	4.4	3.5	2.8
Harmonised index of consumer prices				-	2.0	2.2	2.2	4.4	2.0	2.3
Terms of trade of goods				-	-3.7	4.3	0.1	-1.5	3.7	1.0
Trade balance (c)				-	-25.0	-27.2	-30.2	-32.4	-31.0	-31.1
Current account balance (c)				-	-5.9	-5.9	-9.7	-13.4	-12.0	-11.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-5.3	-5.7	-9.7	-13.2	-11.8	-10.8
General government balance (c)				-	-2.4	-1.2	3.4	1.0	-0.6	-1.0
Cyclically-adjusted budget balance (c)				-	-2.1	-1.1	3.0	0.2	-0.8	-1.1
Structural budget balance (c)				-	-3.0	-1.1	3.0	0.2	-0.8	-1.1
General government gross debt (c)				-	69.1	64.6	59.4	48.1	46.7	45.7

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

14. LATVIA

The Latvian economy has accumulated major imbalances in recent years as rapid expansion based on domestic demand has been fuelled by easy credit conditions and an expansionary fiscal stance. The recession, which started in the first half of 2008 and originated in the reversal of the domestic real estate boom, turned worse during the second half of the year, when risk aversion became extreme on global financial markets. As market sentiment increasingly turned against emerging markets, funding constraints led to the government's decision to turn to international institutional financing. Outline agreement in December on multilateral financial assistance of EUR 7.5bn is conditional on major fiscal consolidation as well as financial system and structural reforms, as represented in the government's economic stabilization package adopted in December 2008.

Access to large financial assistance is expected to stabilize the financial system. However, the real economy, especially domestic demand, is facing a very severe downturn. GDP is estimated to have contracted 2.3% in 2008 and is projected to fall around a further 7% in 2009 and 2½% in 2010. This should entrain a progressive price adjustment supported by low private sector wage growth led by nominal wage cuts in the public sector. Together with the cost adjustment, the shift of economic resources to the tradable sector would put the Latvian economy on a stronger footing for a sustainable export-led recovery from end-2010.

Despite shrinking domestic demand and prospects for sharply lower wage growth, inflation is forecast to remain around 7% in 2009, as a result of VAT and excise tax increases in early-2009 and base effects from the gas and heating price increases in the last quarter of 2008. The favourable impact of the reversal in global energy prices will take time, due to lags in the utility price-setting mechanism.

The fiscal outturn for 2008 is estimated at a deficit of around 3½% of GDP. The deficit is projected to rise to around 6½% of GDP in 2009 and 7½% of GDP in 2010, as the revenue shortfall in the recession is expected to be only partly counterbalanced by the package of expenditure restraint and tax increases adopted in December. The debt ratio is projected to increase from 9.5% in 2007 to around 43% by 2010.

Table 14.1:

Main features of country forecast - LATVIA

		2007		Annual percentage change						
	mio LVL	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		13957.3	100.0	0.5	10.6	12.2	10.3	-2.3	-6.9	-2.4
Private consumption		9050.3	64.8	-	11.2	21.2	13.9	-7.0	-13.0	-5.0
Public consumption		2540.5	18.2	-	2.7	4.9	4.8	1.0	-5.0	0.0
Gross fixed capital formation		4542.1	32.5	-	23.6	16.3	8.4	-9.0	-14.0	-1.0
of which : equipment		-	-	-	-	-	-	-	-	-
Exports (goods and services)		6197.1	44.4	-	20.3	6.6	11.1	1.5	-0.8	3.7
Imports (goods and services)		9024.7	64.7	-	14.8	19.3	15.0	-8.6	-13.8	1.2
GNI at constant prices (GDP deflator)		13435.5	96.3	0.2	11.6	10.3	9.4	-1.6	-7.1	-1.9
Contribution to GDP growth :	Domestic demand			-	15.1	20.2	13.4	-8.1	-14.3	-3.5
	Stockbuilding			-	-4.2	0.7	1.8	-0.6	-0.7	0.0
	Foreign balance			-	-0.2	-8.6	-4.9	6.3	8.1	1.1
Employment				-2.5	1.7	4.7	3.5	1.0	-5.1	-2.8
Unemployment rate (a)				13.2	8.9	6.8	6.0	6.5	10.4	11.4
Compensation of employees/head				-	25.3	23.6	33.2	20.0	1.0	1.0
Unit labour costs whole economy				-	15.2	15.3	24.9	24.1	2.9	0.6
Real unit labour costs				-	4.6	4.9	10.3	9.8	-0.7	-0.8
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				33.7	10.2	9.9	13.3	13.0	3.6	1.4
Harmonised index of consumer prices				-	6.9	6.6	10.1	15.3	6.8	2.4
Terms of trade of goods				-	-2.0	-1.1	9.0	0.7	2.0	-0.5
Trade balance (c)				-12.5	-18.9	-25.6	-24.5	-17.6	-10.7	-11.1
Current account balance (c)				-2.6	-12.5	-22.5	-22.9	-14.9	-6.5	-5.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-0.1	-11.2	-21.3	-20.8	-13.0	-4.6	-3.4
General government balance (c)				-	-0.4	-0.2	0.1	-3.5	-6.3	-7.4
Cyclically-adjusted budget balance (c)				-	-1.2	-2.5	-3.6	-5.4	-5.8	-6.1
Structural budget balance (c)				-	-1.2	-2.5	-3.6	-5.4	-5.8	-6.1
General government gross debt (c)				-	12.4	10.7	9.5	16.0	30.4	42.9

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

15. LITHUANIA

The economic outlook for Lithuania has deteriorated sharply, with the global economic and financial crisis contributing to the deepening of the domestic cyclical downturn. GDP growth, while expected to be still positive in 2008 at around 3½%, is forecast to turn negative during the first half of 2009. Private consumption is set to decline due to weaker labour market conditions and expected flexibility of wages, while fiscal restraint will curtail public consumption. Investment should decline even more, due to the continuing real estate market correction and credit tightening, further reinforced by fiscal restraint. External demand has slumped with the outlook for all main trading partners deteriorating sharply.

Economic activity is consequently expected to shrink by 4% in 2009 and to a lesser extent in 2010. Lithuania will face additional challenges related to the energy price shock expected after the closure of the Ignalina nuclear power plant by the end of 2009. The economy is set to recover gradually only in the second half of 2010 on the back of improving domestic and external demand. Given slumping imports in 2009, the external current account deficit would narrow from 12½% of GDP in 2008 to around 7-8% in 2009 and 2010.

The economic downturn is likely to be accompanied by a sharp rise in unemployment to around 9-10% and a substantial reduction of employment in 2009 and 2010. This should slow wage growth significantly, as will the impact of wage cuts in the public sector. Inflation is expected to ease rapidly to below 6% in 2009 and below 5% in 2010, after having peaked at around 12% in mid-2008. However, upside risks remain, related to possible further increases in gas and electricity prices and indirect tax hikes.

Due to expansionary policies, public finances are expected to register a deficit of nearly 3% of GDP in 2008. A substantial fiscal consolidation package of around 4% of GDP adopted by the new government formed in December 2008 includes both wide-ranging tax changes and significant expenditure restraint. Despite this, the deficit should remain close to 3% of GDP in 2009, given the expected sharp fall in output and increase slightly in 2010.

Table 15.1:

Main features of country forecast - LITHUANIA

		2007		Annual percentage change						
bn LTL		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		98.1	100.0	0.3	7.8	7.8	8.9	3.4	-4.0	-2.6
Private consumption		63.5	64.7	-	12.2	10.6	12.4	6.0	-5.4	-1.9
Public consumption		17.9	18.2	-	3.5	3.7	3.3	5.2	-4.7	-1.5
Gross fixed capital formation		27.5	28.0	-	11.2	19.4	20.8	-3.2	-12.0	-2.6
of which : equipment		8.8	9.0	-	11.5	16.8	18.3	-5.3	-9.4	-2.1
Exports (goods and services)		53.4	54.4	-	17.7	12.0	4.3	13.1	-1.2	2.9
Imports (goods and services)		66.5	67.8	-	16.4	13.7	11.6	11.6	-6.4	3.6
GNI at previous year prices (GDP deflator)		94.3	96.1	-	8.3	7.3	7.1	2.9	-4.3	-2.7
Contribution to GDP growth :	Domestic demand			-	11.1	11.9	13.8	3.9	-7.4	-2.1
	Stockbuilding			-	-2.8	-2.2	0.5	0.2	-0.3	0.0
	Foreign balance			-	-0.5	-1.9	-5.5	-0.8	3.7	-0.6
Employment				-1.4	2.5	1.7	1.9	-1.7	-3.9	-1.6
Unemployment rate (a)				9.9	8.3	5.6	4.3	5.4	8.8	10.2
Compensation of employees/head				-	11.5	16.8	18.2	18.0	3.8	1.7
Unit labour costs whole economy				-	6.0	10.2	10.6	12.2	4.0	2.7
Real unit labour costs				-	-0.6	3.4	1.7	0.1	-1.1	-0.2
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				46.5	6.6	6.5	8.8	12.1	5.1	2.9
Harmonised index of consumer prices				-	2.7	3.8	5.8	11.1	5.6	4.8
Terms of trade of goods				-	0.6	-3.5	1.8	5.4	2.7	-0.3
Trade balance (c)				-	-11.3	-13.9	-15.1	-11.2	-6.4	-7.5
Current account balance (c)				-	-7.1	-10.4	-15.1	-12.6	-7.0	-7.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-6.1	-8.9	-13.2	-10.7	-4.8	-4.7
General government balance (c)				-	-0.5	-0.4	-1.2	-2.9	-3.0	-3.4
Cyclically-adjusted budget balance (c)				-	-1.5	-1.8	-3.3	-4.6	-2.9	-2.1
Structural budget balance (c)				-	-1.5	-1.8	-3.9	-4.6	-2.9	-2.1
General government gross debt (c)				-	18.4	18.0	17.0	17.1	20.0	23.3

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

16. LUXEMBOURG

According to the latest available data, the slowdown in activity that had begun mid-2007 intensified in the first half of 2008. This deceleration turned into a contraction in the third quarter, with real GDP declining by 1.4% quarter-on-quarter. As a result, annual GDP growth is not expected to have exceeded 1% last year after 5.2% in 2007. This contraction continued in the 4th quarter and is likely to go on further during the first half of this year. Exports, both of goods and services, will decline in 2009 in response to falling imports from the trade partners and to the continuation of the financial crisis and private investment is also projected to drop. The only offsetting factors are expected to be public spending and private consumption: the former is projected to remain dynamic, especially investment, while the latter could be supported by the large tax cuts decided in the 2009 budget (which amount to 1.2% of GDP *ex ante*), although consumers' confidence strongly decreased in recent months. Overall, GDP is forecast to decline by about 1% in real terms this year. In 2010, growth will turn positive again, in response to the expected recovery abroad.

Employment growth still amounted to about 4½% in recent months but will come to a standstill in 2009 and 2010, the positive growth rate projected for this year being exclusively due to the large carry-over from 2008. This will result in a large rise in unemployment, even if the employment of non-residents will also sharply decelerate. Inflation, which peaked at 5.8% in July 2008 but dropped to 0.7% in December, following the drop in oil prices, should fall to less than 1% this year. Wage increases have been rather moderate in 2008 and are expected to remain so in 2009 and 2010. However, with the drop in productivity due to the lagged reaction of employment to the slowdown in output, unit labour costs will rise substantially.

Thanks to still buoyant tax receipts and employment, the government surplus hardly declined in 2008. It will sharply decrease this year due to the impact of the crisis but also to the tax cuts and a rather strong rise in expenditure. It is forecast to turn into a deficit in 2010 because of the delayed effects of the crisis on tax receipts. The public debt doubled in 2008, as a result of the support to the financial sector (Fortis and Dexia) but still remains one of the lowest in the EU.

