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BETTER POLICIES FOR BETTER LIVES

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Conventional signs

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

Summary of projections

	2012	2013	2014	2012		2013				2014				2012	2013	2014
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4 / Q4		
								Per cent								
Real GDP growth																
United States	2.2	1.9	2.8	3.1	0.4	2.5	1.6	1.8	2.6	3.0	3.2	3.4	3.4	1.7	2.1	3.2
Euro area	-0.5	-0.6	1.1	-0.3	-2.4	-0.6	0.0	0.4	0.7	1.2	1.4	1.6	1.8	-0.9	0.1	1.5
Japan	2.0	1.6	1.4	-3.5	1.0	3.5	2.4	2.6	3.2	3.3	-4.3	1.6	1.5	0.5	3.0	0.5
Total OECD	1.4	1.2	2.3	1.1	-0.2	1.7	1.5	1.8	2.2	2.5	2.0	2.7	2.8	0.8	1.8	2.5
China	7.8	7.8	8.4											7.8	7.9	8.3
Inflation[1]								year-on-year								
United States	1.8	1.3	1.8	1.5	1.6	1.2	1.3	1.3	1.3	1.6	1.8	1.9	1.9			
Euro area	2.5	1.5	1.2	2.5	2.3	1.8	1.6	1.4	1.0	1.2	1.2	1.2	1.2			
Japan	0.0	-0.1	1.8	-0.3	-0.2	-0.6	-0.3	0.1	0.2	0.4	2.3	2.3	2.4			
Total OECD	2.1	1.5	1.9	1.8	1.8	1.5	1.4	1.5	1.4	1.6	1.9	2.0	2.0			
China	2.6	2.5	2.6	1.8	2.0	2.3	2.3	2.6	2.7	2.5	2.6	2.7	2.7			
Unemployment rate[2]																
United States	8.1	7.5	7.0	8.0	7.8	7.7	7.5	7.5	7.4	7.3	7.1	6.9	6.7			
Euro area	11.2	12.1	12.3	11.3	11.6	11.8	12.0	12.2	12.3	12.3	12.3	12.3	12.3			
Japan	4.3	4.2	4.1	4.3	4.2	4.2	4.2	4.1	4.1	4.1	4.1	4.1	4.1			
Total OECD	8.0	8.1	8.0	8.0	8.0	8.1	8.1	8.1	8.1	8.1	8.0	7.9	7.8			
World trade growth	2.7	3.6	5.8	0.8	0.9	5.8	3.6	4.8	5.4	6.1	6.3	6.4	6.5	2.5	4.9	6.3
Current account balance[3]																
United States	-3.0	-3.1	-3.3													
Euro area	1.9	2.5	2.8													
Japan	1.0	1.0	1.9													
Total OECD	-0.5	-0.4	-0.3													
China	2.4	2.3	1.4													
Fiscal balance[3]																
United States	-8.7	-5.4	-5.3													
Euro area	-3.7	-3.0	-2.5													
Japan	-9.9	-10.3	-8.0													
Total OECD	-5.7	-4.3	-3.8													
China	-0.4	-1.4	-1.5													
Short-term interest rate																
United States	0.4	0.3	0.2	0.4	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2			
Euro area	0.6	0.1	0.0	0.4	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0			
Japan	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1			

Note: Real GDP growth and world trade growth (the arithmetic average of world merchandise import and export volumes) are seasonally and working-day adjusted annualised rates. Inflation is measured by the increase in the consumer price index or private consumption deflator for the United States and total OECD. The "fourth quarter" columns are expressed in year-on-year growth rates where appropriate and in levels otherwise. Interest rates are for the United States: 3-month eurodollar deposit; Japan: 3-month certificate of deposits; euro area: 3-month interbank rate.

The cut-off date for information used in the compilation of the projections is 16 May 2013.

1. USA; price index for personal consumption expenditure, Japan and China; consumer price index and the euro area; harmonised index of consumer prices.
2. Per cent of the labour force.
3. Per cent of GDP.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932836829

EDITORIAL
MULTIPLE PATHS TO RECOVERY

While still disappointing, the global economy is moving forward, and it is doing so at multiple speeds. These multiple speeds reflect different paths towards self-sustained growth, with each path carrying its own mix of risks.

In the United States, large imbalances had built up prior to the crisis and eventually erupted, but the economy has undergone significant adjustment, which is beginning to bear fruit. The combination of a repaired financial system and a revival in confidence is driving growth. Private sector demand is stabilising as household deleveraging is far advanced, house prices are rebounding and wealth accumulation is supporting consumption. Employment is growing, adding to confidence. Fiscal policy should reduce the effects of excessive tightening coming from across-the-board sequestration, by refocusing or limiting the cuts in the current year, while ensuring a credible medium-term consolidation path. Monetary policy should remain accommodative but vigilant, as declining benefits of further quantitative easing are likely at some point to be outweighed by increasing costs in terms of misallocation and excessive risk-taking.

In Japan, imbalances had been building up long before the crisis, but a radically new policy is being implemented only now. High debt, weak potential growth and persistent deflation are being tackled by a policy mix which includes aggressive monetary policy and the promise of decisive fiscal consolidation, as well as the implementation of structural reforms. While the policy shift is welcome, it will take a delicate balancing act to boost growth in a more sustainable way, raise inflationary expectations to beat deflation and secure the sustainability of a huge public debt.

In the euro area, still-rising unemployment is the most pressing challenge for policy makers. Protracted weakness could evolve into stagnation with negative implications for the global economy. Such a perspective would resonate negatively with large persistent risks of adverse interactions between weakly capitalised banks, public debt financing requirements and exit risks. The more positive news is that in many euro area countries adjustment, both fiscal and structural, has been going on for several years. Government debt ratios should start to decline soon with positive implications for market risk assessments. And once debt ratios begin to decline, only modest additional fiscal tightening would be needed to bring them to safe levels over the medium term. The improvement in competitiveness in some countries also reflects structural efforts. However, reform fatigue is mounting as visible results in growth and jobs still fail to materialise, in part because reforms can take time to bring results but also due to the weak macroeconomic environment. Higher wages and product market liberalisation in surplus countries would provide a more symmetric and effective rebalancing, while supporting growth.

The macroeconomic policy stance in the euro area should be more supportive to avoid dissipating the benefits of adjustment. The ECB has appropriately lowered its policy rate and committed to maintain an accommodative stance for as long as needed, but more can be done through further non-conventional measures. In addition, progress on financial sector repair is needed to ensure that the impact of monetary policy is uniformly transmitted to the real economy. As weakness persists, the automatic stabilisers should be allowed to operate freely. Last but not least, the strengthening of euro area institutions, in particular banking union, must continue. As euro area policy has often been behind the curve, perceptions of strong disagreement among members states could have negative consequences on confidence and exacerbate fragmentation.

Outside the major developed economies, there is a large and heterogeneous group of "innocent bystanders", some advanced and many emerging market economies, without large pre-crisis imbalances and with solid growth in the recovery, but where new imbalances, often resulting from spillovers from the policy stance in other regions, are emerging through inflationary pressures and high and rising asset prices.

What lessons can be drawn from such diverse performance across countries? To some extent, at least, different paths to sustainable growth reflect uneven progress in two dimensions: confidence-building and financial sector repair.

Confidence is essential for both companies and households to boost spending, especially on investment, which continues to remain below average in many advanced and some emerging countries. It is the duty of policy to rebuild confidence through credible medium-term frameworks involving all policy pillars: monetary, fiscal, financial, structural, and, especially in the case of the euro area, institutional. The policy mix should be balanced and based on multiple pillars, as relying only on a limited set of instruments could lead to renewed instability.

Financial sector repair is needed to ensure that confidence feeds into stronger activity. The difference in the paths to recovery reflects, importantly, the decisive action in this area in the United States relative to the long delay in Japan and in the euro area.

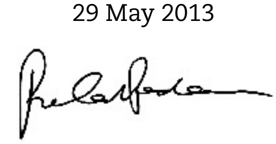
Fiscal policy will continue to be geared towards consolidation. Its composition should be adjusted to make it more growth-friendly and improve its impact on equity and income distribution. The pace of deficit reduction should be slower if weakness persists. In this respect, it may be worth recalling that, contrary to widespread perceptions, the pace of consolidation on the two sides of the Atlantic has been not so dissimilar. Differences in activity and employment performance are likely to reflect differences in labour market institutions and financial sector repair.

With limited fiscal space, monetary policy will continue to bear most responsibility for supporting activity, including through unconventional measures. The United States and now Japan have taken this route, less so the euro area. At the same time, protracted monetary easing may lead to excessive risk taking, bubbles and resource misallocation. Exit from unconventional monetary policy, when needed, may be difficult to manage and less smooth than desirable, possibly leading to sharp rises in bond yields and serious negative consequences for growth in a number of advanced and emerging economies.

In any case, restoring a more normal stance of monetary policy can hardly be achieved without a sustainable fiscal path. And debt sustainability cannot be obtained without sustained and sustainable growth which, in turn, requires strong efforts in structural reforms. From this point of view, Japan, among the large advanced economies has been lagging behind, less so the euro area. In the euro area, however, progress is still needed in addressing barriers in labour markets, and especially those facing the young generations.

Finally, in such a diverse, multiple-path environment, internal and external imbalances are more likely to increase than the opposite. Current account imbalances are still large and could be rising in the future, while unorthodox monetary policies are likely to generate shock waves both during their implementation and once they begin to be withdrawn. National policy frameworks will be less credible if they conflict with each other or disregard spillover effects. Adjusting the composition of national policy packages in a cooperative fashion to facilitate rebalancing and minimise adverse spillover effects is necessary. It is also possible.

29 May 2013



Pier Carlo Padoan
Deputy Secretary-General and Chief Economist

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volume 2013/1

Chapter 1

GENERAL ASSESSMENT OF THE MACROECONOMIC SITUATION

Summary

- In the absence of adverse events, growth in advanced economies should strengthen gradually after the middle of 2013 and through 2014, helped by on-going support from accommodative monetary policies, improving financial market conditions and a gradual restoration of confidence.
- The upturn continues to diverge across countries, with the United States likely to grow faster than other large OECD economies. Euro area growth remains constrained by the lingering effects of the euro area crisis, the on-going drag from fiscal consolidation and weaknesses in credit markets. Various policy influences seem likely to result in an irregular growth pattern in Japan. Within an overall pattern of only modest and gradual acceleration, growth outcomes in emerging market economies are also diverging, with China in the lead and growth in others restrained by structural factors, with stagflationary tendencies in some.
- Labour markets are set to firm gently in the United States and Japan, but unemployment is likely to continue to rise further in the euro area, stabilising at a very high level only in 2014. Structural reforms are essential to prevent cyclical unemployment from becoming structural.
- Inflation is likely to drift up from its current low rate in the United States, while aggressive monetary easing could see deflation give way to moderately positive underlying inflation in Japan. By contrast, inflation in the euro area is set to remain very low. Inflation rates are likely to vary across the large emerging market economies.
- Monetary policy needs to remain extraordinarily easy in the United States. However, the pace of further easing through additional asset purchases may need to be gradually reduced. Additional easing of monetary policy is needed in the euro area, with interest rates reduced as much as possible and asset purchases being undertaken in a manner consistent with the nature of the euro area. The recent quantitative and qualitative monetary easing in Japan is overdue and should help to attain the new inflation target.
- Countries should proceed with their structural fiscal consolidation commitments whilst allowing the automatic stabilisers to operate fully. In the United States, the automatic across-the-board budget spending cuts should be made less harmful to growth and a credible long-term fiscal plan needs to be put in place; in Japan, fiscal consolidation should commence in 2014, as planned, and a credible medium-term fiscal plan is necessary to maintain market confidence in the face of challenging debt dynamics; and in the euro area, structural consolidation should proceed at the slower pace planned and should by 2014 have reached a level that would lead to declining debt ratios in the longer term in the area as a whole and in most member countries.
- Downside risks to the outlook still dominate, even if they have narrowed as a result of actions by the monetary authorities in the euro area and the resolution of the fiscal cliff in the United States.
- Negative risks still remain in the euro area, and events could still trigger off adverse interactions between weakly capitalised banks, government finances, the real economy and exit risks. Further policy measures and institution building are necessary to reduce such risks, including expediting the construction of a full-fledged banking union. Structural reforms remain crucial to address underlying economic imbalances between the core and the periphery, though progress has been made in the periphery.
- Potential bond market instability in the run-up to the eventual move towards exit from unconventional monetary policy is also a downside risk; if a sharp rise in US government bond yields were to occur it could have serious consequences for the global economy.
- Fiscal policy risks also remain, related to uncertainty about the impact of poorly targeted budgetary sequestration in the United States and unsustainable public finances in Japan.
- A risk shared by OECD and emerging market economies is that the rate of potential growth has become more uncertain since the onset of the global crisis.

Introduction

The recovery over the past four years has been weak and uneven…

The global recovery over the past four years has been muted and uneven, with increasingly divergent cross-country activity developments among both advanced and emerging economies. Countries without large pre-crisis imbalances, notably the large emerging market economies and some English-speaking and Nordic economies, have had solid growth outcomes in the recovery period, although imbalances are now possibly emerging, with inflationary pressures and high asset prices in the general low-interest rate environment. Improving growth outcomes are also now appearing in those countries that had sizeable pre-crisis imbalances but have subsequently acted decisively to recapitalise banks and ease monetary policy aggressively, such as the United States. In contrast, countries that had built up large imbalances inside the euro area, with its incomplete institutional set-up and weak bank capitalisation, have been mired in recession against the background of imperfect monetary policy transmission, large fiscal consolidation needs and fears of break-up. In most of the OECD area, fiscal policy is not able to support growth and the burden of stabilisation has fallen on monetary policy with a number of accompanying strains and international spill-over effects.

… and this is set to continue with significant divergence across countries

Growth is set to remain higher in the United States than in the euro area (Table 1.1), despite stronger fiscal headwinds, with activity levels boosted by very accommodative monetary policy and strengthened private sector balance sheets. Japan is in a robust recovery this year but there is considerable uncertainty as to whether the new and decisive monetary policy regime will overcome the headwinds from strong fiscal contraction in 2014. In the key emerging market economies, growth will remain strongest in China, where scope remains for policy stimulus to support activity if growth were to weaken, with muted upturns occurring in India and Brazil unless structural factors that are impeding growth prospects can be addressed. These are also among the few countries where inflationary pressures remain, with inflation in almost all other countries being low and contained or even excessively low in the euro area and Japan. An unwelcome further deterioration in labour market conditions appears likely in many euro area countries, with OECD unemployment only beginning to drift down slowly in the course of 2014.

This chapter is organised as follows. After outlining the main economic and financial forces presently acting, the projection is set out and the implications for inflation, labour markets and external balances discussed. Subsequent sections discuss the key risks around the

Table 1.1. **The global recovery will gain momentum only slowly**

OECD area, unless noted otherwise

	Average 2000-2009	2010	2011	2012	2013	2014	2012	2013	2014
								Q4 / Q4	
	Per cent								
Real GDP growth[1]									
World[2]	3.3	5.0	3.7	3.0	3.1	4.0	2.8	3.4	4.3
OECD[2]	1.7	3.0	1.9	1.4	1.2	2.3	0.8	1.8	2.5
United States	1.7	2.4	1.8	2.2	1.9	2.8	1.7	2.1	3.2
Euro area	1.3	1.9	1.5	-0.5	-0.6	1.1	-0.9	0.1	1.5
Japan	0.5	4.7	-0.6	2.0	1.6	1.4	0.5	3.0	0.5
Non-OECD[2]	6.6	8.2	6.3	5.1	5.5	6.2	5.5	5.4	6.5
China	10.3	10.4	9.3	7.8	7.8	8.4	7.8	7.9	8.3
Output gap[3]	0.8	-2.3	-2.0	-2.3	-2.8	-2.4			
Unemployment rate[4]	6.5	8.3	7.9	8.0	8.1	8.0	8.0	8.1	7.8
Inflation[5]	2.5	1.9	2.6	2.1	1.5	1.9	1.8	1.4	2.0
Fiscal balance[6]	-2.8	-7.7	-6.4	-5.7	-4.3	-3.8			
Memorandum Items									
World real trade growth	4.9	12.7	6.1	2.7	3.6	5.8	2.5	4.9	6.3

1. Year-on-year increase; last three columns show the increase over a year earlier.
2. Moving nominal GDP weights, using purchasing power parities.
3. Per cent of potential GDP.
4. Per cent of labour force.
5. Private consumption deflator. Year-on-year increase; last 3 columns show the increase over a year earlier.
6. Per cent of GDP.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932836848

projection and the main macroeconomic and financial policy requirements that these give rise to.

Key forces acting

Global economic conditions are improving only slowly

The global economic recovery has continued to proceed in fits and starts, especially in the OECD area, with quarterly output growth fluctuating around a modest positive rate.[1] The pace of the recovery has also continued to diverge across the major OECD economies and within the euro area (Figure 1.1), reflecting *inter alia* cross-country differences in macroeconomic and structural policies, as well as other factors affecting financial conditions.

Financial conditions

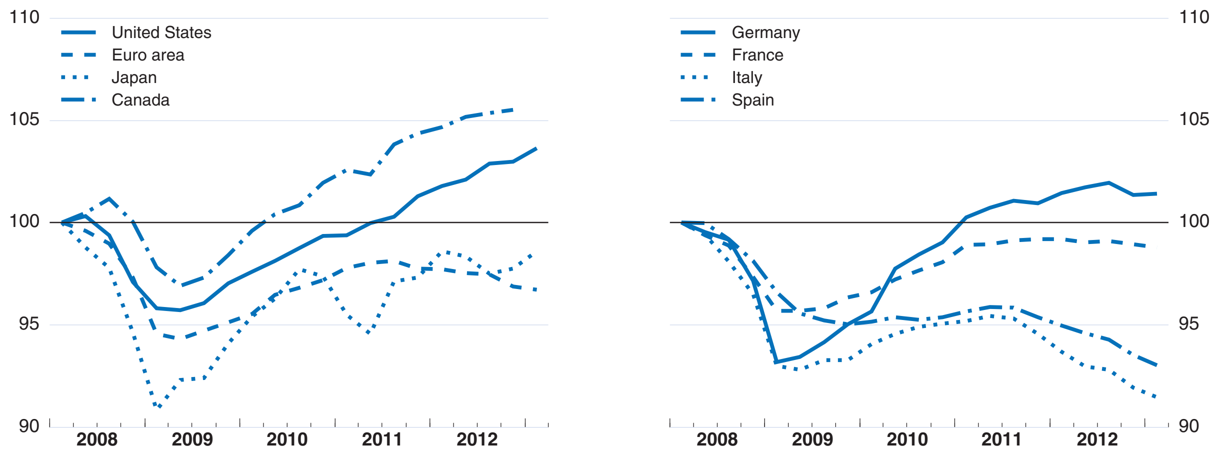
Financial conditions are supportive in most countries

Since the release of the previous *Economic Outlook* at end-November 2012, financial conditions have been supportive and continued to improve in most large OECD economies, but have become somewhat less accommodative in many emerging markets. Indeed, the OECD financial conditions index (FCI) improved through early 2013 in the three major

1. A normalisation of inventory levels helped OECD-wide output bounce back in the first quarter of 2013 following the small decline in the fourth quarter of 2012, but final demand growth only rose modestly.

Figure 1.1. **There are divergent trends amongst the major OECD economies**

GDP, chained volumes (2008Q1 = 100)

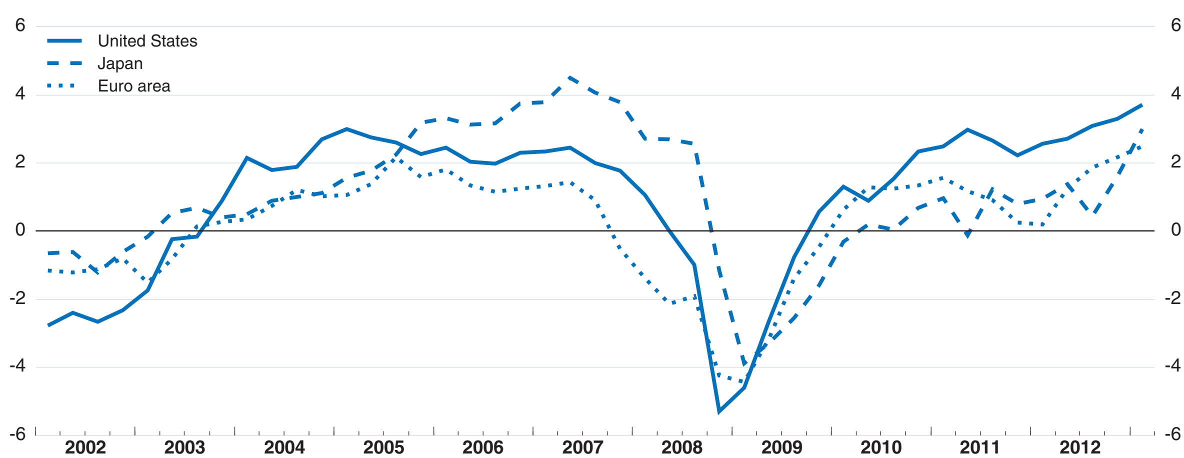


Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932835385

OECD economies, with the increase more notable in Japan (Figure 1.2). However, the resulting boost to growth could be delayed or weaker than normal as price signals may fail to revive private demand to the same extent as in the past given uncertainty about the durability of the improvements, further deleveraging needs and, in the euro area, the still impaired bank lending channel. These factors have already been reflected

Figure 1.2. **Aggregate financial conditions have improved**



Note: A unit increase (decline) in the index implies an easing (tightening) in financial conditions sufficient to produce an average increase (reduction) in the level of GDP of ½ to 1% after four to six quarters. See details in Guichard *et al.* (2009). Estimation done with available information up to 16 May 2013.

Source: Datastream; OECD Economic Outlook 93 database; and OECD calculations.

StatLink http://dx.doi.org/10.1787/888932835404

in divergent credit growth across the OECD area, and in particular euro area countries. Key developments in the main economies include:

Financial conditions have improved in the United States…

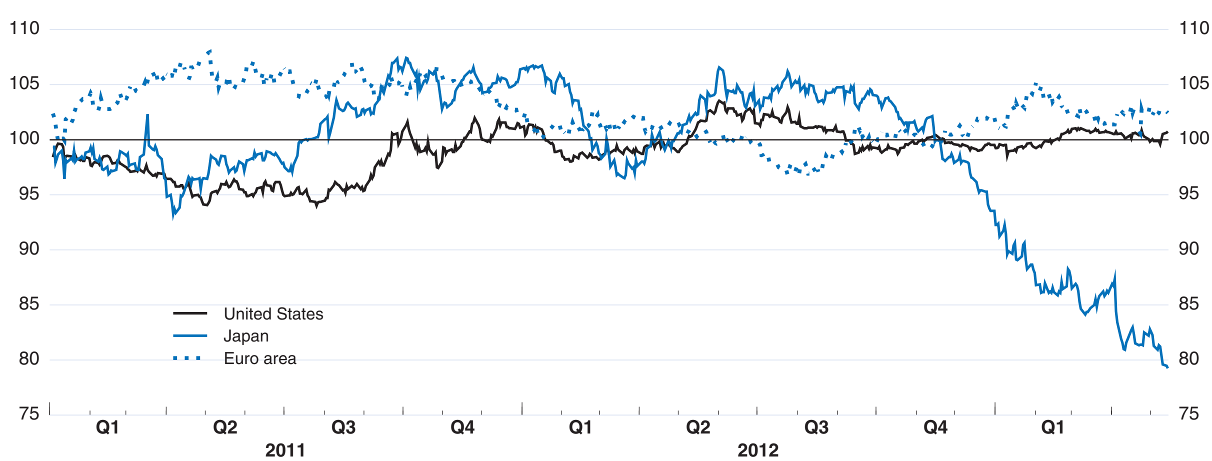
- In the United States, highly-stimulative monetary policy has encouraged risk-taking, leading to a rebalancing of private investors' asset portfolios toward riskier assets: equity prices have gained around 16% since end-November 2012; stock market volatility has been low and stable; and spreads between corporate bonds, especially high-yield ones, and government bonds have continued to narrow. Credit standards have eased across major loan categories, reflecting progress with banks' balance sheet adjustments, and loan demand has strengthened. Credit continues to grow at a moderate but steady pace.

… and spectacularly so in Japan

- In Japan, the anticipation and the subsequent announcement of aggressive monetary policy easing has resulted in dramatic improvements in financial conditions. Since end-November 2012 to mid-May 2013, the yen nominal effective exchange rate depreciated by around 20% (Figure 1.3) and stock prices gained around 60%. Yields on 10-year government bonds fell to less than 0.5% in early April, but have subsequently risen close to their end-November 2012 level. With credit conditions easing, annual growth in bank lending has remained positive.

Figure 1.3. **The Japanese yen has depreciated sharply**

Nominal effective exchange rate (November 2012 = 100)



Source: OECD Economic Outlook 93 database; and OECD calculations.

StatLink http://dx.doi.org/10.1787/888932835423

Large differences in financial conditions persist within the euro area

- In the euro area as a whole, market confidence has improved against the backdrop of the Outright Monetary Transactions (OMT) scheme and some progress in creating aspects of a banking union, despite the outcome of the Italian election and iterations around bail-in provisions in the recent Cyprus[2, 3] rescue agreement. Risk spreads in corporate and government bond markets and credit default swap premia have narrowed in most cases and equity markets have firmed. In the vulnerable countries, earlier deposit outflows have been reversed and Target-2 liabilities have declined. Nevertheless, large differences in financial conditions persist within the euro area. In particular, despite weak demand, the cost of bank credit – the main external source of corporate financing in the euro area – is still much higher in vulnerable member states than in core countries (Figure 1.4). As revealed by credit standards, access to credit is also more difficult in countries under stress, though with some cross-country heterogeneity. Banks in some vulnerable countries have continued to report problems with access to market funding, and large losses due to provisioning on rapidly rising non-performing loans have put capital positions under pressure. Together with the recession-induced fall in credit demand, these factors have resulted in a much larger reduction in bank lending in vulnerable countries than in core euro area economies.

Financial conditions in emerging markets have tightened slightly

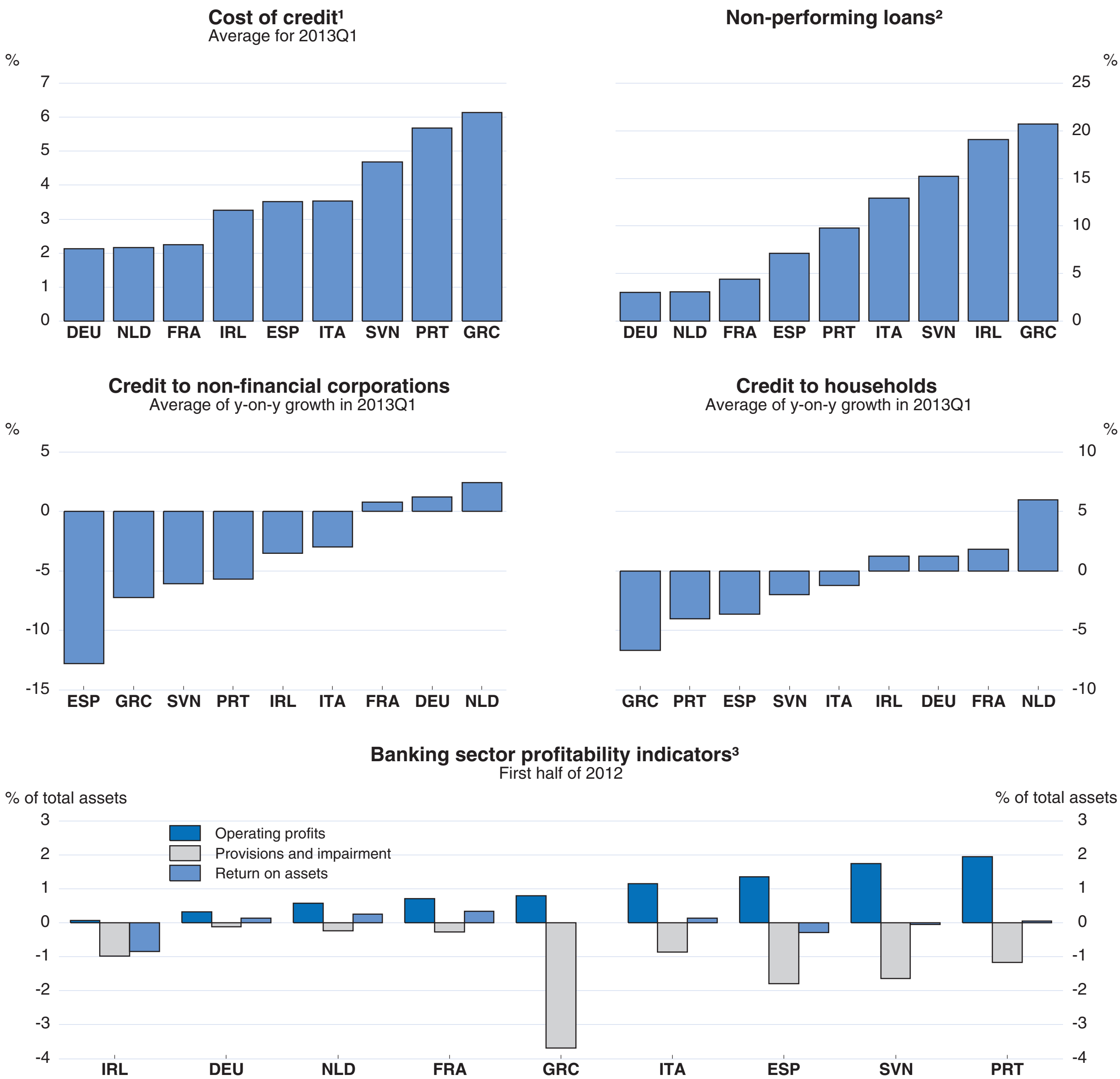
- In emerging economies, financial conditions have tightened slightly since end-November 2012. Credit and monetary aggregates in most of these economies have been growing at a robust double-digit rate. Capital inflows into emerging markets moderated somewhat in the first quarter of 2013, with the notable exception of China. Since end-November 2012, nominal effective exchange rates have appreciated in Brazil and Mexico, and to a lesser extent in China and India. Stock markets in most regions have underperformed relative to those in advanced economies during this period.

Some signs of excesses have emerged in corporate bond markets

Increasing risk-taking has been observed in corporate bond markets. Spreads of corporate bonds *vis-à-vis* sovereign bond yields in the United States have recently approached average levels of 2005-06, when risk is widely judged to have been under-priced, and this has taken place in the context of increasing bond issuance by non-financial companies. Spreads of government bond yields in emerging market economies over US Treasuries have also been close to their 2006 lows in Asia, though they have remained above these levels in Latin America and emerging Europe.

2. Note by Turkey:
The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".
3. Note by all the European Union Member States of the OECD and the European Commission:
The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Figure 1.4. **Credit conditions have diverged among euro area countries**



1. The cost of credit is defined as an interest rate on new loans to non-financial corporations (all maturities) with the exception of Greece where it refers to new loans with maturity of up to one year.
2. Share of total loans. The reference period varies across countries between end-2011 and end-2012.
3. Indicators for Greece are affected by the implementation of the private sector involvement and therefore may not be comparable with other countries. Returns on assets are reported after tax and thus differ from the sum of operating profits, provisions and impairment (data for Greece are not available). For Germany, data on provisions are not available.

Source: Central banks; Datastream; European Central Bank; IMF Financial Soundness Indicators; and OECD calculations.

StatLink http://dx.doi.org/10.1787/888932835442

By contrast, notwithstanding the recent rally, equity prices do not seem particularly high relative to earnings based on historical averages since the early 1980s.

Demand and activity developments

Improvements in demand and activity are much less pronounced than in financial markets. Key developments include:

Survey measures of global activity have been mixed…

- Amongst the advanced economies, forward-looking business surveys point to somewhat stronger outcomes in the United States, Japan and, to a lesser extent, Germany than in the remainder of the euro area (Figure 1.5). The divergence between the German and French PMIs during the early part of 2013 was the highest in the 15-year history of the survey, in part likely reflecting diverging fiscal impulses this year. In the major emerging market economies, the PMI surveys have also recently been mixed, providing signs of moderate growth in China, but weaker outcomes in India, Brazil and Russia.

… and global trade growth has been subdued

- Global trade growth has been subdued in recent months, with soft OECD merchandise trade volumes in the three months to February only partially offset by strong trade growth in Asia, Africa and the Middle East. Survey indicators of new export orders are generally at a higher level than in the latter half of 2012, especially in Japan – likely reflecting the impact of the effective exchange rate depreciation, but do not point to a broad-based acceleration in trade growth in the near term. There are no clear signs of a pick-up in trade-intensive global tech activity. Provided trade restrictions do not intensify, trade growth is expected to gradually pick up relative to global GDP growth over the projection period, rising by just under one-and-a-half times the rate of GDP growth by 2014.[4]

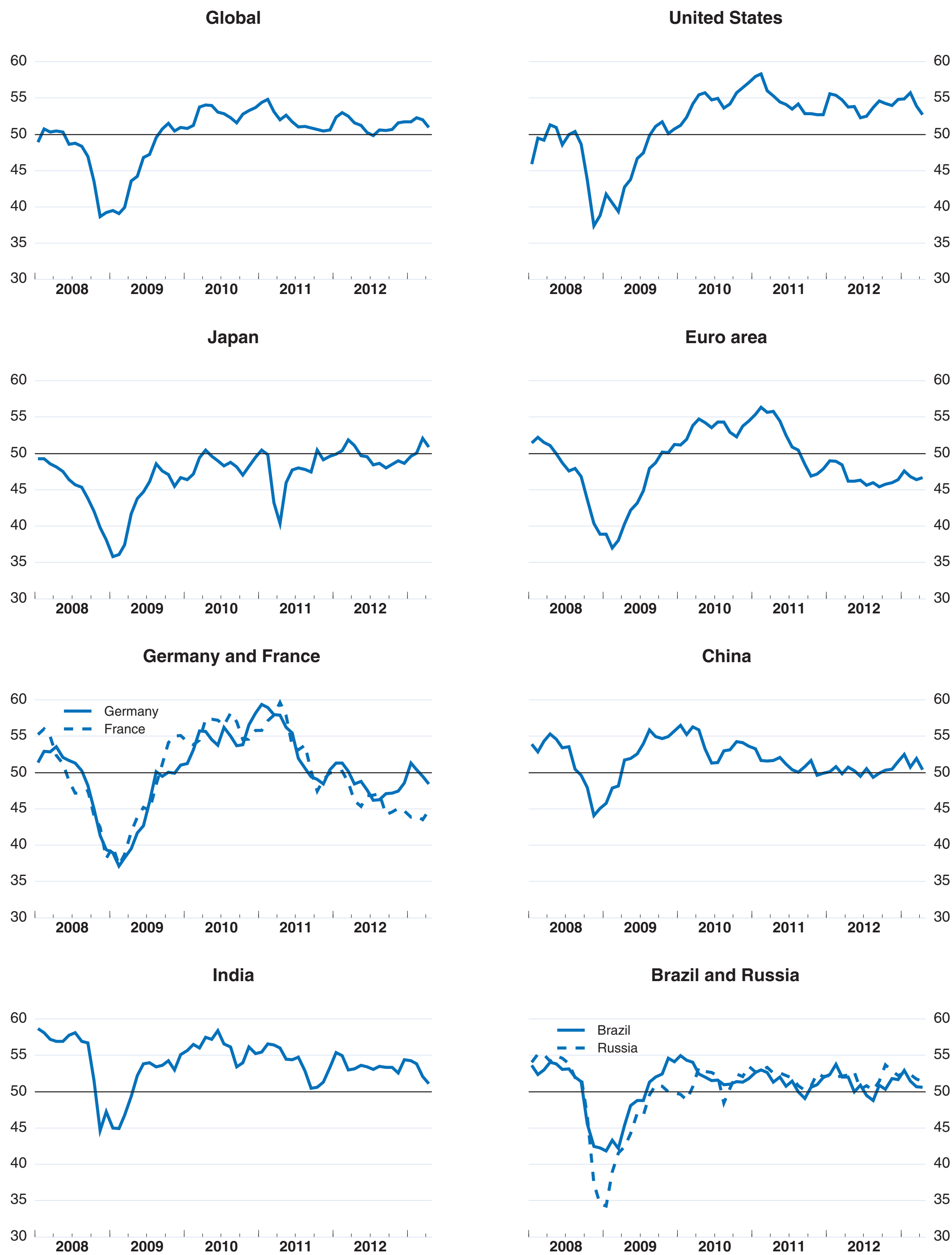
Household demand developments continue to diverge amongst the advanced economies…

- Household demand developments continue to diverge across the major economies, reflecting differences in balance sheet developments, labour market outcomes and income growth. In the United States and Japan, consumption growth has remained resilient on the back of strong asset price growth. In the United States, balance-sheet repair has been helped by institutions conducive to debt write-down, despite limited progress in dealing systematically with underwater mortgages. Consumer confidence has picked up markedly in Japan (Figure 1.6). Favourable wealth effects and improving labour market outcomes should help support private consumption growth through the projection period. The household saving rate is projected to rise from the extremely low level in the first quarter of 2013 in the United States,[5]

4. Global trade growth has recently been broadly aligned with GDP growth, in contrast with the pre-crisis period in which trade grew much more rapidly than GDP. In part this reflects factors such as natural disasters in Japan and elsewhere, subdued capital investment (a trade-intensive category of expenditure) and until recently, a growing stock of trade restrictions in many countries and industries (OECD/UNCTAD/WTO, 2012).
5. In the United States, there have been large recent monthly fluctuations in the household saving rate, with a number of income payments being brought forward into 2012 prior to tax rises at the start of 2013. In the first quarter of 2013, the saving ratio was 2.6%. However, over the five months to March the saving rate averaged 3.6%, and the projection assumes that the saving rate reverts gradually to this level.

Figure 1.5. **Recent business sentiment outcomes are mixed**

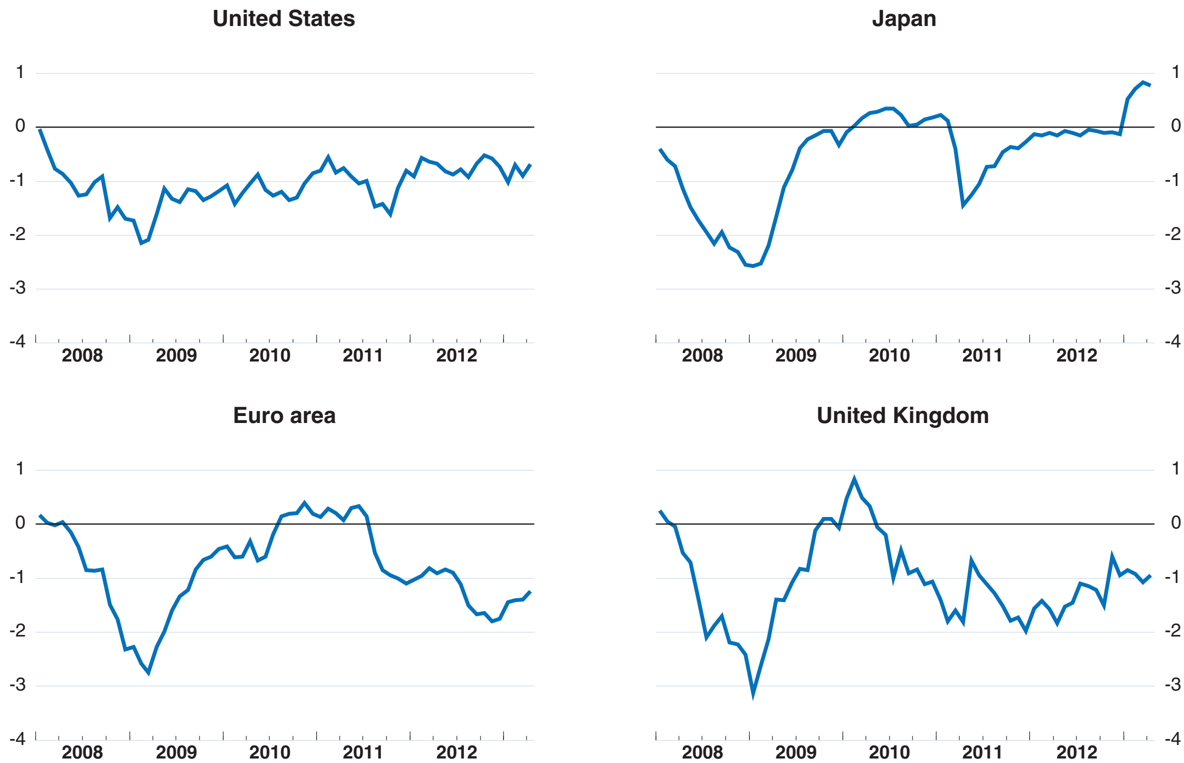
PMI composite indicators



Source: Markit.

Figure 1.6. **Consumer confidence remains soft outside Japan**

Normalised survey indicators, units of standard deviations



Note: Data for United States are provided by the Conference Board. Normalised figures over the period 1999M1-2013M4. Values above zero signify levels of consumer confidence above the historical average.

Source: Datastream; and European Commission.

StatLink http://dx.doi.org/10.1787/888932835461

but is likely to fluctuate in Japan due to anticipation of the planned increases in the consumption tax rate in 2014 and 2015.[6] Demand remains much weaker in the euro area, outside Germany, reflecting a mix of weak income growth, rising unemployment, high debt and declines in property values. There is a risk that household saving ratios might need to rise further to facilitate balance sheet repair in euro area countries, such as the Netherlands, Italy and France, where household debt levels have risen since the onset of the crisis (Table 1.2) and property values are now declining.

6. This may not be fully reflected in activity as it could be offset to some extent by changes in stock-building.

Table 1.2. **Debt indicators in the household sector**

Per cent

	Households' gross debt-to-gross disposable income ratio[1]				Households' gross financial assets-to-gross disposable income ratio			
	2012 [2]	2010	Pre-crisis level 2007	Pre-boom level 2000	2012 [2]	2010	Pre-crisis level 2007	Pre-boom level 2000
United States	107.9	117.3	130.7	96.4	436.1	428.2	477.6	442.7
Euro area	107.8	108.3	103.8	82.1	309.4	308.7	312.1	297.1
Japan	123.9	126.1	127.2	133.6	495.8	492.5	501.3	435.2
Germany	87.2	90.5	96.1	109.0	272.4	274.7	277.8	253.0
France	100.4	99.2	89.4	68.0	313.6	310.0	302.2	282.4
Italy	74.5	73.7	65.7	41.7	320.7	334.7	338.4	356.9
United Kingdom	146.0	158.1	174.2	112.4	432.3	442.5	461.1	475.1
Canada	151.2	151.7	137.8	113.4	355.9	359.4	349.3	355.2
Australia	170.7	172.1	169.8	114.2	336.5	332.1	380.2	266.1
Belgium	91.5	87.3	80.0	65.2	434.4	419.8	439.4	502.2
Denmark	303.9	309.6	308.3	225.2	540.2	511.2	527.1	399.0
Greece	101.5	97.4	72.3	26.8	180.5	174.6	201.5	226.6
Ireland	222.6	225.4	217.8	..	385.0	362.3	328.7	..
Korea	153.4	150.8	139.0	92.1	331.0	324.6	301.4	231.1
Netherlands	285.3	277.5	242.4	163.7	684.6	622.8	586.5	570.4
Norway	194.2	196.9	199.6	134.9	219.4	224.7	239.7	186.7
Portugal	135.0	142.1	142.2	104.1	309.5	312.6	320.7	315.9
Slovenia	53.3	53.6	47.1	..	159.8	165.9	174.2	..
Spain	133.8	137.1	139.5	81.5	245.7	249.6	283.3	248.9
Sweden	168.1	168.2	154.3	105.5	405.0	400.7	369.4	320.6
Switzerland	194.6	186.4	181.4	170.6	546.2	536.4	581.7	577.4
OECD average[3]	121.3	126.1	129.8	100.3	399.5	395.5	418.4	385.8

Note: Data for the United States, Japan, the United Kingdom, Canada, Ireland, Korea and Switzerland are not consolidated.

1. Gross debt is defined as total financial liabilities less shares and financial derivatives.
2. Or latest available quarter. For Switzerland data refer to 2011.
3. OECD average is weighted by nominal GDP at PPP rates in 2010.

Source: OECD national accounts, OECD Economic Outlook 93 database, national central banks' statistics, national statistical institutes, ECB, Eurostat.

StatLink http://dx.doi.org/10.1787/888932836867

… and the emerging economies

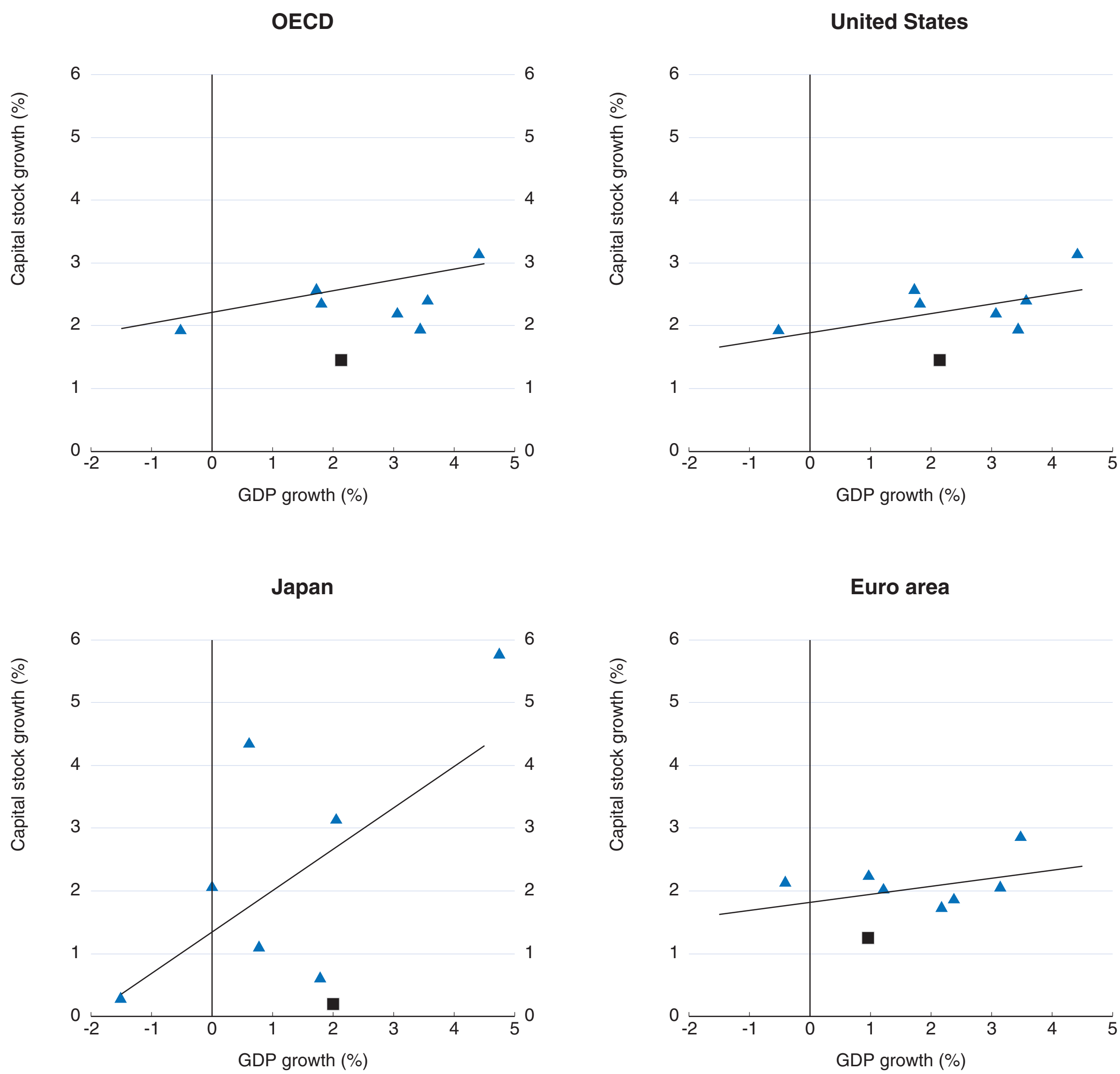
- There are also diverging private consumption developments in emerging markets. Retail sales growth remains solid in China, a little above the pace of GDP growth, with the recent growth of government social spending helping to gradually reduce incentives to maintain very high household saving. In contrast, the growth of private consumption has softened in India, held back by high inflation and soft income growth.

Investment growth remains low in the OECD economies…

- Private investment has recently been low in many OECD economies, even allowing for the weakness of demand (Figure 1.7). However, in some economies the pre-conditions are now improving to help investment growth to pick up provided confidence and final demand

Figure 1.7. **Net investment is weak relative to output growth**

Average annual growth of the real productive capital stock and GDP over successive three-year intervals



Note: The data shown are for average annual growth over successive three-year intervals from 1988-91 through to 2009-12. The black points represent the 2009-12 interval.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932835480

strengthen.[7] In particular, the aggregate balance sheet position of the non-financial corporate sector appears generally favourable, especially

7. In the G7 economies, the share of nominal business investment in GDP at the end of 2012 was around 1¼ percentage points lower than the average in the decade to 2005, immediately prior to the rapid pre-crisis acceleration in investment.

in the United States, and a number of companies have taken advantage of increasing risk appetite to raise additional finance, with global corporate bond issuance rising to a record high earlier this year. Currency and deposit holdings by non-financial corporations are above longer-term norms, although it remains to be seen whether these will be used to finance higher dividend payments, additional equity purchases or merger activity rather than fixed investment. Survey-based measures of investment intentions have picked up a little this year in a number of large economies, most notably Japan, and the drag exerted by high uncertainty may also be easing, with market-based measures of uncertainty at low levels and news-based measures of economic policy uncertainty having eased. Investment prospects remain weaker in the euro area than elsewhere, reflecting subdued final demand, less favourable balance sheet developments, the still high barriers to competition, continued financial fragmentation and weak or declining bank lending. Beyond action to remove barriers to credit supply, a priority is to implement product market reforms to raise general competitive pressures, particularly in retail trade, professional services and network sectors (Table 1.3). At the EU level, it is important that additional initiatives are taken to further deepen the Single Market and help liberalise service sectors.

… with mixed developments in housing markets

- Housing market developments have also continued to diverge across OECD economies. In the United States, the significant rebound in real prices (Table 1.4) has been accompanied by further improvements in housing sales and starts, declines in the overhang of vacant properties and a recovery in real housing investment. Strong growth in household disposable income and favourable financing conditions have boosted real house price growth in Germany and Switzerland, despite macro-prudential measures in the latter, helping to align prices more closely with housing rents and, to some extent, income. In marked contrast, real house prices continue to decline in Japan and most of the euro area, with the pace of the decline increasing in Spain, the Netherlands, Italy and, more recently, France, placing marked downward pressure on household balance sheets and potentially adding to non-performing loans in the banking sector. At the other extreme, prices are high, and in some cases continue to rise, in Norway, Sweden, Canada and New Zealand, pointing to a risk of a price correction – especially if borrowing costs were to rise or income growth were to slow.

Investment growth differs among the major emerging market economies

- Investment growth prospects are especially important in emerging market economies, given the relatively high share of investment in GDP. Amongst these economies, investment growth in China remains very high, led by strong growth in housing and infrastructure spending. Although infrastructure supply is not especially high (OECD, 2013b), it seems unlikely that total investment growth will persist at its present rate, given the already elevated share of investment spending in GDP and the commitment to raise the share of consumption in final

Table 1.3. **Selected product market reform recommendations in OECD and BRIICS countries**

	Reduce economy-wide regulatory burdens		Reduce sector-specific regulatory burdens		Reduce barriers to FDI and international trade
	Reduce cost and legal barriers to entry	Reduce the scope of public ownership / state intervention	Energy and other network dectors	Retail trade and professional services	
Japan	x	x	x	x	x
Euro area					
Germany				x	
France			x	x	
Italy	x	x			
Austria			x	x	
Belgium			x		
Finland				x	
Greece	x		x	x	
Ireland			x	x	
Luxembourg				x	
Portugal	x		x	x	
Slovak Republic	x		x	x	
Slovenia		x	x		
Spain			x	x	
Canada			x	x	x
Australia					x
Denmark				x	
Hungary	x		x	x	
Iceland		x	x		x
Israel	x		x		
Korea	x		x	x	x
Mexico		x	x		x
New Zealand			x		x
Norway	x		x	x	
Poland	x	x	x	x	
Turkey			x		
Brazil			x		
China		x	x		
India			x		x
Indonesia					x
Russian Federation		x			x
South Africa	x		x		

Source: OECD, Going for Growth 2013.

StatLink http://dx.doi.org/10.1787/888932836886

demand. In addition, the recent rapid rise in property demand and the risks associated with already-high property prices in some locations have led to additional measures being taken to damp property market speculation, which could limit construction activity. In India, investment growth remained weak throughout 2012, but now appears to be stabilising at a moderate pace. In part, this weakness reflects structural factors, such as difficulties in land acquisition and energy bottlenecks. New measures have been introduced in an attempt to stimulate future investment growth, including a relaxation of restrictions on foreign direct investment in a number of sectors and steps to improve the availability of finance for infrastructure projects. Investment growth has also recently been weak in Brazil, with

Table 1.4. **Housing market developments have continued to diverge**

	Per cent annual rate of change				*Level relative to long-term average* [1]		
	2004-2010	2011	2012 [2]	Latest quarter [3]	Price-to-rent ratio	Price-to-income ratio	Latest available quarter
United States	-2.3	-6.5	1.6	3.8	99	85	Q4 2012
Japan	-2.1	-2.4	-1.9	-1.8	62	64	Q3 2012
Germany	-0.8	3.3	3.6	1.8	85	79	Q4 2012
France	3.6	3.8	-2.2	-3.0	135	133	Q4 2012
Italy	0.7	-2.1	-5.3	-6.8	99	112	Q4 2012
United Kingdom	0.6	-5.2	-1.0	-0.4	131	122	Q4 2012
Canada	5.6	2.7	3.6	1.8	164	130	Q1 2013
Australia	3.7	-4.9	-2.9	-0.1	137	121	Q1 2013
Austria	0.9	0.4	3.1	5.7	102	105	Q4 2012
Belgium	4.9	0.0	0.0	-0.5	163	149	Q3 2012
Czech Republic		-0.4	-3.7	-2.4	91	93	Q4 2012
Denmark	2.4	-5.1	-5.6	-2.0	112	110	Q4 2012
Finland	2.8	-0.6	-1.0	-0.9	136	99	Q1 2013
Greece	0.4	-8.6	-12.5	-10.7	82	108	Q1 2013
Iceland		0.5	1.3	-0.2	95		Q4 2012
Ireland	-1.7	-14.4	-14.3	-4.0	88	85	Q1 2013
Korea	1.1	1.4	0.7	-1.8	106	62	Q1 2013
Luxembourg		1.5	2.9	2.0	106	104	Q4 2012
Netherlands	0.3	-4.5	-8.4	-10.9	111	123	Q1 2013
Norway	5.0	6.6	5.8	5.2	171	127	Q1 2013
New Zealand	2.4	-1.8	3.5	5.4	161	123	Q4 2012
Portugal	0.2	-3.8	-4.1	-3.4	87	93	Q1 2013
Slovak Republic		-6.7	-4.6	-2.4	96	88	Q4 2012
Slovenia		1.0	-8.6	-10.4	89	92	Q4 2012
Spain	0.4	-8.8	-11.2	-10.5	108	115	Q1 2013
Sweden	5.5	-0.5	-2.5	3.0	132	123	Q1 2013
Switzerland	1.8	4.0	4.2	4.1	98	91	Q4 2012
Total of above euro area [4,5]	1.0	-0.8	-3.0	-4.1	107	108	Q4 2012
Total of above countries [5]	-0.3	-3.2	-0.4	0.3	102	94	Q4 2012

Note: House prices deflated by the private consumption deflator.
1. Average from 1980 (or earliest available date) to latest available quarter = 100.
2. Average of available quarters where full year is not yet complete.
3. Increase over a year earlier to the latest available quarter.
4. Germany, France, Italy, Austria, Belgium, Finland, Greece, Ireland, the Netherlands, Portugal, the Slovak Republic, Slovenia and Spain.
5. Using 2010 GDP weights, calculated using latest country data available.

Source: Girouard *et al.* (2006); and OECD.

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infrastructure bottlenecks becoming more apparent. However, stronger private and public consumption, along with recent moves to encourage greater private sector participation in infrastructure projects, should help investment growth to pick up this year and next.

Commodity prices have recently weakened

- Commodity prices have recently weakened. Oil prices as of mid-May are around 9% lower than had been assumed in the end-November 2012

Economic Outlook. Supply has largely held up so far this year, with reductions in OPEC output offset by improved supply from other sources, such as North America and South Sudan. Despite continued geopolitical risks, weaker than anticipated demand has thus pushed prices down. These effects are assumed to fade through the projection period, with an assumed moderate upward price movement, of $5 per year in nominal terms. This reflects the longer-term upward pressures on oil prices that are expected to occur as world demand growth moves back to trend (Fournier *et al*., 2013). International grain prices rose strongly last year, reflecting significant supply shortfalls in the United States and elsewhere, but have recently fallen back, reflecting actual (and expected) normalisation of supply. Precious metal prices have also recently declined, possibly indicating reduced concerns about future inflation. Overall, non-oil commodity prices are assumed to remain constant at recent levels over the projection period.

The near-term projections

Economic prospects are for a modest recovery

In the near term, and in the absence of adverse events, on-going support from accommodative monetary policies (Box 1.1), improving financial market conditions and a gradual restoration of confidence should help growth to strengthen gradually through the remainder of 2013 and 2014. The pace of the upturn will continue to vary across countries, and in most of the OECD area will remain constrained by the on-going drag from fiscal consolidation and specific weaknesses in some national credit markets. Among the major emerging market economies, a moderate cyclical upturn is getting underway in China, while a more hesitant pick-up in growth is seen to take place in India.

Box 1.1. **Policy and other assumptions underlying the projections**

Fiscal policy settings for 2013 and 2014 are based as closely as possible on legislated tax and spending provisions. Where government plans for 2013-14 have been announced but not legislated, they are incorporated if it is deemed clear that they will be implemented in a shape close to that announced. Where there is insufficient information to determine the allocation of budget cuts, the presumption is that they apply equally to the spending and revenue sides, and are spread proportionally across components.

In the United States, the general government underlying primary balance is assumed to improve by 2¼ per cent of GDP in 2013 and ½ per cent of GDP in 2014, roughly as implied by current legislation though including a continued extension of tax provisions that would otherwise expire. The change in the primary budget balance does not directly translate into a fiscal impulse because 2013 tax revenues are boosted by an increase in dividends in 2012 to anticipate a change in taxation. The fiscal impulse may be about ½ per cent less negative (positive) on this count in 2013 (2014).

In Japan, the projections incorporate the January 2013 fiscal package (1% of GDP over two years). The underlying primary balance is assumed to worsen by 0.4% of GDP in 2013 and improve by 2¼ per cent of GDP in 2014, taking into account the planned increase in the consumption tax rate from the current 5% to 8% in April 2014.

Box 1.1. **Policy and other assumptions underlying the projections** *(cont.)*

In euro area countries, fiscal consolidation in 2013 and 2014 is assumed to proceed so as to attain the amount of structural consolidation (measured as the change in the structural primary balance) that is implied by the stated targets in consolidation plans under the Excessive Deficit Procedure and Stability Programmes. The automatic stabilisers are assumed to operate freely around structural adjustment paths. For countries receiving financial assistance from the EU and the IMF, it is assumed that financing will be forthcoming to allow the automatic stabilisers to operate freely.

In the large euro area countries, structural budget components are assumed to evolve as follows. For Germany, the government's medium-term fiscal plans, as contained in a legislative proposal that is about to be presented to parliament, have been built into the projections. In France, the projections incorporate the government's consolidation programme of a cumulative 2¾ per cent of GDP in structural terms over 2013-14, frontloaded and achieved on the tax side in 2013 and mostly on the spending side in 2014. For Italy, the projections incorporate the government's medium-term fiscal plans, as presented in April 2013 in the Stability Programme.

For the United Kingdom, the projections are based on tax measures and spending paths set out in the March 2013 budget.

The concept of general government financial liabilities applied in the OECD *Economic Outlook* is based on national accounting conventions. These require that liabilities are recorded at market prices as opposed to constant nominal prices (as is the case, in particular, for the Maastricht definition of general government debt). In 2010 and 2011, euro area programme countries (Greece, Ireland and Portugal) experienced large declines in the price of their government bonds. For the purpose of making the analysis in the *Economic Outlook* independent from strong fluctuations in government debt levels on account of valuation effects, for these countries, the change in government debt in 2010 and 2011 has been approximated by the change in government liabilities recorded for the Maastricht definition.

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

- In the United States, the upper bound of the target Federal Funds rate is assumed to remain constant at ¼ per cent for the entire projection period. The current forward guidance is assumed to be maintained over the projection period.
- In the euro area, the refinancing rate is assumed to remain at its current level of 0.5% throughout the projection period, whereas the deposit rate is assumed to be cut in June 2013 by 25 basis points to -0.25% and stay at that level thereafter. Accordingly, the overnight interest rate falls slightly below zero.
- In Japan, the short-term policy interest rate is assumed to remain at 0.1% for the entire projection period and short-term market rates are assumed to fall due to the intensification of asset purchases by the central bank.

Although their impact is difficult to assess, the following quantitative easing measures are assumed to be taken over the projection period, implicitly affecting the speed of convergence of long-term interest rates to their reference rates. In the United States, asset purchases under the current quantitative easing programme are assumed to be gradually reduced over the projection period. In Japan, asset purchases are assumed to increase in line with the stated plans of the monetary authorities. However, in the euro area, despite OECD recommendations to increase asset purchases, no additional purchases are built into the projections, reflecting uncertainty about the nature and size of eventual measures.

Box 1.1. **Policy and other assumptions underlying the projections** *(cont.)*

In the United States, Japan, Germany and other countries outside the euro area, 10-year government bond yields are assumed to converge slowly toward a reference rate (reached only well after the end of the projection period), determined by future projected short-term rates, a term premium and an additional fiscal premium. The latter premium is assumed to be 2 basis points per each percentage point of gross government debt-to-GDP ratio in excess of 75% and an additional 2 basis points (4 basis points in total) per percentage point of debt ratio in excess of 125%. In Japan, the premium is assumed to be 1 basis point per percentage point of gross government debt-to-GDP ratio in excess of 75%. The long-term sovereign debt spreads in the euro area *vis-à-vis* Germany are assumed to decline by one-third from their recent levels by the end of 2014.

The projections assume unchanged exchange rates from those prevailing on 30 April 2013: one US dollar equals 97.24 JPY, EUR 0.76 (or equivalently one euro equals 1.32 dollars) and 6.16 renminbi.

The price of a barrel of Brent crude oil is assumed to increase at a rate of $5 per year from the third quarter of 2013 onwards, from an assumed price of $100 in the second quarter. Non-oil commodity prices are assumed to be constant over the projection period at their average levels of April 2013.

The cut-off date for information used in the projections is 16 May 2013. Details of assumptions for individual countries are provided in Chapters 2 and 3.

The key features of the economic outlook for the major economies are as follows:

… in the United States…

- After a sharp bounce-back in activity in the first months of 2013, GDP is now expanding at a moderate pace, held back by tax increases and the onset of poorly-targeted automatic budgetary sequestration. Nonetheless, improved financial conditions and very accommodative monetary policy should help GDP growth gradually gain momentum through the rest of the projection period. Private consumption growth, including car sales (Box 1.2), will benefit from ongoing balance-sheet improvements and improving labour market conditions. Business investment growth should strengthen further, given healthy corporate balance sheets, strong profitability and low financing costs, and housing investment levels should continue to rebound as the housing market recovers. With external demand expanding less rapidly than domestic demand, net exports are likely to be a modest drag on the recovery. Employment growth is projected to strengthen gradually over the projection period, with labour productivity growth remaining at around ½-¾ per cent per annum, and with the unemployment rate declining to around 6¾ per cent by the end of 2014.

… in the euro area…

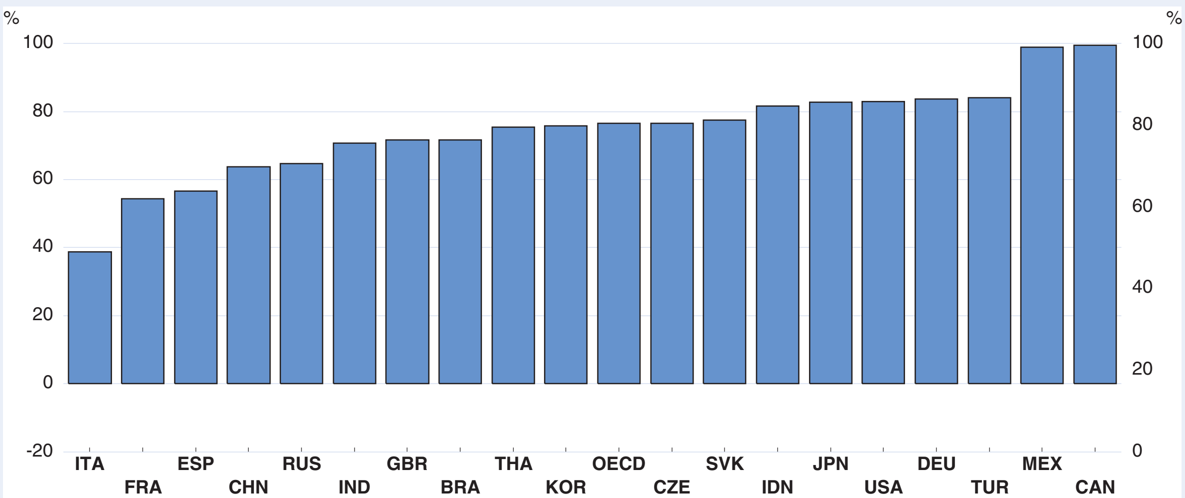
- The euro area economy remains very weak in aggregate, with increasing divergence between the prospects for member states. Activity is likely to continue to contract or stagnate until the second half of 2013, with continued fiscal consolidation, weak private sector balance sheets, low confidence, impaired credit supply in some countries and deteriorating labour market conditions being drags on activity. Germany is the main exception, with a recovery already

Box 1.2. **Short-term prospects in the automobile industry**

The automobile sector was among the sectors that were hit most by the 2008-09 recession and car demand in the OECD is still 11% below its pre-crisis level. Developments have varied across countries as reflected in different degrees of overcapacity in the automotive industry (Figure below).

Capacity utilisation was low in many countries in 2012, partly due to weak demand

In per cent of actual production



Source: LMC Automobile database (April 2013).

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According to OECD estimates (based on the relationship between new light vehicles sales, GDP per capita, population, unemployment, and real oil prices), demand for new cars in advanced OECD countries is expected to remain subdued. In particular, major European countries and Japan are likely to face weak domestic sales (Figure below). On the other hand, demand for cars is likely to continue rising in the United States and Canada but possibly at a slower pace compared with the past two years. The subdued prospects in advanced economies contrast with the strong rise in car sales projected in major emerging market countries, on the back of low car ownership and strong income growth. Car plants established in advanced OECD countries may benefit only to a limited extent from this additional demand because trade flows are largely concentrated within large regional markets (Europe, North America and Asia). Overall, developments of car demand over the near-term future are unlikely to significantly reduce the excess capacity observed in many OECD countries. Country details include:

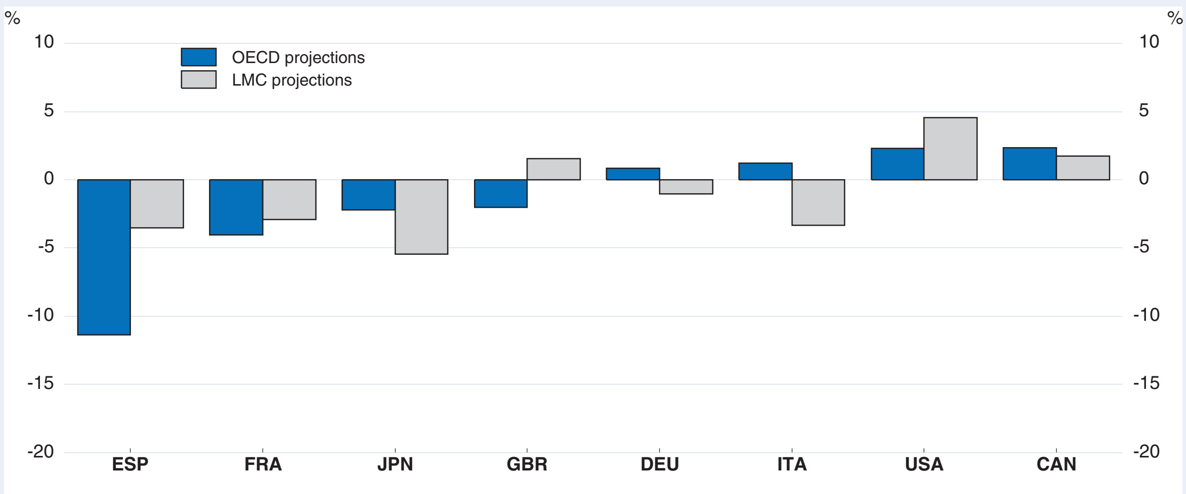
- In the United States, the rebound in car sales since the crisis is set to continue on the back of strengthening growth of household income and lower unemployment. On the basis of past empirical relationships, light vehicles sales could increase by 2.5% on average in 2013 and 2014.
- In the United Kingdom and Japan, sales could decline modestly over the next two years after a significant increase in 2012. In the United Kingdom, the estimated drop in car demand reflects in part higher oil import prices due to the recent currency depreciation. Car sales are also estimated to adjust in Japan after a sharp increase in 2012 backed by government tax incentives and purchasing subsidy programmes for fuel-efficient vehicles. Increases in oil prices driven by the recent depreciation of the yen also play a role in this drop whereas the equation could not take into account impacts of the impending consumption tax increase and the new monetary policy regime. In Germany, the significant drop observed in car sales in recent months is consistent with car demand adjusting to fundamentals, with past relationships suggesting a stabilisation of sales on average in 2013 and 2014.

Box 1.2. **Short-term prospects in the automobile industry** *(cont.)*

- In France and Spain, car sales are likely to continue to decline over 2013-2014 on average, reflecting low growth prospects and expected increases in unemployment. In Italy, after falling well below fundamentals, sales are projected to broadly stabilise at a level significantly below pre-crisis levels. Overall, capacity utilisation is unlikely to improve much in the near term in these countries.

Projections of car sales growth

Average annual growth, 2013-14



Source: LMC Automobile database (April 2013); and OECD calculations.

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These developments are surrounded by uncertainty. In particular, they are based on a simple estimated relationship, which does not specifically take into account the possible influence of omitted factors, such as financial conditions, on car demand. They should thus be interpreted as indicators of the future prospects of demand, even though in most cases they are broadly in line with projections from private car market analysts.

underway. Provided that policy actions suffice to prevent downside risks from materialising, area-wide activity should strengthen gradually as the pace of area-wide fiscal consolidation eases, monetary policy becomes more accommodative, external demand strengthens and confidence begins to recover. However, growth is not expected to surpass trend rates until well into 2014, and the unemployment rate is projected to drift up further to around 12¼ per cent through 2014. GDP growth in Germany is foreseen to be around 1 percentage point higher than for the area as a whole, whereas most of the fiscally vulnerable economies will only exit from recession in the course of next year.

… in Japan…

- Reflecting a determined policy approach, the economic outlook has changed markedly in Japan in recent months, as reflected in strong activity at the beginning of the year. Going forward, growth is boosted by the strong rebound in equity prices, the large depreciation of the effective exchange rate and the upturn in private sector confidence. Monetary policy has become significantly more accommodative and fiscal policy has been eased somewhat, though strong fiscal consolidation will exert a substantial drag on activity through 2014. Export growth and industrial production have already rebounded this year and, with credit conditions easing and profitability improving, business investment growth should strengthen.

... and in non-OECD emerging market economies

- Output growth in the non-OECD economies will remain much more robust than in the OECD economies and is expected to strengthen modestly over the projection period (Table 1.1). However, there are marked differences in developments across the major economies. Growth in China has been volatile recently, in part due to large swings in inventory accumulation. Given strong credit growth and the support provided by higher public social and infrastructure spending, a return to robust, albeit unspectacular, growth appears likely during the rest of this year and the next. With private sector final demand expected to remain strong, helped by the continued pull of migrants into the urban economy, and external demand set to strengthen, GDP growth could expand at a rate just under 8½ per cent. In India, annual GDP growth is expected to strengthen gradually, to around 5¼ per cent in 2013 and 6½ per cent in 2014, helped by efforts to speed up the approval of large investment projects, the partial deregulation of foreign direct investment and the improvement in monetary conditions following the depreciation of the rupee and recent declines in policy interest rates. In Brazil, activity could expand at a moderate annualised rate of 3½ per cent through the remainder of this year and next, with domestic demand benefitting from the effects of past policy stimulus and moves to enhance private sector involvement in infrastructure projects. Growth is held back by a weak external environment and by supply-side bottlenecks, most notably the tight labour market, and the associated need to raise policy interest rates. Growth remains at sub-par rates in Russia, reflecting the adverse impact of the euro area crisis on export growth, weak investment and high inflation driven by increases in administered and food prices. As these effects fade, activity should pick up gradually to around trend rates, with GDP growth projected to rise by 2¼ per cent this year and 3½ per cent in 2014.

Inflationary pressures are set to diverge...

Inflation rates remain weak in most OECD economies, and are at very different levels in the major emerging market economies. Over the projection period inflationary pressures are set to diverge (Figure 1.8):

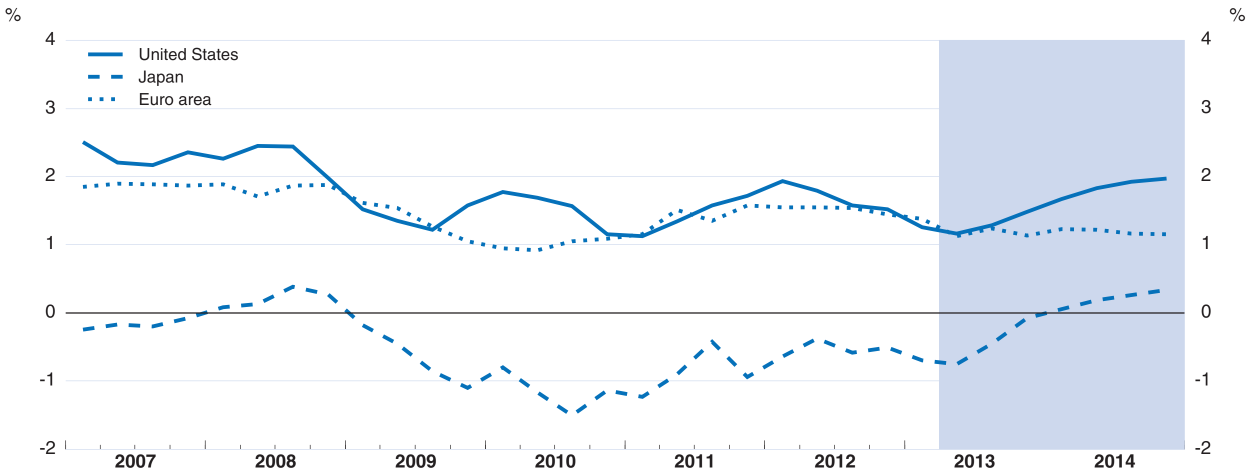
... edging up in the United States but declining in the euro area...

- In the United States and the euro area, core inflation rates have drifted down to between 1-1¼ per cent in recent months, in the latter case despite significant increases in indirect taxes and administered prices.[8]

8. Past increases in indirect taxes are continuing to help hold up the area-wide inflation rate at present. In March, the annual rate of consumer price inflation at constant tax rates was 0.4 percentage point below the annual headline rate of inflation.

Figure 1.8. **Underlying inflation pressures are likely to diverge**

12-month percentage changes



Note: Underlying inflation is measured as follows: in the United States it is based on the personal consumption deflator excluding food and energy; in the euro area it is based on the harmonised index of consumer prices, excluding food, energy, tobacco and alcohol; and in Japan, it is the consumer price index excluding food and energy. The Japanese data are adjusted to exclude the impact of the assumed consumption tax increase in 2014Q2.

Source: OECD Economic Outlook 93 database; and OECD calculations.

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Nonetheless, inflation expectations have generally remained well-anchored. Looking ahead, the projected divergence in activity outcomes is likely to be reflected in diverging inflation prospects. In the United States, core inflation could start to drift up from its current low rate, which has been brought about partly by factors unlikely to endure, to approach 2% during 2014 as economic slack diminishes. In contrast, in the euro area, where economic slack is unlikely to narrow until well into 2014, inflation could remain between 1-1¼ per cent by 2014, well below the ECB definition of price stability and with little prospect of an imminent recovery.

... and rising modestly in Japan

- In Japan there is particular uncertainty over future inflation outcomes in the wake of the radical re-orientation of monetary policy. Macro-model simulations, and the experience of other countries, suggest that a large effective exchange rate depreciation would normally push up domestic inflation in subsequent years, directly *via* higher import prices and indirectly by stronger output growth. However, in Japan these effects may emerge more gradually than in other countries, given that domestic deflation is deeply entrenched, with a persistent slow downward drift in the core consumer price index over the past 14 years. Set against this, the re-orientation of monetary policy could boost inflation directly to the extent it succeeds in raising inflation expectations. The recent increases in some measures of long-term inflation expectations provide a positive signal, and prices are projected to begin rising modestly by end-2013, with the annualised quarterly inflation rate reaching ½ per cent by end-2014. In addition, the one-off impact of the first of the planned increases in the consumption tax rate should add around 2% to the price level during next year.

Inflation pressures vary across emerging market economies

- Inflation pressures vary across the large emerging market economies with symptoms of stagflation in some. In Brazil, consumer price inflation has recently breached the upper limit of the target band. This points to limited spare capacity in the economy despite very modest output growth over the past year. Despite a likely moderation in food price pressures, inflation is projected to remain at a relatively high level. In India, headline price inflation remains stubbornly high, in part reflecting administered price increases on fuel products and food price inflation, but underlying (non-food, non-energy) price inflation seems now to be easing and should fade further as spare capacity rises. In China, disinflationary pressures have recently abated, with non-food consumer price inflation edging up to around 1¾ per cent. Looking forward, activity growth is not projected to be at a pace that would raise core inflation significantly further, although uncertainties remain about future potential growth rates. In Russia, core inflation has recently remained stable at around 5½ per cent, but headline inflation has risen, pushed up by increases in administered and food prices. As the latter effects fade, and with continued spare capacity in the economy, inflation should gradually ease.

Labour market conditions have diverged...

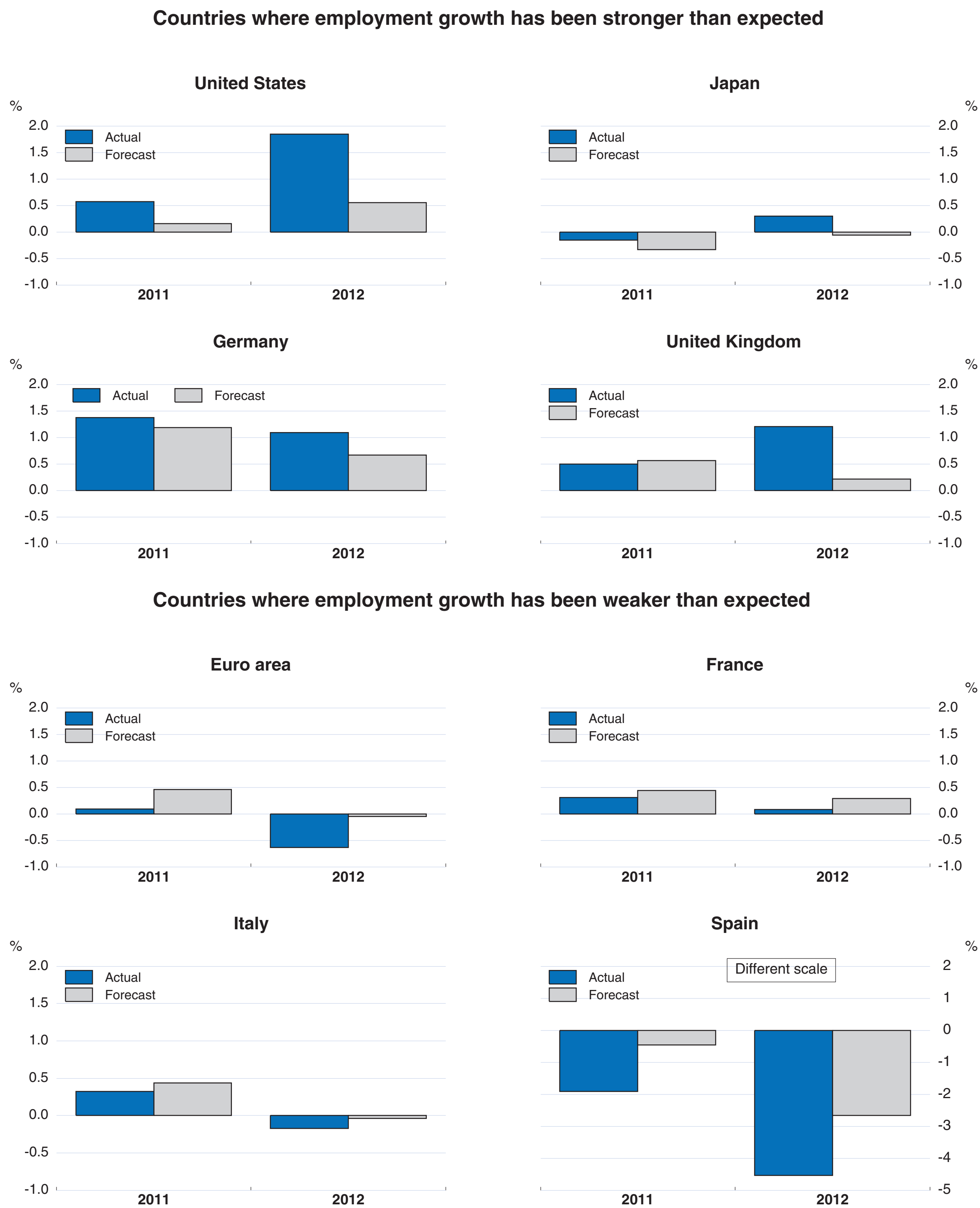
Unemployment outcomes are diverging across the major OECD economies and are only partly explained by diverging activity developments. Estimates derived using simple equations (Figure 1.9), relating the change in employment to output growth, suggest that employment outcomes in Germany, the United Kingdom and the United States over the past two years have been persistently better than might have been expected on the basis of past relationships with output growth. The strikingly different resilience of employment from that seen in earlier periods of subdued growth in the United Kingdom, as well as in Germany, most likely reflects wide-ranging labour market reforms put in place over the past two decades. For many other euro area economies, job losses in recent years have been more extensive than might have been expected, based on past relationships prior to recently-enacted structural reforms. In these economies there is a need to continue with the types of structural reforms recently undertaken and other structural policy measures that could improve labour utilisation (see below).

... with this pattern likely to persist in the next two years

These divergent cross-country trends seem likely to continue over the projection period (Table 1.5; Figure 1.10). In the euro area, where area-wide survey measures of hiring intentions remain especially soft and sub-par output growth is likely to persist for some time, further employment declines are projected both this year and next, with the unemployment rate edging up to 12¼ per cent. National unemployment rates could rise by between ½ to ¾ percentage point over the next 18 months in Belgium,

Figure 1.9. **Actual and predicted changes in employment growth**

Year-on-year percentage changes



Note: Predicted change is derived from a dynamic forecast of the change in employment growth from 2011Q1, using an equation estimated over 1994Q1-2010Q4 in which employment growth is regressed on lagged changes in employment growth and current and lagged GDP growth.

Source: OECD Economic Outlook 93; and OECD calculations.

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Table 1.5. **OECD labour market conditions are diverging and weak overall**

	2009	2010	2011	2012	2013	2014
	Percentage change from previous period					
Employment						
United States	-3.8	-0.6	0.6	1.8	1.2	2.0
Euro area	-1.8	-0.4	0.1	-0.6	-1.0	-0.2
Japan	-1.5	-0.3	-0.1	-0.3	0.2	-0.1
OECD	-1.8	0.3	1.0	1.0	0.5	1.0
Labour force						
United States	-0.1	-0.2	-0.2	0.9	0.6	1.4
Euro area	0.3	0.2	0.2	0.7	0.1	0.0
Japan	-0.4	-0.3	-0.6	-0.6	0.0	-0.1
OECD	0.6	0.5	0.6	1.0	0.7	0.9
Unemployment rate	Per cent of labour force					
United States	9.3	9.6	8.9	8.1	7.5	7.0
Euro area	9.4	9.9	10.0	11.2	12.1	12.3
Japan	5.0	5.0	4.6	4.3	4.2	4.1
OECD	8.2	8.3	7.9	8.0	8.1	8.0

Source: OECD Economic Outlook 93 database.

