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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

	2013	2014	2015	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2013 Q4 / Q4	2014 Q4 / Q4	2015 Q4 / Q4
									Per cent							
Real GDP growth																
United States	1.7	2.9	3.4	2.8	2.1	3.0	3.1	3.3	3.3	3.4	3.5	3.5	3.5	2.1	3.2	3.5
Euro area	-0.4	1.0	1.6	0.5	0.8	1.0	1.2	1.3	1.5	1.6	1.7	1.8	1.9	0.4	1.3	1.8
Japan	1.8	1.5	1.0	1.9	3.0	3.1	-2.9	1.2	1.2	1.5	1.7	1.8	-2.2	3.2	0.6	0.7
Total OECD	1.2	2.3	2.7	2.0	2.2	2.5	2.0	2.5	2.6	2.8	2.8	2.9	2.5	1.9	2.4	2.8
China	7.7	8.2	7.5											8.0	7.8	7.4
Inflation[1]									year-on-year							
United States	1.2	1.6	1.8	1.1	1.1	1.3	1.8	1.7	1.8	1.8	1.8	1.8	1.9			
Euro area	1.4	1.2	1.2	1.3	1.1	1.2	1.4	1.2	1.2	1.2	1.2	1.3	1.3			
Japan	0.2	2.3	1.8	0.9	0.9	1.0	3.1	2.5	2.7	2.9	0.9	1.0	2.4			
Total OECD	1.5	1.9	2.0	1.6	1.5	1.6	2.0	1.9	2.0	2.0	1.9	1.9	2.1			
China	2.5	2.4	2.4	2.6	2.6	2.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4			
Unemployment rate[2]																
United States	7.5	6.9	6.3	7.3	7.2	7.1	7.0	6.8	6.7	6.5	6.4	6.2	6.1			
Euro area	12.0	12.1	11.8	12.1	12.1	12.2	12.2	12.1	12.1	12.0	11.9	11.8	11.7			
Japan	4.0	3.9	3.8	4.0	3.9	3.9	3.9	3.8	3.8	3.8	3.8	3.8	3.8			
Total OECD	8.0	7.8	7.5	8.0	8.0	7.9	7.9	7.8	7.7	7.7	7.6	7.5	7.4			
World trade growth	3.0	4.8	5.9	2.3	4.2	5.1	5.4	5.7	5.8	6.0	6.0	6.1	6.1	3.7	5.5	6.0
Current account balance[3]	1.7															
United States	-2.5	-2.9	-3.1													
Euro area	2.6	2.6	2.7													
Japan	0.9	1.2	1.5													
Total OECD	-0.2	-0.2	-0.2													
China	2.3	1.5	1.5													
Fiscal balance[3]																
United States	-6.5	-5.8	-4.6													
Euro area	-2.9	-2.5	-1.8													
Japan	-10.0	-8.5	-6.8													
Total OECD	-4.8	-4.0	-3.2													
China	-0.9	-0.6	-0.6													
Policy interest rate																
United States	0.3	0.3	0.7	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.5	0.8	1.3			
Euro area	0.6	0.3	0.3	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3			
Japan	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	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: the upper bound of the target Federal Funds rate; Japan: the Bank of Japan uncollateralised overnight call rate; euro area: the ECB main refinancing rate.

The cut-off date for information used in the compilation of the projections is 14 November 2013.

1. United States; 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 94 database.

StatLink http://dx.doi.org/10.1787/888932949043

EDITORIAL
STRONGER GROWTH AHEAD, BUT MORE RISKS

The global economy continues to expand at a moderate pace, with some acceleration of growth anticipated in 2014 and 2015. But global growth forecasts have been revised down significantly for this year and 2014, in large part due to weaker prospects in many emerging market economies (EMEs). Downside risks dominate and policy must address them.

Contrary to the situation in the early phases of the recovery when stimulus in EMEs had positive spillovers on growth in advanced economies, the global environment may now act as an amplifier and a transmission mechanism for negative shocks from EMEs.