Table 16.1:

Main features of country forecast - LUXEMBOURG

		2007		Annual percentage change						
	mio Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		36277.7	100.0	4.2	5.2	6.4	5.2	1.0	-0.9	1.4
Private consumption		11728.0	32.3	2.5	1.9	2.9	2.0	1.8	1.5	1.8
Public consumption		5572.5	15.4	4.4	3.4	2.7	2.6	4.5	3.0	2.0
Gross fixed capital formation		7110.7	19.6	4.5	3.4	1.0	11.8	-2.3	-4.4	1.9
of which : equipment		2374.0	6.5	2.7	4.6	2.5	22.2	-10.0	-8.0	2.0
Exports (goods and services)		65381.0	180.2	7.3	6.0	14.6	4.4	1.3	-1.6	1.7
Imports (goods and services)		53709.6	148.1	7.1	6.0	13.4	3.5	1.4	-1.5	2.0
GNI at constant prices (GDP deflator)		29208.7	80.5	3.5	3.3	-5.7	15.4	-1.2	-1.7	1.6
Contribution to GDP growth :	Domestic demand			2.8	2.0	1.7	3.3	0.8	0.0	1.4
	Stockbuilding			-0.1	1.7	-0.5	-0.7	-0.1	-0.4	0.0
	Foreign balance			1.5	1.5	5.3	2.7	0.2	-0.5	0.0
Employment				3.3	2.9	3.6	4.5	4.8	1.8	0.0
Unemployment rate (a)				2.8	4.6	4.6	4.1	4.1	4.9	5.8
Compensation of employees/head				3.3	3.7	3.1	4.3	2.7	2.3	2.5
Unit labour costs whole economy				2.5	1.4	0.4	3.6	6.6	5.0	1.1
Real unit labour costs				-0.1	-2.9	-4.8	1.9	6.6	3.3	-1.6
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.6	4.5	5.4	1.7	0.0	1.6	2.7
Harmonised index of consumer prices				-	3.8	3.0	2.7	4.1	0.6	2.5
Terms of trade of goods				-0.6	-0.4	1.7	3.4	-1.4	2.3	0.0
Trade balance (c)				-11.2	-11.3	-9.6	-8.1	-9.9	-9.1	-9.5
Current account balance (c)				11.1	11.0	10.5	9.8	8.0	6.3	6.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	8.0	6.3	6.3
General government balance (c)				2.4	-0.1	1.3	3.2	3.0	0.4	-1.4
Cyclically-adjusted budget balance (c)				-	0.0	0.2	1.6	2.4	1.6	0.3
Structural budget balance (c)				-	0.0	0.2	1.6	2.4	1.6	0.3
General government gross debt (c)				6.6	6.1	6.6	7.0	14.4	15.0	15.1

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

17. HUNGARY

A surge in agricultural output and a relatively good net export in the first quarter of 2008 pointed to a gradual recovery after the slowdown in 2007. However, GDP started to decline by 0.1% in the third quarter as domestic demand began to shrink. The economy is likely to have further contracted in the fourth quarter when the financial crisis took a heavy toll on the Hungarian markets, leading to a sudden reversal in the hitherto robust credit growth. The crisis gave rise to further fiscal adjustments (hence no room for a fiscal stimulus package) and the intervention of the EU, IMF and World Bank with massive financial support.

Severe rationing and rising credit costs in financial markets, together with increased uncertainty and considerably worse prospects for external trade, characterise the outlook for the first half of 2009. Under these conditions the corporate sector will be prompted to moderate wage growth, lay off employees and once again curtail investment. Reduced lending to households, exacerbated by rising unemployment, is likely to also cause consumption to drop sharply. Hence, GDP growth is foreseen to decline by around 1½% in 2009. A gradual turnaround is unlikely before the second half of 2009 when domestic financial markets are expected to function adequately again and the global economy to start to recover. Financing is set to remain costly, which will allow only a moderate pick-up in consumption and investment in 2010. At the same time, both domestic and external factors should help to moderate inflation.

The deficit is projected to have fallen to 3.3% of GDP in 2008, mainly due to expenditure restraint. It is expected to decline further to 2.8% of GDP in 2009 as a result of budgeted expenditure cuts before increasing again to 3% of GDP in 2010 (against the recently tightened targets of 2.6% and 2.5% of GDP, respectively). The differences with the official targets for both years are mainly explained by different macroeconomic scenarios. The debt-to-GDP ratio is projected to increase by 6 pps. in 2008 to around 72% as the international loans are drawn on, chiefly to build up reserves. The debt ratio should increase further – although at a slower rate – throughout the forecast horizon, mainly as a result of the lacklustre nominal GDP outlook.

Table 17.1:

Main features of country forecast - HUNGARY

		2007			Annual percentage change					
	bn HUF	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		25419.2	100.0	3.0	4.0	4.1	1.1	0.9	-1.6	1.0
Private consumption		13645.4	53.7	-	3.4	1.7	0.6	0.7	-2.6	0.9
Public consumption		5369.7	21.1	1.1	2.4	4.3	-7.4	-0.8	0.1	0.4
Gross fixed capital formation		5343.7	21.0	5.7	8.5	-6.2	1.5	-1.7	-2.0	1.4
of which : equipment		2268.9	8.9	-	-	-	-	2.0	-4.0	1.5
Exports (goods and services)		20400.9	80.3	12.6	11.3	18.6	15.9	5.9	-2.9	2.6
Imports (goods and services)		20017.1	78.7	13.4	7.0	14.8	13.1	6.0	-3.3	2.4
GNI at previous year prices (GDP deflator)		23563.9	92.7	-	3.5	3.5	-0.1	0.5	-0.5	1.1
Contribution to GDP growth :	Domestic demand			3.0	4.3	0.5	-1.0	-0.1	-1.8	0.8
	Stockbuilding			0.5	-2.9	1.4	0.1	1.0	0.0	0.0
	Foreign balance			-0.5	2.5	2.3	2.1	0.0	0.3	0.2
Employment				-	0.4	0.9	-0.1	-1.2	-2.0	-0.4
Unemployment rate (a)				8.1	7.2	7.5	7.4	7.7	8.8	9.1
Compensation of employees/f.t.e.				-	7.1	4.5	6.2	9.2	3.5	5.2
Unit labour costs whole economy				-	3.4	1.3	4.9	7.0	3.0	3.7
Real unit labour costs				-	1.1	-2.5	-0.8	1.6	0.0	0.9
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				14.0	2.2	3.9	5.7	5.3	3.1	2.8
Harmonised index of consumer prices				-	3.5	4.0	7.9	6.1	2.8	2.2
Terms of trade of goods				-	-2.7	-1.9	0.5	-0.1	0.6	0.0
Trade balance (c)				-4.7	-2.5	-2.3	0.2	0.0	0.6	0.8
Current account balance (c)				-	-7.5	-7.5	-6.4	-7.2	-5.5	-5.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-6.7	-6.9	-5.3	-6.0	-4.0	-3.5
General government balance (c)				-	-7.8	-9.3	-5.0	-3.3	-2.8	-3.0
Cyclically-adjusted budget balance (c)				-	-8.5	-10.8	-6.2	-4.3	-2.8	-3.2
Structural budget balance (c)				-	-8.9	-10.5	-5.3	-4.0	-2.8	-3.2
General government gross debt (c)				-	61.7	65.6	65.8	71.9	73.8	74.0

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

18. MALTA

The pace of economic expansion eased in the first three quarters of 2008, driven by declining net exports. In the fourth quarter, GDP growth is set to remain weak as the pace of private and public consumption expenditure is expected to decelerate. Exports are also anticipated to remain sluggish due to a deteriorating performance of tourism and certain sectors of manufacturing. Overall, GDP is estimated to have grown by 2.1% in 2008.

Real GDP growth is expected to weaken to 0.7% in 2009 and to recover mildly in 2010 in line with economic developments in Malta's main trading partners. Domestic demand is projected to decelerate mostly in response to lower private consumption. This, in turn, reflects a deteriorating labour market due to a sluggish export sector. Tourism is anticipated to weaken in 2009 in the wake of faltering demand, especially from the British market. Export of goods, dominated by semi-conductors, should contract in 2009. Investment is expected to benefit from higher public capital spending. Private investment will be influenced by construction of a major foreign ICT project. Otherwise, investment decisions are set to suffer from the weak global economic scenario and the cooling domestic housing market.

HICP inflation is expected to ease in 2009, reflecting a base effect from lower food prices which should be partly offset by higher utility tariffs in the first half of the year. Wage growth is anticipated to ease only at the end of the forecast horizon, reflecting the fact that cost-of–living adjustment is granted in line with previous year's inflationary developments.

In 2008, the general government deficit deteriorated primarily as a result of one-off costs related to early retirement schemes to shipyard employees. The vanishing of this one-off expenditure and the removal of energy subsidies should be partly offset by less buoyant tax revenue and social contributions, leading to a reduction in the deficit ratio in 2009. For 2010, the deficit ratio is projected to stay practically unchanged. The general government debt is estimated to have increased in 2008 and is expected to rise moderately over the forecast horizon.

Table 18.1:

Main features of country forecast - MALTA

		2007		Annual percentage change						
	mio Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		5447.1	100.0	3.5	3.5	3.2	3.9	2.1	0.7	1.3
Private consumption		3311.5	60.8	-	1.9	0.7	1.7	2.0	0.6	0.8
Public consumption		1036.1	19.0	-	-0.5	5.9	-0.8	4.3	2.8	2.4
Gross fixed capital formation		1076.1	19.8	-	8.5	4.9	4.1	0.4	3.4	3.3
of which : equipment		-	-	-	-	-	-	-	-	-
Exports (goods and services)		4891.7	89.8	-	1.6	9.6	3.3	-0.2	-1.7	-0.7
Imports (goods and services)		5029.7	92.3	-	4.0	9.0	2.0	-0.3	-0.8	-0.2
GNI at constant prices (GDP deflator)		5301.5	97.3	2.9	0.0	3.4	5.8	2.4	0.8	1.4
Contribution to GDP growth :	Domestic demand			-	2.9	2.6	1.8	2.2	1.6	1.7
	Stockbuilding			-	3.1	0.8	1.0	-0.2	0.0	0.0
	Foreign balance			-	-2.4	-0.2	1.1	0.1	-0.8	-0.4
Employment				0.9	1.3	1.3	3.0	1.1	0.2	0.5
Unemployment rate (a)				6.3	7.2	7.1	6.4	6.5	7.4	7.9
Compensation of employees/head				5.4	2.1	3.3	1.4	2.8	3.0	2.4
Unit labour costs whole economy				2.8	0.0	1.4	0.5	1.8	2.5	1.7
Real unit labour costs				0.3	-2.9	-1.4	-2.2	-0.9	0.2	-0.8
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.5	2.9	2.9	2.8	2.7	2.3	2.5
Harmonised index of consumer prices				-	2.5	2.6	0.7	4.6	1.9	2.2
Terms of trade of goods				-	-5.1	-2.0	2.9	-3.4	-0.9	-0.6
Trade balance (c)				-18.2	-18.8	-18.9	-18.1	-18.9	-18.9	-18.6
Current account balance (c)				-	-8.7	-8.2	-5.5	-6.5	-7.0	-7.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-5.5	-5.3	-4.6	-5.5	-5.5	-5.3
General government balance (c)				-	-2.8	-2.3	-1.8	-3.5	-2.6	-2.5
Cyclically-adjusted budget balance (c)				-	-2.2	-2.1	-2.2	-4.0	-2.6	-2.3
Structural budget balance (c)				-	-3.9	-2.8	-2.8	-2.6	-2.9	-2.3
General government gross debt (c)				-	69.8	63.8	61.9	63.3	64.0	64.2

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

19. THE NETHERLANDS

During 2008, economic activity slowed down considerably, with only the first quarter showing positive GDP growth (0.3% q-o-q). While annual growth is estimated to still have reached 1.9%, this was largely due to the carry-over from strong domestic demand in the second half of 2007. Growth was flat in the second and third quarters of 2008 and is expected to have turned negative in the fourth quarter (- ¾% q-o-q). Net exports put a drag on growth as one-off investments in the first half of 2008 boosted imports. Private consumption provided only limited support as disposable income was weakened by increasing inflation and rises in taxes and social premiums.

In 2009, GDP growth is projected to contract by 2%, with all four quarters showing negative growth. Despite a rise in disposable income – due to wage increases, lower inflation and tax cuts – private consumption is foreseen to drop in view of tightening credit conditions, adverse wealth effects from lower stock prices and continuing negative consumer confidence. Investment should also fall sharply as it suffers from weak demand, tightening credit conditions and increasing financing costs. With the Netherland's main trading partners facing a severe slowdown, exports are projected to decline strongly. The economy is expected to recover slowly from the second half of 2009, with limited stimulus coming from the recovery plan, resulting in 0.2% growth in 2010. After coming out below 3% in 2008, unemployment is expected to rise sharply in 2009 and 2010, putting downward pressure on wage demands in 2010.