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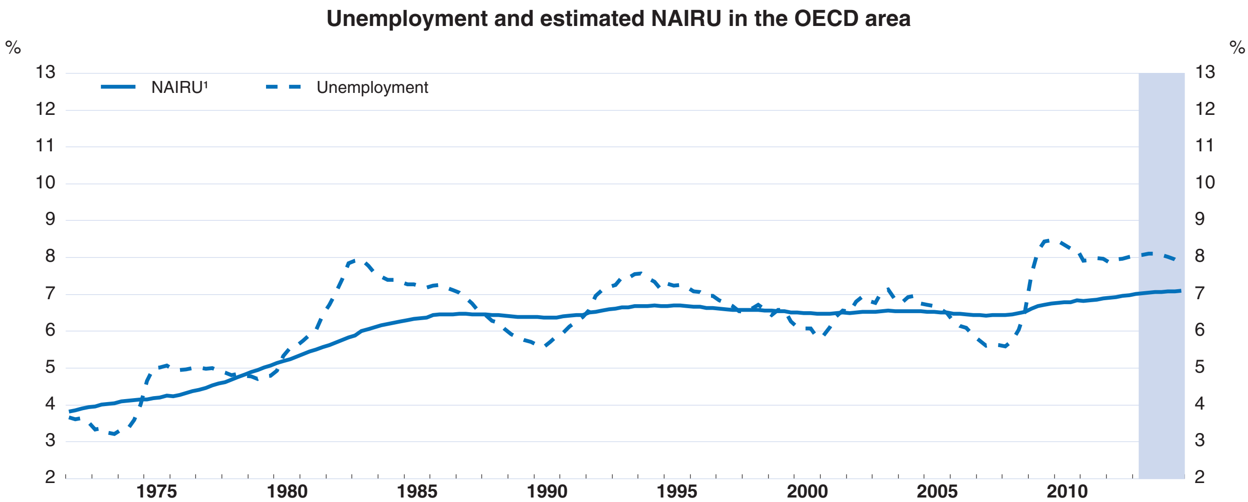
France, Italy, the Netherlands and the EU/IMF programme countries. In contrast, the German unemployment rate is expected to decline marginally further. A similar outcome is projected in Japan, where the pick-up in GDP growth this year could push the unemployment rate below the long-term sustainable rate, which may help wage growth become positive. In the United States, employment growth is projected to remain at a broadly similar speed to that seen in 2012, with the unemployment rate drifting down to around 6¾ per cent by the end of 2014. The prospects for an acceleration in US employment growth will depend in part on whether labour productivity growth picks up from the unusually subdued rates of some 0.6-0.7% per hour in the non-farm business sector seen over the past two years. A similar issue arises in the United Kingdom (Bank of England, 2012).

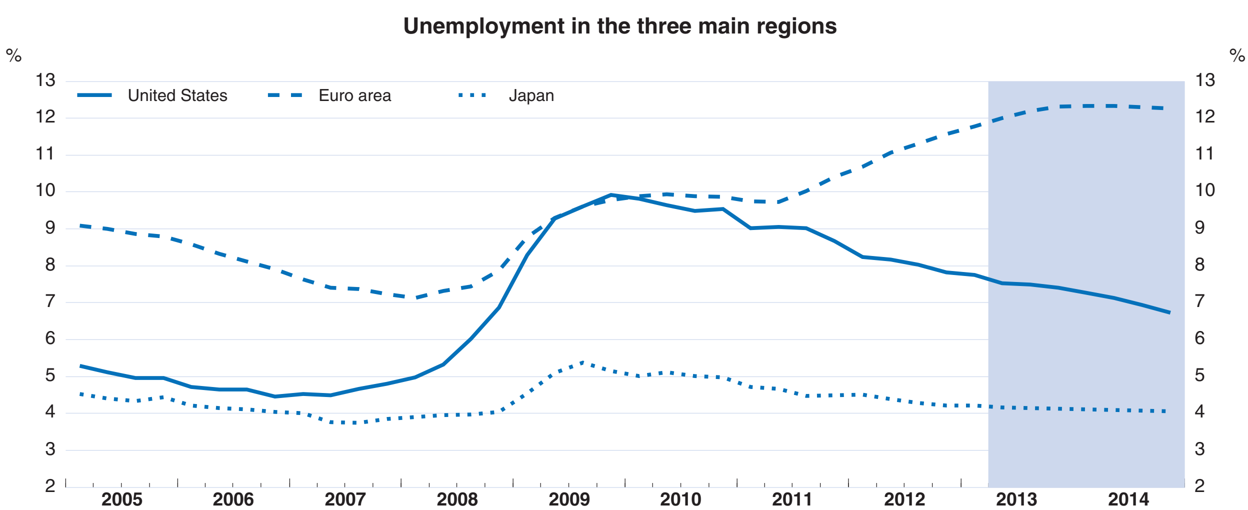
Reforms are essential to help prevent cyclical unemployment from becoming structural

Labour market reforms remain essential to foster near-term employment growth, facilitate wage adjustment where necessary, and reduce the risk that higher unemployment becomes entrenched. High long-term unemployment in many countries points to a risk that persistent cyclical unemployment could increasingly become structural. Encouragingly, reform efforts to improve labour utilisation by changing labour market regulations and welfare systems have recently intensified in many OECD economies (OECD, 2013), particularly in many euro area countries in which sizeable fiscal consolidation is being undertaken. Additional efforts are still needed to strengthen and redesign active labour market and social policies so as to cushion the near-term effects of high unemployment whilst improving the matching of workers and jobs, with specific reform priorities differing across countries (Table 1.6). Also,

Figure 1.10. **Labour market slack is diverging and large overall**

Percentage of labour force





1. The NAIRU is based on OECD estimates.

Source: OECD Economic Outlook 93 database; and OECD calculations.

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product market reforms to relax regulatory restrictions in sectors in which there is a strong potential for new job growth, such as retail trade and professional services in many countries, could also help improve labour market outcomes, not least by allowing the benefits of wage adjustments to be reflected more quickly in relative prices and hiring.

Table 1.6. **Selected reform recommendations to boost employment in OECD and BRIICS countries**

	Disability systems: review criteria, improve monitoring	Strengthen ALMPs	Reduce average and marginal labour taxation	Reform job protection legislation to reduce duality	Strengthen child-care and pre-school education; parental leave
United States	x	x			
Japan				x	x
Euro area					
Germany			x	x	x
France		x	x	x	
Italy		x	x	x	
Austria	x		x		
Belgium		x	x		
Estonia	x	x	x		
Finland		x	x		
Greece		x			
Ireland		x			x
Luxembourg		x		x	
Netherlands	x		x	x	
Portugal		x		x	
Slovak Republic		x	x		x
Slovenia				x	
Spain		x		x	
United Kingdom	x				x
Canada			x		
Australia					x
Chile					x
Czech Republic					x
Denmark	x		x		
Hungary			x		
Israel		x			
Korea				x	x
Mexico				x	
Norway	x				
Poland	x		x		x
Sweden	x		x	x	
Switzerland					x
Turkey				x	x
India				x	
Indonesia				x	
South Africa		x			

Source: OECD, Going for Growth 2013.

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External imbalances remain elevated …

After a sharp decline following the crisis in 2008, the narrowing of global imbalances has subsequently stalled, with little further change expected over the projection period (Table 1.7; Figure 1.11). Amongst the major economies, key developments include:

… broadly stable in the United States…

- In the United States, the current account balance has been broadly stable over the past year, with an increasing non-oil deficit, reflecting the relative strength of domestic demand, being offset by rising exports and declining imports of petroleum products, on the back of favourable domestic supply developments. The external deficit is projected to edge up by around ¼ percentage point of GDP over the rest of the projection period, reflecting the same factors.

Table 1.7. **World trade will strengthen only gradually**

Goods and services trade

	2010	2011	2012	2013	2014
	Percentage change from previous period				
World trade[1]	12.7	6.1	2.7	3.6	5.8
OECD exports	11.3	5.7	2.7	2.2	5.2
OECD imports	11.2	4.9	1.3	1.5	4.4
Trade prices[2]					
OECD exports	2.8	9.1	-3.8	1.1	1.3
OECD imports	3.6	10.7	-2.8	0.8	1.4
Non-OECD exports	10.1	14.1	1.6	1.7	3.1
Non-OECD imports	8.7	10.6	0.7	1.8	3.1
Current account balances	Per cent of GDP				
United States	-3.0	-3.1	-3.0	-3.1	-3.3
Japan	3.7	2.0	1.0	1.0	1.9
Euro area	0.5	0.7	1.9	2.5	2.8
OECD	-0.4	-0.6	-0.5	-0.4	-0.3
China	4.0	1.9	2.4	2.3	1.4
	$ billion				
OECD	-193	-301	-241	-185	-140
United States	-442	-466	-475	-496	-557
Japan	204	119	60	51	94
Euro area	62	87	230	310	361
Non-OECD	496	608	522	435	361
China	238	136	193	210	142
Major oil producers	315	590	536	467	504
Rest of the world	-57	-118	-208	-241	-286
World	302	308	281	250	220

Note: Regional aggregates include intra-regional trade.

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

Source: OECD Economic Outlook 93 database.

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... and China...

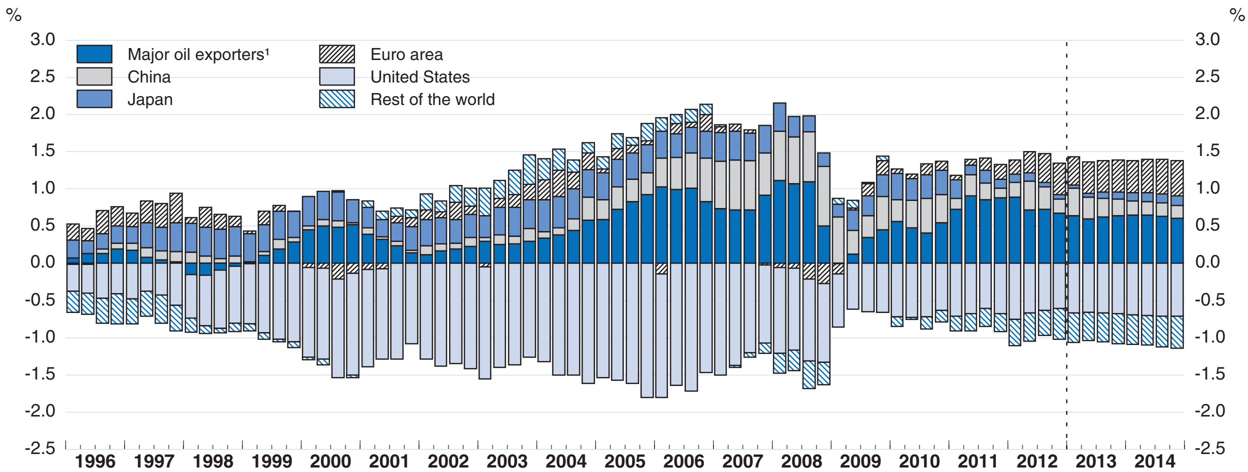
- In China, the overall current account surplus has also been largely unchanged over the past year, with further gains in export market share offsetting soft external demand and a weaker investment income balance, with returns on foreign investments in China high relative to those on Chinese foreign asset holdings. These latter factors should slowly unwind over the projection period, but solid domestic demand growth should nonetheless lead to a decline of around 1% of GDP in the external surplus over the rest of 2013 and 2014.

... but the surplus has risen in the euro area...

- Reflecting the asymmetric nature of intra-euro area rebalancing, the euro area external surplus has risen by around 1 percentage point of GDP over the past year, with the German external surplus remaining at or just above 7% of GDP, and strengthening balances in the fiscally vulnerable economies. A further ½ percentage point increase is expected over the next 18 months, with improving balances in vulnerable countries still not fully offset elsewhere, despite some decline in the German external surplus.

Figure 1.11. **Little further progress in reducing global imbalances is foreseen**

Current account balance, in per cent of world GDP



Note: The vertical dotted line separates actual data from forecasts.

1. Include Azerbaijan, Kazakhstan, Turkmenistan, Brunei, Timor-Leste, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Russian Federation, Saudi Arabia, United Arab Emirates, Yemen, Ecuador, Trinidad and Tobago, Venezuela, Algeria, Angola, Chad, Republic of Congo, Equatorial Guinea, Gabon, Nigeria and Sudan.

Source: OECD Economic Outlook 93 database.

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... and fallen in Japan

- In Japan, the current account surplus has declined further by around ½ percentage point of GDP over the past year, reflecting rising energy imports, as well as slower exports as a result of sluggish overseas demand and the adverse impact on sales from tensions with China in the latter part of 2012. The large depreciation in the yen effective exchange rate has temporarily raised the trade deficit via the deterioration in the terms of trade, but is likely to boost export volume growth markedly, with a moderate improvement in export performance now projected during the remainder of this year and next. Strong income flows from Japan's net external assets are also projected to persist, and with stagnant domestic demand through 2014 the overall current account surplus is projected to pick up to around 2% of GDP for the year as a whole.

Structural reforms would help narrow global imbalances

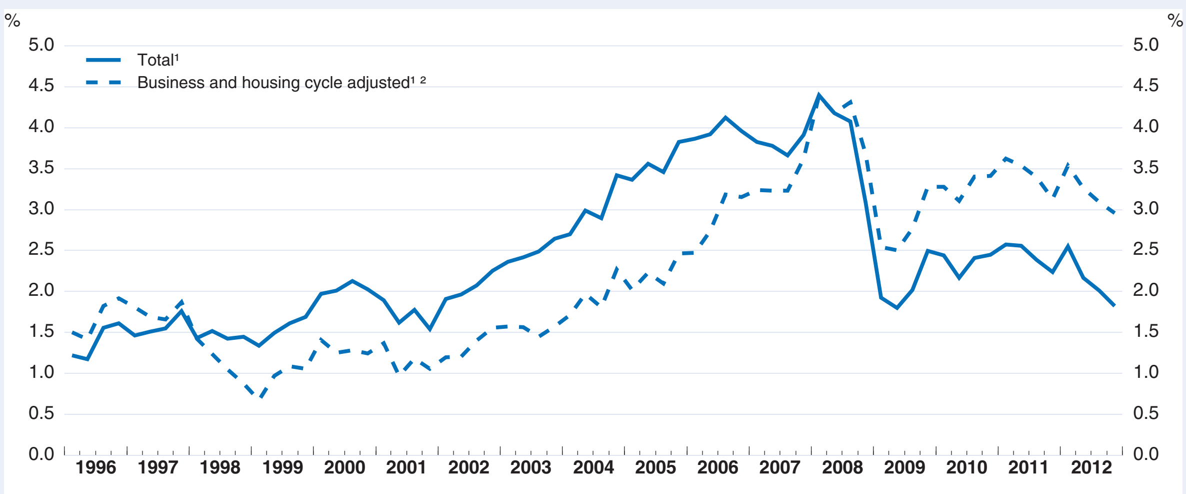
As discussed in Box 1.3, a substantial proportion of the observed reduction in imbalances since the start of the crisis can be accounted for by cyclical developments and low interest rates, with the latter reducing interest payments on the debts of deficit countries. Nonetheless, underlying imbalances have also declined, with exchange rate adjustment reducing the cyclically-adjusted current account surplus in China, and the pick-up in oil and gas production reducing import demand in the United States. Relatively stronger fiscal consolidation in deficit countries has also reduced underlying national imbalances, though in the euro area as a whole it has been associated with a rising surplus. Further durable reductions in global imbalances are likely to require a greater adjustment of real exchange rates, continued fiscal consolidation in

Box 1.3. **Policies to ease global current account rebalancing**

The medium-term outlook for global current account imbalances depends crucially on the policies put in place by major countries. That is the upshot of applying a simple econometric framework that explains current account balances in major surplus and deficit zones in terms of: the position in business and house price cycles relative to trading partners; structural fiscal balances relative to trading partners; real effective exchange rates; real oil prices; and global interest rates (see Ollivaud and Schwellnus, forthcoming). Based on this empirical framework a decomposition analysis suggests that divergent business and housing market cycles alone can explain about 40% of the post-crisis decline in global current account imbalances, as demand has contracted by more in deficit countries than surplus countries (see figure below). This in turn implies that, in the absence of policy adjustment, global imbalances would rebound as output returns to potential and housing markets normalise.

Global current account imbalances

In per cent of world GDP



1. Calculated as the sum of the absolute US dollar values of current account balances of major surplus and deficit zones divided by the sum of world GDP in US dollars.
2. Based on the estimated coefficients of the econometric model assuming all output gaps are zero and residential investment-to-GDP ratios are at their long-term averages.

Source: OECD Economic Outlook 93 database; OECD Economic Outlook 93 long-term database; and OECD calculations.

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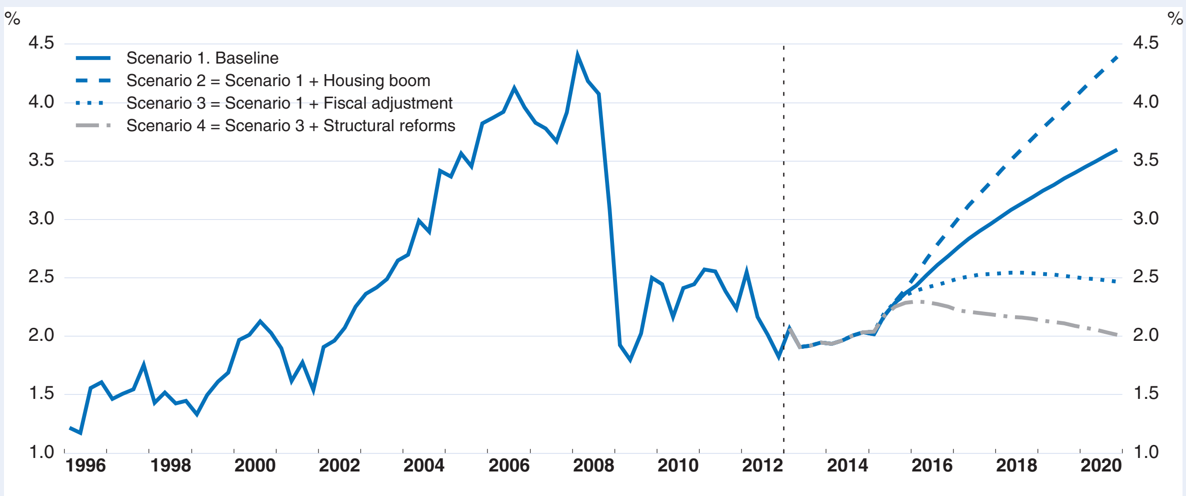
Based on the econometric framework, a stylised *baseline scenario* for the period 2015-20 has been constructed building on the short-term projections over 2013-14 and assuming minimal policy adjustment thereafter. It projects an increase in global imbalances, albeit to levels which would remain below the pre-crisis peak (see figure and table below). Minimal policy adjustment here entails: no further fiscal policy and real exchange rate adjustments beyond 2014; residential investment-to-GDP ratios gradually return to long-term averages by 2020; short-term interest rates return to neutral levels by 2020; and, consistent with the oil price assumption in the short-term projections, real oil prices increase by 3% per year over the period 2013-20.

Box 1.3. **Policies to ease global current account rebalancing** *(cont.)*

Scenarios for global current account imbalances

In per cent of world GDP



Note: Calculated as the sum of the absolute values of current account balances in dollars divided by the sum of GDP in dollars.
Source: OECD Economic Outlook 93 database; OECD Economic Outlook 93 long-term database; and OECD calculations.

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Scenarios for imbalances in major trading regions

Imbalances as per cent of GDP

	Pre-crisis peak[1]	2014	2020 Baseline (1)	2020 (1) + Housing boom (2)	2020 (1) + Fiscal adjustment (3)	2020 (3) + Structural reforms (4)	Required for NFA stabilisation[2]
United States	-6.0	-3.3	-5.0	-6.1	-3.2	-2.6	-0.6
Euro area deficit[3]	-4.4	0.8	-2.4	-3.6	-0.9	0.1	-1.4
Japan	4.8	1.9	3.0	3.8	3.5	3.1	1.0
Euro area surplus[3]	6.5	5.3	7.0	8.5	5.8	4.9	0.5
China	10.1	1.4	3.2	4.1	1.2	0.4	1.9
Oil exporters	16.4	7.2	15.8	16.7	14.8	14.7	2.1

1. 2006 for the United States and the oil exporters, 2007 for all remaining zones.
2. Current account balances required to stabilise net foreign assets (NFA) at 2011 levels are calculated under stylised assumptions on nominal GDP growth and assuming zero capital gains. They should therefore be seen as being indicative rather than precise benchmarks.
3. The euro area surplus zone is here defined to include euro area members for which the current account surplus was on average larger than 1% of GDP over the period 2000-05 (Austria, Belgium, Germany, Finland, Luxembourg and the Netherlands). The euro area deficit zone includes the remaining members of the OECD euro area.

Source: OECD Economic Outlook 93 long-term database and OECD calculations.

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Box 1.3. **Policies to ease global current account rebalancing** *(cont.)*

Although this baseline suggests that global current account imbalances would remain below the pre-crisis peak, policy actions supporting further current account narrowing would be warranted for a number of reasons. Firstly, current account deficits in the United States and the euro area deficit zone would fail to stabilise net foreign assets-to-GDP ratios. Secondly, there are a number of upside risks to such a baseline, including renewed housing market booms in deficit countries that could be set off by a rebound in capital flows. A variant scenario suggests that a return of residential investment rates to pre-crisis peaks could significantly raise global imbalances (scenario 2 in table and figure above). In the absence of further policy adjustment, historical experience suggests that there is an increased risk of disruptive adjustment in the form of sudden stops in capital inflows in current account deficit countries, which have frequently precipitated financial crises with large cross-border spillover effects.

Ambitious fiscal adjustment in countries with larger remaining fiscal imbalances would bring current account balances closer to those consistent with stabilising net foreign assets. In a variant *fiscal adjustment scenario* (scenario 3) it is assumed that the United States, euro area deficit countries and Japan engage in fiscal adjustment (increase in the primary structural balance of 1% of GDP per year) over the period 2015-20 whereas there is no fiscal adjustment in China and the euro area surplus zone. Real effective exchange rates are assumed to depreciate in countries with larger fiscal adjustment or larger initial output gaps (10% in the euro area deficit countries, 5% in the United States), while they appreciate in China and the euro area surplus zone (both 5%), which allows current account narrowing to occur partially through the switch of expenditure between foreign and domestic demand. Relative to the baseline with minimal policy adjustment these assumptions imply a large decline in global imbalances over the period 2015-20, reducing the gap between the projected current account balance and that required to stabilise net foreign assets by around 40% for the United States and achieving broad stabilisation of net foreign assets in euro area deficit countries (see table above).

Structural reforms that raise GDP, employment and welfare could have the added advantage of enhancing external sustainability by narrowing current account imbalances. The scenario analysis assumes a package of selected structural reforms, with likely effects on current account balances based on previous OECD work (Kerdrain *et al.*, 2010; Kennedy and Slok, 2005). In particular, labour market reforms in euro area deficit countries are assumed to improve competitiveness and reduce the current account deficit by around 1% of GDP while product market reforms – especially in sectors sheltered from trade – reduce surpluses in euro area surplus countries by around 1% of GDP. In the United States, tax reforms, including reductions in the favourable treatment of interest expenses, raise private saving by around 0.5% of GDP while in Japan product market reforms are assumed to raise private investment by 0.5% of GDP. In China, financial liberalisation and the expansion of the social safety net reduce private saving by 1% of GDP.

A combination of structural reforms and fiscal consolidation would be sufficient to put global imbalances on a gently declining path (scenario 4 in table and figure above). Moreover, it would provide some margin if upside risks to imbalances were to materialise.

external deficit economies and structural reforms to boost growth and welfare while also reducing saving-investment imbalances.

Rebalancing in the euro area is essential...

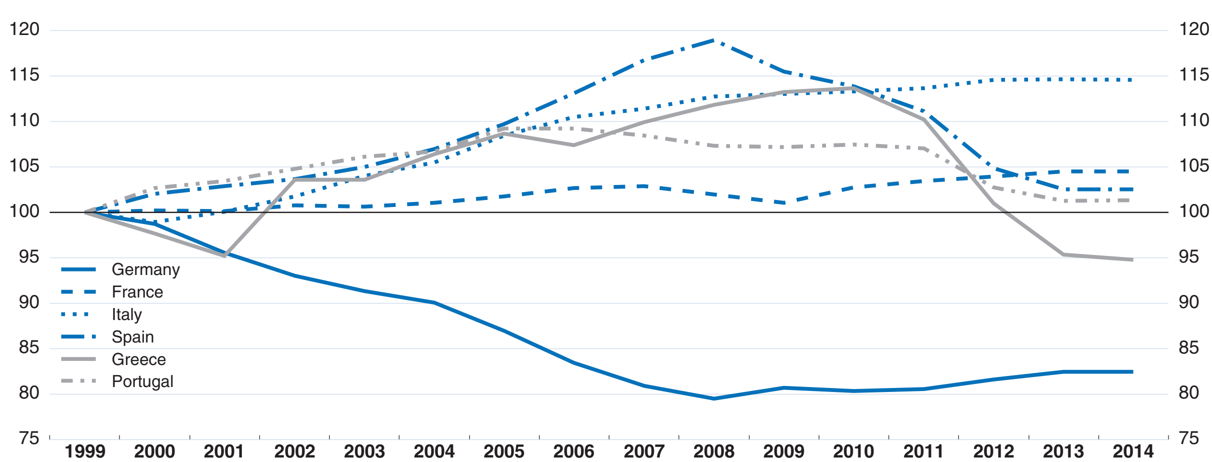
In the medium term, resolution of the crisis in the monetary union will require that the imbalances built up prior to the crisis are fully addressed. The required rebalancing is underway in most deficit countries, with spending being reduced by increases in household saving, reduced housing investment and fiscal consolidation. This has been accompanied by an acceleration of structural reforms which, among other effects, affect competitiveness. In surplus countries, there has been less policy adjustment to foster rebalancing; indeed, actions have been taken to restore fiscal sustainability, and few structural reforms to facilitate the transfer of resources into sheltered sectors have been implemented.

… and there are signs of progress

One sign of progress in rebalancing is that relative economy-wide unit labour costs within the euro area are now becoming more closely aligned with those immediately prior to the start of monetary union (Figure 1.12) – although this may not last when cyclical conditions return to normal. The improved alignment of costs is notably apparent in Greece, Spain and Portugal, where high external deficits built up in the pre-crisis period.[9] The counterpart to this has occurred in Germany, but also France and Italy (Figure 1.12). These developments have contributed to the gradual narrowing of intra-area trade imbalances, though activity developments were likely more important (Figure 1.13). Ireland, Spain and, more recently, Italy also now have aggregate current account surpluses, with Greece and Portugal projected to move into surplus by 2014. The importance of cyclical factors notwithstanding, continued (or projected in the case of Greece) improvements in export performance are also occurring in these countries, pointing to the benefits of the improvement in competitiveness.[10] For these underlying improvements to be sustained, further reforms in both labour and product markets to

Figure 1.12. **Relative unit labour costs are now adjusting in the euro area**

2005 = 100



Note: The figures shown are for the whole economy unit labour costs relative to unit labour costs in the rest of the euro area.
Source: OECD Economic Outlook 93 database; and OECD calculations.

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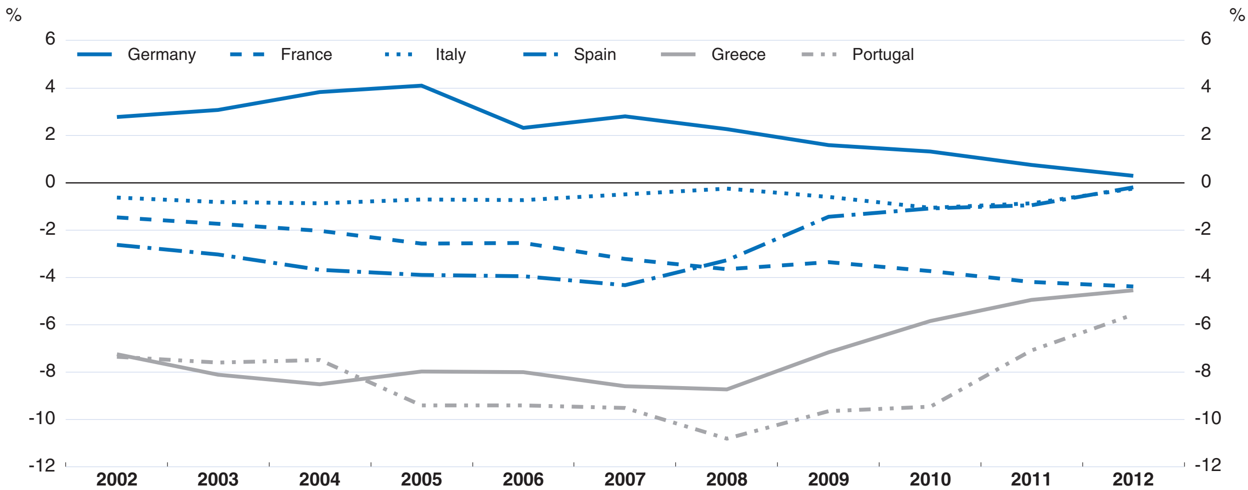
9. This overstates competitiveness adjustments in some external deficit countries, given the extent to which adjustments in wage levels have been driven primarily by wage developments in the public sector rather than in the business sector.
10. The debt restructuring in Greece last year has also led to a sizeable reduction in net income payments abroad.

Figure 1.13. **Intra-euro area trade imbalances have narrowed**

In per cent of GDP



Note: Export data are recorded at their free-on-board (FOB) value and imports are recorded at their cost, insurance and freight (CIF) value.
Source: IMF Dots database; OECD Economic Outlook 93 database; and OECD calculations.

StatLink http://dx.doi.org/10.1787/888932835594

help strengthen productivity and improve price and non-price competitiveness remain essential. Ambitious medium-term fiscal targets in vulnerable economies would also help to ensure that the improvements in their external balances are sustained once the recovery is underway. Such measures need to be balanced by further structural reforms in the traditional external surplus economies, as discussed above. This would help to prevent the overall adjustment of imbalances from becoming increasingly one-sided and disinflationary, thereby acting to increase global imbalances.

Risks to the outlook

Downside risks still dominate, even if they have narrowed

Downside risks have narrowed since mid-2012, with a significant reduction in negative tail risks, and financial markets have recently demonstrated remarkable resilience to negative news. This positive development owes much to the introduction of the OMT programme by the ECB. This has not yet been tested in practice, but has nonetheless eased sovereign bond spreads and has so far limited the increase in spreads when negative events have materialised in the euro area. The improvement in risk appetite also reflects the resolution of the fiscal cliff in the United States at the turn of the year, which resulted in less fiscal tightening than programmed, though consolidation was later augmented by poorly-targeted sequestration. Even so, the balance of risks around the projection remains asymmetric, with the projection best seen as a modal projection with quantitatively limited upside risks. These largely reflect possible pent-up demand pressures in some economies,[11] though it also cannot be excluded that adjustment progress in the euro area programme economies could lead to a more general reassessment of risk and a faster return on confidence than assumed in the projections. The discussion below focuses on the possible adverse risks.

Negative risks remain in the euro area

In the euro area there is still a need to deal with negative risks related to…

Negative risks remain in the euro area, with institutions not yet in place, or possibly still ill-adapted, to respond effectively to financial and political difficulties in crisis management, and many European banks inside and outside the euro area holding low levels of capital relative to their total assets. Capital levels appear higher relative to their risk-weighted assets, but this indicator has not been a good predictor of banking problems in the past.

… potential triggers of crises and…

- There are many different events which could unsettle financial markets once more, and make them more sensitive to risks. These include country risks, adverse political developments, disappointing growth and fiscal outcomes and, in particular, further problems in financial institutions.

… feedback between banks and government finances…

- The limited loss-absorption capacity of European banks and the present lack of a full banking union in the euro area are a potential source of negative feedback effects between banks and government finances. The initial decision in June 2012 on direct capital injections by the ESM into banks was intended to block bank-sovereign feedback loops. However, subsequent decisions have made such direct capital injections conditional on the establishment of the Single Supervisory Mechanism which is foreseen to be fully implemented only in the first half of 2014. Thus, in the coming year, no direct capital injections by the ESM are possible and capital injections by national governments could set in motion negative feedback effects between banks and governments. Moreover, the adequacy of available ESM resources for bank recapitalisation is subject to doubt, given other potential commitments.

… between banks and the real economy…

- Weak activity tends to boost loan losses, and associated provisions, putting bank earnings and balance sheets under pressure and hampering credit supply – which further reinforces activity weakness. As discussed above, such mechanisms seem to be in operation at present and will be given impetus by rising unemployment and weakening property prices. Indeed, in many of the fiscally vulnerable

11. In the United States, durable goods consumption as a share of GDP is rising but remains low by historical standards. Equally, the gradual recovery in family formation in the United States from a level well below normal may continue, providing a boost to the housing market. More broadly, car sales remain below estimated longer-term trends in some emerging market economies.

countries, non-performing loans are already at a high level and the quality of loans may deteriorate further, forcing banks to increase provisions, reduce lending volumes and maintain high lending rates (Figure 1.4). In some core euro area countries, including France and the Netherlands, non-performing loans remain remarkably low at present given the economic weakness in recent years.

... between bank creditors and banks...

- The bail-in provisions in the recent Cyprus[12] agreement, while providing a step forward in resolution arrangements, could aggravate adverse crisis dynamics in the future. Given the lack of loss-absorbing capital in European banks, uninsured depositors and unsecured senior bondholders have to play a greater role in resolving banking crises if public bail-outs are to be limited, although the European Commission has reaffirmed that insured depositors are safe. While an enhanced private sector role in resolution is a welcome development in principle, it could, particularly in a context of weak bank capitalisation, result in bank runs at the first sign of difficulties, weakening banks still further and thereby intensifying deposit withdrawals and funding problems. This would be especially likely in countries where the sovereign is seen as having insufficient strength to back up deposit insurance.

... and between bond yields and exit risks

- In addition, there is still a risk of negative feedbacks between bond yields and exit risk, especially if euro area bond yields are pushed up as a result of a bond market shock elsewhere (see below). There are circumstances that may prevent the OMT scheme from being activated. For instance, if caretaker administrations are in place, it might prove very difficult to get agreement in national parliaments. More generally, the associated conditionality for support may prevent a government from seeking assistance, especially if the conditionality requirements are expected to be very strict and the government lacks a strong mandate to push through reforms. This possibility may be gaining strength as persistent unemployment and negative growth exacerbate adjustment fatigue in countries under stress. If no agreement on conditionality is possible, the feedback between exit risk and sovereign bond yields would operate unhindered. If conditionality were to be lifted, the ECB would become the lender of last resort for governments, as is the case with other central banks, which should guarantee the integrity of the monetary union. However, such a development would magnify moral hazard problems, as the experience of the former ECB Securities Market Programme demonstrated, with reform efforts and commitment to fiscal consolidation quickly fading.

Further policy measures and institution building are necessary

Further policy measures are needed to deal with these risks. It is important to expedite the construction of a full-fledged banking union, including a single bank resolution regime, a joint fiscal backstop and joint deposit insurance. It is a concern that reduced financial market tensions

12. See footnotes 2 and 3.

seem to have weakened the impetus for rapid progress in this area. Pending such progress, it is essential to strengthen balance sheets in the banking system by recognising bad loans and increasing bank capital from private sources, from the budget if private capital is not available or from joint funds where public budgets have insufficient strength. Clear guidelines on the use of the ESM in such a context would be desirable. Going forward, and even with the renewed rules-based approach to fiscal policy, it is important to strengthen the capital of financial institutions so that they can withstand sovereign debt write-downs if rules prove insufficient to prevent sovereign crises.

Bond market instability in the run-up to exit from unconventional policy

A sharp rise in US government bond yields could have serious consequences in…

Government bond yields are set to rise when economic prospects point towards a normalisation of current exceptionally accommodative monetary policy. The United States is likely closer to – albeit some distance away from – such a situation than other regions and countries with exceptional policy settings. If yields increase strongly or abruptly, for instance due to investors being surprised by the timing or pace of policy changes, or if higher interest rates expose vulnerabilities in the financial system, it could be disruptive to the global economy. Currently enhanced communication should limit any surprises, but there is still a risk of a repetition of developments from 1994, when an unanticipated increase in the policy rate in the United States triggered off a sharp increase in government bond yields that year (2 percentage points). This did not derail the recovery at the time because of the strong underlying momentum in the economy. But at the current juncture, when the global economy is still weak and financial systems are healing, such events could pose a serious risk.

… the United States…

- A leap in US government bond yields would result in capital losses for investors, and prices on other assets would most likely follow suit, with mortgage-backed securities and corporate bonds most strongly affected.[13] In comparison with 1994, this could be more disruptive given the current higher leverage in the US economy and financial system. Unless offset by portfolio shifts as investors move funds from bonds to equities, the higher long-term interest rate would weigh on equities, and property valuations could also be marked down. The cooling of domestic demand due to higher cost of borrowing and negative wealth effects would be accompanied by weaker foreign demand as the currency would appreciate, reflecting the higher level of interest rates. Indeed, the appreciation, and the influence on capital flows more generally, might be especially strong if the impending or actual US policy tightening were to take place at the same time as other economies are stepping up asset purchases. All in all, NiGEM

13. A one-percentage point increase in a 10-year zero-coupon bond yield would reduce its price by around 9%.

simulations, including normal exchange rate reactions, suggest that a 2-percentage point increase in long-term interest rates during one year could subtract around 1½ percentage points from growth in the United States in the first year. However, with possible disruptions to the financial system, as leveraged investors may have to liquidate positions, negative effects could be larger.

… other advanced OECD countries…

- An increase in US bond yields could also have adverse effects on growth in other advanced OECD countries. This could happen through trade linkages or because of co-movements in financial markets. Without any significant financial market spillovers, NiGEM simulations suggest that the 2-percentage point increase in US long-term interest rates during one year would reduce GDP by 0.2 and 0.4 percentage point in the euro area and Japan. However, increases in US yields in the past (and notably in 1994) have prompted an increase in yields in other advanced OECD economies, possibly because leveraged investors in US Treasuries need to raise liquidity when prices fall by selling foreign government bonds in their portfolios (Borio and MacCauley, 1995).[14] If government bond yields were to increase in the main OECD economies as a result of higher US yields, it could risk undermining the recovery in the euro area and make debt dynamics more challenging in Japan. In addition, domestic financial systems could be adversely affected if US institutions were to reduce their funding of foreign banks as interest rates increase at home. However, while US banks and money market funds were important sources of funds for foreign banks prior to the crisis, at present they play a much smaller role.[15] As an extreme assumption to gauge the maximum damage, if yields were to increase in the euro area and Japan to a similar extent as in the United States due to contagion, the negative impact on GDP would be much stronger than the one quoted above: around 1 and over 3%, respectively.[16] The latter scenario would prolong the euro area recession and push Japan into recession.

… and especially emerging markets

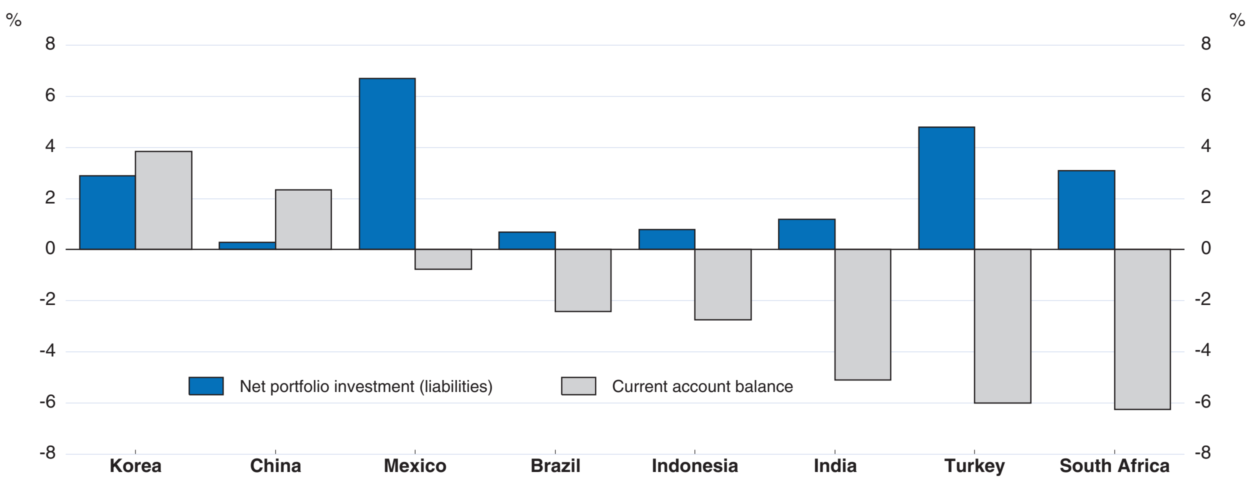
- A sharp increase in US bond yields could have particularly deleterious effects in emerging market economies, with the sizeable portfolio capital inflows in recent years being replaced by large outflows if investors become more risk averse.[17] The emerging market economies

14. Ten-year government bond yields increased by between 1.5 and 3 percentage points in Germany, Japan and the United Kingdom in 1994.
15. For example, in the euro area, US banks and money market funds are estimated to have accounted for only around 1% of total bank liabilities in 2012, implying that the withdrawal of US funds might only have a relatively small impact and could be offset by additional liquidity provisions by the ECB.
16. The very large effect for Japan stems from a high sensitivity of business investment to long-term interest rates in the NiGEM macroeconomic model.
17. Empirical research suggests that US interest rates and measures of risk aversion, such as the yield spread between high-yield and government bonds in the United States (or the VIX), are important determinants of capital flows, and surges and stops in capital flows in particular, to emerging countries (Forbes and Warnock, 2011; and Ghosh *et al.*, 2012).

that are most vulnerable to these shifts in investors' preferences are those that have received the greatest inflows in the recent past and are dependent on such flows to finance large current account deficits (South Africa, Turkey and, to a lesser extent, Mexico; Figure 1.14). For these countries, it will likely be more challenging to deal with outflows than with inflows, as the options to use measures to limit outflows may be circumscribed.[18]

Figure 1.14. **Current account balances and portfolio investment inflows differ across emerging markets**

In per cent of GDP



Note: Data for portfolio investment refer to 2012 for Brazil, Indonesia, Mexico and Turkey, 2011Q4-2012Q3 for India, Korea and South Africa, and 2011Q3-2012Q2 for China. Data for current account balances refer to 2012.

Source: Datastream; and OECD Economic Outlook 93 database.

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Fiscal policy risks

Uncertainty about US fiscal policy remains a negative risk…

Fiscal policy developments in the United States still remain a downside risk. In particular, the automatic and poorly targeted expenditure cuts in the sequestration that has now come into effect could have strong negative multiplier effects on demand, since they are concentrated on public consumption and investment which typically have stronger activity effects than other consolidation instruments. Across-the-board cuts in discretionary spending will also hit other growth-friendly components of expenditure and risk creating bottlenecks for growth of private sector activity. Continued failure by the Administration and Congress to reach an agreement on long-term fiscal issues is another downside risk. Finally, the imminent need to raise the debt ceiling once more could unsettle markets.

18. Capital flow measures can be motivated by macro-prudential concerns.

... and unsustainable public finances in Japan could provoke a crisis of confidence

In Japan, the key risk is that the unsustainable fiscal position will eventually affect financial markets and provoke a crisis of confidence. Bringing the debt ratio back to safe levels from its current highs will be exceptionally challenging (Box 1.4). If market concern about very high debt levels starts to rise, yields on government bonds could increase, worsening debt dynamics considerably. Delays in fiscal consolidation and the failure to establish a credible medium-term consolidation plan would risk provoking a change in investor sentiment and a run-up in borrowing costs. Over the longer term, lower private saving and a shrinking external surplus due to population ageing could also force more external financing of deficits, with foreign investors demanding higher risk premia. In addition, with government bonds accounting for a fifth of its assets, the banking sector is susceptible to any rise in interest rates. The resulting capital losses could induce banks to tighten their lending attitudes, which would weigh on growth. As realised by the new government, and discussed in Box 1.4, Japan needs a strategy involving fiscal, monetary and structural policies to address the challenge of reducing the public debt ratio.

Box 1.4. **Returning to debt sustainability in Japan: The government's three-pillar strategy**

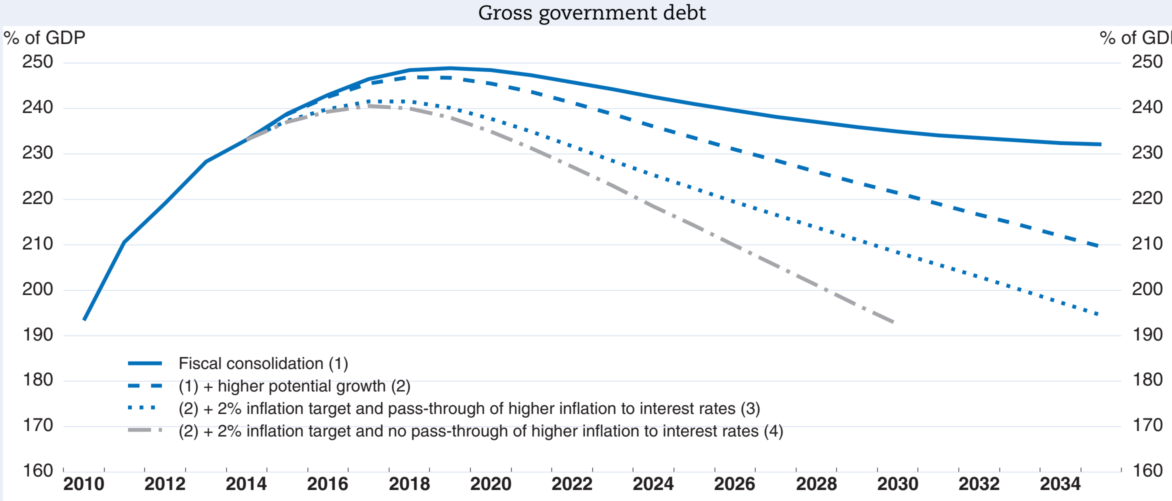
Japan faces a huge fiscal challenge because of its very high gross debt level – over 200% of GDP – and its large primary deficit – projected at over 9% of GDP in 2013. The challenge is amplified by years of sustained deflation, which aggressive monetary policy is now aiming to address, and poor growth prospects given continued demographic headwinds. The fiscal situation represents an important source of macroeconomic risk, not only for Japan, but also for other countries given their exposure to Japan's financial institutions and Japan's size in the world economy. Risks could materialise if domestic investors decided to diversify their portfolios away from Japanese government bonds, if declining private saving required sustained net foreign borrowing to finance fiscal deficits, or if domestic and foreign investors simply lost confidence in medium to long-term debt sustainability. The challenge for Japan is thus to retain the confidence of investors during the many years it will take to turn the debt dynamics around. A three-pillar medium-term strategy for doing so was announced by the new government in January. First, the new government remains committed to achieving primary balance by 2020. Second, there are to be structural reforms to raise Japan's growth potential. And third, an inflation target of 2% has been introduced as the objective for monetary policy. This Box reports on a number of model simulations illustrating the contribution that this plan could make to lowering Japan's government debt burden.

The impact of the first pillar in isolation is illustrated by a simulation that incorporates the objective of achieving primary balance by 2020 and subsequently adjusting the fiscal stance so as to stabilise the gross debt burden around today's level. Accordingly, the recent re-orientation of monetary policy is not taken into account. Starting from the current deflationary environment and given the impact of fiscal consolidation on activity and prices, deflation remains prevalent until the early-2020s. Under these conditions, and assuming a fiscal multiplier of 0.5, 10 percentage points of GDP in budget consolidation is needed between 2013 and 2020 to reach a primary balance, and an additional one percentage point of GDP is needed over the following 10 years to keep the debt ratio stable. Because the debt burden stops rising around 2020, this scenario can be seen as the minimum that would need to occur to reassure investors.

Box 1.4. **Returning to debt sustainability in Japan: The government's three-pillar strategy** *(cont.)*

Evolution of the debt burden in Japan over the medium term under different debt-reduction strategies

Gross government debt



1. The impacts of the three pillars cumulate across the first three simulations. The impact of higher potential growth by itself can be assessed by comparing (2) to (1). The impact of the higher inflation target by itself can be assessed by comparing (3) to (2). The impact of monetary strategies that prevent the 1-percentage point rise in inflation from passing through to higher government borrowing costs can be assessed by comparing (4) to (3).

Source: OECD Economic Outlook 93 databases; and OECD calculations.

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The second part of the new government's strategy consists of structural reforms to raise Japan's growth potential. Although the details of this part of the plan will only be announced in June, it could include measures to raise the labour force participation rate (with most potential from a rise in female participation) as well as measures to raise aggregate productivity growth, such as reforming regulation of sheltered sectors. To simulate the impact of this second pillar, the participation rate is assumed to rise gradually by 2½ percentage points above baseline, and productivity growth is assumed to also rise gradually by 0.2 percentage point above baseline. Higher participation has a positive effect on the fiscal balance commensurate with the size of automatic stabilisers. On account of increased participation and productivity combined, the level of potential output is about 7% higher than in the baseline by 2035. The cumulative effects of faster potential growth on the debt burden amount to a reduction of over 20 percentage points of GDP in 2035 relative to fiscal consolidation alone, and would continue to accumulate thereafter.

The impact of the third pillar is illustrated by adding to the first two the increase in the inflation target to 2% and determined monetary policy efforts to reach it. As a result, inflation expectations gradually adjust upward and deflation ends rapidly. In the scenario, higher inflation causes market interest rates to rise and leads to higher nominal financing costs for the government, but the implicit average interest rate paid on all outstanding debt rises more slowly than inflation, reflecting the existing maturity structure of debt. This effect erodes the debt ratio, which by 2035 is about 15 percentage points of GDP lower than in the second scenario. The effect is modest, and front-loaded, because of the relatively short maturity structure of Japanese government debt: close to 40% of currently outstanding market debt is to be refinanced within 2 years. Higher inflation is assumed not to affect the primary budget balance on the assumption that it would raise primary revenue as much as spending, but the extent of *de facto* indexation may well be higher on the spending side, and even if it is not the primary balance will tend to deteriorate given that spending is higher

Box 1.4. **Returning to debt sustainability in Japan: The government's three-pillar strategy** *(cont.)*

than revenue. On the other hand, the scenario does not take into account that the monetary policy action to reach the inflation target is likely to reduce debt servicing costs, via two channels. First, quantitative easing via the JGB market may imply that interest rates rise less than inflation expectations due to portfolio rebalancing effects. Second, quantitative easing substitutes base money and low-earning reserves for higher-earning JGBs in the private sector's portfolio, which is likely to reduce overall interest costs for the government sector (after taking into account remittances from the Bank of Japan). The net balance of these conflicting influences is not clear but it is certainly possible that public debt could fall more than in this scenario.

An extreme version of the potential additional debt-reduction effects of the unconventional monetary policy actions necessary to substantially raise inflation are illustrated in a final scenario in which higher inflation does not pass through into higher nominal interest rates. In this scenario, not only can the government finance its deficits more cheaply in real terms as inflation increases without an increase in nominal interest rates, but in addition the resulting fall in real interest rates boosts activity. As a result, the debt burden falls much more rapidly than in the previous scenario where nominal interest rates adjusted to higher inflation. The extreme assumption underlying this scenario needs to be emphasised, however. To maintain nominal interest rates unchanged compared with scenario 3 despite inflation having reached the 2% target, the Bank of Japan would have to engage in continuous quantitative easing which at some point would seem certain to generate destabilising effects on inflation and financial markets. Hence, scenario 4 could at most be followed for a limited period after which policy would have to revert to that underlying scenario 3. Such a limited period might nonetheless have a durable impact on debt levels compared with scenario 3.

A final caveat concerns the size of the fiscal multiplier. The large amount of fiscal consolidation implicit in the government's strategy has limited impacts on activity, employment and prices if the fiscal multiplier is low, as assumed so far. With a fiscal multiplier of one, which cannot be excluded in view of monetary policy being highly extended, these negative impacts would be non-negligible. In scenario 3, going from a 0.5 to a 1.0 fiscal multiplier lowers nominal GDP growth by an average of 1.6 percentage points between 2015 and 2020 when consolidation is most rapid, through both real activity and price effects, and by about 0.3 percentage point of GDP after 2020. If, in addition, hysteresis mechanisms were to be stronger than assumed, the negative impact of fiscal consolidation on the long-term productive capacity of the economy would also be non-negligible.

The upshot of the analysis is that, if successful, the three-prong strategy would end the long rise in the public debt ratio and put it on a downward trend by the end of the current decade. On the other hand, according to the simulations, the debt burden would fall relatively slowly and may well remain close to 200% of GDP in 2035. Financing needs will remain large and Japan may thus remain vulnerable to crises of confidence.

The impact of policy easing on Japanese bond yields is uncertain

There is also uncertainty about the impact of the new monetary policy stimulus in Japan on government bond yields. On the one hand, stepped-up quantitative easing should have the impact of driving them down. On the other hand, higher inflation expectations as a result of the changed monetary regime could lead to an increase. Which of these effects prevails could have a strong influence on debt dynamics and fiscal sustainability.

Structural fiscal positions could also turn out weaker than assumed

Judgements about the present extent of economic slack, and thus estimates of the cyclically-adjusted budget balance, remain very uncertain in the OECD economies. This reflects uncertainty about the impact of both the crisis and the impact of the prolonged period of slack on potential output (see Box 4.3 in Chapter 4). If the near-term negative output gap is smaller than presently thought, the budgetary position of some economies will be less sustainable, necessitating additional fiscal consolidation and posing new downside risks to growth.

Other specific risks

Other risks include…

Other specific risks include:

… downside risks from excesses in financial markets…

- The risk-taking in financial markets discussed above could result in financial instability in the future. When monetary policy settings have to remain strongly expansionary in view of economic developments, macro-prudential policy instruments could potentially be helpful to deal with excesses that may arise in particular markets (Box 1.5). Such measures could also be part of the policy responses in emerging markets to deal with ample global liquidity and strong domestic credit growth, as is already the case in some of them. Indeed, in some of these economies, the structure of the external financing account is less robust that it was prior to the crisis, due to shortening of the maturity of their external bank debt.

Box 1.5. **Macro-prudential regulation**

Macro-prudential regulation has attracted considerable attention since the start of the financial crisis, given the growing recognition of limitations of micro-prudential regulation and monetary policy in ensuring financial stability. The objective of macro-prudential regulation is to reduce systemic risks in the economy. This box provides a short overview of recent experience with macro-prudential regulations in selected OECD economies and in the BRIICS.

Recent measures

Three main categories of instruments are usually distinguished based on the source of related risks: credit, liquidity and capital-related measures, although it may be ambiguous in practice how to classify some measures. The applications of these measures vary across countries, being practically unused in the United States, Japan, Germany and the United Kingdom but used extensively in many emerging market economies (see table below).

Credit-related measures have been implemented in several countries in response to rapid mortgage and house price growth and high household debt, mainly by limiting loan-to-value (LTV) and debt-to-income (DTI) ratios. Such measures have in some cases been applied to foreign currency-denominated mortgages (Poland and Hungary) to limit the vulnerability of non-hedged borrowers, especially households, to exchange rate volatility.

Liquidity-related measures have been adopted by some advanced economies in the wake of the recent financial crisis. France imposed a one-month liquidity ratio in 2010 to limit liquidity problems of banks after the functioning of the European interbank market had deteriorated, while New Zealand introduced liquidity-related measures in 2010 and 2011.

Box 1.5. **Macro-prudential regulation** *(cont.)*

Capital-related measures serve both micro and macro-prudential purposes. In the context of Basel III, a number of measures to address bank-specific but also broader systemic risks have been proposed, including countercyclical capital buffers, an internationally harmonised leverage ratio to contain the build-up of excessive leverage, and additional capital buffers for the most systemically important institutions (BIS, 2012). This category of measures includes bank dynamic provisioning which was implemented by Spain in 2000 to deal with a sharp increase in credit risk on banks' balance sheets after a period of rapid credit growth in the late 1990s. With the aim of calming the property market, Switzerland has recently introduced a counter-cyclical buffer, amounting to 1% of risk-weighted assets in banks' mortgage portfolios. Brazil introduced forward dynamic provisioning in 2007 and tightened capital requirements on new loans to households in December 2010.

Effectiveness of macro-prudential instruments

Experience with macro-prudential policy is still limited, but some evidence on their beneficial effects has started to emerge. Regarding *credit-related measures,* limits on DTI and LTV ratios are associated with lower credit growth (IMF, 2012) and higher LTV ratios are found to slow house prices inflation (Crowe *et al.*, 2011; Igan and Kang, 2011, Wong *et al.*, 2011; and IMF, 2012). Conditional on a housing bust, the presence of an LTV cap is found to limit the vulnerability of banking systems to mortgage default (Wong *et al.*, 2011). In line with these econometric results, DTI and LTV measures introduced by Korea are assessed to have reduced house price volatility, limited speculative incentives, and kept household default rates low, though they have not prevented a very sharp increase in household indebtedness. Similarly, the 2010 measures taken in China are seen to have contributed to a slowdown in bank lending growth and a house price decline between end-2011 and mid-2012. House prices have, however, started to go up again since mid-2012, prompting the authorities to announce a stricter implementation of existing measures. On the other hand, even if they may have helped moderate house price increases, LTV and DPI caps in Canada, Norway and Sweden have not prevented property prices from reaching very high levels relative to income and rents.

The liquidity-related measure introduced by New Zealand also appears to have been effective although it led to a higher-than-anticipated increase in average funding costs (Lim *et al.*, 2011; and IMF, 2012).

Regarding *capital-related measures*, larger capital buffers are found to increase the resilience of the banking system by mitigating the effects of loan losses on loan growth in bad times (Nier and Zicchino, 2008). The bank dynamic provisioning in Spain helped cover rising credit losses during the financial crisis, although the coverage fell well short of what turned out to have been required. Moreover, it was not effective in curbing credit growth, which grew by 25% annually in the years preceding the crisis. In contrast, in Brazil increases in the capital requirements on consumer loans and reserve requirements helped to reduce the speed of household credit growth. As reserve requirements do not differentiate by asset classes, they are however found to be less effective in limiting house price appreciations than variations in capital requirements, which can be specifically targeted at housing credit (IMF, 2012).

The evidence discussed above suggests that targeted macro-prudential tools are effective in limiting undesirable developments. Nevertheless, there are limits to their effectiveness and capacity to reduce systemic risks and their implementation can be challenging. Given that macro-prudential policy is aimed at containing systemic risk, it has to be employed pre-emptively before system-wide threats develop. The application of a discretionary macro-prudential policy may, however, be resisted by interest groups, while choosing the right timing to introduce a measure can prove to be difficult. Moreover, calibrating various instruments so as to take into account their expected costs and benefits as well as interactions with other measures and policies is not straightforward. These considerations suggest that macro-prudential responsibility should lie with a single independent institution having control over suitable tools to attain its objectives, as recommended by the European Systemic Risk Board (ESRB, 2012).[1]

Box 1.5. **Macro-prudential regulation** *(cont.)*

Recent active macro-prudential measures in selected OECD countries and BRIICS

	Credit-related			Liquidity-related		Capital-related			
	LTV cap	DTI cap	Credit growth cap	Maturity mismatch limits	Min. liquidity ratio	Capital requirements	Provisioning	Reserve requirements[1]	Risk weight restrictions
Austria			×						
Canada	×	×							
Chile	×							×	
France					×				
Greece		×	×				×		
Hungary	×	×	×						
Ireland						×			×
Israel						×			
Italy	×					×			
Korea	×	×	×			×		×	
Mexico						×	×		
Netherlands	×								
New Zealand				×		×			
Norway	×	×							
Poland	×	×	×					×	×
Spain						×	×		×
Sweden	×								
Switzerland						×			
Turkey	×		×			×			
Brazil						×	×		
China	×		×			×	×	×	
India	×		×			×	×	×	×
Indonesia									
Russian Federation	×	×					×	×	
South Africa						×			

Note: OECD countries not included in the table have not implemented macro-prudential measures recently.

1. Reserve requirements applying regardless of the residency of the party or of the currency used in the operation concerned.

Source : OECD compilation based on Lim *et al.* (2011) and IMF (2012).

StatLink http://dx.doi.org/10.1787/888932837019

1. This recommendation is not, however, followed in a number of countries. In the United States, both the Federal Reserve via the Office of Financial Stability Policy and Research and the Treasury via the Office for Financial Research are in charge of financial stability. In Sweden, the Riksbank and the financial regulator, Finansinspektionen, may have to share macro-prudential policy in the future (Ekholm, 2013). In contrast, in the United Kingdom, the responsibility of macro-prudential policy is given to the Bank of England's Financial Policy Committee, which can address any risks it identifies by passing on its concerns to the Prudential Regulation Authority which is obliged to act.

… rapid non-bank credit growth in China…

- Extremely rapid non-bank credit growth in China could also pose a risk to financial stability. In the first quarter of 2013, non-bank credit was 40% higher than a year earlier, and the total stock was equivalent to 40% of GDP. About a quarter of this activity has been financed through funds (so-called wealth management products). Such funds managed by banks have recently become subject to tighter regulation. However, other parts of the shadow banking system, notably trust companies, remain lightly or un-regulated and accept high risks in exchange for high yields with associated vulnerability to changes in the economic environment.

... and weaker trend growth in emerging market economies

- In the major emerging market economies, the relative stability of core inflation against the recent backdrop of sub-par growth suggests that there may be less spare capacity in these economies than previously thought, and that the rate of growth of trend output may have declined. Such factors point to a risk that the growth pick-up in the emerging market economies could be weaker than projected. In China, demographic pressures have slowed the growth of trend employment, with official estimates suggesting that the working-age population may have declined for the first time last year, and non-agricultural labour productivity growth is now slowly easing. Slower potential growth exacerbates the need for rebalancing of aggregate demand, with the share of private consumption rising relative to that of fixed investment, which is a process that may not proceed smoothly and which may damp growth outcomes for a period.

Economic policy requirements in the major countries

Monetary policy

The monetary policy stance has been eased further or has remained accommodative

Monetary policy is being eased in some large OECD economies from an already very accommodative stance. By far the most dramatic change has taken place in Japan, where the Bank of Japan aims to double the monetary base (from around 138 trillion yen, *i.e.* nearly 30% of GDP) and the holdings of government bonds and exchange-traded funds in two years, and to more than double the average remaining maturity of the government bonds it purchases. This radical shift in policy is aimed at reaching the new 2% inflation target and the boldness of the approach will likely help shake up inflation expectations of households and businesses. The US Federal Reserve continues to purchase Treasury and mortgage-backed securities at a rate of $85 billion per month (0.5% of GDP) and has stated that it will continue to do so until there is a significant improvement in labour market conditions. The ECB cut the main refinancing rate by 25 basis points to 0.5% and the marginal lending rate by 50 basis points to 1% in May. In the United Kingdom, the policy stance has not been changed recently, and remains accommodative. The policy stance varies among largest emerging market economies: policy interest rates have been cut in India from relatively high levels; rates have been raised from historically low levels in Brazil; and in China liquidity withdrawals have been stepped up, though the policy stance has remained neutral.

Marginal benefits and costs of further stimulus point to different policy requirements...

The scope and need for additional stimulus varies across countries, reflecting different balances of marginal benefits and costs of further action. Beyond inflation prospects, decisions on additional monetary easing need to be based on several factors, including activity and employment prospects, programme effectiveness, risks of excessive risk-taking and unanchoring inflation expectations, how soon the exit from monetary stimulus may be needed, and, hence, the risk of a potentially destabilising rapid reversal of policy stimulus.[19] Based on these criteria, the key monetary policy requirements in the major economies are as follows:

... in the United States, the pace of additional easing may need to slow gradually...

- In the United States, the monetary policy stance needs to remain exceptionally accommodative for some time to come. However, the net benefits of additional stimulus are muted, with growth projected to gradually strengthen once the strongest headwinds from recent fiscal tightening are past, signs of decreasing marginal efficacy (in terms of the impact on yields) of additional quantitative easing, signs of risk-taking that could be excessive in some segments of financial markets and the risk that the eventual policy reversal may lead to instability unless undertaken very gradually. Thus, beginning a gradual reduction in the size of additional asset purchases may be warranted in the near future. Such a policy change would need to be carefully prepared and accompanied with clear communication of the reasons behind it and indications of how future adjustments will be decided and implemented.

... in Japan, new quantitative and qualitative monetary easing is appropriate...

- Recent aggressive quantitative and qualitative monetary easing should help attain the Bank of Japan's 2% inflation target, especially if the recent sizeable depreciation of the yen and higher inflation expectations are sustained. The new stimulus is justified – indeed overdue – given underlying deflation, projected headwinds to growth as fiscal consolidation commences from 2014, and signs based on asset prices that recent quantitative easing has been effective. Additional instruments could be used, if need be, depending on price and activity developments.

... in the euro area, more monetary policy easing is needed...

- In the euro area, easier monetary conditions are needed given underlying inflation already well below the ECB objective for medium-term inflation and disinflationary pressures in the context of very weak activity. The ECB should adopt a negative deposit rate, driving the overnight rate below zero. It could consider following up on its recent forward guidance on maintaining the accommodative policy stance, including the commitment to keep fixed rate full allotment financing operations for at least a year, by explicitly linking such guidance to inflation prospects. Expansion of asset purchases is desirable and different options for such interventions exist, though many of these are complicated in practice. For instance, purchases of securitised loans to SMEs could both help credit flows to such firms and ease bank balance-sheet pressures, but require an institutional set-up to undertake securitisation in a way that is not overly susceptible to asymmetric information and moral hazard problems. Further purchases of covered

19. It should be borne in mind that tools exist to ensure that interest rates can be raised even if the extraordinary amount of liquidity has not been absorbed (Minegishi and Cournède, 2010).

bonds could be an option for quantitative easing, but the scope for this is limited, given the relatively small size of covered bond markets. For larger-scale quantitative easing, the ECB could consider buying government bonds of all euro area members on a non-discriminatory basis for monetary policy purposes. This would be distinct from activation of the country-specific OMT programme, which is based on conditionality and aimed at removing interest premia associated with redenomination risk. Nonetheless, having two parallel programmes potentially intervening in government debt markets – for different purposes, and with and without conditionality – would call for careful communication. In addition, the ECB could start buying corporate bonds and provide direct incentives to banks to extend credit, for instance by further relaxing collateral requirements or adopting programmes similar to the ones introduced in the United Kingdom and Japan. The potential activity effects of actions to ease transmission and lower bond yields in vulnerable countries may be stronger than those of actions that affect financial markets in the euro area more broadly, but such selective intervention may be harder to undertake.

… and in the United Kingdom, maintaining accommodative policy may still be warranted

- In the United Kingdom, despite persistently above-target inflation and some increase in inflation expectations, the current policy stance remains expansionary, as warranted by the slack in the economy and only modest growth prospects. Doubts about the effectiveness of recent quantitative easing measures caution against implementing additional asset purchases. The recent changes to the remit of the Bank of England should allow greater flexibility in meeting the 2% inflation target by acknowledging potential short-term trade-offs between inflation, output and financial stability.

In China the current policy stance could be eased

- The People's Bank of China has recently withdrawn liquidity *via* open market operations, following last year's reductions in the benchmark policy rate and the reserve requirement ratio and large liquidity injections that helped lower short-term market interest rates and reduce their volatility. With inflationary pressures presently subdued and significant slack, there may be room for some monetary relaxation. Strong credit growth inside and outside the banking sector warrants vigilance for its implications for inflation pressures and financial stability, and macro-prudential measures might have to be tightened in addition to the recent introduction of a 20% capital gains tax and higher down-payments for second-time home buyers.

More easing will likely be needed in India but not in Brazil and Russia

- In India, current headline inflation is high, but underlying (non-food, non-energy) inflationary pressures are expected to weaken further and the drag from expected fiscal consolidation is likely to increase, justifying further monetary policy easing. In Brazil, accommodative monetary policy provides support at a time of currently weak economic growth, but high inflation will necessitate further monetary policy tightening in the near term. In Russia, the current policy rates are appropriate given the projected gradual decline in inflation from its current elevated level towards the medium-term target and an only modest growth outlook.

Monetary policy frameworks may need to be adjusted

Highly expansionary monetary policy over the past five years has been instrumental in stabilising financial markets and the wider economy and in preventing deflation. Nonetheless, questions about the appropriate setting of monetary policy are increasingly being posed, reflecting both the contribution that a focus on near-term inflation outcomes may have given to the imbalances that led to the crisis, and the subsequent inability of monetary policy to go much beyond a stabilisation of economic activity to bring about a revival of demand and employment. Several aspects of the inflation-targeting framework are being questioned, including whether inflation targets should be higher to provide space for real interest rates to become substantially negative when needed. While modestly higher inflation is unlikely to carry any substantial long-term costs, the transition costs could be significant in terms of credibility. More uncontroversial is the need for inflation targeting to operate over a sufficiently long horizon so that monetary policy, if needed, can take account of financial stability issues in the near term. The absence of memory in inflation targeting at a moment when inflation has been undershooting and unemployment levels remain high is also being questioned. However, price level targeting and nominal GDP level targeting raise issues of implementation and credibility. At this moment it is not clear that a better alternative is available to flexible inflation targeting with a sufficiently long horizon.

Highly stimulative monetary policy may bring financial stability risks

Prolonged and highly stimulative monetary policy may have unintended side effects for financial stability. Such implications should be appropriately internalised by monetary policy and measures to minimise negative risks should be adopted. These could include stricter financial supervision and comprehensive macro-prudential frameworks and would necessitate better coordination between macro-prudential and monetary policies. An accommodating monetary policy stance can also create serious moral hazard problems for policy making. The extraordinary monetary policy settings in recent years have broken a number of taboos and the knowledge that such policy settings are possible will linger. This could imply a risk that governments postpone required structural and fiscal reforms in the expectation of monetary authorities taking measures to offset structural weaknesses.

Fiscal policy

Budget consolidation is challenging

Budget deficits are narrowing in most major areas (Table 1.8) but weak growth, austerity fatigue and high multipliers at present raise challenges for budget consolidation. In most cases, countries should proceed with their structural fiscal consolidation commitments while allowing automatic fiscal stabilisers to operate fully in case of growth

Table 1.8. **Fiscal positions will continue to improve**

Per cent of GDP / Potential GDP

	2010	2011	2012	2013	2014
United States					
Actual balance	-11.4	-10.2	-8.7	-5.4	-5.3
Underlying balance	-9.3	-8.3	-7.2	-4.0	-4.1
Underlying primary balance	-7.6	-6.4	-5.4	-3.1	-2.5
Gross financial liabilities	97.9	102.3	106.3	109.1	110.4
Euro area					
Actual balance	-6.2	-4.1	-3.7	-3.0	-2.5
Underlying balance	-4.3	-3.4	-2.0	-1.0	-0.5
Underlying primary balance	-1.9	-0.8	0.6	1.6	2.0
Gross financial liabilities	93.5	95.6	103.9	106.4	106.9
Japan					
Actual balance	-8.3	-8.9	-9.9	-10.3	-8.0
Underlying balance	-7.9	-7.8	-9.0	-9.6	-7.5
Underlying primary balance	-7.3	-7.0	-8.1	-8.5	-6.2
Gross financial liabilities	193.3	210.6	219.1	228.4	233.1
OECD[1]					
Actual balance[1]	-7.7	-6.4	-5.7	-4.3	-3.8
Underlying balance[2]	-6.6	-5.7	-5.0	-3.4	-2.9
Underlying primary balance[2]	-5.0	-3.9	-3.2	-2.0	-1.2
Gross financial liabilities[2]	98.9	103.5	108.8	111.9	113.1

Note: Actual balances and liabilities are in per cent of nominal GDP. Underlying balances are in per cent of potential GDP and they refer to fiscal balances adjusted for the cycle and for one-offs. Underlying primary balance is the underlying balance excluding net debt interest payments.

1. Excludes Chile and Mexico.
2. Excludes Chile, Mexico and Turkey.

Source: OECD Economic Outlook 93 database.

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shortfalls. Should growth continue to disappoint, countries with relatively healthy public finances, including some in the euro area, could afford to slow down or postpone fiscal retrenchment efforts or supplement consolidation on current budgets by measures to enhance investment.

Fiscal consolidation is set to continue but policy requirements differ across economies…

In the current projection, the area-wide OECD fiscal deficit is expected to fall by almost 1½ per cent of GDP in 2013 and an additional ½ per cent of GDP in 2014. The improvement in fiscal positions is entirely accounted for by a reduction in structural underlying deficits. Gross debt in terms of GDP is set to continue drifting upwards, albeit at a diminishing rate. As discussed in Chapter 4, in most OECD countries progress on consolidation by 2014 will have advanced to the point that only small further adjustment will be required to stabilise debt ratios, and further consolidation of less than 1% of GDP will in most cases suffice to bring debt levels to 60% of GDP by 2030. However, there are some important exceptions, not least among the large economies. More generally, different fiscal and economic conditions across countries imply that fiscal policy requirements differ in the near term.

... in the United States, to improve the composition of budget consolidation...

The fiscal stance is tighter than warranted in the United States in the current year. The fiscal cliff was avoided in early January but, given the automatic spending cuts that began on 1 March ("sequestration"), fiscal consolidation is expected to amount to almost 2% of GDP in 2013 and a more appropriate 1% of GDP in 2014.[20] While some reduction in the high budget deficit is appropriate in the current year, the legislated automatic budget cuts imply significant headwinds that could be eased by re-focusing the cuts away from measures estimated to have high fiscal multipliers, such as cuts in government staff levels and public investment, and from measures that achieve only marginal budget savings but risk creating bottlenecks for growth. Legislators also have yet to agree on a programme of spending cuts, including entitlement reform, and revenue increases to address unsustainable fiscal developments in the long term. A credible long-term fiscal plan would give policy makers greater flexibility in adjusting near-term consolidation to suit the needs of the economy without risking adverse consequences in financial markets.

... in Japan, to reinforce the credibility of the medium-term targets...

In view of its extraordinarily high debt ratio, Japan should prepare a credible consolidation plan to bring its debt level back to a more normal position. The recently announced fiscal stimulus in 2013 and 2014, amounting to additional borrowing of around 1% of GDP, comes at a time when growth is picking up. It is set to be followed, when the conditional consumption tax increases planned for 2014 and 2015 are implemented and reconstruction spending wanes, by an abrupt turnaround in the fiscal stance, to a tightening of 2¼ per cent of GDP in 2014 alone. While a smoother fiscal adjustment would have been desirable in general, the current path entails a substantial head-start on attaining the authorities' medium-term fiscal goals. As discussed in Box 1.4, Japan's combination of a high primary deficit and demanding debt dynamics is highly challenging and reducing the debt ratio calls for actions not only in the fiscal area but also concerning monetary and structural policies. Monetary policy has now opened a window of opportunity. To maintain market confidence, the medium-term fiscal plan to be released later this year will have to provide detailed information on how debt stabilisation and subsequent reduction are to be achieved, including what spending and tax categories will be used. The effectiveness of fiscal consolidation would be amplified by decisive growth-supporting structural measures.

... and in the euro area, to allow automatic stabilisers to work...

In the euro area, the area-wide fiscal consolidation (measured as an improvement in the underlying primary budget balance) of just over 4% of GDP between 2009 and 2013 was similar to that in the United States over the same period. This casts doubts about the role of fiscal tightening in

20. The reduction in the underlying primary deficit in 2013 amounts to 2.3% of GDP but 0.4 percentage point of this reduction reflects distortions to the timing of dividend payouts brought about by tax changes, implying that the "true" reduction in the underlying deficit is 1.9% of GDP. In 2014, the same distortions understate the extent of the "true" fiscal consolidation by about 0.4 percentage point.

explaining the comparatively weak performance of the euro area. Nonetheless, given that other negative factors, notably financial conditions and confidence, have kept the euro area very weak, it could be argued that, in retrospect, there should have been less fiscal tightening in the past three to four years. However, with the consolidation that has taken place and with further, though more moderate, tightening in 2013 and 2014, underlying fiscal balances in the area as a whole and for most member countries will have reached a level that would lead to declining debt ratios at neutral interest rates and potential growth rates.[21] Nonetheless, most countries under market pressure, as well as France, are still planning consolidation of 2½ per cent of GDP or more over 2013 and 2014 combined, which will further test the acceptance of fiscal austerity. The automatic stabilisers should be allowed to operate unhindered around the structural path embedded in current fiscal plans. Moreover, the focus on structural, as opposed to nominal, targets should be laid out in advance at the level of the European Union. For countries receiving official assistance, creditors' acceptance and additional help would be needed to allow automatic stabilisers to work around the structural consolidation path.

... which is also needed in the United Kingdom

The UK government's consolidation programme now rightly relies primarily on cuts in current spending, which could be made more broadly based, whilst preserving capital spending. Appropriately, given the present projection, planned fiscal consolidation will amount to about 1% of GDP in both 2013 and 2014, with several one-off factors also continuing to lower the headline deficit. Moreover, the policy not to override the automatic stabilisers provides flexibility. More generally, the flexibility in the UK approach to consolidation is based on the credibility of the fiscal framework and it will be important to ensure that this is retained.

Fiscal policy needs in emerging economies differ across...

In emerging market economies, fiscal policy settings and requirements also differ:

... China...

- China's fiscal stance has appropriately eased moderately since 2011, with public expenditure now rising more rapidly, reflecting both higher social spending and rising government infrastructure spending as local authorities start implementing previously planned projects. The budget deficit (combining central and local governments) is set to widen from 1½ to 2% of GDP this year, which leaves considerable scope for counter-cyclical fiscal policy if the economy were to weaken, notwithstanding large contingent liabilities. The government's fiscal position could be strengthened by transferring more profits from state-owned enterprises, with a harder budget constraint likely to spur efficiency improvements in these companies.

21. This characterisation of fiscal stances relies heavily on output gaps being as large as estimated, but in the current context uncertainty around estimates of economic slack is especially high. Other indicators, such as stubbornly high inflation in Italy, suggest that output gaps may be smaller than estimated.

... India...

- India needs sustained fiscal consolidation efforts. The fiscal consolidation roadmap presented in October 2012 entails a decline in the central government deficit from 5.2% of GDP in FY 2012/13 to 3% in FY 2016/17, which is not much in structural terms over four years but should help lower the general government deficit from 7½ per cent of GDP in 2012 to 6½ per cent in 2014. Even so, policy implementation remains a challenge. Fiscal consolidation efforts should focus on raising more tax revenue in a less distortive way (such as moving swiftly to the proposed Goods and Services Tax (GST) and reducing both tax expenditures and marginal rates), increasing the effectiveness of infrastructure investment and better targeting subsidies so as to boost inclusive growth.

... Brazil...

- Brazil has a comparatively good fiscal situation but can strengthen the transparency of its fiscal strategy. The public net debt burden is trending downward and although the government struggled to meet its 3.1% of GDP primary surplus target in 2012, a miss would have been justifiable given last year's poor growth performance. Greater use of structural budget indicators could improve the credibility of fiscal announcements and help avoid pro-cyclical policy and the temptation to resort to *ad-hoc* accounting measures to achieve legal compliance with nominal targets.

... and Russia

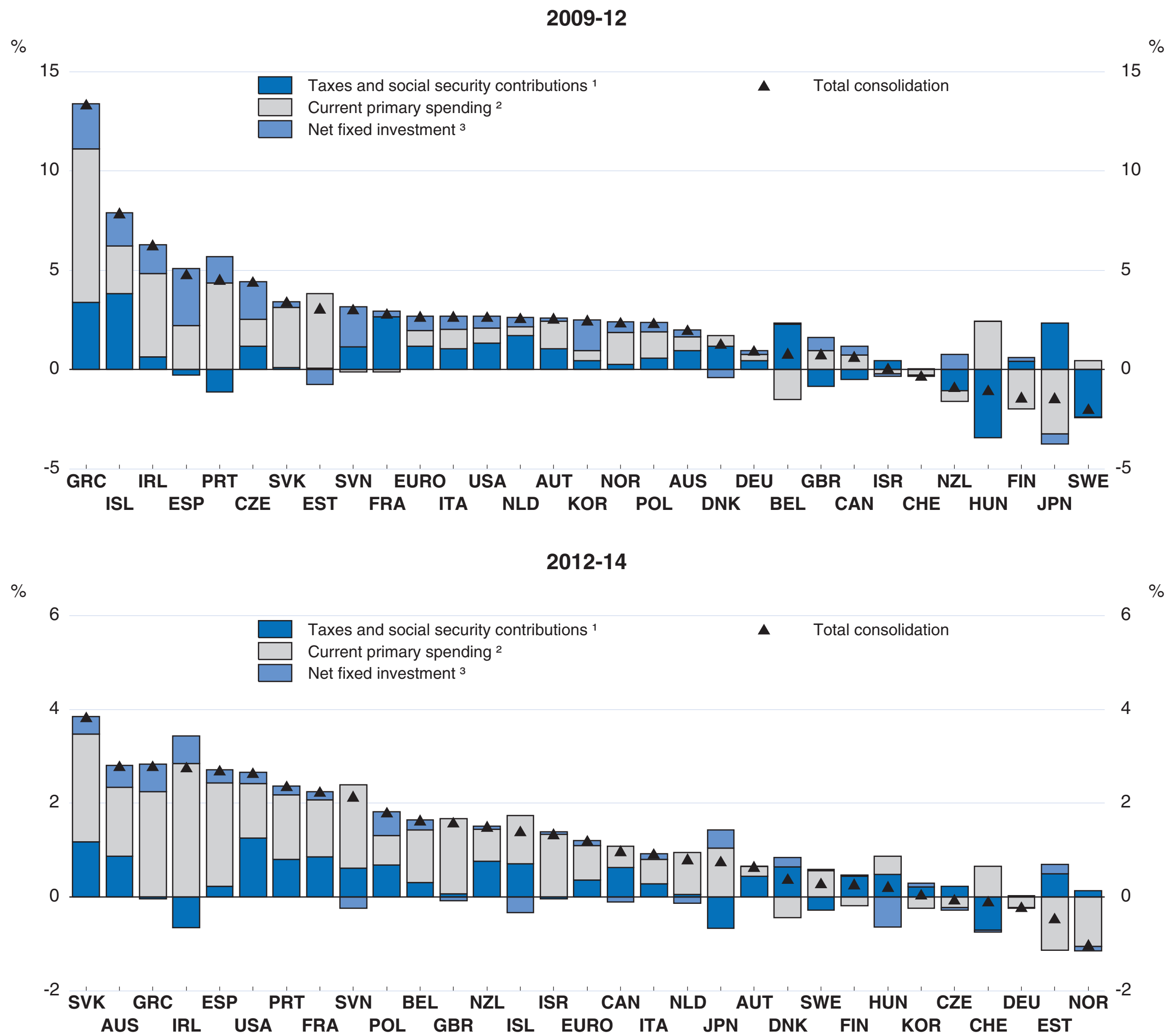
- Russia's non-oil budget deficit – the overall deficit excluding oil revenues – increased in 2012 and remains elevated compared with the pre-crisis period. A moderate improvement in the federal non-oil balance of about ½ per cent of GDP per year is projected in 2013 and 2014. Even so, the non-oil fiscal deficit will stay above the level that is consistent with the need to save an adequate share of the income from exhaustible oil resources. Increasing the retirement age and phasing out early retirement options would help to secure long-term sustainability of public finances without reducing short-term growth, and decisions about such reforms are long overdue.

The composition of consolidation should be optimised

The composition of fiscal consolidation packages is as important as their size. Not all fiscal consolidation instruments are equal in terms of their impact on growth, equity and needed adjustments to external balances. A better composition, by enhancing growth and equity, may help address reform fatigue. Among the better policies are reducing subsidies, adjusting pension age eligibility, increasing property taxes and eliminating certain tax expenditures. Among the worst instruments are cuts to education – unless accompanied by measures to exploit the significant scope for efficiency gains in many countries – and public investment. But perhaps because they are politically easier or faster to implement, some countries have so far largely relied on reducing investment-like expenditure, such as infrastructure spending (Figure 1.15). For instance, cuts to public fixed investment have accounted for about one-fifth of the consolidation effort between 2009 and 2012 in

Figure 1.15. **The composition of fiscal consolidation is set to change**

In per cent of potential GDP, based on the underlying primary balance



1. Adjusted for the economy's cyclical position. Includes other current receipts, non-interest property income received and underlying capital transfers received net of exceptional transfers.
2. Adjusted for the economy's cyclical position. Includes underlying capital transfers paid net of exceptional transfers.
3. Net of the consumption of fixed capital.

Source: OECD Economic Outlook 93 database; and OECD calculations.

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the euro area, the United Kingdom and the United States, and as much as two-fifths in Spain. In many countries, low long-term interest rates and excess capacity in the construction sector provide a propitious environment for financing growth-boosting infrastructure projects, not to mention that public infrastructure spending is typically found to have larger multipliers than other types of expenditure as it also boosts private investment.

Countries with large public sectors and little revenue space should reduce current public spending

More generally, many countries with little revenue space and large public sectors when compared with OECD peers should concentrate on reducing current public expenditure. Yet some of these countries have instead largely relied on tax increases to consolidate their budget positions. Between 2009 and 2012, about 90% of the consolidation effort in France has relied on increasing revenue, current primary spending having increased slightly, and 60% in the Netherlands. The proportion is about one half in the euro area as a whole and in Italy. Relying mostly on tax increases, which tend to have lower-than-average multipliers, may have merit in a period when economic conditions are very weak and the scope for further monetary policy accommodation is at best limited, but when economic recoveries begin or strengthen, the accent should shift to reducing public expenditure in countries with high public spending. Encouragingly, relative to the period since 2009, fiscal consolidation this year and next is generally projected to rely much more on current expenditure reductions (Figure 1.15).