In recent months, three events already have unsettled confidence and market stability, which accounts for part of the downgrading of our forecasts since the last *Economic Outlook*. First, the reaction to discussion in early summer regarding the tapering of asset purchases by the US Federal Reserve was surprisingly strong. Second, increased concerns about developments in some EMEs added to market tensions and sharp capital outflows. Third, the United States came close to a potentially catastrophic crisis associated with its legislative ceiling on federal government debt.

These events – recognised as risks in the May *Outlook* – underline the prominence of negative scenarios and risks that the recovery could again be derailed. These episodes could easily be replayed, quite possibly in a more virulent form, in the period ahead. Other long-standing risks could return to the fore. Although some acute risks, especially in Europe, have receded, tensions within the euro area could erupt again. In addition, specific risks could interact with one another and magnify the effects. These risks stem from unresolved financial fragilities and imbalances, the cumulated effects of exceptional and prolonged monetary stimulus, and underlying structural weaknesses of growth trends in many countries, partly reflecting the consequences of a deep and long-lasting recession.

A stronger slowdown in EMEs would lower growth in advanced economies, most notably in Europe and Japan. In many EMEs, growth is already decelerating. To a large degree, this is related to demographic trends and the diminishing scope for catch-up growth as the income gap with the advanced countries narrows, but there are also long-standing structural impediments that had been hidden by abundant capital inflows and credit growth but which have been exposed by the tightening of financial conditions. Such conditions could add to fragility within EMEs, particularly those most reliant on short-term capital flows or where credit growth has been very fast, and in those advanced economies that are financially exposed to them. While many EMEs are in a stronger position to withstand shocks than in the past, they must accelerate the pace of reforms to deal with deep-rooted fragilities.

In the United States, monetary policy needs to remain accommodative for some time, balancing uncertainty about the evolution of demand and employment with the costs of postponing exit. When economic growth strengthens, large-scale bond purchases should begin to be phased down and then, in the course of 2015, the Federal Reserve should start to raise policy interest rates towards a more neutral stance.

Brinkmanship over fiscal policy in the United States remains a key risk and uncertainty. As discussed in this *Economic Outlook*, this creates on-going uncertainty and poor policy choices, while hitting the debt ceiling could knock the US and the global recovery off course. The debt ceiling needs to be scrapped and replaced by a credible long-term budgetary consolidation plan with solid political support.

In the euro area, recovery is lagging and uneven, unemployment – especially among the young – remains very high and inflationary pressures are very subdued. The ECB should consider further policy measures if deflationary risks become more serious. Current account adjustment is advancing in the periphery but price adjustment alone will not work given the impossibility of reconciling deflation, needed to regain competitiveness, and achieving nominal growth to support debt sustainability. Much less adjustment, if any, is taking place in surplus countries. More durable and symmetric adjustment is needed through reforms to labour and product markets, including liberalisation of services in Germany that would strengthen and rebalance demand.

Weakness in the banking system remains a major drag on growth in the euro area. The Asset Quality Review and stress tests in 2014 must be implemented rigorously – and followed up by bank recapitalisation where needed – to restore the transmission of monetary policy, strengthen financial-system stability and get credit moving again to enhance the effectiveness of structural reforms and support growth. Failure to use this opportunity could impair confidence in European banks and sovereigns. There is progress towards banking union but the transition promises to be complex and delicate as the criteria and responsibility for regulation, supervision, and resolution of banks have to be clarified.

In Japan, the initial impact of new monetary, fiscal and structural policies has produced strong export growth, rising consumer spending and a rebound in business investment. The increase in the consumption tax rate to 8% is welcome and should be followed by a further hike as planned in 2015. However, high levels of public debt create risks in the absence of a more detailed and credible fiscal consolidation plan to achieve the target of a primary budget surplus by 2020. Most importantly, bold structural reform measures are needed to boost growth and maintain confidence in the three arrow strategy.