The budget is foreseen to be considerably affected by the downturn, with a surplus of 1.1% in 2008 turning into a deficit of 1.4% in 2009. This can be largely explained by the working of the automatic stabilisers and lower gas revenues as a result of lower oil prices. Automatic stabilisers should further increase the deficit to 2.7% of GDP in 2010. The effect of the recovery plan on the budget is expected to amount to ¼% of GDP in both 2009 and 2010. The government operations to stabilise the financial system increased public debt by about 15% of GDP in 2008.

Table 19.1:

Main features of country forecast - THE NETHERLANDS

		2007		Annual percentage change						
bn Euro		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		567.1	100.0	2.6	2.0	3.4	3.5	1.9	-2.0	0.2
Private consumption		264.3	46.6	2.4	1.0	0.0	2.1	1.3	-0.7	0.3
Public consumption		142.5	25.1	2.2	0.5	9.0	3.0	1.0	1.9	1.1
Gross fixed capital formation		113.2	20.0	2.5	3.7	7.5	4.9	6.9	-3.6	-2.0
of which : equipment		32.8	5.8	4.3	3.2	14.1	8.7	9.7	-5.6	-0.1
Exports (goods and services)		424.8	74.9	6.2	6.0	7.3	6.5	3.8	-3.5	1.6
Imports (goods and services)		376.1	66.3	6.1	5.4	8.2	5.7	5.2	-2.4	1.6
GNI at previous year prices (GDP deflator)		582.3	102.7	2.8	-0.1	6.1	3.0	1.1	-2.9	0.1
Contribution to GDP growth :	Domestic demand			2.3	1.3	3.5	2.7	2.3	-0.6	0.0
	Stockbuilding			0.0	-0.1	-0.2	-0.2	0.2	-0.2	0.0
	Foreign balance			0.4	0.8	0.0	1.0	-0.6	-1.1	0.1
Employment				1.1	0.0	1.9	2.3	1.8	-0.2	-1.0
Unemployment rate (a)				4.5	4.7	3.9	3.2	2.9	4.1	5.5
Compensation of employees/f.t.e.				3.7	1.7	2.4	3.2	3.5	3.3	1.9
Unit labour costs whole economy				2.2	-0.4	0.9	2.0	3.4	5.1	0.7
Real unit labour costs				-0.2	-2.7	-0.8	0.5	0.9	3.2	-1.1
Savings rate of households (b)				-	-	11.5	13.4	13.2	15.3	15.1
GDP deflator				2.4	2.4	1.7	1.5	2.5	1.8	1.9
Harmonised index of consumer prices				2.3	1.5	1.7	1.6	2.2	1.9	1.8
Terms of trade of goods				0.5	0.5	-0.4	-0.3	0.2	0.2	0.0
Trade balance (c)				5.5	7.9	7.8	7.7	7.2	6.2	6.3
Current account balance (c)				5.2	7.5	9.8	9.8	8.4	6.5	6.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				4.9	7.1	9.3	9.4	7.7	5.9	5.4
General government balance (c)				-1.8	-0.3	0.6	0.3	1.1	-1.4	-2.7
Cyclically-adjusted budget balance (c)				-1.6	0.4	0.4	-0.8	0.0	-0.7	-1.5
Structural budget balance (c)				-	0.4	0.4	-0.8	0.0	-1.0	-1.5
General government gross debt (c)				64.3	51.8	47.4	45.7	57.3	53.2	55.2

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

20. AUSTRIA

The impact of the global economic crisis is felt in Austria mostly via the trade channel and appears to lag behind the precipitous decline witnessed in the rest of the euro area. The solid economic growth enjoyed by Austria eased gradually since the beginning of the 2008 and gave way to near stagnation in the third quarter. As the global economic crisis deepened, Austria's economy is likely to have contracted in the last quarter of 2008, amidst declining export volumes. This implies an annual GDP growth for 2008 of 1¾%.

The recession is set to deepen in the first half of 2009, as investment plans are curtailed, and the trade surplus is expected to shrink substantially. Notably, Austria's important automotive supply industry will suffer. As a small open economy, the turning point of Austria's economic cycle depends largely on external developments.

A number of factors should, however, dampen the depth and duration of the downturn. While undermined by a weakening labour market and deteriorating consumer sentiment, private consumption continues to benefit as inflation drops off quickly and the tax reform raises disposable income. Moreover, Austria's real estate sector has been spared a price bubble and its financial sector, while exposed to risks in CEEC markets, is relatively limited in size. Finally, government consumption, sizeable tax reductions and automatic stabilisers will contribute importantly towards sustaining overall demand. Nevertheless, economic activity is expected to shrink by some 1% in 2009 and to rise by a mere ¾% in 2010.

This is accompanied by a sharp rise in unemployment, but also a swift easing in inflation to about 1¼% in 2009 and 1½% in 2010, after having reached a peak of 4% in mid-2008.

Public finances, which register a deficit of ¾% of GDP in 2008, are set to quickly deteriorate in 2009 to a deficit of 3% of GDP and climb to 3½% of GDP in 2010. This is the result of the rapid erosion of the tax basis and higher social expenditure in the wake of the recession. In addition, Austria has initiated a number of expansionary programmes with a combined impact of well above 1% of GDP. Consequently, debt levels will quickly rise above 64% of GDP in 2010 after having dipped below 60% in 2007.

Table 20.1:

Main features of country forecast - AUSTRIA

		2007		Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		270.8	100.0	2.1	2.9	3.4	3.1	1.7	-1.2	0.6
Private consumption		143.9	53.1	1.4	2.6	2.4	1.0	0.8	0.5	0.4
Public consumption		49.4	18.2	2.0	1.5	2.3	1.8	1.0	2.0	1.4
Gross fixed capital formation		60.2	22.2	1.8	2.4	2.6	4.7	2.2	-3.6	-0.3
of which : equipment		23.3	8.6	2.0	6.9	-0.8	5.9	2.4	-6.1	-0.7
Exports (goods and services)		161.4	59.6	5.8	7.0	7.5	8.8	2.8	-2.9	1.3
Imports (goods and services)		145.5	53.7	4.9	6.3	5.1	7.5	2.0	-1.5	1.1
GNI at previous year prices (GDP deflator)		265.2	97.9	2.1	2.6	2.6	2.7	1.9	-1.2	0.5
Contribution to GDP growth :	Domestic demand			1.6	2.2	2.3	1.9	1.1	-0.2	0.4
	Stockbuilding			0.0	0.1	0.0	-0.2	0.0	0.0	0.0
	Foreign balance			0.4	0.6	1.5	1.1	0.6	-1.0	0.2
Employment				0.4	1.2	1.4	1.8	1.6	-0.8	-0.4
Unemployment rate (a)				4.1	5.2	4.8	4.4	4.1	5.1	6.1
Compensation of employees/f.t.e.				2.7	2.5	3.0	2.1	2.9	2.6	1.9
Unit labour costs whole economy				1.0	0.8	1.0	0.8	2.8	3.0	0.9
Real unit labour costs				-0.5	-1.2	-0.8	-1.3	0.3	1.3	-0.6
Savings rate of households (b)				-	-	15.4	16.3	16.7	17.8	18.0
GDP deflator				1.5	2.1	1.8	2.1	2.4	1.6	1.5
Harmonised index of consumer prices				1.9	2.1	1.7	2.2	3.3	1.2	1.6
Terms of trade of goods				-0.1	-0.8	-1.1	0.1	-1.1	0.7	0.2
Trade balance (c)				-2.3	-0.5	0.2	0.6	0.3	-0.1	0.0
Current account balance (c)				-0.8	2.1	2.5	3.3	3.1	2.5	2.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-0.9	2.0	2.2	3.3	3.2	2.6	2.7
General government balance (c)				-2.7	-1.5	-1.5	-0.4	-0.6	-3.0	-3.6
Cyclically-adjusted budget balance (c)				-2.6	-1.3	-2.0	-1.4	-1.6	-2.8	-3.0
Structural budget balance (c)				-	-1.3	-2.0	-1.4	-1.6	-2.8	-3.0
General government gross debt (c)				64.8	63.7	62.0	59.5	59.4	62.3	64.7

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
Note : Contributions to GDP growth may not add up due to statistical discrepancies.

21. POLAND

After still high growth in Q1–Q3 2008, there was a steep deceleration in Q4 due to a slowdown in exports and investment, as the global confidence crisis in the banking sector restricted access to credit.

GDP growth is forecast to slow down to 2% in 2009 and to rebound moderately thereafter to 2½% in 2010. The main engine of growth is expected to be private consumption fuelled by personal income tax cuts, indexation of pensions and decelerating inflation. But private consumption is set to slow down in 2009, and again in 2010, on the back of a worsening situation in the labour market. In contrast, while investment – particularly in housing and equipment – is set to contract in 2009, it is projected to increase slightly in 2010.

Weakening global trade and deteriorating financial conditions are weighing on Polish exports, which are expected to decrease in 2009 despite a depreciating currency, while imports stagnate on the back of falling investment activity. In 2010, export growth is forecast to accelerate whereas imports are envisaged to increase marginally due to decelerating consumption. The current account deficit is set to reach 5½% of GDP in 2008-2009 and to fall slightly in 2010. The deteriorating outlook for manufacturing, and for exports in particular, implies an increase in the unemployment rate to about 9½% in 2010.

The general government deficit is set to reach 2½% of GDP in 2008, consistent with preliminary cash data showing expenditure underexecution in both central and local government. In 2009, the general government deficit is likely to increase to about 3½% of GDP. This reflects a much gloomier outlook for consumption, imports and wage growth, but also the intended acceleration of public investment aimed at moderating the effects of the global financial crisis. The hikes in excise duties included in the anti-crisis plan are earmarked for higher social spending and will not improve the budget balance. In 2010, the general government deficit is projected to decrease only marginally, unless the government takes additional corrective measures in the meantime.

Table 21.1:

Main features of country forecast - POLAND

		2007			Annual percentage change						
bn PLN		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		1175.3	100.0	4.4	3.6	6.2	6.7	5.0	2.0	2.4
Private consumption		711.8	60.6	4.4	2.1	5.0	5.0	4.9	3.4	2.2
Public consumption		211.0	18.0	2.9	5.2	6.1	3.7	1.3	2.0	1.6
Gross fixed capital formation		253.8	21.6	6.2	6.5	14.9	17.3	8.2	-1.3	1.5
of which : equipment		102.6	8.7	-	9.9	17.1	33.3	8.1	-4.9	-1.0
Exports (goods and services)		479.2	40.8	10.9	8.0	14.6	9.1	4.9	-0.6	2.5
Imports (goods and services)		512.8	43.6	11.7	4.7	17.3	13.3	5.4	-0.3	1.3
GNI at previous year prices (GDP deflator)		1130.6	96.2	4.5	4.5	5.6	6.0	5.4	2.3	2.6
Contribution to GDP growth :	Domestic demand			4.6	3.4	7.0	7.2	5.0	2.1	2.0
	Stockbuilding			0.1	-0.9	0.4	1.6	0.4	0.0	0.0
	Foreign balance			-0.3	1.1	-1.1	-1.9	-0.4	-0.1	0.4
Employment				-	2.3	3.3	4.5	3.0	-0.6	-0.8
Unemployment rate (a)				15.0	17.8	13.9	9.6	7.4	8.4	9.6
Compensation of employees/head				19.4	1.5	1.8	4.5	8.1	5.7	3.7
Unit labour costs whole economy				-	0.3	-1.1	2.4	6.1	3.0	0.5
Real unit labour costs				-	-2.3	-2.5	-1.5	2.4	0.7	-1.8
Savings rate of households (b)				-	-	5.9	9.0	9.2	9.8	9.8
GDP deflator				14.7	2.6	1.5	3.9	3.6	2.3	2.3
Harmonised index of consumer prices				-	2.2	1.3	2.6	4.2	2.9	2.5
Terms of trade of goods				0.2	1.0	-0.3	2.0	-1.4	0.3	0.0
Trade balance (c)				-3.1	-0.9	-2.0	-4.0	-4.3	-4.4	-3.9
Current account balance (c)				-1.9	-1.2	-2.9	-4.7	-5.6	-5.6	-5.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.2	-0.9	-2.3	-3.6	-4.1	-3.5	-2.9
General government balance (c)				-	-4.3	-3.8	-2.0	-2.5	-3.6	-3.5
Cyclically-adjusted budget balance (c)				-	-4.1	-4.1	-2.8	-3.4	-3.7	-3.0
Structural budget balance (c)				-	-4.1	-4.1	-2.8	-3.4	-3.7	-2.9
General government gross debt (c)				-	47.1	47.7	44.9	45.5	47.7	49.7

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

22. PORTUGAL

Economic activity in Portugal has decelerated since late 2007 driven by cooling investment and easing exports. After remaining broadly stable up to the third quarter of 2008 at rather low levels, GDP is estimated to have contracted markedly in the final quarter of the year, with weaknesses in all private demand components. Overall, GDP growth is estimated to have been ¼% in 2008 as a whole.