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Chapter 2

DEVELOPMENTS IN INDIVIDUAL OECD COUNTRIES

UNITED STATES

Economic growth is expected to remain moderate in 2013, and then pick up noticeably in 2014 as the labour market recovery gains momentum. Tax increases are taking a significant bite out of incomes this year, but sizable gains in equity and real estate prices have boosted household wealth and should provide support to private consumption and residential investment. Given ample corporate cash flow and an improved demand outlook, business investment is likely to rise steadily over the projection.

Budgetary consolidation is creating significant headwinds, especially in 2013. Spending cuts should be chosen more thoughtfully than across-the-board sequestrations, and commitment to a medium-term plan to restore fiscal stability should be put in place. Monetary policy can remain accommodative for an extended period as inflation expectations appear well anchored and still high unemployment will contain wage pressures. However, the net benefits of further quantitative easing are likely to decline as economic prospects strengthen, and plans for phasing down these purchases should be laid out clearly in advance.

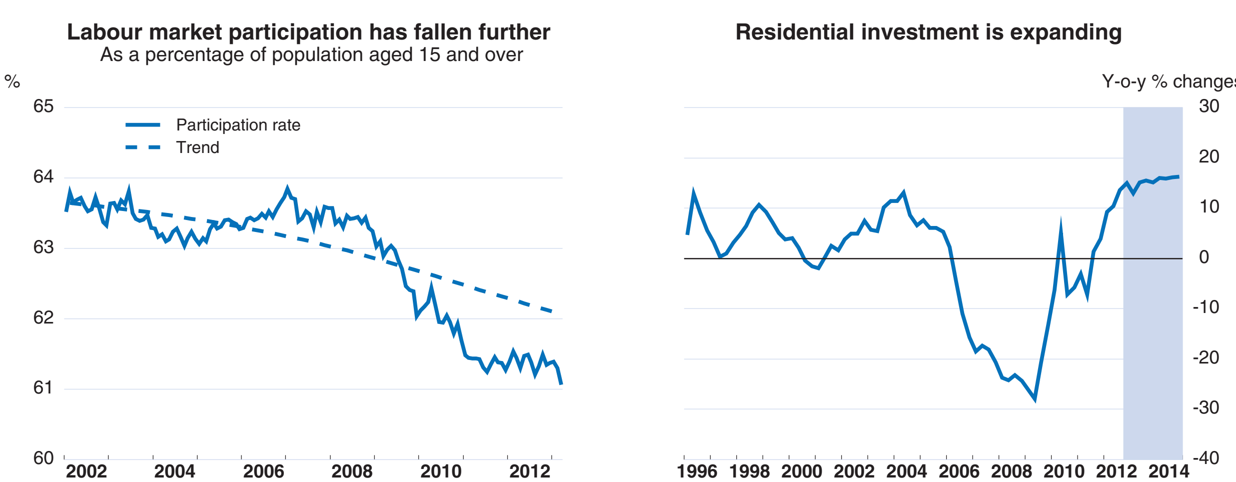
Though unemployment remains high, hiring has brightened somewhat

The labour market recovery has been painfully slow. At 7½ per cent, the unemployment rate is still high, and 37% of the unemployed have been out of work for over six months. Although the unemployment rate dropped by more than ½ percentage point over the past year, part of the improvement was due to a decline in the labour force as more job seekers became discouraged and the population aged. Nevertheless, indicators of hiring activity have brightened in recent months, and quit rates have moved up, suggesting that employees have become more confident of their prospects in the labour market.

Private consumption and investment have expanded moderately…

Output growth has been positive since mid-2009 but, looking through the short-term volatility, it has not been strong enough to meaningfully reduce excess capacity. This reflects the weakness of private consumption, which expanded only slowly through much of last year. Spending

United States



Source: OECD Economic Outlook 93 database.

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United States: **Employment, income and inflation**

Percentage changes

	2010	2011	2012	2013	2014
Employment[1]	-0.7	1.0	1.6	1.3	2.0
Unemployment rate[2]	9.6	8.9	8.1	7.5	7.0
Compensation per employees[3]	2.9	2.8	1.6	1.9	2.7
Labour productivity	3.1	0.8	0.6	0.5	0.8
Unit labour cost	-0.1	2.2	1.0	1.5	2.0
GDP deflator	1.3	2.1	1.8	1.5	1.9
Consumer price index	1.6	3.1	2.1	1.6	1.9
Core PCE deflator[4]	1.5	1.4	1.7	1.3	1.9
PCE deflator[5]	1.9	2.4	1.8	1.3	1.8
Real household disposable income	1.8	1.3	1.5	0.5	3.8

1. Based on the Bureau of Labor Statistics (BLS) Establishment Survey.
2. As a percentage of labour force, based on the BLS Household Survey.
3. In the total economy.
4. Deflator for private consumption excluding food and energy.
5. Private consumption deflator. PCE stands for personal consumption expenditures.

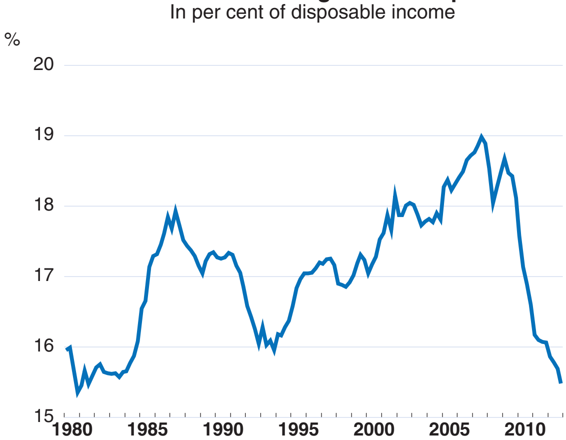
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837038

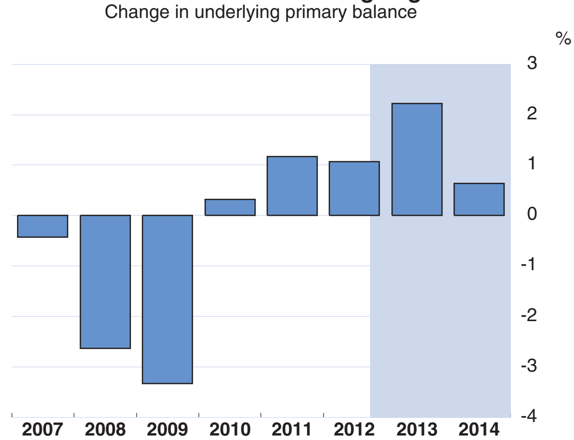
strengthened in early 2013 but is likely to weaken again in the short term, reflecting the expiration of the payroll tax holiday and other tax increases. Business investment surged at the end of last year, with outsized gains in outlays for structures and equipment and software. Part of the jump reflected businesses pulling forward investments ahead of the expiration of various tax incentives, and consequently investment growth in the first half of 2013 has slowed noticeably.

United States

Household financial obligations are quite low¹
In per cent of disposable income



Fiscal consolidation is on-going²
Change in underlying primary balance



1. The financial obligations ratio is an estimate of the ratio of required payments to disposable personal income, including outstanding mortgage loans, consumer debt, automobile leases, property rental and tax obligations, and homeowners' insurance.
2. Includes all levels of government as well as social security funds and non-profit institutions that are controlled and mainly financed by government.

Source: OECD Economic Outlook 93 database; and U.S. Federal Reserve.

StatLink http://dx.doi.org/10.1787/888932836449

United States: **Financial indicators**

	2010	2011	2012	2013	2014
Household saving ratio, net[1]	5.1	4.2	3.9	2.4	3.5
General government financial balance[2]	-11.4	-10.2	-8.7	-5.4	-5.3
General government gross debt[2]	97.9	102.3	106.3	109.1	110.4
Current account balance[2]	-3.0	-3.1	-3.0	-3.1	-3.3
Short-term interest rate[3]	0.5	0.4	0.4	0.3	0.2
Long-term interest rate[4]	3.2	2.8	1.8	1.9	2.5

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

Source: OECD Economic Outlook 93 database.

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… and the housing market is recovering

Residential investment has strengthened and is finally making a meaningful contribution to overall output growth. The inventory of homes for sale has normalised, vacancies have declined, and financing rates remain extremely favourable by historical standards.

Inflationary pressures are weak

Inflation has been subdued, averaging 1.5% since the middle of 2012. Sharp energy price declines are likely to hold down inflation in the next few months. Inflation expectations are also low, and the continuing excess slack in the economy suggests little wage or price pressure will emerge for the time being.

United States: **Demand and output**

	2011	2012	2013	2014	Fourth quarter 2012	Fourth quarter 2013	Fourth quarter 2014
	Current prices $ billion	Percentage changes from previous year, volume (2005 prices)					
GDP at market prices	**15 075.7**	**2.2**	**1.9**	**2.8**	**1.7**	**2.1**	**3.2**
Private consumption	10 729.1	1.9	2.1	2.7	1.8	2.3	3.1
Government consumption	2 579.6	-1.3	-2.2	-0.7	-1.5	-1.4	-0.6
Gross fixed investment	2 298.5	6.1	5.1	7.8	5.1	5.4	8.4
Public	480.2	-4.0	-3.3	-0.5	-3.1	-3.5	-0.2
Residential	338.7	12.1	14.7	16.1	14.9	15.1	16.2
Non-residential	1 479.6	8.0	5.2	7.6	5.5	5.3	8.3
Final domestic demand	15 607.2	2.0	1.9	3.0	1.8	2.2	3.4
Stockbuilding[1]	36.6	0.2	0.0	0.0			
Total domestic demand	15 643.7	2.1	1.9	2.9	1.4	2.4	3.4
Exports of goods and services	2 094.2	3.4	2.2	4.9	2.1	3.9	5.1
Imports of goods and services	2 662.3	2.4	2.4	5.5	0.2	5.1	5.6
Net exports[1]	- 568.1	0.0	-0.1	-0.3			

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837076

United States: **External indicators**

	2010	2011	2012	2013	2014
			$ billion		
Goods and services exports	1 844.5	2 094.2	2 184.1	2 256	2 390
Goods and services imports	2 356.1	2 662.3	2 744.0	2 813	3 001
Foreign balance	- 511.6	- 568.1	- 559.9	- 558	- 611
Invisibles, net	69.6	102.1	84.9	62	54
Current account balance	- 442.0	- 465.9	- 475.0	- 496	- 557
			Percentage changes		
Goods and services export volumes	11.1	6.7	3.4	2.2	4.9
Goods and services import volumes	12.5	4.8	2.4	2.4	5.5
Export performance[1]	- 2.4	0.3	0.2	- 1.4	- 0.8
Terms of trade	- 1.4	- 1.3	0.2	0.9	- 0.1

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 93 database.

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Financial conditions are supportive of growth…

The continuation of low financing rates and improving lending conditions will help support the recovery in household and business spending. Moreover, equity and house prices have risen sharply over the past year, and the accompanying increases in wealth will provide significant support to spending. Household balance sheet repair appears well advanced, with the ratio of household financial obligations to disposable income at its lowest level since the 1980s.

… but fiscal policy is a major drag

On-going fiscal consolidation is exerting a significant drag on disposable income and spending. In addition, special factors contribute to a large narrowing of the budget deficit in 2013, including dividend payments from Fannie Mae and Freddie Mac. The projection assumes that the underlying primary deficit narrows by 2¼ per cent of GDP (almost 2% excluding the impact of the tax-driven pull forward of dividend payments) and ½ per cent of GDP (1% excluding such effects), respectively, in 2013 and 2014. Commitment to a plan for achieving medium-term fiscal stability is still needed; such a plan must address the unsustainable growth in entitlement expenditures.

Monetary policy should continue to support the recovery

The pace of output growth is projected to remain moderate this year but then to strengthen to almost 3% next year. The labour market is set to slowly gather momentum, and by the end of 2014 the unemployment rate is projected to fall below 7%. Inflation is projected to remain below 2%. With high unemployment and low inflation, monetary policy can remain accommodative for an extended period, in line with the Federal Reserve's forward guidance. As employment prospects continue to improve, the anticipated net benefits of further quantitative easing should be weighed carefully, with particular focus on potential financial risks.

The fiscal policy outlook is a downside risk

Given the limits of monetary policy, the drag on activity from the sharp cuts in government spending could be more pronounced than usual. And although the tail risks may have diminished somewhat, the potential effects of future credit market disruptions related to the euro-area crisis are still a major source of concern. On the other hand, the pick-up in the housing market may induce a release of pent-up demand for durable consumer goods, for which expenditure remains historically low relative to GDP. The Federal Reserve will need to carefully navigate through the completion of quantitative easing. A premature exit could jeopardise the fragile recovery, but waiting too long could result in a disorderly exit from the programme with sizable financial losses.

JAPAN

Japan has rebounded strongly from its 2012 recession, led by fiscal and monetary policy stimulus. A fiscal package introduced in early 2013 and a new monetary policy framework aimed at achieving the 2% inflation target, accompanied by a weakening yen, are boosting output and confidence. Aided by a recovery in world trade, output growth is projected to be close to 1½ per cent in 2013 and 2014, which will help to push inflation into positive territory.

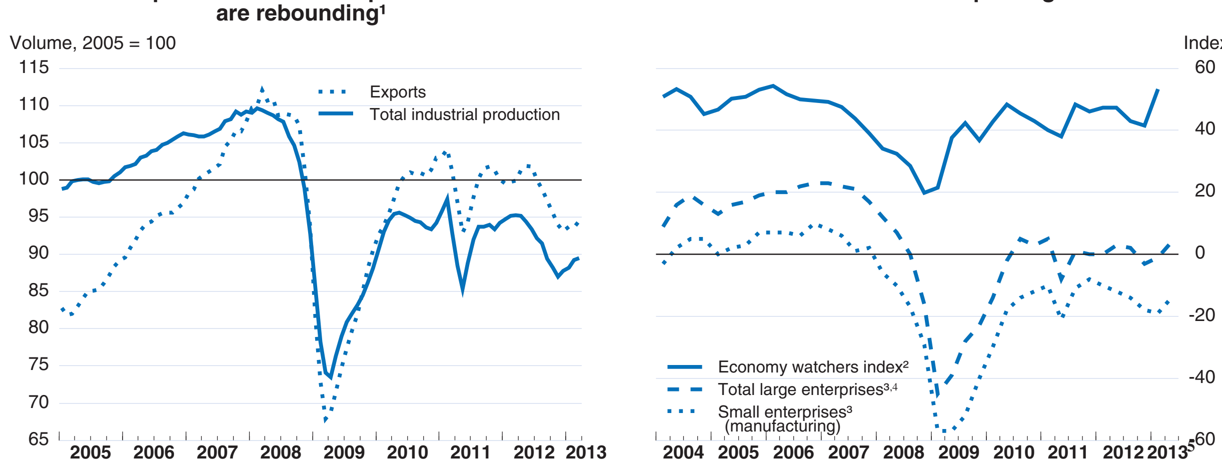
With gross public debt at around 220% of GDP in 2012, a detailed and credible fiscal consolidation plan to achieve the target of a primary budget surplus by FY 2020 is essential to maintain confidence in Japan's fiscal situation. The consumption tax rate should be hiked to 10% by 2015 as planned. The Bank of Japan's new "quantitative and qualitative monetary easing" should continue until the new 2% inflation target has been sustainably achieved to ensure a definitive exit from deflation. The growth strategy to be announced in mid-2013 should include bold regulatory reform measures to help boost potential growth.

The economic recovery beginning in early 2013...

Growth picked up in early 2013 as exports stabilised after a sharp drop in the latter half of 2012 that was related to the deceleration of the world economy and tensions with China. The upturn was accelerated by the new government's announcement of a three-pronged strategy to revitalise Japan, prompting an improvement in household and business confidence. In addition, by mid-May 2013, equity prices had risen by around 60% from their November 2012 level, while the yen had depreciated by around 20% in trade-weighted terms. Nevertheless, deflation continues.

Japan

Exports and industrial production are rebounding[1] | **Confidence is improving**



1. Data are three-month moving averages of seasonally-adjusted industrial production and exports.
2. A survey of workers, such as taxi drivers and shop clerks, whose jobs are sensitive to economic conditions. The index ranges from 100 (better) to 0 (worse), with 50 indicating no change.
3. Diffusion index of "favourable" minus "unfavourable" conditions.
4. Large enterprises are capitalised at a billion yen or more and small enterprises at between 20 million yen and a hundred million yen.
5. Except for the economy watchers index where there are no projections, numbers for the second quarter are companies' projections made in March 2013.

Source: Ministry of Economy, Trade and Industry; Bank of Japan; and Cabinet Office.

StatLink http://dx.doi.org/10.1787/888932836164

Japan: **Employment, income and inflation**

Percentage changes

	2010	2011	2012	2013	2014
Employment	-0.3	-0.1	-0.3	0.2	-0.1
Unemployment rate[1]	5.0	4.6	4.3	4.2	4.1
Compensation of employees	0.0	0.5	-0.1	0.6	1.7
Unit labour cost	-4.4	1.1	-2.1	-1.0	0.4
Household disposable income	0.5	-0.3	0.3	1.1	2.5
GDP deflator	-2.2	-1.9	-0.9	-0.8	0.9
Consumer price index[2]	-0.7	-0.3	0.0	-0.1	1.8
Core consumer price index[3]	-1.2	-0.9	-0.5	-0.5	1.7
Private consumption deflator	-1.7	-0.8	-0.6	-0.5	1.7

1. As a percentage of labour force.
2. Calculated as the sum of the seasonally adjusted quarterly indices for each year.
3. Consumer price index excluding food and energy.

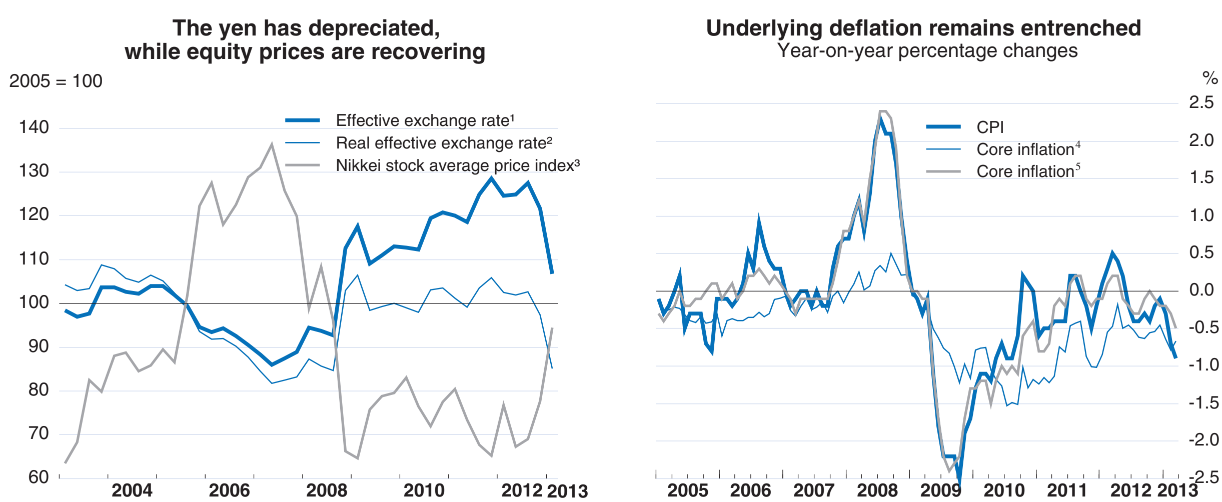
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837114

... was supported by fiscal stimulus...

One pillar of the new strategy – a flexible fiscal policy – was reflected in the January 2013 fiscal stimulus package, which amounted to 10.3 trillion yen (2.2% of GDP), almost half of which is public works spending. The package will increase government borrowing by around 1% of GDP. In addition, the government decided to boost reconstruction spending by another 4.4 trillion yen in the FY 2013 budget, bringing the total to 23.5 trillion yen (around 5% of annual GDP) between FY 2011-15, up from the initial five-year plan of 19 trillion yen.

Japan



1. Trade-weighted, vis-à-vis 48 trading partners.
2. Deflated based on consumer price indices.
3. The Nikkei stock price index averages the price of 225 individual stocks listed on the Tokyo Stock Exchange.
4. Corresponds to the OECD measure of core inflation, which excludes food and energy.
5. Corresponds to the Japan measure of core inflation, which excludes only fresh food.

Source: Bank of Japan; and OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932836183

Japan: **Financial indicators**

	2010	2011	2012	2013	2014
Household saving ratio, net[1]	2.0	2.3	0.8	0.9	0.7
General government financial balance[2]	-8.3	-8.9	-9.9	-10.3	-8.0
General government gross debt[2]	193.3	210.6	219.1	228.4	233.1
Current account balance[2]	3.7	2.0	1.0	1.0	1.9
Short-term interest rate[3]	0.2	0.1	0.1	0.2	0.1
Long-term interest rate[4]	1.1	1.1	0.8	0.7	1.2

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

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837133

... that made the FY 2015 deficit target more difficult to achieve

However, the fiscal package increases the amount of fiscal tightening necessary to achieve the FY 2015 target of reducing the primary budget deficit of central and local governments from an estimated 7% of GDP in FY 2013 to 3.2% of GDP. The 2013 primary deficit is projected by the OECD at around 9% of GDP (on a general government basis excluding one-off factors), before falling to around 6½ per cent of GDP in 2014, reflecting the planned hike in the consumption tax to 8%, conditional on an improvement in economic conditions. The government's medium-term fiscal consolidation strategy, which will be announced in mid-2013, will maintain the target of a primary budget surplus in FY 2020, in the

Japan: **Demand and output**

	2011	2012	2013	2014	Fourth quarter 2012	Fourth quarter 2013	Fourth quarter 2014
	Current prices ¥ trillion	Percentage changes from previous year, volume (2005 prices)					
GDP at market prices	470.6	2.0	1.6	1.4	0.5	3.0	0.5
Private consumption	284.8	2.3	1.6	1.0	1.0	2.4	0.0
Government consumption	96.2	2.6	1.3	-0.5	3.1	0.4	-0.8
Gross fixed investment	97.0	4.4	2.0	0.6	0.2	3.9	-1.8
Public[1]	20.8	12.6	4.0	-13.3	20.6	-4.4	-17.6
Residential	13.5	3.0	12.0	-2.2	5.9	14.6	-9.6
Non-residential	62.8	1.9	-1.0	6.1	-7.3	4.6	5.3
Final domestic demand	477.9	2.8	1.6	0.6	1.3	2.3	-0.5
Stockbuilding[2]	- 3.1	0.1	-0.4	-0.2			
Total domestic demand	474.8	2.9	1.2	0.5	1.4	1.8	-0.2
Exports of goods and service	71.3	-0.1	2.7	9.0	-4.8	11.0	9.0
Imports of goods and service	75.6	5.4	0.6	3.1	1.2	2.8	4.3
Net exports[2]	- 4.3	-0.9	0.3	0.9			

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.
1. Including public corporations.
2. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837152

Japan: **External indicators**

	2010	2011	2012	2013	2014
			$ billion		
Goods and services exports	835.7	895.3	873.9	797	866
Goods and services imports	770.2	949.6	991.9	903	933
Foreign balance	65.5	- 54.3	- 118.0	- 106	- 67
Invisibles, net	138.6	173.6	177.6	157	160
Current account balance	204.1	119.3	59.6	51	94
			Percentage changes		
Goods and services export volumes	24.4	- 0.4	- 0.1	2.7	9.0
Goods and services import volumes	11.1	5.9	5.4	0.6	3.1
Export performance[1]	7.6	- 6.7	- 3.6	- 3.0	1.5
Terms of trade	- 5.9	- 7.6	- 1.4	- 1.8	- 0.5

1. Ratio between export volume and export market of total goods and services.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837171

challenging context of rising public social spending due to rapid population ageing. The primary budget surplus should be large enough to stabilise the public debt ratio.

The Bank of Japan has launched a new policy framework

Another pillar of the new government's strategy was the new monetary policy framework announced by the Bank of Japan (BoJ) in April 2013, which aims to achieve its new 2% inflation target "at the earliest possible time". The BoJ expects to achieve the goal over a time horizon of about two years. The new framework focuses on the size of the monetary base, which it plans to double from 138 trillion yen (nearly 30% of GDP) at the end of 2012 to 270 trillion yen at the end of 2014, primarily through expanded purchases of government bonds. Purchases of private assets will also be increased in an effort to reduce risk premia. In addition, purchases of government bonds will be extended to those with longer maturities in order to reduce interest rates across the yield curve. The BoJ has promised to maintain the new policy as long as necessary to achieve inflation at the target level "in a stable manner".

The expansion is projected to continue through 2014…

Output is projected to grow at close to 1½ per cent in both 2013 and 2014, despite the waning contribution from public reconstruction spending and the expected fiscal consolidation in 2014. The expansion will be supported by a pick-up in export growth due to the weaker yen and the recovery of world trade. With the output gap expected to close, inflation is projected to move into positive territory during 2013. Longer-term growth prospects will depend on the new growth strategy, the third pillar of the government's economic programme, which will be announced in mid-2013.

… although there are many risks, both domestic and external

With the introduction of "quantitative and qualitative easing", any decision to delay fiscal consolidation could increase the risk of a run-up in long-term interest rates, with risks for the financial sector, fiscal sustainability and growth. Japan's future energy supply also remains a question mark, as operations in 48 nuclear reactors (out of a total of 50) remain suspended. On the external side, there is uncertainty about developments in China, Japan's largest trading partner, and in the euro area, which has influenced the yen's strength.

EURO AREA

Activity is still falling, reflecting ongoing fiscal consolidation, weak confidence and tight credit conditions, especially in the periphery. Growth is projected to pick up only slowly during the second half of 2013 as the pace of fiscal consolidation slows down and private demand strengthens on the back of improving confidence and declining financial market fragmentation. High unemployment and excess capacity will depress inflationary pressures.

Underlying fiscal consolidation should continue as planned given still high debt levels, but the automatic stabilisers should be allowed to operate fully. The ECB should supplement its recent cut in the refinancing rate by reducing the deposit rate to below zero and issue forward guidance based on inflation prospects. Further non-standard measures might be needed to improve monetary policy transmission. In particular, additional asset purchases could be considered. Stronger bank balance sheets would enhance credit expansion and a banking union is critical to reduce negative feedback loops between sovereigns and banks. Structural reforms in labour and product markets, including completing the Single Market, would boost growth and jobs.

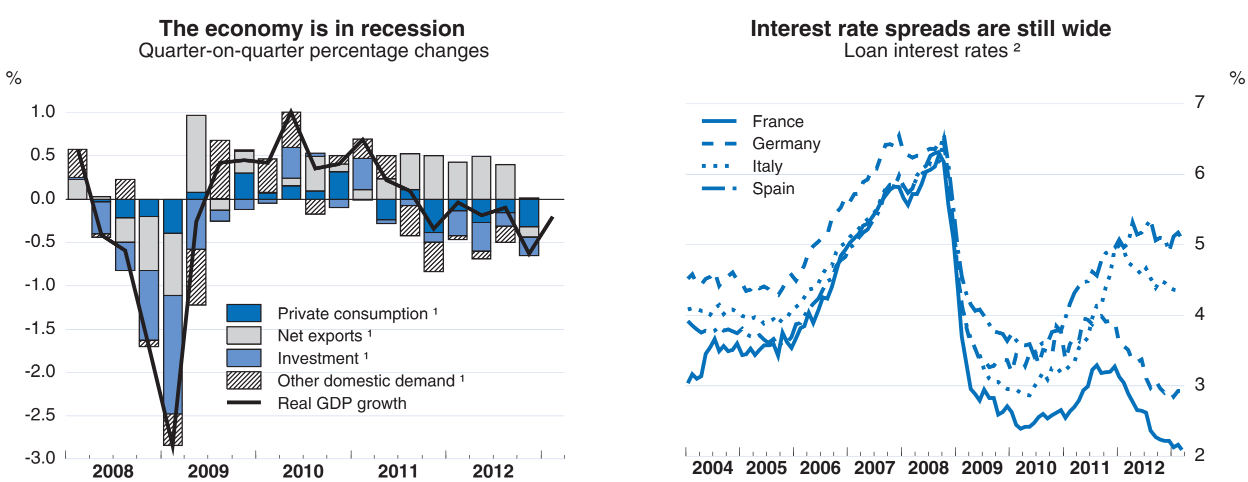
The economy continues to contract

Output continued to fall in early 2013, reflecting fiscal consolidation, tight credit conditions and subdued sentiment holding back consumption and investment. Unemployment and social tensions are rising while increasing margins of economic slack are keeping inflation low.

Slow rebalancing is underway

Rebalancing is supported by fiscal consolidation and ongoing private sector deleveraging. Progress has also been made in the necessary adjustment of relative prices in both debtor and creditor economies. However, adjustment is not complete, raising unemployment rates, especially in countries with rigid labour markets. In high-debt countries, more progress with restoring competitiveness remains necessary. Surplus countries can contribute to rebalancing by implementing competition-friendly reforms.

Euro area



1. Contribution to the quarterly percentage changes of the euro area GDP.
2. Interest rates on new loans to non-financial corporations up to EUR 1 million and for one year.

Source: OECD Economic Outlook 93 database; and Datastream.

StatLink http://dx.doi.org/10.1787/888932835898

Euro area: Employment, income and inflation
Percentage changes

	2010	2011	2012	2013	2014
Employment	-0.4	0.1	-0.6	-1.0	-0.2
Unemployment rate[1]	9.9	10.0	11.2	12.1	12.3
Compensation of employees	1.3	2.6	1.0	1.0	1.8
Labour productivity	2.5	1.1	0.0	0.3	1.3
Unit labour cost	-0.7	0.8	1.1	1.3	0.5
Household disposable income	1.0	1.9	0.2	0.5	1.2
GDP deflator	0.8	1.2	1.2	1.3	1.1
Harmonised index of consumer prices	1.6	2.7	2.5	1.5	1.2
Core harmonised index of consumer prices[2]	1.0	1.4	1.5	1.2	1.2
Private consumption deflator	1.7	2.5	2.1	1.3	1.1

Note: Covers the euro area countries that are members of the OECD.
1. As a percentage of labour force.
2. Harmonised index of consumer prices excluding energy, food, drink and tobacco.
Source: OECD Economic Outlook 93 database.

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Financial conditions remain difficult but tail risks have declined

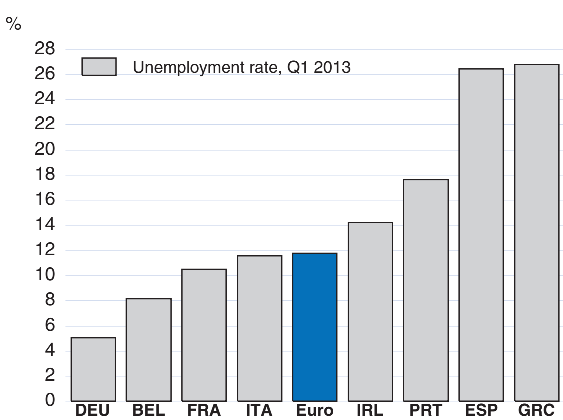
Deposit outflows from vulnerable countries have been reversed and risk premia in bond markets have declined, helped by the ECB's announcement of the Outright Monetary Transactions (OMT) scheme and progress in fiscal consolidation and regulatory reform. Nonetheless, marked differences in financial market conditions persist across the area and credit remains tight. In several countries, falling house prices add to the weakness of balance sheets.

The financial system needs to be strengthened

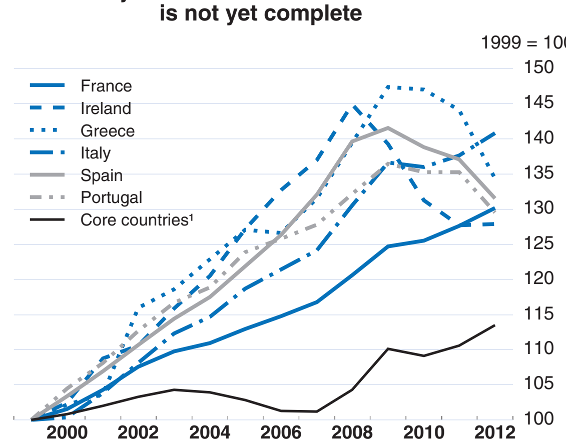
The breathing space provided by the OMT programme needs to be used to establish an institutional framework capable of responding

Euro area

Unemployment is high in almost all countries



Adjustment in unit labour costs is not yet complete



1. Core countries are here taken to be Germany, the Netherlands, Austria and Finland.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932835917

Euro area: **Financial indicators**

	2010	2011	2012	2013	2014
Household saving ratio, net[1]	8.4	7.8	7.2	7.2	6.9
General government financial balance[2]	-6.2	-4.1	-3.7	-3.0	-2.5
General government gross debt[2]	93.5	95.6	103.9	106.4	106.9
General government debt, Maastricht definition[2]	85.7	88.1	92.8	95.4	96.3
Current account balance[2]	0.5	0.7	1.9	2.5	2.8
Short-term interest rate[3]	0.8	1.4	0.6	0.1	0.0
Long-term interest rate[4]	3.5	4.2	3.7	2.8	3.0

Note: Covers the euro area countries that are members of the OECD.
1. As a percentage of disposable income.
2. As a percentage of GDP.
3. 3-month interbank rate.
4. 10-year government bonds.

Source: OECD Economic Outlook 93 database.

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effectively to financial strains and preventing excessive financial sector risk taking. Progress towards a full banking union, including common bank supervision, a common mechanism for crisis resolution and common fiscal backstops, is indispensible for cutting sovereign-bank feedback loops and for stabilising the financial sector in the euro area. The conditions allowing the ESM to undertake direct capital injections into banks if necessary need to be clarified quickly. Further measures are required to clean up bank balance sheets and ensure that the banking system is well capitalised. In countries under market pressure, where provisioning for rising non-performing loans is eroding bank capital, additional capital injections to replace expected capital losses are required in advance to restore banks' lending capacities.

Euro area: **Demand and output**

	2011	2012	2013	2014	Fourth quarter 2012	Fourth quarter 2013	Fourth quarter 2014
	Current prices € billion	Percentage changes from previous year, volume (2009 prices)					
GDP at market prices	9 392.2	-0.5	-0.6	1.1	-0.9	0.1	1.5
Private consumption	5 392.7	-1.4	-0.8	0.4	-1.6	-0.1	0.7
Government consumption	2 025.0	-0.3	0.0	0.3	-0.3	0.1	0.4
Gross fixed investment	1 796.4	-4.1	-3.0	1.3	-5.2	-1.3	2.2
Final domestic demand	9 214.1	-1.7	-1.1	0.5	-2.0	-0.3	0.9
Stockbuilding[1]	45.0	-0.5	-0.1	0.0			
Total domestic demand	9 259.1	-2.2	-1.2	0.5	-2.2	-0.3	0.9
Net exports[1]	133.1	1.6	0.6	0.5			

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.
Covers the euro area countries that are members of the OECD.
1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837551

Euro area: **External indicators**

	2010	2011	2012	2013	2014
	$ billion				
Foreign balance	160.3	184.7	325.6	432	505
Invisibles, net	- 98.6	- 97.4	- 95.7	- 122	- 144
Current account balance	61.7	87.3	229.9	310	361

Note: Covers the euro area countries that are members of the OECD.
Source: OECD Economic Outlook 93 database.

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Fiscal consolidation needs to continue while allowing for more flexibility

The pace of fiscal consolidation is set to ease slightly in 2013 and 2014. While the largest part of the required fiscal adjustment has already been undertaken in many countries, strong fiscal positions will have to be maintained for many years to bring debt down. The projections assume that fiscal consolidation targets are met in terms of underlying deficits, with automatic stabilisers allowed to work around the structural consolidation path. The growing consensus to extend the period for meeting nominal deficit targets is welcome, especially if growth falls short of expectations.

Weak activity and low inflationary pressures warrant further monetary policy easing

The large degree of economic slack, together with recent declines in oil prices, will put further downward pressure on inflation. Together with on-going financial market tensions, this warrants the ECB supplementing the ¼ percentage point cut in its refinancing rate in May by reducing its deposit rate to below zero. The ECB should follow up on its recent forward guidance on accommodative policy by explicitly linking it to inflation prospects. Further unconventional measures might be needed to improve monetary policy transmission.

Near-term growth will be slow

Growth is likely to return in the second half of 2013, but it will remain uneven across countries. Private demand will remain fragile in most countries, in part reflecting continued deleveraging. Unemployment will rise further towards end-2013 and is projected to remain at 12¼ per cent in 2014. Implementation of structural reforms, including the Single Market programme, is needed to boost growth and jobs.

Insufficient policy response remains a major risk

Downside risks still dominate, even if they have lessened somewhat. The main risks are insufficient progress in establishing institutions and rules that ensure effective functioning of banks in the euro area; failure to achieve adequate capitalisation of banks and to mobilise OMT if needed; and insufficient progress on structural reforms in both debtor and creditor countries. Unexpected events could still cause severe spillovers across borders. However, more rapid progress on policy reforms could improve financial conditions and confidence, bringing about a stronger turnaround in macroeconomic activity.

GERMANY

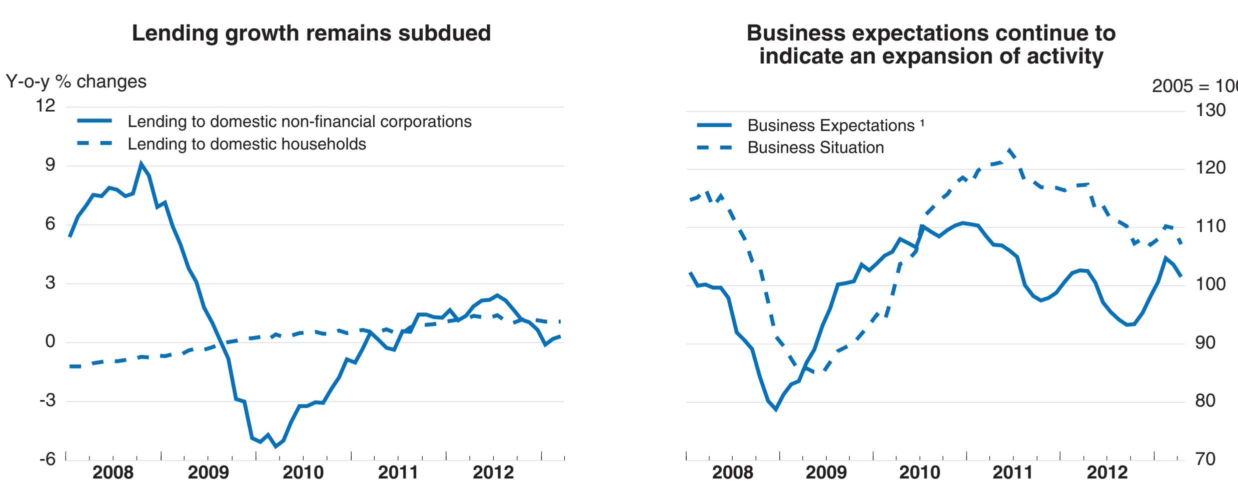
After decelerating throughout 2012 and turning negative in the fourth quarter, GDP growth is expected to strengthen gradually during 2013 and reach 2% in 2014. While subdued activity in the euro area will hold back the recovery, the pick up of world trade is projected to increase export growth. Wage and employment gains as well as low interest rates will support domestic demand, narrowing the current account surplus to 6% of GDP. The unemployment rate is expected to fall somewhat further, while consumer price inflation may rise to 2% in 2014.

Consistent with the fiscal rule for the central government, the automatic stabilisers should be allowed to work and available budgetary space should be used to meet infrastructure investment needs. High leverage among systemically important banks should be reduced by introducing a binding leverage ratio. Structural reforms to deregulate professional services, remove barriers to entrepreneurship and further improve access to tertiary education would strengthen and better balance growth.

The economy is expanding slowly

The economy resumed only modest growth at the beginning of 2013. Exports to both European and non-European destinations remained weak, while construction activity was temporarily slowed by bad winter weather. Despite low interest rates, lending to non-financial businesses and households remained subdued. Uncertainty about the resolution of the euro area crisis held back investment decisions and purchases of consumer durables. However, employment continued to expand, supporting private consumption. Improved business confidence in recent months, notably in construction and manufacturing, suggest that economic growth is strengthening .

Germany



1. Business climate components for German trade and industry, seasonally adjusted.
Source: Deutsche Bundesbank; and Ifo Institute.

StatLink http://dx.doi.org/10.1787/888932835803

Germany: **Employment, income and inflation**

Percentage changes

	2010	2011	2012	2013	2014
Employment	0.6	1.4	1.1	0.4	0.5
Unemployment rate[1]	6.8	5.7	5.3	5.0	4.8
Compensation of employees	3.0	4.5	3.7	2.9	3.9
Unit labour cost	-1.0	1.4	2.8	2.5	2.0
Household disposable income	3.0	3.2	2.2	2.4	3.7
GDP deflator	0.9	0.8	1.3	1.2	1.7
Harmonised index of consumer prices	1.2	2.5	2.1	1.6	2.0
Core harmonised index of consumer prices[2]	0.6	1.2	1.3	1.5	1.9
Private consumption deflator	2.0	2.1	1.6	1.4	1.6

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

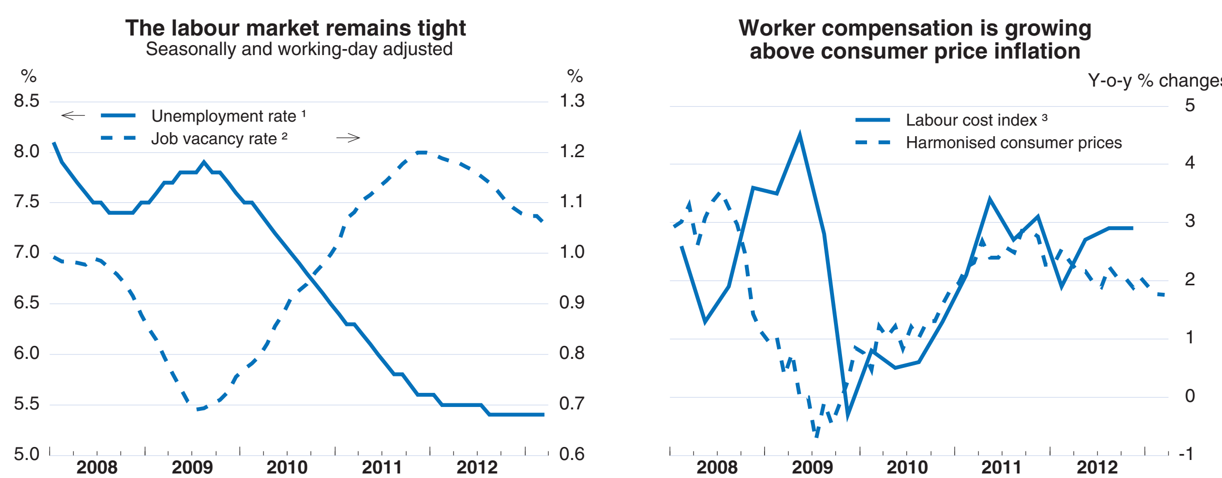
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837190

Wage growth and easy funding conditions will boost domestic demand

While many European export markets will recover only slowly, demand from non-European economies, which now account for about 30% of exports, is expected to expand faster as world trade recovers. Low unemployment and skill shortages are likely to continue boosting wage growth, supporting private consumption. As perceptions of tail risks surrounding the euro area crisis have diminished, German banks have lowered their reserve holdings at the European Central Bank, which may strengthen lending growth. Improved confidence has boosted share prices, which are close to historic highs. Continued low interest rates, solid corporate balance sheets, rising capacity utilisation and pent-up

Germany



1. Population aged 15-74 years. Based on the German labour force survey.
2. Percentage of unfilled job vacancies relative to the total employment.
3. Working-day adjusted.

Source: Statistisches Bundesamt; and Eurostat.

StatLink http://dx.doi.org/10.1787/888932835822

Germany: **Financial indicators**

	2010	2011	2012	2013	2014
Household saving ratio, net[1]	10.9	10.4	10.3	10.3	10.1
General government financial balance[2]	-4.2	-0.8	0.2	-0.2	0.0
General government gross debt[2]	86.1	86.3	89.2	87.9	85.1
General government debt, Maastricht definition[2]	82.5	80.5	81.9	80.6	77.8
Current account balance[2]	6.1	6.2	7.1	6.7	6.0
Short-term interest rate[3]	0.8	1.4	0.6	0.1	0.0
Long-term interest rate[4]	2.7	2.6	1.5	1.4	1.9

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

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837209

investment needs should encourage investment. Rising house prices will also contribute to expanding residential construction.

Fiscal policy is set to remain neutral

The budget balance is projected to remain close to zero in 2013 and 2014. Cuts in social security contributions, the elimination of copayments for medical services, and new transfers to families will be largely offset by a broad range of consolidation measures, which include steps to reduce spending on pensions and active labour market policies, and, at the sub-

Germany: **Demand and output**

	2011	2012	2013	2014	Fourth quarter 2012	Fourth quarter 2013	Fourth quarter 2014
	Current prices € billion	Percentage changes from previous year, volume (2005 prices)					
GDP at market prices	2 589.3	0.9	0.4	1.9	0.4	1.3	2.1
Private consumption	1 487.0	0.6	1.0	2.2	0.4	1.6	2.5
Government consumption	499.8	1.4	1.4	1.7	1.4	1.4	1.8
Gross fixed investment	468.3	-1.9	-0.3	5.2	-3.9	2.7	5.5
Public	42.7	-9.5	0.8	0.9	-10.1	1.4	0.8
Residential	144.8	1.5	0.2	6.1	0.2	2.9	6.3
Non-residential	280.9	-2.5	-0.8	5.4	-5.0	2.8	5.6
Final domestic demand	2 455.0	0.3	0.8	2.6	-0.2	1.8	2.9
Stockbuilding[1]	4.5	-0.6	0.0	0.0			
Total domestic demand	2 459.5	-0.3	0.8	2.7	-0.6	1.8	2.9
Exports of goods and services	1 296.6	4.3	0.9	4.6	3.4	2.4	5.1
Imports of goods and services	1 166.8	2.2	1.9	6.4	1.5	3.7	6.9
Net exports[1]	129.8	1.2	-0.4	-0.6			
Memorandum items							
GDP without working day adjustments	2 592.6	0.7	0.3	2.0			

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837228

national, level, limits on civil servants' wage growth ahead of the requirement to balance each region's budget structurally from 2020 onwards. Sales of assets and equity which the government purchased from banks in the course of the global financial crisis will reduce gross public debt. However exposure of the government to such assets will remain substantial, projected at around 9½ per cent of GDP in 2013.

Strengthening domestic demand will be the main source of growth

Economic growth is projected to increase in the course of 2013, with output reaching its potential level in 2014. Employment and real wage growth will support household demand while favourable funding conditions will strengthen investment spending. Exports will rise as world trade strengthens. The unemployment rate is projected to fall slightly further, and tightening labour and product markets are projected to push the inflation rate up somewhat.

Uncertainty concerning the resolution of the euro area crisis remains high

If stress in euro area sovereign debt markets remains high, exports may not recover as projected and funding conditions for banks could deteriorate, threatening the recovery. In this case, unemployment could also rise. By contrast, rapid implementation of measures contributing to a more sustainable and deeper integration within the euro area could improve prospects for economic recovery The recovery could also be further boosted by inflows of foreign workers.

FRANCE

Economic activity has been more or less stagnant over the last two years and is likely to pick up only slowly in 2014. Real GDP growth is projected to be slightly negative in 2013 and to reach 0.8% in 2014. The unemployment rate would therefore continue to increase until the end of 2014. Despite VAT hikes, headline inflation should recede towards 1% or less.

The government is undertaking substantial fiscal consolidation efforts, but the automatic stabilisers should be allowed to play fully around the current structural consolidation path. Accelerating the implementation of a wide range of structural reforms to boost medium-term productive capacity would facilitate consolidation and contribute to the credibility of fiscal policy. These would include reducing inefficient public spending, increasing product market competition and continuing to change the tax structure and reform labour markets and education.

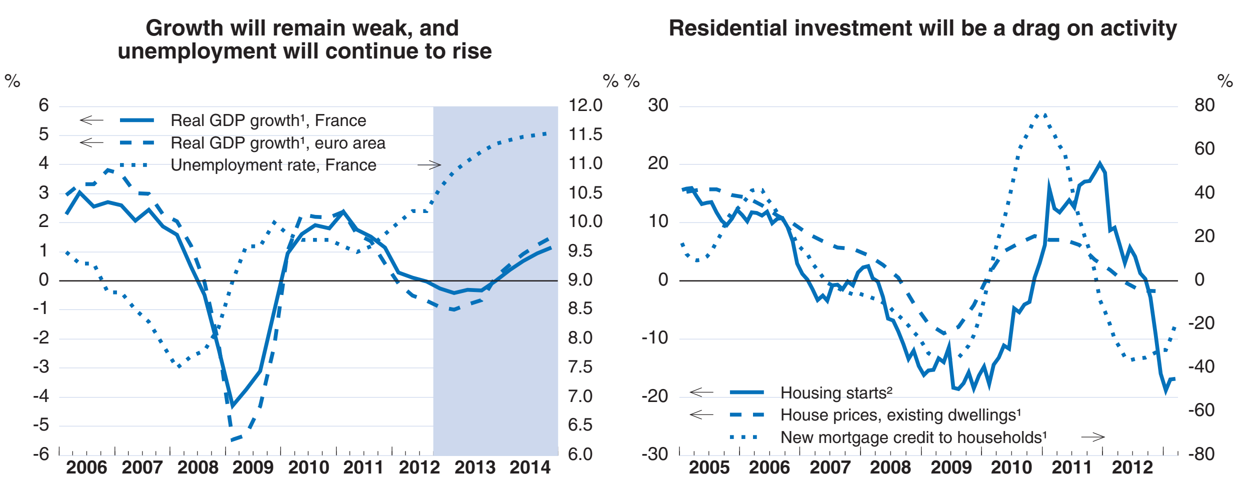
Economic activity remains at a standstill

Activity has been flat for about two years causing a steady rise in joblessness and overall economic slack. Both residential and non-residential investment have contracted, while households' consumption has been especially affected by the ongoing fiscal consolidation and the deterioration in labour markets.

Private investment will continue to be a drag

The construction sector has been particularly hard hit by lower demand, and real estate prices are likely to adjust further downwards. While non-performing loans remain at surprising by low levels, the quality of mortgages could deteriorate significantly as increasing unemployment affects new segments of the population. Given very low profit margins, non-residential investment prospects remain gloomy. However, the trade deficit has diminished over the past two years, mainly because exports have outpaced foreign demand for the first time since 2002. The fiscal

France



1. Year-on-year percentage changes.
2. Year-on-year percentage changes of 12-month cumulated flows.
Source: OECD Economic Outlook 93 database; INSEE; and Banque de France.

StatLink http://dx.doi.org/10.1787/888932835955

France: **Employment, income and inflation**

Percentage changes

	2010	2011	2012	2013	2014
Employment	0.2	0.3	0.1	-0.1	0.0
Unemployment rate[1]	9.3	9.2	9.9	10.7	11.1
Compensation of employees	2.3	3.4	2.0	1.6	1.6
Unit labour cost	0.7	1.6	2.0	1.9	0.8
Household disposable income	2.0	2.7	1.2	0.8	1.0
GDP deflator	1.1	1.3	1.3	1.3	0.8
Harmonised index of consumer prices	1.7	2.3	2.2	1.1	1.0
Core harmonised index of consumer prices[2]	1.0	1.1	1.5	0.7	0.9
Private consumption deflator	1.1	2.1	1.7	0.9	0.8
Memorandum item					
Unemployment rate[3]	9.7	9.6	10.3	11.1	11.5

1. As a percentage of labour force, metropolitan France.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. As a percentage of labour force, national unemployment rate, includes overseas departments and territories.

Source: OECD Economic Outlook 93 database.

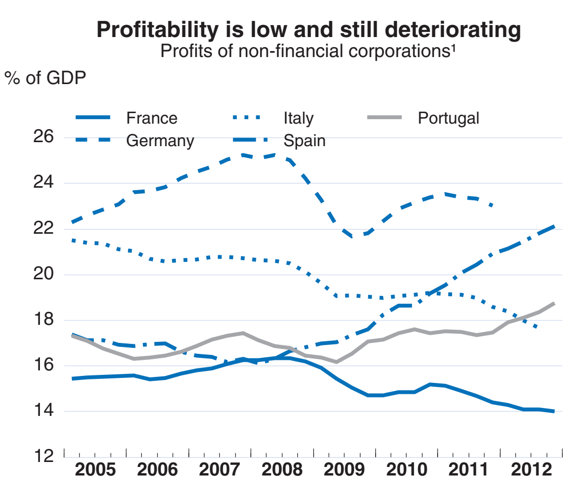
StatLink http://dx.doi.org/10.1787/888932837247

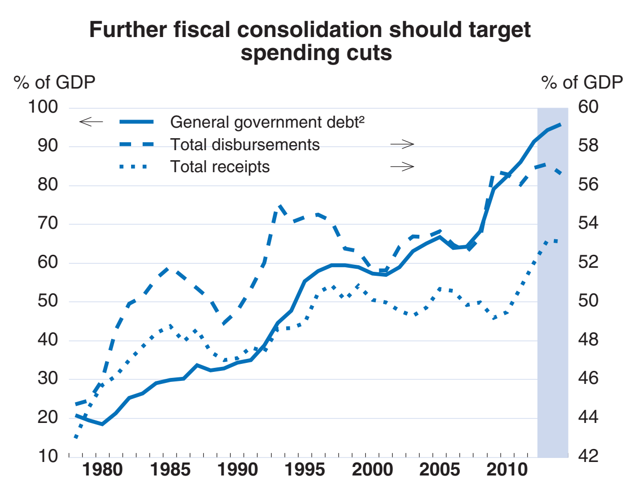
devaluation resulting from the joint business-tax credit and VAT increase is likely to improve firms' competitiveness, but it might also further undermine consumption.

The ongoing consolidation is large and front-loaded

The official plan is to reduce the structural deficit by 1.8% of GDP in 2013 and 1.0% in 2014. If implemented, those efforts would bring the estimated cyclically-adjusted deficit close to 1% of GDP in 2014, a level that will eventually curb the debt ratio. The government seems to be moving more explicitly towards structural deficit objectives, which is

France





1. Before taxes, interest and dividends.
2. Maastricht definition.

Source: OECD Economic Outlook 93 database; and OECD Quarterly National Accounts database.

StatLink http://dx.doi.org/10.1787/888932835974

France: **Financial indicators**

	2010	2011	2012	2013	2014
Household saving ratio, gross[1]	15.9	16.2	15.9	15.6	15.6
General government financial balance[2]	-7.1	-5.3	-4.9	-4.0	-3.5
General government gross debt[2]	95.6	99.5	109.7	113.5	116.3
General government debt, Maastricht definition[2]	82.4	86.0	90.7	94.5	97.2
Current account balance[2]	-1.6	-1.9	-2.3	-2.2	-1.9
Short-term interest rate[3]	0.8	1.4	0.6	0.1	0.0
Long-term interest rate[4]	3.1	3.3	2.5	2.0	2.4

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

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837266

welcome as it allows the automatic stabilisers to operate to cushion the effects of unforeseen weaknesses. The government should therefore not take additional fiscal measures should economic growth disappoint.

Public spending must be restrained

Based on the 2013 budget, the structural deficit target should be met, with consolidation achieved largely by raising revenues. Shrinking inefficient public expenditures should now be the priority. The pension system should be reformed to improve both transparency and equity, and to reduce costs, while considerable savings could be made on health care without impairing quality. The fragmented structure of sub-national

France: **Demand and output**

	2011	2012	2013	2014	Fourth quarter 2012	Fourth quarter 2013	Fourth quarter 2014
	Current prices € billion	Percentage changes from previous year, volume (2005 prices)					
GDP at market prices	2 000.2	0.0	-0.3	0.8	-0.3	0.0	1.2
Private consumption	1 154.6	-0.4	-0.1	0.2	-0.4	0.1	0.3
Government consumption	489.9	1.4	1.2	0.8	1.7	0.9	0.7
Gross fixed investment	399.5	-1.3	-2.3	0.7	-3.4	-1.5	1.8
Public	62.7	-0.6	-1.4	0.4	-2.1	-0.4	0.4
Residential	112.3	-0.4	-3.5	-2.0	-2.4	-4.0	-0.1
Non-residential	224.5	-1.8	-1.9	1.9	-4.2	-0.7	3.0
Final domestic demand	2 043.9	-0.2	-0.2	0.5	-0.5	0.0	0.7
Stockbuilding[1]	15.2	-0.8	-0.1	0.0			
Total domestic demand	2 059.1	-0.9	-0.4	0.5	-0.7	0.1	0.7
Exports of goods and services	537.6	2.5	0.2	4.2	0.6	1.4	5.4
Imports of goods and services	596.5	-0.9	-0.1	2.9	-0.8	1.7	3.6
Net exports[1]	- 58.9	0.9	0.1	0.3			

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.
1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837285

governments should be overhauled to improve coordination and accountability. The pathways to implicit early retirement through the unemployment benefit system should be shut down and unemployment benefits better designed to enhance work incentives. There is also ample room to improve further the tax structure by lowering social contributions, eliminating inefficient tax expenditures and increasing property, inheritance and environmental taxes.

Faster reforms to boost growth would facilitate fiscal consolidation

Letting the automatic stabilisers function is not without risks to fiscal credibility. Parallel reforms to increase medium-term productive capacity would minimise those risks. The high level of public spending, weak competitiveness and imbalances in public finances, the labour market and the current account are interrelated issues. Policy action should focus on reducing excessive regulations that restrain entry to various professions, impede business operations and limit more generally product-market competition. While some progress has recently been made, the deeply engrained labour-market dualism needs to be further reduced, wage moderation encouraged and a lower minimum wage for young adults implemented.

Growth will be weak and unemployment rise further

With negative real GDP growth in the first half of this year and a very gradual pickup thereafter, growth is projected to remain slightly negative in 2013 and to reach only 0.8% in 2014, still below potential rates. Therefore, despite the expansion of subsidised labour contracts and improved internal flexibility from the recent labour market agreement, the unemployment rate is projected to continue to rise to 11½ per cent. Notwithstanding the short-term impact of the VAT hike in 2014, inflation is set to stay around 1%. With automatic stabilisers assumed to play fully, the fiscal deficit is projected to be 4.0% of GDP in 2013 and 3.5% in 2014.

Risks remain high

Downside risks are significant, especially if structural reforms are poorly communicated or weakly implemented and insufficient to restore confidence. The impact of low business profitability, housing market contraction and fiscal consolidation could be larger than expected. On the other hand, the level of inventories seems to be low, and the household saving rate remains high in international comparison, allowing for a potential boost once the turnaround is well established.

ITALY

Italy's recession will continue throughout 2013 as the effects of fiscal tightening and restrictive credit conditions bear down on economic activity. Employment and hours worked will continue to fall, constraining household budgets and consumption spending. Despite recapitalisation, continuing losses hinder the banking sector from supporting investment and consumption, though some relief will come from the government's settlement of its payment arrears. Notwithstanding strengthening exports and less fiscal consolidation, growth will remain low in 2014.

The projections assume fiscal tightening in line with government plans published in April which, along with gains from lower interest rates on maturing debt and a greater share of short-term borrowing, should keep the headline deficit at 3% of GDP in 2013 and around 2¼ per cent in 2014. Policy priorities must include consolidating the growth-enhancing reforms of 2012 while limiting overall public spending and avoiding premature tax reductions so as to put debt on a downward path. With this degree of underlying tightening, automatic stabilisers should be allowed to work, with somewhat larger deficits if growth projections are not met.

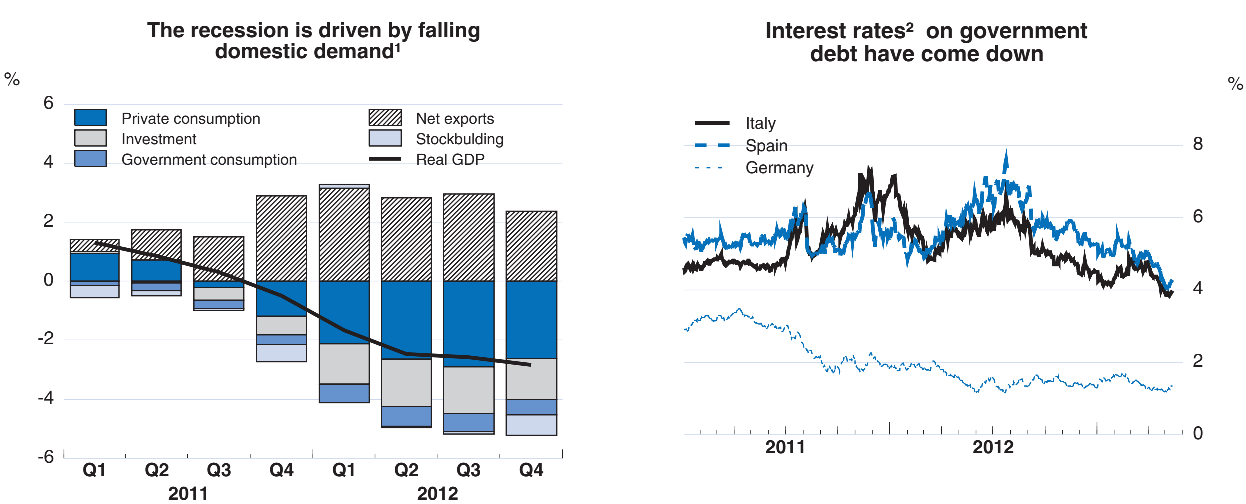
Low growth and weak banks interact to prolong the recession

Necessary fiscal consolidation and restrictive credit conditions have prolonged Italy's recession. Despite the recovery of the market price of government debt in 2012, which strengthened banks' balance sheets, banks are weakened by rising levels of non-performing loans and credit remains difficult and expensive to obtain for many companies. This has particularly affected investment and inventories. As such spending is import intensive, the impact on GDP has been mitigated. Consumer demand has fallen significantly too.

Competiveness is improving

In contrast with the depth of the recession, employment has been more erratic and fell relatively little during 2012. But unemployment rose

Italy



1. Contribution to year-on-year percentage changes in GDP growth.
2. 10-year benchmark government bond yields.
Source: Datastream; and OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932836126

Italy: **Employment, income and inflation**

Percentage changes

	2010	2011	2012	2013	2014
Employment[1]	-0.7	0.3	-0.3	-1.0	-0.6
Unemployment rate[1,2]	8.4	8.4	10.6	11.9	12.5
Compensation of employees	1.2	1.8	-0.2	-0.3	0.0
Unit labour cost	-0.5	1.3	2.3	1.5	-0.4
Household disposable income	0.6	2.2	-2.3	-0.3	0.4
GDP deflator	0.4	1.3	1.6	1.5	0.9
Harmonised index of consumer prices	1.6	2.9	3.3	1.6	1.2
Core harmonised index of consumer prices[3]	1.7	2.0	2.0	1.4	1.3
Private consumption deflator	1.5	2.9	2.8	1.4	0.9

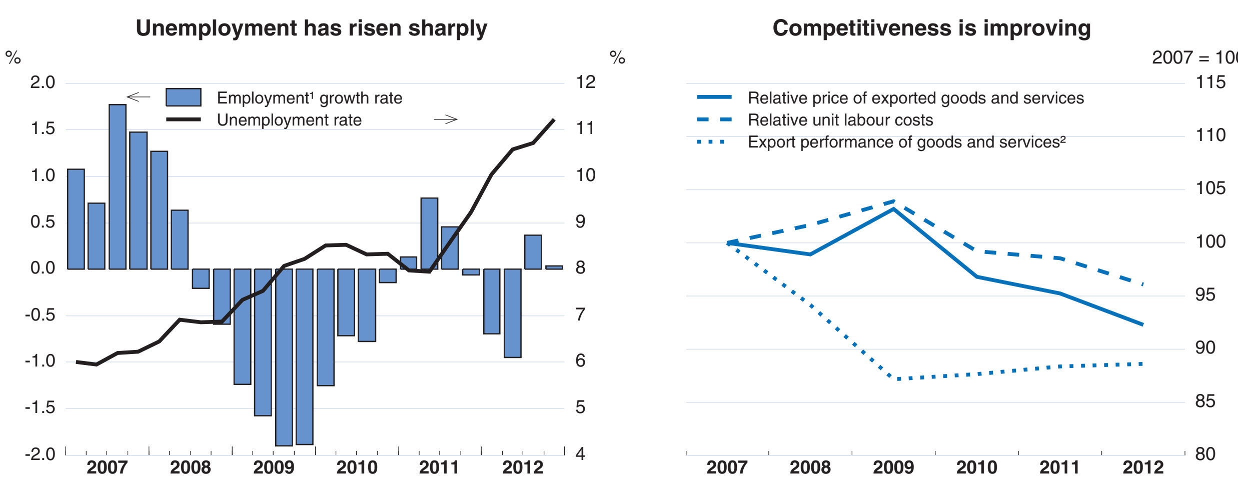
1. Data for whole economy employment are from the national accounts. These data include an estimate made by Istat for employment in the underground economy. Total employment according to the national accounts is higher than labour force survey data indicate, by approximately 2 million or about 10%. The unemployment rate is calculated relative to labour force survey data.
2. As a percentage of labour force.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837304

rather fast, partly due to an increase in the labour force, with the unemployment rate having reached 11½ per cent in early 2013. Short-time working rose considerably, too. Wage growth has slowed, if by less than in some countries with even weaker labour markets and Italy's relative unit labour costs have begun to improve. Exporters also appear to have squeezed profit margins, strengthening price competitiveness.

Italy



1. Year-on-year percentage changes, National Accounts definition.
2. Export performance refers to the ratio of export volumes and export market growth.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932836145

Italy: **Financial indicators**

	2010	2011	2012	2013	2014
Household saving ratio, net[1]	4.9	4.1	3.4	3.9	3.8
General government financial balance[2]	-4.3	-3.7	-2.9	-3.0	-2.3
General government gross debt[2]	128.9	122.0	140.2	143.6	143.9
General government debt, Maastricht definition[2]	119.4	120.8	127.0	131.7	134.3
Current account balance[2]	-3.5	-3.1	-0.6	0.9	2.0
Short-term interest rate[3]	0.8	1.4	0.6	0.1	0.0
Long-term interest rate[4]	4.0	5.4	5.5	4.2	4.1

1. Net saving as a percentage of net disposable income. Includes "famiglie produttrici".
2. As a percentage of GDP. These figures are national accounts basis; they differ by 0.1% from the frequently quoted Excessive Deficit Procedure figures.
3. 3-month interbank rate.
4. 10-year government bonds.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837323

Falling employment may have long term effects on capacity

Long-term unemployment has already risen and the reduced employability of the long-term unemployed may already have reduced short-term potential growth. In the longer term the economic reforms of 2012 should boost potential growth; but the timing is very uncertain and the OECD projections do not include any impact of the reforms on actual growth in the short term.

The budget deficit continues to decline

Despite very weak growth in 2012 and poor prospects for 2013, the budget deficit is set to continue to decline, after taking account of special factors. This underlying consolidation, along with actions at the euro area level, has contributed to maintaining lower interest rate spreads despite the political uncertainty since the February elections.

Italy: **Demand and output**

	2011	2012	2013	2014	Fourth quarter 2012	Fourth quarter 2013	Fourth quarter 2014
	Current prices € billion	Percentage changes from previous year, volume (2005 prices)					
GDP at market prices	1 579.2	-2.4	-1.8	0.4	-2.8	-1.1	1.2
Private consumption	972.0	-4.2	-2.2	-0.4	-4.4	-1.1	-0.2
Government consumption	322.5	-2.9	-1.8	-1.0	-2.5	-2.1	-0.7
Gross fixed investment	306.4	-8.0	-4.3	-1.4	-7.6	-3.5	-0.2
Final domestic demand	1 600.9	-4.7	-2.5	-0.7	-4.6	-1.7	-0.3
Stockbuilding[1]	1.9	-0.6	-0.6	0.0			
Total domestic demand	1 602.8	-5.3	-3.1	-0.7	-5.3	-1.8	-0.3
Exports of goods and services	455.5	2.2	2.9	4.9	1.9	3.0	6.0
Imports of goods and services	479.1	-7.8	-1.4	1.5	-6.6	0.8	1.6
Net exports[1]	- 23.6	3.0	1.3	1.1			

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837342

The impact of budget consolidation on activity should diminish

Budget consolidation is to continue and the budget deficit is projected to be around 2¼ per cent in 2014. Should downside risks to the outlook materialise, the automatic stabilisers should be allowed to work. The government's plan to pay off part of its arrears could alleviate the situation of many companies supplying the public sector. The overall impact of this long overdue measure is uncertain - the government itself will need to borrow to raise the necessary funds, potentially crowding out other lending. These projections attribute a cumulative impact on GDP in 2013-14 of only 0.5% to this measure, though some estimates are much higher. The action of lending central funds to sub-national government to pay off arrears could weaken the incentives for sub-national government to respect budget constraints.

Consumption will be weak but market growth will support exports

With employment likely to decline in 2013-14 and with the household saving rate having fallen significantly over the past few years, not much growth in consumer demand can be expected, especially as the credit situation is likely to improve only slowly. Tight credit affects investment too so domestic demand will remain very subdued and output pick up only slowly. However, exports will benefit from stronger market growth in 2014. Activity is likely to fall throughout the first half of 2013 and remain at best stable for the rest of the year, before growth resumes in 2014.

Risks relate particularly to the banking sector

While sovereign bond yields have fallen recently, loss of confidence could revert this tendency, and the potential self-reinforcing impact of weak growth, rising non-performing loans and tightening credit could prolong the recession still further. On the other hand, further falls in yields on government debt would strengthen banks' asset position and improve credit conditions while the settlement of public debt arrears may also have a greater impact on liquidity and confidence than assumed here. Recent structural reforms may also boost growth more than assumed.

UNITED KINGDOM

Continuing weakness of euro area trading partners, slow real income growth and necessary public and private sector deleveraging are generating strong headwinds for the economy. Growth is expected to pick up gradually through 2013 and 2014 as gross fixed investment and exports gain momentum. Inflation expectations are above the inflation target, but inflation is projected to decelerate owing to persistent economic slack.

The Bank of England is providing strong support to the economy, and recent changes in the monetary policy framework increase the scope of the Monetary Policy Committee to adjust its monetary stance to economic developments. The pace of fiscal consolidation of about 1% of GDP per year in both 2013 and 2014 is appropriate and should be implemented as planned while letting automatic stabilisers operate in the event growth disappoints.

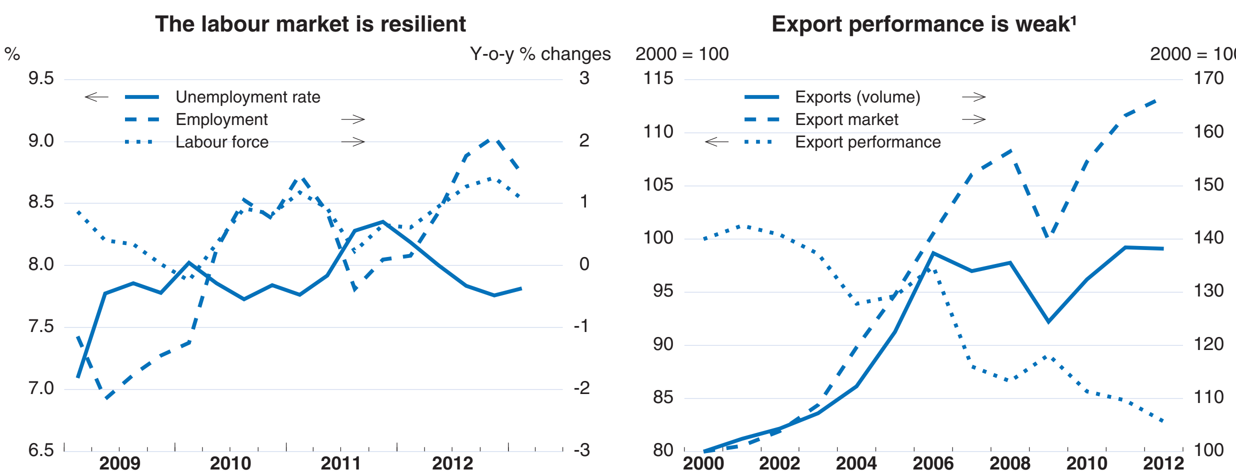
The economy faces strong headwinds

The muted global recovery, especially in Europe, and the necessary adjustment of still-impaired public and private sector balance sheets continue to weigh on growth. Despite a resilient labour market, private consumption is held back by weak average real earnings, fragile confidence and household deleveraging. Private investment is restrained by weak aggregate demand and high uncertainty. Exchange rate depreciation over recent years has not led to a major boost in exports, hampered by subdued demand. Yet exports have also underperformed the growth in UK's overseas markets, pointing to supply-side impediments, notably in financial services exports and oil.

Employment performance has been good

Employment has been strong given weak output growth, reflecting the flexibility of the labour market and low wage increases. Increased part-time and self-employment have also limited job losses, and the implementation of the Universal Credit as part of the welfare reform

United Kingdom



1. Exports of goods and services. Export performance is the ratio between export volumes and export markets.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932835993

United Kingdom: **Employment, income and inflation**

Percentage changes

	2010	2011	2012	2013	2014
Employment	0.2	0.5	1.2	0.9	0.7
Unemployment rate[1]	7.9	8.1	7.9	8.0	7.9
Compensation of employees	2.4	2.4	2.7	2.1	3.3
Unit labour cost	0.6	1.4	2.5	1.2	1.7
Household disposable income	4.5	3.5	4.5	2.7	2.6
GDP deflator	2.8	2.3	1.4	1.9	1.9
Harmonised index of consumer prices[2]	3.3	4.5	2.8	2.8	2.4
Core harmonised index of consumer prices[3]	2.7	3.0	2.2	2.6	2.3
Private consumption deflator	3.7	4.5	2.7	2.6	2.3

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

Source: OECD Economic Outlook 93 database.

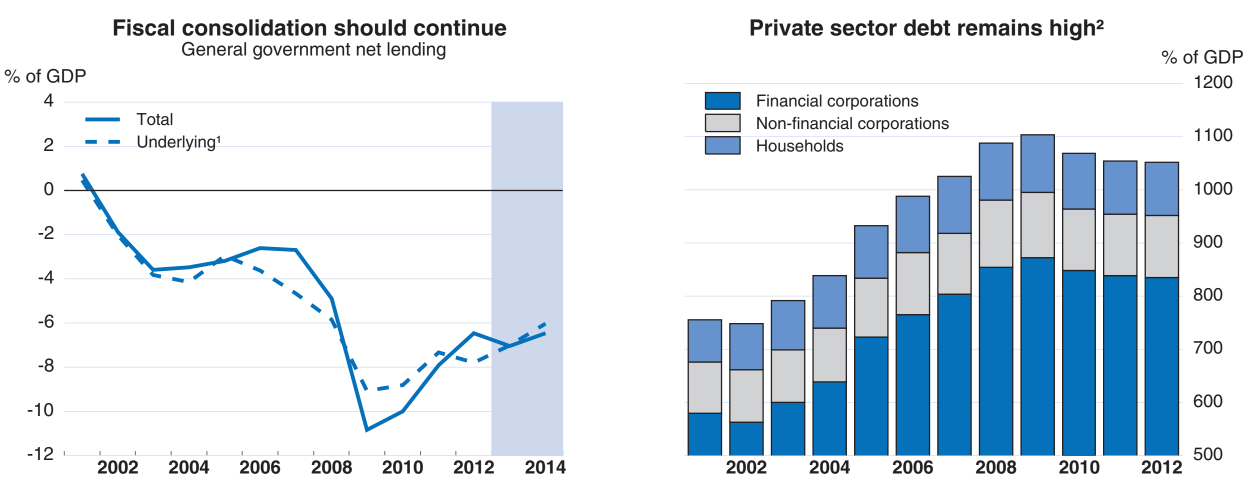
StatLink http://dx.doi.org/10.1787/888932837361

should sharpen work incentives. However, unemployment among youth and the low-skilled remains elevated. Reinforcing active labour market, education and lifelong learning policies would foster workers' skills and ensure that vulnerable groups remain attached to the labour market.

Further fiscal consolidation is needed

With high budget deficit and gross government debt rising to 90% of GDP in 2012, further fiscal consolidation is necessary to restore the sustainability of public finances. The authorities' medium-term

United Kingdom



1. Cyclically adjusted less the transfer of the Royal Mail pension fund (1.8% of GDP in 2012), the final profits of the Special Liquidity Scheme (0.15% of GDP in 2012), proceeds of the sale of 4G mobile telephone licenses (0.15% of GDP in 2013), and excess cash held at the Bank of England's Asset Purchase Facility (1% of GDP in 2013 and 0.7% of GDP in 2014).
2. Debt is calculated as the sum of the following liability categories, whenever available/applicable: currency and deposits, securities other than shares (except financial derivatives), loans, insurance technical reserves and other accounts payable.

Source: OECD Economic Outlook 93 database; and Office for National Statistics.

StatLink http://dx.doi.org/10.1787/888932836012

United Kingdom: **Financial indicators**

	2010	2011	2012	2013	2014
Household saving ratio, gross[1]	6.6	6.5	7.1	6.1	5.4
General government financial balance[2]	-10.0	-7.9	-6.5	-7.1	-6.5
General government gross debt[2]	85.6	100.4	103.9	109.1	113.0
General government debt, Maastricht definition[2]	79.4	85.5	90.0	93.9	97.9
Current account balance[2]	-2.5	-1.3	-3.7	-2.9	-2.5
Short-term interest rate[3]	0.7	0.9	0.8	0.5	0.5
Long-term interest rate[4]	3.6	3.1	1.9	1.9	2.4

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

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837380

underlying fiscal consolidation plans, together with the use of the automatic stabilisers, should help combine sustained consolidation with necessary flexibility to meet unexpected output shocks. Several one-off factors have improved or will improve the headline deficit, most notably the transfer of the Royal Mail pension fund of 1.8% of GDP in 2012 and excess cash held at the Bank of England's Asset Purchase Facility of 1% of GDP in 2013 and 0.7% of GDP in 2014. Abstracting from one-off factors and cyclical developments, the underlying fiscal deficit increased slightly in 2012, but is assumed to fall by around 1% of GDP per year in both 2013

United Kingdom: **Demand and output**

	2011	2012	2013	2014	Fourth quarter 2012	Fourth quarter 2013	Fourth quarter 2014
	Current prices £ billion	Percentage changes from previous year, volume (2009 prices)					
GDP at market prices	1 515.8	0.3	0.8	1.5	0.2	1.1	1.8
Private consumption	975.9	1.2	0.9	1.2	1.6	0.6	1.5
Government consumption	335.7	2.2	0.4	-0.7	2.0	0.3	-1.4
Gross fixed investment	213.2	1.5	1.8	4.1	1.5	3.0	4.8
Public[1]	34.0	2.2	7.7	4.4	14.8	1.6	6.2
Residential	59.4	-5.4	-3.2	1.3	-3.9	0.7	1.5
Non-residential	119.8	4.9	2.6	5.2	0.8	4.4	5.8
Final domestic demand	1 524.8	1.5	0.9	1.2	1.7	0.9	1.4
Stockbuilding[2]	15.1	-0.1	0.0	0.0			
Total domestic demand	1 540.0	1.3	0.8	1.2	1.6	0.9	1.4
Exports of goods and services	492.5	-0.2	0.7	2.9	-2.5	2.2	3.2
Imports of goods and services	516.6	2.7	0.5	1.6	1.2	1.3	1.7
Net exports[2]	- 24.1	-1.0	0.1	0.3			

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

1. Including nationalised industries and public corporations.
2. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837399

United Kingdom: **External indicators**

	2010	2011	2012	2013	2014
			$ billion		
Goods and services exports	692.2	789.5	774.0	768	806
Goods and services imports	740.9	828.2	831.3	826	862
Foreign balance	- 48.7	- 38.7	- 57.3	- 58	- 56
Invisibles, net	- 9.0	6.4	- 34.1	- 13	- 8
Current account balance	- 57.7	- 32.4	- 91.4	- 72	- 64
			Percentage changes		
Goods and services export volumes	6.4	4.5	- 0.2	0.7	2.9
Goods and services import volumes	8.0	0.0	2.7	0.5	1.6
Export performance[1]	- 3.9	- 1.0	- 2.3	- 1.9	- 2.3
Terms of trade	- 0.3	- 2.4	0.5	- 0.4	- 0.5

1. Ratio between export volume and export market of total goods and services.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837418

and 2014, which would ensure a credible consolidation path. Policy measures adopted in the Plan for Growth and 2013 budget to support the housing market are likely to encourage residential investment and supply, but without a sufficient supply response, some measures could create upward pressure on house prices. Continuing to shift the composition of public expenditure in favour of infrastructure investment would enhance growth prospects.

Monetary policy is supportive

With the policy rate at 0.5%, the maintenance of purchased assets at £375 billion (25% of GDP) reached in end-October 2012, and the introduction in July 2012 of the Funding for Lending Scheme, monetary policy is appropriately providing strong support to the economy. Recent changes in the monetary policy framework expand the range of unconventional instruments available to the Monetary Policy Committee and should allow greater flexibility in meeting the 2% inflation target by clarifying that there are short-term trade-offs between inflation, output and financial stability.

Growth is projected to pick up slowly

Real GDP growth is projected to rise gradually as non-residential investment, supported by credit easing, high retained earnings and external demand, is set to gather momentum. Nevertheless, further fiscal consolidation, private sector deleveraging and slow real income growth will hold back domestic demand. The unemployment rate is projected to be broadly flat at around 8% in the near term.

Risks are broadly balanced

The intensification of the euro area crisis might cause financial conditions to deteriorate again, reducing credit and wealth. An unexpected rise in unemployment could undermine confidence and depress private consumption. On the upside, easing financial tensions in the euro area and stronger-than-expected world growth could raise confidence and boost aggregate demand.

CANADA

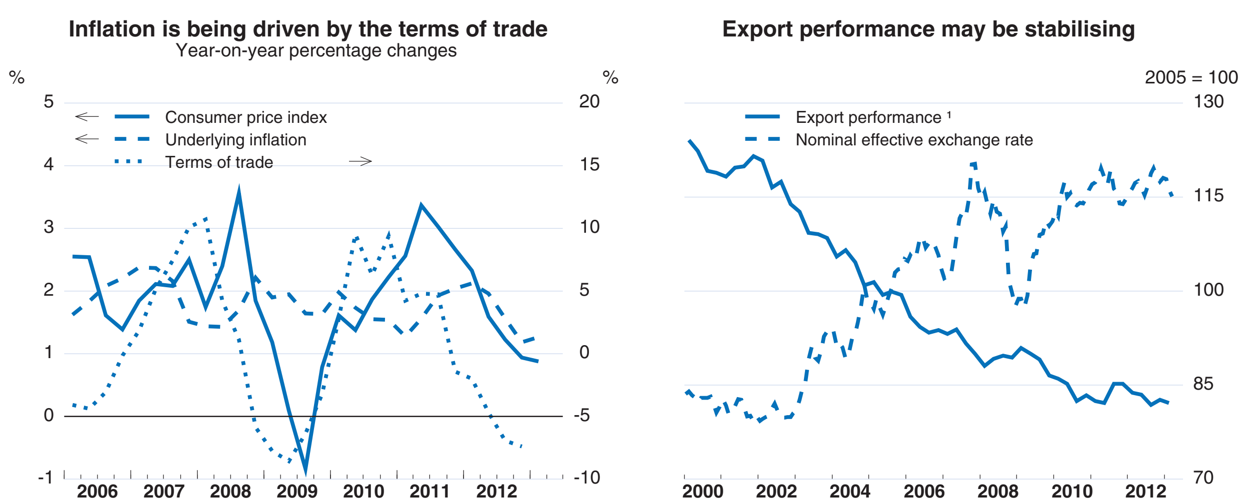
Economic growth is projected to strengthen through 2013 and 2014, driven by business investment, which will benefit from low capital costs, still high commodity prices and improving confidence. External demand will also contribute, thanks to expanding US and non-OECD markets and a depreciating exchange rate (since autumn 2012). Household spending will be supported by easy monetary policy yet restrained by tightening mortgage rules and deleveraging. A consolidating public sector will slow growth as well.

Monetary policy remains on hold, given low inflation, contractionary fiscal policy and still unresolved financial-market risks from abroad. However, the gradually tightening labour market suggests that the stance will have to become less expansionary by the latter half of 2014 to contain inflationary pressures. In the meantime, any aggravation of housing price pressures should be addressed by further prudential measures. Fiscal consolidation should continue as planned, but the automatic stabilisers should be allowed to operate.