Growth since the global crisis has been uneven and hesitant. Job creation has been even more disappointing. Clear and credible strategies are needed for how jobs and growth will be created, as the public finances continue to be restored and so that exceptional monetary policies are no longer needed to support demand. Such strategies require a strong commitment to structural reforms in advanced and emerging market economies alike.

The gains from structural reform will accumulate over the longer term, but for some measures they can be achieved in a couple of years. And the benefits are larger when macroeconomic and financial conditions are stronger, although paradoxically this can be the time when it is hardest to make the political case for reform. As the recovery takes hold, policy makers need to resist the temptation to back off reforms, and instead take advantage of improved conditions to secure the recovery and move to a stronger trajectory for jobs and growth. More jobs would boost income and confidence, thus providing support for the reform process itself and upside, rather than downside, risks could materialise.

If, however, as the recovery strengthens, governments are complacent, and remain behind the curve, policy action will be too little too late. Policy inaction or mistakes could have much more severe consequences than the turbulence seen to date and jeopardise growth for years to come.

19 November 2013

Pier Carlo Padoan
Deputy Secretary-General and Chief Economist

OECD Economic Outlook
Volume 2013/2

Chapter 1

GENERAL ASSESSMENT OF THE CURRENT ECONOMIC SITUATION

Summary

- Global activity and trade are projected to strengthen gradually in 2014 and 2015, but the recovery is likely to remain modest.
- This modest acceleration is due to the feed-through of past improvements in financial conditions, continued support from accommodative monetary policies and reduced drag from fiscal consolidation. However, unemployment is set to remain stubbornly high in several OECD countries.
- Growth in the large emerging market economies (EMEs) is expected to remain subdued by past standards, held back by supply-side constraints, recent policy actions and the recent tightening of financial conditions triggered by expectations about US monetary policy,.
- The slowdown in EMEs is likely to exert some modest drag on activity in advanced economies, with the United States relatively sheltered from such feedbacks.
- The strengthening recovery in the United States should gradually reduce unemployment and erode economic slack, with inflation rising close to target, while the muted pick-up in the euro area will make little dent in high levels of joblessness and ample slack will keep inflation very low; in Japan, core inflation is set to turn positive but, abstracting from indirect tax effects, still remain well below its target.
- Monetary policy needs to remain very accommodative, especially in the euro area, where deflation risks have risen, and Japan, where asset purchases should be continued as planned. In the United States, should unemployment continue to fall and inflation strengthen as projected, asset purchases should be wound down in 2014 and policy interest rates start to be raised in 2015.
- The planned slowing in the pace of fiscal consolidation in the United States and the euro area is appropriate given the state of public finances and the economic outlook; a strong fiscal tightening in Japan is necessary to slow public debt accumulation and eventually reduce debt.
- Structural reforms are critical for exiting the crisis, notably in Japan, the euro area and many EMEs, to strengthen growth prospects, debt dynamics, and facilitate global and euro area rebalancing.
- Sizeable long-standing downside risks still remain and new concerns have emerged.
- In the short term, if the debt ceiling in the United States became binding early in 2014, it could have large adverse effects on the stability and growth of the world economy; to prevent the possibility of such disruptive effects from weighing on confidence and investment, the legislated nominal debt ceiling should be abolished.
- The turmoil following the tapering discussions in mid-year has revealed how sensitive some EMEs are to US monetary policy. This may involve turbulence when actual tapering takes place as needed, with negative feed-back effects on advanced economies.
- In the euro area, still weak bank balance sheets, fragile public finances and the uncertain political situation in some vulnerable countries could unsettle financial markets. To guard against this, the establishment of a fully-fledged banking union needs to be expedited and weakness in bank balance sheets must be credibly identified in the coming stress tests and asset quality review of euro area banks and swiftly corrected.