GDP is forecast to enter a protracted downturn, contracting by -1½% in 2009 and -¼% in 2010. This outlook is marked by various intertwined factors, such as the persistence of tighter credit conditions, the deteriorating confidence of consumers and firms and the slowdown in external demand. An overall fragile financial position, as reflected in the accumulated external imbalances, makes the Portuguese economy particularly sensitive to such a bleak backdrop. Consumption is forecast to stagnate as, in spite of the support provided by falling interest rates to the disposable income of indebted households, precautionary savings should increase in times of heightened uncertainty. Investment is expected to fall on account of much more uncertain demand prospects and tighter borrowing conditions. Exports are projected to recede driven by shrinking demand. However, the fiscal stimulus package for 2009 adopted by the Portuguese authorities is expected to boost GDP (mainly investment), but its fading away in 2010 will weigh on GDP in that year.

External borrowing needs are expected to recede owing to falling commodities prices and imports volumes, while remaining rather high at an average 8½% of GDP. Inflation is expected to slow in 2009 chiefly thanks to the slump in commodities prices and the unemployment rate to shoot up.

After an improvement in 2008, the government deficit is projected to jump to 4½% of GDP in 2009, reflecting the impact of both the economic downturn as well as the fiscal stimulus package for 2009 (0.8% of GDP financed by the Budget; 0.45% by EU funds). Despite the discontinuation of the fiscal package in 2010, no improvement on the fiscal position is expected for that year mainly due to the continued economic downturn. The government debt ratio is projected to increase to almost 72% of GDP by 2010.

Table 22.1:

Main features of country forecast - PORTUGAL

		2007		Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		163.1	100.0	2.1	0.9	1.4	1.9	0.2	-1.6	-0.2
Private consumption		106.0	65.0	2.6	2.0	1.9	1.6	1.4	-0.2	0.1
Public consumption		33.1	20.3	2.5	3.2	-1.4	0.0	0.1	0.3	0.4
Gross fixed capital formation		35.6	21.8	2.9	-0.9	-0.7	3.2	-0.8	-5.5	-3.8
of which : equipment		12.1	7.4	3.2	1.0	7.3	8.2	3.7	-11.0	-3.0
Exports (goods and services)		53.2	32.6	4.6	2.0	8.7	7.5	0.3	-3.8	0.8
Imports (goods and services)		65.3	40.0	5.5	3.5	5.1	5.6	2.3	-2.8	-0.4
GNI at previous year prices (GDP deflator)		156.6	96.0	2.1	0.5	-0.3	1.5	-0.3	-1.3	-0.9
Contribution to GDP growth :	Domestic demand			2.7	1.7	0.8	1.8	0.8	-1.3	-0.6
	Stockbuilding			0.1	-0.1	0.1	0.0	0.2	-0.2	0.0
	Foreign balance			-0.7	-0.7	0.6	0.1	-0.8	-0.1	0.4
Employment				0.5	-0.3	0.5	0.0	0.6	-0.9	-0.2
Unemployment rate (a)				5.6	7.7	7.8	8.1	7.8	8.8	9.1
Compensation of employees/head				6.0	4.7	2.1	3.4	3.3	2.3	2.7
Unit labour costs whole economy				4.3	3.4	1.3	1.4	3.7	2.9	2.8
Real unit labour costs				-0.3	0.8	-1.5	-1.5	1.7	-0.8	1.0
Savings rate of households (b)				-	-	8.1	6.6	6.1	8.1	8.2
GDP deflator				4.5	2.5	2.8	3.0	2.0	3.8	1.7
Harmonised index of consumer prices				3.8	2.1	3.0	2.4	2.7	1.0	2.0
Terms of trade of goods				0.1	-1.2	0.4	1.5	-1.6	4.8	-0.6
Trade balance (c)				-9.6	-10.3	-10.1	-9.9	-11.4	-9.4	-9.4
Current account balance (c)				-6.3	-9.8	-10.4	-9.9	-11.8	-9.7	-10.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-4.0	-8.3	-9.3	-8.7	-10.2	-8.2	-8.7
General government balance (c)				-3.8	-6.1	-3.9	-2.6	-2.2	-4.6	-4.4
Cyclically-adjusted budget balance (c)				-3.7	-5.7	-3.8	-3.0	-2.3	-3.8	-3.3
Structural budget balance (c)				-	-5.6	-3.8	-3.1	-3.0	-3.9	-3.3
General government gross debt (c)				55.5	63.6	64.7	63.6	64.6	68.2	71.7

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

23. ROMANIA

From an estimated above-potential 7¾% in 2008, GDP growth is projected to decelerate sharply to 1¾% in 2009 and to slightly rebound as from the first half of 2010 to just below 2½%. The domestic demand boom, which has been the main engine of growth over the past five years, is expected to ease significantly on the back of a sharp reduction of credit growth, weakening confidence indicators and worsening labour market conditions. Whereas private consumption is set to slow down from 8% in 2008 to just below 2% in 2009, the sharpest decline is expected in investment (both construction and equipment), which is projected to drop from 18% in 2008 to roughly 1½% in 2009.

While the abrupt cooling of domestic demand will dampen import growth, the economic slowdown in Romania's main export markets is expected to allow only a gradual reduction of net external borrowing from just below 13% of GDP in 2008 to about 12% of GDP in 2009 and 11% of GDP in 2010, in spite of improved competitiveness.

In 2009, the general government deficit is set to increase to 7½% of GDP from an already high deficit of some 5¼% of GDP in 2008. This reflects an unfunded increase in pension benefits and the full impact of the 2008 cuts in the social security contribution rate as well as the cost related to the second pension pillar. Public sector wage increases are assumed to remain high. Furthermore, tax revenues will be affected by the economic slowdown as well as various tax changes (e.g. removal of taxes on certain capital and interest gains, preferential tax treatment for R&D expenditure, reduced VAT for social housing). The new government's announced but not yet approved revision of the 2009 budget is not included in the forecast. The public deficit is projected to increase further to around 8% in 2010.

The higher deficits together with rapidly increasing yields on government debt will result in the debt-to-GDP ratio rising from 15¼% to 26¾% between 2008 and 2010.

Table 23.1:

Main features of country forecast - ROMANIA

		2007		Annual percentage change						
bn RON		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		412.8	100.0	1.6	4.2	7.9	6.2	7.8	1.8	2.5
Private consumption		277.8	67.3	3.5	10.1	12.7	11.6	8.0	1.9	2.9
Public consumption		64.3	15.6	1.8	3.8	-4.1	1.6	3.5	3.4	3.2
Gross fixed capital formation		125.6	30.4	6.5	15.3	19.9	29.0	18.1	1.4	3.0
of which : equipment		60.8	14.7	8.4	18.9	23.5	27.1	18.0	0.7	2.2
Exports (goods and services)		121.9	29.5	11.3	7.6	10.4	7.9	10.7	1.3	1.9
Imports (goods and services)		179.7	43.5	11.6	16.0	22.6	27.2	15.2	1.7	3.4
GNI at previous year prices (GDP deflator)		398.0	96.4	1.3	5.5	7.4	6.0	7.5	2.0	2.6
Contribution to GDP growth :	Domestic demand			4.7	10.9	12.9	15.7	11.4	2.2	3.3
	Stockbuilding			-1.8	-2.3	1.4	0.1	-0.2	0.0	0.0
	Foreign balance			-1.0	-4.5	-6.3	-9.5	-3.5	-0.3	-0.9
Employment				-2.1	-1.5	0.7	0.4	1.1	0.0	0.5
Unemployment rate (a)				6.5	7.2	7.3	6.4	6.2	7.0	6.9
Compensation of employees/head				73.1	28.6	12.4	22.4	22.5	9.0	8.9
Unit labour costs whole economy				66.8	21.6	4.9	15.7	15.0	7.0	6.8
Real unit labour costs				-1.3	8.4	-5.1	2.6	1.3	-0.3	0.3
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				68.9	12.2	10.6	12.7	13.5	7.3	6.4
Harmonised index of consumer prices				-	9.1	6.6	4.9	7.9	5.7	4.0
Terms of trade of goods				2.3	12.2	12.7	10.3	6.1	1.4	2.2
Trade balance (c)				-7.0	-9.8	-12.0	-14.4	-13.9	-13.1	-12.5
Current account balance (c)				-	-8.9	-10.6	-13.6	-12.9	-11.9	-11.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-4.1	-7.9	-10.4	-13.0	-12.2	-11.2	-10.5
General government balance (c)				-	-1.2	-2.2	-2.5	-5.2	-7.5	-7.9
Cyclically-adjusted budget balance (c)				-	-1.5	-3.4	-4.0	-7.4	-8.9	-8.9
Structural budget balance (c)				-	-1.5	-2.8	-3.9	-7.4	-8.9	-8.9
General government gross debt (c)				-	15.8	12.4	12.7	15.2	21.1	26.8

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

24. SLOVENIA

Amid the ongoing deterioration of the external environment, GDP growth moderated noticeably in the third quarter of 2008. With industrial production declining in October and November and survey data falling to record lows, growth is expected to have slowed further in the fourth quarter, reaching about 4.0% for the whole year.

The slowdown of economic activity is projected to accelerate in 2009, mainly driven by declining exports in a context of weakening foreign demand and by negative growth of gross fixed capital formation. The projected broad-based decline in investment reflects financing constraints being increasingly felt, the downward trend in capacity utilisation and pessimistic business expectations. The contribution of lower export growth to GDP growth should be offset by the considerable slowdown of imports, on the back of lower investment and exports.

Confidence effects are set to contribute to a deceleration of private consumption growth. This should take place despite a projected substantial decline in consumer price inflation, driven by energy prices and strong base effects. The worsened outlook, in particular for manufacturing and construction, is expected to entail a rise in unemployment. Wage growth should moderate, especially in the private sector. This would help stem the recent deterioration of the economy's competitive position. The external deficit, which had been growing for several years, should narrow slightly helped by more favourable terms-of-trade.

A very gradual recovery is foreseen towards the end of 2009. In 2010, despite a negative contribution from the external sector, growth should be supported by domestic demand, also due to a pick-up in gross fixed capital formation as railway investment strengthens.

The general government balance is expected to have reached a deficit of nearly 1% of GDP in 2008. Due to the working of the automatic stabilisers and a recovery package adopted in December 2008, the deficit should widen to slightly above 3% of GDP this year. In 2010, it should narrow again to just below 3% of GDP.

Table 24.1:

Main features of country forecast - SLOVENIA

		2007		Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		34.5	100.0	3.2	4.3	5.9	6.8	4.0	0.6	2.3
Private consumption		18.0	52.2	3.8	2.6	2.9	5.0	3.3	2.0	2.7
Public consumption		6.1	17.7	2.9	3.3	4.1	2.5	3.7	2.3	2.7
Gross fixed capital formation		9.5	27.5	6.7	3.8	10.4	11.9	7.5	-2.2	4.5
of which : equipment		3.8	11.2	9.8	5.4	15.2	9.3	5.8	-2.1	4.4
Exports (goods and services)		24.2	70.2	3.8	10.6	12.5	13.8	5.9	-0.6	2.8
Imports (goods and services)		24.6	71.5	6.0	6.6	12.2	15.7	6.9	-0.6	3.8
GNI at previous year prices (GDP deflator)		33.8	98.1	3.2	4.7	5.5	5.9	3.4	0.5	2.2
Contribution to GDP growth :	Domestic demand			4.1	3.0	5.0	6.3	4.5	0.8	3.2
	Stockbuilding			0.4	-0.8	0.8	1.8	0.2	-0.3	0.0
	Foreign balance			-1.3	2.2	0.2	-1.3	-0.8	0.1	-0.8
Employment				-	-0.1	1.5	3.0	1.8	-0.8	0.4
Unemployment rate (a)				-	6.5	6.0	4.9	4.5	5.2	5.2
Compensation of employees/head				-	5.3	5.5	6.3	8.5	5.1	6.2
Unit labour costs whole economy				-	0.8	1.1	2.5	6.2	3.6	4.1
Real unit labour costs				-	-0.8	-0.9	-1.5	1.3	1.7	0.6
Savings rate of households (b)				-	-	17.1	16.5	16.6	17.3	17.7
GDP deflator				20.9	1.6	2.0	4.1	4.8	1.9	3.6
Harmonised index of consumer prices				-	2.5	2.5	3.8	5.5	0.9	2.8
Terms of trade of goods				1.1	-2.4	-0.4	0.2	-1.1	0.3	0.4
Trade balance (c)				-2.7	-3.6	-3.8	-4.9	-6.4	-6.0	-6.4
Current account balance (c)				0.1	-1.8	-2.4	-4.0	-6.0	-5.8	-6.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.1	-1.7	-2.3	-3.7	-5.7	-5.8	-6.0
General government balance (c)				-	-1.4	-1.2	0.5	-0.9	-3.2	-2.8
Cyclically-adjusted budget balance (c)				-	-1.0	-1.6	-0.9	-2.2	-3.1	-2.1
Structural budget balance (c)				-	-1.0	-1.6	-0.9	-2.2	-3.1	-2.1
General government gross debt (c)				-	27.0	26.7	23.4	22.1	24.8	25.8

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

25. SLOVAKIA

GDP growth is estimated to have slowed down to 7% in 2008 from 10½% in 2007, despite a strong performance in the first three quarters. Economic expansion was mainly driven by domestic demand, fuelled by still vigorous private consumption and investment activity. However, exports growth decelerated and the external contribution to growth is estimated to have been close to zero.