Activity is improving after a weak second half of 2012

Growth eased in the latter half of 2012 largely in response to weaker global activity, slowing investment and flat government spending. In early 2013, indicators point to a rebound in mining and oil and gas production, and associated exports, following disruptions and uncertainties about pipeline availability in 2012. There are also signs that external growth is picking up, particularly in the crucial US market, which together with firming energy prices and low financing costs is helping to bolster business confidence and profitability. The housing market has lost momentum: building activity is slowing as underlying demographic demand is being met while structural policy measures have muted the expansionary impact of low interest rates. House prices have consequently begun to ease in some markets (though they are still historically high). Private consumption has benefited from steady, albeit

Canada



1. Export performance is measured as export volumes relative to the country's export market volume.
Source: Statistics Canada; and OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932835708

Canada: **Employment, income and inflation**

Percentage changes

	2010	2011	2012	2013	2014
Employment	1.4	1.5	1.2	1.0	1.3
Unemployment rate[1]	8.0	7.5	7.3	7.1	6.9
Compensation of employees	3.3	4.7	4.2	3.4	4.4
Unit labour cost	0.1	2.1	2.4	2.0	2.1
Household disposable income	3.8	3.8	3.4	3.3	3.9
GDP deflator	3.1	3.2	1.3	1.3	1.7
Consumer price index	1.8	2.9	1.5	1.3	1.7
Core consumer price index[2]	1.7	1.7	1.7	1.5	1.7
Private consumption deflator	1.5	2.2	1.2	0.9	1.2

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

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837437

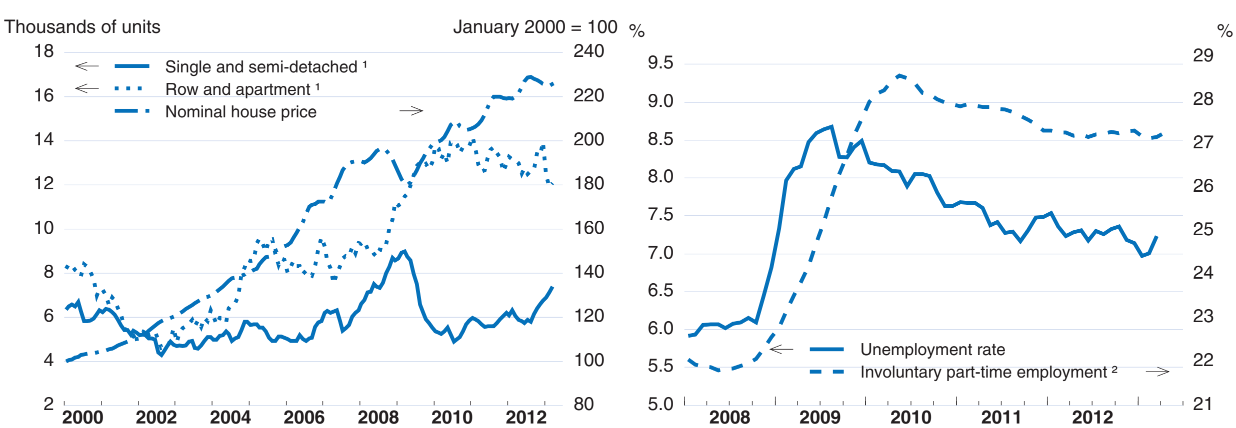
slowing, employment growth and strong wealth effects. Yet households now recognise the need to reduce their high debt levels, given projected house price moderation. Hence, the saving rate is rising.

Inflation remains subdued

Headline and core inflation have remained low, consistent with a moderate degree of economic slack, and inflation expectations are well anchored. Competitive pressures in retail trade have also heightened, putting downward pressure on margins. Food price inflation has remained moderate despite last summer's drought. Inflation is projected to rise to 1.7% by the end of the projection horizon. This reflects narrowing

Canada

The housing market is poised for a turnaround | **Labour market slack is diminishing**



1. Housing units in selected census metropolitan areas and large urban centres for which construction has been completed but which have not been rented or sold.
2. Expressed as a percentage of total part-time employment, 12-month moving average.

Source: Statistics Canada; Canada Mortgage and Housing Corporation; Teranet - National Bank National Composite House Price Index; and OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932835727

Canada: **Financial indicators**

	2010	2011	2012	2013	2014
Household saving ratio, net[1]	4.5	3.8	4.0	4.4	4.5
General government financial balance[2]	-5.2	-4.0	-3.2	-2.9	-2.1
General government gross debt[2]	83.0	83.4	85.5	85.2	85.3
Current account balance[2]	-3.6	-3.0	-3.7	-3.7	-3.4
Short-term interest rate[3]	0.8	1.2	1.3	1.1	1.5
Long-term interest rate[4]	3.2	2.8	1.9	1.9	2.6

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

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837456

of the output gap, the weaker exchange rate and a pick-up in wage gains as the unemployment rate declines to 6.7%, which is somewhat below the estimated structural rate.

Fiscal consolidation is continuing

The 2013 federal budget indicated that the government is on track to achieve a small surplus by FY 2015-16, and most provinces are committed to medium-term budget balance. Federal spending will grow by only 0.7% in FY 2013 and by around 2% per year on average over the next five years (compared with about 5% per year since 2007). The main source of spending restraint is the federal government payroll. The budget also

Canada: **Demand and output**

	2011	2012	2013	2014	Fourth quarter 2012	Fourth quarter 2013	Fourth quarter 2014
	Current prices CAD billion	Percentage changes from previous year, volume (2007 prices)					
GDP at market prices	1 762.4	1.8	1.4	2.3	1.1	1.7	2.7
Private consumption	983.5	1.9	2.0	2.5	2.0	1.8	2.9
Government consumption	385.4	0.4	0.3	0.1	0.3	-0.1	0.3
Gross fixed investment	374.9	3.2	1.2	3.5	3.1	1.3	4.6
Public[1]	76.3	-5.6	2.3	3.3	1.6	3.0	3.5
Residential	117.6	5.7	-2.3	-0.7	3.1	-3.1	0.3
Non-residential	181.0	6.2	3.1	6.0	5.0	3.5	7.4
Final domestic demand	1 743.7	1.8	1.4	2.2	1.9	1.3	2.7
Stockbuilding[2]	40.8	0.3	-0.1	0.0			
Total domestic demand	1 784.5	2.0	1.3	2.2	1.7	1.3	2.7
Exports of goods and services	539.3	1.6	2.6	5.5	-2.1	5.3	5.6
Imports of goods and services	561.4	2.9	2.3	5.0	2.1	3.8	5.3
Net exports[2]	- 22.1	-0.4	0.0	0.1			

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.
1. Excluding nationalised industries and public corporations.
2. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837475

Canada: **External indicators**

	2010	2011	2012	2013	2014
			$ billion		
Goods and services exports	468.3	545.1	546.2	558	597
Goods and services imports	499.3	567.6	582.7	593	629
Foreign balance	- 30.9	- 22.5	- 36.5	- 36	- 32
Invisibles, net	- 27.4	- 30.4	- 30.5	- 33	- 33
Current account balance	- 58.4	- 53.0	- 67.0	- 69	- 66
			Percentage changes		
Goods and services export volumes	6.5	4.6	1.6	2.6	5.5
Goods and services import volumes	13.6	5.8	2.9	2.3	5.0
Export performance[1]	- 5.4	- 0.6	- 1.0	- 0.2	0.0
Terms of trade	5.2	3.6	- 1.2	0.0	0.4

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837494

closed (mainly corporate) tax loopholes, took steps to fight tax evasion and ended preferential tariff treatment for countries like Korea and China. The projections assume a cumulative structural fiscal tightening of 1% of GDP over the two years 2013-14 (following 1.5% cumulatively over 2011-12).

Monetary policy is compensating

The Bank of Canada has indicated that with continued economic slack, modest inflation and stabilising household debt, the considerable monetary stimulus still in place is likely to remain appropriate for some time, after which some withdrawal will probably be required to ensure achievement of the 2% inflation target. Given a closing output gap and latent wage pressures, the projections build in 50 basis point increases in the official policy rate in each of the last two quarters of 2014. Macro-prudential tools have been used in conjunction with monetary policy to assist the desired rotation of credit and spending toward business investment and exports and away from housing.

Projected growth is investment and export-driven

The outlook shows growth picking up through 2013 and 2014 despite waning residential investment, gradual household deleveraging and fiscal consolidation. The projected demand shift toward business investment and exports will depend heavily on the expected US economic pick-up, including in housing which has substantial Canadian content. With the resource sector accounting for an increasingly large part of growth, recovering commodity prices and improving pipeline and other transport infrastructure will help to accelerate spending on big capital projects while improving access to foreign markets. The recent weakening of the Canadian dollar should help to stem export market share losses in manufacturing, although low productivity growth and exchange rate uncertainty may limit any such gains.

Risks remain high

External risks remain high, particularly from the euro area. Disappointing growth in China could also imply downward pressure on commodity prices. US demand strength is uncertain as well. The main domestic risks continue to be a disorderly correction in the housing market and stronger deleveraging pressures than assumed in the projections.

AUSTRALIA

GDP growth is likely to slow temporarily to 2½ per cent in 2013, before picking up to around 3¼ per cent in 2014. The expected weakening of the boom in mining investment will be only gradually offset by the sector's increasing export capacity and the strengthening of the non-mining sector. The persisting high exchange rate and still fragile confidence are inhibiting the emergence of new drivers of growth.

In the absence of inflationary pressures, monetary policy should remain accomodative in order to underpin activity. The authorities need to gradually balance the public budget so as to restore fiscal leeway. Should activity worsen significantly, however, there is scope for fiscal policy to be relaxed to support demand. A tax reform to improve the effectiveness of housing taxation and lower corporation tax by means of an increase in VAT would enhance efficiency.

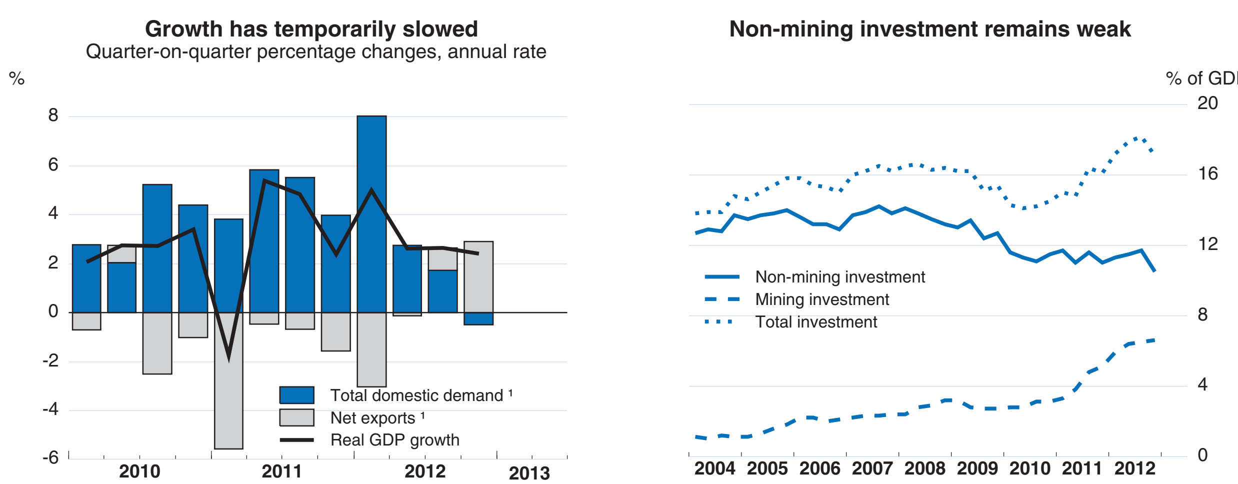
The economy has slowed

The Australian economy is in a transition phase which saw growth slow from 3¾ per cent to 2½ per cent between the first and second halves of 2012 in a context of continued global uncertainty and fiscal consolidation. The surge in mining investment, which is likely to peak in 2013, is gradually losing its stimulatory effect on activity, while new drivers of growth are taking time to emerge. The signs of an upturn in the non-mining sector, which the easing of monetary conditions aims to stimulate, remain timid because of the persistently high exchange rate, which is weighing on companies' confidence and their investment. The labour market has eased, with the unemployment rate hovering around 5½ per cent until April 2013, while inflation remained low at 2½ per cent in early 2013.

Monetary policy is expansionary

The central bank lowered its cash rate by 25 basis points in both December 2012 and May 2013 to 2¾ per cent. This renewed monetary

Australia



1. Contribution to the quarterly percentage changes of the GDP, at annual rate.
Source: ABS, Cat. Nos 5625.0 and 5206.0; and OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932835651

Australia: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices AUD billion	Percentage changes, volume (2010/2011 prices)				
GDP at market prices	1 251.9	2.6	2.4	3.6	2.6	3.2
Private consumption	692.7	3.0	3.3	3.2	2.2	3.2
Government consumption	224.6	3.6	2.5	3.2	-0.2	0.3
Gross fixed capital formation	349.3	4.2	7.2	8.5	4.1	4.6
Final domestic demand	1 266.6	3.4	4.2	4.6	2.3	3.1
Stockbuilding[1]	- 9.4	0.6	0.4	-0.1	-0.2	0.0
Total domestic demand	1 257.3	4.0	4.6	4.6	2.1	3.1
Exports of goods and services	248.9	5.3	-0.8	6.7	6.9	6.5
Imports of goods and services	254.3	14.4	10.5	6.8	4.5	6.0
Net exports[1]	- 5.4	-1.9	-2.2	0.1	0.4	0.0
Memorandum items						
GDP deflator	_	5.7	3.9	-0.6	1.8	2.4
Consumer price index	_	2.9	3.4	1.7	2.1	2.1
Private consumption deflator	_	2.5	2.4	2.2	2.3	2.1
Unemployment rate	_	5.2	5.1	5.2	5.6	5.5
Household saving ratio, net[2]	_	10.0	11.1	10.3	10.2	9.8
General government financial balance[3]	_	-5.2	-3.6	-3.3	-1.8	-0.7
General government gross debt[3]	_	23.6	27.1	32.4	33.7	33.8
Current account balance[3]	_	-2.9	-2.2	-3.7	-4.0	-4.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837589

easing was accompanied by an upturn in financial asset prices and the stabilisation of house prices. The exchange rate has remained high, however, while long-term interest rates have risen slightly and credit growth has remained subdued.

Fiscal consolidation is set to continue but will be tempered

During the present economic transition phase, the gradual approach adopted by the authorities to reducing the public deficit is welcome. Because of the low level of tax revenue, attributable to weaker nominal growth, a slow recovery in capital gains tax, a relatively discouraging business situation and lower-than-expected receipts from the new mining tax, the government has abandoned its aim of balancing the federal accounts as early as 2012/13. The authorities have quite rightly, therefore, decided to give free rein to the automatic stabilisers, with the elimination of the federal deficit postponed probably until 2015/16. If activity worsens significantly, the authorities should not hesitate to ease fiscal policy so as to bolster demand.

The slowdown in growth should be temporary

Activity is likely to pick up to over 3% and close to potential in 2014. The accommodating monetary conditions are likely to gradually mitigate the effect of the budget restrictions and the anticipated weakening of mining investment by stimulating private consumption and house purchases. This monetary easing, coupled with the improving external environment, should also gradually stimulate investment in the non-mining sector which is having to adjust to the high exchange rate. In addition, exports of mining products will continue to benefit from increased capacity in that sector. With a negative output gap and unemployment running at around 5½ per cent, inflation should remain low at 2¼-2½ per cent.

The risks regarding the external environment remain on the downside

A marked slowdown in China would weigh on exports and the terms of trade, which could hasten the slowdown in mining investment and necessitate increased monetary support. The uncertainties weighing on the pace of fiscal consolidation should be clarified following the elections scheduled for September 2013.

AUSTRIA

Economic activity has stabilised after contracting slightly in the last quarter of 2012. Export-market growth is set to pick up. This should improve confidence which, together with an increase in real incomes and generally favourable financing conditions, is projected to support a gradual recovery of domestic demand. Growth is projected to reach 0.5% in 2013 and 1.7% in 2014.

Fiscal consolidation is on track and strikes an appropriate balance between growth and fiscal sustainability considerations; the automatic stabilisers should be allowed to work freely around the structural improvement path. The banking sector may require additional support, which should be debt financed so as not to endanger the fragile recovery.

Growth remains subdued

Export growth was weak at the end of 2012, and this spilled over to business confidence and investment. External demand has recovered moderately since the beginning of 2013 and business and consumer confidence have improved somewhat but remain weak.

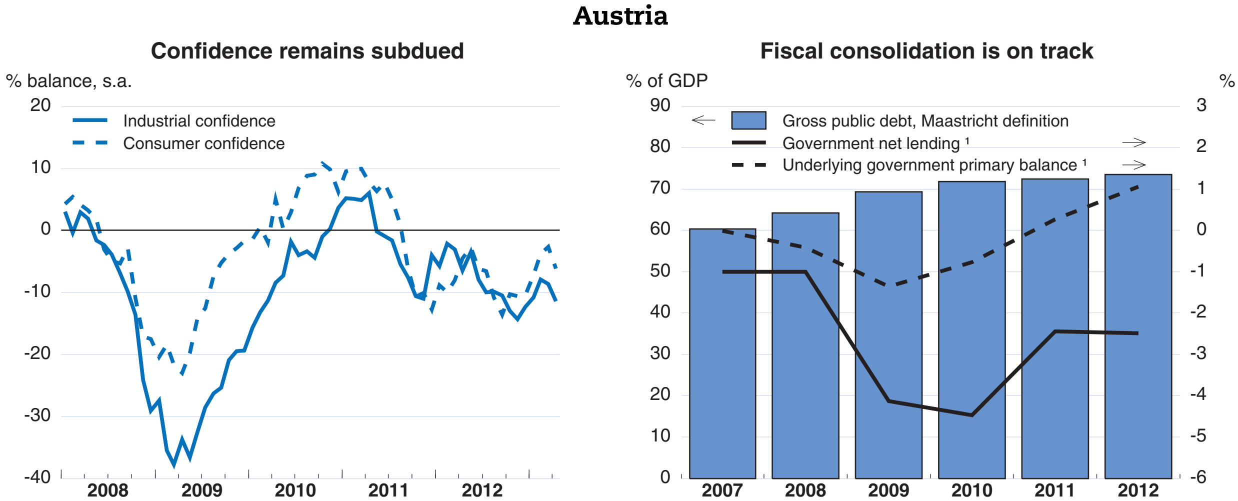
The labour market will weaken somewhat and inflation will abate

Employment growth will remain weak for some time and the unemployment rate, currently the lowest in the European Union, will continue to edge up in 2013 before stabilising and falling again slightly towards the end of 2014. Robust wage growth in 2013, together with abating inflation due to the slack in the economy, will still generate real disposable income growth and support private consumption. Low interest rates and high cash reserves of firms will help investment growth to pick up once confidence improves further. Public spending will remain subdued due to ongoing consolidation efforts.

Fiscal consolidation is broadly appropriate

Thanks to fiscal consolidation, the general government deficit remained at 2.5% of GDP in 2012 despite subdued growth and banking support measures worth about 0.8% of GDP. The consolidation programme aims to bring public finances in line with the provisions of the

Austria



1. Government net lending is in percentage of GDP and underlying government primary balance in percentage of potential GDP.
Source: OECD, Main Economic Indicators database; and OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932835670

Austria: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices € billion	Percentage changes, volume (2005 prices)				
GDP at market prices	275.5	2.2	2.7	0.8	0.5	1.7
Private consumption	151.0	1.6	0.9	0.4	0.1	0.8
Government consumption	54.5	0.0	-0.4	0.4	0.4	0.1
Gross fixed capital formation	57.5	0.7	6.3	1.8	0.6	2.8
Final domestic demand	263.0	1.1	1.8	0.7	0.3	1.1
Stockbuilding[1]	1.9	0.6	0.5	-0.3	-0.4	0.0
Total domestic demand	264.9	1.8	2.4	0.0	-0.2	1.1
Exports of goods and services	137.3	8.9	7.1	1.8	2.1	5.9
Imports of goods and services	126.7	8.0	7.0	1.2	1.5	5.1
Net exports[1]	10.6	0.7	0.4	0.4	0.4	0.7
Memorandum items						
GDP deflator	_	1.8	2.2	2.2	1.5	1.3
Harmonised index of consumer prices	_	1.7	3.6	2.6	2.0	1.5
Private consumption deflator	_	2.0	3.5	2.9	1.8	1.4
Unemployment rate[2]	_	4.4	4.1	4.3	4.7	4.7
Household saving ratio,net[3]	_	9.1	7.4	7.7	7.9	7.9
General government financial balance[4]	_	-4.5	-2.4	-2.5	-2.3	-1.7
General government gross debt[4]	_	78.1	80.0	84.9	86.8	86.9
General government debt, Maastricht definition[4]	_	71.9	72.5	73.5	75.3	75.5
Current account balance[4]	_	3.4	1.4	1.8	2.4	2.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Based on Labour Force Survey data.
3. As a percentage of disposable income.
4. As a percentage of GDP.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837608

debt brake, which specifies that, as of 2017, the general government structural deficit may not exceed 0.45% of GDP. The overall pace of the consolidation path in structural terms strikes an appropriate balance between debt sustainability and growth considerations. The authorities should keep to planned measures so as to preserve hard-won fiscal credibility and not be tempted to relax the necessary budgetary restraint as the election approaches later in the year.

Export growth will drive the recovery

Export growth will underpin a moderate recovery and growth is projected to reach 0.5% in 2013. With a gradually improving external environment, increasing confidence is expected to support domestic demand and growth is set to accelerate to 1.7% in 2014.

The risks to the outlook are broadly balanced

Downside risks relate mainly to a renewed deterioration of the sovereign debt crisis in the euro area, a weaker outlook in central, eastern and south-east Europe and further tensions in the banking sector. Materialisation of these risks would harm export growth and exacerbate financial sector and fiscal risks. On the positive side, a quicker restoration of confidence could lead to a stronger pick-up in domestic investment and consumption in the near term.

BELGIUM

Recovery is slowly gathering pace, driven by stronger world trade and supportive monetary conditions. Domestic demand will pick up only gradually, owing to weak real income growth, low capacity utilisation, necessary fiscal consolidation and a weak housing market. Only in the second half of 2014 will growth return to potential and unemployment stop rising. Inflation will further ease over the projection period.

Fiscal consolidation of 1% of GDP is being implemented in 2013, broadly similar to the effort in 2012. Further consolidation of ½ per cent of GDP is assumed in 2014. This underlying consolidation is critical and should be maintained, but if growth deviates from expectations the automatic stabilisers should be allowed to operate. Recent reforms of unemployment benefits and early retirement schemes will boost labour supply, but should be complemented with improved incentives to hire low-skilled workers and by a wage formation process that better aligns wages with productivity developments.

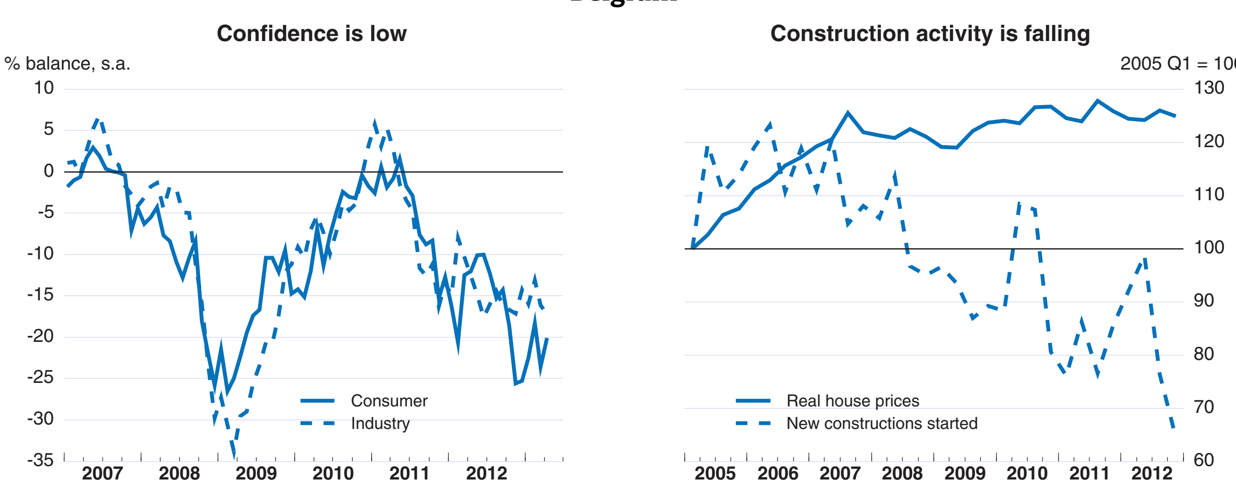
The economy is still weak

After slightly contracting in 2012, activity is still weak, reflecting slow export growth and stagnant domestic demand. Weak real income growth and rising unemployment weigh on household spending. Residential investment is falling despite a marked decline in interest rates, while business investment is hampered by low utilisation of production capacities. Employment is contracting, suggesting a lower prevalence of labour hoarding than in the previous recession. Inflation has eased substantially over the winter, reflecting increasing economic slack and lower energy prices, but nominal wages still reflect to some extent past inflation through the automatic wage indexation mechanism.

Substantial fiscal consolidation is needed

An underlying fiscal consolidation of 1% of GDP was implemented in 2012, although the cost of recapitalising Dexia (0.8% of GDP) boosted the headline deficit for that year. The budget for 2013 and an additional consolidation package in March sum up to an underlying consolidation of 1% of GDP for 2013. For 2014, additional consolidation of ½ per cent of GDP

Belgium



Source: OECD, Main Economic Indicators database; Datastream; and Statistics Belgium.

StatLink http://dx.doi.org/10.1787/888932835689

Belgium: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices € billion	Percentage changes, volume (2010 prices)				
GDP at market prices	340.7	2.4	1.9	-0.3	0.0	1.1
Private consumption	179.8	2.7	0.2	-0.3	0.0	0.6
Government consumption	84.2	0.6	1.1	0.4	0.9	0.8
Gross fixed capital formation	70.9	-1.2	4.2	-0.6	-1.6	1.1
Final domestic demand	334.9	1.4	1.3	-0.2	-0.1	0.7
Stockbuilding[1]	- 3.5	0.3	0.7	-0.3	-0.2	0.0
Total domestic demand	331.4	1.7	2.0	-0.5	-0.3	0.7
Exports of goods and services	248.0	9.6	5.5	0.7	0.9	3.8
Imports of goods and services	238.7	8.9	5.7	0.5	0.5	3.4
Net exports[1]	9.4	0.7	-0.1	0.2	0.3	0.4
Memorandum items						
GDP deflator	_	2.0	2.0	2.0	1.9	1.6
Harmonised index of consumer prices	_	2.3	3.4	2.6	1.4	1.2
Private consumption deflator	_	2.0	3.1	2.6	1.1	1.3
Unemployment rate	_	8.2	7.2	7.6	8.4	8.8
Household saving ratio,net[2]	_	10.1	8.8	9.7	9.9	10.0
General government financial balance[3]	_	-3.9	-3.9	-4.0	-2.6	-2.3
General government gross debt[3]	_	99.5	101.9	104.1	104.7	104.5
General government debt, Maastricht definition[3]	_	95.6	97.7	99.8	100.4	100.2
Current account balance[3]	_	1.9	-1.1	-1.4	-1.2	-0.8

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

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837627

is assumed, which will start to reverse the increase in the debt ratio and is consistent with the government's stability programme objective of a structurally balanced budget in 2015.

A slow recovery will gather pace

After a period of weak growth, activity will only gradually recover. As a result, unemployment will not stabilise before mid-2014. Stronger world trade and supportive monetary conditions will support growth, but the fiscal consolidation and housing market weakness will weigh on the economy throughout the projection period. Reflecting the substantial output gap, inflation will ease further, while wage inflation will be moderated by the government decision to allow no across-the-board wage increases above price inflation for both public and private sector workers in 2013-14.

Domestic risks are balanced

The recovery will depend on developments in the euro area, Belgium's main export market. On the domestic side, downside risks include a stronger-than-expected housing market contraction and a lessening of fiscal and structural reform efforts as electoral considerations come into play. On the upside, the 2012 reforms of early retirement and unemployment benefits may stimulate labour supply more rapidly than anticipated and amplify the economic recovery.

CHILE

Notwithstanding sluggish global growth and disappointing developments in trading partner countries, the economy has performed well recently, supported primarily by strong domestic demand. Activity is projected to slow in the near term as business confidence and investment moderate. Growth is projected to return to a faster pace later in the year, as trading partners' growth increases and global financial conditions improve, with further momentum likely to be gained in 2014.

Despite narrowing economic slack and a tight labour market, inflation is projected to remain close to the central bank's target, reflecting exchange rate appreciation and moderating growth in the near term. Monetary policy is therefore assumed to remain on hold. Although the structural fiscal deficit has fallen, additional efforts to narrow it would contribute to reducing the external deficit, and enhance policymakers' capacity to address possible adverse developments.

Domestic demand has been robust

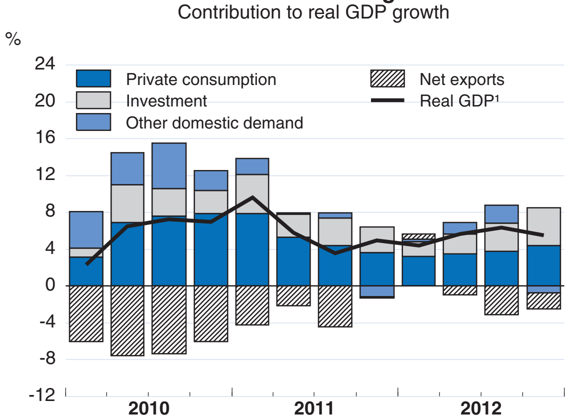
The economy has continued to grow at a robust pace, supported by strong and resilient domestic demand. Positive business confidence, as well as still favourable terms of trade, kept boosting investment, notably in the mining sector, while private consumption picked up along with real wages and employment creation. Domestic demand dynamism is reflected in the increase of imports of machinery and equipment and durable consumption goods. The current account deficit has widened accordingly, but this has been funded by rising foreign direct investment inflows.

Monetary policy remains on hold

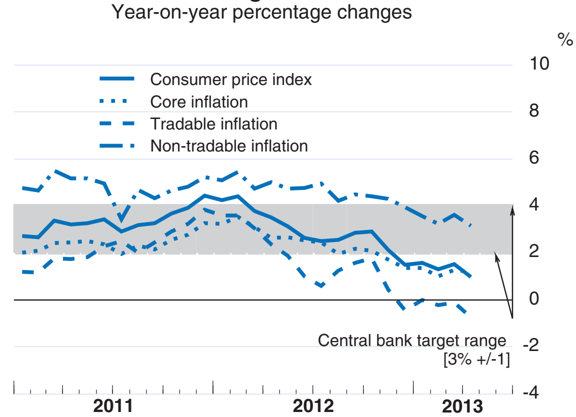
Despite strong domestic demand and dwindling economic slack, inflation has declined below the central bank's target due mainly to exchange rate appreciation. Monetary policy has therefore remained on hold. Although price pressures are visible in some sectors, such as non-

Chile

Investment and private consumption remains strong
Contribution to real GDP growth



Inflation has fallen below the target band
Year-on-year percentage changes



1. Year-on-year percentage changes.
Source: Central Bank of Chile.

StatLink http://dx.doi.org/10.1787/888932835765

Chile: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices CLP billion	Percentage changes, volume (2008 prices)				
GDP at market prices	96 443.8	5.8	5.9	5.5	4.9	5.3
Private consumption	57 357.8	10.8	8.9	6.1	5.8	4.7
Government consumption	12 219.9	4.6	3.0	4.2	4.4	3.4
Gross fixed capital formation	21 026.6	12.2	14.7	12.3	7.3	7.6
Final domestic demand	90 604.3	10.4	9.4	7.4	6.1	5.2
Stockbuilding[1]	-1 464.6	2.9	-0.2	-0.1	-1.1	0.0
Total domestic demand	89 139.7	13.7	9.2	7.4	4.9	5.1
Exports of goods and services	35 849.0	2.3	5.2	1.0	3.5	4.0
Imports of goods and services	28 545.0	25.9	14.5	4.9	4.7	3.6
Net exports[1]	7 304.0	-6.8	-2.6	-1.3	-0.4	0.1
Memorandum items						
GDP deflator	_	8.8	3.3	1.9	4.2	3.1
Consumer price index	_	1.4	3.3	3.0	2.0	2.9
Private consumption deflator	_	3.1	4.3	3.4	2.4	3.2
Unemployment rate	_	8.1	7.1	6.4	6.5	6.5
Central government financial balance[2]	_	-0.4	1.3	0.6	-0.6	-0.7
Current account balance[2]	_	1.5	-1.3	-3.5	-4.2	-3.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837646

tradable services, inflation expectations remain well anchored and inflation is projected to return and then remain close to the target.

Fiscal consolidation has continued, but could be more ambitious

Thanks to higher income tax and VAT receipts and a slight reduction of spending, the public sector achieved a headline surplus of 0.6% of GDP and a structural deficit of 0.6% of GDP last year. This meant that the government's target was reached earlier than planned. The 2013 Budget authorises spending growth of 5% in real terms, in line with expected GDP growth, focused largely on education. This will result in a structural deficit of 1% of GDP. However, closing the deficit would help to strengthen financial buffers and enhance policymakers' capacity to address possible adverse developments.

Growth is projected to slow in the short term

With a still weak external environment, a slowdown of China and emerging constraints on domestic production capacity, real GDP growth is projected to ease somewhat in 2013. The current account deficit is nevertheless set to widen somewhat in 2013. Improving external conditions later in the year and in 2014 should help to increase export volumes.

There are domestic and external risks

A deeper global slowdown – especially in China – would damp export volumes and copper prices, weakening growth and leading to a further deterioration in the current account deficit. Inflationary pressures could also come from persistently strong domestic demand, especially considering current capacity constraints, which may require monetary tightening. Higher interest rate differentials relative to developed countries may spark capital inflows and lead to further exchange rate appreciation in the context of an increasing external deficit.

CZECH REPUBLIC

The economy is expected to pick up from mid-2013 onwards, as exports recover slowly from the negative impact of the euro crisis and improving business and consumer confidence support domestic demand. Needed fiscal consolidation is weighing on domestic demand. Growth is projected to be too low to prevent a further widening of the output gap, implying continued weak inflation.

The government's policy of an unchanged structural fiscal stance and allowing the automatic stabilisers to play is appropriate in the current conjuncture. However, as the recovery gets underway, fiscal consolidation will need to resume to reduce the structural deficit. At the same time, monetary policy should become more accommodative. To make economic growth more inclusive, the gradual increase in the statutory retirement age should be combined with further reforms of the tax-benefit system to foster female labour market participation and raise employment of low-skill workers.

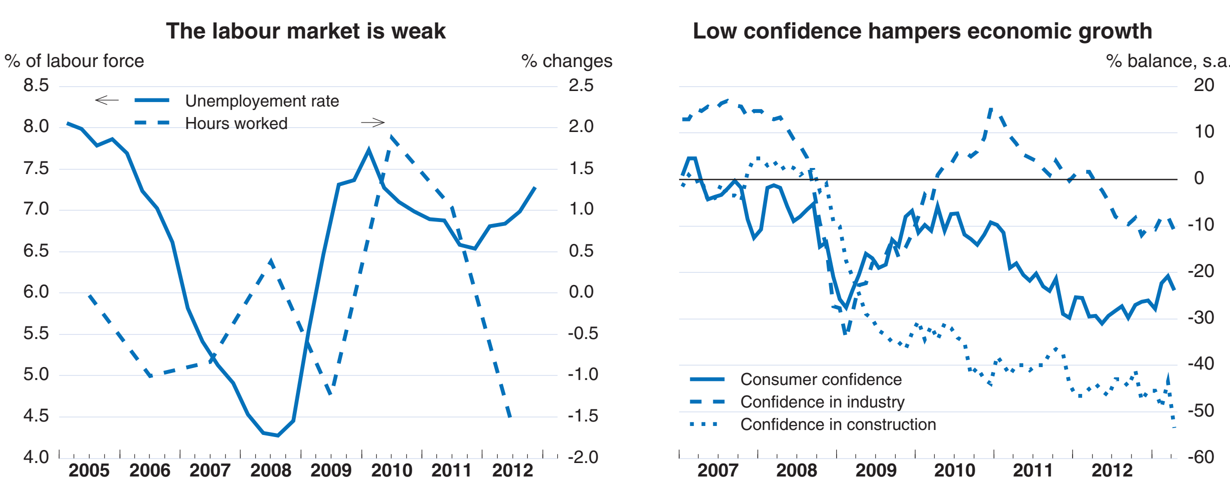
The economy has reached a bottom

The economy contracted throughout 2012 and into 2013, mainly reflecting depressed domestic demand and ongoing fiscal consolidation. However, forward-looking indicators point to increasing activity with higher industrial output and rising bank loans to the non-financial sector, reflecting more export financing (particularly to outside the euro area). On the other hand, industry and consumer confidence remains low, while construction is at an even worse ebb, pointing to a slow recovery. The limited increase in unemployment can partially be explained by labour hoarding, as reflected in the sharp contraction of hours worked, which suggests a recovery with limited employment content.

Fiscal consolidation has been put on hold

The faltering economy has led the government to abandon most of its earlier planned fiscal consolidation measures over the projection period, except for some revenue measures in 2013, which will secure a budget

Czech Republic



Source: OECD Economic Outlook 93 database; and Czech Statistical Office.

StatLink http://dx.doi.org/10.1787/888932835784

Czech Republic: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices CZK billion	Percentage changes, volume (2005 prices)				
GDP at market prices	3 761.8	2.3	1.8	-1.2	-1.0	1.3
Private consumption	1 902.6	0.8	0.5	-2.6	-0.7	0.9
Government consumption	809.3	0.2	-2.7	-1.2	-0.2	-1.1
Gross fixed capital formation	927.7	0.7	0.4	-2.6	-3.6	0.9
Final domestic demand	3 639.6	0.7	-0.2	-2.3	-1.3	0.5
Stockbuilding[1]	- 29.8	1.1	0.1	-0.4	0.1	-0.1
Total domestic demand	3 609.8	1.8	-0.1	-2.6	-1.2	0.4
Exports of goods and services	2 220.5	15.0	9.6	4.2	0.2	5.9
Imports of goods and services	2 068.4	14.9	7.0	2.5	0.1	5.1
Net exports[1]	152.1	0.6	1.9	1.4	0.1	1.0
Memorandum items						
GDP deflator	_	-1.6	-0.9	1.4	0.9	1.4
Consumer price index	_	1.5	1.9	3.3	1.6	1.3
Private consumption deflator	_	-0.2	0.5	2.3	1.0	1.3
Unemployment rate	_	7.3	6.7	7.0	7.3	7.5
General government financial balance[2]	_	-4.8	-3.3	-4.4	-3.3	-3.0
General government gross debt[2]	_	45.2	48.2	55.9	59.3	61.9
General government debt, Maastricht definition[2]	_	37.9	41.1	45.9	49.3	51.9
Current account balance[2]	_	-3.9	-2.7	-2.5	-3.0	-2.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837665

deficit of 3.3 per cent of GDP. The new policy stance implies that the objective of a balanced budget in 2016 is postponed until confidence is restored and sustainable economic growth is well underway. Although it is appropriate for fiscal policy to have a stabilising role, fiscal consolidation will eventually need to resume to curb the deficit and stabilise the growing public sector debt.

Monetary policy is set to remain accommodative

Regulated price hikes and another 1 percentage point increase in VAT rates in January 2013 raised the headline inflation rate. However, the slack in the economy led to declining inflation in the following months – a development that is expected to continue throughout the projection period. Inflation is therefore projected to fall to the lower half of the central bank's tolerance band of 1-3%. With policy rates almost at the zero lower bound, monetary policy authorities should consider forms of quantitative easing to further stimulate activity.

Growth depends on global trade picking up

The economy is expected to recover in the second half of 2013, although at a slow pace, reflecting some recovery in export markets. The pace of economic activity should quicken in 2014 as higher exports boost business sentiment and investment, while consumer spending benefits from real wage increases.

Risks are skewed to the downside

Risks are mainly on the external side. If the recovery in global demand fails to materialise, exports will be correspondingly lower. If financial market turbulence in the euro area flares up again, both international and domestic confidence could deteriorate, leading to both lower foreign demand for Czech goods and weaker domestic demand.

DENMARK

Growth is expected to recover gradually following a weak 2012, thanks to the effects of past fiscal stimulus, low interest rates and improving confidence. Exports will also pick up as world trade regains strength and competitiveness improves.

The fiscal stance is set to tighten in 2013 but the effect on the economy is expected to be limited. Further stimulus is not warranted unless growth turns out to be significantly worse than expected. The recent structural reforms should be implemented vigorously to bolster both long-term growth and fiscal sustainability.

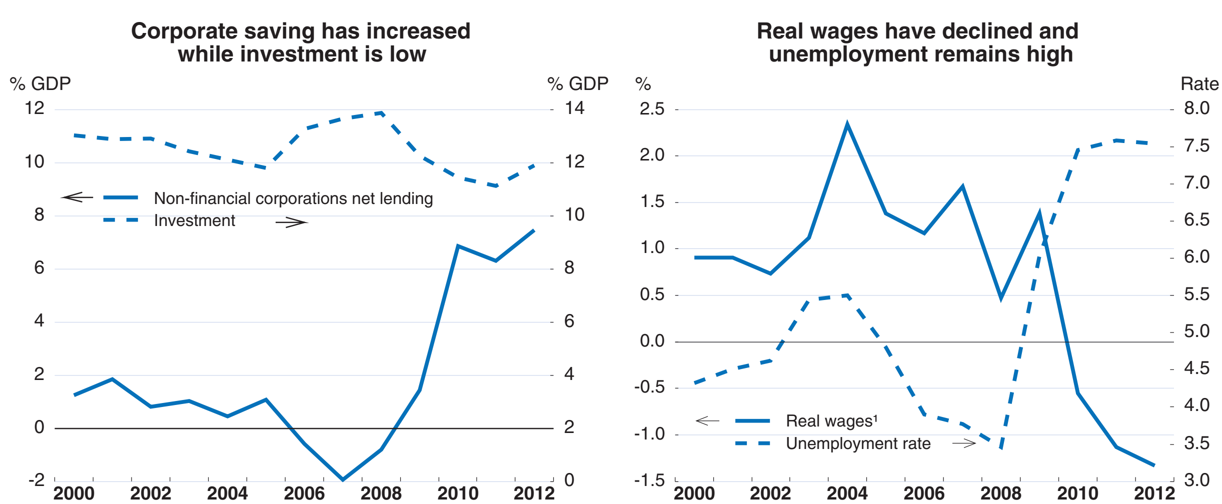
A slow recovery is underway

Output declined by 0.5% in 2012, with uncertainty and job losses holding back private consumption and low external demand weighing on exports. However, exports are inching up, helped by the improvement in competitiveness stemming from wage moderation. Business investment remains low even though it has picked up, but corporate saving is historically high. The unemployment rate has increased but long-term unemployment has stayed on hold. There is significant slack in the economy and inflation is subdued.

Interest rates are very low

Interest rates remain lower than in the euro area, reflecting efforts to contain capital inflows and currency appreciation pressures. Policy interest rates are very low with the lending rate at 0.2% and the rate on certificates of deposits at -0.1%. However, according to lending surveys, credit standards for firms and households remain tight. Bank lending continues to be muted, partly due to weak demand reflecting deleveraging. House prices are no longer declining in the larger cities, although turnover remains modest.

Denmark



1. Wages are deflated by the consumer price index. Year-on-year percentage changes.
Source: OECD Economic Outlook 93 database; and Statistics Denmark.

StatLink http://dx.doi.org/10.1787/888932835841

Denmark: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices DKK billion	Percentage changes, volume (2005 prices)				
GDP at market prices	1 664.8	1.6	1.1	-0.5	0.4	1.7
Private consumption	822.0	1.7	-0.5	0.6	0.4	1.5
Government consumption	495.9	0.4	-1.5	0.2	0.9	0.6
Gross fixed capital formation	300.8	-2.4	2.9	2.2	3.2	4.5
Final domestic demand	1 618.8	0.5	-0.2	0.8	1.1	1.8
Stockbuilding[1]	- 19.0	1.0	0.5	-0.4	0.0	0.0
Total domestic demand	1 599.8	1.6	0.3	0.3	0.8	1.8
Exports of goods and services	793.1	3.0	6.5	0.9	0.2	4.0
Imports of goods and services	728.2	3.2	5.6	2.5	1.0	4.4
Net exports[1]	65.0	0.0	0.8	-0.8	-0.4	-0.1
Memorandum items						
GDP deflator	_	4.1	0.6	2.1	1.0	1.0
Consumer price index	_	2.3	2.8	2.4	0.8	1.4
Private consumption deflator	_	2.5	2.5	2.4	0.8	1.4
Unemployment rate[2]	_	7.5	7.6	7.5	7.4	7.3
Household saving ratio,net[3]	_	-1.0	-0.6	-2.3	-0.7	-0.5
General government financial balance[4]	_	-2.7	-2.0	-4.1	-1.8	-1.8
General government gross debt[4]	_	53.1	59.9	58.9	58.6	58.4
General government debt, Maastricht definition[4]	_	42.7	46.4	45.7	45.5	45.2
Current account balance[4]	_	5.9	5.6	5.6	5.0	4.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. The unemployment rate is based on the Labour Force Survey and differs from the registered unemployment rate.
3. As a percentage of disposable income, net of household consumption of fixed capital.
4. As a percentage of GDP.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837684

The fiscal stance will be less supportive

The fiscal stance is set to tighten in 2013, partly due to the withdrawal of past stimulus and a one-off change to pension taxation. However, household spending will be boosted by past measures, such as tax cuts and the pay-out of past contributions to the early retirement scheme as part of its reform. Some of the initiatives in the Growth Plan agreed upon in April 2013, such as the cut in the corporate income tax rate, will also support growth. Appropriately, the fiscal stance is set to be broadly neutral in 2014.

Growth is set to pick up gradually, driven by private demand

Growth is expected to recover gradually as private and external demand strengthen. Exports will benefit from expanding world trade and improved competitiveness, thanks to a rebound in productivity and modest wage growth. Private investment, which will be supported in 2013 by temporarily more generous depreciation allowances, should also be boosted by higher exports in 2014. With stronger labour demand, unemployment is projected to start to decline. Together with low interest rates, tax cuts and less uncertainty, this will lead to a pick-up in private consumption. As spare capacity will remain ample, inflation should stay well below 2%.

Risks are mainly on the downside

Exports could increase less strongly should competitiveness improve less than expected or if world demand, including in the euro area, picks up less than now expected. The recovery could also be weaker if unemployment becomes entrenched, acting as more of a drag on household consumption. However, if confidence were to return more rapidly than assumed, pent-up private consumption and investment would exert a stronger pull.

ESTONIA

Growth is projected to regain momentum, driven by private domestic demand. Rising capacity utilisation and falling unemployment are improving confidence and generating expectations of further wage and employment growth. Changes in headline inflation are mainly driven by energy and food prices while the medium-term trend is determined by price convergence in the non-tradable sector.

The fiscal position is sound, but the policy framework should be strengthened by introducing a multi-year spending ceiling and an independent fiscal council, as planned by the government. Steps to strengthen active labour market policies and life-long learning, as well as a lower tax wedge for low-income earners, would make growth more socially inclusive.

Activity is set to recover from a soft patch in the first quarter

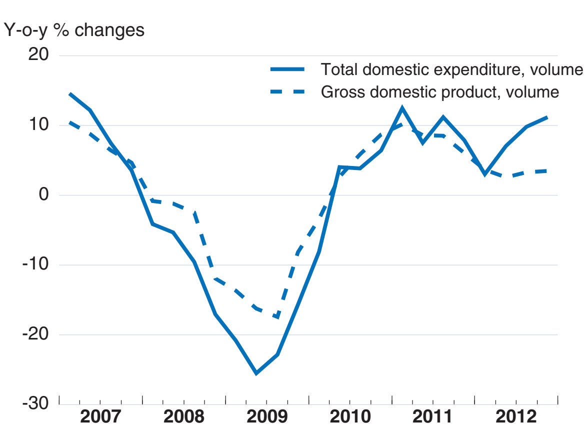
Activity declined in the first quarter of 2013. Public spending on investment declined and the slowdown in the growth of external demand weakened exports and manufacturing output. However, private consumption continued to be underpinned by rising employment and accelerating wage growth. Inflation was temporarily boosted by the increase in regulated electricity prices as a result of the liberalisation of the electricity market in January 2013. Forward-looking indicators suggest a rebound in manufacturing activity from the second quarter onwards. Investment growth is no longer supported by rapid expansion of public investment. However, financial conditions remain favorable.

The fiscal position is strengthening as public investment falls

Public investment was boosted in 2012 by earlier sales of Kyoto permits, but these one-off operations, which amount to about 1 % of GDP, are largely phased out in 2013. The positive impact on the budget balance is partially offset by rising social spending triggered by restored pension indexing. Overall, the government budget is expected to improve to close to balance in 2013 and to a slight surplus in 2014.

Estonia

Growth has been underpinned by domestic demand



Wage growth has accelerated

1. Average nominal wage per employee, seasonally adjusted.

Source: OECD Economic Outlook 93 database; and Eurostat.

StatLink http://dx.doi.org/10.1787/888932835879

Estonia: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices € billion	Percentage changes, volume (2005 prices)				
GDP at market prices	13.8	3.3	8.3	3.2	1.5	3.6
Private consumption	7.5	-2.4	3.5	4.4	3.7	3.7
Government consumption	3.0	-0.8	1.4	4.0	3.0	3.4
Gross fixed capital formation	2.9	-7.4	25.7	21.0	3.0	5.6
Final domestic demand	13.5	-3.1	7.6	8.2	3.4	4.1
Stockbuilding[1]	- 0.5	4.0	2.1	-0.2	0.8	0.0
Total domestic demand	13.0	1.3	9.7	7.8	4.2	3.9
Exports of goods and services	9.0	22.9	23.4	5.6	3.2	5.4
Imports of goods and services	8.2	21.0	25.0	9.1	5.2	5.8
Net exports[1]	0.8	2.5	0.4	-2.9	-1.9	-0.4
Memorandum items						
GDP deflator	_	0.7	2.9	3.2	3.5	2.8
Harmonised index of consumer prices	_	2.7	5.1	4.2	3.4	2.9
Private consumption deflator	_	2.6	5.0	3.4	3.0	2.3
Unemployment rate	_	16.8	12.5	10.1	9.7	9.3
General government financial balance[2]	_	0.2	1.2	-0.3	0.0	0.3
General government gross debt[2]	_	12.9	10.4	14.2	15.5	14.9
General government debt, Maastricht definition[2]	_	6.7	6.2	10.1	11.4	10.8
Current account balance[2]	_	2.9	2.1	-1.2	-3.0	-2.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837703

Domestic demand and external conditions will stimulate growth

Growth is projected to regain momentum, underpinned by household demand and business investment as well as by gradually improving external conditions. The labour market will continue to recover but further employment gains are likely to be more modest due to skill mismatches, intensifying wage pressures and the declining population. Inflation is projected to remain above the euro area average but to fall slowly.

Risks are balanced

Risks to the outlook originate from both domestic and external sources. Low interest rates and relaxed credit standards might distort resource allocation. A further intensification of the euro area crisis associated with a collapse of confidence and weak growth would constrain the pace of exports and investment. In contrast, a faster resolution of the euro area crisis might strengthen the contribution of exports to the recovery.

FINLAND

Activity has contracted, with low capacity utilisation and uncertainty about future demand depressing business investment, and rising unemployment and recent tax increases weakening consumption. Exports are being held back by the euro area recession and eroding competitiveness. Unemployment is edging up and will stabilise only in 2014 as the international environment brightens.

Deficit reduction is proving difficult, as measures to cut the deficit are being partly offset by cyclical weakness in revenues and a structural upward drift in age-related expenditure. The automatic stabilisers should be allowed to cushion the downturn, while reforms to increase labour force participation and public sector efficiency would bolster longer-term fiscal sustainability.

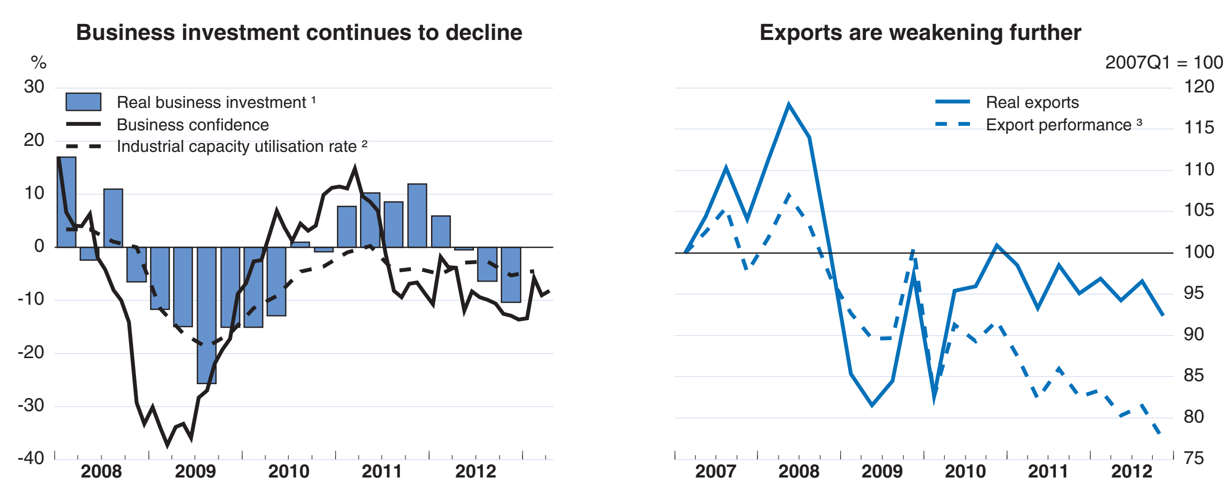
The recovery is slow as exports and domestic demand remain weak

Continued export weakness, resulting from the euro area recession, an erosion in both price and non-price competitiveness and a prolonged decline in forestry and electronics, is dragging down output and feeding into domestic demand. Uncertainty and weak demand are depressing business investment, which is set to decline further as business confidence and capacity utilisation remain low. Tepid real income growth and higher unemployment and taxes are weighing on household consumption. Inflation remains above the euro area average and in 2013 is being temporarily pushed up by indirect tax increases.

Policies support growth, but long-term fiscal consolidation is needed

Favourable financial conditions are supporting the economy, although their impact is blunted by low demand and uncertainties. The fiscal stance is broadly neutral. Finland's relatively strong fiscal position allows the authorities to let the automatic stabilisers play to cushion the impact of the downturn. However, ensuring fiscal sustainability against

Finland



1. Year-on-year percentage change.
2. Deviation from the average since 1995.
3. Ratio of real exports to export markets (trade-weighted average of trading partners' imports).

Source: European Commission; and OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932835936

Finland: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices € billion	Percentage changes, volume (2000 prices)				
GDP at market prices	172.2	3.3	2.8	-0.2	0.0	1.7
Private consumption	94.2	3.3	2.3	1.6	0.5	1.2
Government consumption	43.4	-0.3	0.4	0.8	1.7	0.9
Gross fixed capital formation	34.0	1.9	7.1	-2.9	-3.5	1.7
Final domestic demand	171.5	2.1	2.8	0.5	0.1	1.2
Stockbuilding[1,2]	- 2.1	0.8	1.7	-2.2	0.1	0.0
Total domestic demand	169.4	3.0	4.5	-1.7	0.2	1.2
Exports of goods and services	64.4	7.5	2.8	-1.4	-1.0	4.2
Imports of goods and services	61.5	6.9	6.0	-3.7	-0.4	2.8
Net exports[1]	2.8	0.4	-1.2	1.0	-0.2	0.5
Memorandum items						
GDP without working day adjustments	_	3.3	2.8	-0.2	..	..
GDP deflator	_	0.4	3.1	2.8	2.9	2.0
Harmonised index of consumer prices	_	1.7	3.3	3.2	2.6	2.4
Private consumption deflator	_	2.0	3.4	2.7	2.9	2.1
Unemployment rate	_	8.4	7.8	7.7	8.2	8.1
General government financial balance[3]	_	-2.8	-1.1	-2.3	-2.3	-1.8
General government gross debt[3]	_	57.9	57.9	63.3	66.2	69.9
General government debt, Maastricht definition[3]	_	48.7	49.0	53.1	56.0	59.7
Current account balance[3]	_	1.4	-1.6	-1.9	-1.6	-0.9

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

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837722

the long-term challenges stemming from population ageing will require further policy adjustments. The government has taken measures to strengthen the fiscal position, mainly through increases in tax revenues. Further measures to reduce incentives for early retirement and encourage broader labour force participation are also needed. The ongoing reform of municipalities will be key to ensuring a more cost-efficient provision of high quality public services, especially in health care and social services.

Growth will strengthen in 2014 as trade picks up

Economic activity is projected to remain weak in 2013. Unemployment will edge up, despite the falling working-age population. As world trade picks up, the current account deficit is projected to narrow and investment to grow anew. Stronger growth will start to lower unemployment in 2014, resulting in higher consumer confidence and consumption. Higher activity and tax increases will reduce the fiscal deficit, although it will remain close to 2% of GDP. Inflation will decline over the projection period as effects from indirect tax increases wane and significant spare capacity remains.

Risks are mainly on the downside

Finland is highly exposed to external developments, especially in the euro area. While persistent weakness in external demand would delay the recovery further, a rebound in global trade and a further reduction of euro area risks would boost the economy. The strength of the recovery will largely depend on global fixed investment growth, as Finland's exports contain a high share of capital goods. On the upside, ongoing structural changes in the economy could improve export performance, provided competitiveness recovers.

GREECE

Ongoing fiscal adjustment, declining real wages and weak exports are deepening the recession. Unemployment has reached historical highs, increasing social strains. Despite improving confidence over recent months, positive growth is expected only in the course of 2014 as export demand strengthens, competitiveness improves further and investment returns. Sluggish product market reforms are blunting the effects of lower wages on price competitiveness.

The structural consolidation of public finances needs to continue, but the automatic stabilisers should be allowed to operate if growth proves weaker than anticipated. This might require additional funding under the EU-IMF programme. Restoring credit growth is a pre-requisite for reviving economic activity. The rapid removal of remaining barriers to competition would enhance competitiveness and growth.

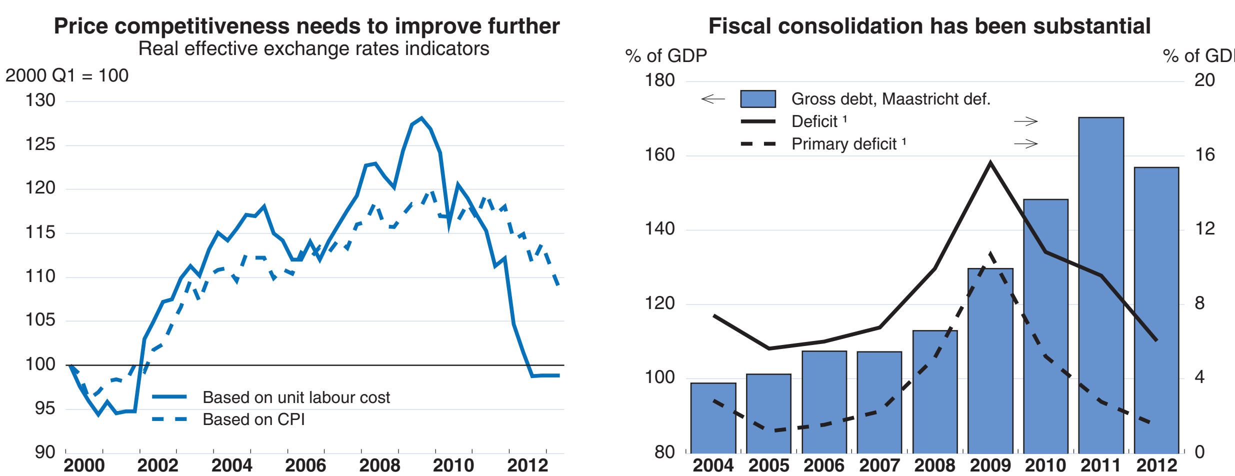
The economy is in deep recession

Output contracted further in 2012 due to shrinking real incomes, limited access to credit and fears at that time that Greece might leave the euro area. Falling tourism and transportation revenues also contributed. Unemployment reached an unprecedented 26% of the labour force at end-2012. Although underlying inflationary pressures are very weak and wages have been falling, sluggish product market reforms and hikes of indirect taxes have slowed price adjustment. Nevertheless, in recent months, the inflation rate became negative for the first time in over fifty years.

The large fiscal consolidation continues

The 2012 general government budget outperformed the target by around ¾ percentage points of GDP, excluding capital transfers of 4% of GDP for bank resolution. The 2013 budget appears to be broadly on track. Consolidation for 2013 and 2014 is based on a fiscal package of 7¼ per cent

Greece



1. The data for 2012 do not include the capital transfers of 4% of GDP made by the general government through the Hellenic Financial Stability Fund, as a result of bank resolution.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932836031

Greece: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices € billion	Percentage changes, volume (2005 prices)				
GDP at market prices	231.1	-4.9	-7.1	-6.4	-4.8	-1.2
Private consumption	167.2	-6.2	-7.7	-9.1	-7.0	-4.5
Government consumption	47.5	-8.7	-5.2	-4.2	-2.1	-2.1
Gross fixed capital formation	45.9	-15.0	-19.6	-19.2	-7.7	-2.5
Final domestic demand	260.6	-8.4	-9.2	-9.7	-6.2	-3.8
Stockbuilding[1,2]	- 3.0	1.4	0.6	0.1	0.9	0.0
Total domestic demand	257.6	-7.1	-8.8	-9.4	-4.9	-3.8
Exports of goods and services	44.5	5.2	0.3	-2.4	1.2	6.1
Imports of goods and services	71.0	-6.2	-7.3	-13.8	-6.9	-3.0
Net exports[1]	- 26.5	2.9	2.4	4.0	2.6	2.7
Memorandum items						
GDP deflator	_	1.1	1.0	-0.8	-0.4	-2.1
Harmonised index of consumer prices	_	4.7	3.1	1.0	-0.7	-1.7
Private consumption deflator	_	4.0	3.4	0.9	-1.1	-1.7
Unemployment rate	_	12.5	17.7	24.2	27.8	28.4
General government financial balance[3,4]	_	-10.8	-9.6	-10.0	-4.1	-3.5
General government gross debt[3]	_	156.9	178.9	165.6	183.7	189.2
General government debt, Maastricht definition[3]	_	148.3	170.3	157.0	175.1	180.6
Current account balance[5]	_	-10.1	-9.9	-3.4	-1.1	0.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. National Accounts basis, as a percentage of GDP.
4. The data for 2012 include the capital transfers of 4% of GDP made by the government as a result of bank resolution. The information for 2013 is not yet available.
5. On settlement basis, as a percentage of GDP.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837741

of GDP, and relies heavily on expenditure restraint. The OECD projections for the headline deficit take into account the over-performance in 2012. The projected deficit is thus lower than that in Greece's economic adjustment programme for 2013, and is broadly the same for 2014, because of the better starting point, despite the effects of weaker projected growth and the assumption that the automatic stabilisers will be allowed to play. Given the depth of the recession and social tensions, the automatic stabilisers should indeed be allowed to operate if economic activity proves even weaker than anticipated by the programme. However, without market access this might imply additional official financing or debt relief. At the same time, social programmes need to be more targeted on those bearing the increasing social costs of adjustment.

Consolidation should be supported by stronger structural reforms

Progress towards debt sustainability requires continued consolidation efforts, but also a recovery of growth. This hinges upon restructuring in the banking sector, including through recapitalisation that is shortly to be completed. Further structural reforms, especially in product markets, to boost international competitiveness and exports are also essential.

The recovery will be slow

The economy will continue to contract, despite rising confidence, as fiscal retrenchment continues and major export markets recover only slowly. Positive growth is expected only in the course of 2014 as confidence strengthens, structural reforms boost competitiveness further and the banking system recovers. The pick-up in external demand and greater use of European Union structural funds should support exports and investment. Prices and wages will fall further, given the substantial slack and high unemployment.

Downside risks have receded somewhat

The economy will be subject to significant risks concerning both recovery elsewhere and the prospects of achieving the significant domestic adjustments to stabilise activity. The necessary implementation of the fiscal programme may be jeopardised by social strains and inadequate administrative capacity while tight liquidity conditions pose a risk to business expansion. On the other hand, the recapitalisation of banks and repayment of government arrears may enhance liquidity and domestic demand more than assumed. The sharp improvement in cost competitiveness may result in higher exports, especially if it translates to broad price adjustment. Confidence may strengthen further if planned investment projects materialise.

HUNGARY

After contracting through 2012, the economy is expected to start expanding at a subdued pace in the course of 2013. Partly due to a rising participation rate, unemployment is projected to increase until mid-2014. As deleveraging, high uncertainty and poor business confidence will continue to weigh on private domestic demand, growth will hinge on exports and the current account surplus should widen further. Though moderated by economic slack, core inflation is projected to remain somewhat above 3% over the projection horizon as inflation expectations remain entrenched at a high level.

While the authorities have made substantial progress in reducing the budget deficit, they should rebalance consolidation towards expenditure restraint and more growth-friendly taxation, notably by phasing out distortive taxes on banks and non-tradable sectors. Prudent monetary policy is key to stabilising expectations and avoiding a weakening of the forint, which could threaten public and private sector balance sheets. Restoring financial intermediation, which is essential for investment and growth, requires avoiding ever-greening of bad loans through adequate provisioning and better targeting of debt restructuring programmes.

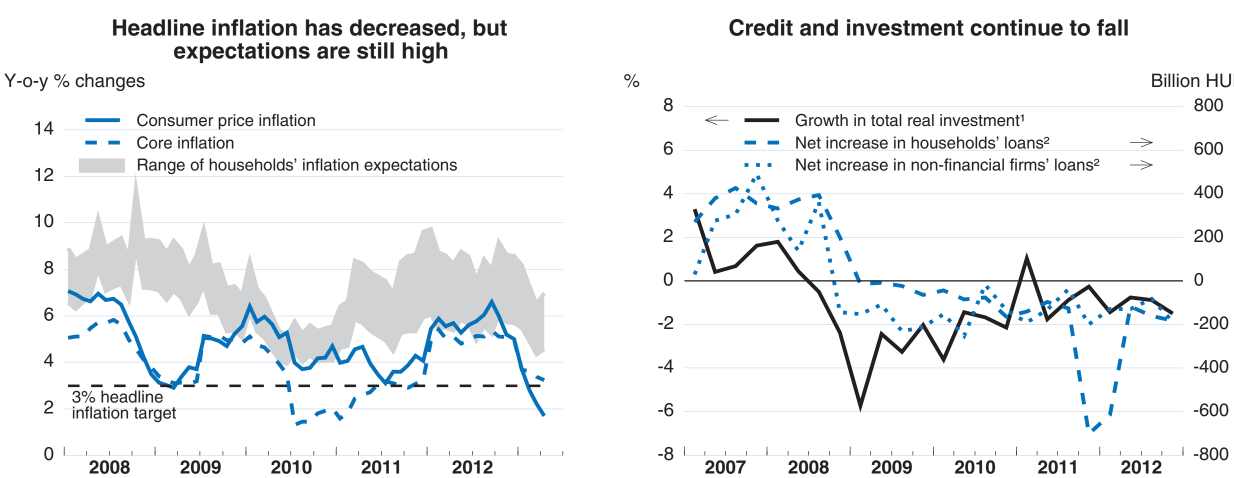
Private demand weakness persists

The contraction in economic activity persisted until the fourth quarter of 2012, when investment and exports both shrank. The latter reflected falling demand abroad as well as temporary production stoppages, both of which were reversed in the first quarter of 2013. Deleveraging, high uncertainty and poor confidence nonetheless continue to weaken private demand. The unemployment rate has been rising since mid-2012.

Monetary policy has been eased further

With rapidly decelerating headline inflation, partly on account of a 10% cut in administered energy prices, the central bank has brought its policy rate to record low levels. The projection assumes further reductions

Hungary



1. Gross fixed capital formation, q-o-q percentage changes.
2. Loans granted by banks, foreign branches, cooperative credit institutions and other financial intermediaries. Seasonally unadjusted change in outstanding amounts, with rolling exchange rate adjustment.

Source: OECD Economic Outlook 93 database; and Hungarian National Bank.

StatLink http://dx.doi.org/10.1787/888932836050

Hungary: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices HUF billion	Percentage changes, volume (2005 prices)				
GDP at market prices	25 738.4	1.3	1.6	-1.8	0.5	1.3
Private consumption	13 952.0	-3.0	0.5	-1.4	-0.8	0.4
Government consumption	5 824.4	-0.8	-0.3	-2.3	-0.4	-0.2
Gross fixed capital formation	5 301.9	-9.5	-3.6	-3.8	-2.5	-0.4
Final domestic demand	25 078.3	-3.8	-0.5	-2.1	-1.0	0.1
Stockbuilding[1]	- 584.7	3.3	0.6	-1.6	1.3	0.0
Total domestic demand	24 493.7	-0.5	0.1	-3.7	0.3	0.1
Exports of goods and services	19 881.0	14.2	6.3	2.0	2.4	4.6
Imports of goods and services	18 636.2	12.7	5.0	0.1	2.1	3.7
Net exports[1]	1 244.8	1.8	1.5	1.7	0.5	1.1
Memorandum items						
GDP deflator	_	2.4	3.1	3.1	3.6	3.4
Consumer price index	_	4.9	3.9	5.7	2.8	3.5
Private consumption deflator	_	3.9	4.5	5.2	3.4	3.4
Unemployment rate	_	11.1	10.9	10.9	11.4	11.5
General government financial balance[2]	_	-4.4	4.2	-2.0	-2.8	-3.2
General government gross debt[2]	_	87.3	85.9	89.0	88.9	88.9
General government debt, Maastricht definition[2]	_	81.5	81.1	79.0	78.7	78.7
Current account balance[2]	_	1.1	0.8	1.5	2.4	3.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837760

to 4.0% in 2013, as possible additional cuts have already been signalled by the monetary authorities. Further, the authorities have recently announced a Funding for Growth Scheme, whereby they will lend to commercial banks at 0%, first, to finance SME forint loans and, second, to convert outstanding SME foreign currency loans into forints (each part being worth up to 0.9% of GDP). While these steps could help to revive bank lending, which has been shrinking since 2008, monetary easing also risks currency depreciation, which could prove difficult to handle in view of the large debts denominated in foreign currencies, and lead to higher inflation.

Deficit reduction has progressed

The 2012 budget deficit, at 2% of GDP, turned out substantially smaller than expected due to strong tax revenue increases, improved spending control and sizeable net one-off proceeds (worth 0.7% of GDP, according to official estimates). The authorities remain committed to the objective of exiting from the excessive deficit procedure, and their recent Convergence Programme has set deficit targets of 2.7% of GDP for both 2013 and 2014 (no one-offs being envisaged), while planning a strong increase in public investment in tandem with growing EU transfers. Additional spending cuts were announced in mid-May but they were not fully defined at the time and are not taken into account in this projection.

Modest export-led growth is expected

A modest return to growth is projected, driven by gradually accelerating exports as global conditions improve. Domestic demand, and in particular private investment, is nonetheless expected to continue to fall for several quarters. Core inflation, though declining due to substantial economic slack, is projected to remain somewhat above 3% over the projection horizon, notably owing to entrenched high inflation expectations.

A sharp depreciation is the main risk

A sharp depreciation of the forint could have destabilising effects given the still high foreign currency indebtedness of the private and public sectors. The reliance on exports for growth means the recovery will depend strongly on conditions abroad.

ICELAND

Economic growth is projected to be moderate in 2013 but to increase to around 2½ per cent next year, provided that a large planned increase in energy-intensive investment takes place. Unemployment should fall to slightly below the structural rate of around 5% by 2014. Following monetary policy tightening and recent exchange rate appreciation, inflation is set to fall too, but to remain above target.

Further fiscal consolidation is needed to wind back the public sector debt from its current ratio of 130% of GDP to a more prudent level. Adoption of the proposed law to increase fiscal discipline would be welcome. Monetary policy accommodation should continue to be removed as conditions permit to reduce inflation and support eventual capital account liberalisation.

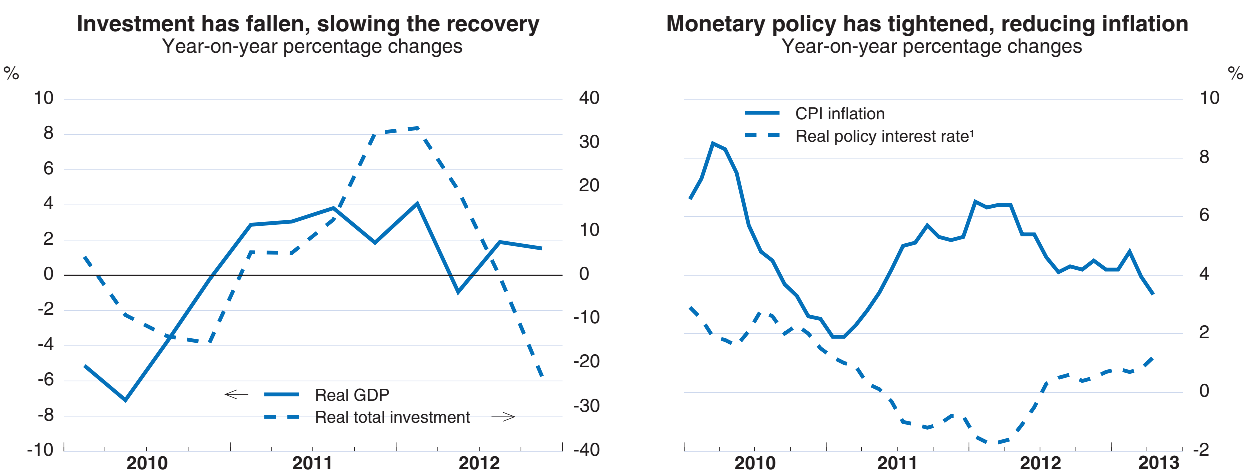
Economic growth has slowed

The domestic-demand led recovery has moderated, mainly owing to weaker investment, especially in energy-intensive industries. Private consumption and residential investment, however, have proved more resilient, supported by robust employment growth, wealth gains from rising house prices and mortgage write-downs, and the construction of now profitable unfinished housing projects left over from the crisis. The unemployment rate has continued to fall, reaching 5¼ per cent in the first quarter of 2013. Following large collective wage increases in 2011, annual wage growth has slowed to 5% in recent months. Inflation has fallen below 4% in recent months, but core inflation has fallen less, remaining well above the authorities' 2½ per cent target.

The pace of fiscal consolidation is set to lessen

Assuming that fiscal policy remains consistent with the former government's 2013 budget and plan for 2014, the increase in the primary surplus (excluding write-offs) will fall to 1.5% of GDP this year and 1.1% of GDP in 2014. The consolidation would reinforce the decline in the

Iceland



1. Average of the deposit rate and the maximum bid for 28-day Central Bank notes deflated by the average of the consumer price index, business and household quarterly inflation expectations, and one-year breakeven inflation expectations based on the difference between the nominal and indexed government bond yield curves.

Source: Central Bank of Iceland; Statistics Iceland; and OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932836088

Iceland: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices ISK billion	Percentage changes, volume (2005 prices)				
GDP at market prices	1 497.9	-4.1	2.9	1.6	1.9	2.6
Private consumption	764.5	0.0	2.6	2.7	2.2	2.9
Government consumption	396.9	-3.4	-0.2	-0.2	0.2	0.0
Gross fixed capital formation	207.0	-9.4	14.3	4.4	-3.7	15.3
Final domestic demand	1 368.4	-2.5	3.5	2.2	0.7	3.9
Stockbuilding[1]	0.7	-0.2	0.6	-0.2	0.0	0.0
Total domestic demand	1 369.1	-2.7	4.1	1.9	0.2	3.9
Exports of goods and services	791.4	0.6	4.1	3.9	2.0	2.1
Imports of goods and services	662.6	4.5	6.8	4.8	0.0	4.5
Net exports[1]	128.8	-1.7	-0.8	-0.1	1.2	-1.0
Memorandum items						
GDP deflator	_	6.9	3.3	3.0	3.9	3.6
Consumer price index	_	5.4	4.0	5.2	4.0	3.2
Private consumption deflator	_	3.4	4.1	5.6	4.6	3.4
Unemployment rate	_	7.7	6.9	5.9	5.3	4.8
General government financial balance[2]	_	-10.1	-5.6	-3.4	-0.2	0.8
General government gross debt[2]	_	125.1	133.8	131.8	128.6	124.4
Current account balance[2]	_	-8.1	-6.5	-4.9	-2.1	-2.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837779

government debt-to-GDP ratio underway since 2012, while its easing pace would reduce a headwind to growth. As economic slack shrinks to low levels, real monetary policy interest rates will need to rise progressively to reduce inflation towards the target rate. Such an increase would also provide a more supportive environment for progressively lifting capital controls.

The economic recovery should strengthen in 2014

Growth is projected to pick up in 2014, provided that a large expected increase in business investment, mainly in energy-intensive industries, takes place. Residential investment is expected to strengthen further due to continued construction of unfinished projects left from the crisis. Private consumption expenditure should remain strong, buoyed by solid growth in employment and real wage rates. Unemployment is projected to fall to slightly below its structural rate of 5.0% in 2014 and inflation to fall to 3.2%.

There are mainly downside risks to business investment

The main external risk is that Iceland's major trading partners do not recover as assumed in 2014. Investment would be weaker than projected if the energy-intensive investments are further delayed owing to structural difficulties in the global aluminium industry or delays in government authorisations, or if business access to credit does not improve. The main upside risks are that the global economy recovers more vigorously than assumed and that global energy prices rise more than assumed, increasing the attractiveness of adding aluminium smelting capacity in Iceland.

IRELAND

The moderate recovery and gradual economic rebalancing is projected to continue. Exports will remain the main driver of growth, making Ireland's outlook largely dependent on developments in trading partners. Domestic demand is projected to gradually strengthen. Business investment should pick up as multinational enterprises continue to build up their production facilities. The unemployment rate is expected to decline only slightly, reflecting the slow recovery in labour-intensive domestic sectors and persistent skill mismatches. On the assumption of full policy implementation, the fiscal deficit should continue to decline through the projection period.

Financial market confidence has improved but the bank lending environment for firms and households remains adverse. It is essential to make faster progress in dealing with non-performing loans. Decisive labour-market reforms are also needed to address the prospect of persistent high long-term unemployment, especially among young people, in particular by putting more resources into activation measures and better aligning skills with employers' needs. For Ireland to successfully exit the official lending programme, maintaining the strong record of fiscal policy implementation will be essential, although the automatic stabilisers should be allowed to operate.

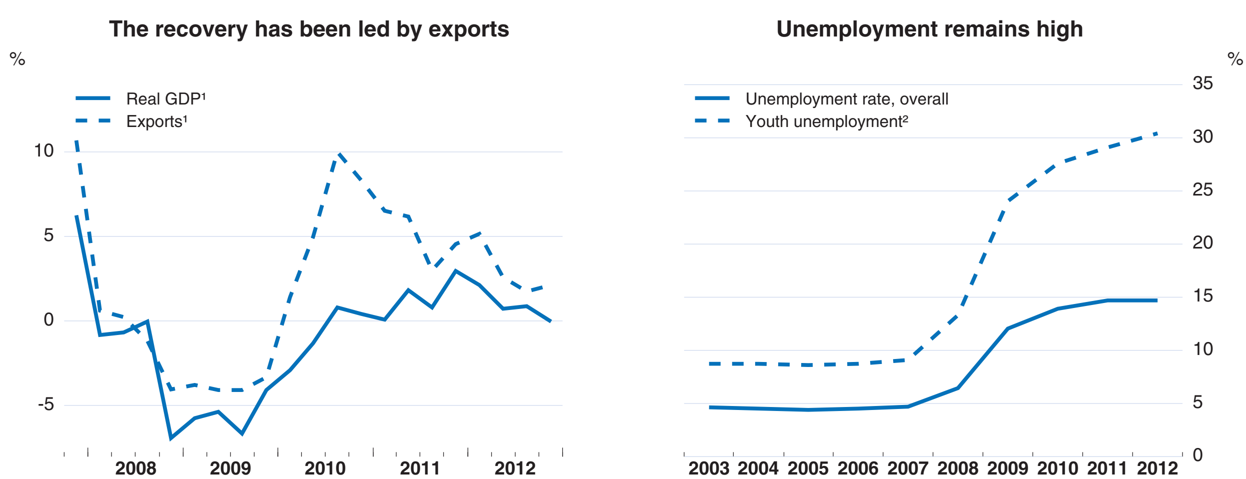
Recovery continues at a moderate pace

While exports of goods have remained subdued, exports of services continue to expand and are contributing to the widening surplus of the current account. High debt burdens and financial distress continue to restrain the spending of households and firms, but domestic demand showed signs of stabilisation in the latter part of 2012. Although job losses also appear to be coming to an end, the unemployment rate still exceeds 14%. Inflation remains low.

Fiscal and financial market developments have been favourable

The government achieved its fiscal consolidation objective for 2012 and progress has been made in implementing the 2013 budget measures. Financial market confidence in Ireland's sovereign debt has improved,

Ireland



1. Year-on-year percentage changes.
2. 15-24 years.
Source: Eurostat; and OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932836069

Ireland: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices € billion	Percentage changes, volume (2010 prices)				
GDP at market prices	161.3	-0.8	1.4	0.9	1.0	1.9
Private consumption	79.4	0.5	-2.3	-0.9	1.0	0.3
Government consumption	33.0	-4.6	-4.3	-3.4	-1.5	-3.3
Gross fixed capital formation	25.5	-22.6	-12.8	1.1	0.3	5.7
Final domestic demand	137.9	-5.0	-4.3	-1.2	0.3	0.2
Stockbuilding[1]	- 2.6	0.7	0.4	-0.2	0.1	0.0
Total domestic demand	135.3	-4.3	-3.7	-1.5	0.1	0.2
Exports of goods and services	146.5	6.2	5.0	2.9	2.8	5.4
Imports of goods and services	120.4	3.6	-0.3	0.3	2.2	4.9
Net exports[1]	26.1	2.9	5.4	2.8	1.1	1.8
Memorandum items						
GDP deflator	_	-2.2	0.2	1.9	1.3	1.2
Harmonised index of consumer prices	_	-1.6	1.2	1.9	1.0	1.1
Private consumption deflator	_	-2.0	1.4	1.8	1.4	1.1
Unemployment rate	_	13.9	14.6	14.7	14.3	14.1
General government financial balance[2,3]	_	-30.8	-13.3	-7.5	-7.5	-4.6
General government gross debt[2]	_	98.0	112.2	123.3	129.3	126.4
General government debt, Maastricht definition[2]	_	92.1	106.4	117.6	123.6	120.7
Current account balance[2]	_	1.1	1.1	4.9	5.0	5.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
3. Includes the one-off impact of recapitalisations in the banking sector.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837798

despite the government debt exceeding 120% of GDP, which has translated into lower risk spreads. Banks have made progress in regaining access to the wholesale funding market.

The credit channel remains impaired

The improvement in financial market conditions has not improved the bank lending environment for households and SMEs. Little progress has been made in dealing with non-performing loans and mortgage arrears continue to increase, although at a slower pace. Faster progress on both fronts is essential to strengthen credit growth, domestic demand and job creation.

Growth is projected to remain moderate

Constrained by the weak global recovery, fiscal contraction and tight credit conditions, GDP growth is projected to be 1% in 2013 and close to 2% in 2014. Consumer spending is expected to improve slowly, given small increases in household disposable income. Business investment is also expected to expand based on prospects for strong foreign direct investment and export growth. Exports are however not very labour intensive in Ireland and the unemployment rate is projected to remain close to 14%. The high proportion of long-term and youth unemployed calls for important improvements in labour market activation strategies and training.

Risks remain and recovery depends on policy implementation

Contagion from further adverse events elsewhere in Europe and weakness in European trading partners remain significant negative risks. However, a stronger translation of the improved financial market confidence into better lending conditions and consumer sentiment would contribute to a stronger recovery than projected. While Ireland seems well positioned to return to full market financing in 2014, it is essential to maintain the strong record of fiscal policy implementation and make further progress in structural reform. Additional measures at the European level to ensure debt sustainability would further enhance the chances of a successful return to full market financing.

ISRAEL*

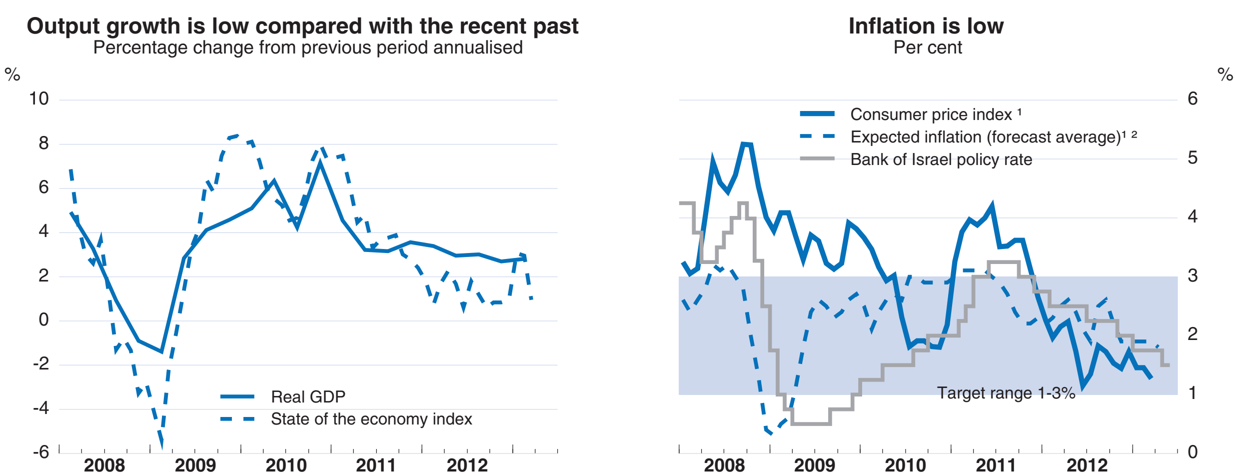
Growth has continued to slow, but GDP is being boosted by new offshore natural gas production. External demand will underpin activity in 2014, but the contractionary effects of a sharp fiscal consolidation will be substantial. Inflation is currently low, but price pressures may develop over the projection period in the light of relatively tight labour and product markets.