Introduction

The recovery is gaining momentum only slowly and there are large downside risks

The global recovery remains modest and uneven, with continued divergence in activity developments both between and within advanced and emerging economies. Outcomes this year and near-term prospects appear a little weaker than had been expected in May, at the time of the previous *Economic Outlook*, with global GDP growth revised down by just under ½ percentage point both this year and in 2014 to 2.7% and 3.6% respectively. Almost all of this reflects a further growth slowdown in the large emerging market economies (EMEs), which is tempering the pace of the recovery in the OECD economies. At the same time, downside risks have also risen once more. Long-standing sources of risk, such as fragilities in the euro area banking sector and the Japanese fiscal situation, have been augmented by new concerns, most notably the possibility of significant financial instability in advanced and, especially, EMEs during the exit from unconventional monetary policies in the United States, and potentially extreme adverse outcomes if political stalemate were to make the debt ceiling in the United States binding early next year. Provided these large adverse risks do not materialise, and uncertainty about macroeconomic policy settings subsides, continued support from accommodative monetary policies, the feed-through of past improvements in financial market conditions and a reduced drag from fiscal consolidation should allow global activity and world trade to strengthen gradually over 2014-15 (Table 1.1). However, the pace of the recovery seems likely to remain modest, with the currently high OECD-wide unemployment rate declining by only ½ percentage point over the two years to 7.4% by end-2015, and inflation projected to remain weak in many OECD economies and moderate only gradually in most EMEs.

Policy challenges are substantial, with monetary policy requirements varying across economies

Economic policies need to provide support to demand, take account of the sizeable downside risks and correct past imbalances. Monetary policy will need to remain accommodative in most OECD economies over the next two years. However, in some economies, decisions will be required about the timing and speed at which monetary policy stimulus is reduced, balancing the need to support the recovery against the risks of unsettling inflation expectations and stoking asset price bubbles. For the United States and the United Kingdom, well anchored inflation expectations, ample spare capacity, and the predominance of global downside risks all imply that the current very accommodative policy rates are likely to remain appropriate for some time. Nevertheless, conditional on downside risks not materialising and receding gradually, and on the recoveries in these countries proceeding as projected here, it would be appropriate for the United States to consider increasing gradually policy

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

OECD area, unless noted otherwise

	Average 2001-2010	2011	2012	2013	2014	2015	2013	2014 Q4 / Q4	2015
					Per cent				
Real GDP growth[1]									
World[2]	3.4	3.7	3.1	2.7	3.6	3.9	3.1	3.8	3.9
OECD[2]	1.7	1.9	1.6	1.2	2.3	2.7	1.9	2.4	2.8
United States	1.6	1.8	2.8	1.7	2.9	3.4	2.1	3.2	3.5
Euro area	1.1	1.6	-0.6	-0.4	1.0	1.6	0.4	1.3	1.8
Japan	0.8	-0.6	1.9	1.8	1.5	1.0	3.2	0.6	0.7
Non-OECD[2]	6.8	6.3	5.1	4.8	5.3	5.4	4.7	5.4	5.4
China	10.5	9.3	7.7	7.7	8.2	7.5	8.0	7.8	7.4
Output gap[3]	0.3	-1.9	-2.0	-2.6	-2.3	-1.8			
Unemployment rate[4]	6.8	8.0	8.0	8.0	7.8	7.5	8.0	7.7	7.4
Inflation[5]	2.2	2.5	2.1	1.5	1.9	2.0	1.5	2.0	2.1
Fiscal balance[6]	-3.9	-6.6	-5.9	-4.8	-4.0	-3.2			
Memorandum Items									
World real trade growth	4.9	6.3	3.0	3.0	4.8	5.9	3.7	5.5	6.0

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 94 database.