As the financial crisis seems to have a relatively limited impact on the financial sector and credit growth, the consequences of the global downturn are likely to be felt especially through the trade channel. Against the backdrop of deteriorating economic prospects in the euro area, export growth is projected to further cool down considerably in 2009 and to recover only slightly in 2010.

On the back of this, economic activity should decelerate to roughly 2¾% in 2009 before rebounding again to just above 3% in 2010. Domestic demand is likely to remain the main driver of growth over the forecast horizon. Declining inflation, wage growth and pension indexation are expected to continue supporting private consumption growth, which, is projected to surpass 2½% over the forecast horizon. Furthermore, government consumption and investment in infrastructure should also contribute towards sustaining domestic demand.

After reaching a peak of 4.5% in September 2008, annual HICP inflation has eased and is estimated to average at around 4% in 2008. Declining food and fuel prices are likely to bring inflation down to roughly 3% in 2009, while in 2010, rising energy and services prices may induce a rebound in HICP inflation to 3½%.

The general government deficit, which is estimated to have remained close to 2¼% of GDP in 2008, is likely to increase to above 2¾% of GDP in 2009. This is the outcome of weaker growth prospects resulting in lower revenues as well as of the so-called social package. The latter foresees measures such as increases in child-birth benefits and a forward shift in pension indexation from July to January 2009. The general government deficit is set to further increase to some 3½% of GDP in 2010.

Table 25.1:

Main features of country forecast - SLOVAKIA

		2007			Annual percentage change					
bn Euro		**Curr. prices**	**% GDP**	**92-04**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
GDP at previous year prices		61.5	100.0	-	6.5	8.5	10.4	7.1	2.7	3.1
Private consumption		34.4	55.9	-	6.5	5.8	7.0	6.7	2.6	2.8
Public consumption		10.7	17.3	-	3.3	10.2	-1.3	4.7	3.6	3.4
Gross fixed capital formation		16.0	26.1	-	17.6	9.3	8.7	8.9	2.5	2.8
of which : equipment		6.2	10.1	-	22.0	-6.3	4.2	7.2	2.3	2.5
Exports (goods and services)		53.2	86.5	-	10.0	21.0	13.8	7.3	0.7	2.6
Imports (goods and services)		53.8	87.5	-	12.4	17.7	8.9	7.0	0.6	2.4
GNI at previous year prices (GDP deflator)		59.8	97.2	-	7.9	9.0	10.0	6.0	2.4	2.9
Contribution to GDP growth :	Domestic demand			-	8.7	7.6	6.1	6.9	2.7	2.9
	Stockbuilding			-	0.1	-0.9	0.6	0.1	0.0	0.1
	Foreign balance			-	-2.1	1.7	3.8	0.2	0.0	0.1
Employment				-	1.4	2.3	2.1	2.3	0.1	0.4
Unemployment rate (a)				-	16.3	13.4	11.1	9.8	10.6	10.5
Compensation of employees/head				-	9.7	7.7	8.8	9.0	7.6	7.7
Unit labour costs whole economy				-	4.3	1.5	0.6	4.0	4.8	4.9
Real unit labour costs				-	1.9	-1.4	-0.5	0.1	1.3	1.3
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				-	2.4	2.9	1.1	4.0	3.5	3.6
Harmonised index of consumer prices				-	2.8	4.3	1.9	4.0	2.9	3.5
Terms of trade of goods				-	-0.2	-1.8	-1.1	-0.5	0.0	-0.1
Trade balance (c)				-	-5.4	-5.2	-1.7	-1.5	-1.4	-1.2
Current account balance (c)				-	-8.6	-7.4	-5.1	-6.0	-6.2	-6.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-9.0	-7.0	-4.7	-5.4	-5.7	-5.9
General government balance (c)				-	-2.8	-3.5	-1.9	-2.2	-2.8	-3.6
Cyclically-adjusted budget balance (c)				-	-2.1	-3.5	-3.2	-3.9	-3.8	-3.9
Structural budget balance (c)				-	-1.3	-3.2	-3.2	-4.1	-4.0	-3.9
General government gross debt (c)				-	34.2	30.4	29.4	28.6	30.0	31.9

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

26. FINLAND

The Finnish economy fell victim to the global crisis relatively late and from a strong underlying growth momentum with GDP up by 4.5% in 2007. In the first half of 2008, annual growth still exceeded 2% as private consumption remained buoyant and exports were sustained by demand from emerging markets. Since the second half of 2008, growth has rapidly decelerated further and is forecast to turn negative in the last quarter of 2008.

While the fundamentals of the Finnish economy and the domestic financial sector are sound, business surveys indicate a marked deterioration in the outlook for the export-oriented industries as well as for housing construction and equipment investment. Households should benefit from relatively strong wage increases, tax cuts and lower inflation, maintaining real disposable income growth in 2009 and 2010 at par with the previous years. Nevertheless, as consumer confidence has plummeted, private consumption is forecast to stagnate in 2009. Government consumption should only to a limited extent mitigate the contraction in aggregate demand. Economic growth is expected to be weakest during the first half of 2009, particularly on account of a slump in external demand and investment. Economic activity is projected to recover thereafter in step with the recovery of global markets.

After several years of solid growth, employment is set to fall by about 1½% in 2009, but stabilise thereafter. The adverse impact on unemployment will be somewhat smaller as population ageing reduces labour supply. Annual inflation is set to drop below 2% over the forecast period, which is nevertheless higher than the euro area average on account of relatively strong wage growth determined by the previous collective agreements.

Public finances are projected to remain in surplus over the forecast period, albeit declining from about 4½% of GDP in 2008 to about ½% by 2010. The government's fiscal stimulus package currently amounts to about 1.2% of GDP in 2009, largely spent on tax cuts to support household purchasing power. Given that central and local government finances will swing into deficit, the general government surplus position rests solely on the social security funds. Against the long term trend, the government debt to GDP ratio will edge up over the forecast period.

Table 26.1:

Main features of country forecast - FINLAND

		2007		Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at previous year prices		179.7	100.0	2.8	2.8	4.9	4.5	1.5	-1.2	1.2
Private consumption		90.6	50.4	2.2	3.3	4.1	3.2	2.2	0.5	1.8
Public consumption		38.2	21.2	0.8	1.9	0.6	1.3	1.3	1.9	1.5
Gross fixed capital formation		36.5	20.3	1.6	3.5	4.7	8.5	2.1	-3.8	0.3
of which : equipment		9.6	5.4	2.1	-0.2	4.1	11.5	2.3	-6.5	0.6
Exports (goods and services)		82.2	45.7	8.9	7.0	11.8	8.2	1.5	-4.0	1.1
Imports (goods and services)		73.1	40.7	6.5	11.8	7.8	6.6	1.2	-1.7	1.4
GNI at previous year prices (GDP deflator)		181.9	101.2	3.2	2.7	5.3	4.7	1.3	-1.3	1.2
Contribution to GDP growth :	Domestic demand			1.6	2.8	3.2	3.7	1.8	-0.1	1.3
	Stockbuilding			0.2	1.2	-0.2	0.6	0.4	0.0	0.0
	Foreign balance			1.1	-1.1	2.0	1.1	0.2	-1.1	-0.1
Employment				0.1	1.4	1.8	2.2	1.4	-1.5	-0.3
Unemployment rate (a)				11.9	8.4	7.7	6.9	6.4	7.8	8.0
Compensation of employees/head				2.9	3.8	2.9	3.5	5.7	4.3	4.2
Unit labour costs whole economy				0.2	2.3	-0.2	1.1	5.6	4.1	2.6
Real unit labour costs				-1.5	1.9	-1.4	-1.8	2.3	2.3	0.6
Savings rate of households (b)				-	-	5.6	5.5	6.5	8.4	9.3
GDP deflator				1.7	0.4	1.3	2.9	3.2	1.7	1.9
Harmonised index of consumer prices				1.7	0.8	1.3	1.6	3.9	1.8	1.8
Terms of trade of goods				-0.3	-4.3	-3.8	-1.6	-2.9	-0.4	-0.9
Trade balance (c)				8.6	4.9	5.5	4.9	3.5	2.2	1.7
Current account balance (c)				4.6	3.9	4.9	5.3	4.2	2.7	2.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				5.1	5.2	6.1	6.4	5.2	3.7	3.3
General government balance (c)				-0.5	2.9	4.1	5.3	4.5	2.0	0.5
Cyclically-adjusted budget balance (c)				0.2	3.3	3.5	3.9	3.6	2.7	1.5
Structural budget balance (c)				-	3.3	3.5	3.9	3.6	2.7	1.7
General government gross debt (c)				48.5	41.3	39.2	35.1	32.8	34.5	36.1

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
Note : Contributions to GDP growth may not add up due to statistical discrepancies.

27. SWEDEN

Swedish economic growth came to a grinding halt in 2008, with net exports continuing to exert a drag on activity as waning global demand weighed on exports. Until the summer, domestic demand held up reasonably well, but since then consumer and business survey indicators have plummeted along with stock market indices. The downturn accelerated towards the end of the year and GDP growth in the fourth quarter is expected to have fallen by more than 0.6% compared to the previous quarter. Overall growth in 2008 is estimated to have reached a meagre 0.5%.

The outlook for the forecast period is one of continued recession in the first half of 2009 with only a muted recovery taking hold thereafter. As the outlook for external demand remains subdued and credit conditions are still tight, both exports and investment are likely to continue to contract in the first half of the year. Private consumption should receive some support from rapidly falling consumer price inflation, monetary policy easing and already enacted or announced fiscal policy measures. However, worsening employment prospects and a weak housing market are likely to lead to only moderate private consumption growth over the forecast period. The combination of a gradual revival of global growth in the second half of 2009 and the significant depreciation of the Swedish krona over the last couple of months should lay the foundation for an export-led recovery. Corporate profitability should improve as wage developments are expected to be well contained despite a weakening krona. After falling by 1.4% in 2009, GDP should therefore rebound to about 1.2% in 2010.

The situation in the labour market has deteriorated rapidly in recent months, with the number of announced lay-offs rising to levels not seen since the crisis of the early 1990s and the number of vacancies dropping sharply. Unemployment is therefore expected to rise significantly from 6.2% of the labour force in 2008 to about 8½% in 2010.

Due to a combination of automatic stabilisers and both enacted and announced fiscal measures (the latter totalling about 1.4% of GDP in 2009), public surpluses of recent years are expected to turn into deficits of around 1¼-1½% of GDP in 2009 and 2010. The trend towards a lower government debt ratio should therefore come to an end.