The new government has faced significant challenges in formulating the postponed budget for the second half of 2013 and 2014, even though the official deficit targets have again been made less ambitious. Remaining within the spending ceiling must be a priority alongside the implementation of revenue measures to keep the deficit on track. Monetary policy can remain accommodative for the time being, given low inflation, but consideration may have to be given to some tightening during 2014 should inflation move up toward the top of the target range.

New gas production will raise headline GDP

Growth in real GDP continued to slow in the second half of 2012 and expanded by only 3.2% for the year as a whole, in contrast to 4.6% in 2011. Annualised real GDP growth remained at around 2¾ per cent in the first quarter of 2013, but fixed industrial investment continued to shrink. However, a boost to GDP is underway due to the opening up of the Tamar natural gas field in late-March. Consumer price inflation is now below the target band (1-3%) in part due to appreciation of the shekel. While inflation expectations have dipped recently, they are close to the centre of the band. However, house prices have continued to accelerate. The policy

Israel



1. Year-on-year percentage changes.
2. The simple average of inflation forecasts for the next 12 months of the commercial banks and economic consultancy companies that publish their forecasts on a regular basis.

Source: Bank of Israel; Central Bureau of Statistics; and OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932836107

*. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Israel: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices NIS billion	Percentage changes, volume (2005 prices)				
GDP at market prices	766.0	5.0	4.6	3.2	3.9	3.4
Private consumption	440.0	5.3	3.8	2.6	2.0	3.1
Government consumption	187.4	2.9	2.8	3.2	4.2	1.0
Gross fixed capital formation	125.2	12.3	16.2	3.9	0.1	4.8
Final domestic demand	752.6	5.8	5.7	3.0	2.2	2.9
Stockbuilding[1]	- 6.9	-1.1	0.7	1.4	-0.2	0.0
Total domestic demand	745.7	4.8	6.6	4.4	1.9	2.9
Exports of goods and services	268.1	13.7	5.4	0.2	1.8	4.8
Imports of goods and services	247.8	12.7	11.1	3.4	-4.6	3.5
Net exports[1]	20.3	0.7	-1.9	-1.2	2.4	0.5
Memorandum items						
GDP deflator	_	1.2	2.4	3.3	2.8	2.3
Consumer price index	_	2.7	3.5	1.7	1.4	2.3
Private consumption deflator	_	2.9	3.2	1.9	1.8	2.1
Unemployment rate[2]	_	8.3	7.1	6.9	7.2	6.8
General government financial balance[3,4]	_	-4.8	-4.4	-5.1	-5.7	-4.2
General government gross debt[3]	_	76.0	73.9	72.9	73.0	72.3
Current account balance[3]	_	3.9	1.0	-0.4	1.6	2.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Employment and unemployment data prior to Q1 2012 are derived from a quarterly labour-Force survey that has since been replaced by a monthly survey, which included a number of methodological changes. The data prior to Q1 2012 have been adjusted to be compatible with the new series
3. As a percentage of GDP.
4. Excluding Bank of Israel profits and the implicit costs of CPI-indexed government bonds.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837817

interest rate was reduced by 25 basis points to 1.50% in May, while mortgage lending rules have been tightened further. In response to the shekel's appreciation the Bank of Israel has resumed unannounced intervention in the foreign exchange market. In addition, it aims to offset the effects of the new gas field on the exchange rate. To this end, it has announced a separate purchase of USD 2.1 billion worth of foreign exchange by the end of 2013.

Fiscal difficulties on both spending and revenues remain

Public spending commitments and lower revenues than expected drove the government deficit for 2012 significantly above original plans, and ambitions for deficit reduction have once again been revised. In particular, an expansion of child-care support and on-going implementation of multi-year wage agreements in education and health care are imposing extra fiscal burdens. The central government deficit targets have been revised to 4.65% and 3% of GDP in 2013 and 2014, respectively (the targets were previously 3% for 2013 and 2.75% for 2014). Despite these less ambitious targets, the government's proposed budgets for 2013 and, especially, 2014 have had to incorporate substantial savings in spending and revenue-raising measures. The latter include notably rate hikes in value-added tax, personal income tax and corporation tax.

Fiscal consolidation will dent output growth in 2014

The Tamar gas field is expected to boost GDP growth by 1 percentage point this year and by 0.7 percentage point in 2014, largely by replacing costly fuel imports. Excluding this boost, growth is projected to be 2.9% in 2013 and 2.7% 2014, with positive effects from a pick-up in export markets being offset by fiscal consolidation. On this projection, a tightening monetary stance, probably beginning in the second half of 2014, may be required to prevent inflationary pressures from taking hold, given that output-gap estimates and labour market indicators suggest the economy is running close to full capacity. The general government deficit is projected to increase in 2013 and then drop in 2014, in line with the central government target, assuming the government's budget proposals are successfully implemented.

The global economic climate and fiscal uncertainties pose risks

Geopolitical and global economic risks present the greatest threats to growth. The fiscal situation is also uncertain; even though the budget is close to finalisation, there will be uncertainties in the implementation and fiscal impact of the measures aiming to achieve the deficit targets. Also, recent house price increases are adding risks and tensions for monetary policy.

KOREA

The economy slowed in 2012 as weak export growth reduced business investment. A pick-up in world trade is projected to spark a gradual recovery, with output growth reaching 4% in 2014, despite continued headwinds from the high level of household debt. The expansion is expected to narrow Korea's large current account surplus and lift inflation into the central bank's target zone.

If the projected recovery in the world economy fails to materialise, Korea has scope to further use both monetary and fiscal stimulus, given its below-target inflation rate and strong fiscal position. Sustaining growth over the medium term requires structural reforms to boost labour force participation in the face of declines in the working-age population from 2017 and to enhance productivity, particularly in services, where it is only one-half of that in manufacturing.

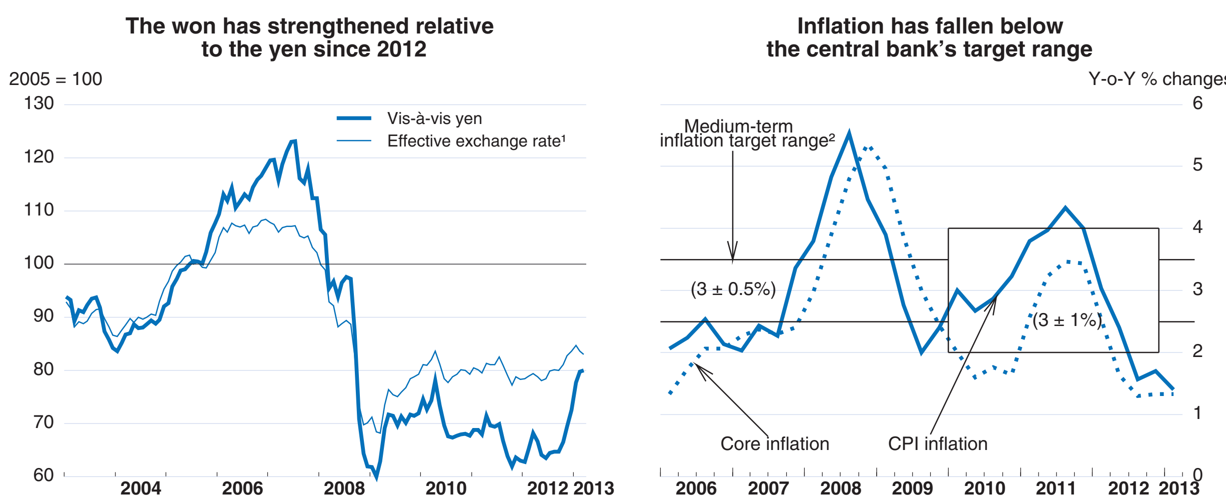
Signs of a rebound in exports are lifting confidence

Korea's economy was sluggish in 2012 as export growth to China, Korea's largest trading partner, stalled. The resumption in overall export growth in early 2013 has strengthened household and business confidence. The top 30 conglomerates are planning to increase business investment by about 8% in 2013 and expand employment by 1.5%. However, slack remains in the economy with sluggish employment growth and consumer price inflation of only 1½ per cent (year-on-year) in early 2013.

The government is trying to revive the housing market...

With inflation below the central bank's 2013-15 target range of 2.5% to 3.5%, the policy interest rate was cut by 25 basis points to 2½ per cent in May 2013. The government has launched an initiative to support the housing market, as residential investment has fallen to only 60% of its 2006 level and housing prices have been declining since mid-2012. The programme is targeted primarily at first-time home buyers, for example

Korea



1. Trade-weighted, vis-à-vis 48 trading partners.
2. The target range has been narrowed to 2.5-3.5% for 2013-15.

Source: OECD Economic Outlook 93 database; and Bank of Korea.

StatLink http://dx.doi.org/10.1787/888932836202

Korea: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices KRW trillion	Percentage changes, volume (2005 prices)				
GDP at market prices	1 065.0	6.3	3.7	2.0	2.6	4.0
Private consumption	576.0	4.4	2.4	1.7	1.5	2.7
Government consumption	170.3	2.9	2.1	3.9	2.9	2.6
Gross fixed capital formation	309.7	5.8	-1.0	-1.7	2.0	6.0
Final domestic demand	1 056.0	4.6	1.3	1.1	1.8	3.6
Stockbuilding[1]	- 30.4	2.5	0.7	-0.1	0.0	0.0
Total domestic demand	1 025.6	7.2	2.1	1.0	1.8	3.6
Exports of goods and services	529.6	14.7	9.1	4.2	5.6	8.1
Imports of goods and services	490.2	17.3	6.1	2.5	4.5	7.7
Net exports[1]	39.5	-0.6	1.8	1.0	0.8	0.5
Memorandum items						
GDP deflator	_	3.6	1.5	1.0	1.0	2.0
Consumer price index	_	2.9	4.0	2.2	2.2	2.9
Private consumption deflator	_	2.6	3.7	2.1	2.0	2.6
Unemployment rate	_	3.7	3.4	3.2	3.3	3.2
Household saving ratio,net[2]	_	4.3	3.5	3.8	4.1	4.2
General government financial balance[3]	_	1.3	2.0	2.1	1.4	2.0
General government gross debt[3]	_	34.3	36.2	35.1	35.0	35.2
Current account balance[3]	_	2.7	2.3	3.8	3.3	2.7

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

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837836

by exempting them from the taxes on housing purchases and capital gains and relaxing the maximum debt-to-income and loan-to-value ratios on mortgages.

… while taking steps to address the household debt problem

Government spending is set to increase by around 7% in 2013, including the supplementary budget, suggesting an expansionary impact. The government also launched the "People's Happiness Fund" to restructure household debt and convert high-interest loans to lower-interest ones.

A gradual pick-up in growth is projected during 2013-14…

The economy is projected to pick up in line with the expected rebound in world trade, despite the 20% appreciation of the won relative to the yen between November 2012 and April 2013. Business investment is likely to rebound along with exports, helping to boost growth to an annual rate of 4% in 2014. However, household debt, at 164% of household disposable income at end-2012, will be a headwind to private consumption.

… depending in part on developments in the world economy

The economy faces both external and domestic risks. With exports accounting for more than half of GDP, Korea is particularly exposed to global economic conditions and exchange rate shifts. Domestic risks are on the upside insofar as government initiatives related to household debt and housing boost growth more than foreseen.

LUXEMBOURG

Economic activity will continue to be subdued in 2013 due to weak demand from neighbouring countries, low confidence, rising unemployment and fiscal consolidation. Growth will pick up in 2014, along with the recovery in the euro area. Core inflation will decline only slowly and remain above the euro area average, reflecting the backward-looking wage indexation mechanism.

The government has significant fiscal space and should let the automatic stabilisers work if growth is weaker than expected. Aligning financial regulations with EU and international initiatives is important to monitor and contain risks in the large financial sector. Structural reforms to enhance work incentives, reduce barriers to competition and improve the education system would enhance growth potential.

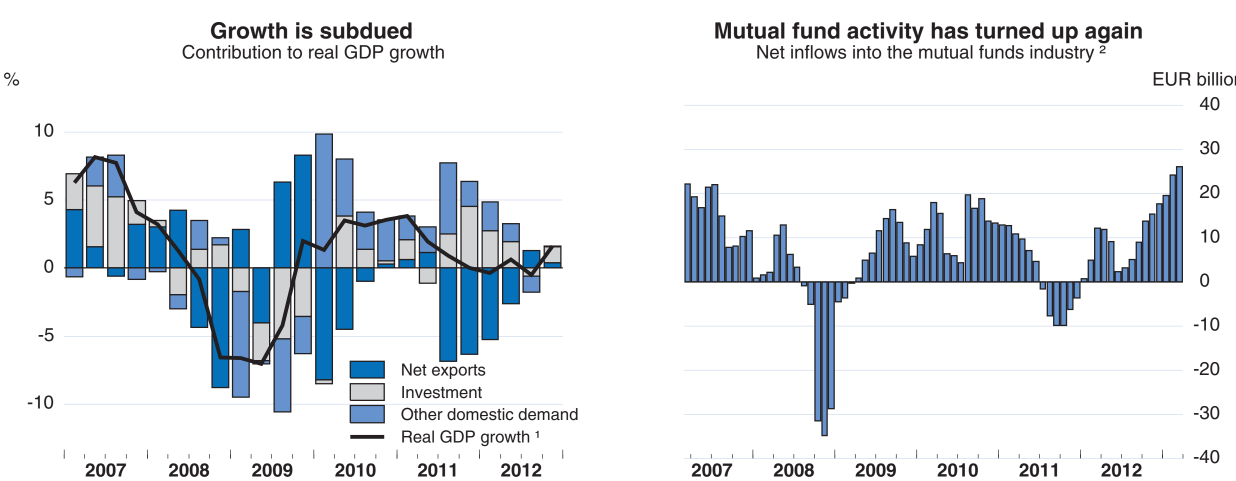
Economic activity remains stalled

Economic activity has been essentially flat since end-2011, as the ongoing euro area debt crisis has depressed exports and weak confidence has slowed growth in underlying domestic demand. In particular, with financial services representing about half of exports, Luxembourg is relatively strongly exposed to financial sector deleveraging elsewhere. While employment has increased in the financial sector, unemployment rose among lower-skilled workers in export and construction industries. Although the slack created downward pressures on prices, wage indexation has kept inflation above the euro area average.

Fiscal consolidation is ongoing

Despite low growth, the budget deficit is expected to roughly stabilise at ¾ per cent of GDP in 2013, reflecting the resilience of tax receipts and fiscal consolidation. The government should let the automatic stabilisers work in 2013-14 if growth disappoints. It should also keep spending under control; introducing a sound medium-term fiscal framework would be

Luxembourg



1. Year-on-year percentage changes.
2. Three-month moving average. Inflows are defined as net of markets' variations.

Source: OECD Economic Outlook 93 database; and Commission de Surveillance du Secteur Financier.

StatLink http://dx.doi.org/10.1787/888932836221

Luxembourg: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices € billion	Percentage changes, volume (2005 prices)				
GDP at market prices	36.0	2.9	1.7	0.3	0.8	1.7
Private consumption	12.2	2.2	2.4	1.7	1.1	2.3
Government consumption	6.3	3.1	1.6	4.9	2.7	2.0
Gross fixed capital formation	6.9	6.8	10.2	7.0	5.6	0.6
Final domestic demand	25.4	3.7	4.3	4.0	2.9	1.8
Stockbuilding[1]	- 0.7	3.8	1.4	-0.8	-1.4	0.0
Total domestic demand	24.7	9.2	6.7	2.7	0.7	1.8
Exports of goods and services	58.7	6.9	6.0	-2.5	2.8	2.1
Imports of goods and services	47.4	12.1	8.6	-2.7	1.6	2.2
Net exports[1]	11.4	-4.7	-1.7	-0.5	2.7	0.5
Memorandum items						
GDP deflator	_	7.6	5.1	3.8	2.2	0.7
Harmonised index of consumer prices	_	2.8	3.7	2.9	1.8	1.7
Private consumption deflator	_	1.7	2.6	2.2	1.0	1.2
Unemployment rate	_	5.8	5.6	6.1	6.7	6.7
General government financial balance[2]	_	-0.9	-0.2	-0.8	-0.7	-0.6
General government gross debt[2]	_	25.8	25.9	28.4	30.4	32.0
General government debt, Maastricht definition[2]	_	19.2	18.3	20.8	22.8	24.4
Current account balance[2]	_	8.2	7.1	5.6	4.1	5.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837855

helpful in this regard. Further reforms to the pension system are needed to address long-term fiscal sustainability.

Financial sector regulation is being updated

Financial supervision has been strengthened further and the sector is weathering the crisis relatively well. Luxembourg should continue to upgrade its regulatory and supervisory framework in line with European and international initiatives. The authorities have accepted that further changes are needed in the regime of information exchange for tax purposes.

The recovery will be gradual

Activity will remain subdued in 2013, as domestic demand is restrained by weak confidence and fiscal consolidation measures. Output is projected to strengthen slowly in the second half of 2013 and into 2014, as confidence improves in Luxembourg and in the euro area more generally. Headline inflation will continue to be above the euro area average, as wages are pushed up by the automatic indexation mechanism. The unemployment rate will continue to rise into the second half of 2013, but start to decrease in 2014.

Risks are mostly on the downside

A deterioration in the euro area debt crisis would undermine confidence and drag down exports and domestic demand more than anticipated. Such a development might be mitigated by larger safe haven capital inflows, which would boost Luxembourg's large financial sector.

MEXICO

The economy expanded at a strong pace in 2012, but some delayed effects from the recent weakness in the US economy will be felt in the first half of 2013. As financial conditions continue to improve and the US recovery strengthens, growth is projected to firm up going into 2014.

The central bank lowered its policy rate in March, as core inflation is well within the central bank's target range, which should support growth and help to stem the surge of capital inflows experienced in recent quarters. As growth returns in 2014, the central bank will have to consider raising rates again to ensure the inflation target is achieved. The administration's ambitious structural reform programme – which includes telecommunications, energy and fiscal reforms – will raise sustainable long-term growth prospects.

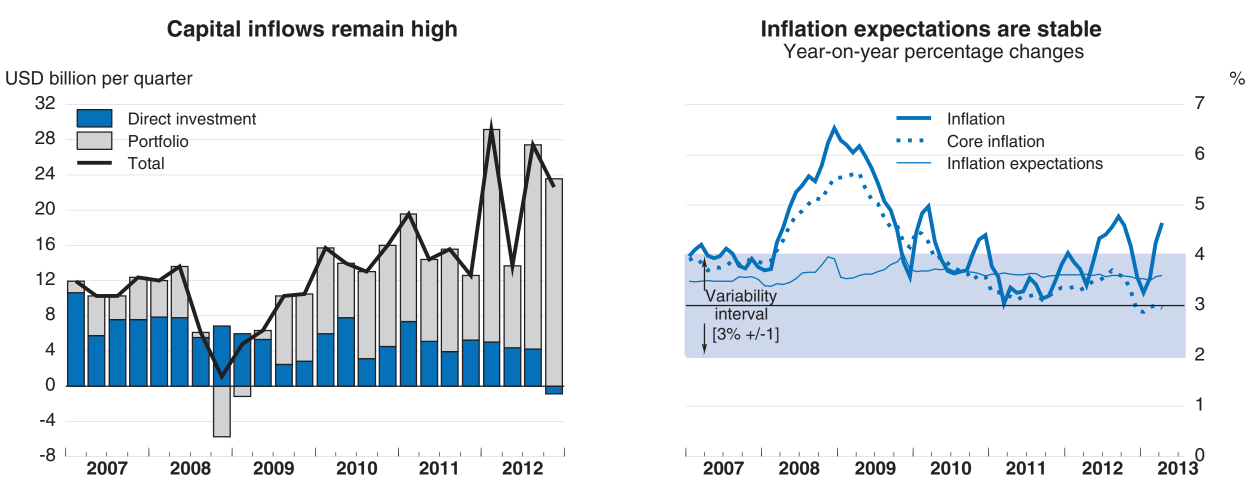
Weakening conditions are damping growth

Investment and the manufacturing sector grew rapidly last year, though expansion has slowed considerably in recent months owing to weakening external demand and an appreciating currency. Consumer confidence has also shown signs of weakness in 2013. Nevertheless, labour market performance has been solid, with steady unemployment and moderate wage increases. Continued growth in formal sector employment has helped to hold up domestic demand.

Monetary policy has been eased

Strong growth, a solid macroeconomic framework, ongoing structural reforms, and positive long-term interest rate differentials have continued to attract large capital inflows. These flows could lead to a further appreciation of the exchange rate and spill over into higher inflationary expectations. Pressures on inflation from last year appeared to have eased, however, allowing the central bank to cut its policy rate in March by half a percentage point. Yet headline inflation remains volatile – it is affected in particular by food prices – and the central bank will need to

Mexico



Source: Banco de México; INEGI; and OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932836240

Mexico: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices MXN billion	Percentage changes, volume (2003 prices)				
GDP at market prices	11 930.2	5.3	3.9	3.9	3.4	3.7
Private consumption	7 841.9	5.0	4.4	3.4	3.7	3.6
Government consumption	1 426.1	2.3	2.1	1.5	1.5	1.3
Gross fixed capital formation	2 540.5	0.3	8.3	5.8	2.4	4.7
Final domestic demand	11 808.4	3.6	4.9	3.7	3.2	3.6
Stockbuilding[1]	295.7	1.5	-1.0	0.4	0.4	0.0
Total domestic demand	12 104.2	5.0	3.8	3.8	3.4	3.5
Exports of goods and services	3 295.5	21.7	7.6	4.6	4.7	6.2
Imports of goods and services	3 469.5	19.7	7.1	4.1	4.8	5.3
Net exports[1]	- 174.0	0.3	0.1	0.1	-0.1	0.2
Memorandum items						
GDP deflator	_	4.0	6.0	3.6	2.6	4.3
Consumer price index	_	4.2	3.4	4.1	3.4	3.2
Private consumption deflator	_	4.0	3.8	4.8	3.2	3.9
Unemployment rate[2]	_	5.4	5.2	5.0	4.9	4.8
Public sector borrowing requirement[3,4]	_	-4.3	-3.4	-2.9	-2.3	-1.9
Current account balance[4]	_	-0.2	-0.8	-0.8	-1.1	-0.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Based on National Employment Survey.
3. Central government and public enterprises.
4. As a percentage of GDP.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837874

monitor core inflation and its public communications closely to ensure that inflation expectations remain well anchored.

Fiscal policy should remain on track

Gradual fiscal consolidation is set to continue, with the budget, on the government's non-standard definition that excludes oil investment, set to be in balance in 2014. The long-planned fiscal reform set for later this year should not affect the overall budget balance.

A gradual rebound in demand is set to occur

With US external demand projected to recover in the second half of this year, investment in Mexico should begin to pick up. Growth is projected to eliminate spare capacity and reduce the unemployment rate somewhat.

External risks dominate

Downside risks from a weaker-than-expected recovery in the United States remain, in addition to the possibility of a renewed intensification of the European sovereign debt crisis. Both monetary and fiscal policy should be ready to respond if needed. Short-term capital inflows need to be monitored closely for abrupt reversals, given their large size, though record accumulation of foreign exchange reserves and well-anchored inflation expectations leave substantial room for manoeuvre.

NETHERLANDS

The economy has been in recession since mid 2012, but growth is projected to pick up by end-2013. Exports and, in turn, a gradual improvement in business investment will be the main drivers of the recovery. Ongoing fiscal consolidation and household deleveraging will hold back activity and growth will be too weak to prevent a further rise in the unemployment rate. Inflation is expected to fall after a VAT-related spike in early 2013.

Fiscal consolidation is assumed to continue in 2013 and 2014, in line with planned structural improvements in the budget. The automatic stabilisers should be allowed to work freely around this structural consolidation path. New legislation tightening the tax deductibility of mortgage interest is welcome, but regulations in the rental sector should be further relaxed.

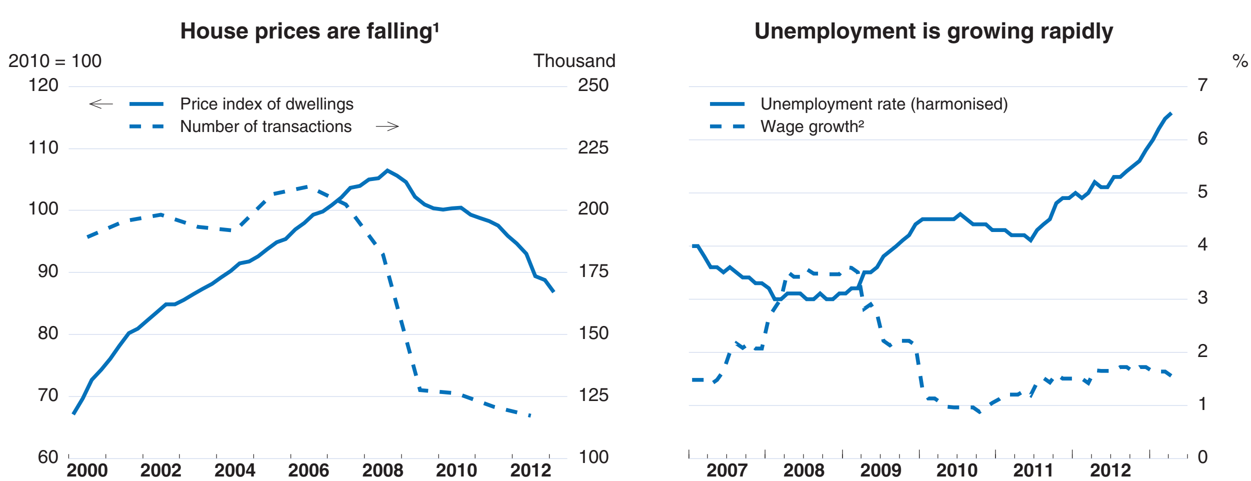
The economy is in recession

The economy has been in recession since mid-2012 due to weak domestic demand. Sharply falling house prices, rising unemployment and slow nominal wage growth are weakening consumer confidence and private consumption. The difficult situation in the housing market has also translated into a sharp drop in activity in the construction sector. Muted domestic and external demand have resulted in declining investment.

Deleveraging pressures are increasing

Deleveraging pressures for households are increasing due to tight lending conditions, the ongoing correction in the housing market and high household indebtedness. The share of mortgage holders with negative equity is growing, increasing risks for the financial sector. New legislation tightening the tax deductibility of mortgage interest payments should enhance financial stability, but further reductions in the maximum loan-to-value ratio should be implemented over the medium

Netherlands



1. Existing own homes.
2. Hourly wage rate, private sector.

Source: Centraal Bureau voor de Statistiek; Eurostat and OECD Main Economic Indicators database.

StatLink http://dx.doi.org/10.1787/888932836259

Netherlands: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices € billion	Percentage changes, volume (2005 prices)				
GDP at market prices	573.5	1.6	1.1	-1.0	-0.9	0.7
Private consumption	263.5	0.3	-1.0	-1.4	-2.5	-0.1
Government consumption	164.1	0.7	0.1	0.0	-0.1	0.2
Gross fixed capital formation	108.8	-7.2	5.7	-4.6	-3.1	-0.1
Final domestic demand	536.5	-1.1	0.6	-1.6	-1.8	0.0
Stockbuilding[1]	- 3.0	1.2	-0.1	0.1	0.2	0.0
Total domestic demand	533.5	0.2	0.5	-1.5	-1.6	0.0
Exports of goods and services	393.1	11.2	3.9	3.3	2.5	4.2
Imports of goods and services	353.0	10.2	3.6	3.1	2.4	3.8
Net exports[1]	40.1	1.4	0.5	0.4	0.4	0.7
Memorandum items						
GDP deflator	_	1.1	1.2	0.7	1.9	1.5
Harmonised index of consumer prices	_	0.9	2.5	2.8	2.7	1.5
Private consumption deflator	_	1.3	2.3	2.3	2.8	1.8
Unemployment rate	_	4.4	4.3	5.2	6.4	7.0
Household saving ratio,net[2]	_	3.4	5.0	3.7	3.8	3.9
General government financial balance[3]	_	-5.0	-4.4	-4.0	-3.7	-3.6
General government gross debt[3]	_	71.6	75.9	82.6	84.2	85.7
General government debt, Maastricht definition[3]	_	63.2	65.4	71.1	72.8	74.2
Current account balance[3]	_	7.8	10.1	9.9	9.4	9.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of disposable income, including savings in life insurance and pension schemes.
3. As a percentage of GDP.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837893

term. Credit institutions are reluctant to lend, further hampering the recovery, especially of small and medium-sized enterprises. However, the financial position of the corporate sector is sound, creating potential for a recovery in business investment. Easing rent controls and planning restrictions, as well as better targeting social housing, would support residential investment.

Fiscal consolidation is continuing

Fiscal consolidation is being implemented in 2013 and further measures are assumed for 2014. This fiscal adjustment should proceed but, against the background of weak economic activity, automatic fiscal stabilisers should be allowed to support any unexpected weakening of the economy. The budget deficit is likely to exceed 3% of GDP in 2013 and 2014.

Growth is expected to return by end-2013

Growth is expected to return by end-2013, but only slowly as consumption will remain weak and fiscal consolidation continues. Exports and, in turn, a very gradual improvement in business investment, will be the main drivers of the recovery. Unemployment is likely to stabilise only by end-2014. After a VAT-related spike in prices in 2013, inflation is projected to fall.

Risks are on the downside

The risks are tilted to the downside. If house prices were to fall more in a period of rising unemployment, consumers might step up saving and cut back on consumption even further. The banking system could be affected eventually through an increase in non-performing loans and defaults. The external situation could also turn out worse if the crisis in the euro area persists. On the upside, a stronger-than-expected recovery in external demand would lift exports and growth.

NEW ZEALAND

The economy is picking up, fuelled by strengthening domestic demand, including post-earthquake reconstruction. Growth in 2013 and 2014 should be bolstered by residential and business investment but may be tempered by the strong exchange rate, fiscal consolidation and, in 2013, temporary drought effects. Firming housing markets and gradually rising employment will support household spending growth. Inflation is projected to remain within the target range over the projection but will rise from low levels as earthquake rebuilding absorbs excess capacity.

Macro-prudential and micro-prudential policies need to address financial system risks from the housing market, while monetary tightening should begin next year before inflation pressures become pronounced. Large foreign debt exposures highlight the need to restore fiscal sustainability through fiscal consolidation, as planned, combined with structural reforms to boost private saving and long-term growth.

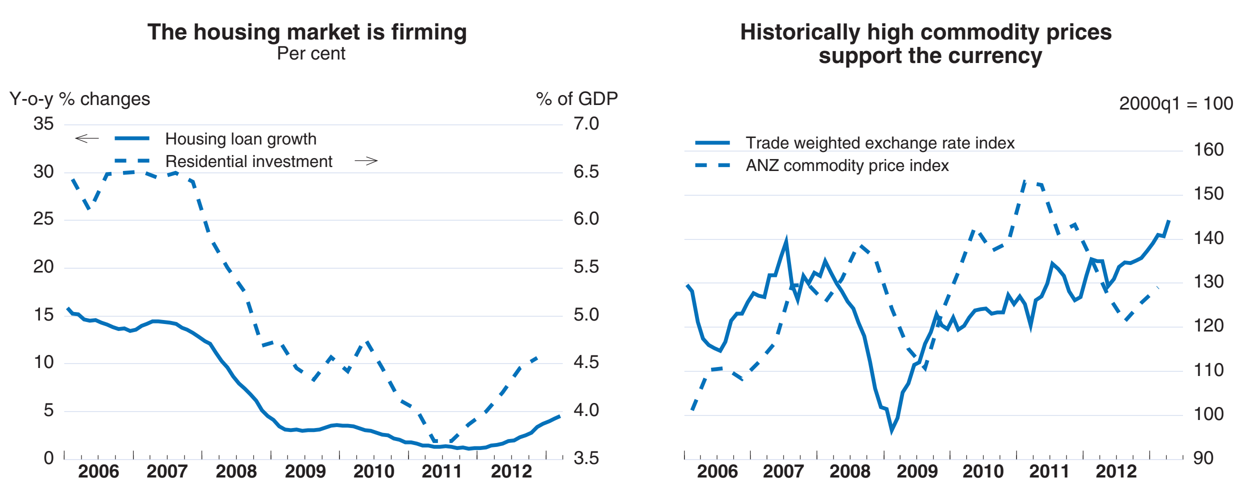
The economy is gathering momentum

Real output growth accelerated at the end of 2012 as earthquake-related construction activity ramped up and private consumption rebounded. Healthy corporate profits and confidence have propped up business investment, while looser lending conditions and strong demand are supporting the housing market. Job creation has weakened, however, and reduced labour force participation is a concern. The household and farm sectors remain saddled by high debt levels. A severe drought has hampered agricultural production, but surging dairy prices should soften the impact on farm incomes. The exchange rate has appreciated considerably, weighing on export volumes but keeping inflation subdued.

Monetary policy should tighten as slack diminishes

Monetary policy has been appropriately supportive, with the policy rate at a historic low of 2.5% since mid-2011. House prices and household debt, which were already high, have recently been rising faster than incomes. To contain the risks to the financial system, the Reserve Bank

New Zealand



Source: Reserve Bank of New Zealand; ANZ; and OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932836297

New Zealand: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices NZD billion	Percentage changes, volume (1995/1996 prices)				
GDP at market prices	187.3	0.9	1.3	3.0	2.6	3.1
Private consumption	111.6	2.6	2.0	2.1	3.0	3.1
Government consumption	38.2	1.3	2.0	0.3	0.2	0.1
Gross fixed capital formation	36.9	-0.3	3.2	6.6	9.1	9.5
Final domestic demand	186.7	1.8	2.3	2.5	3.6	3.8
Stockbuilding[1]	- 2.2	0.7	0.3	0.1	-1.2	-0.1
Total domestic demand	184.5	2.5	2.6	2.7	2.3	3.7
Exports of goods and services	54.2	3.7	2.7	2.1	1.7	2.7
Imports of goods and services	51.3	10.9	6.6	1.4	1.9	4.8
Net exports[1]	2.8	-1.9	-1.0	0.2	-0.1	-0.6
Memorandum items						
GDP deflator	_	4.2	2.6	-0.6	1.5	1.6
Consumer price index	_	2.3	4.0	1.1	1.0	1.8
Core consumer price index[2]	_	1.9	2.7	1.0	1.2	1.8
Private consumption deflator	_	1.6	3.0	1.1	0.6	1.4
Unemployment rate	_	6.5	6.5	6.9	6.8	6.4
Household saving ratio,net[3]	_	0.2	-0.1	0.3	0.1	-0.2
General government financial balance[4]	_	-7.5	-5.3	-3.9	-2.4	-1.1
General government gross debt[4]	_	37.9	41.6	44.3	46.3	46.9
Current account balance[4]	_	-3.2	-4.1	-5.0	-4.4	-5.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. As a percentage of disposable income.
4. As a percentage of GDP.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837912

raised the minimum capital requirements for major banks holding high loan-to-value mortgage loans. Tighter macro-prudential policies should be deployed as necessary. As earthquake rebuilding gains traction, diminishing excess capacity will begin to generate cost pressures. The Reserve Bank should thus gradually withdraw monetary stimulus beginning in 2014.

Fiscal consolidation is underway

Fiscal policy is on track to achieve a targeted surplus by FY 2014-15, as planned. Tightening will come mainly from the expenditure side *via* reforms to improve efficiency in public service delivery and to reduce long-term welfare dependency. The government should proceed with consolidation as planned, given New Zealand's sizeable external vulnerabilities and future ageing-related spending pressures, but it can allow the automatic stabilisers to operate should economic conditions deteriorate.

Earthquake rebuilding will drive solid growth

Real GDP is projected to expand at a faster pace than potential output, eliminating excess supply by end-2014. Growth will be buoyed by post-earthquake private investment as well as strengthening consumer spending as housing and labour markets firm and household balance sheets improve. The impact of the drought is projected to reduce growth this year by about half a percentage point. The strong exchange rate will continue to depress exports despite faster export market growth. As massive earthquake reconstruction needs squeeze limited resources, price and wage pressures will gradually lift inflation over the next couple of years.

Downside risks have lessened but remain

A pronounced slowdown in China could weaken exports and the terms of trade, while the effects of the drought are highly uncertain. Higher property prices could also prove unsustainable, especially if net migration falls.

NORWAY

The economy is projected to expand robustly in 2013 and 2014. Domestic demand will be supported particularly by investment in the petroleum industry and housing, but non-oil exports will remain weak. Strong demand for labour keeps unemployment low and wage growth high. Reflecting exchange rate appreciation and stable import prices, inflation has remained below the central bank's target, though it is projected to rise through 2014.

Given strong domestic demand, the authorities should continue to keep the structural non-petroleum budget deficit below 4% of the value of the sovereign wealth fund (Government Pension Fund Global). Despite restrictive guidelines on mortgage lending, house price growth has accelerated; the vulnerability of households and banks to credit shocks should continue to be monitored. With house prices rising fast and inflation projected to increase, monetary policy should be tightened gradually.

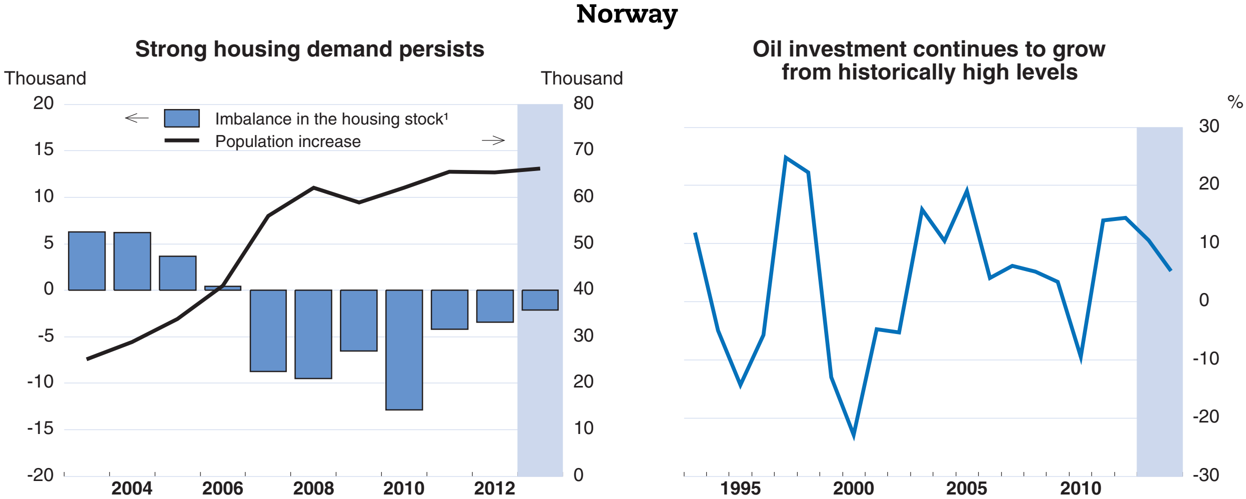
The economy has remained robust

Notwithstanding some weakness in the second half of last year, the mainland economy continues to outperform most European countries. Traditional exports and investment have been affected by weak growth in Norway's trading partners, but high oil receipts support overall activity. Housing investment remains strong on the back of high and rising house prices. Despite strong growth, inflation has remained below the central bank's 2.5% target, in part due to currency appreciation and low import prices.

Monetary policy should start to be normalised, while fiscal policy is set to be broadly neutral

The central bank has maintained policy rates unchanged since last spring, but the expansionary stance of monetary policy will become increasingly unsuitable with the upswing in activity. Inflation is projected to rise towards, but not reach, the inflation target, and accordingly the central bank is assumed to raise its policy interest rate in mid-2014. A tighter monetary stance would also mitigate a build-up of financial imbalances, particularly in the housing sector. The structural non-petroleum budget deficit is planned to remain broadly unchanged as a

Norway



1. Difference between the number of completed houses and the increase in the number of households in each year.

Source: Central Bank of Norway.

StatLink http://dx.doi.org/10.1787/888932836278

Norway: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices NOK billion	Percentage changes, volume (2010 prices)				
GDP at market prices	2 382.3	0.5	1.2	3.2	1.3	3.0
Private consumption	1 027.7	3.8	2.5	2.9	3.5	3.7
Government consumption	530.7	1.3	1.8	2.1	2.3	2.2
Gross fixed capital formation	515.6	-8.0	7.6	8.1	5.9	6.4
Final domestic demand	2 074.0	0.2	3.5	4.0	3.8	4.0
Stockbuilding[1]	14.9	2.6	0.1	-0.1	-0.6	0.0
Total domestic demand	2 088.9	3.2	3.4	3.6	2.8	3.8
Exports of goods and services	953.9	0.4	-1.8	2.2	-1.0	2.2
Imports of goods and services	660.4	9.0	3.8	3.3	2.7	4.4
Net exports[1]	293.5	-2.3	-1.8	0.0	-1.1	-0.3
Memorandum items						
Mainland GDP at market prices[2]	_	1.7	2.5	3.5	2.6	3.2
GDP deflator	_	6.3	6.8	2.8	1.7	2.8
Consumer price index	_	2.4	1.3	0.7	1.3	1.7
Private consumption deflator	_	2.2	1.3	0.9	1.3	1.8
Unemployment rate	_	3.5	3.2	3.1	3.2	3.3
Household saving ratio,net[3]	_	5.6	7.1	9.4	9.3	9.2
General government financial balance[4]	_	11.1	13.4	13.9	12.3	11.8
General government gross debt[4]	_	49.2	34.1	34.6	41.3	53.2
Current account balance[4]	_	11.9	12.8	14.2	13.3	12.9

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

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837931

share of mainland GDP in 2013, at somewhat below 4% of the value of the sovereign wealth fund (Government Pension Fund Global), and a similar policy is assumed for 2014.

Strong domestic demand will sustain mainland growth

Overall investment demand will be strong, supported particularly by the petroleum and housing sectors. Unemployment will remain low even as immigration continues to increase the labour force, which itself creates demand for housing. Labour productivity gains will pick up following the cyclical upswing. Sustained real wage growth and rising employment will generate further household income growth and private consumption growth is projected to remain robust in 2013 and 2014.

Risks to growth and inflation risks are symmetrical

High and increasing property prices might prompt households to increase consumption further, possibly by taking on still more debt. Alternatively, households may be concerned about their high and increasing indebtedness, which is a source of vulnerability as interest rates will gradually normalise, and might decide to save more. Given the strength of demand, inflation could rise more rapidly than in these projections, but it has been persistently below expectations for some time and could equally continue to surprise on the downside.

POLAND

Following a sharp slowdown in 2012, GDP growth is projected to pick up as investment and exports recover. Yet overall economic slack, and joblessness in particular, will continue to increase, holding inflation down to around 1% in 2014. The current account deficit is projected to edge down to below 3% of GDP in 2014.

Given the persistent weakness, further monetary policy easing is appropriate. The government should maintain its pursuit of fiscal consolidation but should allow the automatic stabilisers to play fully around the structural consolidation path. It should also continue efforts to implement structural reforms to boost potential growth and strengthen the recovery.

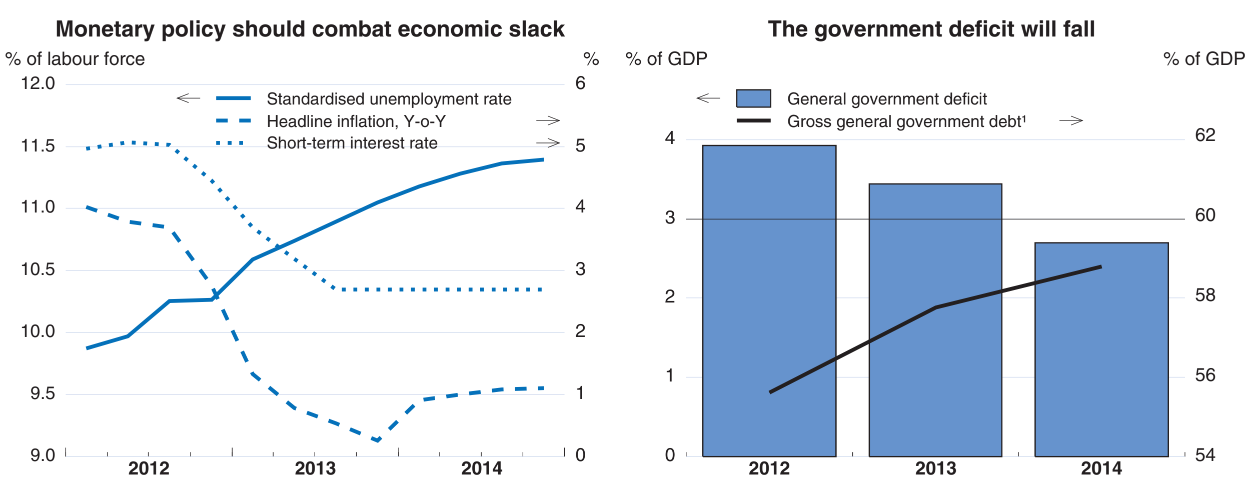
The current slowdown will be followed by some pick-up

Real GDP growth is projected to decline further from 2% in 2012 to close to 1% in 2013, thereby keeping demand pressures at bay. The principal causes are the weak external environment and ongoing fiscal consolidation. The latter includes lower public investment, in part because EU funds are no longer growing faster than the economy. Poor labour market prospects and the associated increase in the saving rate will damp private consumption. Following a trough in early 2013, the economy is projected to recover slowly, with real GDP growth returning to around 3% only at the end of the projection period. The unemployment rate could rise above 11% during 2014, keeping real wage gains below trend productivity growth.

Further monetary easing would help smooth the cycle

Headline inflation has dropped below the 1.5-3.5% official target band and should remain low over the projection period, despite the projected pick-up in activity. The central bank should therefore continue lowering policy rates in the short term; further cuts of 50 basis points to 2.5% are assumed in the projections.

Poland



1. Maastricht definition.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932836316

Poland: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices PLN billion	Percentage changes, volume (2005 prices)				
GDP at market prices	1 341.7	3.9	4.5	2.0	0.9	2.2
Private consumption	821.1	3.1	2.6	0.8	0.4	1.1
Government consumption	248.9	3.7	-1.0	0.0	0.4	0.8
Gross fixed capital formation	281.3	-0.4	8.2	-1.0	-1.2	4.0
Final domestic demand	1 351.3	2.5	3.0	0.3	0.1	1.6
Stockbuilding[1]	- 9.7	2.0	0.7	-0.5	0.0	0.0
Total domestic demand	1 341.6	4.4	3.7	-0.3	0.1	1.6
Exports of goods and services	530.8	12.1	7.9	1.9	2.4	3.6
Imports of goods and services	530.6	13.8	5.8	-3.0	-0.1	2.3
Net exports[1]	0.1	-0.7	0.8	2.2	1.2	0.7
Memorandum items						
GDP deflator	_	1.5	3.2	2.5	0.5	1.0
Consumer price index	_	2.6	4.2	3.6	0.7	1.0
Private consumption deflator	_	2.6	4.8	3.6	0.8	1.0
Unemployment rate	_	9.6	9.6	10.1	10.8	11.3
General government financial balance[2,3]	_	-7.9	-5.0	-3.9	-3.4	-2.7
General government gross debt[2]	_	62.4	63.1	62.6	64.7	65.7
General government debt, Maastricht definition[2]	_	54.9	56.3	55.6	57.7	58.7
Current account balance[2]	_	-5.1	-4.8	-3.5	-3.1	-2.6

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

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837950

Automatic stabilisers should be allowed to play

The general government deficit may fall from close to 4% of GDP in 2012 to 3½ per cent in 2013 and then decrease below the 3% Maastricht threshold in 2014. The government has decided not to reduce, as planned initially, the standard VAT rate and has tightened the central government spending rule. The projection assumes a moderate fiscal consolidation for 2014 to avoid triggering the harsher tightening that would occur if the public debt-to-GDP ratio (on the domestic definition) exceeds 55% of GDP. There is an ongoing public debate concerning narrowing the scope of the second pension pillar, which would reduce the general government deficit and gross debt. At the same time, automatic stabilisers should be allowed to play fully if growth falls short of official projections.

Downside risks dominate

Private consumption could be weaker than projected if households decide to increase their saving rates faster from recent low levels in light of labour market uncertainties. A renewal of euro area tensions would affect Poland *via* the trade channel, the predominantly foreign-owned banking sector and higher interest rates on sovereign debt, as non-residents hold about half of all government bonds. The government's plan to deregulate selected professions may strengthen the recovery, and implementation of further reforms could stimulate still faster growth.

PORTUGAL

Against the background of ongoing fiscal consolidation and weak external demand, the economy is projected to contract throughout 2013 and the unemployment rate to reach historical highs of more than 18%. As global conditions improve and domestic demand recovers, growth is expected to resume slowly. Inflation will remain very low over the projection horizon. The current account deficit will close in 2014, reflecting improvements in competitiveness, but also very weak domestic demand.

Priority should be given to consolidation plans based on concrete measures, but the automatic stabilisers should be allowed to operate fully around the structural consolidation path. As boosting potential growth is key to sustaining fiscal consolidation, the authorities should continue the implementation of structural reforms. In particular, labour market segmentation should be reduced further by aligning severance pay for legacy contracts with those for new contracts and phasing out automatic extensions of wage agreements entirely. There is also scope for stronger competition in gas and electricity, which could be achieved by providing clearer rules for new entrants.

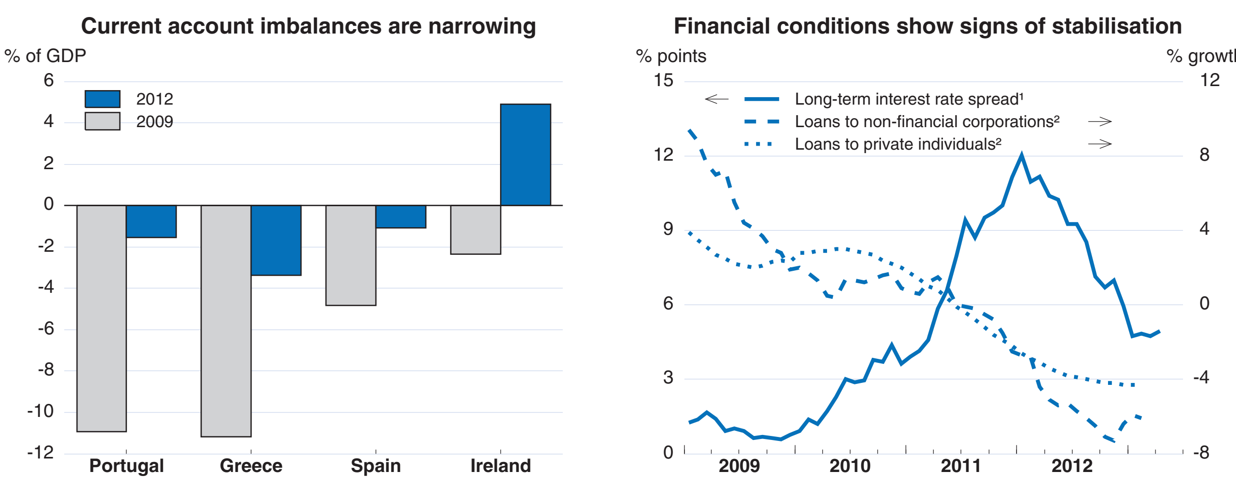
Economic activity keeps shrinking

A large fiscal consolidation effort and weak, but improving, financial conditions have cut deeply into economic growth. This has been compounded by economic weakness in Europe. Subdued core inflation and wage moderation are gradually but significantly improving cost competitiveness and facilitating gains in export market shares. Reflecting this, as well as declining import volumes due to weak domestic demand, the trade balance will move into a surplus in 2013, and the current account deficit will close in 2014.

Fiscal tightening will continue, but at a slower pace

Weak growth and the recent Constitutional Court decision that rejected some of the proposed consolidation measures will lower tax revenue and make meeting the newly revised deficit targets for 2013 and

Portugal



1. Ten-year government bond spreads relative to the German rate.
2. Annual growth rate adjusted for securitisation operations.

Source: OECD Economic Outlook 93 database; OECD Main Economic Indicators database; and Banco de Portugal.

StatLink http://dx.doi.org/10.1787/888932836335

Portugal: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices € billion	Percentage changes, volume (2006 prices)				
GDP at market prices	168.5	1.9	-1.6	-3.2	-2.7	0.2
Private consumption	109.8	2.5	-3.8	-5.6	-4.0	-1.5
Government consumption	37.2	0.1	-4.3	-4.4	-3.9	-2.0
Gross fixed capital formation	34.6	-3.1	-10.7	-14.5	-10.6	-0.7
Final domestic demand	181.6	0.9	-5.2	-6.9	-5.1	-1.5
Stockbuilding[1]	- 0.6	0.9	-0.7	0.2	0.6	0.0
Total domestic demand	181.0	1.8	-5.8	-6.8	-4.5	-1.4
Exports of goods and services	47.2	10.2	7.2	3.3	1.4	5.1
Imports of goods and services	59.7	8.0	-5.9	-6.9	-3.1	1.3
Net exports[1]	- 12.5	0.0	4.6	4.0	1.8	1.6
Memorandum items						
GDP deflator	_	0.6	0.5	-0.1	-0.4	0.0
Harmonised index of consumer prices	_	1.4	3.6	2.8	0.0	0.2
Private consumption deflator	_	1.3	3.8	2.1	-0.4	0.0
Unemployment rate	_	10.8	12.7	15.6	18.2	18.6
Household saving ratio, gross[2]	_	10.1	9.1	11.6	12.8	13.2
General government financial balance[3,4]	_	-9.9	-4.4	-6.4	-6.4	-5.6
General government gross debt[3]	_	105.5	121.6	138.8	142.8	147.3
General government debt, Maastricht definition[3]	_	94.0	108.3	123.6	127.7	132.1
Current account balance[3]	_	-10.6	-7.0	-1.5	-0.9	0.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.
4. Based on national accounts definition.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837969

2014 unlikely. The 2013 budget law envisages a very ambitious consolidation effort of 3% of GDP, while the court decision has invalidated consolidation measures worth 0.8% of GDP. As the economy remains very weak, it is important to reach an agreement on permanent cuts that focus primarily on public consumption and social transfers. However, the fiscal deficit should be allowed to deviate from targets if growth turns out lower than expected, so as to avoid a negative feedback loop between macroeconomic conditions and fiscal objectives.

Restoring credit growth is a pre-requisite for sustained recovery

Funding conditions for the government and Portuguese banks have improved following the ECB's announcement of its conditional sovereign bond buying programme. Recapitalisation should help smooth deleveraging, allowing for a gradual improvement of credit supply, provided that non-performing loans do not increase further.

Unemployment keeps rising

Labour market conditions have been bleak. Employment losses have been very large, especially in construction, agriculture, manufacturing and hospitality. As a result the unemployment rate has reached 17.5% and it is expected to rise further.

Risks remain tilted to the downside

On the downside, further turbulence elsewhere in the euro area may lead to higher sovereign and bank borrowing costs, and to weaker trading partner growth. This could aggravate the recession and the fiscal deficit, as Portugal does not have much room for manoeuvre. Trying to counter-act this with additional fiscal measures would further reduce short-term activity and might lead to deterioration in financial market sentiment. On the upside, a faster recovery of the banking system, greater use of EU structural funds and stronger than projected gains in cost competitiveness and exports would boost investment and growth.

SLOVAK REPUBLIC

The economy is suffering from the difficult external environment and fiscal consolidation is weighing on domestic demand. While exports will progressively pick up through 2013, reflecting stronger world trade and the gradual recovery in the euro area, private consumption will remain subdued due to rising unemployment, low wage growth and continued fiscal consolidation, which is designed to exit the Excessive Deficit Procedure and prevent government debt from breaking through the constitutional limit.

Increasing absorption of European structural funds could provide a welcome stimulus. Strengthening active labour market policies is necessary to limit the risk of cyclical unemployment turning structural.

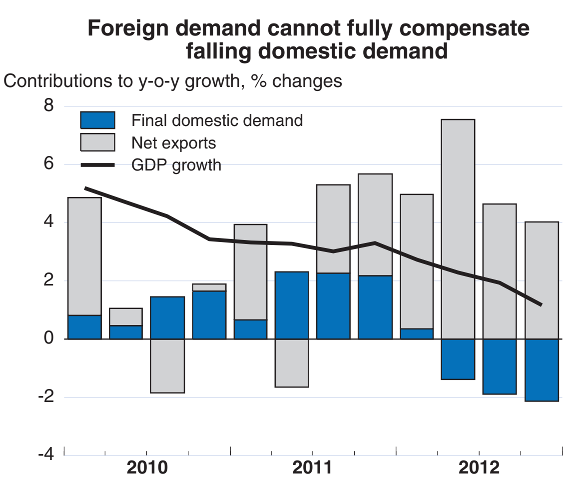
The economy has slowed

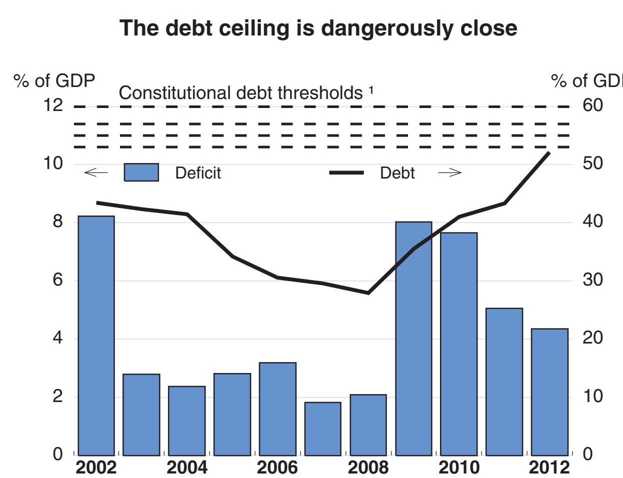
Domestic demand has continued to weaken. Investment activity has slumped, reflecting low profitability and high uncertainty in the euro area. High unemployment and stagnating disposable incomes weigh on private consumption. New production capacity in the automotive sector lifted exports in 2012, even though export market growth was weak.

Fiscal policy will be pro-cyclical

Despite the cyclical deterioration, the government is committed to reducing the budget deficit below 3% and exiting the Excessive Deficit Procedure in 2013. Further measures are required in order to prevent hitting the first binding constitutional debt threshold in 2014. Consolidation will help to strengthen financial market confidence, but constraining the automatic stabilisers comes at the cost of damping domestic demand. Already approved consolidation measures are concentrated on the revenue side of the budget and involve a reduction in

Slovak Republic





1. Constitutional debt thresholds: 53% of GDP - Government propose measures for decreasing public debt including mandatory pay cuts in the public sector; 55% of GDP - Public expenditures in the following fiscal year are frozen at the same nominal level; 57% of GDP - Government must ensure that its next year's budget is either balanced or in surplus; 60% of GDP - Vote of confidence procedure against the government.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932836354

Slovak Republic: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices € billion	Percentage changes, volume (2005 prices)				
GDP at market prices	62.8	4.4	3.2	2.0	0.8	2.0
Private consumption	38.3	-0.7	-0.5	-0.6	-0.5	0.9
Government consumption	12.5	1.0	-4.3	-0.6	-0.4	0.6
Gross fixed capital formation	13.0	6.5	14.2	-3.7	0.0	2.1
Final domestic demand	63.8	1.0	1.9	-1.3	-0.4	1.1
Stockbuilding[1]	- 0.8	2.5	-0.7	-1.6	-0.1	0.0
Total domestic demand	63.1	3.9	1.0	-2.9	-0.5	1.1
Exports of goods and services	44.3	16.0	12.7	8.6	2.7	5.0
Imports of goods and services	44.6	14.9	10.1	2.8	0.8	4.3
Net exports[1]	- 0.3	0.7	2.0	5.2	1.8	1.0
Memorandum items						
GDP deflator	_	0.5	1.6	1.4	1.5	2.1
Harmonised index of consumer prices	_	0.7	4.1	3.7	1.7	1.6
Private consumption deflator	_	1.0	3.8	3.7	2.2	2.2
Unemployment rate	_	14.4	13.5	14.0	14.6	14.7
General government financial balance[2]	_	-7.7	-5.1	-4.3	-2.6	-2.2
General government gross debt[2]	_	45.9	48.2	56.6	58.8	60.2
General government debt, Maastricht definition[2]	_	41.0	43.3	52.1	54.4	55.8
Current account balance[2]	_	-3.7	-2.1	2.3	2.1	2.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932837988

the share of the social security contribution directed to the second pension pillar. The adverse consequences for the sustainability of the pension system are compensated by changes in the pay-as-you-go parameters.

Growth will be driven by a recovery in foreign demand

Exports will gradually pick up on the back of stronger world trade and exports will remain the main contributor to growth. With world trade and business confidence turning up, investment – mainly for increasing productivity and competitiveness - should gradually pick up again. However, domestic demand, and in particular private consumption, will remain fragile due to high unemployment, stagnating disposable income and continued fiscal consolidation.

The unemployment challenge needs to be addressed

Weak economic activity will weigh on the labour market, especially on workers with temporary contracts and the self-employed. Employment will decline and unemployment will rise further from an already very high level. High rates of long-term unemployment and prospects that the jobless recovery will continue increase the risk that cyclical unemployment becomes structural. Additional efforts to strengthen and redesign active labour market policies are therefore necessary.

Negative risks prevail

A prolongation of the euro area crises would further depress investment and exports. Were growth to slow further, even more consolidation measures would be needed to avoid hitting the constitutional debt threshold, which would in turn further weaken the economy. On the other hand, swifter and stronger confidence improvements could stimulate domestic demand beyond current projections.

SLOVENIA

Economic activity is expected to decline further in 2013 as problems in the banking sector, corporate debt overhang, a weak labour market and fiscal consolidation weigh on domestic demand. Better growth in export markets is projected to spur a weak recovery in 2014. Unemployment will rise further and, reflecting large and growing economic slack, inflation will remain subdued.

Fiscal consolidation should be continued to arrest the rapid rise in public debt, but the automatic stabilisers should be allowed to operate fully. Bank recapitalisation and restructuring is a priority to restore confidence and maintain access to international financial markets. This should go hand in hand with restructuring the highly leveraged corporate sector. Implementing planned privatisations and promoting FDI would enhance growth potential.

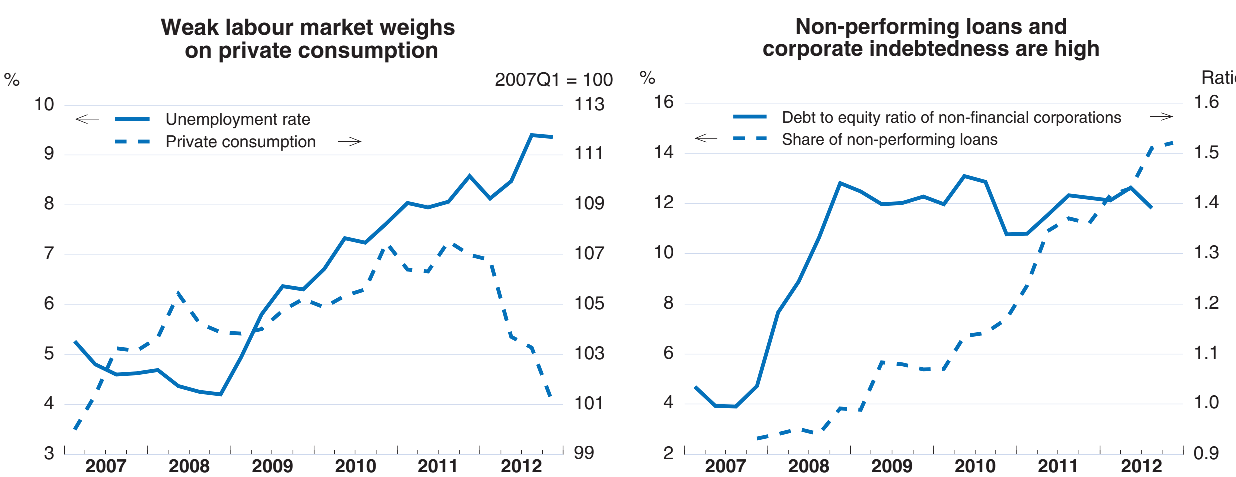
The economy is in recession

The economy is in a prolonged recession. Problems in the banking sector, an over-indebted corporate sector and a weak labour market have all cut into domestic demand. Lending to business has continued to fall and credit conditions are tightening. Fiscal consolidation and poor consumer and business sentiment have been driving domestic demand down further. Weak market growth has limited exports.

Resolving bank problems is a priority

The state of the banking sector is a major concern. Banks' balance sheets are plagued with non-performing loans, undermining credit growth. In March 2013, the government established the Bank Asset Management Company (BAMC), which is to take over problem loans from systemically important financial institutions. The BAMC can issue up to EUR 4 billion (11% of GDP) of government-guaranteed bonds to acquire these loans. The authorities should ensure that asset acquisition is transparent and consistent with international best practices. In the corporate sector, the ongoing deleveraging and restructuring are depressing investment. Improvements to insolvency legislation would speed up the process of cleaning balance sheets, eventually providing room for a resumption of credit activity.

Slovenia



Source: OECD Economic Outlook 93 database; OECD National Accounts database; and Bank of Slovenia.

StatLink http://dx.doi.org/10.1787/888932836373

Slovenia: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices € billion	Percentage changes, volume (2000 prices)				
GDP at market prices	35.6	1.2	0.6	-2.3	-2.3	0.1
Private consumption	19.8	1.3	0.9	-2.9	-3.5	-1.6
Government consumption	7.2	1.5	-1.2	-1.6	-2.8	-0.6
Gross fixed capital formation	8.2	-13.8	-8.1	-9.3	-5.3	-3.8
Final domestic demand	35.2	-2.1	-1.4	-3.9	-3.7	-1.8
Stockbuilding[1]	- 0.3	1.9	0.7	-1.9	-0.9	0.0
Total domestic demand	34.8	-0.3	-0.6	-5.7	-5.2	-1.8
Exports of goods and services	20.9	10.1	7.0	0.3	0.9	4.1
Imports of goods and services	20.1	7.9	5.2	-4.3	-2.3	2.0
Net exports[1]	0.7	1.5	1.3	3.3	2.3	1.8
Memorandum items						
GDP deflator	_	-1.1	1.0	0.4	0.4	0.3
Harmonised index of consumer prices	_	2.1	2.1	2.8	2.1	1.2
Private consumption deflator	_	1.5	1.7	1.9	0.9	0.8
Unemployment rate	_	7.2	8.2	8.8	10.2	10.3
General government financial balance[2]	_	-5.9	-6.4	-4.0	-7.8	-3.4
General government gross debt[2]	_	47.3	51.1	61.0	70.7	75.0
General government debt, Maastricht definition[2]	_	38.6	46.9	54.1	63.8	68.1
Current account balance[2]	_	-0.6	0.0	2.5	4.1	4.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932838007

Fiscal consolidation should continue

Important progress towards fiscal consolidation has been made. In 2012, the government adopted an ambitious fiscal consolidation package, with an emphasis on cutting expenditure. Further consolidation is planned for 2013 with new spending cuts and a likely VAT increase. Some positive effects are also expected from the newly adopted pension reform. However, capital injections into the banking sector are a drain on public resources. Banks were recapitalised in early 2013, at a budgetary cost of about 1.2% of GDP, and the government foresees further capital injections of about 2½ per cent of GDP for this year. As a result, the general government deficit is projected to deteriorate substantially.

The recession will persist

The recession is expected to last through 2013, while stronger external demand will spur a weak recovery in 2014. Unemployment will rise further as restructuring continues, and inflation will remain subdued as spare capacity mounts.

Downside risks prevail

The projection hinges on Slovenia's continued access to international financial markets and successful policy actions to address the banking sector problems and corporate debt overhang. The size and timing of future bank recapitalisations are uncertain, but they might substantially increase the fiscal deficit and public debt.

SPAIN

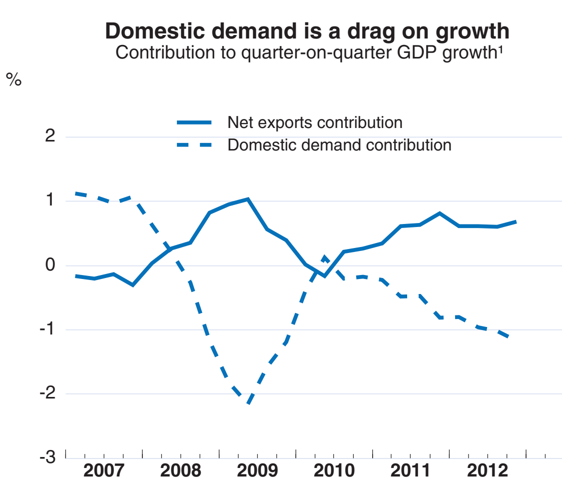
The recession in Spain is projected to continue in 2013 as fiscal consolidation and high private sector indebtedness undermine domestic demand. Trading partner growth and cost competitiveness gains, along with improved financial conditions as interest rate spreads gradually go down, will help to spur a slow recovery in 2014. The unemployment rate is projected to rise to over 28% before stabilising. Inflation and wage pressures will remain subdued. Due to substantial consolidation efforts, the fiscal deficit is expected to continue to fall.

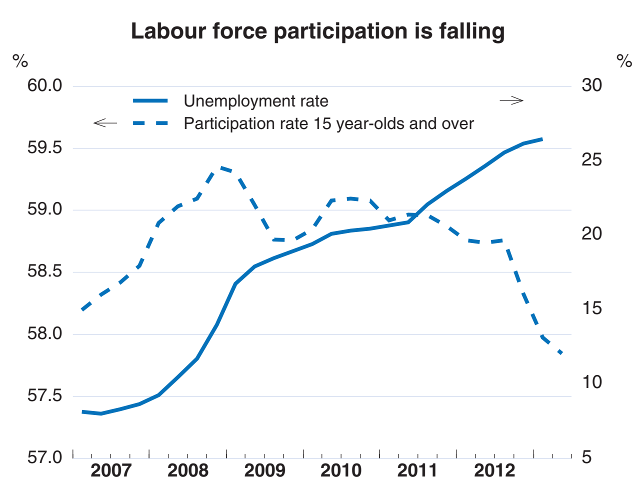
Boosting growth should be the government's number one policy priority. The government should aim to meet its fiscal consolidation targets in structural terms, but to let the automatic stabilisers operate fully. Further efforts have been announced to foster entrepreneurship and deregulate product markets, including in transport and professional services. Legal extension of collective wage agreements should be abolished fully to give firms more flexibility to hire in a situation of uncertainty and changing circumstances. Positive steps have been unveiled to improve labour market activation policies and labour matching, and these efforts should be pursued.

The economy remains in the grip of a prolonged recession

The recession that began in mid-2011 continued into 2013. Employment has fallen sharply and the unemployment rate has risen to over 26% and is still going up. Significant fiscal consolidation, tight credit conditions, private sector debt reduction and a slowdown in Europe have taken a significant toll on demand. Excluding the 2012 VAT-induced price hike, inflation remains subdued and wage growth continues to moderate. Declining wage pressures have improved Spain's cost competitiveness and export performance has been the third strongest among the 15 OECD members of the euro zone since 2007. This, combined with weak import growth, has resulted in a turnaround in the current account balance from a deficit of 10% of GDP to a surplus at the end of 2012.

Spain





1. 4-quarter moving average.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932835860

Spain: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices € billion	Percentage changes, volume (2008 prices)				
GDP at market prices	1 048.1	-0.3	0.4	-1.4	-1.7	0.4
Private consumption	592.4	0.7	-1.0	-2.1	-3.0	-1.5
Government consumption	223.6	1.5	-0.5	-3.7	-2.9	-1.4
Gross fixed capital formation	247.4	-6.2	-5.3	-9.1	-9.9	-2.9
Final domestic demand	1 063.4	-0.8	-1.8	-3.9	-4.3	-1.7
Stockbuilding[1]	4.2	0.1	-0.1	0.0	0.0	0.0
Total domestic demand	1 067.6	-0.6	-1.9	-3.8	-4.3	-1.7
Exports of goods and services	250.7	11.3	7.6	3.1	4.5	6.7
Imports of goods and services	270.2	9.2	-0.9	-5.0	-3.7	0.8
Net exports[1]	- 19.5	0.3	2.3	2.5	2.6	2.0
Memorandum items						
GDP deflator	_	0.4	1.0	0.3	0.7	0.4
Harmonised index of consumer prices	_	2.0	3.1	2.4	1.5	0.4
Private consumption deflator	_	2.0	2.9	2.6	1.6	0.4
Unemployment rate	_	20.1	21.6	25.0	27.3	28.0
Household saving ratio, net[2]	_	7.1	4.7	1.9	-0.1	-2.8
General government financial balance[3,4]	_	-9.7	-9.4	-10.6	-6.9	-6.4
General government gross debt[3]	_	67.8	77.1	90.5	97.8	103.5
General government debt, Maastricht definition[3]	_	61.5	69.3	84.1	91.4	97.0
Current account balance[3]	_	-4.5	-3.7	-1.1	2.1	3.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.
4. The deficit for Spain in 2012 of 10.6% of GDP includes outlays related to one-off bank restructuring operations amounting to 3.6% of GDP.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932838026

Financial conditions have improved but remain tight

Government bond yields have dropped significantly since the mid-2012 peak. The banking system has raised significant new capital, including approximately EUR 40 billion (3.8% of GDP) from public sources, and funding conditions for the banks have improved. Spanish banks recommenced wholesale debt issuance in January, non-resident funding withdrawals have ceased and reliance on Euro-system refinancing has dropped significantly since the August 2012 peak. Lending conditions have stabilised, but at a much more restrictive post-crisis level. Pressure to maintain banks' operational profits in a weak economy will likely limit the pass through of better bank financing conditions to borrowers. Nevertheless, there has been a small drop in interest rates on loans to SMEs from high levels.

Fiscal consolidation will continue to be a drag on demand

The fiscal deficit remained high in 2012 at 10.6% of GDP. However, substantial consolidation efforts helped reduce the underlying fiscal deficit – *i.e.* the headline deficit excluding one-offs, mainly bank recapitalisation costs – from 8.9% in 2011 to 7% in 2012. Additional discretionary consolidation measures will result in further declines in the deficit, but progress will be slow due to poor growth. To retain fiscal credibility the government should continue to develop its medium-term consolidation plan in the Stability Programme.

Risks are balanced

The economy is expected to continue to contract in 2013 before growth slowly resumes in 2014 as the euro area recovers. There are risks on both sides. On the upside, the improvement in financial conditions in Europe and Spain, as well as ongoing cost-competitiveness gains, may spur a stronger expansion than projected. On the downside, the risk of contagion to Spanish government borrowing costs and private sector credit conditions from adverse events in Europe remains high. In addition, given high private sector debt levels, particularly real estate and construction-related debt, and the associated need for deleveraging, the contraction in the domestic economy could be more persistent than projected.

SWEDEN

The economy continued to lose momentum through 2012, but there are signs of a moderate recovery. Growth is expected to strengthen gradually as world trade picks up and confidence improves. With rising labour force participation, any fall in the unemployment rate is likely to be somewhat delayed. Ample spare capacity will keep core inflation subdued.

Monetary policy should therefore continue to be accommodative to support growth. Sweden has the fiscal room to let the automatic stabilisers work unimpeded, and for discretionary stimulus, which might be warranted if growth turns out to be weaker than expected. To avoid unemployment becoming entrenched, the government should continue its efforts to focus on those at risk of prolonged joblessness.

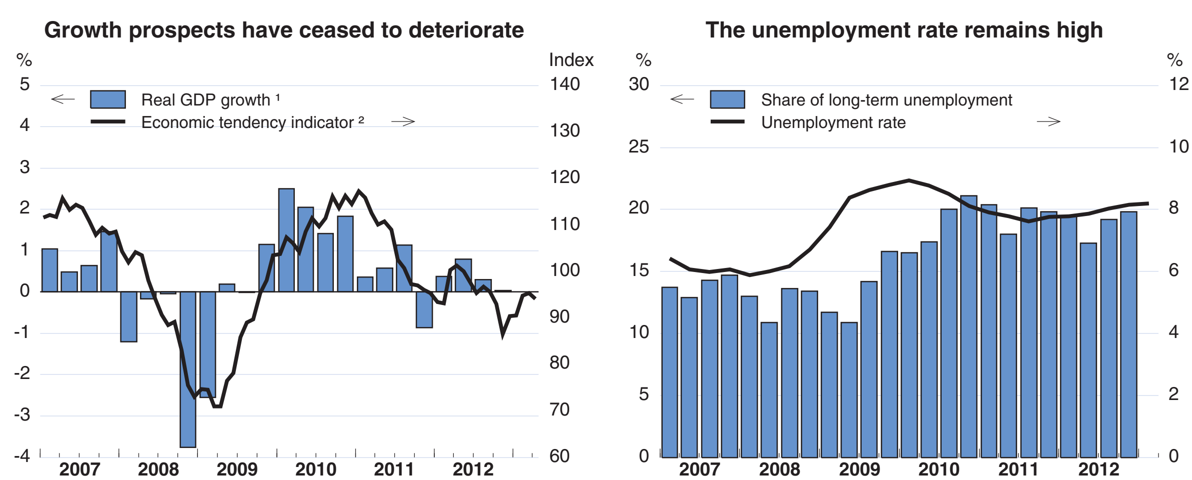
Activity has decelerated...

Activity was very weak in the second half of 2012 as exports fell owing to slowing global trade and domestic demand was held back by falling house prices, rising unemployment and waning confidence. However, short-term indicators suggest that growth prospects are improving somewhat. Against this backdrop, consumer price inflation has been very low.

... and unemployment has increased

Muted employment growth has caused the unemployment rate to edge up. The share of long-term unemployment, which rose at the beginning of the crisis, has remained broadly flat. However, strong wage growth in 2012 could have delayed effects and be detrimental to the employment of those with poor labour market skills and qualifications. Continuing efforts to get more people into work will help combat the entrenchment of unemployment.

Sweden



1. Quarter-on-quarter percentage changes.
2. The Economic Tendency Indicator is based on monthly surveys of households and firms. It is normalised with a mean value of 100 and standard deviation of 10.

Source: National Institute of Economic Research; Eurostat; and OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932836392

Sweden: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices SEK billion	Percentage changes, volume (2011 prices)				
GDP at market prices	3 105.8	6.3	3.8	1.2	1.3	2.5
Private consumption	1 532.5	3.9	2.2	1.7	1.9	3.0
Government consumption	859.7	1.8	1.2	1.2	1.0	0.8
Gross fixed capital formation	558.6	6.7	6.7	4.0	0.8	3.1
Final domestic demand	2 950.8	3.8	2.8	2.0	1.4	2.4
Stockbuilding[1]	- 46.3	2.2	0.4	-1.1	-0.3	0.0
Total domestic demand	2 904.6	6.3	3.2	0.8	1.1	2.5
Exports of goods and services	1 489.4	10.0	7.4	1.3	0.9	4.7
Imports of goods and services	1 288.2	11.5	6.3	0.5	1.2	5.1
Net exports[1]	201.2	0.0	0.9	0.4	-0.1	0.2
Memorandum items						
GDP deflator	_	1.1	1.1	0.4	0.3	1.4
Consumer price index[2]	_	1.2	3.0	0.9	0.2	1.3
Private consumption deflator	_	1.6	1.2	1.1	0.2	1.3
Unemployment rate[3]	_	8.6	7.8	8.0	8.2	8.1
Household saving ratio,net[4]	_	8.4	10.2	11.4	12.4	11.6
General government financial balance[5]	_	0.0	0.0	-0.7	-1.6	-1.1
General government gross debt[5]	_	49.3	49.4	48.7	52.6	52.7
General government debt, Maastricht definition[5]	_	39.4	38.4	38.2	42.1	42.1
Current account balance[5]	_	6.9	7.0	7.2	7.1	7.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. The consumer price index includes mortgage interest costs.
3. Historical data and projections are based on the definition of unemployment which covers 15 to 74 year olds and classifies job-seeking full-time students as unemployed.
4. As a percentage of disposable income.
5. As a percentage of GDP.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932838045

House prices and household debt remain high

House prices are no longer falling but remain high from a historical perspective, as does household debt, which mainly reflects mortgage loans. As inflation is well below the 2% target, monetary policy should remain accommodative. In view of the risks posed by the housing sector in particular, stepping up the scope and intensity of financial supervision is warranted.

Fiscal conditions have to be supportive

The Spring Fiscal Bill appropriately allows the automatic stabilisers to work in 2013. For 2014, the government has announced more places in education and labour market programmes, as well as further cuts in taxes. Overall, however, the fiscal stance seems set to tighten. This is prudent given the projected recovery, but the government should stand ready to implement discretionary expansionary measures should the economic recovery falter.

Growth is set to pick up gradually

Growth is expected to regain strength gradually. The pick-up in world trade will help exports and support business investment. Lower uncertainty and improvement in labour and housing market conditions in the course of 2014 would spur private consumption and growth would become more broad-based. As ample spare capacity lingers, core inflation should remain subdued.

Risks are skewed to the downside

High private debt could lead both firms and households to increase saving and so cut back on investment and consumption. On the other hand, competitiveness losses could be smaller if wage increases turn out to be lower than expected, boosting exports.

SWITZERLAND

Despite persistent weakness in the euro area, Swiss economic growth seems set to increase moderately as demand from emerging markets rises and consumer spending remains solid. However, projected activity will not be sufficient to bring the unemployment rate down. Completion of the absorption of the exchange rate appreciation is projected to allow the economy to exit deflation early next year.

Fiscal policy is appropriately broadly neutral. Interest rates should stay near zero. However, in view of robust mortgage lending increases combined with price tensions in some parts of the housing market, the Swiss National Bank may have to raise rates. In the same vein, banks' capital requirements have recently been usefully strengthened.

Growth is rising

GDP growth is increasing at a modest pace, as exports recover from their disappointing performance in late 2012. Private consumption has been firm, yet gains in employment have been insufficient to absorb the rapid increase in labour supply resulting from heavy immigration.

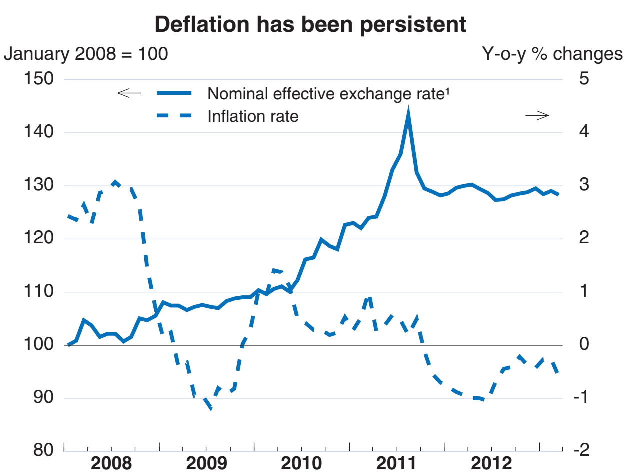
The exchange rate shock is being absorbed

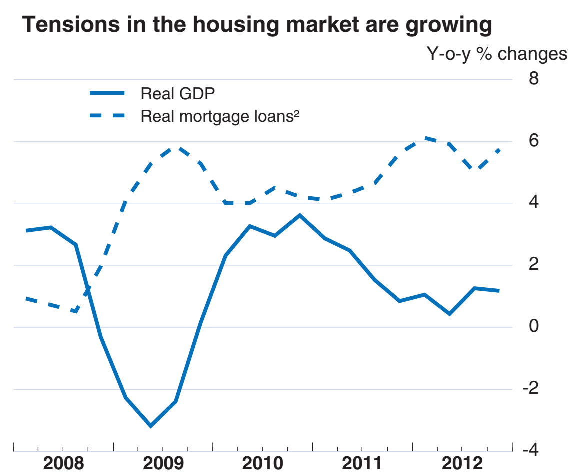
While prices are still lower than a year ago, Switzerland is slowly moving out of deflation. Even if the ceiling of 1.2 CHF to the euro, imposed in September 2011, did not fully offset the previous overvaluation, there are signs that the appreciation is being absorbed, with some prices rising again and a rebound in several of the affected export industries.

The mortgage market is booming

With robust immigration and record-low interest rates (fixed mortgage rates of 1.75% are less than half their early 2008 level), mortgage lending and price appreciation in some segments of the housing market have risen to a point where their sustainability is questionable. Household mortgage debt had already reached a record high of 111% of GDP at end-

Switzerland





1. Export weighted, based on 40 partner countries.
2. Deflated by CPI.

Source: OECD Economic Outlook 93 database; SNB, Monthly statistical bulletin April 2013.