StatLink http://dx.doi.org/10.1787/888932949062

rates in early 2015 and for the United Kingdom to do so later in the year, not least to contain possible pressures on asset prices. More substantive increases in policy rates may be required in both countries beyond the projection period to prevent anchored inflation expectations being put to the test. In contrast, in the euro area in the coming two years, the monetary policy stance should remain unchanged, provided disinflationary pressures do not intensify further, and strong quantitative and qualitative monetary easing should be implemented as planned in Japan. As already shown this year, the anticipation and actual start of the monetary stimulus withdrawal in the United States could have adverse global spillover effects, especially if it results in financial market instability. Emerging market economies are particularly vulnerable to shifts in investor sentiment and some will possibly come under pressure to raise interest rates at a time when the economy is weak. Possible turmoil in EMEs and its feedback to advanced economies would magnify the challenges of managing the exit.

Other policy requirements also vary across economies

Other important policy requirements in the main OECD areas include:

... including changes in budgetary procedures in the United States...

- In the United States, political leaders need to ensure that the normal functioning of government is not disrupted once more early next year. Changes are also needed in budgetary procedures to prevent such disruptions from reoccurring, preferably including the abolition of the nominal debt ceiling, so that the borrowing implied by budgets and resolutions passed by Congress is authorised automatically. In addition, an agreement to put public finances on a sound footing in the long term needs to be concluded.

... more ambitious structural reforms in Japan...

- In Japan, more ambitious structural policy reforms are needed to lift potential growth rates and, in view of the extraordinarily high public debt ratio, a more detailed and credible medium-term consolidation plan is required to maintain confidence in government finances.

... and greater progress towards a full euro area banking union

- In the euro area, the automatic fiscal stabilisers should be allowed to operate on both sides of the current structural consolidation path and structural reforms are needed in both external surplus and deficit countries to raise growth and facilitate rebalancing. Notwithstanding recent progress, more needs to be done to establish a fully-fledged banking union, notably a sufficient common fiscal backstop, and to ensure adequate capital cover in the banking system. It is also vital that the forthcoming comprehensive assessment of euro area banks be conducted in a manner that is fully credible, with a clear plan for how any identified capital shortfalls will be addressed.

This chapter is organised as follows. After discussing the factors behind the growth slowdown in the EMEs and the implications for OECD economies, the other main economic and financial forces presently acting on the OECD economies are outlined. The projection is then set out, along with the implications for inflation, labour markets and external balances, and the other key risks around the projection are reviewed. This is followed by a discussion of the main macroeconomic policy requirements. Indicators of potential financial vulnerabilities are reported in an annex.