Table 27.1:

Main features of country forecast - SWEDEN

		2007			Annual percentage change					
bn SEK		**Curr. prices**	**% GDP**	**92-04**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
GDP at previous year prices		3061.4	100.0	2.4	3.3	4.2	2.5	0.5	-1.4	1.2
Private consumption		1430.1	46.7	1.7	2.7	2.3	3.0	1.1	-0.2	1.4
Public consumption		792.8	25.9	0.6	0.4	2.0	0.4	1.1	0.6	0.2
Gross fixed capital formation		581.7	19.0	1.5	8.9	9.1	7.5	2.4	-6.9	-0.1
of which : equipment		242.1	7.9	4.6	12.3	9.3	10.1	4.0	-6.2	-2.0
Exports (goods and services)		1609.2	52.6	7.4	6.6	8.9	5.7	3.0	-1.6	3.1
Imports (goods and services)		1374.4	44.9	5.3	7.0	8.7	9.4	4.1	-2.1	2.8
GNI at previous year prices (GDP deflator)		3062.8	100.0	2.7	3.4	6.2	2.8	0.5	-1.4	1.2
Contribution to GDP growth :	Domestic demand			1.2	2.9	3.2	2.9	1.3	-1.3	0.7
	Stockbuilding			0.1	0.0	0.2	0.8	-0.5	-0.2	0.1
	Foreign balance			1.1	0.4	0.8	-1.1	-0.3	0.1	0.4
Employment				-0.3	0.3	1.7	2.2	0.7	-1.9	-1.3
Unemployment rate (a)				7.3	7.4	7.0	6.1	6.2	7.9	8.7
Compensation of employees/head				4.2	3.1	2.1	5.1	3.5	2.1	2.6
Unit labour costs whole economy				1.5	0.1	-0.4	4.7	3.7	1.6	0.1
Real unit labour costs				-0.2	-0.8	-2.1	1.7	0.9	0.5	-1.0
Savings rate of households (b)				-	-	9.9	11.2	9.4	13.0	12.7
GDP deflator				1.7	0.9	1.7	2.9	2.8	1.1	1.1
Harmonised index of consumer prices				1.9	0.8	1.5	1.7	3.3	0.7	1.0
Terms of trade of goods				-1.1	-2.0	-0.3	2.7	-0.5	1.4	-0.5
Trade balance (c)				6.1	5.8	5.6	4.6	4.3	5.2	5.2
Current account balance (c)				3.7	6.1	8.5	8.4	6.2	6.6	6.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				3.4	6.2	7.9	8.3	6.1	6.5	6.6
General government balance (c)				-2.6	2.4	2.3	3.6	2.3	-1.3	-1.4
Cyclically-adjusted budget balance (c)				-1.7	1.7	0.8	2.1	1.9	-0.2	-0.2
Structural budget balance (c)				-	1.7	0.8	2.1	1.6	-0.3	-0.2
General government gross debt (c)				62.8	50.9	45.9	40.6	34.8	36.2	36.0

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

28. THE UNITED KINGDOM

Due mainly to a sharp fall in fixed investment, quarterly GDP growth turned negative (-0.6%) in the third quarter of 2008. The weakening of domestic demand in the first three quarters is expected to have continued in the fourth, when output is projected to have contracted by 1¼%. The ongoing scarcity of credit and further residential property price falls will constrain growth further in 2009, when annual output is expected to contract by 2¾%. Despite the sharp fall in the effective exchange rate over 2007/08, net external demand will provide only limited support to growth in 2009, given the weakening of growth in UK export markets. Output is likely to show only a modest recovery in 2010, with annual growth of ¼%, driven by net external demand.

Given the pronounced fall in output, the unemployment rate is likely to rise to around 8% this year, while annual CPI inflation is expected to temporarily turn negative on account of energy price falls and the impact of the government's 2.5 percentage point reduction in the standard rate of value-added tax, effective for 13 months from 1 December 2008.

The government deficit is forecast to peak in 2009/10, but with no significant improvement foreseen in 2010/11. The financial sector upheaval will weigh on corporate tax revenue, while the fall in residential property transactions and house prices, expected to persist in 2009, is forecast to lead to cumulative losses in indirect tax revenue of ½% of GDP in 2008 and 2009.

General government projections on a financial year basis

	2007/08	2008/09	2009/10	2010/11
Budget balance	-2.8	-5.7	-9.5	-9.2
Debt	43.2	53.7	64.6	71.9

Most of the increase in the deficit is due to the weaker macroeconomic context, but the discretionary measures announced since May 2008, including the fiscal stimulus package, contribute to an increase in the deficit ratio by ½ p.p. in 2008/09 and 1 p.p. in 2009/10. The likelihood that economic activity in 2010 will be weaker than envisaged by the UK authorities also carries a risk that the fiscal tightening measures announced for 2010 will not be fully implemented, which would raise the deficit forecast in 2010/11 by up to ¾ p.p. of GDP. Government debt is forecast to rise to 72% of GDP in 2010/11.

Table 28.1:

Main features of country forecast - THE UNITED KINGDOM

		2007		Annual percentage change						
	bn GBP	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		1402.2	100.0	2.8	2.1	2.8	3.0	0.7	-2.8	0.2
Private consumption		894.8	63.8	3.3	1.9	2.1	3.1	1.8	-2.1	-0.2
Public consumption		296.3	21.1	1.8	1.7	1.6	1.7	3.4	1.5	1.1
Gross fixed capital formation		249.2	17.8	3.8	2.2	6.0	7.2	-4.5	-12.3	-1.7
of which : equipment		84.1	6.0	5.3	1.7	4.0	9.0	-2.6	-11.1	-2.8
Exports (goods and services)		370.1	26.4	5.4	8.1	11.0	-4.2	1.2	-1.5	1.5
Imports (goods and services)		416.7	29.7	6.6	7.0	9.6	-1.6	1.2	-3.2	0.3
GNI at constant prices (GDP deflator)		1421.2	101.4	3.1	2.3	1.8	3.7	1.2	-5.5	-0.3
Contribution to GDP growth :	Domestic demand			3.1	2.0	2.7	3.6	1.0	-3.2	-0.2
	Stockbuilding			0.1	0.0	0.0	0.2	-0.3	-0.1	0.0
	Foreign balance			-0.4	0.1	0.0	-0.7	0.0	0.6	0.4
Employment				0.7	1.0	0.9	0.7	0.5	-2.8	0.6
Unemployment rate (a)				6.9	4.8	5.4	5.3	5.7	8.2	8.1
Compensation of employees/head				4.3	3.7	4.6	3.7	2.8	1.7	1.4
Unit labour costs whole economy				2.1	2.7	2.6	1.3	2.5	1.7	1.9
Real unit labour costs				-0.4	0.4	0.0	-1.6	0.1	1.6	0.3
Savings rate of households (b)				-	-	4.2	1.8	0.6	4.1	6.1
GDP deflator				2.6	2.2	2.6	2.9	2.4	0.1	1.6
Harmonised index of consumer prices				1.9	2.1	2.3	2.3	3.4	0.1	1.1
Terms of trade of goods				0.3	-2.3	-0.6	1.6	0.4	-2.7	0.6
Trade balance (c)				-2.9	-5.5	-5.8	-6.4	-6.5	-6.8	-6.6
Current account balance (c)				-1.5	-2.6	-3.4	-2.8	-2.3	-5.7	-5.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.4	-2.5	-3.3	-2.6	-2.0	-5.5	-5.7
General government balance (c)				-2.8	-3.4	-2.7	-2.7	-4.6	-8.8	-9.6
Cyclically-adjusted budget balance (c)				-	-3.6	-3.2	-3.7	-5.2	-7.8	-8.3
Structural budget balance (c)				-	-3.9	-3.2	-3.7	-5.2	-7.8	-8.3
General government gross debt (c)				43.7	42.3	43.4	44.1	50.1	62.6	71.0

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

ANNEX

(a) GDP at constant prices (annual % change)

	5-year averages							Estimates	Forecasts	Scenario unchanged policies	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	2008	2009	2010	
BE	1.5	2.6	2.1	3.0	1.8	3.0	2.8	1.3	-1.9	0.3	BE
DE	1.4	2.1	0.9	1.2	0.8	3.0	2.5	1.3	-2.3	0.7	DE
IE	5.9	9.1	5.5	4.7	6.4	5.7	6.0	-2.0	-5.0	0.0	IE
EL	1.1	3.8	4.3	4.9	2.9	4.5	4.0	2.9	0.2	0.7	EL
ES	1.5	4.4	3.3	3.3	3.6	3.9	3.7	1.2	-2.0	-0.2	ES
FR	1.2	3.0	1.7	2.5	1.9	2.2	2.2	0.7	-1.8	0.4	FR
IT	1.2	2.0	0.9	1.5	0.6	1.8	1.5	-0.6	-2.0	0.3	IT
CY	5.5	4.2	3.3	4.2	3.9	4.1	4.4	3.6	1.1	2.0	CY
LU	2.6	6.3	4.4	4.5	5.2	6.4	5.2	1.0	-0.9	1.4	LU
MT	5.0	3.4	2.0	1.2	3.5	3.2	3.9	2.1	0.7	1.3	MT
NL	2.5	3.7	1.6	2.2	2.0	3.4	3.5	1.9	-2.0	0.2	NL
AT	1.8	2.6	2.2	2.5	2.9	3.4	3.1	1.7	-1.2	0.6	AT
PT	1.6	3.7	0.7	1.5	0.9	1.4	1.9	0.2	-1.6	-0.2	PT
SI	2.0	4.2	4.3	4.3	4.3	5.9	6.8	4.0	0.6	2.3	SI
SK	-	2.7	5.9	5.2	6.5	8.5	10.4	7.1	2.7	3.1	SK
FI	1.3	4.6	3.0	3.7	2.8	4.9	4.5	1.5	-1.2	1.2	FI
€ area	1.5	2.8	1.7	2.2	1.7	2.9	2.7	0.9	-1.9	0.4	€ area
BG	-2.8	2.0	5.7	6.6	6.2	6.3	6.2	6.4	1.8	2.5	BG
CZ	2.3	1.2	4.6	4.5	6.3	6.8	6.0	4.2	1.7	2.3	CZ
DK	2.6	2.4	1.8	2.3	2.4	3.3	1.6	-0.6	-1.0	0.6	DK
EE	-	6.6	8.4	7.5	9.2	10.4	6.3	-2.4	-4.7	1.2	EE
LV	-8.7	6.3	9.0	8.7	10.6	12.2	10.3	-2.3	-6.9	-2.4	LV
LT	-8.4	5.0	8.0	7.4	7.8	7.8	8.9	3.4	-4.0	-2.6	LT
HU	0.6	4.6	4.3	4.8	4.0	4.1	1.1	0.9	-1.6	1.0	HU
PL	4.9	4.4	4.1	5.3	3.6	6.2	6.7	5.0	2.0	2.4	PL
RO	1.4	-0.9	6.2	8.5	4.2	7.9	6.2	7.8	1.8	2.5	RO
SE	1.2	3.3	3.2	4.1	3.3	4.2	2.5	0.5	-1.4	1.2	SE
UK	2.5	3.4	2.5	2.8	2.1	2.8	3.0	0.7	-2.8	0.2	UK
EU	1.4	2.9	2.0	2.5	2.0	3.1	2.9	1.0	-1.8	0.5	EU
US	3.3	3.5	2.7	3.6	2.9	2.8	2.0	1.2	-1.6	1.7	US
JP	1.4	0.5	1.7	2.7	1.9	2.0	2.4	-0.1	-2.4	-0.2	JP

(b) Gross fixed capital formation in equipment (annual % change)