StatLink http://dx.doi.org/10.1787/888932835746

Switzerland: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices CHF billion	Percentage changes, volume (2005 prices)				
GDP at market prices	554.4	3.0	1.9	1.0	1.4	2.0
Private consumption	324.1	1.6	1.2	2.5	2.1	2.2
Government consumption	62.0	0.7	2.0	0.7	2.0	1.0
Gross fixed capital formation	110.4	4.8	4.0	0.1	1.2	2.4
Final domestic demand	496.6	2.2	1.9	1.7	1.9	2.1
Stockbuilding[1]	- 3.5	0.1	-0.1	-0.2	-0.6	0.0
Total domestic demand	493.1	2.3	1.9	1.5	1.2	2.2
Exports of goods and services	279.2	7.8	3.8	1.1	3.1	3.9
Imports of goods and services	218.0	7.4	4.2	2.3	3.1	4.7
Net exports[1]	61.2	1.0	0.3	-0.4	0.3	0.1
Memorandum items						
GDP deflator	_	0.5	0.2	0.1	0.0	1.1
Consumer price index	_	0.7	0.2	-0.7	-0.3	0.2
Private consumption deflator	_	0.9	0.1	-0.5	-0.5	0.2
Unemployment rate	_	4.4	3.9	4.1	4.5	4.4
General government financial balance[2]	_	0.3	0.5	0.7	0.7	0.6
General government gross debt[2]	_	45.2	44.6	43.8	43.1	42.3
Current account balance[2]	_	14.3	8.4	13.5	14.5	14.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932838064

2011. Risks for the banking sector prompted the authorities to adopt counter-cyclical capital buffers in February 2013, and new constraints on mortgage lending were agreed by the Swiss Bankers Association last July.

Monetary policy has been accommodative…

Monetary policy has been supportive since the start of the crisis. With inflation set to remain very low, zero policy rates are appropriate throughout the projection horizon. Despite neutral fiscal policy and implementation of debt brake rules, growth should be sufficient to push the debt-to-GDP ratio down further. Low gross government debt (43.8% of GDP at end-2012) and interest rates create room for fiscal action should the Swiss economy face renewed euro turmoil.

… creating risks when interest rates start to rise

The euro situation will limit Swiss growth to 1.4% in 2013, but the pick-up in world activity is projected to raise it to 2% in 2014. Switzerland is likely to move back to positive yet low year-on-year consumer price growth in the first half of 2014. Should euro concerns recede further, Switzerland would be well placed to profit from an improvement in confidence and stronger international trade. On the downside, a persistently high Swiss franc may delay the recovery, and low interest rates may keep fuelling house price appreciation, creating potential instability further down the road, especially as interest rates rise from historic lows.

TURKEY

Following weak growth in 2012, as consumption and investment contracted and offset a surge in exports, the economy is now regaining momentum. Growth is projected to rise to above 3% in 2013 and, as the global recovery gathers strength, to pick up to 4½ per cent in 2014. Inflation and the current account deficit both remain above comfort levels, however.

A tight fiscal stance has been set for 2013 and 2014, but the authorities should allow the automatic stabilisers to operate fully and have the room to consider some temporary stimulus should conditions turn out much worse than projected. Timely and internationally comparable general government accounts would help implement and assess the stance of fiscal policy. Monetary policy needs to reduce inflation without undermining the recovery and without pushing up the real exchange rate and hurting competitiveness. Disinflation would limit the costs on this front. Structural reforms to accelerate formalisation and productivity gains remain crucial for strong and sustainable growth.

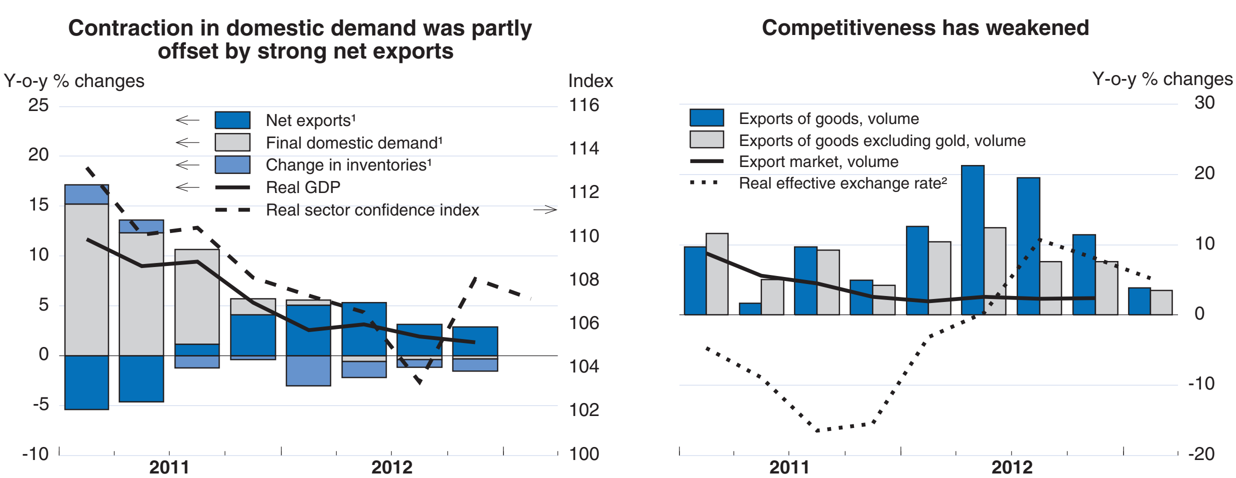
Domestic demand weakened in 2012

Domestic demand weakened in the course of 2012, with steady declines in private consumption and investment following measures in the first part of the year to restrain credit expansion and to rebalance growth between domestic and external sources, and the global slowdown. Those restrictive measures were reversed in the second part of the year, and recent indicators point to a recovery in domestic demand in early 2013, though business and consumer confidence remain frail.

Strong exports prevented a contraction in GDP

Strong exports helped avoid a recession. The current account deficit over the past 12 months stood at 6% of GDP by February 2013, down from 9.3% a year earlier. Even so, steady real exchange rate appreciation through 2012 is now holding back exporters' market share gains in both traditional and new markets. Employment growth has been surprisingly

Turkey



1. Contributions to year-on-year real GDP growth.
2. Based on the CPI.
Source: OECD Economic Outlook 93 database; Central Bank of the Republic of Turkey; Turkish Statistical Institute; and OECD calculations.
StatLink http://dx.doi.org/10.1787/888932836411

Turkey: **Demand, output and prices**

	2009	2010	2011	2012	2013	2014
	Current prices TRY billion	Percentage changes, volume (1998 prices)				
GDP at market prices	952.6	9.2	8.8	2.2	3.1	4.6
Private consumption	680.8	6.7	7.7	-0.7	2.4	4.1
Government consumption	140.0	2.0	4.7	5.7	4.8	4.3
Gross fixed capital formation	160.7	30.5	18.0	-2.5	4.9	8.8
Final domestic demand	981.5	9.7	9.2	-0.2	3.3	5.1
Stockbuilding[1]	- 18.4	2.1	-0.1	-1.2	0.1	0.0
Total domestic demand	963.1	12.4	9.0	-1.3	3.4	5.1
Exports of goods and services	222.1	3.4	7.9	17.2	4.9	6.7
Imports of goods and services	232.6	20.7	10.7	0.0	3.3	8.0
Net exports[1]	- 10.5	-4.3	-1.2	4.1	0.3	-0.8
Memorandum items						
GDP deflator	_	5.7	8.6	6.8	5.7	4.8
Consumer price index	_	8.6	6.5	8.9	6.7	5.2
Private consumption deflator	_	8.5	8.9	8.2	6.5	5.1
Unemployment rate	_	11.7	9.6	9.0	9.4	9.3
Current account balance[2]	_	-6.2	-9.6	-6.0	-6.2	-6.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932838083

strong, possibly thanks to new employment incentives and job creation in social services. Nevertheless, consumer price inflation fell to 6.1% in April from 11.1% a year earlier.

Monetary policy pursues multiple goals

The monetary policy regime in place since 2010 aims at reducing inflation without fuelling capital inflows, while keeping credit growth on a target path. These objectives can only be partially reconciled, however, and the central bank gives priority to one or the other according to circumstances. In April 2013, faced with competitiveness losses and capital inflows, the central bank cut its short-term interest rates. Global weakness and lower pass-through from international prices created room for this move. Nonetheless, going forward, the rapid acceleration of credit in early 2013, the expected widening of the current account deficit and the persistence of above-target inflation may call for measures to contain credit growth. Turkish sovereign debt having gained investment-grade status in May 2013 will likely have positive funding and confidence effects, but may also make the task of achieving balance between domestic and external demand more challenging.

Structural reforms remain indispensable

Achieving disinflation, financial stability and balanced growth requires stepping up structural reforms to facilitate the shift of informal activities to the formal sector, and thereby boost productivity and competitiveness. The selective investment and employment incentives that have been introduced over the past two years have had some success, but excessive reliance on such measures could hinder domestic competition and be detrimental to growth in the long term.

Fiscal policy could play a more active role

Fiscal policy could help reduce inflation volatility by avoiding overly frequent tax and administrative price hikes, and could play an active countercyclical role. After stimulating the economy in early 2012, fiscal policy was tightened with large tax and administered price increases. The latest Medium-Term Economic Programme embodies a tight fiscal stance for 2013 and 2014, and the authorities intend to reduce the public debt-to GDP ratio to around 30% by 2015, from above 35% in 2012. Turkey has room to let the automatic stabilisers operate freely and to provide some targeted and temporary stimulus if needed. However, this should be backed by stronger fiscal institutions, in particular by publishing timely and internationally comparable general government accounts. This would also help preserve fiscal credibility during the electoral cycle which will start in 2014.

The projected recovery has large risks on both sides

Growth is projected to pick up to above 3% in 2013 and to above 4½ per cent in 2014. A faster-than-expected recovery in the euro area would strengthen confidence and push growth higher. Progress in reducing the long-entrenched tensions in Turkey's Eastern regions may work in the same direction. In contrast, new difficulties in the euro area would make it more difficult to fund the large current account deficit and to roll over the large private foreign debt, thereby hindering growth.

OECD Economic Outlook
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Chapter 3

DEVELOPMENTS IN SELECTED NON-MEMBER ECONOMIES

BRAZIL

Since end-2011, monetary and fiscal stimuli have supported a gradual recovery, although short-term indicators point to significant uncertainties. The unemployment rate remains at record-low levels. After several years inside the tolerance band, inflation has crossed 6.5%, which is the upper limit of the target tolerance band to be met at year-end, and inflation expectations for 2013 and 2014 remain above the inflation target of 4.5% (the mid-point of the band). Portfolio capital inflows have receded and macroprudential measures that had been put in place to manage them have been relaxed.

The monetary policy rate was raised in April, and in the projection is assumed to rise further to bring inflation back towards the inflation target by the end of 2014. To spur growth, structural constraints need to be reduced through better infrastructure, a lower tax burden, less tax complexity and a further deepening of private long-term financial markets. Measures that reduce import competition are likely to harm medium-term productivity growth and should be reconsidered.

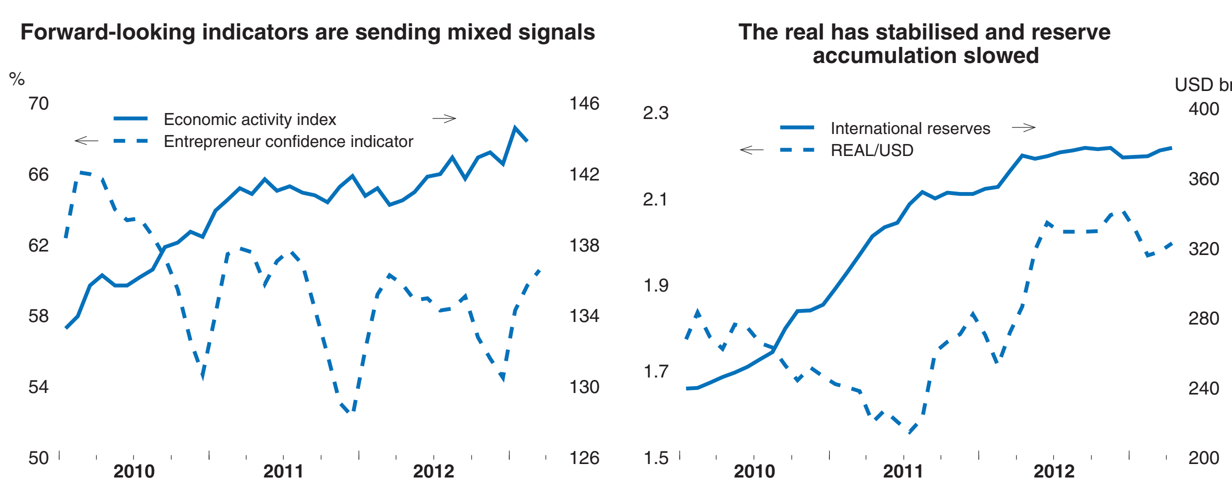
Growth is recovering from a disappointing 2012…

Demand received strong support from monetary and fiscal policies and large injections of directed credit in 2012. Nevertheless, growth was substantially below potential, partly due to supply-side constraints, including poor harvests that are set to be reversed in 2013. On balance, evidence from short-term indicators suggests growth is picking up despite some mixed signals.

… while inflationary pressures have intensified

A tight labour market, strong credit growth, supply-side constraints and global and local food-price shocks have fuelled inflationary pressures. In March 2013, year-on-year inflation rose above the 6.5% ceiling of the tolerance band to be met at year-end and inflation expectations for the next two years remain above the target mid-point of 4.5%. The effect on inflation of various tax cuts and delayed increases of administrative prices will soon run its course, although falling food prices should reduce inflation this year. The policy interest rate increased by 0.25% in April

Brazil



Source: Central Bank of Brazil; and National confederation of industry.

StatLink http://dx.doi.org/10.1787/888932836468

Brazil: **Macroeconomic indicators**

	2010	2011	2012	2013	2014
Real GDP growth	7.5	2.7	0.9	2.9	3.5
Inflation (CPI)	5.0	6.6	5.4	6.2	5.2
Fiscal balance (per cent of GDP)	-2.5	-2.6	-2.5	-2.4	-2.2
Current account balance (per cent of GDP)	-2.2	-2.1	-2.4	-2.7	-2.8

Note: Real GDP growth and inflation are defined in percentage change from the previous period.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932838140

2013, and the central bank has publicly committed to bring inflation expectations back to the target. Confirmation of this commitment through policy action would solidify confidence in the successful inflation-targeting framework.

Confidence in economic policies will be critical

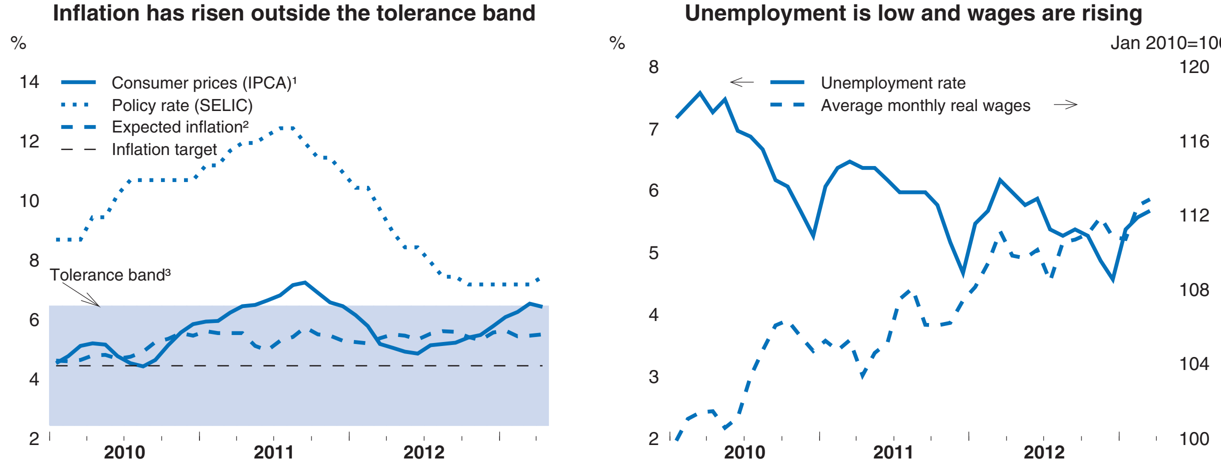
Fiscal policy has been supportive of unexpectedly weak activity, but has also conflicted with a rigid nominal fiscal target. Accounting measures taken to achieve legal compliance with the primary surplus target have reduced transparency and thereby undermined market perceptions of a strong commitment to the target. Strengthening market confidence in macroeconomic and structural policies will be key to raising investment going forward.

Structural policy reform would support investment and cost competitiveness

The implementation of an ongoing and ambitious policy agenda for infrastructure and tax reform should improve competitiveness by relieving some of the supply-side constraints and supporting

Brazil

Inflation has risen outside the tolerance band | **Unemployment is low and wages are rising**



1. Year-on-year growth.
2. 12-months ahead.
3. The inflation target is met whenever the accumulated inflation during the period January-December of each year falls within the tolerance band.

Source: Central Bank of Brazil; and IBGE.

StatLink http://dx.doi.org/10.1787/888932836487

Brazil: **External indicators**

	2010	2011	2012	2013	2014
			$ billion		
Goods and services exports	233.3	294.3	283.4	292	316
Goods and services imports	255.3	312.5	315.6	331	360
Foreign balance	- 22.0	- 18.2	- 32.2	- 39	- 44
Invisibles, net	- 25.3	- 34.3	- 22.0	- 27	- 30
Current account balance	- 47.3	- 52.5	- 54.2	- 66	- 73
			Percentage changes		
Goods and services export volumes	11.6	4.5	0.5	1.7	6.1
Goods and services import volumes	36.0	9.9	0.4	0.7	6.6
Terms of trade	13.0	8.5	- 4.7	- 2.6	0.0

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932838159

investment. Beyond that agenda, private long-term credit markets will have to be deepened, the maturity structure of private capital markets extended, and the space for private lenders in the long-term credit segment increased. This will imply assessing the effectiveness and consequences of the growing support to the public development bank, BNDES. A reassessment of such support could be usefully extended to all fiscal transfers with the aim of improving public debt dynamics. Recent import tariff hikes, which are meant to be temporary, and selective industrial policy support should also be reviewed for their effectiveness and to ensure that they do not jeopardise good resource allocation and, therefore, productivity growth.

Growth will gradually return to trend rates...

GDP growth is projected to return to slightly below trend rates, estimated at 3.7%, over the projection period, with remaining supply-side constraints and a weak external outlook being the main obstacle to still stronger growth. Progress on ongoing infrastructure and tax reforms would further support investment. Private consumption will remain solid as the labour market stays tight and incomes and wages increase at a steady pace. Inflation will return to within the tolerance range as a result of receding food prices and assumed tighter monetary policy in 2013. Fiscal policy will once again struggle to meet the primary surplus target. Export growth is projected to rise as world markets pick up and although the current account deficit will widen somewhat it can be easily financed by capital inflows.

... while risks are tilted to the downside

Investment growth is showing signs of recovering but could be significantly more hesitant if confidence in economic policies deteriorates. In particular, transparent communication of year-end fiscal accounts and successful containment of inflation will be crucial. The rapidly expanding balance sheets of public-sector banks, whose credit rating has recently deteriorated, may be raising financial and fiscal risks despite the current low level of non-performing loans. A global hike in risk aversion could potentially disrupt capital inflows, although the rising share of more stable direct investment inflows and substantial foreign currency reserves would cushion the economy from any immediate effects.

CHINA

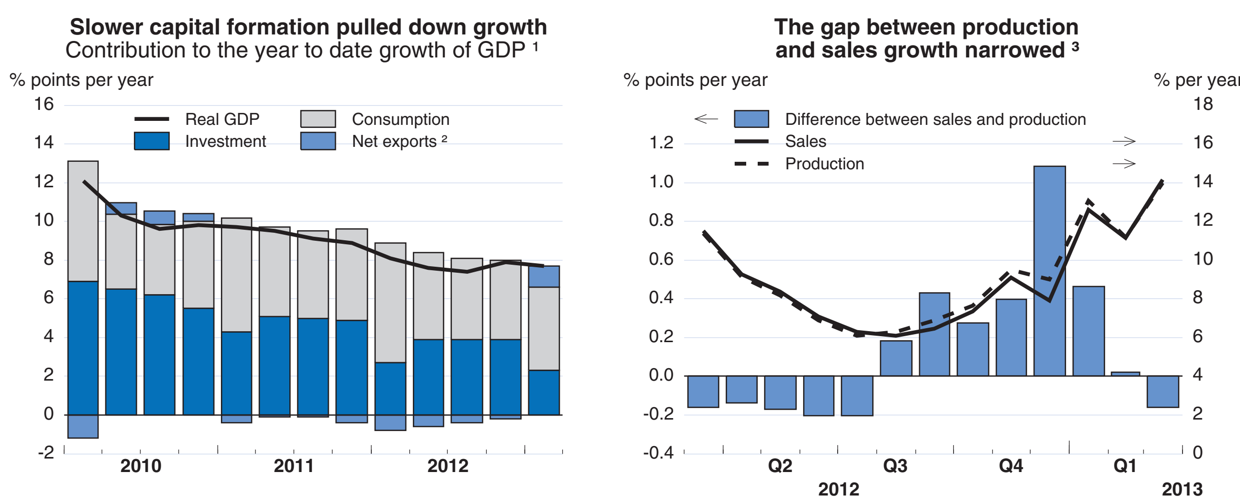
After showing signs of recovery in late 2012, growth unexpectedly weakened in the first quarter of 2013. The slowdown came mainly from capital formation, in particular from a swing in stock-building. Inflation has been declining but stabilised in early 2013. Given the strong growth in credit and more supportive fiscal policy, some turnaround in output growth can be expected by mid-2013. Nonetheless, growth for 2013 as a whole is projected to be subpar for the second consecutive year. In 2014, faster world trade may also boost the economy, bringing growth to 8.4%. With more limited export market share gains than in the past, the current account surplus may shrink anew.

With low inflation and substantial slack there may be room for some monetary relaxation, while implementing the recent and welcome measures to safeguard financial stability. Appropriately, fiscal policy is slightly expansionary. Fostering sustainable and more inclusive growth calls for stepping up structural reform. A detailed time path for reform implementation is needed, notably in the areas of interest rate deregulation, increased labour market flexibility through the lowering of barriers to internal migration and expanding the supply of building land.

Economic activity weakened unexpectedly

The slowdown in the first quarter of 2013 was driven by domestic demand, led by a halving in the contribution to growth of capital formation relative to the previous year, due mainly to a marked easing in inventory accumulation. Fixed asset investment slowed less, however, as a deceleration of investment in the industrial and service sectors was offset by stronger residential and infrastructure outlays. Government consumption has been held back by a campaign to reduce extravagant spending. Nonetheless, domestic economic rebalancing continued, with consumption and household incomes rising as a share of GDP.

China



1. For example, the data for the second quarter refers to the growth in the first two quarters relative to the same quarters in the previous year.
2. Includes the statistical discrepancy.
3. Sales and production data are in nominal terms and refer to the group of all enterprises above the reporting threshold.

Source: CEIC; and OECD calculations.

StatLink http://dx.doi.org/10.1787/888932836506

China: **Macroeconomic indicators**

	2010	2011	2012	2013	2014
Real GDP growth	10.4	9.3	7.8	7.8	8.4
GDP deflator (per cent change)	6.6	7.8	1.9	2.0	2.4
Consumer price index (per cent change)	3.2	5.5	2.6	2.5	2.6
Fiscal balance (per cent of GDP)[1]	-0.7	0.1	-0.4	-1.4	-1.5
Current account balance (per cent of GDP)	4.0	1.9	2.4	2.3	1.4

Note: The figures given for GDP are percentage changes from the previous year.

1. Consolidated budget, social security and extra-budgetary accounts on a national accounts basis.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932838102

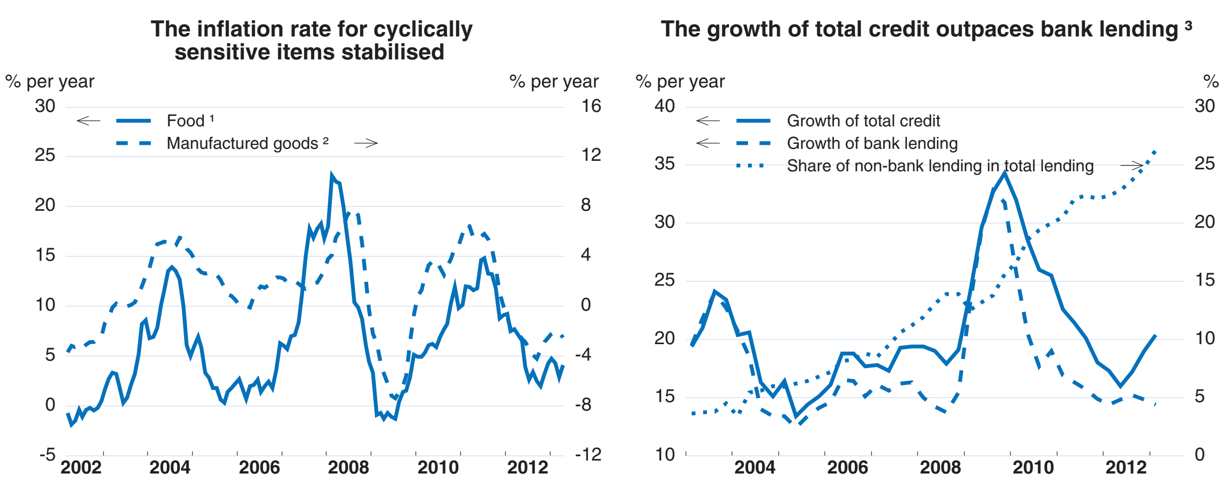
Inflation has stabilised at low rates

Inflation picked up slightly early in the year due to adverse weather conditions. However, by March, the 12-month increase in the consumer price index had fallen back to just over 2%. Overall, inflation pressures appear subdued. Indeed, the two most cyclical price indicators, food and manufactures, are rising exceptionally moderately, reflecting slower demand. Labour market tensions have also subsided somewhat. The inflow of migrant workers into urban areas slackened as did the growth of average wages.

The current account surplus has increased

Although world demand was weak, the growth of Chinese exports picked up in the first quarter of the year. Of particular note was the almost doubling of Chinese exports to Hong Kong, China in the year ending March 2013. This was probably driven by special factors, including hidden capital inflows into mainland China. Imports too were quite strong,

China



1. Refers to consumer prices; seasonally adjusted.
2. Refers to producer prices.
3. Non-bank lending includes trust loans, entrusted loans, bankers acceptances and corporate bonds.

Source: CEIC.

StatLink http://dx.doi.org/10.1787/888932836525

China: **External indicators**

	2010	2011	2012	2013	2014
	$ billion				
Goods and services exports	1 743.6	2 089.9	2 248.3	2 532	2 785
Goods and services imports	1 520.6	1 908.0	2 016.5	2 255	2 554
Foreign balance	223.0	181.9	231.8	277	231
Net investment income and transfers	14.7	- 45.8	- 38.6	- 67	- 89
Current account balance	237.7	136.1	193.2	210	142
	Percentage changes				
Goods and services export volumes	27.6	9.0	5.3	11.9	7.9
Goods and services import volumes	20.6	10.2	6.3	11.6	11.0
Export performance[1]	12.9	2.8	2.0	8.3	2.1
Terms of trade	- 9.5	- 3.4	2.8	0.5	- 0.1

1. Ratio between export volume and export market of total goods and services.

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932838121

despite the slowdown in domestic demand. Nonetheless, the current account surplus likely rose and foreign exchange reserves resumed their increase.

Credit growth has accelerated

In the first quarter of 2013, the central bank supplied sufficient liquidity to keep market interest rates for seven-day money between 3% and 3.5%, with much reduced volatility. However, the growth of money and bank lending has risen slightly above the rate targeted for the whole year. An even faster acceleration of total credit occurred, due to a surge in non-bank credit financed by a mixture of wealth management and trust funds. The bank regulator has recently restricted the extent to which the former can be invested in non-tradable assets and limited the extent to which bank loans can be sold to wealth management funds. Moreover, each fund now has to produce a separate audited balance sheet.

Fiscal policy is expansionary

The combined budget balance of the national government and the social security fund moved into a small deficit in 2012. The national government budget implies a further increase in the national deficit this year. In addition, receipts may be somewhat weaker than foreseen by the government, in part due to the post-budget decision to extend the trial of a replacement of the tax on services by VAT to the whole country, which will lower revenues by around 0.4% of GDP. Overall, the deficit of the national government and social security funds is projected to rise to 1.4% of GDP in 2013.

A subpar recovery is likely…

The impact of the increase in credit should spread beyond sales and prices of property to other forms of demand and eventually output. Investment should be spurred by higher profitability. As output accelerates, more rural migrants will be pulled into the urban economy, thereby raising consumption. In 2014, the pick-up in world trade will further stimulate output, pushing GDP growth up to 8.4%. Inflation is likely to remain under control, with output staying below potential. The recent weaker gains in export market share are expected to persist, implying that the current account surplus is likely to decline again, to below 1.5% of GDP in 2014.

… but risks remain

A major risk to the economy relates to the authorities' response to the renewed rise in house prices. It would be appropriate to increase the supply of housing land but the 2013 quota has in fact been reduced. Further governmental action to reduce the demand for housing later in the year could hinder the recovery. Another risk stems from the surge in trust company assets, a sector that has been prone to failure in the past. Defaults in this area, which are starting to occur, could markedly change investor attitudes to higher-risk investments and thereby lower capital formation. In addition, if the global recovery were to be slower than expected then growth in China would be adversely affected. On the upside, demographic factors could result in a renewed labour shortage during the recovery, raising real wages and consumption. The changes in value-added taxation could also impart more of a stimulus to the service sector than foreseen, boosting growth.

INDIA

Growth was at its weakest in a decade in 2012, reflecting both subdued external and domestic demand, including from fiscal tightening. Growth should gradually recover in 2013 as efforts to speed up the approval of large investment projects and the partial deregulation of foreign direct investment take effect. Headline inflation has remained stubbornly high, but inflation is expected to decline further as the effects of poor weather on food prices and hikes in administered prices fade.

Fiscal tightening and the new fiscal consolidation roadmap are welcome and should allow monetary policy to be eased further. On-going efforts to better target household transfers are commendable although further progress is needed. Energy subsidies remain high and should be cut. The tax system should also be reformed to raise more revenue in a less distortive way so as to boost private investment and competitiveness. In particular, the long-awaited reform of indirect taxes should be implemented swiftly. However, structural bottlenecks continue to constrain both investment and growth potential and addressing them is the key to boosting growth and raising living standards.

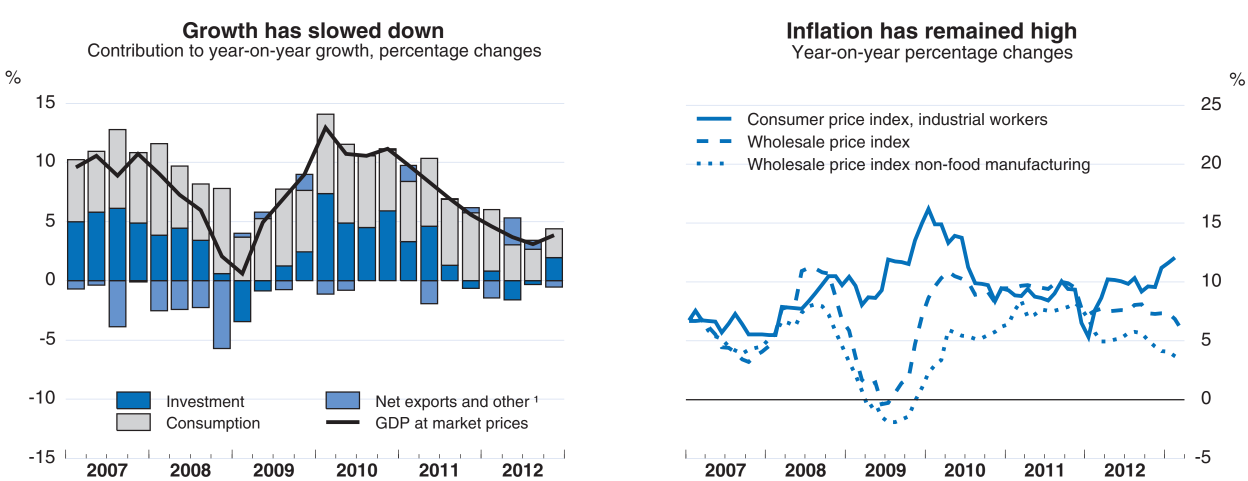
The slowdown has become broad-based...

Economic growth slowed markedly to 3.8% in 2012 (at market prices and on a calendar year basis). On the supply side, industrial production has remained weak while the agricultural sector has suffered from adverse weather conditions. Services have also been affected but still grew at over 6% in 2012.

... but price pressures have persisted...

Despite weak demand, inflation has remained high. Consumer price inflation was running at two-digit rates in early 2013, driven by rallying food prices and recent hikes in administered prices, but also by persistent structural supply bottlenecks. Wholesale price inflation has declined steadily, however, but has remained above the Reserve Bank's comfort zone of about 5%.

India



1. Other includes statistical discrepancy, stocks and valuables.
Source: OECD Economic Outlook 93 database; and CEIC.

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India: **Macroeconomic indicators**

	2010	2011	2012	2013	2014
Real GDP growth[1]	10.5	6.3	3.7	5.7	6.6
Inflation[2]	8.9	8.3	7.8	6.9	6.3
Consumer price index[3]	10.4	8.4	9.8	7.8	6.9
Wholesale price index (WPI)[4]	9.6	8.9	7.4	6.2	5.5
Short-term interest rate[5]	6.0	8.1	7.9	6.7	5.9
Long-term interest rate[6]	7.9	8.4	8.2	7.6	7.2
Fiscal balance (per cent of GDP)[7]	-6.8	-8.1	-7.5	-6.9	-6.5
Current account balance (per cent of GDP)	-2.7	-4.2	-4.9	-4.7	-4.2
Memorandum: calendar year basis					
Real GDP growth	11.3	7.6	3.8	5.3	6.4
Fiscal balance (per cent of GDP)[7]	-7.3	-7.8	-7.6	-7.0	-6.6

Note: Data refer to fiscal years starting in April.
1. GDP measured at market prices.
2. Percentage change in GDP deflator.
3. Percentage change in the industrial workers index.
4. Percentage change in the all commodities index.
5. RBI repo rate.
6. 10-year government bond.
7. Gross fiscal balance for central and state governments.

Source: OECD Economic Outlook 93 database.

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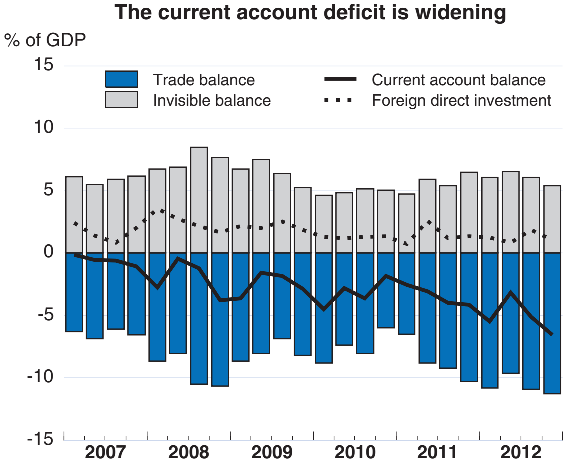
... and the balance of payments has deteriorated

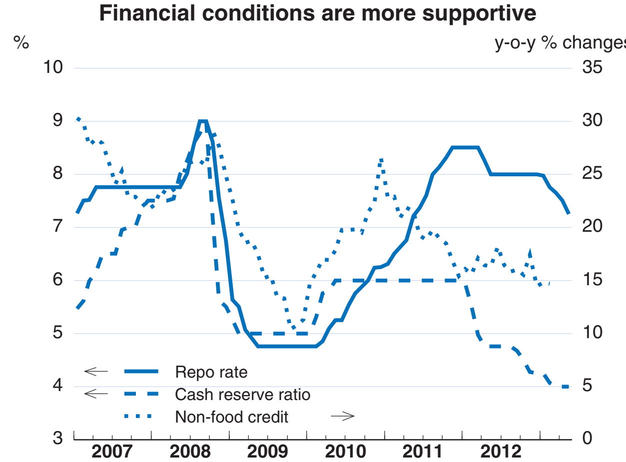
The current account deficit has widened significantly, reaching about 5% of GDP in 2012, high by historical standards. Exports have been sluggish reflecting both low external demand and domestic supply constraints. However, imports have soared owing to unabated oil demand, as domestic oil prices remain below international prices, and to buoyant imports of gold as a hedge against inflation. Debt-creating capital inflows

India

The current account deficit is widening



Financial conditions are more supportive



Source: OECD Economic Outlook 93 database; and CEIC.

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India: **External indicators**

	2010	2011	2012	2013	2014
	$ billion				
Goods and services exports	376.4	448.2	441.0	512	593
Goods and services imports	451.0	568.5	569.7	651	729
Foreign balance	- 74.6	- 120.3	- 128.7	- 139	- 136
Net investment income and transfers	28.5	42.3	38.5	39	40
Current account balance	- 46.1	- 78.0	- 90.2	- 100	- 96
	Percentage changes				
Goods and services export volumes	19.7	15.3	3.0	6.8	8.9
Goods and services import volumes	15.8	21.5	4.7	5.3	6.0
Export performance[1]	7.4	10.9	- 0.9	1.6	1.6

Note: Data refer to fiscal years starting in April.

1. Ratio between export volume and export market of total goods and services.

Source: OECD Economic Outlook 93 database.

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have helped finance the resulting increase in the current account deficit. This has, however, exacerbated external vulnerabilities.

The policy mix has become more balanced with some fiscal tightening…

The recent fiscal tightening is welcome to arrest debt build-up, reduce crowding-out of private investment and ease inflationary pressures. The government has announced a fiscal consolidation roadmap, which foresees a reduction in the central government deficit by 0.6% of GDP each year up to 2017. The hikes in administered prices combined with the on-going subsidy reform should help to contain spending pressures while stronger growth should boost tax revenues. However, subsidies could be better targeted and more revenue could be raised in a less distortive way.

… and some loosening of monetary policy

The monetary stance has recently been loosened through cuts in the policy interest rate to 7.25% in May 2013 and in the reserve requirement ratio. Still, liquidity has remained tight and loans to the non-agricultural sector have so far failed to rebound. With inflation projected to decline, monetary policy could be eased further, provided that the government sticks to its fiscal consolidation plans. The large current account deficit may, however, make it difficult to cut interest rates significantly. In addition, the steady increase in non-performing assets in the banking and corporate sectors may well slow the transmission of monetary policy easing.

The projected gradual pick-up in growth would be boosted by more structural reforms…

GDP growth is projected to rise gradually over the next two years, but remain below rates observed before the global financial crisis. The partial deregulation of foreign direct investment and the setting up of a Cabinet Committee on Investment to fast-track large projects should promote an investment recovery. The return to normal weather conditions is expected to raise rural incomes, contribute to a decline in inflation and boost private consumption. In addition, external demand is set to improve gradually, increasing exports. However, significantly more growth would be forthcoming if structural bottlenecks (in particular energy provision, gaps in transport infrastructure and stringent land acquisition regulations) were swept away by fundamental structural reforms.

… but risks are mainly on the downside

The failure to implement recently announced structural reforms would impair growth prospects, reduce competitiveness, exacerbate current account tensions and put fiscal consolidation at risk. In addition, the large current account deficit has increased India's vulnerability to a change in global risk appetite that could reverse capital inflows.

INDONESIA

Economic growth has been robust and is expected to remain so through the projection period, sustained by strong household and business sector demand. Headline inflation has been high in recent quarters due to increases in the administered price of electricity and rice, and recent restrictions on certain food imports. It may well rise sharply, albeit temporarily, in the near future if the government succeeds in raising the price of subsidised fuel.

Policy rates will soon need to be increased to control inflation. The general government budget balance remains in deficit. The existing fuel subsidies are fiscally unsustainable, and a mooted reform is welcome although merely a first step. Reducing subsidies would also help to relieve pressure on the rupiah by containing the growing deficit in energy trade.

Domestic demand remains robust

Consumer demand, notably for vehicles, remains robust, supported by strong nominal wage gains and consumer confidence, which has not yet been dented by higher inflation. Investment is rebounding despite a raft of new regulations targeted at foreign ownership, particularly in the retail and mining sectors.

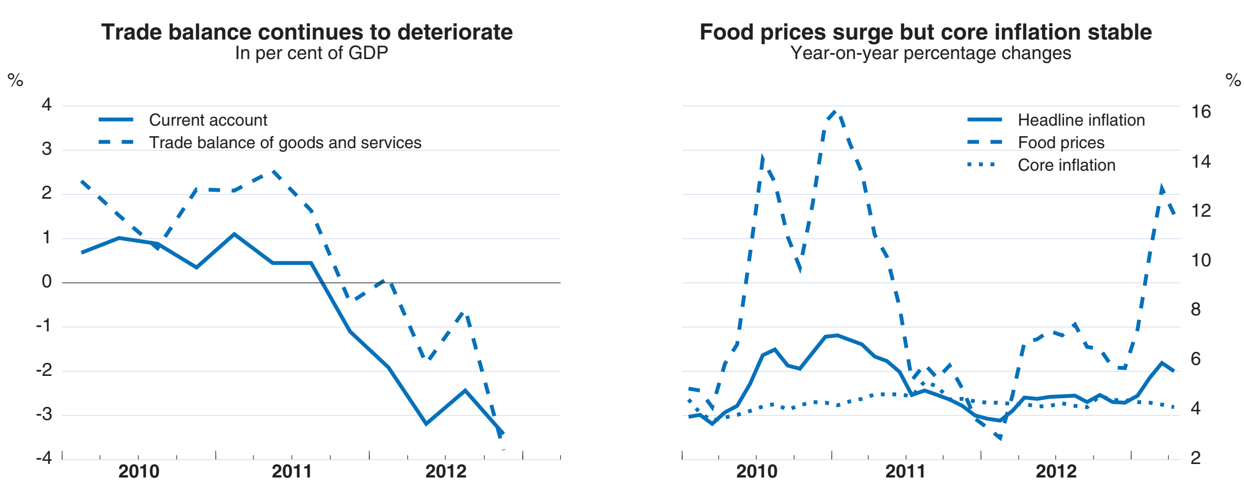
The trade position has weakened due to a growing oil and gas deficit

Import growth remains robust, both for consumer and capital goods. This is despite the weaker rupiah, which is likely to continue to feed through to higher import prices. The balance on goods and services trade continues to worsen, in part due to the trend decline in the terms of trade, but also due to a growing deficit in the oil and gas trade balance. The rising energy deficit reflects both supply (the slow expansion of capacity) and demand (subsidies which lead to overconsumption).

The fiscal balance is coming under increasing pressure

The general government budget balance remains in deficit. Creating fiscal room to expand the social safety net should be a government priority; in particular, fuel subsidies should be phased out, in combination

Indonesia



Source: Statistics Indonesia (BPS); and OECD Economic Outlook 93 database.

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Indonesia: **Macroeconomic indicators**

	2010	2011	2012	2013	2014
Real GDP growth	6.2	6.5	6.2	6.0	6.2
Inflation (CPI), period average	5.1	5.4	4.3	5.6	5.5
Short-term interest rate	7.0	6.9	5.9	6.0	6.4
Fiscal balance (per cent of GDP)	-0.7	-1.1	-2.0	-2.1	-1.9
Current account balance ($ billion)	5.1	1.7	-24.2	-26.9	-32.2
Current account balance (per cent of GDP)	0.7	0.2	-2.8	-2.9	-3.1

Note: Real GDP growth and inflation are defined in percentage change from the previous period.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932838254

with the introduction of measures to protect the poor, as planned. The recent government proposal to reduce fuel subsidies is welcome and should be implemented without delay.

Monetary policy should respond to persistently high inflation

Headline inflation has taken off in recent months, notably due to restrictions on the import of certain foods, even though pressures from an earlier electricity rate hike and higher administered rice prices have receded. Indeed, excluding these volatile items, core inflation is thus far in check. But inflationary risks remain because of the significant depreciation of the rupiah against the dollar since the beginning of 2012 due to concerns about the deterioration in the external balance. Policy rates will soon need to be lifted to put the brakes on inflation.

Growth should remain strong

Growth is expected to remain robust in the coming two years, driven as before by strong household consumption and business investment. Inflation is expected to stay high due to strong wage gains, recent currency weakness and generally tighter economic conditions. Some deterioration in the fiscal position is expected, related to the growing cost of fuel subsidies, especially if the recent initiatives to cut them are unsuccessful.

The risks are both external and internal

The risks to the outlook are several. Inflation and robust wage growth threaten sustainability, and the monetary response may have to be more vigorous than projected. External demand remains fragile, risking a further deterioration in the external balance and exchange-rate volatility.

RUSSIAN FEDERATION

Growth is projected to strengthen as a moderate recovery in the euro area improves the outlook for energy exports and domestic demand accelerates due to increasing real incomes. Inflation surged as administrative and food prices increased but will gradually decline towards the policy target range of 5-6% as this effect fades. The current account surplus will continue to diminish.

The newly adopted oil-based fiscal rule will drive fiscal policy and force hard choices among announced spending priorities: modernising the army, strengthening social protection and investing in infrastructure. Short-term monetary policy rates should remain on hold, but further improvements in the monetary policy framework should aim at reducing inflation expectations and long-term interest rates. A better business climate will be essential to encourage investment, make the economy less dependent on commodity prices and increase medium-term growth.

The growth slowdown continues

Growth rates fell substantially in the second half of 2012. Weakness continued in early 2013 with disappointing industrial production, investment, exports and retail sales. While the trigger for the slowdown was mostly external, its impact was aggravated by Russia's high dependence on commodity exports.

Exports of energy resources have stalled

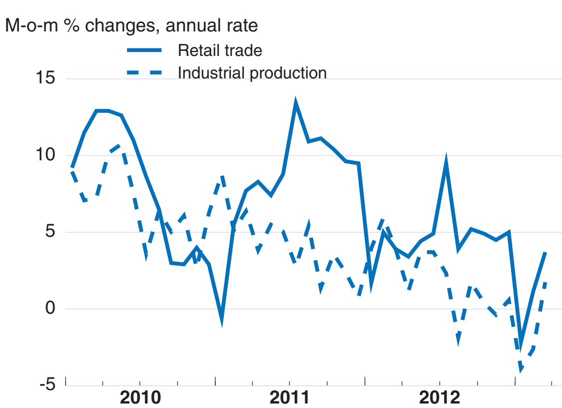
Exports declined in the first months of 2013 reflecting reduced demand for energy resources, which account for the majority of Russia's exports. On the supply side, oil production has stalled, partly because new fields are less easily accessible and more costly to exploit.

Slowing real incomes constrained consumption growth

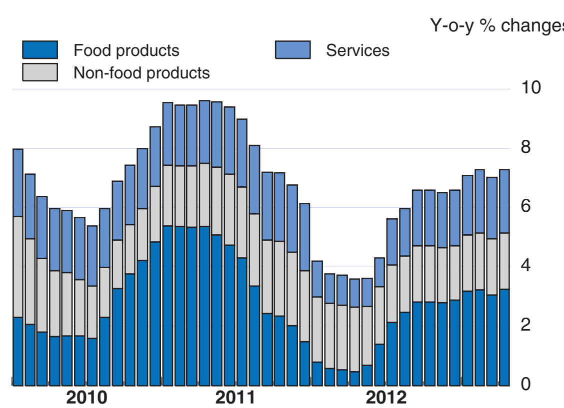
Private consumption sustained growth throughout 2012. Nevertheless, it slowed as real incomes were restrained by weak employment growth, flat oil prices, and declines in the real value of wages and benefits due to inflation. Consumer confidence also weakened, reducing household's appetite for further debt.

Russian Federation

There are signs of growth recovering
Seasonally adjusted, 6-month moving average



Inflation has probably peaked
Contributions to CPI growth



Source: OECD calculations; and OECD estimates based on Rosstat.

StatLink http://dx.doi.org/10.1787/888932836601

Russian Federation: **Macroeconomic indicators**

	2010	2011	2012	2013	2014
Real GDP growth	4.5	4.3	3.4	2.3	3.6
Inflation (CPI), period average	6.9	8.4	5.1	6.6	5.4
Fiscal balance (per cent of GDP)[1]	-1.0	1.5	0.4	-0.6	-0.5
Current account balance (per cent of GDP)	4.6	5.1	3.7	1.3	0.8

1. Consolidated budget.
Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932838178

Uncertainty and structural problems explain weak investment

Despite high capacity utilisation, investment disappointed in late 2012 and contracted in the first quarter of 2013. This is explained by a large degree of uncertainty related to the situation in the world economy and the euro area, domestic political developments and high capital outflows. While these headwinds are likely to fade, weaknesses in the business environment will continue to hold back a stronger investment recovery.

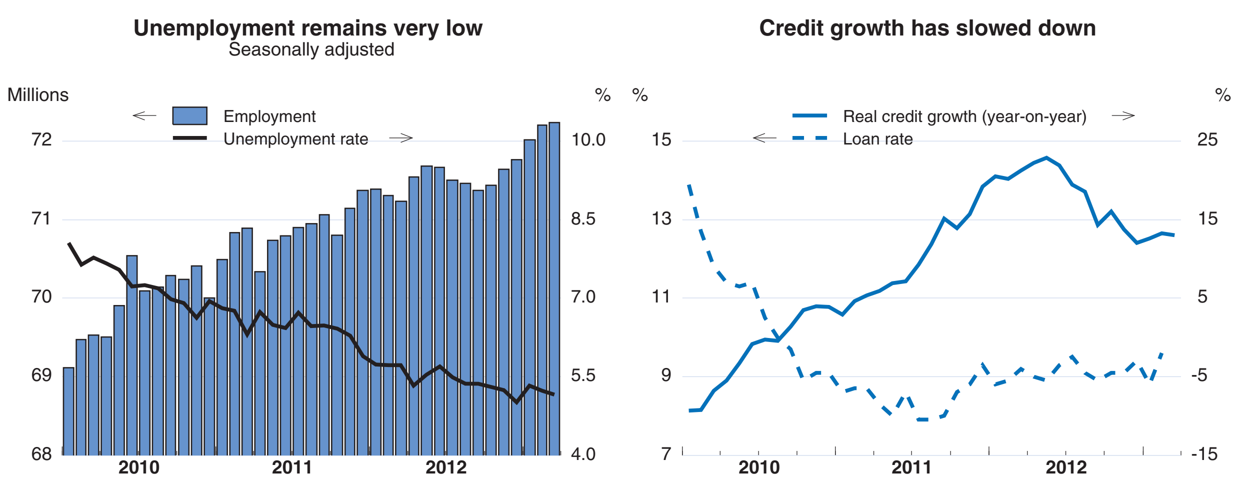
Inflation has probably peaked

Inflation increased throughout the second half of 2012 and peaked at 7.3% in February, well above the central bank target range of 5-6%. However, core inflation remained stable and most of the headline inflation surge in recent quarters was due to the poor 2012 harvest and an untypical administrative price adjustment calendar.

The monetary policy framework needs to be strengthened

The central bank has been cautious in its monetary policy response to these developments. This was appropriate, as both high inflation and the growth slowdown are likely to be only temporary. However, further improvements in the monetary policy framework would reduce inflation

Russian Federation



Source: OECD calculations; and OECD estimates based on Rosstat.

StatLink http://dx.doi.org/10.1787/888932836620

Russian Federation: **External indicators**

	2010	2011	2012	2013	2014
	$ billion				
Goods and services exports	445.3	576.0	593.9	611	636
Goods and services imports	322.0	413.9	446.4	481	517
Foreign balance	123.3	162.1	147.4	130	118
Invisibles, net	- 52.2	- 64.8	- 72.6	- 101	- 99
Current account balance	71.1	97.3	74.8	29	19
	Percentage changes				
Goods and services export volumes	7.0	0.3	1.4	0.8	1.2
Goods and services import volumes	25.8	20.3	9.5	7.6	5.9
Terms of trade	19.2	20.8	3.1	1.9	1.3

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932838197

expectations and risk premia, thereby bringing down punitively high long-term interest rates that restrain investment and discourage development of longer-term debt instruments. These improvements should involve announcing the inflation target beyond 2014 to anchor expectations and narrowing the policy rate corridor to reduce the high volatility of interbank rates.

The new fiscal rule forces hard spending choices

The newly introduced fiscal rule limits the use of oil revenues to that calculated at the reference price of $91 per barrel. In practice, this implies moderate tightening in both 2013 and 2014 that will roughly reverse the loosening in 2012. But even under the new rule the non-oil fiscal deficit will stay well above that consistent with saving an adequate share of the income from exhaustible oil resources. Still, hard choices will be necessary among announced medium-term spending priorities as the rule constrains spending. Long overdue reforms to increase the retirement age and phasing out early retirement options would help to secure the long-term sustainability of public finances.

Growth will strengthen

Inflation should slow down towards the central bank target range as effects of bad harvest and administrative price increase fade. This will increase growth of real household incomes and consumption. Exports will also pick up as the situation in the euro area improves and commodity prices recover. As a result, growth will strengthen, The unemployment rate is likely to remain very low and the current account surplus will continue to diminish.

Risks are mostly external

An additional large oil price fall is the main risk, given the dependence of the economy and the budget on oil exports. An increase in capital outflows linked to a spike in uncertainty in international financial markets could worsen the investment outlook.

SOUTH AFRICA

Faster growth is expected on the back of a weaker rand and a pick-up in world trade. Domestic demand is being held back by low consumer confidence and weak real income growth. As accelerating exports feed into the domestic economy, growth should become stronger and reach potential towards the end of 2014. Higher exports are projected to narrow the current account deficit. Inflation has risen but is projected to be contained by the large degree of slack in the economy.

The government should accelerate the underlying pace of fiscal consolidation, but allow the automatic stabilisers to work if growth turns out lower than expected. The Reserve Bank should explore room for easing, as the slack in the economy and fiscal tightening should contain inflationary pressures, while guarding against the possibility of the recent spike in inflation feeding into inflation expectations. Structural reform to tackle the insider/outsider divide on the labour market, together with a reduction of the sizeable rents in product markets, would secure a higher pace of durable job creation as well as a faster supply response to sector specific-capacity constraints.

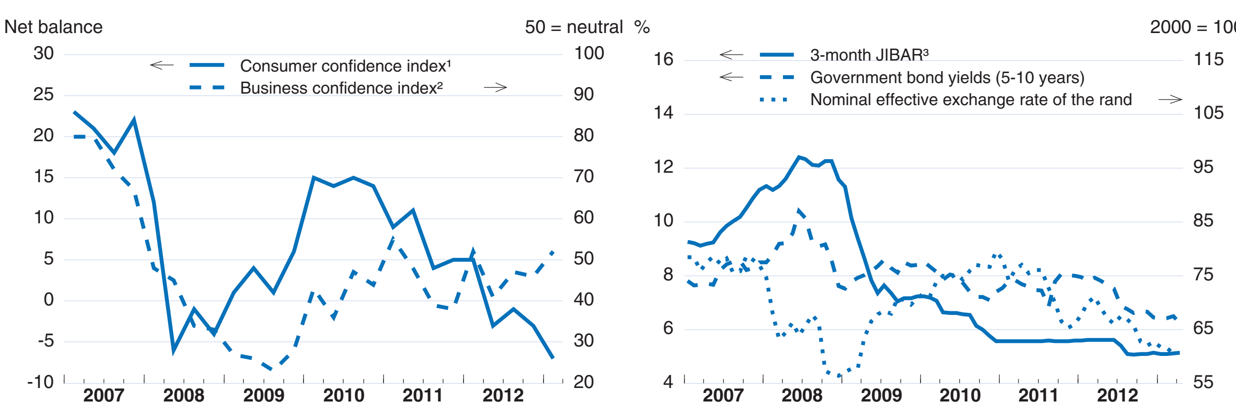
The output gap has continued to widen, but inflation has risen

In 2012, the economy expanded at a slower pace than potential growth for the sixth year running, mostly reflecting weak export growth. In early 2013, production, and thus exports, was held back by capacity constrains in the electricity sector. At the same time, rising import and food prices brought inflation to nearly 6% – the upper band in the inflation target – while core inflation increased to 5½ per cent – its highest level in three years. Industrial action in 2012 led to some large wage increases to settle disputes, but the substantial labour market slack should ensure that there is no general increase in wage pressures. International prices of key export commodities weakened further in early 2013, partly offsetting the export price effects of the weaker rand, contributing to the widening current account deficit.

South Africa

Consumer confidence has continued to fall, unlike in the business sector

Financial conditions have become more supportive



1. First National Bank/Bureau of Economic Research Consumer Confidence Index.
2. Rand Merchant Bank/Bureau of Economic Research Business Confidence Index.
3. Johannnesburg Interbank Agreed Rate.

Source: Bureau of Economic Research; South Africa Reserve Bank; and Datastream.

StatLink http://dx.doi.org/10.1787/888932836639

South Africa: **Macroeconomic indicators**

	2010	2011	2012	2013	2014
Real GDP growth	3.1	3.5	2.5	2.8	4.3
Inflation	4.3	5.0	5.6	6.5	5.0
Fiscal balance (per cent of GDP)	-6.0	-5.6	-5.6	-5.2	-4.4
Current account balance ($ billion)	-10.2	-13.6	-24.0	-26.5	-27.5
Current account balance (per cent of GDP)	-2.8	-3.4	-6.3	-6.9	-6.6

Source: OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932838273

The macro policy mix should shift

The scope for fiscal policy to stimulate the economy is limited by the large structural budget deficit. The gradual fiscal consolidation, with its focus on restraining spending, should be accelerated, although the automatic stabilisers should be allowed to support the economy if growth falls short of expectations. At the same time, there is scope for monetary policy to ease further. Notwithstanding the recent rand depreciation and an uptick of inflation in March 2013, the substantial slack in the economy should keep underlying inflationary pressures low so long as inflation expectations remain anchored.

Growth is expected to be near potential in 2013-14

Economic growth is expected to pick up slowly over the projection period, mainly as the effects of past depreciation are amplified by a faster expansion of world trade and as new electricity generation capacity is installed. However, such growth will not be enough to take up significant economic slack, so inflation should decline within the target band. The depreciation of the rand will lead to an initial deterioration of the external balance due to terms-of-trade losses, which subsequently will be more than reversed as export and import volumes react.

External and domestic downside risks are interlinked

If the recovery in world trade fails to materialise, global commodity prices are likely to weaken. Such a development would hurt exports and confidence, leading to a slower expansion of domestic demand. A further large depreciation could raise inflation expectations, necessitating higher policy interest rates before the recovery has become self-sustaining.

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Chapter 4

GROWTH PROSPECTS AND FISCAL REQUIREMENTS OVER THE LONG TERM

Summary

- Growth of the present non-OECD will continue to outpace that of the present OECD, but the difference will narrow substantially over coming decades. From over 7% per year recently, non-OECD growth may decline to around 4½ per cent per annum in 2030. Until around 2020, China is set to have the highest growth rate among major countries, but could be then surpassed by India.
- China will likely pass the United States as the world's largest economy in the next few years and India has probably recently surpassed Japan to be third largest. By the early 2030s, the BRIICS combined GDP should roughly equal that of the OECD (based on current membership), compared with just over half that of the OECD now.
- Between now and 2060, GDP per capita is seen to increase more than eightfold in India and sixfold in Indonesia and China, whereas GDP per capita in the highest-income OECD countries may only roughly double over this period. Nevertheless, today's lowest income countries will still have large gaps in GDP per capita compared with the highest income countries; India, Indonesia and Brazil could have GDP per capita levels (on a current PPP basis) which will only be 30-40% of that of the United States in 2060.
- In terms of geographical distribution, there will be a big shift in the share of world GDP accounted for by Asia, at the expense of both North America and Europe; having accounted for about one-quarter of global GDP (at current PPPs) at the beginning of the century, Asia's share has already risen to over one-third and is expected to reach one-half by the late 2030s and stabilise slightly above that level in the 2050s.
- The required fiscal consolidation, measured in terms of the average change in the underlying primary balance, to gradually reduce gross government debt to 60% of GDP by around 2030 differs accross countries. About two-thirds of OECD countries will have debt exceeding this ratio in 2014, but of these more than half will require relatively little (less than 1 percentage point of GDP) or no further consolidation, over and above that projected to 2014, to achieve a 60% target. A second group of countries – France, Iceland, Ireland and Spain – require average consolidation of between 1 and 3 percentage points of GDP beyond 2014, but this represents less than one-third of the required post-crisis consolidation.
- A third group of countries – Greece, Portugal, United Kingdom and United States – all have debt ratios exceeding 100% of GDP and require larger average consolidation of between 3 and 6 percentage points of GDP. Finally, Japan has a massive average fiscal consolidation requirement beyond 2014 of 11 percentage points, just to stabilise the debt ratio by 2030, suggesting that an approach of gradual fiscal consolidation will not be sufficient on its own to tackle the government indebtedness and will need to be supplemented by other policies.
- These calculations of consolidation requirements are likely to understate the necessary fiscal efforts for a number of reasons. Firstly, increased pressures on public spending from health and pensions, will add about 2¾ percentage points of GDP to required fiscal efforts by 2030, for a typical OECD country, but with considerable cross-country variation and a much greater increase in some countries. A second reason why consolidation requirements will be larger is that the required profile of the underlying primary balance is likely to involve an intermediate *peak* increase which is greater than the *average* increase

referred to above. Among the countries that require most consolidation, the peak measure in these projections is typically 2-4 percentage points of GDP higher than the average measure of consolidation. Finally, uncertainty is related to the loss in potential output due to the crisis and there is a risk that countries in which the recovery is delayed suffer further losses in potential output due to hysteresis effects which will aggravate consolidation requirements.

- Going beyond the relatively passive structural reform agenda in the baseline, a stylised package of structural policy reforms which move countries to best policy practice in a number of areas could raise GDP for the median OECD country by about 20% by 2060, albeit with smaller effects for countries already close to best practice. For the non-OECD G20 countries, where greater policy change is needed to move to best practice, reforms could raise GDP by more than a third by 2060. The largest gains result from the reform of product market regulations, raising productivity and GDP in the median OECD country by 17% and in the non-OECD by about 30% over the long run. Educational reforms in the BRIICS could raise GDP by 2060 by between 5% and 8%, with the largest effect in India where average years of schooling are currently very low and the baseline foresees only gradual convergence to leading countries.
- The *average* gains from reforms which raise labour utilisation are smaller, but there are large gains in selected OECD economies from lowering structural unemployment (in particular Estonia, Greece, Poland, Slovak Republic and Spain) and raising labour force participation (in particular Czech Republic, Hungary, Italy, Poland and Slovak Republic). Such reforms may be more beneficial in easing fiscal consolidation requirements than reforms which raise productivity.

Long-term growth projections for the global economy

This chapter describes long-term projections for the global economy

Coming decades will witness massive changes in the global economy, particularly in terms of the relative size of the major economies, in living standards and in the pattern of global saving and investment. This chapter is an attempt to provide orders of magnitude for these changes through a set of long-term growth projections, that extend the short-term projections presented in Chapters 1 to 3 to 2060 using a modelling framework described in Johansson *et al*. (2013) and summarised in Box 4.1.[1] Bearing in mind all the caveats that apply to this kind of exercise, these projections are then used as a back-drop for the analysis of fiscal imbalances and consolidation needs and the effects of structural reforms on medium- and long-term growth.

Box 4.1. **The modelling framework for long-term economic projections**

The global model used to extend the short-term *Economic Outlook* projections to 2060 is described in Johansson *et al*. (2013). The country coverage is all OECD countries as well as current non-OECD G20 countries (Argentina, Brazil, China, India, Indonesia, the Russian Federation, Saudi Arabia and South Africa), equivalent to about 90% of world GDP in 2010 at market exchange rates. The level of detail in which OECD economies are modelled is greater than for non-OECD economies, reflecting wider data availability for OECD countries, particularly in respect of fiscal accounts.

The backbone of the model is a consistent set of long-run projections for potential output. Potential output is based on a Cobb-Douglas production function with constant returns to scale featuring physical capital, human capital (based on gradually declining returns to average years of schooling) and labour as production factors plus labour-augmenting technological progress. By projecting these trend input components, assuming a degree of convergence in total factor productivity and human capital, potential output is projected out to 2060. The degree of convergence in total factor productivity depends on the starting point, with countries farther away from the technology frontier converging faster, but it also depends on the country's own structural conditions and policies, hence the 'conditional convergence' nomenclature. In the long run, productivity in all countries will tend to grow at the same rate determined by the worldwide rate of technical progress, but cross-country GDP per capita gaps remain, mainly reflecting differences in technology levels, capital intensity, human capital and labour utilisation, which in turn partly depend on differences in structural conditions and policies.

1. The country coverage in this modelling exercise is all OECD countries and all G20 non-OECD countries which together accounted for about 90% of nominal world GDP in 2010. This limitation in the country coverage should be particularly borne in mind in interpreting statements throughout the chapter concerning shares of world GDP or country rankings.

Box 4.1. **The modelling framework for long-term economic projections** *(cont.)*

Private saving rates for OECD countries are determined according to recent OECD empirical work (Kerdrain *et al.,* 2010) which suggests that demographic effects, captured by old-age and youth dependency ratios, are important drivers of long-term trends in saving, but with additional effects from the fiscal balance, the terms of trade, productivity growth, net oil balances and the availability of credit. Total saving in OECD countries is determined as the sum of public and private saving, although there is a 40% offset of any improvement in public saving from reduced private saving due to partial Ricardian equivalence (in line with recent OECD estimates, for example Röhn, 2011). For non-OECD countries, the total saving rate is determined according to an equation, which is close to being a total economy variant of the private saving equation for the OECD, with effects from the old-age and youth dependency ratios, the terms of trade, the availability of credit, the level of public expenditure (as a proxy for public social protection) and productivity growth.

Movements in global interest rates ensure that global saving and investment remain aligned, whereas imbalances at the national level are reflected in current account balances. An exception is a group of major non-OECD oil exporting countries, defined to include Saudi Arabia, Russia as well as 27 smaller non-OECD countries. For these countries, no individual projections of current balances are made. Rather, the combined current account balance of all non-OECD oil exporting countries is calculated based on projections of their balance of trade in oil.

Current account imbalances are accumulated to provide a proxy for foreign asset positions – with higher levels of external indebtedness leading to higher country-specific risk premiums that are reflected in market interest rates, consistent with the findings of Lane and Milesi-Ferret (2001) and Rose (2010). This is implemented as an increase of 2 basis points in interest rates for every percentage point increase in the ratio of net external debt to GDP. For countries that are net creditors, there is no discount placed on their domestic interest rate since no evidence for one has been found in empirical work.

Fiscal closure rules acting on the primary balance ensure that the ratio of government debt to GDP is stable either at recent levels or by targeting a specific (usually lower) debt-to-GDP ratio, which in the baseline here is 60%. Debt service responds to changes in debt and market interest rates, but with lags which reflect the maturity structure of debt. Higher debt levels are assumed to entail higher country-specific fiscal risk premia consistent with the findings of Égert (2010) and Laubach (2009): for every percentage point that the debt ratio exceeds a threshold of 75% of GDP, the fiscal risk premium applied to long-term interest rates increases by 2 basis points, with an additional increase of 2 basis points for every percentage point that the debt ratio exceeds 125%. No allowance for an additional interest rate premium is made for countries which do not have their own national currency.

Output is assumed to return to potential over four to five years

The long-term growth scenarios are anchored on the short-term projections for 2014, beyond which output gaps are assumed to close smoothly, typically over a period of four to five years, depending on their initial size. This implies above-trend growth for the first few years of the projections in countries with negative output gaps in 2014, including where this gap is exceptionally large such as Greece, Ireland, Portugal and Spain. Also, despite continued and, in many cases, large negative output gaps over this period, it is assumed that no country experiences sustained deflation. Once the output gap is closed, output grows in line with potential and monetary policy ensures that inflation returns to a country or region-specific target (see Box 4.2). The projections presented in this chapter thus provide a benign, even optimistic, medium-term outlook for the world economy (Table 4.1).

Box 4.2. **Assumptions in the baseline long-term scenario**

The baseline scenario includes the following assumptions for the period beyond the short-term projection horizon that ends in 2014:

- Cross-country comparisons of levels of GDP and GDP per capita are made in terms of current purchasing power parities (PPPs). PPPs are projected on the basis of differences in aggregate inflation and a relative price effect (reflecting the relative price of tradeables and non-tradeables) which is related to changes in relative living standards, through the so-called Harrod-Balassa-Samuelson effect, based on the empirical work of Frankel (2006). Nominal exchange rates adjust in line with relative aggregate inflation rates and also correct the level of the real exchange rate in line with predictions of the Harrod-Balassa-Samuelson effect. The upshot is that the GDP of low-income countries like India and China rise somewhat less over the projection, relative to high-income countries such as the United States, when measured on a current PPP basis than on a fixed PPP basis.

Assumptions regarding monetary and fiscal policy are as follows:

- Policy interest rates continue to normalise as output gaps close and beyond that are directed to converge on a neutral real short-term rate, which in turn follows the potential growth rate of the economy.
- The target for inflation is generally taken to be 2%, with the following exceptions: Australia, Poland, Iceland and Norway target 2.5%; Chile, Hungary, Mexico and Korea target 3%; Argentina, China, India and Russia target 4%; Brazil, Indonesia and South Africa target 4.5%; and Turkey targets 5%.
- For those countries with initial gross general government debt in excess of 60% of GDP, fiscal policy is directed towards convergence on this debt level. Otherwise, for countries where debt is initially below the 60% threshold, fiscal policy is directed to stabilising the gross government debt ratio. To achieve these objectives for the debt ratio, fiscal consolidation is assumed to take place through a gradual improvement in the underlying primary balance, with a maximum cap on consolidation in any single year of ½ percentage point of GDP. It should be noted that this assumption may contradict current government plans and is not necessarily consistent with national or supra-national fiscal objectives, targets or rules. No allowance is made for Keynesian effects of consolidation on demand.
- Effects on public budgets from population ageing and continued upward pressures on health spending are not explicitly included, or, put differently, they are implicitly assumed to be alleviated through reforms of relevant spending programmes or offset by other budgetary measures (see Box 4.4).

Assumptions regarding structural policies are as follows:

- Policy influences on labour force participation differ between two stages of the projections. Recently-legislated pension reforms that involve an increase in the normal retirement age by 2030 are assumed to be implemented as planned, and the participation rates of older workers adjusted accordingly. In countries where no such reforms have been undertaken, retirement behaviour is assumed to reflect only effects coming from a rising education level. Beyond 2030, a more stylised assumption is adopted whereby the share of active life in life expectancy is assumed to remain constant, hence the legal pensionable age is implicitly assumed to be indexed to longevity.
- Structural unemployment in OECD countries gradually returns to the lowest value estimated between 2007 and 2014. Unemployment in non-OECD countries where the level is currently above the OECD average is assumed to gradually converge to the OECD average, while it remains unchanged in countries currently below the OECD average.
- The long-term trend increase in average years of schooling per worker (the basis for estimating human capital) is assumed to continue in all countries, and is calculated to have a modest positive effect on aggregate labour force participation.
- Product market and trade regulations are assumed to gradually converge towards the average regulatory stance observed in OECD countries in 2011 in countries where regulations are currently more restrictive, while for other countries, regulations remains unchanged.
- For non-OECD countries, a gradual increase in public spending on social protection is assumed, amounting on average to an increase of four percentage points of GDP to a level of provision similar to the average OECD country. It is further assumed that this is financed in a way so as to have no effect on public saving.

Table 4.1. **Growth in total economy potential output and its components**

Annual averages, percentage change

	Output Gap	Potential real GDP growth				Potential labour productivity growth (output per worker)				Potential employment growth				Real GDP growth
	2012	2001-2007	2012-2017	2018-2030	2031-2060	2001-2007	2012-2017	2018-2030	2031-2060	2001-2007	2012-2017	2018-2030	2031-2060	2012-2017
Australia	-0.9	3.2	3.3	3.0	1.9	1.1	1.9	2.1	1.5	2.1	1.4	0.9	0.5	3.5
Austria	-1.6	2.1	1.7	1.8	1.3	1.1	1.0	1.6	1.3	1.0	0.7	0.1	-0.1	1.7
Belgium	-0.8	1.8	1.5	2.2	1.8	0.8	0.8	1.9	1.4	0.9	0.6	0.3	0.3	1.3
Canada	-0.4	2.6	2.0	2.2	1.9	0.8	1.1	1.7	1.5	1.7	0.9	0.4	0.3	2.0
Chile	0.2	4.0	5.0	3.3	1.4	1.7	2.9	2.2	1.5	2.3	2.0	1.1	0.0	5.0
Czech Republic	-2.5	3.6	2.1	2.9	1.6	3.4	2.0	3.1	2.0	0.3	0.2	-0.2	-0.4	1.9
Denmark	-3.2	1.4	1.0	1.8	1.9	0.9	0.8	1.6	1.8	0.5	0.2	0.1	0.1	1.2
Estonia[2]	-1.7	5.1	3.0	3.0	1.7	4.4	2.9	3.2	2.2	0.7	0.1	-0.2	-0.4	3.4
Finland	-1.4	2.7	1.5	2.1	1.4	1.5	1.4	2.3	1.4	1.1	0.1	-0.2	0.1	1.5
France	-2.4	1.7	1.5	2.3	1.4	0.8	1.2	2.1	1.2	0.8	0.4	0.2	0.1	1.6
Germany	0.1	1.2	1.2	0.9	0.7	0.8	1.0	1.5	1.4	0.4	0.2	-0.6	-0.7	1.1
Greece	-11.7	2.8	-0.5	3.2	1.3	1.6	0.2	2.6	1.6	1.1	-0.8	0.6	-0.3	0.1
Hungary	-3.3	2.7	1.3	3.1	1.8	2.9	1.1	3.0	2.4	-0.2	0.2	0.1	-0.6	1.4
Iceland	-4.2	3.7	0.8	2.2	2.0	2.2	0.4	1.5	1.7	1.4	0.4	0.7	0.3	1.6
Ireland	-7.9	5.4	1.4	3.0	1.6	2.4	1.1	1.7	0.9	2.9	0.4	1.2	0.7	2.5
Israel	1.0	3.5	3.5	2.8	2.5	0.9	1.2	1.2	1.4	2.6	2.2	1.5	1.2	3.2
Italy	-4.5	1.1	0.1	2.0	1.4	0.2	0.0	1.6	1.5	0.9	0.1	0.4	-0.1	0.3
Japan	-0.8	0.7	0.8	1.1	1.1	0.9	1.2	1.7	1.8	-0.2	-0.4	-0.5	-0.7	1.2
Korea	-3.1	4.5	4.1	3.3	0.6	3.2	3.4	3.4	1.3	1.2	0.7	0.0	-0.7	4.1
Luxembourg	-2.5	4.1	2.6	2.6	1.5	0.5	0.2	1.5	1.2	3.6	2.4	1.0	0.4	2.6
Mexico	-0.4	2.4	3.2	3.6	2.7	0.7	1.0	1.9	2.3	1.7	2.1	1.6	0.4	3.5
Netherlands	-2.7	1.9	1.4	2.1	1.5	0.9	0.9	2.1	1.6	1.0	0.5	0.0	-0.1	1.3
New Zealand	-1.5	3.1	2.4	2.4	1.9	0.7	1.4	1.6	1.5	2.4	1.0	0.8	0.4	2.8
Norway[1]	-0.5	3.0	2.7	2.4	1.6	1.7	1.6	1.9	1.2	1.2	1.2	0.5	0.4	3.0
Poland	0.7	4.1	2.9	2.2	0.8	3.4	2.9	2.7	1.7	0.7	0.0	-0.5	-0.9	2.5
Portugal	-6.7	1.6	0.2	2.1	1.5	1.2	0.5	1.8	1.9	0.4	-0.3	0.3	-0.4	0.5
Slovak Republic	-0.5	4.4	3.2	2.4	0.9	3.8	3.0	2.8	1.7	0.6	0.2	-0.4	-0.8	2.8
Slovenia	-3.3	3.2	1.1	2.8	1.5	2.6	1.4	2.9	1.9	0.7	-0.3	-0.1	-0.3	0.9
Spain	-7.7	3.3	0.8	3.0	1.5	0.6	1.1	1.8	1.6	2.8	-0.3	1.2	-0.1	1.4
Sweden	-1.4	2.6	2.7	2.5	1.5	2.0	1.9	2.2	1.2	0.6	0.8	0.3	0.2	2.6
Switzerland	-0.9	1.9	2.1	2.2	1.6	0.8	1.0	1.9	1.7	1.0	1.1	0.3	-0.1	2.0
United Kingdom	-2.1	2.5	1.7	2.6	2.0	1.6	0.9	2.0	1.6	0.9	0.8	0.6	0.4	1.8
United States	-3.0	2.4	2.0	2.1	1.7	1.7	1.5	1.7	1.1	0.7	0.5	0.4	0.5	2.5
Turkey	-2.1	4.0	5.1	4.3	1.9	2.6	2.5	2.5	1.6	1.3	2.5	1.7	0.3	4.8
Argentina[2]	6.7	3.7	3.8	3.1	2.3	0.6	2.1	1.8	2.1	3.1	1.6	1.2	0.2	2.3
Brazil	-1.1	3.0	3.7	3.6	2.0	0.8	2.2	2.7	2.4	2.2	1.4	0.8	-0.4	3.3
China	0.1	10.2	8.4	5.4	2.1	9.2	7.9	5.8	3.0	0.9	0.5	-0.3	-0.9	8.1
Indonesia	0.5	4.1	6.0	5.2	3.4	2.1	4.0	4.2	3.6	1.9	1.9	1.0	-0.1	6.0
India	0.1	7.0	6.9	6.8	4.3	5.2	5.0	4.9	3.7	1.7	1.8	1.8	0.6	6.3
Russian federation	-1.7	5.4	3.3	2.8	1.3	4.6	4.4	3.5	2.0	0.7	-1.1	-0.7	-0.7	3.5
South Africa	-2.5	3.1	4.6	4.9	2.3	2.0	2.7	2.8	1.9	1.1	1.9	2.0	0.4	4.7
Euro area[2]	-2.9	1.7	1.0	2.0	1.3	0.8	0.9	1.8	1.5	1.0	0.1	0.2	-0.2	1.2
OECD[2]	-2.3	2.1	1.9	2.3	1.6	1.3	1.3	1.8	1.5	0.9	0.6	0.4	0.1	2.2
Non-OECD	0.7	7.1	6.8	5.3	2.8	5.7	5.7	4.6	2.9	1.3	1.0	0.6	-0.2	6.4
World[2]		3.5	3.7	3.6	2.2	2.3	2.8	3.0	2.3	1.2	0.9	0.6	-0.1	3.8

1. Based on measures of mainland GDP.
2. Reported growth for 2001-2007 starts in 2002. For Argentina, it starts in 2003.

Source: OECD Economic Outlook 93 long-term database.

StatLink http://dx.doi.org/10.1787/888932838292

The crisis is assumed to have had permanent adverse effects only on the level of potential output

Another optimistic assumption that underlies the scenarios presented here is that the crisis has only reduced the *level* of trend or potential output and has had no permanent adverse effect on its growth rate. Compared with pre-crisis trends, the level of aggregate OECD potential output, has been revised downwards by about 3% though the median adjustment across countries is about 6% (Box 4.3). There are, however, a number of smaller OECD countries, for which such estimates suggest losses exceeding 10% of potential output relative to pre-crisis trends. Some of this loss in potential output is assumed to be reversed over the medium term as hysteresis-induced increases in the structural rate of unemployment are reversed and the structural rate of unemployment gradually returns to pre-crisis levels. It is also assumed that even very large output gaps close fairly quickly, with any multiplier effects from further fiscal consolidation being ignored. An alternative, whereby large negative output gaps persist for several years, raises the downside risk that hysteresis-type effects drag down the level of potential output further and on a more permanent basis.

Policies play an important role in the baseline scenario

Structural and fiscal policies play an important role in the projections presented here. The projection framework takes into account the impact of labour market and retirement policies on developments in unemployment and labour force participation, the impact of product market and trade regulations on innovation and technological diffusion, as well as the impact of fiscal consolidation in advanced economies and enhanced welfare policies in emerging economies on saving, global imbalances, indebtedness and capital accumulation via changes in the cost of capital. Over a time-horizon covering several decades, these structural conditions and policies are likely to evolve and so the baseline scenario incorporates a number of policy developments seen as probable in several areas (Box 4.2).[2] While these policy changes are significant, there remains considerable scope for further structural reforms to improve trend growth, as explored in variant scenarios (see below).

Productivity convergence implies faster growth in the BRIICS…

A defining feature of the long-term projections is "conditional convergence" in trend labour productivity (Figure 4.1) which occurs as countries move closer to the technological frontier, increase human capital by raising years of schooling to catch up with leading countries[3]

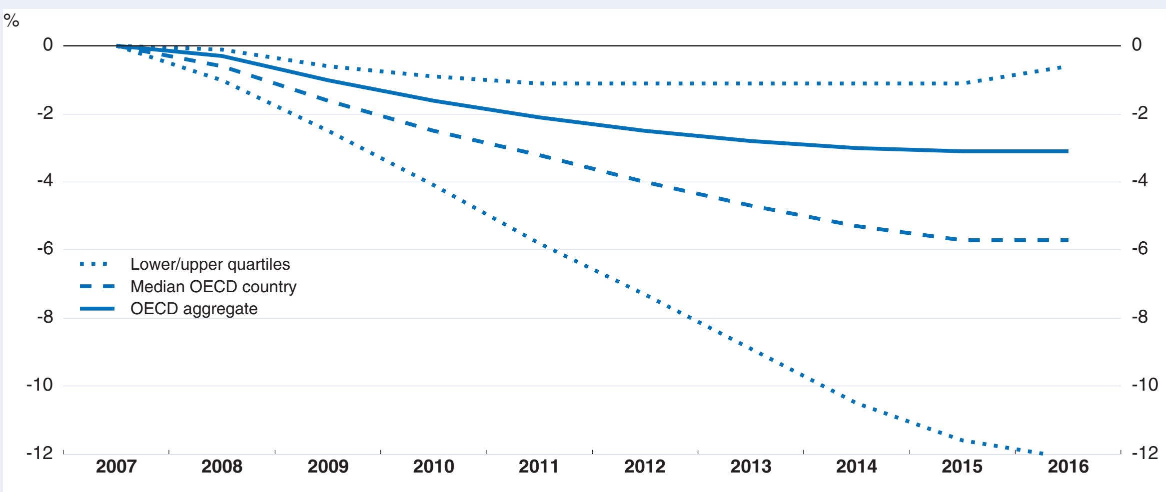
2. Baseline projections for European programme countries (*e.g.* Greece) do not take into account the impact of structural reforms announced in the recent programmes, which could alter growth prospects and fiscal positions for these countries.
3. The level of schooling of the cohort aged 25-29 for all countries is assumed to converge towards the leading country with a speed of convergence of 1% per year. While this is equal to the observed speed of convergence over 1960-2005 across all countries, there is likely to be potential for a much faster rate of catch-up for countries which are furthest behind, particularly where major reforms would have a large impact on primary and secondary education.

Box 4.3. **The effect of the crisis on potential output**

The crisis is likely to have resulted in a permanent loss in the level of potential output for most OECD countries, so that even with a continuing recovery, GDP may not catch-up to its pre-crisis trajectory. The extent of these losses is very uncertain, because of the difficulty of knowing what the counter-factual would be and because of the difficulties of disentangling what the effect of the crisis is from other effects, including policy changes. Estimates here are derived from comparing current estimates of potential output per head of the working population with an extrapolation of the pre-crisis trend (over 2000-07) in potential output per head of the working population. Potential output is normalised on the population of working age because some slowdown in potential growth was always expected for demographic reasons and this should not be attributed to the crisis. This method implies a reduction in aggregate OECD-wide potential output of just under 3% (see figure below), which is similar to an estimate that is obtained from comparing projections of potential output made prior to the crisis with the latest projections. It is also similar in broad terms to estimates that were made shortly after the onset of the crisis (OECD, 2010a).