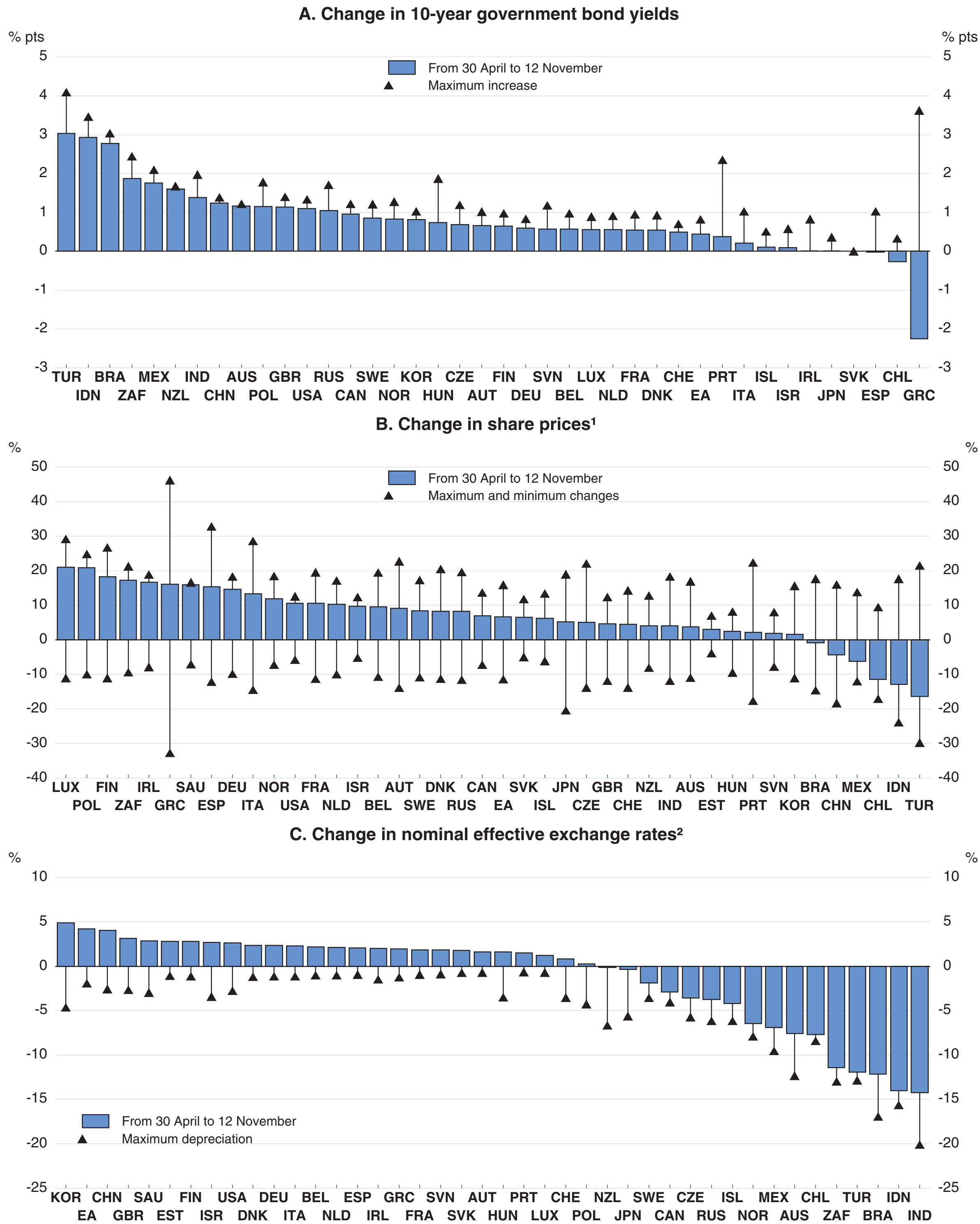
Recent activity and financial developments

The growth slowdown in EMEs, spillovers and feedback effects

Financial conditions have tightened significantly in some EMEs...

An important development since the May *Economic Outlook* is the marked deterioration in financial conditions in the major EMEs outside China. This occurred in May to August as US long-term interest rates rose following signals that the tapering of Federal Reserve asset purchases might begin earlier than expected (see below), prompting capital outflows and exposing vulnerabilities that had built up in some EMEs. Reinforced by concerns about growth slowdowns and the sustainability of high external deficits and political tensions in some economies, large portfolio investment outflows contributed to tighter liquidity conditions, sharp declines in bond and stock prices and sizeable currency depreciations. This was especially marked in Brazil, India, Indonesia, South Africa and Turkey, all countries with large external financing needs (Figures 1.1 and 1.2). China has been an exception, appearing to be less sensitive to the impact of possible tapering; long-term bond rates have edged up since April, but equity prices have remained largely unchanged, the effective exchange rate has appreciated and a domestically-driven liquidity squeeze in June was quickly reversed.