	5-year averages							Estimates	Forecasts	Scenario unchanged policies	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	2008	2009	2010	
BE	-0.5	6.2	2.0	7.5	5.4	5.1	8.2	6.4	-4.2	0.3	BE
DE	-2.9	6.3	2.9	4.6	6.0	11.1	6.9	5.6	-10.0	-1.1	DE
IE	8.9	10.0	5.6	9.5	21.7	-4.5	14.1	-10.0	-20.0	3.0	IE
EL	7.4	10.9	10.7	12.7	-1.0	14.2	9.1	4.3	-1.4	0.5	EL
ES	-0.1	9.1	5.1	5.1	9.2	10.2	10.0	0.1	-12.7	-4.5	ES
FR	0.8	7.6	1.2	2.3	3.2	2.8	5.8	1.3	-7.8	-0.4	FR
IT	0.1	5.2	0.9	3.0	1.3	3.5	-0.1	-2.9	-10.2	0.3	IT
CY	-	5.3	4.3	16.1	-5.6	15.5	4.9	5.0	1.2	1.2	CY
LU	-4.2	11.0	2.2	20.8	4.6	2.5	22.2	-10.0	-8.0	2.0	LU
MT	-	-	-	-	-	-	-	-	-	-	MT
NL	5.6	6.1	2.8	-2.5	3.2	14.1	8.7	9.7	-5.6	-0.1	NL
AT	2.9	2.9	0.5	-1.8	6.9	-0.8	5.9	2.4	-6.1	-0.7	AT
PT	1.1	9.1	-0.1	5.2	1.0	7.3	8.2	3.7	-11.0	-3.0	PT
SI	9.7	11.8	8.0	9.0	5.4	15.2	9.3	5.8	-2.1	4.4	SI
SK	-	1.8	4.4	3.5	22.0	-6.3	4.2	7.2	2.3	2.5	SK
FI	-1.4	6.7	1.2	0.4	-0.2	4.1	11.5	2.3	-6.5	0.6	FI
€ area	-	6.9	2.5	3.6	4.7	7.0	6.3	2.2	-9.2	-0.8	€ area
BG	-	-	-	-	-	-	-	-	-	-	BG
CZ	17.0	5.6	3.2	5.2	1.2	8.1	5.2	4.0	1.7	1.7	CZ
DK	3.4	6.2	2.8	3.2	1.6	13.2	5.4	-0.2	-3.2	-0.1	DK
EE	-	-	-	-	-	-	-	-7.0	-15.0	1.0	EE
LV	-	-	-	-	-	-	-	-	-	-	LV
LT	-	13.5	15.2	32.1	11.5	16.8	18.3	-5.3	-9.4	-2.1	LT
HU	-	-	-	-	-	-	-	2.0	-4.0	1.5	HU
PL	-	7.1	4.8	9.0	9.9	17.1	33.3	8.1	-4.9	-1.0	PL
RO	6.2	9.3	14.7	8.9	18.9	23.5	27.1	18.0	0.7	2.2	RO
SE	5.1	5.9	5.2	3.9	12.3	9.3	10.1	4.0	-6.2	-2.0	SE
UK	4.6	8.1	2.3	7.9	1.7	4.0	9.0	-2.6	-11.1	-2.8	UK
EU	-	-	-	-	-	-	-	-	-	-	EU

Note : - As usual, the forecasts are conditioned upon, inter alia, the technical assumption of 'no policy change'. This means that specific policy measures, especially in the budgetary field, which have not yet been disclosed are not taken into account. As a result, projections for 2010 are essentially an extrapolation of present trends.

(c) Total employment (annual % change)

	1992-96	5-year averages 1997-01	2002-06	2004	2005	2006	2007	Estimates 2008	Forecasts 2009	Scenario unchanged policies 2010	
BE	0.1	1.3	0.7	0.7	1.3	1.4	1.8	1.5	-0.7	-0.9	BE
DE	-1.4	0.0	-0.7	-0.4	-0.5	0.2	1.6	1.3	-0.8	-0.5	DE
IE	2.5	5.6	3.2	3.1	4.7	4.3	3.6	-0.9	-4.0	-1.5	IE
EL	1.0	0.7	1.7	2.3	1.0	2.1	1.3	0.8	-0.1	0.2	EL
ES	-0.3	4.1	2.8	2.7	3.2	3.2	3.0	-0.7	-3.9	-2.0	ES
FR	-0.5	1.7	0.5	0.1	0.6	0.8	1.4	0.8	-1.9	-0.7	FR
IT	-0.9	1.1	0.8	0.4	0.2	1.7	1.0	0.3	-1.8	-0.2	IT
CY	-	1.6	3.0	3.8	3.6	1.8	3.2	2.0	0.1	1.0	CY
LU	2.5	4.7	2.8	2.2	2.9	3.6	4.5	4.8	1.8	0.0	LU
MT	1.5	0.8	0.7	-0.6	1.3	1.3	3.0	1.1	0.2	0.5	MT
NL	1.0	2.4	-0.1	-1.0	0.0	1.9	2.3	1.8	-0.2	-1.0	NL
AT	0.0	0.8	0.6	0.3	1.2	1.4	1.8	1.6	-0.8	-0.4	AT
PT	-0.8	2.1	0.0	-0.1	-0.3	0.5	0.0	0.6	-0.9	-0.2	PT
SI	-	0.2	0.6	0.3	-0.1	1.5	3.0	1.8	-0.8	0.4	SI
SK	-	-1.1	0.9	-0.2	1.4	2.3	2.1	2.3	0.1	0.4	SK
FI	-2.3	2.3	0.9	0.4	1.4	1.8	2.2	1.4	-1.5	-0.3	FI
€ area	-0.6	1.4	0.6	0.5	0.7	1.4	1.7	0.7	-1.6	-0.7	€ area
BG	-1.6	-0.4	2.4	2.6	2.7	3.3	2.8	3.2	0.9	0.7	BG
CZ	-	-0.8	0.4	0.1	1.1	1.7	2.7	1.1	-0.2	-0.5	CZ
DK	0.1	1.0	0.3	-0.6	1.0	2.0	2.7	0.2	-1.7	-1.8	DK
EE	-	-1.3	1.9	0.1	1.8	5.6	0.4	-0.8	-4.0	-1.1	EE
LV	-7.4	0.3	2.2	1.1	1.7	4.7	3.5	1.0	-5.1	-2.8	LV
LT	-2.7	-2.1	2.0	0.0	2.5	1.7	1.9	-1.7	-3.9	-1.6	LT
HU	-	1.3	0.3	-0.5	0.4	0.9	-0.1	-1.2	-2.0	-0.4	HU
PL	-	-1.0	0.5	1.3	2.3	3.3	4.5	3.0	-0.6	-0.8	PL
RO	-2.8	-1.8	-1.1	-1.7	-1.5	0.7	0.4	1.1	0.0	0.5	RO
SE	-1.9	1.4	0.1	-0.7	0.3	1.7	2.2	0.7	-1.9	-1.3	SE
UK	0.0	1.2	0.9	1.0	1.0	0.9	0.7	0.5	-2.8	0.6	UK
EU	-	0.9	0.6	0.5	0.8	1.5	1.7	0.9	-1.6	-0.5	EU

(d) Number of unemployed (as % of the labour force)

	1992-96	5-year averages 1997-01	2002-06	2004	2005	2006	2007	Estimates 2008	Forecasts 2009	Scenario unchanged policies 2010	
BE	8.9	8.1	8.2	8.4	8.5	8.3	7.5	6.9	8.0	9.2	BE
DE	7.8	8.4	9.6	9.8	10.7	9.8	8.4	7.1	7.7	8.1	DE
IE	13.9	6.3	4.5	4.5	4.4	4.5	4.6	6.5	9.7	10.7	IE
EL	8.8	10.9	9.9	10.5	9.9	8.9	8.3	8.3	9.0	9.4	EL
ES	17.8	13.1	10.1	10.6	9.2	8.5	8.3	11.3	16.1	18.7	ES
FR	11.0	10.0	9.1	9.3	9.2	9.2	8.3	7.8	9.8	10.6	FR
IT	10.3	10.6	7.9	8.1	7.7	6.8	6.1	6.7	8.2	8.7	IT
CY	-	3.9	4.5	4.7	5.3	4.6	4.0	3.9	5.1	5.5	CY
LU	2.7	2.4	4.1	5.0	4.6	4.6	4.1	4.1	4.9	5.8	LU
MT	5.2	6.8	7.4	7.4	7.2	7.1	6.4	6.5	7.4	7.9	MT
NL	6.2	3.4	3.9	4.6	4.7	3.9	3.2	2.9	4.1	5.5	NL
AT	3.9	4.0	4.7	4.9	5.2	4.8	4.4	4.1	5.1	6.1	AT
PT	6.2	4.9	6.7	6.7	7.7	7.8	8.1	7.8	8.8	9.1	PT
SI	-	6.9	6.4	6.3	6.5	6.0	4.9	4.5	5.2	5.2	SI
SK	-	15.8	16.8	18.2	16.3	13.4	11.1	9.8	10.6	10.5	SK
FI	14.9	10.6	8.6	8.8	8.4	7.7	6.9	6.4	7.8	8.0	FI
€ area	10.2	9.3	8.7	9.0	9.0	8.3	7.5	7.5	9.3	10.2	€ area
BG	14.1	16.4	12.6	12.1	10.1	9.0	6.9	6.0	6.3	6.4	BG
CZ	-	7.3	7.7	8.3	7.9	7.2	5.3	5.0	5.7	6.6	CZ
DK	7.8	4.8	4.8	5.5	4.8	3.9	3.8	3.5	4.5	5.6	DK
EE	-	11.1	8.8	9.7	7.9	5.9	4.7	5.1	8.8	9.7	EE
LV	13.8	14.0	9.8	10.4	8.9	6.8	6.0	6.5	10.4	11.4	LV
LT	5.0	13.3	10.3	11.4	8.3	5.6	4.3	5.4	8.8	10.2	LT
HU	10.3	7.3	6.5	6.1	7.2	7.5	7.4	7.7	8.8	9.1	HU
PL	13.4	13.8	18.1	19.0	17.8	13.9	9.6	7.4	8.4	9.6	PL
RO	5.8	6.4	7.6	8.1	7.2	7.3	6.4	6.2	7.0	6.9	RO
SE	8.5	7.1	6.2	6.3	7.4	7.0	6.1	6.2	7.9	8.7	SE
UK	9.1	5.8	5.0	4.7	4.8	5.4	5.3	5.7	8.2	8.1	UK
EU	9.8	8.8	8.8	9.0	8.9	8.2	7.1	7.0	8.7	9.5	EU

Note : - As usual, the forecasts are conditioned upon, inter alia, the technical assumption of 'no policy change'. This means that specific policy measures, especially in the budgetary field, which have not yet been disclosed are not taken into account. As a result, projections for 2010 are essentially an extrapolation of present trends.

(e) Inflation (1) (annual % change)

	5-year averages							Estimates	Forecasts	Scenario unchanged policies	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	2008	2009	2010	
BE	1.8	1.7	2.0	1.9	2.5	2.3	1.8	4.5	1.1	2.0	BE
DE	2.4	1.2	1.6	1.8	1.9	1.8	2.3	2.8	0.8	1.4	DE
IE	2.6	3.0	3.2	2.3	2.2	2.7	2.9	3.1	0.7	1.8	IE
EL	11.6	3.7	3.4	3.0	3.5	3.3	3.0	4.2	2.5	2.7	EL
ES	4.9	2.4	3.3	3.1	3.4	3.6	2.8	4.1	0.6	2.4	ES
FR	1.6	1.2	2.1	2.3	1.9	1.9	1.6	3.2	0.8	1.5	FR
IT	5.1	2.1	2.4	2.3	2.2	2.2	2.0	3.5	1.2	2.2	IT
CY	-	2.7	2.6	1.9	2.0	2.2	2.2	4.4	2.0	2.3	CY
LU	2.8	1.9	2.9	3.2	3.8	3.0	2.7	4.1	0.6	2.5	LU
MT	-	3.1	2.5	2.7	2.5	2.6	0.7	4.6	1.9	2.2	MT
NL	2.4	2.6	2.1	1.4	1.5	1.7	1.6	2.2	1.9	1.8	NL
AT	2.8	1.3	1.7	2.0	2.1	1.7	2.2	3.3	1.2	1.6	AT
PT	5.7	2.7	2.9	2.5	2.1	3.0	2.4	2.7	1.0	2.0	PT
SI	45.8	8.0	4.3	3.7	2.5	2.5	3.8	5.5	0.9	2.8	SI
SK	-	8.5	5.3	7.5	2.8	4.3	1.9	4.0	2.9	3.5	SK
FI	1.9	1.9	1.1	0.1	0.8	1.3	1.6	3.9	1.8	1.8	FI
€ area	3.6	1.8	2.2	2.2	2.2	2.2	2.1	3.3	1.0	1.8	€ area
BG	80.5	-	5.5	6.1	6.0	7.4	7.6	12.0	5.4	4.8	BG
CZ	11.2	5.6	1.5	2.6	1.6	2.1	3.0	6.3	2.6	2.3	CZ
DK	1.7	2.1	1.8	0.9	1.7	1.9	1.7	3.6	1.6	1.9	DK
EE	-	6.1	3.3	3.0	4.1	4.4	6.7	10.6	3.2	2.7	EE
LV	-	3.9	4.9	6.2	6.9	6.6	10.1	15.3	6.8	2.4	LV
LT	-	3.9	1.4	1.2	2.7	3.8	5.8	11.1	5.6	4.8	LT
HU	-	12.3	4.8	6.8	3.5	4.0	7.9	6.1	2.8	2.2	HU
PL	31.6	9.8	1.9	3.6	2.2	1.3	2.6	4.2	2.9	2.5	PL
RO	117.3	63.2	12.9	11.9	9.1	6.6	4.9	7.9	5.7	4.0	RO
SE	3.1	1.5	1.5	1.0	0.8	1.5	1.7	3.3	0.7	1.0	SE
UK	3.4	1.3	1.7	1.3	2.1	2.3	2.3	3.4	0.1	1.1	UK
EU	20.9	4.3	2.3	2.3	2.3	2.3	2.4	3.7	1.2	1.9	EU
US	2.3	1.8	2.4	2.6	2.9	2.8	2.6	3.4	0.4	0.7	US
JP	0.2	-0.2	-0.8	-0.7	-0.8	-0.2	-0.4	0.6	-1.4	-0.5	JP

(1) Consumer prices (harmonised index) from 1996 onwards for the EU, deflator of private consumption otherwise.