Estimated effetcs of the crisis one the potential output of OECD countries

Percentage reduction in potential output relative to pre-crisis trend



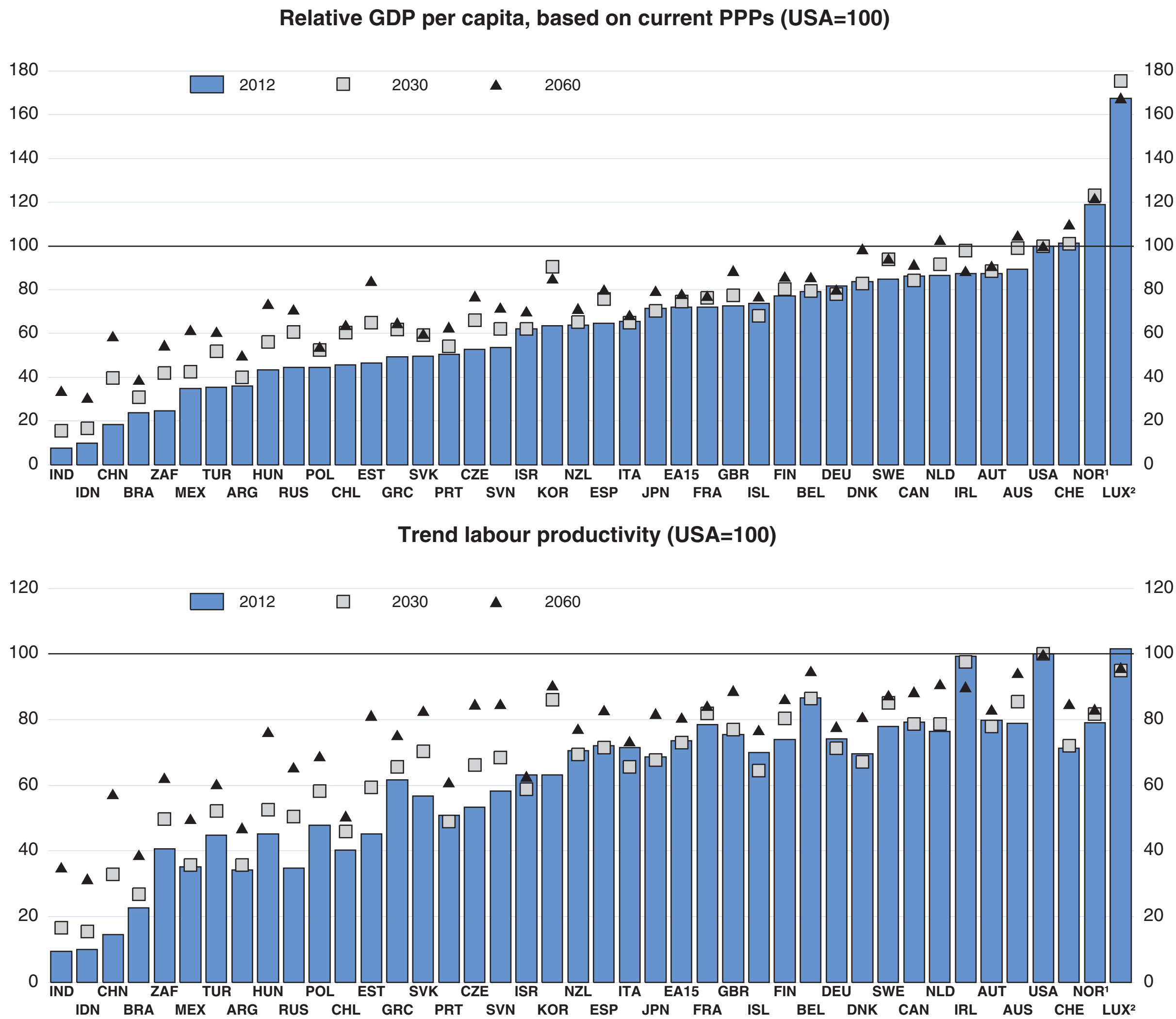
Source: OECD Economic Outlook 93 long-term database.

StatLink http://dx.doi.org/10.1787/888932836658

There is, however, wide variation in the estimated effect of the crisis on individual countries. The estimated effect on the median OECD country is about double the effect on the area-wide aggregate, reflecting that smaller countries have typically been hit harder than larger ones. On this basis, the effect of the crisis on potential has been small in Japan and Germany and reduced output by less than 2½ per cent for the United States. Other countries where the estimated effect of the crisis is relatively small include Austria, Australia, Israel, Mexico and Switzerland. Conversely the estimated effect is to reduce potential output in 2014 by more than 10% for Czech Republic, Hungary, Ireland, Iceland, Slovenia, Estonia, Greece and Luxembourg.

A few countries, notably Ireland and Spain, have experienced a very marked slowdown in the growth of the population of working age, which is not due to standard demographic developments, but rather arises because of a sharp decline in net immigration flows which probably should be attributed to the effect of the crisis, but is not included as such in these calculations, which may therefore err on the side of optimism for these countries.

Figure 4.1. **Convergence in living standards is driven by trend productivity**



1. GDP per capita for Norway in panel A includes oil production, while the measure of productivity in panel B excludes oil and is based on mainland GDP only.
2. Luxembourg has a very high GDP per capita because it is boosted by an exceptionally high ratio of employment to resident population, due to cross border workers.

Source: OECD Economic Outlook 93 long-term database.

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and increase physical capital per worker.[4] This implies that countries that are the furthest behind in terms of the level of productivity today are likely to grow the fastest in the future. In particular, for China, India and Indonesia (which currently have the lowest levels of trend productivity among the sample of countries considered here) trend productivity

4. Conditional convergence implies that there is not complete convergence in productivity levels even in the long run, rather differences in productivity *levels* will persist because of permanent differences in structural characteristics, including policy settings. Nevertheless, as economies converge on their own steady-state path the *growth* rate of trend productivity will tend towards a common rate determined by the growth rate of technical progress.

growth will average three to four times that of the OECD between now and 2030, and, although gradually declining over the entire projection, will be double that of the OECD over the period 2030-60.

… as well as in low-income OECD countries…

Convergence of trend labour productivity is also a feature, albeit less striking, of the pattern of long-term growth among OECD countries. Thus, those countries with currently low productivity levels (including the OECD Eastern European economies, Turkey and Mexico) typically experience long-term trend productivity growth rates of 2-3% per annum, compared with about 1½ per cent per annum for countries like the United States, which are at, or close to, the productivity frontier. The projected growth rate of trend productivity does not, however, always conform to this pattern, in particular over the medium term because of inertia, so that those countries which have experienced poor trend productivity growth recently (including Portugal, Greece and Italy) experience only a modest pick-up before 2020.

… but convergence is incomplete

While growth is generally more rapid in low-income countries, a complete catch-up in productivity levels does not generally occur even by 2060. This is not only because it would take longer for those countries which start furthest from the productivity frontier, though in some cases such as upgrading of education levels convergence is bound to be very slow, but also because differences in structural policies and other structural factors matter and can prevent complete catch-up; in the present modelling framework important differences in underlying productivity levels are attributed to differences in structural policy settings as represented by the degree of competition-friendly product market regulation. Furthermore, differences in GDP per capita will persist because of differences in labour utilisation due to different structural characteristics of the labour market, including structural policy settings, as well as demographic differences.

Potential employment growth is slowing for demographic reasons

The contribution to growth from labour utilisation is slowing nearly everywhere, reflecting demographic factors, particularly ageing, as the population of working age and aggregate participation rates grow more slowly. This occurs even though the baseline scenario embodies retirement reforms that are sufficient to maintain a stable proportion of life expectancy in the labour force beyond 2030 (up to 2030, known retirement policy is included). Aggregate OECD employment growth, while slowing, remains positive throughout, but important exceptions include Japan, Germany, Korea and some Eastern-European economies where employment growth becomes negative. There is even wider variation among the BRIICS: both China and Russia are expected to experience strong negative employment growth over the long term, particularly beyond 2030; whereas India experiences very strong positive employment growth to 2030 and positive, albeit slowing, growth rates beyond.

Labour utilisation will be pushed down by an increasing dependency ratio...

Beyond 2030 pressures on labour utilisation from ageing populations will tend to reduce GDP per capita in a majority of countries (Figure 4.2, upper panel). In itself, aggregate population growth has no immediate implications for GDP per capita in the modelling framework used for the projection. However, the projected decline in the share of working-age population due to ageing will have a negative impact in most countries (Figure 4.2, lower panel). The conclusion tends to be the same whatever definition of working age is used – here it is ages 15 to 74 – as long as a fixed age range is considered. Large declines in the working-age share of more than 10 percentage points to 2060 occur in Slovenia, Slovak Republic, Czech Republic, Poland and especially in Japan and Korea. Exceptions to this decline in the share of the working age population occur to 2030 in several low-income countries (Turkey, Mexico, Chile, India, Indonesia, Brazil and China); however, this is only sustained beyond 2030 in India, while China is projected to experience a particularly strong turnaround.

... but can be offset by higher participation, including through later retirement

A rise in the labour force participation rate in a majority of countries helps to offset some of the negative effect on labour utilisation from the declining share of people of working age (Figure 4.2, middle panel). This arises partly because of a continuation of the observed trend for later cohorts to participate more in the workforce at a given age than earlier cohorts did before them. Up to 2030, the labour force participation projections also incorporate legislated reforms to public retirement schemes which in a number of cases increase the age of retirement. Beyond 2030, labour force participation is boosted by an assumption that participation in the workforce rises in line with increasing life expectancy, which corresponds roughly with the notion that effective retirement ages increase in line with life expectancy. Assuming fixed retirement ages over a long horizon with rising life expectancy would have undermined the realism of the exercise.

OECD potential growth moderates over the longer term

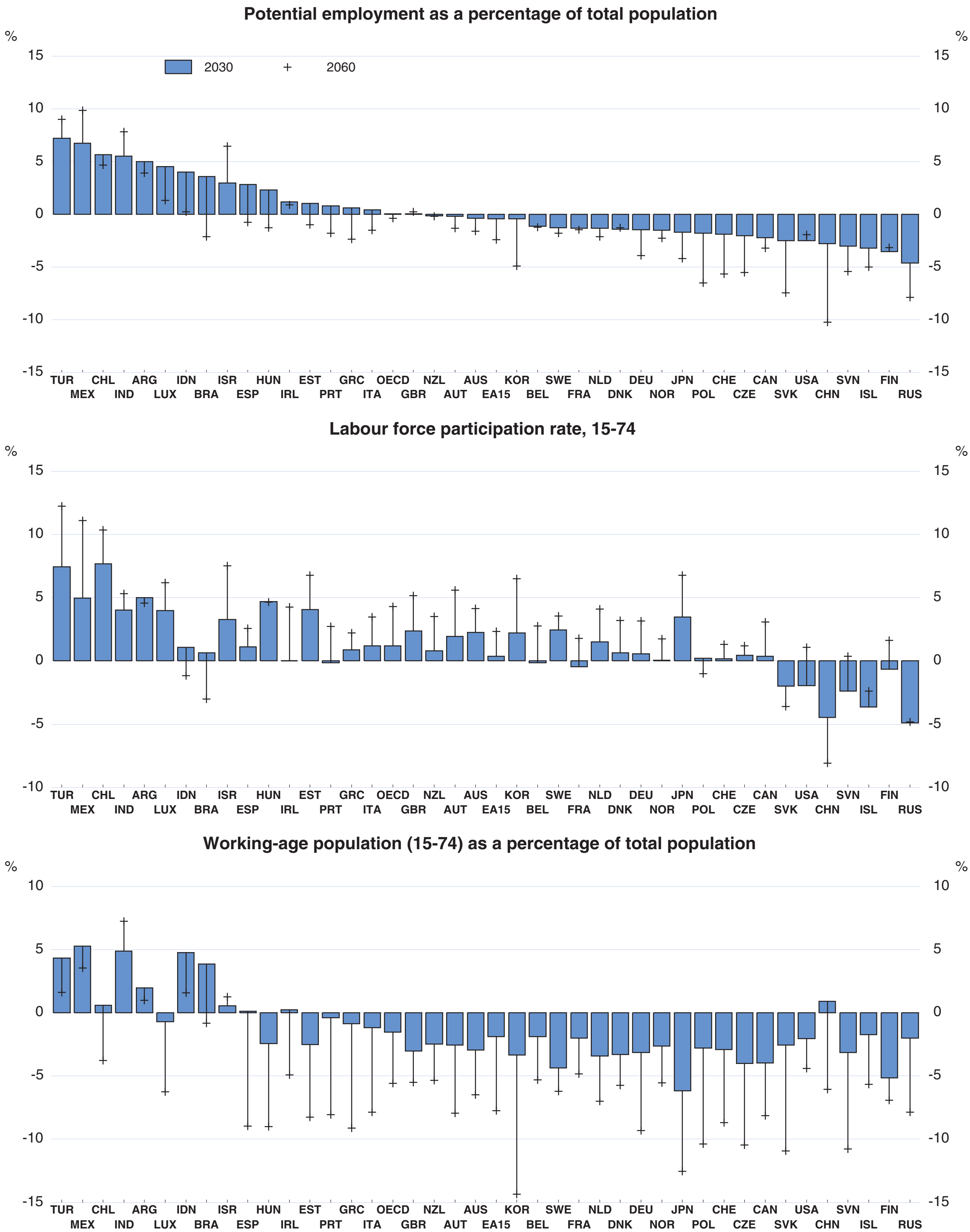
Aggregate OECD output growth picks up to between 2 and 2¼ per cent per annum to 2030, slightly higher than the pre-crisis trend because post-crisis slack is being absorbed and structural unemployment reverts to pre-crisis levels. It then slows to 1¾ per cent per annum to 2060, reflecting a gradual slowing in trend productivity as more countries get closer to the frontier and as potential employment slows for demographic reasons. The differential between non-OECD and OECD growth remains positive but narrows continuously, with non-OECD potential (and actual) growth rates falling from around 7% per annum currently to about 4½ per cent per annum by 2030 and 2% per annum by 2060, but still implying a massive upheaval in the structure of the global economy over coming decades (Figure 4.3).

The growing importance of China and India is already apparent

- In the short term, these trends imply that China will pass the United States as the world's largest economy in the next few years and India has probably recently just surpassed Japan to be third largest (all comparisons, here and below, are based on projected current PPPs).

Figure 4.2. **Changes in labour utilisation and its components**

Change compared to 2012, in percentage points



Source: OECD Economic Outlook 93 long-term database.

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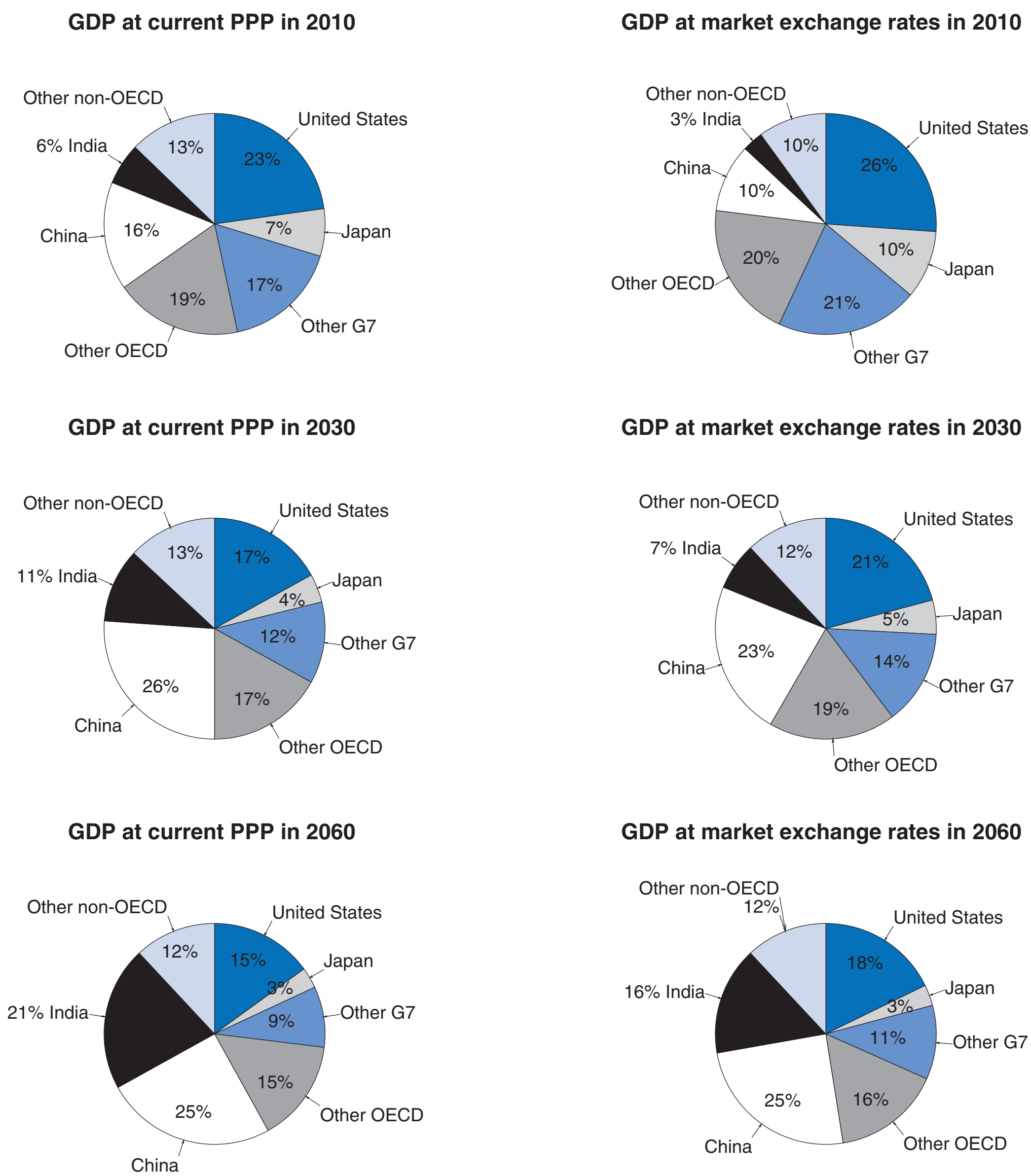
Figure 4.3. **There will be major changes in the composition of global GDP**

Percentage of world GDP



Note: World is here defined as the sum of OECD countries plus Argentina, Brazil, China, Indonesia, India, the Russian Federation, Saudi Arabia and South Africa.

Source: OECD Economic Outlook 93 long-term database.

StatLink *http://dx.doi.org/10.1787/888932836753*

The BRIICS will eventually surpass the OECD

- By 2030, the BRIICS' combined GDP will roughly equal that of the OECD (based on current membership), compared with just over half that of the OECD now, with Brazil and Russia becoming the fifth and sixth largest world economies. By 2060, the BRIICS' GDP could surpass that of the OECD by one-third, with China followed by India being the largest economies, Indonesia ranked fourth and Brazil sixth.

Asia will become increasingly important

- In terms of geographical distribution, there will be a big jump in the share of world GDP accounted for by Asia, at the expense of both North America and Europe; having accounted for about one-quarter of global GDP at the beginning of the century, Asia's share has already risen to over one-third and is expected to reach one-half by the mid-2030s and stabilise at just above that share in the 2050s.[5]

Large gaps in income per capita will remain

This implies that between now and 2060, GDP per capita will increase eightfold in India and sixfold in Indonesia and China, whereas GDP per capita in the highest-income OECD countries will (only) double over this period. Nevertheless, today's lowest income countries will still have large gaps in GDP per capita in 2060 compared with the highest income countries; India, Indonesia and Brazil will have GDP per capita levels (on a current PPP basis) which will be only 30-40% of that of the United States.

Changes in China will be of particular importance

The size of China in the global economy makes developments in that country of particular interest (Eichengreen *et al.*, 2011; Haltmaier, 2013). Its very high current saving and investment rates and the marked slowdown in potential growth over the medium term, could be a source of future instability. The projected slowdown in potential growth from rates of about 8-9% currently to about 4½ per cent by the mid-2020s is accompanied by a marked fall in the share of investment in GDP, from about 45% currently to around 30%, which could in itself be demanding in terms of reallocation needs in the domestic economy and the avoidance of "bumps" in demand and activity. While the saving rate is expected to decline over this period, it does not fall by as much and hence a growing surplus on the current account could contribute to the re-emergence of global imbalances. Beyond 2030, adjustments in the Chinese saving rate may have a major impact on the global economy. This is both because China will account for more than one-third of all world saving and because over the 2030s China is expected to experience one of the most rapid changes in the old-age dependency ratio of any country in the projection period, which is expected to pull down the saving rate strongly, based on cross-country empirical evidence (for example, Kerdrain *et al.*, 2010). In the current modelling framework this effect is large enough to turn the external surplus into a deficit and to drive up global interest rates significantly.

The medium-term outlook for public finances

Government indebtedness needs to be reduced over the medium term

Government indebtedness has risen substantially over the crisis; the number of OECD countries with gross general government debt exceeding 100% of GDP will have risen from three prior to the crisis to 11 by 2014 on

5. This calculation does not take into account non-G20 non-OECD countries.

the basis of the short-term projections. A range of empirical studies,[6] suggest high government indebtedness is associated with lower growth, although the strength and shape of the relationship is likely to vary over time and with a number of country-specific factors. A likely transmission mechanism from higher indebtedness is through higher domestic interest rates which gradually reduce investment, capital intensity and research and development, and hence growth, over the medium term. Additional reasons for reducing indebtedness are that it can inhibit counter-cyclical fiscal policy – whether discretionary or automatic – during a severe downturn and also increase the vulnerability of government finances to adverse shocks, with the risk of a vicious cycle in debt dynamics if higher interest rates result from financial market concerns about fiscal sustainability.

Government debt is reduced to 60% of GDP in the baseline

In the baseline scenario, and in line with earlier exercises of this kind, it is thus assumed that for those countries with 2014 gross general government debt in excess of 60% of GDP, fiscal policy is directed towards achieving that level, although the choice of this particular level is somewhat arbitrary. For countries where debt is initially below the 60% threshold, fiscal policy is directed to stabilising the gross government debt ratio. Over and above the improvement in the fiscal balance which results from the operation of the automatic stabilisers as output gaps close, fiscal consolidation is assumed to take place through a gradual improvement in the underlying primary balance. There is a maximum cap on consolidation in any single year of ½ percentage point of GDP, so the speed at which the debt target is achieved could be considered as unambitious and in some cases falls well short of governments' stated intentions.

On a net debt measure the situation looks less problematic for some countries

The focus here is on the concept of gross government debt, but net debt (net of financial assets held by government) is also important. Gross debt is preferable when looking at the borrowing needs of governments as it is a good approximation of the debt that must be financed on the markets. When looking at debt burdens and long-term sustainability, however, the net debt measure is conceptually preferable as it represents the amount of debt that would remain if the government were to liquidate all the financial assets it holds. The gap between gross and net debt is particularly large for Norway (gross debt of 34% of GDP in 2011 against a

6. A non-exhaustive list of recent studies finding a negative link between growth and government indebtedness is: Égert (2012) finds some evidence in favour of a negative non-linear relationship between debt and growth, although results are sensitive to the sample period, country coverage and data frequency and, when detected, the negative nonlinear effect kicks in at levels of public debt between 20% and 60% of GDP; Kumar and Woo (2010) find that each 10 percentage point increase in the gross debt-to-GDP ratio is associated with a slowdown in annual real per-capita GDP growth of about 0.15-0.2 percentage points per year for advanced economies, the effect being larger when debt goes above 90% of GDP; Cecchetti *et al*. (2011) find that government debt can be a drag on growth beyond a threshold of 85% of GDP; whereas Elmeskov and Sutherland (2012) find lower debt thresholds, of around 40% and 70% of GDP.

net debt of -158%), Japan (211% *vs* 127%), Sweden (49% *vs* -21%), Finland (58% *vs* -54%) and Canada (83% *vs* 32%). The more practical reason to focus on gross debt is that it is more cross-country comparable because data on financial assets are of unequal quality across countries, although for countries that have large government financial assets a gross debt target of 60% may appear unduly stringent.

Debt exceeds 60% of GDP in two-thirds of OECD countries

More than one-third of OECD countries have maintained gross public debt below 60% of GDP through the crisis (including Australia, Czech Republic, Denmark, Estonia, Korea, Luxembourg, New Zealand, Norway, Slovak Republic, Slovenia, Sweden and Switzerland). Of the remaining OECD countries, the following groups can be identified in terms of further consolidation requirements beyond 2014, here measured as the difference between the projected underlying primary balance in 2014 and the *average* underlying primary balance to 2030 which is required to stabilise debt at 60% by that year (Table 4.2 and Figure 4.4):[7]

Of these, many need little further consolidation to reduce debt

- A large group of countries require little (less than 1 percentage point of GDP) or no further average consolidation beyond 2014 to achieve the 60% target by 2030: Austria, Belgium, Czech Republic, Germany, Hungary, Israel, Italy, Netherlands, Poland, Slovak Republic and Slovenia. Most of these countries have debt ratios which are already not far from 60%, or where this is not the case (Italy and Belgium), went into the crisis already running an underlying primary surplus. Most of these countries have front-loaded consolidation so that the average requirement beyond 2014 is less than one-fifth of what will have already been achieved over 2010-14.

Another group requires more consolidation but much has already been front-loaded

- A second group of countries require average consolidation of between 1 and 3 percentage points of GDP: France, Iceland, Ireland and Spain. All of these countries have also front-loaded consolidation so that this average requirement beyond 2014 is less than one-third of the required post-crisis consolidation.

A few countries require substantial further consolidation

- A third group of countries all have debt ratios exceeding 100% of GDP and require larger average consolidation of between 3 and 6 percentage points of GDP: Greece, Portugal, United Kingdom and United States. Of these, the United Kingdom will only have completed about one-third of

7. The measure of average consolidation is taken as the difference between the underlying primary balance in the initial year (here 2014) and the average of the underlying primary balance in each year up to 2030, except for those countries where the debt target is reached after 2030 (Greece, Portugal, United Kingdom and United States), where the average is taken to the year in which government debt reaches the 60% target. Japan is an exception because the debt target of 60% is not even reached by 2060 in the baseline which, however, should also be seen in the light of gross assets of some 80% of GDP. The measure of average consolidation is conceptually similar to, and empirically closely correlated with, measures of the so-called “fiscal gap”, which measures the immediate increase in the underlying primary balance, which if sustained, will ensure a particular debt target is reached in a particular year (Sutherland *et al.*, 2012).

Table 4.2. **Fiscal trends with debt ratio targeting (60%)**

As percentage of nominal GDP (unless otherwise specified)

	Consolidation[1]	Consolidation from 2014 to achieve debt target[2]		Financial balances[3]			Net financial liabilities[4]			Gross financial liabilities[5]		
	2012-14	Average	Peak	2012	2020	2030	2012	2020	2030	2012	2020	2030
Australia	3.0	0.1	0.3	-3.3	0.1	-0.3	10.9	7.7	6.4	32.4	29.2	28.0
Austria	0.5	-0.1	1.6	-2.5	1.6	-0.9	50.8	34.0	25.1	84.9	68.6	59.7
Belgium	1.6	0.5	2.6	-4.0	2.6	-1.4	82.0	58.1	38.1	104.1	79.5	59.5
Canada	1.0	1.5	2.8	-3.2	2.0	-0.4	34.5	24.8	11.6	85.5	72.9	59.7
Czech Republic	0.3	1.0	1.4	-4.4	0.0	-0.5	11.8	15.3	12.7	55.9	59.4	56.9
Denmark	0.3	-0.9	0.0	-4.1	-0.4	-0.5	7.0	12.0	11.7	58.9	60.1	59.9
Estonia	-0.3	-0.2	0.0	-0.3	1.6	1.2	-32.7	-28.1	-28.9	14.2	16.3	15.5
Finland	0.8	1.7	2.6	-2.3	3.9	2.2	-54.6	-49.6	-57.4	63.3	67.4	59.6
France	2.4	2.4	4.3	-4.9	2.0	0.1	70.7	56.3	20.5	109.7	96.2	60.5
Germany	-0.1	0.0	1.5	0.2	1.7	-0.6	50.9	30.5	23.1	89.2	67.2	59.7
Greece	3.2	3.2	8.1	-10.0	-1.9	8.0	102.8	110.3	32.6	165.6	170.0	92.2
Hungary	0.7	1.1	2.8	-2.0	0.8	-1.6	60.4	46.0	31.4	89.0	74.1	59.5
Iceland	1.7	1.9	4.3	-3.4	3.3	1.5	60.5	28.8	-10.8	131.8	100.1	60.5
Ireland	3.1	2.5	5.0	-7.5	1.3	0.5	79.5	69.4	22.3	123.3	108.4	61.3
Israel	1.2	1.2	2.3	-5.1	-1.2	-2.5	-	-	-	72.9	66.5	59.8
Italy	1.5	0.4	3.6	-2.9	4.6	-0.5	112.9	82.0	32.6	140.2	108.9	59.5
Japan	2.0	11.3	21.0	-9.9	-6.0	-5.6	135.9	159.8	169.1	219.1	243.0	252.3
Korea	0.0	-1.1	0.0	2.1	2.4	1.8	-37.7	-36.3	-36.4	35.1	36.4	36.3
Luxembourg	1.5	-0.7	0.0	-0.8	2.2	1.6	-45.9	-39.1	-40.3	28.4	35.3	34.0
Netherlands	1.8	0.8	2.1	-4.0	1.7	-0.8	42.0	32.5	21.9	82.6	70.3	59.7
New Zealand	2.0	-0.1	0.2	-3.9	-0.8	-0.6	8.3	13.5	13.9	44.3	49.4	49.9
Poland	2.4	1.1	1.2	-3.9	-1.1	-1.3	34.5	35.2	33.4	62.6	61.9	60.1
Portugal	2.1	3.7	7.7	-6.4	-1.3	5.3	88.5	95.3	37.4	138.8	139.4	81.6
Slovak Republic	3.9	-0.1	0.3	-4.3	-0.7	-0.9	25.1	25.5	23.7	56.6	57.4	55.7
Slovenia	2.3	-0.1	1.4	-4.0	1.4	-0.3	8.2	13.1	6.7	61.0	65.9	59.5
Spain	2.8	2.5	4.9	-10.6	0.3	-0.5	61.0	65.7	30.2	90.5	94.8	59.3
Sweden	0.5	0.5	0.8	-0.7	1.9	1.0	-23.3	-22.1	-25.1	48.7	49.9	47.0
Switzerland	-0.1	-0.9	0.0	0.7	0.3	0.0	5.5	0.7	0.2	43.8	39.0	38.5
United Kingdom	1.7	5.9	10.0	-6.5	-3.5	0.3	70.9	83.8	66.3	103.9	116.8	99.3
United States	2.9	4.0	6.6	-8.7	-1.6	1.4	87.1	84.5	49.4	106.3	104.1	69.0
Euro Area	1.4	1.1	2.4	-3.7	2.0	-0.1	66.3	50.7	23.7	103.9	87.6	60.6
OECD	2.0	2.6	3.7	-5.7	-0.6	0.1	70.9	66.8	43.3	108.8	104.5	80.7

Note: These fiscal projections are the consequence of applying a stylised fiscal consolidation path and should not be interpreted as a forecast.

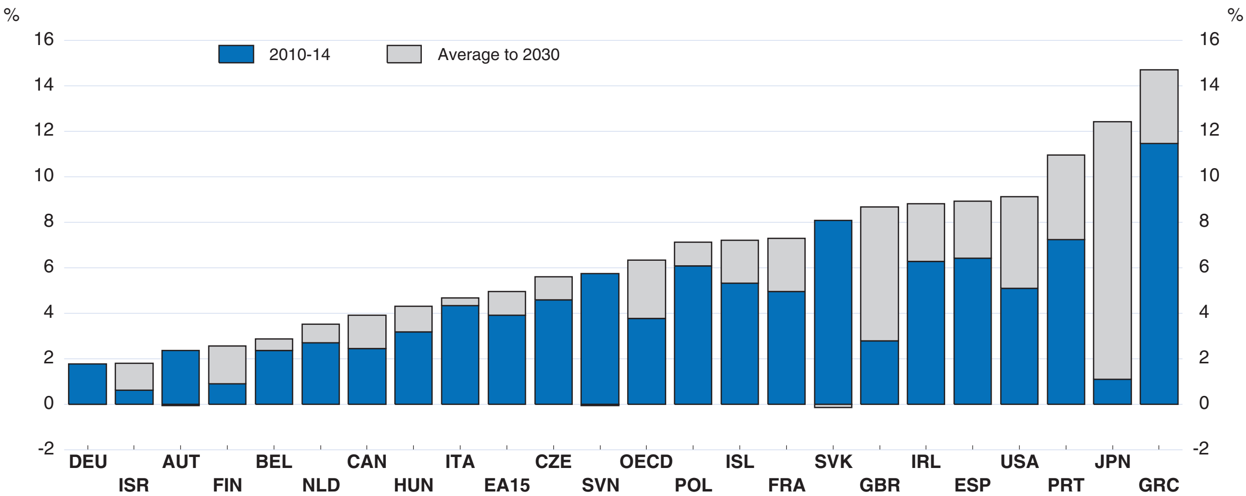
1. Consolidation is measured as the change in the underlying primary balance.
2. Over the projection period, countries with gross government debt ratios in excess of 60% of GDP are assumed to gradually reduce debt to this level, whereas other countries stabilise debt ratios at their current levels. Consolidation requirements from 2014 to achieve these objectives are measured in two ways: average consolidation measures the difference between the underlying primary balance in 2014 and its average over the period to 2030 (or until the debt ratio stabilises); peak consolidation measures the difference between the underlying primary balance and its peak over the period until 2030 (or the debt ratio stabilises).
3. General government fiscal surplus (+) or deficit (-) as a percentage of GDP.
4. Includes all financial liabilities minus financial assets as defined by the system of national accounts (where data availability permits) and covers the general government sector, which is a consolidation of central, state and local governments and the social security sector. The definition of gross debt differs from the Maastricht definition used to assess EU fiscal positions.
5. Includes all financial liabilities as defined by the system of national accounts (where data availability permits) and covers the general government sector, which is a consolidation of central, state and local governments and the social security sector. The definition of gross debt differs from the Maastricht definition used to assess EU fiscal positions.

Source: OECD Economic Outlook 93 long-term database.

StatLink http://dx.doi.org/10.1787/888932838311

Figure 4.4. **Consolidation requirements to reduce government debt to 60 per cent**

Change in the underlying primary balance, percentage points of GDP



Note: The average measure of consolidation is the difference between the primary balance in 2014 and the average primary balance between 2015 and 2030, except for those countries for which the debt target is only achieved after 2030, in which case the average is calculated up until the year that the debt target is achieved.

Source: Source: OECD Economic Outlook 93 long-term database.

StatLink http://dx.doi.org/10.1787/888932836772

the required post-crisis consolidation by 2014, whereas the United States will have completed just over half and Portugal about two-thirds. Greece would still require another 3½ percentage points of consolidation, despite having undertaken 10 percentage points of consolidation between 2010 and 2014, though this does not take into account any potential debt relief.

Japan is a special case requiring a combination of policies to reduce debt

- Finally, and despite a massive average fiscal consolidation requirement beyond 2014 of 11 percentage points, the scenario for Japan only manages to broadly stabilise debt between 2014 and 2030. Indeed, this result underlines that, for Japan, an approach of gradual fiscal consolidation will not be sufficient to tackle the government indebtedness on its own and will need to be supplemented by other policies (see Box 1.4 in Chapter 1). That said, large assets suggest that in any case the 60% debt target is unduly ambitious for Japan. Nonetheless, it is in the nature of long-term fiscal adjustment paths that the exact end-point for debt matters relatively little for consolidation requirements which are determined primarily by the initial imbalance which is particularly large in the case of Japan.

Health and pension pressures add to consolidation requirements

The preceding calculations are likely to understate overall fiscal policy requirements for a number of reasons. Firstly, increased pressures on public spending from health and pensions (Box 4.4) are not explicitly incorporated in the fiscal projections, but will need to be offset or counteracted to contain government indebtedness (Figure 4.5). To put it differently, governments will have to run to stand still. Recent OECD work (Oliveira Martins and de la Maisonneuve, 2013) suggests that increased

Box 4.4. **Changing health and pension expenditures**

Public expenditure on pensions has been growing faster than national income and in many countries is expected to continue to do so in coming decades. While past pension reforms (OECD, 2011), have reduced the budgetary costs of pensions through lower benefits and increased retirement ages, they have been insufficient to stabilise spending, not least because of the demographic effect as a larger proportion of the population reaches retirement age and people live longer. Around half of OECD countries are in the process of increasing pension ages or have already legislated change for the future. Nevertheless, public spending on pensions for a typical OECD country could still increase by about 1¼ percentage points of GDP to 2030 (see table below).

Recent OECD work (Oliveira Martins and de la Maisonneuve, 2013) suggests that in a "cost containment scenario", which assumes that policies act more strongly than in the past to rein in expenditure growth, OECD public expenditure on health and long-term care could still rise by an average of 1½ percentage points of GDP between 2014 and 2030. In a "cost-pressure scenario", which assumes no stepped-up policy action, the increase in expenditure rises by an additional one-third. Significant differences in health and long-term care spending emerge across OECD countries, reflecting differences in factors such as demographic trends and the initial starting point concerning income and the extent of informal long-term care supply. Korea, Chile, Turkey and Mexico, for example, are projected to experience above average increases in public health expenditures.

Changes in public spending on health and pensions for selected OECD countries

Change 2014-30, percentage points of GDP

	Health care[1]	Long-term care[1]	Pensions	Total
Australia	1.2	0.2	0.7	2.1
Austria	1.3	0.2	2.5	4.1
Belgium	1.1	0.3	4.3	5.6
Canada	1.4	0.2	1.5	3.2
Chile	1.4	0.5		1.9
Czech Republic	1.1	0.2	-0.1	1.3
Denmark	1.3	0.2	0.5	2.0
Estonia	0.9	0.2	-0.5	0.7
Finland	1.2	0.2	3.4	4.8
France	1.2	0.2	0.4	1.7
Germany	1.3	0.3	1.3	2.9
Greece	1.2	0.3	0.4	1.9
Hungary	0.9	0.3	-0.8	0.4
Ireland	1.2	0.1	1.3	2.7
Iceland	1.2	0.2	1.4	2.8
Israel	1.3	0.3	0.5	2.1
Italy	1.3	0.3	-0.7	0.8
Japan	1.4	0.3		1.7
Korea	1.7	0.4	1.6	3.6
Luxembourg	1.4	0.3	4.7	6.3
Mexico	1.3	0.4	0.3	2.0
Netherlands	1.4	0.3	2.3	4.0
Norway	1.3	0.2	3.3	4.9
New Zealand	1.1	0.1	2.0	3.2
Poland	1.1	0.2	-0.6	0.7
Portugal	1.3	0.2	0.5	2.0
Slovak Republic	1.2	0.3	1.5	3.0
Slovenia	1.3	0.3	2.0	3.6
Spain	1.3	0.4	0.4	2.1
Sweden	1.0	0.1	0.5	1.7
Switzerland	1.3	0.2	1.7	3.3
Turkey	1.2	0.3	1.2	2.7
United Kingdom	1.1	0.2	0.1	1.4
United States	1.2	0.1	0.3	1.6
OECD (unweighted) average	**1.2**	**0.3**	**1.2**	**2.7**

Note: Where projections are not available over the period 2014-30, linear interpolation has been applied.

1. Assuming cost-containment (Oliveira Martins and de la Maisonneuve, 2013).

Source: European Commission (2012), OECD Pensions at a Glance (2011). Merola and Sutherland (2012), Bank of Israel.

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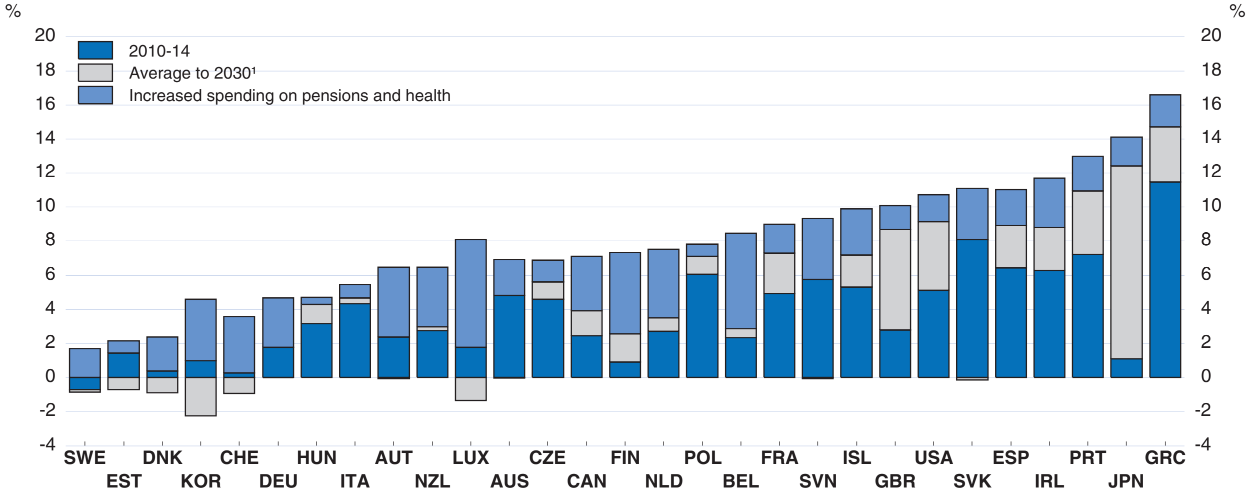
Figure 4.5. **Broader fiscal efforts to reduce government debt to 60 per cent**

Change in the underlying primary balance, percentage points of GDP



1. The average measure of consolidation is the difference between the primary balance in 2014 and the average primary balance between 2015 and 2030, except for those countries for which the debt target is only achieved after 2030, in which case the average is calculated up until the year that the debt target is achieved.

Source: OECD Economic Outlook 93 long-term database.

StatLink http://dx.doi.org/10.1787/888932836791

spending on health could amount to about 1½ percentage points of GDP by 2030 for a typical OECD country even under a "cost containment scenario" that would involve greater success than in the past in curtailing that part of health care and long-term care spending increases which cannot be ascribed to identifiable influences such as income growth, demographic changes, female labour force participation, *etc*. The average increase in pension costs across OECD countries is slightly less at 1¼ percentage point of GDP by 2030, but with wide variation and a much greater increase in some countries (for example by more than 4 percentage points of GDP in Belgium and Luxembourg to 2030).

A peak measure of consolidation requirements exceeds the average measure

A second reason why fiscal efforts will be larger is that the required profile of the underlying primary balance is likely to involve an intermediate *peak* increase which is greater than the *average* increase referred to above (see Box 4.5). This is because of the need to put debt on a declining path towards the target. Once on that path, declining debt interest payments allow for some relaxation of effort while achieving a gradual convergence to the target. Among the countries that require most consolidation, the peak measure in these projections is typically 2-4 percentage points of GDP higher than the average measure of consolidation.[8] However, many different time paths

8. The peak measure is, however, more dependent on the particular fiscal adjustment profile used to achieve the debt target, of which the baseline represents one specific case. For example, it might be possible to bring debt down to the target by a given year either through increasing the primary surplus to a very high level and then reducing it quickly, or alternatively by maintaining the primary surplus at a more modest level, but over a much longer period before reducing it. The peak measure of consolidation would be larger in the first case, although the difference between the average consolidation measures would typically be relatively small.

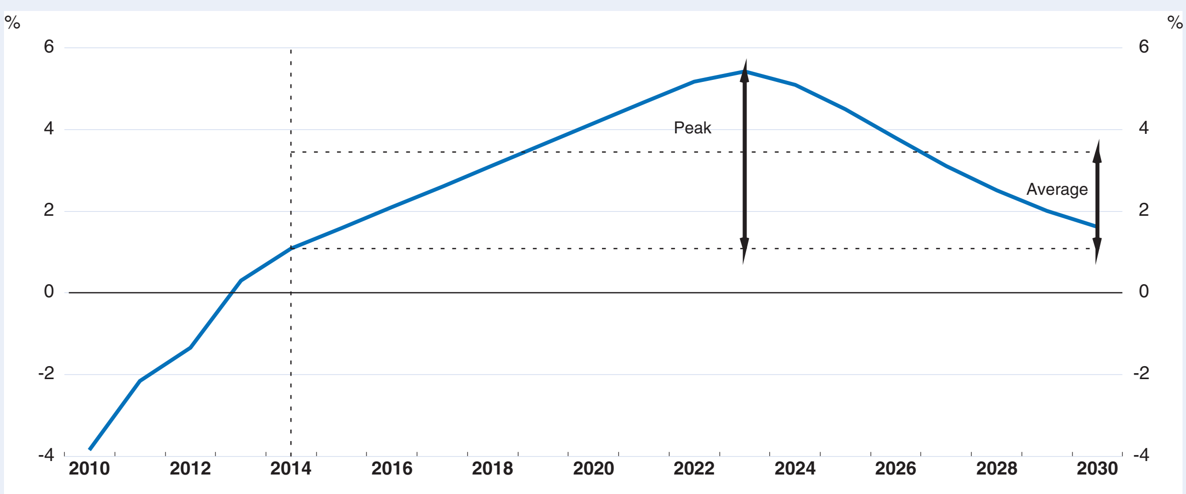
Box 4.5. **Measuring fiscal consolidation requirements**

This box explains the measures which are used to summarise fiscal consolidation requirements to reduce gross government debt ratios to 60% of GDP in Table 4.2 and Figures 4.4 and 4.5. The target for the government debt-to-GDP ratio is achieved here using a rule for the underlying primary balance described in Rawdanowicz (2012), which is constrained by placing a cap on the maximum annual change in the underlying primary fiscal balance of ½ per cent of GDP. However, many alternative time paths could be imagined. Nonetheless, a common feature of such time paths would usually involve a peak in the adjustment of the primary balance to put debt on a downward trajectory towards the target followed by some gradual relaxation as declining debt leads to lower debt service payments and convergence towards (rather than overshooting of) the target debt allows a reduction in the pace of debt reduction.

Given the non-linear profile of the underlying primary balance there is an issue of how the required consolidation effort can be summarised into a single number. For example, for France in the baseline scenario, the underlying primary surplus increases from 1.1% of GDP in 2014 to a peak primary surplus of nearly 5½ per cent of GDP in 2023, before falling and subsequently stabilising at a primary surplus of between 1 to 1¼ per cent of GDP beyond 2030, consistent with a stable government debt-to-GDP ratio of 60% (see figure below).

Fiscal consolidation profile for France to achieve a 60% government debt target by 2030

Underlying primary balance as a percentage of GDP



Source: OECD Economic Outlook 93 long-term database.

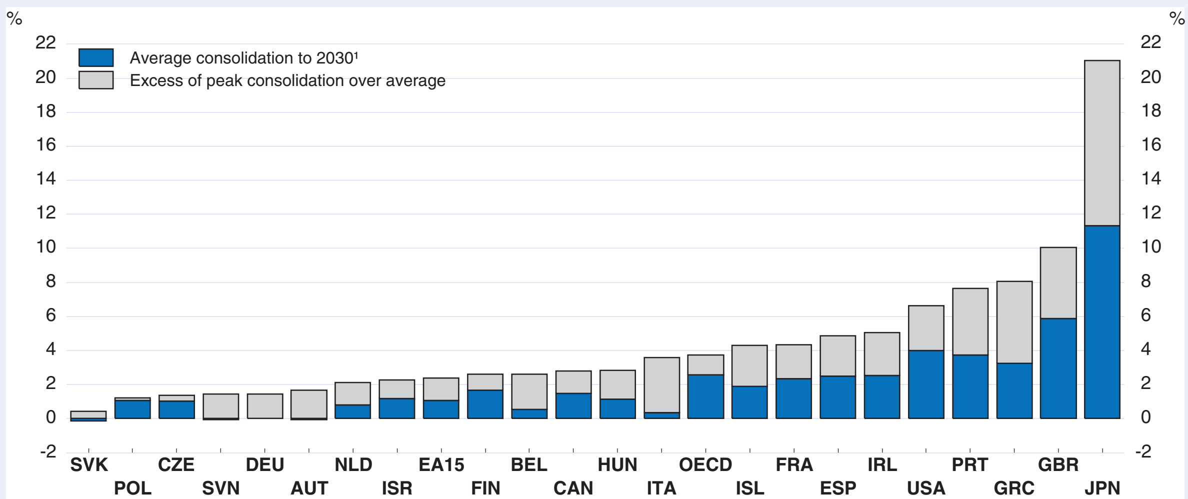
StatLink http://dx.doi.org/10.1787/888932836677

The summary measure of fiscal consolidation emphasised in this chapter is the difference between the underlying primary balance in the initial year (here 2014) and the average primary balance to 2030. In this example, for France the *average* increase from 2014 to 2030 is just under 2½ percentage points of GDP. The average measure has the advantage that it is reasonably robust to alternative fiscal consolidation profiles which achieve the debt target around the same year. The average measure is, however, significantly less than the *peak* consolidation effort between 2014 and 2022 of over 4 percentage points of GDP. Thus in some respects the average measure understates the required consolidation effort before the debt target is eventually achieved and for this reason the peak measures of consolidation are reported in Table 4.2 and in the following figure as an example of the kind of adjustment that may be necessary to put debt on a downward path towards the target.

Box 4.5. **Measuring fiscal consolidation requirements** *(cont.)*

Alternative summary measures of consolidation requirements

Change in the underlying primary balance, percentage points of GDP



1. The average measure of consolidation is the difference between the primary balance in 2014 and the average primary balance between 2015 and 2030, except for those countries for which the debt target is only achieved after 2030, in which case the average is calculated up until the year that the debt target is achieved.

Source: OECD Economic Outlook 93 long-term database.

StatLink http://dx.doi.org/10.1787/888932836696

towards the debt target can be imagined and the measure of peak fiscal effort is strongly sensitive to the exact path chosen, which is why this chapter, in line with its predecessor, emphasises the measure of average adjustment.

Fiscal consolidation will reduce interest rates and global imbalances

While OECD-wide interest rates are still projected to rise as output gaps close and policy rates normalise, lower government indebtedness will damp the rise in interest rates through a number of channels: firstly, it will lower fiscal risk premia, which are assumed to increase with the excess of government debt levels above 75% of GDP; secondly, to the extent that lower government debt reduces net external debt, it will also reduce country-specific risk premia on domestic interest rates; and finally, additional fiscal consolidation will boost global savings which will tend to reduce interest rates in all countries. Overall, fiscal consolidation in the baseline scenario reduces OECD real long-term interest rates by about 50 basis points and, through this channel, boosts OECD potential growth by an average of about 0.1 percentage point per annum over the period to 2030, with larger effects on those countries undertaking most consolidation. Because consolidation requirements are typically greater in countries which are prone to running current account deficits, fiscal consolidation will also tend to reduce the scale of global imbalances (measured as the absolute sum of all current account balances normalised on world GDP) over the medium term by up to one-tenth (see also Box 1.3 in Chapter 1).[9]

Structural policies can boost growth

There is considerable scope to improve structural policies in most countries…

Cross-country differences in structural policy settings represent an opportunity to adjust policy towards "best practice" and so boost incomes and welfare, as well as in some cases to bolster fiscal sustainability and reduce current account imbalances. In contrast to the detailed country-specific recommendations of the OECD's annual *Going for Growth* publication (for example, OECD, 2013), the approach taken here is more stylised to gauge the order of magnitude of effects on growth over the medium and long term from reforms in a number of broad areas.

… in product market regulation…

- There is a range of firm, industry and macro-level evidence to suggest that product market regulation has an impact on trend productivity, not least via the pace at which it adjusts towards the international frontier.[10] Indeed, this is confirmed by the empirical work underlying the current modelling framework (Johansson *et al.*, 2013), so that more pro-competitive product market regulation, as quantified by the OECD's product market regulation index (PMR), is found to boost long-term productivity. Whereas in the baseline scenario, PMR is assumed to gradually improve to at least the OECD average, an alternative scenario is considered here whereby it gradually improves to current best practice.[11]

… education…

- Reforms that promote the accumulation of human capital are among the most important for boosting long-run living standards (Cohen and Soto, 2007; Bouis *et al.*, 2011). While policy priorities for reform of education systems have been identified for many OECD countries, they are a particular priority for the BRIICS where there is a focus on primary and secondary education (OECD, 2013). Indeed, there is likely to be a larger benefit to reforms where average years of schooling are initially low, as empirical evidence would suggest that the returns from boosting coverage and performance in primary and secondary education are greater than for tertiary education.[12] In order to simulate the effect of education reforms in the BRIICS a variant scenario with faster convergence in human capital was constructed based on past historical episodes for low-income countries during which educational levels rose particularly quickly. During these episodes – which include countries

9. These effects are calculated relative to a counter-factual scenario (not reported in further detail here) in which fiscal policy is directed so as to hold government debt-to-GDP ratios stable.
10. See for example Bourlès *et al.*, 2010; Barone and Cingano, 2011; Conway *et al.*, 2006; Bas and Causa, 2012.
11. Best practice in terms of PMR, based on the last survey in 2008, was found to be for the United Kingdom.
12. This is reflected in the current modelling framework whereby human capital improvement is modelled as a decreasing function of additional years of schooling.

with major reforms to enhance primary and secondary coverage and performance, such as Korea in the 1950s and 1960s or Mexico and Chile in the 1980s – the annual speed of convergence in education levels was on average around 50% higher than in the baseline. The variant scenario is based on the assumption that this faster speed of convergence in educational attainment applies to the BRIICs from 2014 onwards.

... retirement policies...

- Population ageing will have an adverse impact on labour utilisation and also important fiscal implications in terms of possible increased pension costs. Around half of OECD countries have begun increasing pension ages or plan to do so in the near future and these reforms are incorporated in the baseline up to 2030, at which point it is further assumed that working lives are extended in line with increasing life expectancy. A variant scenario considers deeper labour market reforms in which cross-country differences in active life expectancy are progressively eliminated, with the share of life expectancy which is spent in the labour market slowly converging in all countries towards that observed in Switzerland, one of the leading countries in terms of aggregate participation.

... and in the labour market

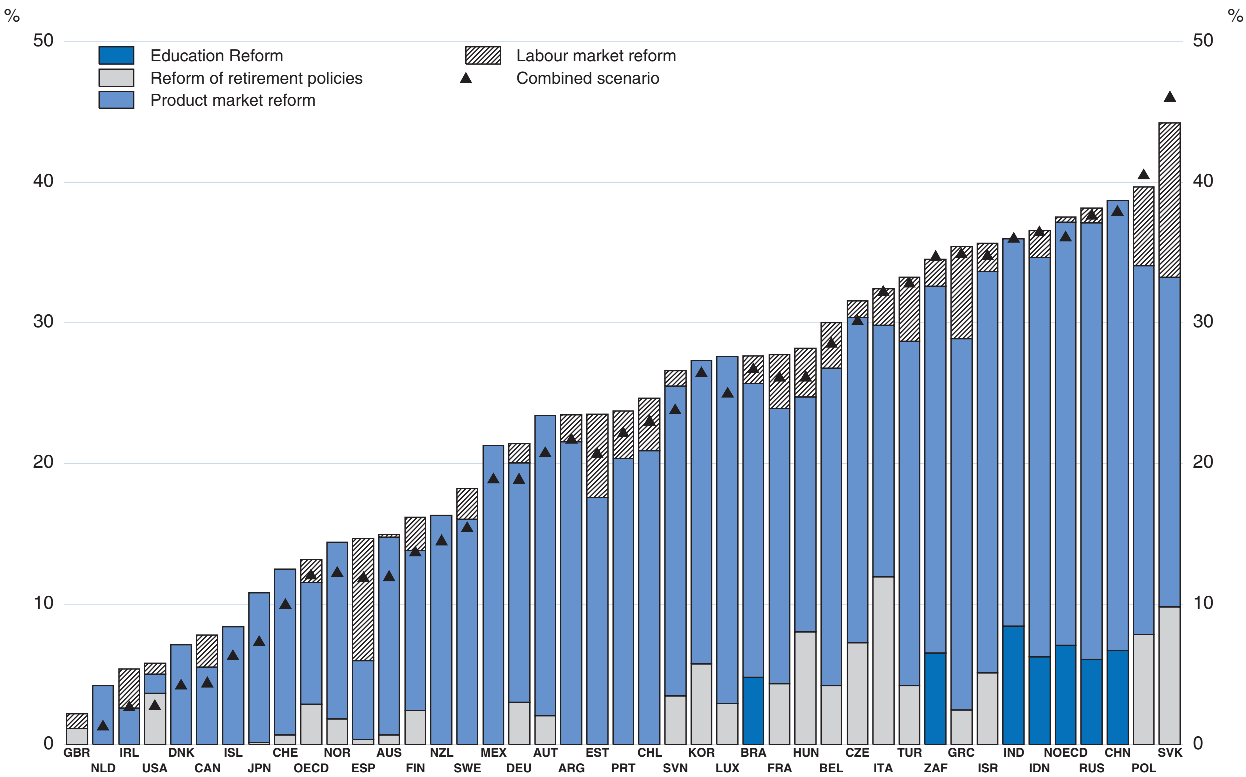
- Recent OECD recommendations for structural reform priorities have shown an increasing focus on the labour market, reflecting the job-market legacy of the crisis. Recommendations to reduce structural unemployment include reform of tax and benefit systems, active labour market policies and job protection legislation. In the baseline scenario the structural unemployment rate is assumed to gradually return to pre-crisis levels in each country. In the variant scenario no attempt is made to evaluate the scope to reduce the unemployment rate further based on structural policy characteristics of individual countries, rather a stylised assumption is made that through a combination of polices the structural unemployment can be gradually reduced to 5% in those countries where it would otherwise exceed it.

Structural reforms could lead to large GDP gains for some countries...

Each of the policy reforms was simulated separately and then together as a package. The GDP effect of a combined package of measures simulated in all countries are typically less than the sum of each policy reform simulated separately because the combined package would lead to faster global growth, higher investment demand and so upward pressure on global interest rates. The effect of a combined package of measures also differs widely across countries, according to how far away they are from best practice initially in each of the policy areas (Figure 4.6). Aggregate OECD wide output is about 12% higher in 2060, but this understates the benefits for many countries because the larger OECD countries are typically closer to best practice. Indeed, the long-term gain in GDP for the median OECD country is about 20%. For the non-OECD, where there is greater scope for implementing best practice policies,

Figure 4.6. **Structural reforms raise long-run output**

Difference in the level of GDP in 2060, per cent



Note: The size of each bar shows the effect on GDP of each policy simulated in isolation, whereas the 'Combined scenario' shows the effect of all policy reforms simulated together. The reform of retirement policies was applied only to OECD countries so that the ratio of working-life to life-expectancy convergences towards that of Switzerland. The education reform scenario was applied to non-OECD countries only, with human capital assumed to converge more quickly to the OECD leader (Korea), at a speed consistent with that observed after major educational reforms. Labour market and product market reforms were applied to both OECD and non-OECD countries. Labour market reforms are assumed to gradually reduce the structural unemployment rate to 5% in all countries where it would otherwise be above this level. Product market reforms move each country's regulations gradually towards best practice.

Source: OECD Economic Outlook 93 long-term database.

StatLink http://dx.doi.org/10.1787/888932836810

reforms could raise GDP by about 36% in 2060. Across the different areas of structural reform the main findings are as follows:

... particularly from reforms to product markets...

- The largest gains would be seen as a result of the reform of product market regulations, raising productivity and GDP in the median OECD country by 17% and in the non-OECD by about 30%.[13]

... as well as to education in the BRIICS

- Educational reforms in the BRIICS would raise GDP in the long run by between 5% and 8%, with the largest effect in India where average years

13. The large gains in productivity reflect the effect of product market regulation indicators in the estimated equations underlying the model. It is, however, possible that such indicators are collinear with other structural characteristics and so may be capturing the effect not just of product market regulation, but structural policy settings more generally.

of schooling are currently very low. The lags before GDP increases are, however, more pronounced compared to the other policy reforms.

Scope for reforms that raise labour utilisation varies widely

- Reforms directed at raising participation have widely varying impacts across OECD countries, with the largest gains in those countries where participation rates of older workers and females are currently low; GDP is increased by 7-12% in Czech Republic, Hungary, Italy, Poland and Slovak Republic. As these larger effects would occur partly through a disproportionate increase in the female participation rate, it suggests that reforms would need to include increased childcare provision. The labour market reforms directed at lowering the structural unemployment rate have smaller effects on aggregate OECD output, but with large effects of between 6-11% in a few countries such as Estonia, Greece, Poland, Slovak Republic and Spain.

Higher labour utilisation promotes fiscal sustainability

Finally, it might be noted that while there may be greater scope for long-run gains to GDP from policies that promote productivity, GDP increases brought about by policies that increase labour utilisation are likely to have a greater effect in boosting fiscal sustainability. This is because higher employment increases GDP and tax revenues, reduces unemployment benefits and, to the extent the additional employment is in the private sector, public spending falls as a share of GDP (OECD, 2010b).[14] On this basis, each percentage point improvement in employment improves government financial balances by between 0.3% and 0.7% of GDP, with the effect largest in countries where the ratio of public to private sector employment and unemployment-related benefits are initially highest.[15] For countries with the largest employment gains from structural reforms (Slovak Republic and Poland), or where public sector employment is high and unemployment-related benefits more generous (Belgium and France), or for countries where some combination of the two holds (Hungary, Italy and Spain), such effects imply a direct improvement in underlying fiscal balances of 5-8 percentage points of GDP. In the scenarios reported here, such fiscal savings are not taken into account which implies that these countries would find reaching their debt target easier.

14. Increases in trend productivity also increase GDP and tax revenue, but over the medium term are also likely to lead to higher wages, including in the public sector, so that the medium-term implications for fiscal balances may be less favourable.
15. These figures are based on stylised calculations using the OECD's regular elasticities for cyclical adjustments, for further details see OECD (2010b).

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OECD Economic Outlook
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STATISTICAL ANNEX

PRELIMINARY VERSION

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Real GDP

Percentage changes from previous year

	2007	2008	2009	2010	2011	2012	2013	2014	Fourth quarter 2011	2012	2013	2014
Australia	4.8	2.4	1.5	2.6	2.4	3.6	2.6	3.2	2.7	3.2	2.7	3.4
Austria	3.7	1.1	-3.5	2.2	2.7	0.8	0.5	1.7	1.1	0.5	1.0	2.0
Belgium	2.9	1.0	-2.8	2.4	1.9	-0.3	0.0	1.1	1.0	-0.5	0.5	1.4
Canada	2.1	1.1	-2.8	3.2	2.6	1.8	1.4	2.3	2.4	1.1	1.7	2.7
Chile	5.1	3.1	-0.9	5.8	5.9	5.5	4.9	5.3	5.0	5.5	4.4	5.8
Czech Republic	5.7	2.9	-4.4	2.3	1.8	-1.2	-1.0	1.3	0.8	-1.6	-0.1	1.7
Denmark	1.6	-0.8	-5.7	1.6	1.1	-0.5	0.4	1.7	0.3	-0.7	1.2	2.0
Estonia	7.5	-4.2	-14.1	3.3	8.3	3.2	1.5	3.6	6.0	3.5	0.9	4.3
Finland	5.3	0.3	-8.5	3.3	2.8	-0.2	0.0	1.7	1.3	-1.4	1.4	1.6
France	2.2	-0.2	-3.1	1.6	1.7	0.0	-0.3	0.8	1.2	-0.3	0.0	1.2
Germany	3.4	0.8	-5.1	4.0	3.1	0.9	0.4	1.9	1.9	0.4	1.3	2.1
Greece	3.5	-0.2	-3.1	-4.9	-7.1	-6.4	-4.8	-1.2	-7.7	-5.6	-2.3	0.3
Hungary	0.1	0.7	-6.7	1.3	1.6	-1.8	0.5	1.3	1.3	-2.3	1.3	1.5
Iceland	6.0	1.2	-6.6	-4.1	2.9	1.6	1.9	2.6	1.8	1.5	1.3	3.7
Ireland	5.4	-2.1	-5.5	-0.8	1.4	0.9	1.0	1.9	3.0	0.0	1.7	2.1
Israel	5.9	4.1	1.1	5.0	4.6	3.2	3.9	3.4	3.6	3.0	4.4	3.0
Italy	1.5	-1.2	-5.5	1.7	0.5	-2.4	-1.8	0.4	-0.5	-2.8	-1.1	1.2
Japan	2.2	-1.0	-5.5	4.7	-0.6	2.0	1.6	1.4	-0.1	0.5	3.0	0.5
Korea	5.1	2.3	0.3	6.3	3.7	2.0	2.6	4.0	3.4	1.4	3.7	4.2
Luxembourg	6.6	-0.8	-4.1	2.9	1.7	0.3	0.8	1.7	0.0	1.6	-0.1	2.5
Mexico	3.2	1.2	-6.0	5.3	3.9	3.9	3.4	3.7	4.0	3.3	3.9	3.6
Netherlands	3.9	1.8	-3.7	1.6	1.1	-1.0	-0.9	0.7	-0.4	-1.2	-0.1	1.2
New Zealand	3.3	-0.6	0.3	0.9	1.3	3.0	2.6	3.1	2.9	3.4	2.2	3.3
Norway	2.7	0.1	-1.6	0.5	1.2	3.2	1.3	3.0	2.0	2.1	2.4	2.6
Poland	6.8	5.0	1.6	3.9	4.5	2.0	0.9	2.2	4.5	0.7	1.4	2.5
Portugal	2.4	0.0	-2.9	1.9	-1.6	-3.2	-2.7	0.2	-3.1	-3.8	-0.9	0.9
Slovak Republic	10.5	5.8	-4.9	4.4	3.2	2.0	0.8	2.0	3.3	1.2	0.7	2.8
Slovenia	7.0	3.4	-7.8	1.2	0.6	-2.3	-2.3	0.1	-1.2	-2.9	-1.5	1.0
Spain	3.5	0.9	-3.7	-0.3	0.4	-1.4	-1.7	0.4	0.0	-1.9	-1.1	1.1
Sweden	3.4	-0.8	-5.0	6.3	3.8	1.2	1.3	2.5	1.2	1.5	1.6	2.9
Switzerland	3.8	2.2	-1.9	3.0	1.9	1.0	1.4	2.0	0.8	1.2	1.6	2.4
Turkey	4.7	0.7	-4.8	9.2	8.8	2.2	3.1	4.6	..	..	..	..
United Kingdom	3.6	-1.0	-4.0	1.8	1.0	0.3	0.8	1.5	1.1	0.2	1.1	1.8
United States	1.9	-0.3	-3.1	2.4	1.8	2.2	1.9	2.8	2.0	1.7	2.1	3.2
Euro area	3.0	0.3	-4.3	1.9	1.5	-0.5	-0.6	1.1	0.6	-0.9	0.1	1.5
Total OECD	2.8	0.2	-3.6	3.0	1.9	1.4	1.2	2.3	1.6	0.8	1.8	2.5
Brazil	6.1	5.2	-0.3	7.5	2.7	0.9	2.9	3.5				
China	14.2	9.6	9.2	10.4	9.3	7.8	7.8	8.4	8.7	7.8	7.9	8.3
India	10.0	6.0	5.4	11.3	7.6	3.8	5.3	6.4				
Indonesia	6.3	6.0	4.6	6.2	6.5	6.2	6.0	6.2				
Russian Federation	8.5	5.2	-7.8	4.5	4.3	3.4	2.3	3.6				
South Africa	5.5	3.6	-1.5	3.1	3.5	2.5	2.8	4.3				

Note: These numbers are working-day adjusted and hence may differ from the basis used for official projections.
Source: OECD Economic Outlook 93 database.

Real private consumption expenditure

Percentage changes from previous year

	2007	2008	2009	2010	2011	2012	2013	2014	Fourth quarter 2011	2012	2013	2014
Australia	5.5	2.0	0.7	3.0	3.3	3.2	2.2	3.2	2.7	2.7	2.9	3.3
Austria	0.8	0.5	1.1	1.6	0.9	0.4	0.1	0.8	0.6	0.1	0.5	0.9
Belgium	1.7	2.0	0.6	2.7	0.2	-0.3	0.0	0.6	-0.6	-0.4	0.3	0.8
Canada	4.2	2.9	0.2	3.4	2.4	1.9	2.0	2.5	2.0	2.0	1.8	2.9
Chile	7.6	5.2	-0.8	10.8	8.9	6.1	5.8	4.7	6.2	7.2	4.4	5.1
Czech Republic	4.2	2.7	0.3	0.8	0.5	-2.6	-0.7	0.9	0.5	-3.4	0.0	1.4
Denmark	3.0	-0.3	-3.6	1.7	-0.5	0.6	0.4	1.5	-0.1	-0.3	1.1	1.6
Estonia	8.8	-5.2	-14.8	-2.4	3.5	4.4	3.7	3.7	3.9	5.2	2.9	4.0
Finland	3.5	1.9	-2.9	3.3	2.3	1.6	0.5	1.2	1.0	1.5	0.3	1.8
France	2.3	0.2	0.3	1.5	0.3	-0.4	-0.1	0.2	-0.6	-0.4	0.1	0.3
Germany	-0.2	0.6	0.3	0.8	1.7	0.6	1.0	2.2	1.2	0.4	1.6	2.5
Greece	3.6	4.3	-1.6	-6.2	-7.7	-9.1	-7.0	-4.5	..	..	..	..
Hungary	1.1	-0.7	-6.6	-3.0	0.5	-1.4	-0.8	0.4	0.7	-1.5	-0.6	1.1
Iceland	5.7	-7.8	-14.9	0.0	2.6	2.7	2.2	2.9	1.9	2.6	1.8	3.2
Ireland	6.2	-0.4	-5.7	0.5	-2.3	-0.9	1.0	0.3	-1.6	0.1	0.0	0.3
Israel	8.5	1.6	1.9	5.3	3.8	2.6	2.0	3.1	1.5	2.8	2.4	3.4
Italy	1.1	-0.8	-1.6	1.5	0.1	-4.2	-2.2	-0.4	-2.0	-4.4	-1.1	-0.2
Japan	0.9	-0.9	-0.7	2.8	0.4	2.3	1.6	1.0	1.3	1.0	2.4	0.0
Korea	5.1	1.3	0.0	4.4	2.4	1.7	1.5	2.7	1.2	2.7	1.2	3.2
Luxembourg	3.3	-0.7	-1.7	2.2	2.4	1.7	1.1	2.3	3.1	0.9	1.2	2.9
Mexico	4.0	1.7	-7.3	5.0	4.4	3.4	3.7	3.6	4.1	3.5	3.5	3.7
Netherlands	1.8	1.3	-2.1	0.3	-1.0	-1.4	-2.5	-0.1	-2.2	-2.1	-1.6	0.6
New Zealand	3.7	0.2	-1.4	2.6	2.0	2.1	3.0	3.1	2.8	2.2	3.0	2.9
Norway	5.4	1.8	0.0	3.8	2.5	2.9	3.5	3.7	2.2	2.7	4.3	3.3
Poland	4.9	5.5	2.1	3.1	2.6	0.8	0.4	1.1	1.9	0.4	0.7	1.2
Portugal	2.5	1.3	-2.3	2.5	-3.8	-5.6	-4.0	-1.5	-6.5	-5.3	-2.8	-0.8
Slovak Republic	6.8	6.1	0.2	-0.7	-0.5	-0.6	-0.5	0.9	-0.4	-1.1	0.3	1.3
Slovenia	6.3	2.3	0.1	1.3	0.9	-2.9	-3.5	-1.6	-0.4	-5.6	-1.7	-1.5
Spain	3.5	-0.6	-3.8	0.7	-1.0	-2.1	-3.0	-1.5	-2.5	-3.0	-1.8	-1.1
Sweden	3.8	-0.1	-0.2	3.9	2.2	1.7	1.9	3.0	0.8	2.4	2.1	3.3
Switzerland	2.2	1.2	1.8	1.6	1.2	2.5	2.1	2.2	1.3	2.7	1.9	2.4
Turkey	5.5	-0.3	-2.3	6.7	7.7	-0.7	2.4	4.1	..	..	..	..
United Kingdom	2.7	-1.6	-3.1	1.3	-0.8	1.2	0.9	1.2	-1.1	1.6	0.6	1.5
United States	2.3	-0.6	-1.9	1.8	2.5	1.9	2.1	2.7	1.9	1.8	2.3	3.1
Euro area	1.6	0.4	-0.9	1.0	0.1	-1.4	-0.8	0.4	-0.9	-1.6	-0.1	0.7
Total OECD	2.5	0.1	-1.6	2.2	1.8	1.0	1.3	2.0	1.1	0.9	1.7	2.2

Note: These numbers are working-day adjusted and hence may differ from the basis used for official projections.
Source: OECD Economic Outlook 93 database.

Real total gross fixed capital formation

Percentage changes from previous year

	2007	2008	2009	2010	2011	2012	2013	2014	Fourth quarter 2011	2012	2013	2014
Australia	9.5	8.0	-2.1	4.2	7.2	8.5	4.1	4.6	9.9	6.1	4.6	4.9
Austria	2.9	-0.2	-6.4	0.7	6.3	1.8	0.6	2.8	5.3	0.5	1.1	3.6
Belgium	6.3	1.9	-8.4	-1.2	4.2	-0.6	-1.6	1.1	2.0	-1.2	-0.7	2.1
Canada	3.2	1.3	-11.5	10.5	5.0	3.2	1.2	3.5	3.1	3.1	1.3	4.6
Chile	10.8	17.9	-12.1	12.2	14.7	12.3	7.3	7.6	13.5	18.1	-3.1	8.1
Czech Republic	13.2	3.8	-10.7	0.7	0.4	-2.6	-3.6	0.9	-0.5	-6.0	-0.6	1.7
Denmark	0.4	-4.2	-15.9	-2.4	2.9	2.2	3.2	4.5	3.6	1.8	3.3	5.2
Estonia	9.3	-13.3	-38.3	-7.4	25.7	21.0	3.0	5.6	33.7	7.7	2.3	6.7
Finland	10.7	-0.6	-13.2	1.9	7.1	-2.9	-3.5	1.7	5.4	-8.0	0.6	2.1
France	6.3	0.1	-10.4	1.0	3.5	-1.3	-2.3	0.7	3.4	-3.4	-1.5	1.8
Germany	5.0	0.6	-11.5	5.6	6.4	-1.9	-0.3	5.2	5.7	-3.9	2.7	5.5
Greece	22.8	-14.3	-13.7	-15.0	-19.6	-19.2	-7.7	-2.5	..	..	..	..
Hungary	3.8	2.9	-11.1	-9.5	-3.6	-3.8	-2.5	-0.4	-1.9	-4.5	-1.1	0.1
Iceland	-12.2	-20.4	-51.4	-9.4	14.3	4.4	-3.7	15.3	32.3	-23.0	6.1	20.2
Ireland	2.2	-10.2	-27.5	-22.6	-12.8	1.1	0.3	5.7	-7.8	2.6	3.3	6.9
Israel	12.6	4.9	-4.0	12.3	16.2	3.9	0.1	4.8	13.7	-3.3	3.7	5.6
Italy	1.3	-3.8	-11.7	0.5	-1.4	-8.0	-4.3	-1.4	-3.2	-7.6	-3.5	-0.2
Japan	0.3	-4.1	-10.6	-0.2	1.1	4.4	2.0	0.6	5.2	0.2	3.9	-1.8
Korea	4.2	-1.9	-1.0	5.8	-1.0	-1.7	2.0	6.0	-1.8	-3.9	7.3	6.2
Luxembourg	18.3	2.0	-15.5	6.8	10.2	7.0	5.6	0.6	26.3	5.8	-3.2	0.0
Mexico	6.7	5.4	-11.7	0.3	8.3	5.8	2.4	4.7	7.9	3.5	4.1	4.9
Netherlands	5.5	4.5	-12.0	-7.2	5.7	-4.6	-3.1	-0.1	3.8	-5.1	-1.2	0.5
New Zealand	7.0	-3.8	-13.6	-0.3	3.2	6.6	9.1	9.5	1.1	7.0	12.3	7.6
Norway	11.4	0.2	-7.5	-8.0	7.6	8.1	5.9	6.4	6.7	9.1	5.8	6.3
Poland	17.6	9.4	-0.9	-0.4	8.2	-1.0	-1.2	4.0	8.4	-5.1	2.1	4.8
Portugal	2.6	-0.3	-8.6	-3.1	-10.7	-14.5	-10.6	-0.7	-15.9	-13.2	-5.8	1.4
Slovak Republic	9.1	1.0	-19.7	6.5	14.2	-3.7	0.0	2.1	15.1	-6.3	0.3	3.0
Slovenia	13.3	7.1	-23.2	-13.8	-8.1	-9.3	-5.3	-3.8	-5.5	-11.2	-2.3	-4.2
Spain	4.5	-4.7	-18.0	-6.2	-5.3	-9.1	-9.9	-2.9	-6.0	-10.3	-7.8	-1.4
Sweden	9.1	1.1	-15.5	6.7	6.7	4.0	0.8	3.1	2.8	3.4	0.7	4.1
Switzerland	5.4	0.7	-8.0	4.8	4.0	0.1	1.2	2.4	1.5	-0.3	2.0	2.6
Turkey	3.1	-6.2	-19.0	30.5	18.0	-2.5	4.9	8.8	..	..	..	..
United Kingdom	8.2	-4.6	-13.7	3.5	-2.9	1.5	1.8	4.1	-2.2	1.5	3.0	4.8
United States	-1.4	-5.1	-15.3	-0.3	3.4	6.1	5.1	7.8	5.2	5.1	5.4	8.4
Euro area	5.1	-1.6	-12.7	-0.5	1.6	-4.1	-3.0	1.3	0.9	-5.2	-1.3	2.2
Total OECD	2.9	-2.3	-12.3	1.5	3.1	1.8	1.7	4.4	3.3	0.4	3.1	4.7

Note: These numbers are working-day adjusted and hence may differ from the basis used for official projections.

Source: OECD Economic Outlook 93 database.

Real total domestic demand

Percentage changes from previous year

	2007	2008	2009	2010	2011	2012	2013	2014	Fourth quarter 2011	2012	2013	2014
Australia	7.0	3.7	-0.6	4.0	4.6	4.6	2.1	3.1	4.8	3.1	2.9	3.3
Austria	2.3	0.3	-1.3	1.8	2.4	0.0	-0.2	1.1	1.4	-0.9	0.5	1.4
Belgium	2.9	2.0	-2.2	1.7	2.0	-0.5	-0.3	0.7	1.3	-1.3	0.3	1.0
Canada	3.7	2.8	-3.0	5.4	2.6	2.0	1.3	2.2	2.5	1.7	1.3	2.7
Chile	7.4	8.4	-5.7	13.7	9.2	7.4	4.9	5.1	5.7	8.1	5.6	5.5
Czech Republic	6.6	2.1	-5.0	1.8	-0.1	-2.6	-1.2	0.4	-1.0	-1.7	-1.3	0.9
Denmark	2.3	-0.9	-6.9	1.6	0.3	0.3	0.8	1.8	-0.2	0.6	1.2	2.2
Estonia	9.2	-9.0	-21.4	1.3	9.7	7.8	4.2	3.9	7.8	11.2	1.0	4.6
Finland	5.0	0.6	-6.2	3.0	4.5	-1.7	0.2	1.2	6.0	-4.3	1.0	1.3
France	3.1	0.2	-2.6	1.5	1.7	-0.9	-0.4	0.5	0.3	-0.7	0.1	0.7
Germany	1.9	1.0	-2.4	2.6	2.6	-0.3	0.8	2.7	2.2	-0.6	1.8	2.9
Greece	6.3	-0.3	-5.5	-7.1	-8.8	-9.4	-4.9	-3.8	..	..	..	..
Hungary	-1.4	0.7	-10.5	-0.5	0.1	-3.7	0.3	0.1	-1.2	-2.4	-0.2	0.6
Iceland	-0.4	-8.6	-20.4	-2.7	4.1	1.9	0.2	3.9	5.7	-2.8	3.0	4.9
Ireland	4.7	-3.4	-11.3	-4.3	-3.7	-1.5	0.1	0.2	-3.3	0.5	0.1	0.2
Israel	6.9	2.0	0.1	4.8	6.6	4.4	1.9	2.9	5.9	2.5	3.1	2.9
Italy	1.3	-1.2	-4.4	2.0	-0.9	-5.3	-3.1	-0.7	-3.3	-5.3	-1.8	-0.3
Japan	1.1	-1.3	-4.0	2.9	0.3	2.9	1.2	0.5	1.2	1.4	1.8	-0.2
Korea	4.7	1.3	-3.4	7.2	2.1	1.0	1.8	3.6	1.9	0.9	2.8	4.0
Luxembourg	6.4	1.2	-10.4	9.2	6.7	2.7	0.7	1.8	9.4	1.7	0.4	1.9
Mexico	3.7	1.9	-7.8	5.0	3.8	3.8	3.4	3.5	4.2	3.4	3.3	3.5
Netherlands	3.2	2.0	-2.8	0.2	0.5	-1.5	-1.6	0.0	-0.9	-1.0	-1.1	0.5
New Zealand	4.8	0.5	-4.8	2.5	2.6	2.7	2.3	3.7	1.0	3.0	3.9	3.4
Norway	5.9	1.4	-4.0	3.2	3.4	3.6	2.8	3.8	4.9	2.6	2.8	3.5
Poland	8.7	5.5	-0.9	4.4	3.7	-0.3	0.1	1.6	2.5	-1.2	0.9	1.8
Portugal	2.0	0.9	-3.2	1.8	-5.8	-6.8	-4.5	-1.4	-9.8	-4.8	-3.5	-0.6
Slovak Republic	6.3	5.9	-6.6	3.9	1.0	-2.9	-0.5	1.1	-0.7	-2.1	0.3	1.6
Slovenia	9.0	3.3	-10.0	-0.3	-0.6	-5.7	-5.2	-1.8	-3.5	-7.6	-2.4	-1.4
Spain	4.1	-0.5	-6.3	-0.6	-1.9	-3.8	-4.3	-1.7	-3.1	-4.6	-2.9	-1.2
Sweden	4.8	-0.1	-4.5	6.3	3.2	0.8	1.1	2.5	1.7	0.8	1.8	2.8
Switzerland	1.6	0.5	0.0	2.3	1.9	1.5	1.2	2.2	1.5	0.8	1.9	2.3
Turkey	5.6	-1.1	-6.1	12.4	9.0	-1.3	3.4	5.1	..	..	..	..
United Kingdom	3.7	-1.7	-5.0	2.3	-0.6	1.3	0.8	1.2	-0.4	1.6	0.9	1.4
United States	1.2	-1.5	-4.0	2.8	1.7	2.1	1.9	2.9	1.9	1.4	2.4	3.4
Euro area	2.8	0.2	-3.7	1.3	0.6	-2.2	-1.2	0.5	-0.6	-2.2	-0.3	0.9
Total OECD	2.5	-0.3	-4.1	3.1	1.6	0.9	1.0	2.1	1.2	0.4	1.7	2.3

Note: These numbers are working-day adjusted and hence may differ from the basis used for official projections.
Source: OECD Economic Outlook 93 database.

Contributions to changes in real GDP in OECD countries

Chain link calculations

	2011	2012	2013	2014
Australia				
Final domestic demand	4.2	4.6	2.4	3.1
Stockbuilding	0.4	-0.1	-0.2	0.0
Net exports	-2.2	0.1	0.4	0.0
GDP	2.4	3.6	2.6	3.2
Austria				
Final domestic demand	1.7	0.7	0.3	1.1
Stockbuilding	0.5	-0.3	-0.4	0.0
Net exports	0.4	0.4	0.4	0.7
GDP	2.7	0.8	0.5	1.7
Belgium				
Final domestic demand	1.2	-0.2	-0.1	0.7
Stockbuilding	0.7	-0.3	-0.2	0.0
Net exports	-0.1	0.2	0.3	0.4
GDP	1.9	-0.3	0.0	1.1
Canada				
Final domestic demand	2.7	1.8	1.4	2.2
Stockbuilding	0.0	0.3	-0.1	0.0
Net exports	-0.5	-0.4	0.0	0.1
GDP	2.6	1.8	1.4	2.3
Chile				
Final domestic demand	8.7	7.0	6.0	5.1
Stockbuilding	-0.2	-0.1	-1.1	0.0
Net exports	-2.6	-1.3	-0.4	0.1
GDP	5.9	5.5	4.9	5.3
Czech Republic				
Final domestic demand	-0.2	-2.2	-1.2	0.5
Stockbuilding	0.1	-0.4	0.1	-0.1
Net exports	1.9	1.4	0.1	1.0
GDP	1.8	-1.2	-1.0	1.3
Denmark				
Final domestic demand	-0.2	0.7	1.0	1.7
Stockbuilding	0.5	-0.4	0.0	0.0
Net exports	0.8	-0.8	-0.4	-0.1
GDP	1.1	-0.5	0.4	1.7
Estonia				
Final domestic demand	7.1	7.5	3.3	4.0
Stockbuilding	2.1	-0.2	0.8	0.0
Net exports	0.4	-2.9	-1.9	-0.4
GDP	8.3	3.2	1.5	3.6
Finland				
Final domestic demand	2.7	0.5	0.1	1.2
Stockbuilding	1.7	-2.2	0.1	0.0
Net exports	-1.2	1.0	-0.2	0.5
GDP	2.8	-0.2	0.0	1.7
France				
Final domestic demand	0.9	-0.2	-0.2	0.5
Stockbuilding	0.8	-0.8	-0.1	0.0
Net exports	0.0	0.9	0.1	0.3
GDP	1.7	0.0	-0.3	0.8
Germany				
Final domestic demand	2.3	0.3	0.8	2.5
Stockbuilding	0.2	-0.6	0.0	0.0
Net exports	0.6	1.2	-0.4	-0.6
GDP	3.1	0.9	0.4	1.9
Greece				
Final domestic demand	-10.1	-10.4	-6.5	-3.9
Stockbuilding	0.6	0.1	0.9	0.0
Net exports	2.4	4.0	2.6	2.7
GDP	-7.1	-6.4	-4.8	-1.2
Hungary				
Final domestic demand	-0.4	-1.9	-0.9	0.1
Stockbuilding	0.6	-1.6	1.3	0.0
Net exports	1.5	1.7	0.5	1.1
GDP	1.6	-1.8	0.5	1.3
Iceland				
Final domestic demand	3.1	2.0	0.7	3.6
Stockbuilding	0.6	-0.2	0.0	0.0
Net exports	-0.8	-0.1	1.2	-1.0
GDP	2.9	1.6	1.9	2.6
Ireland				
Final domestic demand	-3.5	-0.9	0.2	0.1
Stockbuilding	0.4	-0.2	0.1	0.0
Net exports	5.4	2.8	1.1	1.8
GDP	1.4	0.9	1.0	1.9
Israel				
Final domestic demand	5.7	3.0	2.2	2.8
Stockbuilding	0.7	1.4	-0.2	0.0
Net exports	-1.9	-1.2	2.4	0.5
GDP	4.6	3.2	3.9	3.4
Italy				
Final domestic demand	-0.5	-4.8	-2.5	-0.7
Stockbuilding	-0.5	-0.6	-0.6	0.0
Net exports	1.4	3.0	1.3	1.1
GDP	0.5	-2.4	-1.8	0.4
Japan				
Final domestic demand	0.8	2.8	1.7	0.6
Stockbuilding	-0.5	0.1	-0.4	-0.2
Net exports	-0.9	-0.9	0.3	0.9
GDP	-0.6	2.0	1.6	1.4

Source: OECD Economic Outlook 93 database.