Figure 1.1. **Government bond yields have increased, while equity prices and exchange rates have gyrated**



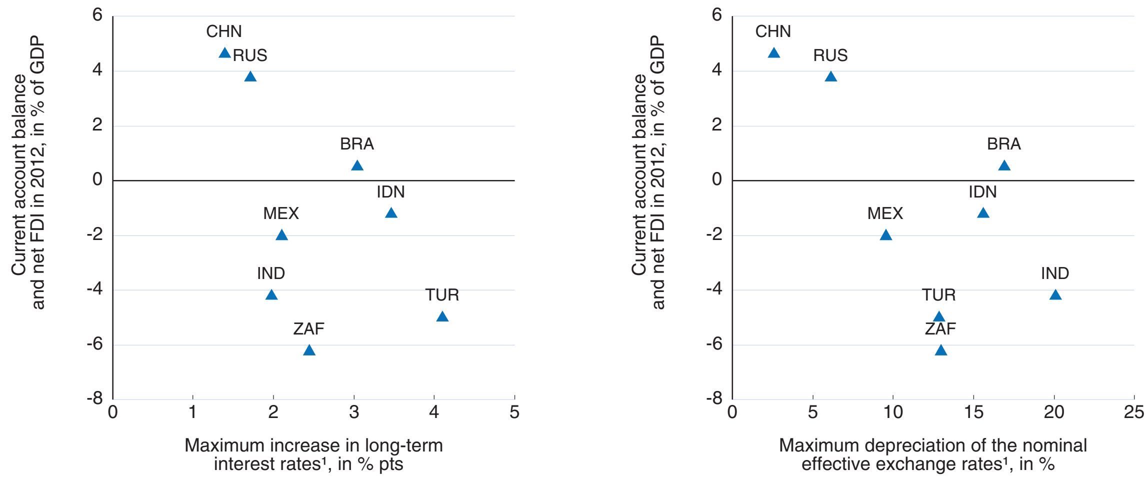
Note: Based on daily information. EA represents the OECD euro area members.

1. In domestic currency.
2. An increase in the nominal exchange rate implies its appreciation.

Source: OECD Economic Outlook 94 database; and Datastream.

StatLink http://dx.doi.org/10.1787/888932947846

Figure 1.2. **Financial conditions fell especially sharply in external deficit EMEs**



1. Based on daily information from 30 April to 12 November 2013.
Source: OECD Economic Outlook 94 database; Datastream; and IMF Balance of Payments database.

StatLink http://dx.doi.org/10.1787/888932947865

… which will damp growth prospects, especially in EMEs with domestic financial vulnerabilities