(f) Current account balance (as a % of GDP)

	5-year averages							Estimates	Forecasts	Scenario unchanged policies	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	2008	2009	2010	
BE	4.6	4.8	3.7	3.8	2.9	2.5	2.4	-0.7	-1.0	-1.5	BE
DE	-1.1	-0.8	4.1	4.8	5.3	6.3	7.6	7.1	5.2	5.4	DE
IE	2.6	0.7	-1.2	0.0	-3.1	-3.6	-5.4	-5.7	-3.5	-3.5	IE
EL	-0.6	-7.0	-11.5	-10.4	-10.6	-11.4	-14.0	-13.4	-12.8	-13.2	EL
ES	-1.4	-2.4	-6.0	-5.9	-7.5	-9.0	-10.1	-9.4	-7.1	-6.6	ES
FR	0.5	1.9	-0.7	-0.6	-1.8	-2.1	-2.8	-3.8	-4.0	-3.9	FR
IT	1.0	1.2	-1.0	-0.5	-1.2	-2.0	-1.7	-2.2	-1.2	-1.4	IT
CY	-	-4.3	-4.5	-5.0	-5.9	-5.9	-9.7	-13.4	-12.0	-11.0	CY
LU	12.8	10.0	10.4	11.8	11.0	10.5	9.8	8.0	6.3	6.3	LU
MT	-	-6.4	-4.7	-5.8	-8.7	-8.2	-5.5	-6.5	-7.0	-7.1	MT
NL	4.6	4.8	7.6	8.6	7.5	9.8	9.8	8.4	6.5	6.1	NL
AT	-2.1	-1.4	2.3	2.2	2.1	2.5	3.3	3.1	2.5	2.6	AT
PT	-3.1	-8.7	-8.6	-7.8	-9.8	-10.4	-9.9	-11.8	-9.7	-10.2	PT
SI	2.5	-1.8	-1.4	-2.6	-1.8	-2.4	-4.0	-6.0	-5.8	-6.0	SI
SK	-	-6.4	-7.3	-6.6	-8.6	-7.4	-5.1	-6.0	-6.2	-6.3	SK
FI	0.7	7.2	5.8	6.7	3.9	4.9	5.3	4.2	2.7	2.3	FI
€ area	0.3	0.4	0.5	1.0	0.2	0.2	0.2	-0.4	-0.6	-0.6	€ area
BG	-4.3	-2.7	-9.0	-6.5	-11.5	-18.6	-22.5	-24.7	-20.8	-19.6	BG
CZ	-2.1	-4.1	-4.4	-5.5	-1.7	-2.2	-1.5	-0.9	-2.1	-2.6	CZ
DK	1.8	1.2	3.2	3.0	4.3	2.9	0.7	1.5	1.3	1.3	DK
EE	-	-7.5	-12.2	-12.4	-10.1	-16.7	-18.3	-10.1	-5.7	-4.3	EE
LV	6.0	-7.3	-12.5	-12.8	-12.5	-22.5	-22.9	-14.9	-6.5	-5.5	LV
LT	-	-8.6	-7.4	-7.5	-7.1	-10.4	-15.1	-12.6	-7.0	-7.6	LT
HU	-	-8.0	-7.7	-8.6	-7.5	-7.5	-6.4	-7.2	-5.5	-5.2	HU
PL	0.6	-4.0	-2.4	-4.1	-1.2	-2.9	-4.7	-5.6	-5.6	-5.0	PL
RO	-	-5.0	-6.3	-5.8	-8.9	-10.6	-13.6	-12.9	-11.9	-11.1	RO
SE	1.3	4.6	6.7	6.7	6.1	8.5	8.4	6.2	6.6	6.7	SE
UK	-1.4	-1.5	-2.3	-2.1	-2.6	-3.4	-2.8	-2.3	-5.7	-5.9	UK
EU	-0.1	0.0	0.0	0.3	-0.2	-0.5	-0.5	-1.0	-1.4	-1.4	EU

Note : - As usual, the forecasts are conditioned upon, inter alia, the technical assumption of 'no policy change'. This means that specific policy measures, especially in the budgetary field, which have not yet been disclosed are not taken into account. As a result, projections for 2010 are essentially an extrapolation of present trends.

(g) General government net lending (+) or borrowing (-) (as a % of GDP) (1)

	5-year averages							Estimates	Forecasts	Scenario unchanged policies	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	2008	2009	2010	
BE	-5.4	-0.6	-0.5	-0.2	-2.6	0.3	-0.3	-0.9	-3.0	-4.3	BE
DE	-3.0	-1.6	-3.3	-3.8	-3.3	-1.5	-0.2	-0.1	-2.9	-4.2	DE
IE	-1.7	2.4	1.2	1.4	1.7	3.0	0.2	-6.3	-11.0	-13.0	IE
EL	-9.8	-4.2	-5.2	-7.5	-5.1	-2.8	-3.5	-3.4	-3.7	-4.2	EL
ES	-5.6	-1.9	0.4	-0.3	1.0	2.0	2.2	-3.4	-6.2	-5.7	ES
FR	-4.9	-2.1	-3.2	-3.6	-2.9	-2.4	-2.7	-3.2	-5.4	-5.0	FR
IT	-8.3	-2.2	-3.5	-3.5	-4.3	-3.4	-1.6	-2.8	-3.8	-3.7	IT
CY	-	-	-3.7	-4.1	-2.4	-1.2	3.4	1.0	-0.6	-1.0	CY
LU	1.6	4.5	0.5	-1.2	-0.1	1.3	3.2	3.0	0.4	-1.4	LU
MT	-	-7.6	-5.0	-4.7	-2.8	-2.3	-1.8	-3.5	-2.6	-2.5	MT
NL	-3.3	0.0	-1.3	-1.7	-0.3	0.6	0.3	1.1	-1.4	-2.7	NL
AT	-4.1	-1.6	-1.9	-4.4	-1.5	-1.5	-0.4	-0.6	-3.0	-3.6	AT
PT	-4.7	-3.4	-3.8	-3.4	-6.1	-3.9	-2.6	-2.2	-4.6	-4.4	PT
SI	-	-2.9	-2.0	-2.2	-1.4	-1.2	0.5	-0.9	-3.2	-2.8	SI
SK	-	-7.6	-3.9	-2.3	-2.8	-3.5	-1.9	-2.2	-2.8	-3.6	SK
FI	-5.8	2.8	3.2	2.4	2.9	4.1	5.3	4.5	2.0	0.5	FI
€ area	-5.0	-1.6	-2.5	-2.9	-2.5	-1.3	-0.6	-1.7	-4.0	-4.4	€ area
BG	-	1.4	1.1	1.6	1.9	3.0	0.1	3.2	2.0	2.0	BG
CZ	-	-4.4	-4.5	-3.0	-3.6	-2.7	-1.0	-1.2	-2.5	-2.3	CZ
DK	-2.5	1.0	2.6	2.0	5.2	5.2	4.5	3.1	-0.3	-1.5	DK
EE	-	-0.5	1.6	1.7	1.5	2.9	2.7	-2.0	-3.2	-3.2	EE
LV	-	-1.5	-1.1	-1.0	-0.4	-0.2	0.1	-3.5	-6.3	-7.4	LV
LT	-	-4.9	-1.1	-1.5	-0.5	-0.4	-1.2	-2.9	-3.0	-3.4	LT
HU	-	-5.3	-7.9	-6.4	-7.8	-9.3	-5.0	-3.3	-2.8	-3.0	HU
PL	-	-3.9	-5.0	-5.7	-4.3	-3.8	-2.0	-2.5	-3.6	-3.5	PL
RO	-	-	-1.6	-1.2	-1.2	-2.2	-2.5	-5.2	-7.5	-7.9	RO
SE	-7.7	1.2	0.7	0.8	2.4	2.3	3.6	2.3	-1.3	-1.4	SE
UK	-6.0	0.6	-3.1	-3.7	-3.4	-2.7	-2.7	-4.6	-8.8	-9.6	UK
EU	-	-1.4	-2.5	-2.9	-2.4	-1.4	-0.9	-2.0	-4.4	-4.8	EU

(1) The net lending (borrowing) includes in 2000-2005 one-off proceeds relative to UMTS licences.

(h) General government gross debt (as a % of GDP)

								Estimates	Forecasts	Scenario unchanged policies	
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
BE	106.5	103.4	98.6	94.3	92.1	87.8	83.9	88.3	91.2	94.0	BE
DE	58.8	60.3	63.8	65.6	67.8	67.6	65.1	65.6	69.6	72.3	DE
IE	35.5	32.2	31.1	29.4	27.3	24.7	24.8	40.8	54.8	68.2	IE
EL	102.9	101.5	97.8	98.6	98.8	95.9	94.8	94.0	96.2	98.4	EL
ES	55.5	52.5	48.7	46.2	43.0	39.6	36.2	39.8	46.9	53.0	ES
FR	56.2	58.2	62.9	64.9	66.4	63.6	63.9	67.1	72.4	76.0	FR
IT	108.8	105.7	104.4	103.8	105.9	106.9	104.1	105.7	109.3	110.3	IT
CY	60.7	64.6	68.9	70.2	69.1	64.6	59.4	48.1	46.7	45.7	CY
LU	6.5	6.5	6.2	6.3	6.1	6.6	7.0	14.4	15.0	15.1	LU
MT	62.1	60.1	69.3	72.1	69.8	63.8	61.9	63.3	64.0	64.2	MT
NL	50.7	50.5	52.0	52.4	51.8	47.4	45.7	57.3	53.2	55.2	NL
AT	67.0	66.4	65.4	64.8	63.7	62.0	59.5	59.4	62.3	64.7	AT
PT	52.9	55.5	56.9	58.3	63.6	64.7	63.6	64.6	68.2	71.7	PT
SI	27.4	28.1	27.5	27.2	27.0	26.7	23.4	22.1	24.8	25.8	SI
SK	48.9	43.4	42.4	41.4	34.2	30.4	29.4	28.6	30.0	31.9	SK
FI	42.3	41.3	44.3	44.1	41.3	39.2	35.1	32.8	34.5	36.1	FI
€ area	68.0	67.8	69.1	69.5	70.0	68.3	66.1	68.7	72.7	75.8	€ area
BG	67.3	53.6	45.9	37.9	29.2	22.7	18.2	13.8	12.2	10.7	BG
CZ	25.1	28.5	30.1	30.4	29.8	29.6	28.9	27.9	29.4	30.6	CZ
DK	47.4	46.8	45.8	43.8	36.4	30.7	26.3	30.3	28.4	27.0	DK
EE	4.8	5.6	5.5	5.0	4.5	4.3	3.5	4.3	6.1	7.6	EE
LV	14.0	13.5	14.6	14.9	12.4	10.7	9.5	16.0	30.4	42.9	LV
LT	23.1	22.3	21.1	19.4	18.4	18.0	17.0	17.1	20.0	23.3	LT
HU	52.1	55.8	58.1	59.4	61.7	65.6	65.8	71.9	73.8	74.0	HU
PL	37.6	42.2	47.1	45.7	47.1	47.7	44.9	45.5	47.7	49.7	PL
RO	26.0	24.9	21.5	18.7	15.8	12.4	12.7	15.2	21.1	26.8	RO
SE	54.4	52.6	52.3	51.2	50.9	45.9	40.6	34.8	36.2	36.0	SE
UK	37.7	37.5	38.7	40.6	42.3	43.4	44.1	50.1	62.6	71.0	UK
EU	60.8	60.2	61.8	62.2	62.7	61.3	58.7	60.6	67.4	70.9	EU

Note : - As usual, the forecasts are conditioned upon, inter alia, the technical assumption of 'no policy change'. This means that specific policy measures, especially in the budgetary field, which have not yet been disclosed are not taken into account. As a result, projections for 2010 are essentially an extrapolation of present trends.