Contributions to changes in real GDP in other OECD countries *(cont'd)*

Chain link calculations

	2011	2012	2013	2014		2011	2012	2013	2014
Korea					**Slovenia**				
Final domestic demand	1.3	1.0	1.8	3.5	Final domestic demand	-1.3	-3.8	-3.6	-1.7
Stockbuilding	0.7	-0.1	0.0	0.0	Stockbuilding	0.7	-1.9	-0.9	0.0
Net exports	1.8	1.0	0.8	0.5	Net exports	1.3	3.3	2.3	1.8
GDP	3.7	2.0	2.6	4.0	GDP	0.6	-2.3	-2.3	0.1
Luxembourg					**Spain**				
Final domestic demand	2.9	2.7	2.0	1.2	Final domestic demand	-1.8	-3.9	-4.2	-1.7
Stockbuilding	1.4	-0.8	-1.4	0.0	Stockbuilding	-0.1	0.0	0.0	0.0
Net exports	-1.7	-0.5	2.7	0.5	Net exports	2.3	2.5	2.6	2.0
GDP	1.7	0.3	0.8	1.7	GDP	0.4	-1.4	-1.7	0.4
Mexico					**Sweden**				
Final domestic demand	4.8	3.5	3.1	3.5	Final domestic demand	2.6	1.8	1.4	2.3
Stockbuilding	-1.0	0.4	0.4	0.0	Stockbuilding	0.4	-1.1	-0.3	0.0
Net exports	0.1	0.1	-0.1	0.2	Net exports	0.9	0.4	-0.1	0.2
GDP	3.9	3.9	3.4	3.7	GDP	3.8	1.2	1.3	2.5
Netherlands					**Switzerland**				
Final domestic demand	0.6	-1.4	-1.7	0.0	Final domestic demand	1.7	1.5	1.7	1.9
Stockbuilding	-0.1	0.1	0.2	0.0	Stockbuilding	-0.1	-0.2	-0.6	0.0
Net exports	0.5	0.4	0.4	0.7	Net exports	0.3	-0.4	0.3	0.1
GDP	1.1	-1.0	-0.9	0.7	GDP	1.9	1.0	1.4	2.0
New Zealand					**Turkey**				
Final domestic demand	2.2	2.5	3.6	3.8	Final domestic demand	9.6	-0.2	3.4	5.3
Stockbuilding	0.3	0.1	-1.2	-0.1	Stockbuilding	-0.1	-1.2	0.1	0.0
Net exports	-1.0	0.2	-0.1	-0.6	Net exports	-1.2	4.1	0.3	-0.8
GDP	1.3	3.0	2.6	3.1	GDP	8.8	2.2	3.1	4.6
Norway					**United Kingdom**				
Final domestic demand	2.9	3.3	3.1	3.4	Final domestic demand	-1.0	1.5	0.9	1.2
Stockbuilding	0.1	-0.1	-0.6	0.0	Stockbuilding	0.4	-0.1	0.0	0.0
Net exports	-1.8	0.0	-1.1	-0.3	Net exports	1.4	-1.0	0.1	0.3
GDP	1.2	3.2	1.3	3.0	GDP	1.0	0.3	0.8	1.5
Poland					**United States**				
Final domestic demand	3.0	0.3	0.1	1.6	Final domestic demand	1.9	2.0	2.0	3.1
Stockbuilding	0.7	-0.5	0.0	0.0	Stockbuilding	-0.1	0.2	0.0	0.0
Net exports	0.8	2.2	1.2	0.7	Net exports	0.1	0.0	-0.1	-0.3
GDP	4.5	2.0	0.9	2.2	GDP	1.8	2.2	1.9	2.8
Portugal					**Euro area**				
Final domestic demand	-5.6	-7.2	-5.1	-1.4	Final domestic demand	0.3	-1.7	-1.0	0.5
Stockbuilding	-0.7	0.2	0.6	0.0	Stockbuilding	0.2	-0.5	-0.1	0.0
Net exports	4.6	4.0	1.8	1.6	Net exports	0.9	1.6	0.6	0.5
GDP	-1.6	-3.2	-2.7	0.2	GDP	1.5	-0.5	-0.6	1.1
Slovak Republic					**Total OECD**				
Final domestic demand	1.8	-1.3	-0.3	1.1	Final domestic demand	1.6	1.0	1.1	2.1
Stockbuilding	-0.7	-1.6	-0.1	0.0	Stockbuilding	0.0	-0.2	-0.1	0.0
Net exports	2.0	5.2	1.8	1.0	Net exports	0.2	0.5	0.2	0.2
GDP	3.2	2.0	0.8	2.0	GDP	1.9	1.4	1.2	2.3

Source: OECD Economic Outlook 93 database.

Output gaps

Deviations of actual GDP from potential GDP as a percentage of potential GDP

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Australia	1.5	1.5	0.7	2.1	1.1	-0.5	-0.8	-1.3	-0.9	-1.5	-1.6
Austria	-0.1	0.5	2.1	3.9	3.0	-2.2	-1.6	-0.7	-1.6	-2.8	-2.8
Belgium	0.5	0.5	1.6	2.9	2.4	-1.6	-0.2	0.6	-0.8	-2.0	-2.2
Canada	1.3	1.9	2.2	2.2	1.4	-2.8	-1.2	-0.4	-0.4	-0.9	-0.5
Chile	1.4	2.8	3.3	3.5	1.1	-3.9	-1.7	-0.1	0.2	-0.2	-0.4
Czech Republic	-2.6	0.3	3.8	6.2	6.1	-0.7	-0.2	0.0	-2.5	-5.0	-5.4
Denmark	1.4	2.3	4.3	4.8	2.9	-3.6	-2.7	-2.2	-3.2	-3.7	-3.0
Estonia	0.6	4.4	10.0	13.4	5.1	-11.0	-8.9	-2.6	-1.7	-2.9	-2.3
Finland	-0.1	0.5	2.9	6.4	5.1	-4.6	-2.0	-0.1	-1.4	-2.4	-1.9
France	1.2	1.6	2.8	3.5	1.8	-2.3	-1.8	-1.3	-2.4	-3.9	-4.5
Germany	-1.7	-1.9	0.7	2.6	2.0	-4.2	-1.4	0.5	0.1	-0.8	-0.2
Greece	2.3	2.3	6.1	8.3	7.0	3.6	-0.8	-6.8	-11.7	-13.8	-13.7
Hungary	1.8	3.3	5.4	3.9	3.6	-3.6	-2.7	-1.3	-3.3	-3.1	-2.6
Iceland	3.4	6.6	6.4	8.3	6.4	-2.1	-6.8	-4.9	-4.2	-3.2	-1.7
Ireland	6.0	6.8	7.7	8.7	2.2	-5.5	-7.8	-7.6	-7.9	-8.1	-7.7
Israel	-3.8	-2.4	-0.4	1.6	1.9	-0.6	0.9	1.8	1.0	0.9	0.6
Italy	1.0	1.1	2.5	3.3	1.6	-4.2	-2.8	-2.4	-4.5	-5.8	-5.3
Japan	-0.4	0.3	1.4	3.0	1.3	-4.8	-0.9	-2.0	-0.8	0.0	0.6
Luxembourg	-0.8	0.7	2.2	5.6	3.1	-2.2	-0.9	-0.9	-2.5	-3.9	-4.7
Mexico	-0.9	0.0	2.7	3.6	2.3	-5.8	-2.9	-1.5	-0.4	0.0	0.5
Netherlands	-1.4	-0.8	1.1	3.4	3.6	-1.4	-0.9	-0.7	-2.7	-4.7	-5.2
New Zealand	2.5	2.2	1.4	2.3	-0.4	-1.5	-2.0	-2.5	-1.5	-1.1	-0.4
Norway[1]	-1.1	0.4	2.0	4.4	2.9	-1.2	-1.7	-1.5	-0.5	-0.4	0.1
Poland	-0.8	-1.6	-0.4	1.1	1.4	-0.6	0.4	1.8	0.7	-1.3	-2.0
Portugal	-0.1	-0.5	0.0	1.4	0.4	-3.1	-1.7	-3.8	-6.7	-8.8	-8.8
Slovak Republic	-3.3	-1.4	1.9	7.4	8.7	-0.3	1.2	1.1	-0.5	-3.1	-4.3
Slovenia	-0.7	0.2	3.1	7.5	8.5	-1.4	-0.9	-0.7	-3.3	-5.6	-6.1
Spain	1.3	1.5	2.5	3.1	1.7	-3.6	-5.4	-5.9	-7.7	-9.6	-9.4
Sweden	0.9	1.6	3.7	4.7	1.4	-5.5	-1.7	-0.3	-1.4	-2.7	-2.9
Switzerland	-1.5	-0.8	0.9	2.5	2.5	-1.3	-0.1	0.0	-0.9	-1.5	-1.5
Turkey	1.4	5.2	7.1	6.6	2.2	-6.8	-2.7	0.7	-2.1	-4.1	-4.6
United Kingdom	1.1	1.7	2.4	4.4	1.9	-2.9	-1.8	-1.5	-2.1	-2.4	-2.3
United States	1.9	2.7	3.2	2.9	0.5	-4.2	-3.4	-3.4	-3.0	-3.1	-2.4
Euro area	0.2	0.4	2.1	3.5	2.2	-3.1	-2.2	-1.6	-2.9	-4.2	-4.1
Total OECD	0.8	1.5	2.5	3.3	1.4	-3.7	-2.3	-2.0	-2.3	-2.8	-2.4

Note: Potential output follows the methodology outlined in Chapter 4 of *OECD Economic Outlook* no. 91 and is described in more details in Å Johansson *et.al.* (2012), "Long-term growth scenarios", *OECD Economics Department Working Papers,* no. 1000.

1. Mainland Norway.

Source: OECD Economic Outlook 93 database.

GDP deflators

Percentage changes from previous year

	2007	2008	2009	2010	2011	2012	2013	2014	Fourth quarter 2011	2012	2013	2014
Australia	4.0	6.6	0.0	5.7	3.9	-0.6	1.8	2.4	2.5	-1.2	3.0	2.4
Austria	2.0	1.8	1.5	1.8	2.2	2.2	1.5	1.3	2.0	2.4	1.1	1.3
Belgium	2.4	2.1	1.2	2.0	2.0	2.0	1.9	1.6	1.6	2.3	1.7	1.4
Canada	3.2	4.0	-2.2	3.1	3.2	1.3	1.3	1.7	3.4	0.8	1.5	1.4
Chile	4.9	0.7	3.7	8.8	3.3	1.9	4.2	3.1	1.0	2.2	3.5	3.1
Czech Republic	3.3	1.9	2.3	-1.6	-0.9	1.4	0.9	1.4	0.8	0.6	1.1	1.6
Denmark	2.3	4.2	0.7	4.1	0.6	2.1	1.0	1.0	0.1	2.3	0.9	0.8
Estonia	11.6	5.4	-1.4	0.7	2.9	3.2	3.5	2.8	3.0	2.9	4.0	2.3
Finland	3.0	2.9	1.5	0.4	3.1	2.8	2.9	2.0	3.0	3.1	2.9	1.9
France	2.6	2.5	0.7	1.1	1.3	1.3	1.3	0.8	1.5	1.1	1.3	0.6
Germany	1.6	0.8	1.2	0.9	0.8	1.3	1.2	1.7	0.9	1.5	1.3	1.9
Greece	3.3	4.7	2.3	1.1	1.0	-0.8	-0.4	-2.1	..	..	..	..
Hungary	5.5	4.9	3.8	2.4	3.1	3.1	3.6	3.4	4.0	2.5	3.4	3.5
Iceland	5.7	11.8	8.3	6.9	3.3	3.0	3.9	3.6	5.6	1.2	6.6	1.8
Ireland	0.7	-3.1	-4.6	-2.2	0.2	1.9	1.3	1.2	3.4	1.9	1.5	1.2
Israel	-0.2	1.6	4.8	1.2	2.4	3.3	2.8	2.3	2.5	3.6	2.5	2.5
Italy	2.4	2.5	2.1	0.4	1.3	1.6	1.5	0.9	1.8	1.6	1.2	0.8
Japan	-0.9	-1.3	-0.5	-2.2	-1.9	-0.9	-0.8	0.9	-1.5	-0.7	-0.6	1.4
Korea	2.1	2.9	3.4	3.6	1.5	1.0	1.0	2.0	1.0	0.0	1.2	2.5
Luxembourg	3.8	0.5	0.5	7.6	5.1	3.8	2.2	0.7	5.1	3.7	0.8	0.7
Mexico	5.6	6.4	4.2	4.0	6.0	3.6	2.6	4.3	7.5	0.6	4.3	4.3
Netherlands	1.8	2.1	0.1	1.1	1.2	0.7	1.9	1.5	1.6	0.9	1.6	1.6
New Zealand	4.3	3.9	0.3	4.2	2.6	-0.6	1.5	1.6	0.3	-2.7	4.4	0.7
Norway	3.0	10.9	-5.4	6.3	6.8	2.8	1.7	2.8	5.0	1.5	2.3	3.2
Poland	4.0	3.1	3.6	1.5	3.2	2.5	0.5	1.0	3.6	1.6	0.4	1.1
Portugal	2.8	1.6	0.9	0.6	0.5	-0.1	-0.4	0.0	0.6	-0.4	-0.3	0.1
Slovak Republic	1.1	2.9	-1.2	0.5	1.6	1.4	1.5	2.1	2.0	1.0	1.8	2.4
Slovenia	4.2	4.1	3.6	-1.1	1.0	0.4	0.4	0.3	2.4	-0.3	0.7	-0.1
Spain	3.3	2.4	0.1	0.4	1.0	0.3	0.7	0.4	0.8	0.1	0.8	0.4
Sweden	2.6	3.3	2.0	1.1	1.1	0.4	0.3	1.4	0.5	-0.1	0.9	1.5
Switzerland	2.5	2.8	-0.4	0.5	0.2	0.1	0.0	1.1	-0.1	0.2	0.3	1.3
Turkey	6.2	12.0	5.3	5.7	8.6	6.8	5.7	4.8	..	..	..	..
United Kingdom	2.2	3.0	1.3	2.8	2.3	1.4	1.9	1.9	2.0	1.3	2.0	1.9
United States	2.9	2.2	0.9	1.3	2.1	1.8	1.5	1.9	2.0	1.8	1.6	2.0
Euro area	2.3	1.9	1.0	0.8	1.2	1.2	1.3	1.1	1.4	1.2	1.2	1.0
Total OECD	2.5	2.5	1.0	1.4	1.9	1.5	1.4	1.8	1.9	1.2	1.5	1.9

Source: OECD Economic Outlook 93 database.

Consumer prices

Percentage changes from previous year

	2007	2008	2009	2010	2011	2012	2013	2014	Fourth quarter 2011	2012	2013	2014
Australia	2.4	4.4	1.8	2.9	3.4	1.7	2.1	2.1	3.1	2.2	1.8	2.1
Austria	2.2	3.2	0.4	1.7	3.6	2.6	2.0	1.5	3.7	2.9	1.2	1.5
Belgium	1.8	4.5	0.0	2.3	3.4	2.6	1.4	1.2	3.3	2.3	1.1	1.2
Canada	2.1	2.4	0.3	1.8	2.9	1.5	1.3	1.7	2.7	0.9	1.6	1.8
Chile	4.4	8.7	0.4	1.4	3.3	3.0	2.0	2.9	4.1	2.2	2.4	3.0
Czech Republic	3.0	6.3	1.0	1.5	1.9	3.3	1.6	1.3	2.4	2.8	1.4	1.3
Denmark	1.7	3.4	1.3	2.3	2.8	2.4	0.8	1.4	2.6	2.2	0.5	1.7
Estonia	6.7	10.6	0.2	2.7	5.1	4.2	3.4	2.9	4.5	3.9	3.2	3.0
Finland	1.6	3.9	1.6	1.7	3.3	3.2	2.6	2.4	3.0	3.4	2.6	2.0
France	1.6	3.2	0.1	1.7	2.3	2.2	1.1	1.0	2.7	1.7	1.0	0.9
Germany	2.3	2.8	0.2	1.2	2.5	2.1	1.6	2.0	2.6	2.0	1.5	2.2
Greece	3.0	4.2	1.3	4.7	3.1	1.0	-0.7	-1.7	2.6	0.5	-1.7	-1.8
Hungary	8.0	6.0	4.2	4.9	3.9	5.7	2.8	3.5	4.1	5.4	2.7	3.5
Iceland	5.1	12.7	12.0	5.4	4.0	5.2	4.0	3.2	5.3	4.3	3.9	3.3
Ireland	2.9	3.1	-1.7	-1.6	1.2	1.9	1.0	1.1	1.6	1.8	1.2	0.8
Israel	0.5	4.6	3.3	2.7	3.5	1.7	1.4	2.3	2.5	1.7	1.7	2.5
Italy	2.0	3.5	0.8	1.6	2.9	3.3	1.6	1.2	3.7	2.6	1.2	1.2
Japan	0.1	1.4	-1.3	-0.7	-0.3	0.0	-0.1	1.8	-0.3	-0.2	0.2	2.4
Korea	2.5	4.7	2.8	2.9	4.0	2.2	2.2	2.9	4.0	1.7	2.5	2.8
Luxembourg	2.7	4.1	0.0	2.8	3.7	2.9	1.8	1.7	3.7	2.8	1.3	1.7
Mexico	4.0	5.1	5.3	4.2	3.4	4.1	3.4	3.2	3.5	4.1	3.2	3.2
Netherlands	1.6	2.2	1.0	0.9	2.5	2.8	2.7	1.5	2.6	3.3	1.9	1.4
New Zealand	2.4	4.0	2.1	2.3	4.0	1.1	1.0	1.8	1.9	0.9	1.3	2.0
Norway	0.7	3.8	2.2	2.4	1.3	0.7	1.3	1.7	0.9	1.2	1.2	1.9
Poland	2.4	4.2	3.8	2.6	4.2	3.6	0.7	1.0	4.4	2.8	0.3	1.1
Portugal	2.4	2.7	-0.9	1.4	3.6	2.8	0.0	0.2	3.8	2.1	-0.5	0.2
Slovak Republic	1.9	3.9	0.9	0.7	4.1	3.7	1.7	1.6	4.7	3.6	1.3	1.6
Slovenia	3.8	5.5	0.9	2.1	2.1	2.8	2.1	1.2	2.6	3.0	1.2	1.1
Spain	2.8	4.1	-0.2	2.0	3.1	2.4	1.5	0.4	2.7	3.2	0.2	0.4
Sweden	2.2	3.4	-0.5	1.2	3.0	0.9	0.2	1.3	2.7	0.1	0.8	1.4
Switzerland	0.7	2.4	-0.5	0.7	0.2	-0.7	-0.3	0.2	-0.4	-0.3	-0.1	0.2
Turkey	8.8	10.4	6.3	8.6	6.5	8.9	6.7	5.2	..	..	..	..
United Kingdom	2.3	3.6	2.2	3.3	4.5	2.8	2.8	2.4	4.7	2.7	2.4	2.3
United States	2.9	3.8	-0.3	1.6	3.1	2.1	1.6	1.9	3.3	1.9	1.5	2.1
Euro area	2.1	3.3	0.3	1.6	2.7	2.5	1.5	1.2	2.9	2.3	1.0	1.2
Brazil	3.6	5.7	4.9	5.0	6.6	5.4	6.2	5.2				
China	4.8	5.9	-0.7	3.2	5.5	2.6	2.5	2.6	4.7	2.0	2.7	2.7
India	6.4	8.3	10.9	12.0	8.9	9.3	8.4	6.9				
Indonesia	6.4	10.2	4.4	5.1	5.4	4.3	5.6	5.5				
Russian Federation	9.0	14.1	11.7	6.9	8.4	5.1	6.6	5.4				
South Africa	7.1	11.0	7.1	4.3	5.0	5.6	6.5	5.0				

Note: For the United Kingdom, the euro area countries and the euro area aggregate, the Harmonised Index of Consumer Prices (HICP) is used. In the United Kingdom the HICP is known as the Consumer Price Index .

Source: OECD Economic Outlook 93 database.

Private consumption deflators

Percentage changes from previous year

	2007	2008	2009	2010	2011	2012	2013	2014	Fourth quarter 2011	2012	2013	2014
Australia	3.4	3.5	2.6	2.5	2.4	2.2	2.3	2.1	2.7	2.4	2.2	2.1
Austria	2.4	2.2	0.4	2.0	3.5	2.9	1.8	1.4	3.5	3.0	1.1	1.4
Belgium	2.8	3.3	-0.7	2.0	3.1	2.6	1.1	1.3	3.3	2.2	1.1	1.2
Canada	1.6	1.6	0.4	1.5	2.2	1.2	0.9	1.2	2.3	0.6	1.2	1.3
Chile	3.9	7.5	1.3	3.1	4.3	3.4	2.4	3.2	4.7	2.5	2.7	3.2
Czech Republic	2.9	4.8	0.8	-0.2	0.5	2.3	1.0	1.3	0.6	1.7	1.4	1.3
Denmark	1.2	2.7	1.5	2.5	2.5	2.4	0.8	1.4	2.2	2.4	0.7	1.7
Estonia	7.9	7.8	-1.3	2.6	5.0	3.4	3.0	2.3	4.7	3.1	2.6	2.4
Finland	2.2	3.5	1.4	2.0	3.4	2.7	2.9	2.1	3.7	2.3	2.7	2.0
France	2.1	2.9	-0.6	1.1	2.1	1.7	0.9	0.8	2.2	1.2	1.0	0.6
Germany	1.5	1.6	0.0	2.0	2.1	1.6	1.4	1.6	2.1	1.6	1.2	1.9
Greece	3.1	4.2	0.7	4.0	3.4	0.9	-1.1	-1.7	..	..	..	..
Hungary	6.9	5.1	4.0	3.9	4.5	5.2	3.4	3.4	5.7	5.0	2.5	3.4
Iceland	4.6	14.1	13.7	3.4	4.1	5.6	4.6	3.4	6.8	4.9	4.1	3.4
Ireland	3.1	1.6	-6.7	-2.0	1.4	1.8	1.4	1.1	2.0	1.6	1.6	0.9
Israel	0.5	5.0	2.4	2.9	3.2	1.9	1.8	2.1	2.4	2.3	1.5	2.4
Italy	2.2	3.1	-0.1	1.5	2.9	2.8	1.4	0.9	3.4	2.4	0.9	0.9
Japan	-0.7	0.2	-2.5	-1.7	-0.8	-0.6	-0.5	1.7	-0.5	-0.6	-0.2	2.3
Korea	2.0	4.5	2.6	2.6	3.7	2.1	2.0	2.6	3.8	1.5	2.3	2.6
Luxembourg	2.2	3.4	0.9	1.7	2.6	2.2	1.0	1.2	2.2	1.8	0.8	1.2
Mexico	4.8	5.7	7.5	4.0	3.8	4.8	3.2	3.9	5.0	3.5	3.8	3.9
Netherlands	1.8	1.1	-0.5	1.3	2.3	2.3	2.8	1.8	2.5	2.8	2.4	1.5
New Zealand	1.7	3.6	3.0	1.6	3.0	1.1	0.6	1.4	1.5	0.9	1.0	1.7
Norway	1.3	3.4	2.5	2.2	1.3	0.9	1.3	1.8	0.7	1.2	1.3	2.0
Poland	2.4	4.3	2.4	2.6	4.8	3.6	0.8	1.0	5.2	2.7	0.2	1.1
Portugal	3.0	2.6	-2.2	1.3	3.8	2.1	-0.4	0.0	3.8	1.4	-0.7	0.0
Slovak Republic	2.6	4.5	0.1	1.0	3.8	3.7	2.2	2.2	4.1	3.4	1.7	2.6
Slovenia	4.1	5.5	1.1	1.5	1.7	1.9	0.9	0.8	1.9	1.8	0.9	0.8
Spain	3.2	3.6	-1.1	2.0	2.9	2.6	1.6	0.4	2.6	3.1	-0.1	0.5
Sweden	1.3	3.1	2.1	1.6	1.2	1.1	0.2	1.3	0.7	0.6	0.9	1.4
Switzerland	1.6	3.1	-0.7	0.9	0.1	-0.5	-0.5	0.2	-0.5	-0.4	0.0	0.3
Turkey	6.6	10.8	4.9	8.5	8.9	8.2	6.5	5.1	..	..	..	..
United Kingdom	2.6	3.4	1.4	3.7	4.5	2.7	2.6	2.3	4.2	2.7	2.3	2.2
United States	2.7	3.3	0.1	1.9	2.4	1.8	1.3	1.8	2.5	1.6	1.3	1.9
Euro area	2.2	2.6	-0.4	1.7	2.5	2.1	1.3	1.1	2.6	1.9	0.9	1.1
Total OECD	2.4	3.2	0.4	1.9	2.6	2.1	1.5	1.9	2.8	1.8	1.4	2.0

Source: OECD Economic Outlook 93 database.

Unemployment rates

	2007	2008	2009	2010	2011	2012	2013	2014	Fourth quarter 2011	2012	2013	2014
Australia	4.4	4.2	5.6	5.2	5.1	5.2	5.6	5.5	5.2	5.4	5.6	5.5
Austria	4.4	3.8	4.8	4.4	4.1	4.3	4.7	4.7	4.4	4.5	4.8	4.7
Belgium	7.5	7.1	7.8	8.2	7.2	7.6	8.4	8.8	7.2	8.0	8.6	8.9
Canada	6.0	6.1	8.3	8.0	7.5	7.3	7.1	6.9	7.4	7.2	7.2	6.7
Chile	7.2	7.8	10.8	8.1	7.1	6.4	6.5	6.5	7.0	6.4	6.5	6.4
Czech Republic	5.3	4.4	6.7	7.3	6.7	7.0	7.3	7.5	6.5	7.3	7.4	7.5
Denmark	3.8	3.5	6.0	7.5	7.6	7.5	7.4	7.3	7.9	7.3	7.4	7.3
Estonia	4.7	5.6	13.9	16.8	12.5	10.1	9.7	9.3	12.2	9.9	9.6	9.2
Finland	6.8	6.4	8.3	8.4	7.8	7.7	8.2	8.1	7.5	7.6	8.3	7.9
France	8.0	7.4	9.1	9.3	9.2	9.9	10.7	11.1	9.4	10.2	11.0	11.2
Germany	8.3	7.2	7.4	6.8	5.7	5.3	5.0	4.8	5.4	5.1	5.0	4.7
Greece	8.3	7.7	9.5	12.5	17.7	24.2	27.8	28.4	..	..	..	..
Hungary	7.4	7.8	10.0	11.1	10.9	10.9	11.4	11.5	10.9	10.9	11.5	11.5
Iceland	2.3	3.1	7.3	7.7	6.9	5.9	5.3	4.8	5.9	5.4	5.2	4.6
Ireland	4.6	6.0	11.8	13.9	14.6	14.7	14.3	14.1	14.9	14.1	14.3	14.1
Israel	9.1	7.7	9.5	8.3	7.1	6.9	7.2	6.8	6.8	6.8	7.2	6.5
Italy	6.1	6.8	7.8	8.4	8.4	10.6	11.9	12.5	9.2	11.2	12.3	12.6
Japan	3.8	4.0	5.0	5.0	4.6	4.3	4.2	4.1	4.5	4.2	4.1	4.1
Korea	3.2	3.2	3.6	3.7	3.4	3.2	3.3	3.2	3.3	3.2	3.2	3.1
Luxembourg	4.2	4.1	5.4	5.8	5.6	6.1	6.7	6.7	5.7	6.3	6.8	6.7
Mexico	3.7	3.9	5.4	5.4	5.2	5.0	4.9	4.8	5.2	5.2	4.8	4.8
Netherlands	3.5	3.0	3.7	4.4	4.3	5.2	6.4	7.0	4.8	5.6	6.8	7.1
New Zealand	3.7	4.2	6.1	6.5	6.5	6.9	6.8	6.4	6.4	6.9	6.6	6.2
Norway	2.5	2.6	3.1	3.5	3.2	3.1	3.2	3.3	3.3	3.4	3.2	3.3
Poland	9.6	7.1	8.2	9.6	9.6	10.1	10.8	11.3	9.9	10.3	11.0	11.4
Portugal	8.0	7.6	9.5	10.8	12.7	15.6	18.2	18.6	13.8	16.8	18.6	18.5
Slovak Republic	11.1	9.5	12.1	14.4	13.5	14.0	14.6	14.7	14.0	14.6	14.6	14.7
Slovenia	4.8	4.4	5.9	7.2	8.2	8.8	10.2	10.3	8.6	9.4	10.4	10.2
Spain	8.3	11.3	18.0	20.1	21.6	25.0	27.3	28.0	23.0	26.1	28.0	27.8
Sweden	6.1	6.2	8.3	8.6	7.8	8.0	8.2	8.1	7.8	8.1	8.2	8.0
Switzerland	3.6	3.3	4.3	4.4	3.9	4.1	4.5	4.4	4.0	4.3	4.5	4.3
Turkey	10.1	10.7	13.7	11.7	9.6	9.0	9.4	9.3	..	..	..	..
United Kingdom	5.4	5.7	7.6	7.9	8.1	7.9	8.0	7.9	8.4	7.8	8.1	7.8
United States	4.6	5.8	9.3	9.6	8.9	8.1	7.5	7.0	8.7	7.8	7.4	6.7
Euro area	7.4	7.4	9.4	9.9	10.0	11.2	12.1	12.3	10.4	11.6	12.3	12.3
Total OECD	5.7	6.0	8.2	8.3	7.9	8.0	8.1	8.0	8.0	8.0	8.1	7.8

Source: OECD Economic Outlook 93 database.

Short-term interest rates

					2012	2013				2014			
	2011	2012	2013	2014	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia	4.8	3.7	2.9	2.8	3.2	3.0	2.9	2.8	2.8	2.8	2.8	2.8	2.8
Canada	1.2	1.3	1.1	1.5	1.2	1.2	1.2	1.1	1.1	1.1	1.2	1.6	2.1
Chile	4.9	5.1	5.1	5.2	5.4	5.1	5.1	5.1	5.1	5.2	5.2	5.2	5.2
Czech Republic	1.2	1.0	0.4	0.3	0.6	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Denmark	1.4	0.6	0.1	0.0	0.3	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Hungary	6.0	6.9	4.5	4.0	6.1	5.3	4.5	4.2	4.0	4.0	4.0	4.0	4.0
Iceland	4.3	5.5	6.3	6.9	6.1	6.2	6.2	6.4	6.4	6.6	6.8	7.0	7.0
Israel	2.8	2.3	1.7	2.1	2.0	1.7	1.7	1.7	1.7	1.7	2.0	2.2	2.5
Japan	0.1	0.1	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Korea	3.4	3.3	2.8	3.0	2.9	2.8	2.7	2.7	2.8	2.8	3.0	3.1	3.3
Mexico	4.4	4.4	4.0	4.0	4.3	4.2	4.0	4.0	4.0	4.0	4.0	4.0	4.0
New Zealand	2.8	2.7	2.7	3.1	2.6	2.7	2.7	2.7	2.7	2.8	2.9	3.3	3.5
Norway	2.9	2.2	1.8	2.0	1.9	1.9	1.8	1.8	1.8	1.8	1.9	2.2	2.2
Poland	4.6	4.9	3.1	2.7	4.4	3.7	3.2	2.7	2.7	2.7	2.7	2.7	2.7
Sweden	2.5	2.0	1.1	1.0	1.4	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Switzerland	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Turkey	8.7	8.4	5.8	6.5	6.2	5.9	5.7	5.9	5.9	6.4	6.4	6.6	6.6
United Kingdom	0.9	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
United States	0.4	0.4	0.3	0.2	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Euro area	1.4	0.6	0.1	0.0	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0

Note: Individual euro area countries are not shown since their short term interest rates are equal to the euro area rate.
Source: OECD Economic Outlook 93 database.

Long-term interest rates

					2012	2013				2014			
	2011	2012	2013	2014	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia	4.9	3.4	3.6	3.8	3.1	3.5	3.5	3.6	3.7	3.7	3.9	3.9	3.9
Austria	3.3	2.4	1.8	2.2	1.9	1.9	1.6	1.8	1.9	2.0	2.2	2.3	2.5
Belgium	4.2	3.0	2.2	2.6	2.4	2.3	2.0	2.1	2.3	2.4	2.5	2.6	2.7
Canada	2.8	1.9	1.9	2.6	1.8	1.9	1.7	1.9	2.1	2.3	2.5	2.7	2.9
Chile	6.0	5.5	5.6	5.6	5.5	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Czech Republic	3.7	2.8	2.0	2.5	2.1	2.0	2.0	2.1	2.1	2.5	2.5	2.6	2.6
Denmark	2.7	1.4	1.4	1.9	1.2	1.3	1.4	1.4	1.5	1.7	1.7	1.9	2.1
Finland	3.0	1.9	1.7	2.1	1.7	1.7	1.5	1.6	1.8	1.9	2.1	2.2	2.4
France	3.3	2.5	2.0	2.4	2.1	2.2	1.8	1.9	2.1	2.2	2.3	2.4	2.6
Germany	2.6	1.5	1.4	1.9	1.4	1.5	1.3	1.4	1.5	1.7	1.9	2.0	2.2
Greece	15.7	22.5	10.4	9.1	16.2	11.1	10.5	10.1	9.8	9.5	9.2	8.9	8.6
Hungary	7.6	7.9	5.6	4.9	6.8	6.3	5.8	5.3	5.1	5.0	4.9	4.8	4.7
Iceland	6.0	6.2	5.6	6.2	6.0	5.6	5.6	5.7	5.7	5.9	6.1	6.3	6.5
Ireland	9.6	6.0	4.3	4.3	4.5	4.5	4.2	4.2	4.2	4.3	4.3	4.3	4.3
Israel	5.0	4.4	4.1	4.8	4.2	4.0	4.0	4.2	4.4	4.5	4.7	4.9	5.0
Italy	5.4	5.5	4.2	4.1	4.8	4.4	4.2	4.1	4.1	4.1	4.1	4.1	4.2
Japan	1.1	0.8	0.7	1.2	0.8	0.6	0.6	0.7	0.9	1.0	1.1	1.2	1.3
Korea	4.2	3.4	3.1	3.7	3.0	3.0	3.0	3.0	3.2	3.4	3.6	3.8	3.9
Luxembourg	2.9	1.8	1.6	2.1	1.5	1.6	1.4	1.6	1.7	1.9	2.0	2.2	2.3
Mexico	6.8	5.8	5.3	5.1	5.5	5.4	5.3	5.3	5.2	5.1	5.1	5.1	5.1
Netherlands	3.0	1.9	1.7	2.1	1.7	1.7	1.5	1.6	1.8	1.9	2.1	2.2	2.4
New Zealand	4.9	3.7	3.7	4.3	3.5	3.7	3.7	3.7	3.7	3.9	4.2	4.5	4.7
Norway	3.1	2.1	2.3	2.5	2.0	2.3	2.3	2.3	2.3	2.3	2.4	2.7	2.7
Portugal	10.2	10.5	5.8	5.2	7.9	6.2	5.8	5.6	5.5	5.4	5.3	5.2	5.1
Slovak Republic	4.4	4.6	3.8	4.0	4.1	3.9	3.7	3.7	3.8	3.9	3.9	4.0	4.1
Slovenia	5.0	5.8	4.8	4.6	5.5	5.1	4.7	4.7	4.7	4.6	4.6	4.6	4.6
Spain	5.4	5.8	4.9	4.7	5.6	5.1	4.9	4.8	4.7	4.7	4.7	4.6	4.7
Sweden	2.6	1.6	1.9	2.3	1.5	1.9	1.8	1.9	2.0	2.1	2.2	2.4	2.5
Switzerland	1.5	0.6	0.7	0.9	0.6	0.6	0.6	0.7	0.7	0.8	0.9	0.9	1.0
Turkey	8.8	8.4	5.9	6.9	6.2	5.9	5.8	6.0	6.1	6.8	6.8	7.0	7.0
United Kingdom	3.1	1.9	1.9	2.4	1.8	2.2	1.7	1.9	2.0	2.2	2.4	2.5	2.7
United States	2.8	1.8	1.9	2.5	1.7	2.0	1.7	1.8	2.0	2.2	2.4	2.6	2.7
Euro area	4.2	3.7	2.8	3.0	3.1	2.9	2.7	2.7	2.8	2.9	2.9	3.0	3.1

Note: 10-year benchmark government bond yields where available or yields on similar financial instruments.
The long-term interest rates refer to yields in secondary bond markets and are not representative of average government funding costs.

Source: OECD Economic Outlook 93 database.

General government financial balance

Surplus (+) or deficit (-) as a percentage of GDP

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Australia	1.8	2.0	2.3	1.8	-0.7	-5.0	-5.2	-3.6	-3.3	-1.8	-0.7
Austria	-4.6	-1.8	-1.7	-1.0	-1.0	-4.1	-4.5	-2.4	-2.5	-2.3	-1.7
Belgium	-0.2	-2.6	0.3	-0.1	-1.1	-5.6	-3.9	-3.9	-4.0	-2.6	-2.3
Canada	1.0	1.7	1.8	1.5	-0.3	-4.8	-5.2	-4.0	-3.2	-2.9	-2.1
Czech Republic	-2.8	-3.2	-2.4	-0.7	-2.2	-5.8	-4.8	-3.3	-4.4	-3.3	-3.0
Denmark	1.9	5.0	5.0	4.8	3.3	-2.8	-2.7	-2.0	-4.1	-1.8	-1.8
Estonia	1.6	1.6	2.5	2.4	-2.9	-2.0	0.2	1.2	-0.3	0.0	0.3
Finland	2.3	2.7	4.1	5.3	4.3	-2.7	-2.8	-1.1	-2.3	-2.3	-1.8
France	-3.6	-3.0	-2.4	-2.7	-3.3	-7.6	-7.1	-5.3	-4.9	-4.0	-3.5
Germany	-3.8	-3.3	-1.7	0.2	-0.1	-3.1	-4.2	-0.8	0.2	-0.2	0.0
Greece	-7.4	-5.6	-6.0	-6.8	-9.9	-15.6	-10.8	-9.6	-10.0	-4.1	-3.5
Hungary	-6.5	-7.9	-9.4	-5.1	-3.7	-4.5	-4.4	4.2	-2.0	-2.8	-3.2
Iceland	0.0	4.9	6.3	5.4	-13.5	-9.9	-10.1	-5.6	-3.4	-0.2	0.8
Ireland	1.4	1.7	2.9	0.1	-7.4	-13.9	-30.8	-13.3	-7.5	-7.5	-4.6
Israel	-6.2	-5.1	-2.7	-1.6	-4.0	-6.7	-4.8	-4.4	-5.1	-5.7	-4.2
Italy	-3.6	-4.5	-3.4	-1.6	-2.7	-5.4	-4.3	-3.7	-2.9	-3.0	-2.3
Japan	-5.9	-4.8	-1.3	-2.1	-1.9	-8.8	-8.3	-8.9	-9.9	-10.3	-8.0
Korea	2.7	3.4	3.9	4.7	3.0	-1.1	1.3	2.0	2.1	1.4	2.0
Luxembourg	-1.1	0.0	1.4	3.7	3.2	-0.8	-0.9	-0.2	-0.8	-0.7	-0.6
Netherlands	-1.8	-0.3	0.5	0.2	0.5	-5.6	-5.0	-4.4	-4.0	-3.7	-3.6
New Zealand	4.1	4.7	5.3	4.5	0.4	-2.7	-7.5	-5.3	-3.9	-2.4	-1.1
Norway	11.1	15.0	18.3	17.3	18.8	10.5	11.1	13.4	13.9	12.3	11.8
Poland	-5.4	-4.1	-3.6	-1.9	-3.7	-7.4	-7.9	-5.0	-3.9	-3.4	-2.7
Portugal	-4.0	-6.5	-4.6	-3.2	-3.7	-10.2	-9.9	-4.4	-6.4	-6.4	-5.6
Slovak Republic	-2.4	-2.8	-3.2	-1.8	-2.1	-8.0	-7.7	-5.1	-4.3	-2.6	-2.2
Slovenia	-2.3	-1.5	-1.4	0.0	-1.9	-6.2	-5.9	-6.4	-4.0	-7.8	-3.4
Spain	-0.1	1.3	2.4	1.9	-4.5	-11.2	-9.7	-9.4	-10.6	-6.9	-6.4
Sweden	0.4	1.9	2.2	3.6	2.2	-1.0	0.0	0.0	-0.7	-1.6	-1.1
Switzerland	-2.1	-1.1	0.5	1.0	2.0	0.8	0.3	0.5	0.7	0.7	0.6
United Kingdom	-3.5	-3.2	-2.6	-2.7	-4.9	-10.8	-10.0	-7.9	-6.5	-7.1	-6.5
United States	-4.4	-3.3	-2.2	-2.9	-6.6	-11.9	-11.4	-10.2	-8.7	-5.4	-5.3
Euro area	-2.9	-2.6	-1.4	-0.7	-2.1	-6.4	-6.2	-4.1	-3.7	-3.0	-2.5
Total OECD	-3.2	-2.4	-1.2	-1.3	-3.4	-8.2	-7.7	-6.4	-5.7	-4.3	-3.8
Brazil	-2.9	-3.6	-3.6	-2.8	-2.0	-3.3	-2.5	-2.6	-2.5	-2.4	-2.2
China	-0.4	-0.2	0.5	2.0	0.9	-1.1	-0.7	0.1	-0.4	-1.4	-1.5
India	-7.4	-6.7	-5.7	-4.0	-7.1	-9.6	-7.3	-7.8	-7.6	-7.0	-6.6
Indonesia	-1.0	-0.5	-0.9	-1.3	-0.1	-1.6	-0.7	-1.1	-2.0	-2.1	-1.9
Russian Federation	6.0	6.0	8.3	5.6	7.3	-4.0	-1.0	1.5	0.4	-0.6	-0.5
South Africa	-3.8	-2.0	-1.4	-0.6	-1.4	-5.2	-6.0	-5.6	-5.6	-5.2	-4.4

Note: Financial balances include one-off factors such as those resulting from the sale of the mobile telephone licenses. As data are on a national account's basis (SNA93/ESA95), the government financial balances may differ from the numbers reported to the European Commission under the Excessive Deficit Procedure for some EU countries. For more details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*. For Non-OECD countries, fiscal balances are not comparable across countries as different concepts are applied.

Source: OECD Economic Outlook 93 database.

General government cyclically-adjusted financial balance

Surplus (+) or deficit (-) as a percentage of potential GDP

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Australia	1.3	1.5	1.9	1.0	-1.2	-4.8	-4.9	-3.3	-3.0	-1.3	-0.1
Austria	-4.4	-1.8	-2.3	-2.4	-2.6	-3.7	-3.6	-2.1	-1.9	-1.2	-0.4
Belgium	-0.4	-2.8	-0.4	-1.5	-2.4	-4.9	-3.8	-4.4	-3.7	-1.5	-1.0
Canada	0.6	1.0	1.0	0.6	-0.9	-3.9	-4.6	-3.8	-3.1	-2.6	-2.0
Czech Republic	-1.8	-3.3	-3.8	-3.0	-4.5	-5.5	-4.7	-3.2	-3.4	-1.4	-1.0
Denmark	1.5	4.0	3.0	2.2	1.1	-1.7	-0.7	-0.3	-2.1	0.5	0.2
Estonia	1.5	0.4	-0.3	-1.4	-4.7	1.9	3.1	2.0	0.3	1.0	1.0
Finland	2.4	2.5	3.0	3.1	2.3	-0.9	-1.8	-1.0	-1.6	-1.1	-0.8
France	-4.1	-3.6	-3.5	-4.4	-4.7	-6.9	-6.1	-4.5	-3.7	-1.9	-1.0
Germany	-2.8	-2.1	-1.5	-0.6	-1.0	-1.6	-3.5	-1.1	-0.3	-0.3	-0.2
Greece	-8.4	-6.6	-8.7	-10.5	-13.4	-17.6	-10.4	-6.1	-3.7	2.3	2.9
Hungary	-7.2	-9.3	-11.8	-7.0	-5.3	-3.4	-3.1	4.7	-0.8	-1.5	-2.1
Iceland	-0.8	2.8	4.0	2.6	-17.0	-9.8	-7.4	-3.2	-1.6	1.2	1.6
Ireland	-1.0	-0.9	0.0	-3.4	-8.8	-11.5	-25.7	-9.4	-4.0	-3.9	-1.4
Israel	-4.5	-4.0	-2.4	-2.2	-4.8	-6.5	-5.2	-5.2	-5.6	-6.0	-4.4
Italy	-4.0	-5.1	-4.6	-3.3	-3.8	-3.7	-2.6	-2.3	-0.6	0.3	0.8
Japan	-5.7	-4.8	-1.6	-3.0	-2.4	-7.4	-7.8	-8.2	-9.5	-10.3	-8.2
Korea	2.5	3.2	3.6	4.1	2.7	-0.5	1.6	2.2	2.8	2.4	3.1
Luxembourg	-0.8	-0.2	0.6	1.9	1.6	-0.3	-0.3	0.2	0.2	1.0	1.6
Netherlands	-0.9	0.5	0.5	-0.9	-1.2	-5.9	-4.3	-3.9	-2.7	-1.3	-0.5
New Zealand	3.3	3.9	4.8	3.6	0.4	-2.0	-6.6	-4.3	-3.2	-1.9	-0.9
Norway[1]	-1.2	-0.4	0.9	2.1	1.0	-0.7	0.0	0.4	0.4	0.3	0.4
Poland	-5.1	-3.5	-3.5	-2.3	-4.2	-7.3	-8.0	-5.6	-4.2	-3.0	-2.0
Portugal	-4.0	-6.3	-4.6	-3.8	-4.0	-8.7	-8.9	-2.6	-3.3	-2.4	-1.6
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..
Slovenia	-1.9	-1.5	-2.6	-3.0	-5.4	-5.7	-5.4	-5.9	-2.5	-5.0	-0.7
Spain	-0.8	0.3	1.0	0.1	-5.7	-9.7	-6.9	-6.4	-6.6	-2.4	-1.8
Sweden	0.0	1.3	0.6	1.4	1.4	1.7	0.9	0.2	0.0	-0.2	0.3
Switzerland	-1.5	-0.7	0.4	0.3	1.2	1.1	0.4	0.5	1.0	1.2	1.1
United Kingdom	-4.0	-3.9	-3.7	-4.5	-6.1	-9.8	-8.9	-7.1	-5.5	-5.9	-5.3
United States	-5.0	-4.1	-3.3	-4.0	-6.9	-10.4	-9.8	-8.7	-7.4	-4.2	-4.3
Euro area	-2.9	-2.6	-2.1	-2.2	-3.4	-5.3	-5.0	-3.3	-2.3	-1.0	-0.4
Total OECD	-3.7	-3.1	-2.2	-2.6	-4.3	-7.3	-6.9	-5.8	-5.0	-3.4	-3.0

Note: For more details on the methodology used for estimating the cyclical component of government balances see OECD Economic Outlook Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

1. As a percentage of mainland potential GDP. The cyclically-adjusted balances shown exclude revenues from petroleum activities.

Source: OECD Economic Outlook 93 database.

General government underlying financial balance

Surplus (+) or deficit (-) as a percentage of potential GDP

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Australia	1.4	1.6	2.0	1.1	-1.2	-4.7	-4.8	-3.3	-3.0	-1.3	-0.1
Austria	-0.9	-1.8	-2.4	-2.1	-2.5	-3.5	-2.9	-1.9	-1.1	-1.0	-0.4
Belgium	-0.8	-0.6	-0.6	-1.5	-2.4	-4.3	-3.7	-4.0	-3.0	-1.7	-1.0
Canada	0.7	1.1	1.0	0.6	-1.0	-3.8	-4.6	-3.8	-3.1	-2.6	-2.0
Czech Republic	-2.5	-4.4	-4.2	-3.4	-4.3	-6.4	-5.4	-4.3	-1.3	-1.4	-1.0
Denmark	1.0	3.6	2.5	1.9	1.3	-1.8	-0.7	-0.2	-0.7	-0.1	-0.3
Estonia	1.3	0.3	-0.4	-0.8	-3.4	-1.2	-0.4	-0.1	1.3	1.0	1.0
Finland	2.4	2.6	2.9	3.1	2.2	-0.8	-1.8	-0.9	-1.6	-1.1	-0.8
France	-4.2	-4.2	-3.5	-4.4	-4.5	-6.7	-6.1	-4.6	-3.7	-2.0	-1.1
Germany	-2.8	-2.1	-1.6	-0.7	-0.9	-1.5	-2.5	-1.3	-0.4	-0.3	-0.2
Greece	-7.8	-7.0	-9.2	-10.9	-13.1	-16.5	-10.6	-7.0	-0.8	1.7	2.5
Hungary	-7.7	-9.6	-11.6	-6.3	-4.8	-3.4	-5.3	-5.8	-2.7	-2.1	-2.1
Iceland	-0.9	2.6	3.7	2.1	-3.5	-9.6	-4.2	-2.6	-1.3	0.2	0.5
Ireland	-0.9	-0.9	-0.2	-3.7	-8.0	-9.1	-7.4	-5.8	-4.5	-4.3	-2.5
Israel	-4.5	-4.0	-2.4	-2.1	-4.4	-6.0	-5.2	-5.3	-5.6	-6.0	-4.4
Italy	-4.4	-4.8	-3.3	-3.0	-3.5	-3.8	-2.7	-2.8	-0.6	0.7	0.8
Japan	-6.6	-4.9	-3.4	-3.2	-3.4	-7.5	-7.9	-7.8	-9.0	-9.6	-7.5
Korea	2.7	3.0	3.5	3.9	2.8	-0.1	1.4	2.1	2.3	1.8	2.4
Luxembourg	-0.5	-0.1	1.0	1.7	1.4	-0.2	-0.2	0.2	0.1	1.0	1.6
Netherlands	-0.9	0.3	0.2	-1.0	-1.0	-5.0	-3.7	-3.8	-2.7	-1.2	-0.7
New Zealand	3.3	3.8	4.7	3.1	-0.1	-3.0	-3.3	-3.1	-3.1	-2.1	-1.0
Norway[1]	-1.3	-0.5	0.8	2.1	1.1	-0.7	0.0	0.4	0.4	0.3	0.4
Poland	-5.2	-3.5	-3.4	-2.4	-4.1	-6.9	-8.4	-6.6	-4.7	-3.2	-2.3
Portugal	-5.3	-5.6	-3.8	-2.9	-3.5	-7.5	-7.3	-4.6	-3.2	-2.1	-1.6
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..
Slovenia	-1.9	-1.6	-2.9	-3.2	-5.0	-5.2	-5.2	-4.5	-2.1	-1.0	-0.3
Spain	-0.4	0.3	0.8	0.1	-5.5	-9.4	-7.0	-6.2	-4.2	-2.3	-1.8
Sweden	0.0	1.4	0.6	1.5	1.4	1.7	0.9	0.3	-0.2	-0.2	0.3
Switzerland	-1.4	-0.8	0.1	0.1	1.5	1.0	0.4	0.6	0.9	1.1	1.0
United Kingdom[2]	-4.1	-3.0	-3.6	-4.7	-5.9	-9.1	-8.8	-7.4	-7.8	-7.0	-6.0
United States	-4.9	-4.0	-3.4	-4.0	-6.5	-9.4	-9.3	-8.3	-7.2	-4.0	-4.1
Euro area	-2.9	-2.6	-2.0	-2.2	-3.2	-5.0	-4.3	-3.4	-2.0	-1.0	-0.5
Total OECD	-3.8	-3.0	-2.4	-2.6	-4.2	-6.8	-6.6	-5.7	-5.0	-3.4	-2.9

Note: The underlying balances are adjusted for the cycle and for one-offs. For more details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. As a percentage of mainland potential GDP. The underlying balances shown exclude revenues from petroleum activities.
2. Revenues due to quantitative easing that have accumulated in a special fund for several years, and that will be transferred to the treasury in well-identified instalments over the projection period, are treated as fiscal one-offs and excluded from underlying fiscal measures.

Source: OECD Economic Outlook 93 database.

General government gross financial liabilities

As a percentage of GDP

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Australia	16.9	16.4	15.7	14.6	13.9	19.5	23.6	27.1	32.4	33.7	33.8
Austria	70.9	70.6	66.5	63.5	68.7	74.1	78.1	80.0	84.9	86.8	86.9
Belgium	98.2	95.8	91.6	87.9	92.7	99.8	99.5	101.9	104.1	104.7	104.5
Canada	70.8	69.7	68.6	65.0	69.2	81.5	83.0	83.4	85.5	85.2	85.3
Czech Republic	33.2	32.8	32.6	31.0	34.4	40.8	45.2	48.2	55.9	59.3	61.9
Denmark	54.0	45.9	41.2	34.3	41.4	49.3	53.1	59.9	58.9	58.6	58.4
Estonia	8.5	8.2	8.0	7.3	8.5	13.1	12.9	10.4	14.2	15.5	14.9
Finland	51.5	48.4	45.6	41.4	40.3	51.8	57.9	57.9	63.3	66.2	69.9
France	74.1	76.0	71.2	73.0	79.3	91.3	95.6	99.5	109.7	113.5	116.3
Germany	69.3	71.8	69.8	65.6	69.9	77.5	86.1	86.3	89.2	87.9	85.1
Greece	115.1	115.5	121.5	119.3	122.4	138.3	156.9	178.9	165.6	183.7	189.2
Hungary	65.8	68.8	72.2	73.3	77.1	86.4	87.3	85.9	89.0	88.9	88.9
Iceland	64.4	52.6	57.4	53.3	102.2	119.8	125.1	133.8	131.8	128.6	124.4
Ireland	32.7	32.7	28.7	28.6	49.7	70.5	98.0	112.2	123.3	129.3	126.4
Israel	97.8	93.9	84.9	78.5	77.1	79.5	76.0	73.9	72.9	73.0	72.3
Italy	116.8	119.4	119.0	114.4	116.9	130.1	128.9	122.0	140.2	143.6	143.9
Japan	166.3	169.5	166.8	162.4	171.1	188.7	193.3	210.6	219.1	228.4	233.1
Korea	23.3	25.6	28.6	28.8	30.4	33.5	34.3	36.2	35.1	35.0	35.2
Luxembourg	14.1	12.3	11.6	11.4	19.3	19.1	25.8	25.9	28.4	30.4	32.0
Netherlands	61.9	60.7	54.5	51.5	64.8	67.6	71.6	75.9	82.6	84.2	85.7
New Zealand	28.0	26.8	26.4	25.5	28.7	34.2	37.9	41.6	44.3	46.3	46.9
Norway	50.7	47.6	58.7	56.6	55.2	49.0	49.2	34.1	34.6	41.3	53.2
Poland	54.7	54.8	55.2	51.7	54.4	58.4	62.4	63.1	62.6	64.7	65.7
Portugal	73.5	77.7	77.5	75.5	80.8	94.0	105.5	121.6	138.8	142.8	147.3
Slovak Republic	45.9	37.4	35.0	33.5	32.2	40.4	45.9	48.2	56.6	58.8	60.2
Slovenia	34.9	34.0	33.8	29.5	28.8	43.1	47.3	51.1	61.0	70.7	75.0
Spain	53.3	50.8	46.3	42.4	47.8	62.9	67.8	77.1	90.5	97.8	103.5
Sweden	60.0	61.2	54.3	49.8	50.0	52.2	49.3	49.4	48.7	52.6	52.7
Switzerland	59.4	58.1	51.7	51.5	47.0	46.4	45.2	44.6	43.8	43.1	42.3
United Kingdom	43.9	46.1	45.9	47.0	57.5	72.0	85.6	100.4	103.9	109.1	113.0
United States	67.5	67.1	65.8	66.3	75.3	88.8	97.9	102.3	106.3	109.1	110.4
Euro area	77.3	78.2	75.2	72.3	77.6	88.3	93.5	95.6	103.9	106.4	106.9
Total OECD	77.6	77.9	75.9	74.3	80.9	92.3	98.9	103.5	108.8	111.9	113.1

Note: Gross debt measures are not always comparable across countries due to a different definition or treatment of debt components.

For euro area countries with unsustainable fiscal positions that have asked for assistance from the European Union and the IMF (Greece, Ireland and Portugal) the change in 2010 and 2011 in government financial liabilities has been approximated by the change in government liabilities recorded for the Maastricht definition of general government debt.

Source: OECD Economic Outlook 93 database.

Balance on current account
Percentage of GDP

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Australia	-6.1	-5.7	-5.3	-6.2	-4.4	-4.3	-2.9	-2.2	-3.7	-4.0	-4.0
Austria	2.2	2.2	2.8	3.5	4.9	2.7	3.4	1.4	1.8	2.4	2.9
Belgium	4.1	3.0	2.3	1.9	-1.3	-1.4	1.9	-1.1	-1.4	-1.2	-0.8
Canada	2.3	1.9	1.4	0.8	0.1	-3.0	-3.6	-3.0	-3.7	-3.7	-3.4
Chile	2.6	1.5	4.6	4.1	-3.4	2.0	1.5	-1.3	-3.5	-4.2	-3.7
Czech Republic	-5.0	-1.0	-2.0	-4.3	-2.1	-2.4	-3.9	-2.7	-2.5	-3.0	-2.9
Denmark	2.3	4.3	3.0	1.4	2.9	3.4	5.9	5.6	5.6	5.0	4.7
Estonia	-11.3	-10.0	-15.3	-16.0	-9.2	3.4	2.9	2.1	-1.2	-3.0	-2.6
Finland	6.0	3.4	4.0	4.1	2.6	1.8	1.4	-1.6	-1.9	-1.6	-0.9
France	0.5	-0.5	-0.6	-1.0	-1.8	-1.3	-1.6	-1.9	-2.3	-2.2	-1.9
Germany	4.6	5.0	6.2	7.5	6.2	6.0	6.1	6.2	7.1	6.7	6.0
Greece	-5.8	-7.6	-11.4	-14.6	-14.9	-11.2	-10.1	-9.9	-3.4	-1.1	0.9
Hungary	-8.6	-7.5	-7.3	-7.2	-7.3	-0.2	1.1	0.8	1.5	2.4	3.2
Iceland	-9.8	-16.2	-23.8	-15.7	-24.6	-11.7	-8.1	-6.5	-4.9	-2.1	-2.4
Ireland	-0.6	-3.5	-3.5	-5.4	-5.7	-2.3	1.1	1.1	4.9	5.0	5.2
Israel	1.5	3.2	5.0	2.9	1.8	4.1	3.9	1.0	-0.4	1.6	2.1
Italy	-0.9	-1.6	-2.6	-2.4	-2.9	-2.0	-3.5	-3.1	-0.6	0.9	2.0
Japan	3.7	3.7	3.9	4.8	3.3	2.9	3.7	2.0	1.0	1.0	1.9
Korea	4.6	2.2	1.4	2.1	0.6	3.7	2.7	2.3	3.8	3.3	2.7
Luxembourg	11.9	11.5	10.4	10.1	5.4	7.2	8.2	7.1	5.6	4.1	5.5
Mexico	-0.7	-0.7	-0.6	-1.2	-1.7	-0.7	-0.2	-0.8	-0.8	-1.1	-0.5
Netherlands	7.6	7.4	9.3	6.7	4.3	5.2	7.8	10.1	9.9	9.4	9.0
New Zealand	-5.7	-7.9	-8.3	-8.1	-8.7	-2.5	-3.2	-4.1	-5.0	-4.4	-5.1
Norway	12.6	16.5	16.4	12.5	15.9	11.7	11.9	12.8	14.2	13.3	12.9
Poland	-5.3	-2.4	-3.8	-6.2	-6.5	-4.0	-5.1	-4.8	-3.5	-3.1	-2.6
Portugal	-8.3	-10.3	-10.7	-10.1	-12.6	-10.9	-10.6	-7.0	-1.5	-0.9	0.5
Slovak Republic	-7.8	-8.5	-7.8	-5.3	-6.0	-2.6	-3.7	-2.1	2.3	2.1	2.3
Slovenia	-2.6	-1.7	-2.5	-4.8	-6.2	-0.7	-0.6	0.0	2.5	4.1	4.8
Spain	-5.2	-7.4	-9.0	-10.0	-9.6	-4.8	-4.5	-3.7	-1.1	2.1	3.5
Sweden	6.6	6.8	8.4	9.2	9.1	6.7	6.9	7.0	7.2	7.1	7.0
Switzerland	13.0	13.6	14.4	8.6	2.1	10.5	14.3	8.4	13.5	14.5	14.8
Turkey	-3.6	-4.4	-6.0	-5.8	-5.4	-1.9	-6.2	-9.6	-6.0	-6.2	-6.8
United Kingdom	-2.1	-2.1	-2.9	-2.3	-1.0	-1.3	-2.5	-1.3	-3.7	-2.9	-2.5
United States	-5.3	-5.9	-6.0	-5.1	-4.7	-2.7	-3.0	-3.1	-3.0	-3.1	-3.3
Euro area	1.2	0.4	0.3	0.2	-0.7	0.3	0.5	0.7	1.9	2.5	2.8
Total OECD	-0.9	-1.4	-1.5	-1.3	-1.5	-0.4	-0.4	-0.6	-0.5	-0.4	-0.3
Brazil	1.8	1.6	1.3	0.1	-1.7	-1.4	-2.2	-2.1	-2.4	-2.7	-2.8
China	3.6	5.9	8.5	10.1	9.3	4.9	4.0	1.9	2.4	2.3	1.4
India	0.2	-1.2	-1.1	-0.6	-2.0	-2.5	-3.2	-3.5	-5.1	-4.8	-4.0
Indonesia	0.7	0.1	3.0	2.4	0.0	1.9	0.7	0.2	-2.8	-2.9	-3.1
Russian Federation	10.1	11.1	9.6	6.0	6.1	3.9	4.6	5.1	3.7	1.3	0.8
South Africa	-3.0	-3.5	-5.3	-7.0	-7.2	-4.0	-2.8	-3.4	-6.3	-6.9	-6.6

Source: OECD Economic Outlook 93 database.

Balance on current account

$ billion

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Australia	-41.7	-41.4	-59.0	-48.0	-44.7	-36.6	-33.3	-56.4	-64.4	-68.0
Austria	6.6	9.2	13.2	20.3	10.4	12.9	5.7	6.9	9.9	12.3
Belgium	11.1	9.8	8.5	-5.9	-6.4	8.7	-5.9	-6.6	-5.9	-4.1
Canada	21.8	17.9	11.2	3.6	-41.2	-58.4	-53.0	-67.0	-68.9	-65.5
Chile	1.9	7.1	7.1	-5.8	3.5	3.3	-3.2	-9.4	-12.8	-12.3
Czech Republic	-1.3	-3.0	-7.8	-4.7	-4.5	-7.7	-6.0	-4.9	-5.8	-5.9
Denmark	11.1	8.2	4.4	10.0	10.6	18.5	18.9	17.7	16.2	15.9
Estonia	-1.4	-2.6	-3.5	-2.2	0.7	0.6	0.5	-0.3	-0.7	-0.7
Finland	6.7	8.4	10.0	7.3	4.4	3.4	-4.1	-4.9	-4.2	-2.6
France	-10.1	-12.5	-25.7	-50.4	-35.0	-41.4	-54.1	-60.2	-60.2	-51.4
Germany	137.8	180.9	249.9	226.4	199.0	202.5	224.0	240.5	237.5	221.9
Greece	-18.3	-29.8	-44.9	-51.2	-36.0	-30.0	-28.7	-8.5	-2.5	2.2
Hungary	-8.2	-8.3	-9.9	-11.3	-0.1	1.4	1.1	1.9	3.2	4.4
Iceland	-2.6	-4.0	-3.2	-4.4	-1.4	-1.0	-0.9	-0.7	-0.3	-0.4
Ireland	-7.0	-7.9	-14.0	-15.1	-5.2	2.4	2.5	10.3	11.1	11.9
Israel	4.3	7.3	4.8	3.6	8.0	8.4	2.5	-0.9	4.5	6.3
Italy	-29.5	-48.1	-51.8	-65.3	-41.5	-72.6	-67.4	-12.4	17.7	41.1
Japan	167.4	171.4	211.1	161.0	147.3	204.1	119.3	59.6	51.4	93.8
Korea	18.3	13.5	22.1	4.7	31.2	27.5	25.1	43.5	39.3	34.9
Luxembourg	4.4	4.4	5.2	3.0	3.5	4.4	4.2	3.2	2.5	3.4
Mexico	-5.7	-5.6	-12.7	-17.9	-6.2	-1.9	-9.7	-9.2	-15.3	-7.5
Netherlands	47.3	63.3	52.7	38.1	41.9	60.6	84.8	76.7	74.7	73.4
New Zealand	-8.8	-9.0	-10.7	-11.7	-2.9	-4.6	-6.6	-8.5	-8.1	-10.0
Norway	50.0	55.9	49.5	73.4	45.1	50.3	62.8	71.3	69.6	71.4
Poland	-7.2	-13.1	-26.5	-35.0	-17.2	-24.0	-25.0	-17.3	-16.1	-13.9
Portugal	-19.8	-21.5	-23.5	-31.9	-25.6	-24.2	-16.7	-3.3	-1.9	1.0
Slovak Republic	-4.0	-4.4	-4.0	-5.7	-2.2	-3.3	-2.0	2.1	2.0	2.3
Slovenia	-0.6	-1.0	-2.3	-3.4	-0.3	-0.3	0.0	1.1	1.9	2.2
Spain	-83.1	-111.1	-144.6	-154.6	-70.0	-62.1	-55.3	-14.6	28.2	48.4
Sweden	25.1	33.5	42.5	44.6	27.1	31.9	37.9	37.7	39.7	40.6
Switzerland	52.5	58.2	38.8	10.8	54.5	78.8	55.6	85.5	94.2	99.3
Turkey	-21.4	-31.8	-37.8	-40.4	-12.2	-45.4	-75.1	-47.5	-53.4	-63.8
United Kingdom	-46.9	-72.3	-64.1	-26.0	-27.2	-57.7	-32.4	-91.4	-71.8	-63.7
United States	-745.8	-800.6	-710.3	-677.1	-381.9	-442.0	-465.9	-475.0	-495.8	-557.2
Euro area	40.1	37.1	25.3	-90.5	37.7	61.7	87.3	229.9	310.1	361.4
Total OECD	-497.2	-579.1	-525.3	-661.3	-174.5	-193.5	-300.6	-241.1	-184.8	-140.3
Memorandum items										
China	132.4	231.8	353.2	420.6	243.3	237.7	136.1	193.2	209.9	141.9
Other industrialised Asia[1]	70.2	117.3	147.5	92.0	124.6	99.0	86.0	19.5	19.8	39.7
Russia	84.6	94.7	77.8	103.5	48.6	71.1	97.3	74.8	29.2	18.9
Brazil	14.0	13.6	1.6	-28.2	-24.3	-47.3	-52.5	-54.2	-65.8	-73.4
Other oil producers	267.1	382.3	354.9	482.7	88.9	244.3	493.1	461.4	437.7	485.5
Rest of the world	-45.3	-68.0	-126.4	-193.5	-87.9	-109.0	-151.5	-172.9	-195.5	-252.0
Total of non-OECD countries	522.9	771.8	808.5	877.2	393.2	495.8	608.5	521.7	435.3	360.6
World (discrepancy)	25.8	192.8	283.1	215.9	218.7	302.4	307.9	280.6	250.5	220.4

1. Chinese Taipei; Hong Kong, China; Malaysia; Philippines; Singapore: Vietnam and Thailand, India and Indonesia.

Source: OECD Economic Outlook 93 database.

Quarterly demand and output projections

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2012	2013	2014	2012	2013				2014				Fourth quarter[1]		
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2012	2013	2014
Private consumption															
Canada	1.9	2.0	2.5	2.7	1.7	1.6	1.9	2.0	2.8	3.0	3.0	3.0	2.0	1.8	2.9
France	-0.4	-0.1	0.2	0.0	-0.2	-0.1	0.2	0.5	0.0	0.2	0.4	0.7	-0.4	0.1	0.3
Germany	0.6	1.0	2.2	0.3	1.0	1.6	1.9	2.0	2.2	2.4	2.6	2.7	0.4	1.6	2.5
Italy	-4.2	-2.2	-0.4	-2.5	-2.2	-0.9	-0.8	-0.6	-0.4	-0.2	0.0	0.0	-4.4	-1.1	-0.2
Japan	2.3	1.6	1.0	1.8	3.7	0.6	0.8	4.4	7.5	-10.9	2.1	2.3	1.0	2.4	0.0
United Kingdom	1.2	0.9	1.2	1.3	0.6	0.3	0.5	0.9	1.4	1.5	1.6	1.7	1.6	0.6	1.5
United States	1.9	2.1	2.7	1.8	3.2	1.7	1.8	2.5	2.8	3.0	3.2	3.2	1.8	2.3	3.1
Euro area	-1.4	-0.8	0.4	-2.2	-0.4	-0.3	-0.1	0.2	0.4	0.6	0.8	1.0	-1.6	-0.1	0.7
Total OECD	1.0	1.3	2.0	0.8	2.0	1.2	1.4	2.1	2.7	1.0	2.5	2.6	0.9	1.7	2.2
Public consumption															
Canada	0.4	0.3	0.1	1.8	-0.1	-0.1	-0.1	-0.1	0.3	0.3	0.3	0.3	0.3	-0.1	0.3
France	1.4	1.2	0.8	1.3	1.3	0.8	0.8	0.8	0.8	0.8	0.7	0.6	1.7	0.9	0.7
Germany	1.4	1.4	1.7	1.6	1.0	1.4	1.5	1.6	1.7	1.7	1.8	1.8	1.4	1.4	1.8
Italy	-2.9	-1.8	-1.0	0.2	-3.2	-2.8	-1.5	-1.0	-0.7	-0.7	-0.7	-0.7	-2.5	-2.1	-0.7
Japan	2.6	1.3	-0.5	2.9	2.3	-0.5	0.1	-0.3	-0.5	-0.7	-1.0	-1.1	3.1	0.4	-0.8
United Kingdom	2.2	0.4	-0.7	2.2	0.3	0.3	0.3	0.3	-1.4	-1.4	-1.3	-1.3	2.0	0.3	-1.4
United States	-1.3	-2.2	-0.7	-8.0	-2.8	-1.3	-0.9	-0.8	-0.7	-0.6	-0.5	-0.5	-1.5	-1.4	-0.6
Euro area	-0.3	0.0	0.3	0.9	-0.1	0.0	0.3	0.4	0.3	0.4	0.4	0.4	-0.3	0.1	0.4
Total OECD	0.3	-0.2	0.1	-1.7	-0.2	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.3	0.0	0.0
Business investment															
Canada	6.2	3.1	6.0	4.4	2.0	3.0	4.0	5.0	6.0	7.0	8.0	8.5	5.0	3.5	7.4
France	-1.8	-1.9	1.9	-2.9	-3.0	-1.2	0.0	1.6	2.0	2.8	3.2	4.1	-4.2	-0.7	3.0
Germany	-2.5	-0.8	5.4	-1.2	-3.0	4.0	5.0	5.3	5.5	5.6	5.7	5.7	-5.0	2.8	5.6
Japan	1.9	-1.0	6.1	-5.9	-2.6	7.4	6.8	7.0	7.2	4.6	4.6	4.6	-7.3	4.6	5.3
United Kingdom	4.9	2.6	5.2	-3.1	4.1	4.2	4.4	4.8	5.2	5.5	6.0	6.5	0.8	4.4	5.8
United States	8.0	5.2	7.6	13.1	2.1	6.0	6.2	6.9	8.1	8.3	8.3	8.3	5.5	5.3	8.3
Total investment															
Canada	3.2	1.2	3.5	2.9	0.6	0.1	1.8	2.8	3.8	4.3	4.9	5.2	3.1	1.3	4.6
France	-1.3	-2.3	0.7	-3.1	-3.5	-1.7	-1.0	0.1	0.5	1.4	2.3	3.1	-3.4	-1.5	1.8
Germany	-1.9	-0.3	5.2	-2.8	-3.0	3.9	4.9	5.2	5.3	5.4	5.5	5.5	-3.9	2.7	5.5
Italy	-8.0	-4.3	-1.4	-4.8	-4.5	-4.1	-3.2	-2.0	-1.2	-0.4	0.0	0.8	-7.6	-3.5	-0.2
Japan	4.4	2.0	0.6	0.9	0.3	5.6	5.2	4.6	1.0	-6.8	-0.5	-0.6	0.2	3.9	-1.8
United Kingdom	1.5	1.8	4.1	-0.8	2.6	2.8	3.1	3.5	4.2	4.5	5.0	5.4	1.5	3.0	4.8
United States	6.1	5.1	7.8	11.0	1.2	6.6	6.5	7.3	8.2	8.4	8.5	8.5	5.1	5.4	8.4
Euro area	-4.1	-3.0	1.3	-4.5	-4.2	-1.5	-0.4	1.0	1.5	2.1	2.5	2.9	-5.2	-1.3	2.2
Total OECD	1.8	1.7	4.4	2.5	0.4	3.6	3.9	4.6	4.7	4.0	4.9	5.0	0.4	3.1	4.7

1. Year-on-year growth rates in per cent.

Source: OECD Economic Outlook 93 database.

Quarterly demand and output projections *(cont'd)*

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2012	2013	2014	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	Fourth quarter[1] 2012	Fourth quarter[1] 2013	Fourth quarter[1] 2014
Total domestic demand															
Canada	2.0	1.3	2.2	0.7	1.2	0.9	1.4	1.7	2.4	2.6	2.8	2.8	1.7	1.3	2.7
France	-0.9	-0.4	0.5	-1.5	0.1	-0.2	0.1	0.5	0.3	0.6	0.9	1.1	-0.7	0.1	0.7
Germany	-0.3	0.8	2.7	0.8	0.3	2.0	2.4	2.5	2.7	2.8	3.0	3.1	-0.6	1.8	2.9
Italy	-5.3	-3.1	-0.7	-5.1	-3.0	-1.9	-1.4	-0.9	-0.6	-0.4	-0.1	0.0	-5.3	-1.8	-0.3
Japan	2.9	1.2	0.5	1.3	2.0	1.4	1.6	2.1	2.2	-4.9	1.0	1.0	1.4	1.8	-0.2
United Kingdom	1.3	0.8	1.2	-0.3	0.8	0.6	0.8	1.1	1.2	1.3	1.4	1.6	1.6	0.9	1.4
United States	2.1	1.9	2.9	0.0	2.9	1.8	2.1	2.7	3.1	3.3	3.5	3.5	1.4	2.4	3.4
Euro area	-2.2	-1.2	0.5	-2.1	-1.1	-0.5	0.0	0.4	0.6	0.8	1.0	1.2	-2.2	-0.3	0.9
Total OECD	0.9	1.0	2.1	-0.3	1.6	1.3	1.6	2.1	2.3	1.8	2.5	2.6	0.4	1.7	2.3
Exports of goods and services															
Canada	1.6	2.6	5.5	1.2	5.5	4.8	5.5	5.5	5.6	5.6	5.6	5.6	-2.1	5.3	5.6
France	2.5	0.2	4.2	-2.8	-2.0	1.2	2.8	3.4	4.5	5.1	5.7	6.1	0.6	1.4	5.4
Germany	4.3	0.9	4.6	-7.9	-1.5	3.3	3.7	4.4	4.7	5.0	5.2	5.4	3.4	2.4	5.1
Italy	2.2	2.9	4.9	1.1	2.9	2.9	2.9	3.4	5.4	6.5	6.4	5.7	1.9	3.0	6.0
Japan	-0.1	2.7	9.0	-11.3	16.1	10.5	8.7	8.7	9.0	9.0	8.9	9.0	-4.8	11.0	9.0
United Kingdom	-0.2	0.7	2.9	-6.4	1.9	2.1	2.3	2.5	2.9	3.2	3.3	3.4	-2.5	2.2	3.2
United States	3.4	2.2	4.9	-2.8	2.9	3.7	4.0	5.1	5.1	5.1	5.1	5.1	2.1	3.9	5.1
Total OECD[2]	3.1	2.4	5.2	-1.5	3.2	3.7	4.2	4.9	5.4	5.8	5.9	6.1	2.1	4.0	5.8
Imports of goods and services															
Canada	2.9	2.3	5.0	-1.0	2.8	3.0	4.5	4.9	5.3	5.3	5.3	5.3	2.1	3.8	5.3
France	-0.9	-0.1	2.9	-5.1	0.5	1.2	2.2	2.9	2.3	3.2	4.1	4.9	-0.8	1.7	3.6
Germany	2.2	1.9	6.4	-2.6	-1.7	5.0	5.5	6.1	6.5	6.8	7.1	7.3	1.5	3.7	6.9
Italy	-7.8	-1.4	1.5	-3.7	0.0	0.3	0.9	1.8	1.7	1.6	1.6	1.5	-6.6	0.8	1.6
Japan	5.4	0.6	3.1	-8.5	4.0	3.4	1.8	1.9	2.3	4.3	4.8	5.7	1.2	2.8	4.3
United Kingdom	2.7	0.5	1.6	-3.8	0.8	1.2	1.5	1.7	1.6	1.7	1.7	1.8	1.2	1.3	1.7
United States	2.4	2.4	5.5	-4.2	5.4	4.3	5.2	5.6	5.6	5.6	5.6	5.6	0.2	5.1	5.6
Total OECD[2]	1.3	1.6	4.5	-2.7	2.7	3.2	3.6	4.2	4.6	5.0	5.2	5.3	0.8	3.4	5.0
GDP															
Canada	1.8	1.4	2.3	0.6	2.0	1.4	1.6	1.8	2.4	2.7	2.8	2.9	1.1	1.7	2.7
France	0.0	-0.3	0.8	-0.7	-0.6	-0.2	0.2	0.6	0.9	1.0	1.3	1.4	-0.3	0.0	1.2
Germany	0.9	0.4	1.9	-2.3	0.3	1.3	1.6	1.8	2.0	2.1	2.2	2.3	0.4	1.3	2.1
Italy	-2.4	-1.8	0.4	-3.7	-2.1	-1.0	-0.7	-0.4	0.6	1.2	1.5	1.4	-2.8	-1.1	1.2
Japan	2.0	1.6	1.4	1.0	3.5	2.4	2.6	3.2	3.3	-4.3	1.6	1.5	0.5	3.0	0.5
United Kingdom	0.3	0.8	1.5	-1.2	1.2	0.9	1.1	1.3	1.6	1.7	1.9	2.0	0.2	1.1	1.8
United States	2.2	1.9	2.8	0.4	2.5	1.6	1.8	2.6	3.0	3.2	3.4	3.4	1.7	2.1	3.2
Euro area	-0.5	-0.6	1.1	-2.4	-0.6	0.0	0.4	0.7	1.2	1.4	1.6	1.8	-0.9	0.1	1.5
Total OECD	1.4	1.2	2.3	-0.2	1.7	1.5	1.8	2.2	2.5	2.0	2.7	2.8	0.8	1.8	2.5

1. Year-on-year growth rates in per cent.
2. Includes intra-regional trade.

Source: OECD Economic Outlook 93 database.

Quarterly price, cost and unemployment projections

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2012	2013	2014	2012	2013				2014				Fourth quarter[1]		
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2012	2013	2014
Consumer price index[2]															
Canada	1.5	1.3	1.7	1.4	1.8	1.5	1.5	1.7	1.8	1.8	1.8	1.8	0.9	1.6	1.8
France	2.2	1.1	1.0	1.4	0.3	1.4	1.2	1.0	1.2	0.9	0.7	0.6	1.7	1.0	0.9
Germany	2.1	1.6	2.0	2.1	1.4	1.0	1.7	1.9	2.1	2.1	2.2	2.2	2.0	1.5	2.2
Italy	3.3	1.6	1.2	2.8	0.8	1.4	1.8	0.8	1.2	1.2	1.2	1.1	2.6	1.2	1.2
Japan	0.0	-0.1	1.8	0.0	-0.4	0.7	0.2	0.2	0.3	8.7	0.3	0.4	-0.2	0.2	2.4
United Kingdom	2.8	2.8	2.4	4.6	2.5	2.4	2.4	2.4	2.4	2.3	2.3	2.2	2.7	2.4	2.3
United States	2.1	1.6	1.9	2.2	1.4	0.7	1.7	1.9	2.1	2.1	2.1	2.1	1.9	1.5	2.1
Euro area	2.5	1.5	1.2	2.5	0.7	1.1	1.3	1.1	1.3	1.2	1.2	1.2	2.3	1.0	1.2
GDP deflator															
Canada	1.3	1.3	1.7	1.3	0.6	0.7	2.6	2.1	1.5	1.5	1.4	1.4	0.8	1.5	1.4
France	1.3	1.3	0.8	0.6	1.9	1.6	1.0	0.6	0.8	0.7	0.4	0.3	1.1	1.3	0.6
Germany	1.3	1.2	1.7	1.1	1.0	1.3	1.5	1.6	1.8	1.9	1.9	1.9	1.5	1.3	1.9
Italy	1.6	1.5	0.9	1.7	0.6	2.6	1.2	0.6	0.9	0.8	0.8	0.7	1.6	1.2	0.8
Japan	-0.9	-0.8	0.9	-0.8	-2.0	-0.1	0.0	-0.2	-0.1	5.2	0.2	0.3	-0.7	-0.6	1.4
United Kingdom	1.4	1.9	1.9	-0.2	2.0	2.0	2.0	2.0	2.0	1.9	1.8	1.8	1.3	2.0	1.9
United States	1.8	1.5	1.9	1.0	1.2	1.6	1.8	1.8	1.9	1.9	2.0	2.0	1.8	1.6	2.0
Euro area	1.2	1.3	1.1	1.1	1.1	1.6	1.2	1.0	1.1	1.1	1.0	1.0	1.2	1.2	1.0
Total OECD	1.5	1.4	1.8	0.8	1.2	1.7	1.7	1.6	1.7	2.2	1.8	1.8	1.2	1.5	1.9
Unit labour costs (total economy)															
Canada	2.4	2.0	2.1	1.9	0.9	1.9	1.7	2.0	2.2	2.1	2.1	2.1	3.0	1.6	2.1
France	2.0	1.9	0.8	2.5	2.9	1.2	0.9	0.7	1.1	0.7	0.4	0.3	1.9	1.4	0.6
Germany	2.8	2.5	2.0	5.5	2.2	1.2	1.4	1.8	2.3	2.3	2.1	1.8	3.2	1.7	2.1
Italy	2.3	1.5	-0.4	4.0	1.6	0.2	0.1	-0.2	-0.4	-0.7	-1.0	-1.2	2.9	0.4	-0.8
Japan	-2.1	-1.0	0.4	-2.4	-0.6	-2.1	-1.9	-1.9	-1.4	6.9	1.1	1.3	-1.0	-1.6	1.9
United Kingdom	2.5	1.2	1.7	1.5	1.3	1.9	2.0	1.9	1.7	1.5	1.4	1.3	1.6	1.8	1.5
United States	1.0	1.5	2.0	3.6	0.8	2.2	1.9	1.3	2.4	2.2	1.8	1.8	2.2	1.6	2.0
Euro area	1.1	1.3	0.5	1.6	2.5	0.7	0.7	0.7	0.6	0.4	0.2	0.1	0.9	1.1	0.3
Total OECD	1.1	1.3	1.3	2.1	1.4	1.2	1.1	0.9	1.1	2.0	1.2	1.2	1.5	1.1	1.4
								Per cent of labour force							
Unemployment															
Canada	7.3	7.1	6.9	7.2	7.1	7.1	7.2	7.2	7.0	6.9	6.8	6.7			
France	9.9	10.7	11.1	10.2	10.5	10.7	10.8	11.0	11.0	11.1	11.1	11.2			
Germany	5.3	5.0	4.8	5.1	5.0	5.0	5.0	5.0	4.9	4.9	4.8	4.7			
Italy	10.6	11.9	12.5	11.2	11.6	11.8	12.1	12.3	12.4	12.5	12.5	12.6			
Japan	4.3	4.2	4.1	4.2	4.2	4.2	4.1	4.1	4.1	4.1	4.1	4.1			
United Kingdom	7.9	8.0	7.9	7.8	7.8	8.0	8.1	8.1	8.0	7.9	7.9	7.8			
United States	8.1	7.5	7.0	7.8	7.7	7.5	7.5	7.4	7.3	7.1	6.9	6.7			
Euro area	11.2	12.1	12.3	11.6	11.8	12.0	12.2	12.3	12.3	12.3	12.3	12.3			
Total OECD	8.0	8.1	8.0	8.0	8.1	8.1	8.1	8.1	8.1	8.0	7.9	7.8			

1. Year-on-year growth rates in per cent.
2. For the United Kingdom, the euro area countries and the euro area aggregate, the Harmonised Index of Consumer Prices (HICP) is used.

Source: OECD Economic Outlook 93 database.

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