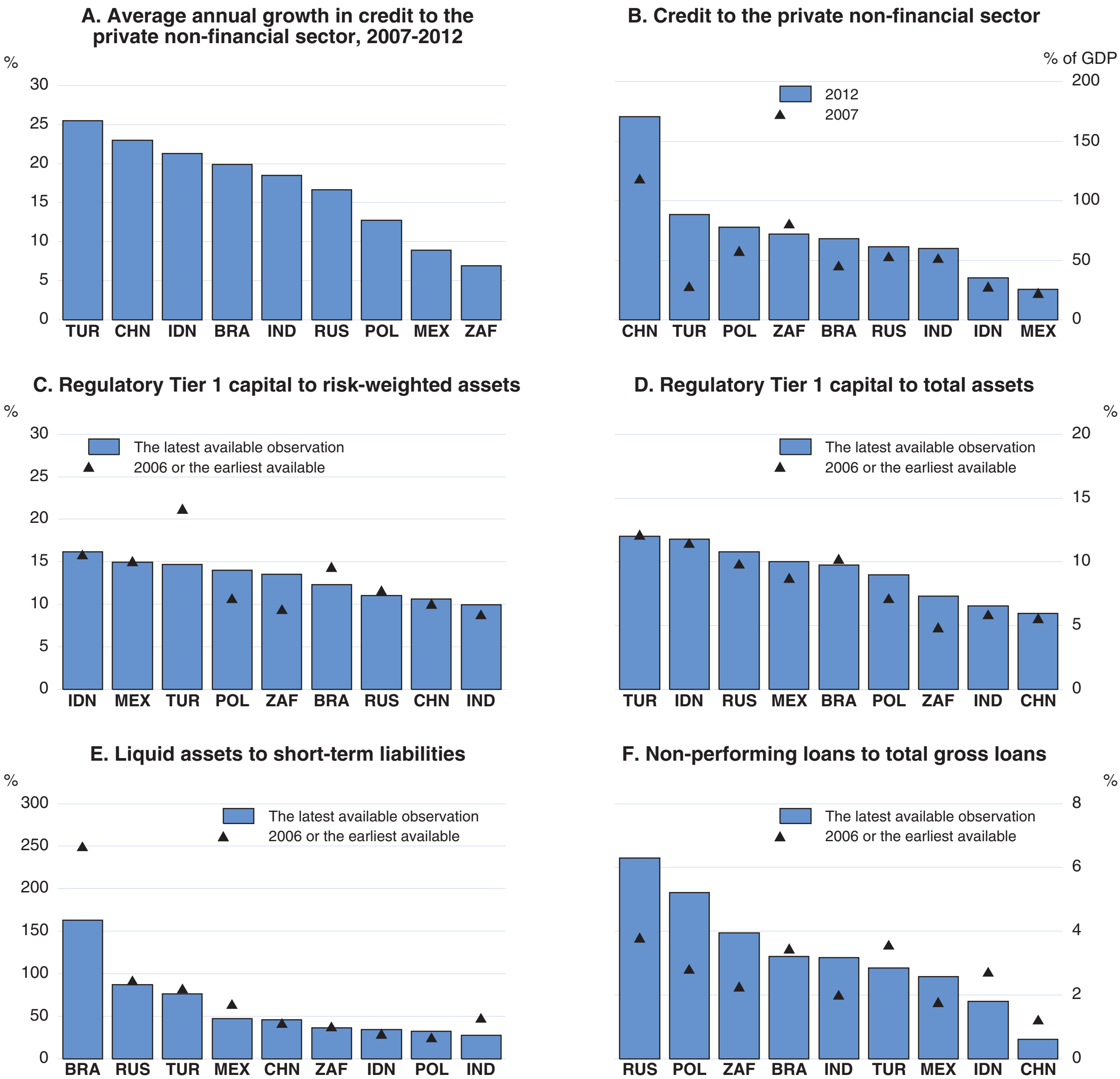
The subsequent unexpected delay in tapering of asset purchases in the United States and prompt domestic monetary policy actions have stabilised financial conditions in the EMEs more recently, with portfolio investment inflows resuming. Even so, the changes that have occurred since May this year will exert a drag on growth and have raised the risk that future steps towards tighter monetary policy in the United States may interact with domestic financial vulnerabilities in some EMEs and give rise to further financial turbulence, with adverse spillover effects on the global economy. The domestic financial vulnerabilities relate to banking system and external financing problems in some countries:

Warning signs of banking sector vulnerabilities have appeared in some EMEs…

- Signs of possible banking sector vulnerabilities have surfaced in some EMEs. In particular, private sector credit has increased rapidly since 2007. In nominal terms, it grew on average by around 20% per year in many large EMEs, although, in relation to nominal GDP, it increased sizeably only in Turkey, China and Brazil (Figure 1.3). Such a rapid credit build-up increases the risks of financial turbulence, as it exposes banks to losses in the event of a negative macroeconomic shock, especially if it has been associated with lax lending standards.[1] Other signs of vulnerability in some EME banking systems include the increased incidence of non-performing loans and lower liquidity coverage ratios. Nevertheless, capital positions of the banking sectors appear to be sound, at least at the aggregate level, with leverage ratios generally above 5% (Figure 1.3).[2]

1. Rapid credit growth is one of the key predictors of financial crises – see for instance Gourinchas and Obstfeld (2012) and Schularick and Taylor (2012).
2. Due to data limitations, the leverage ratio is defined as a ratio of regulatory Tier 1 capital, rather than core Tier 1, to total (un-weighted) assets. Thus, it differs from the ratio used below for the euro area countries.

Figure 1.3. **Banking sector vulnerabilities have surfaced in some EMEs**



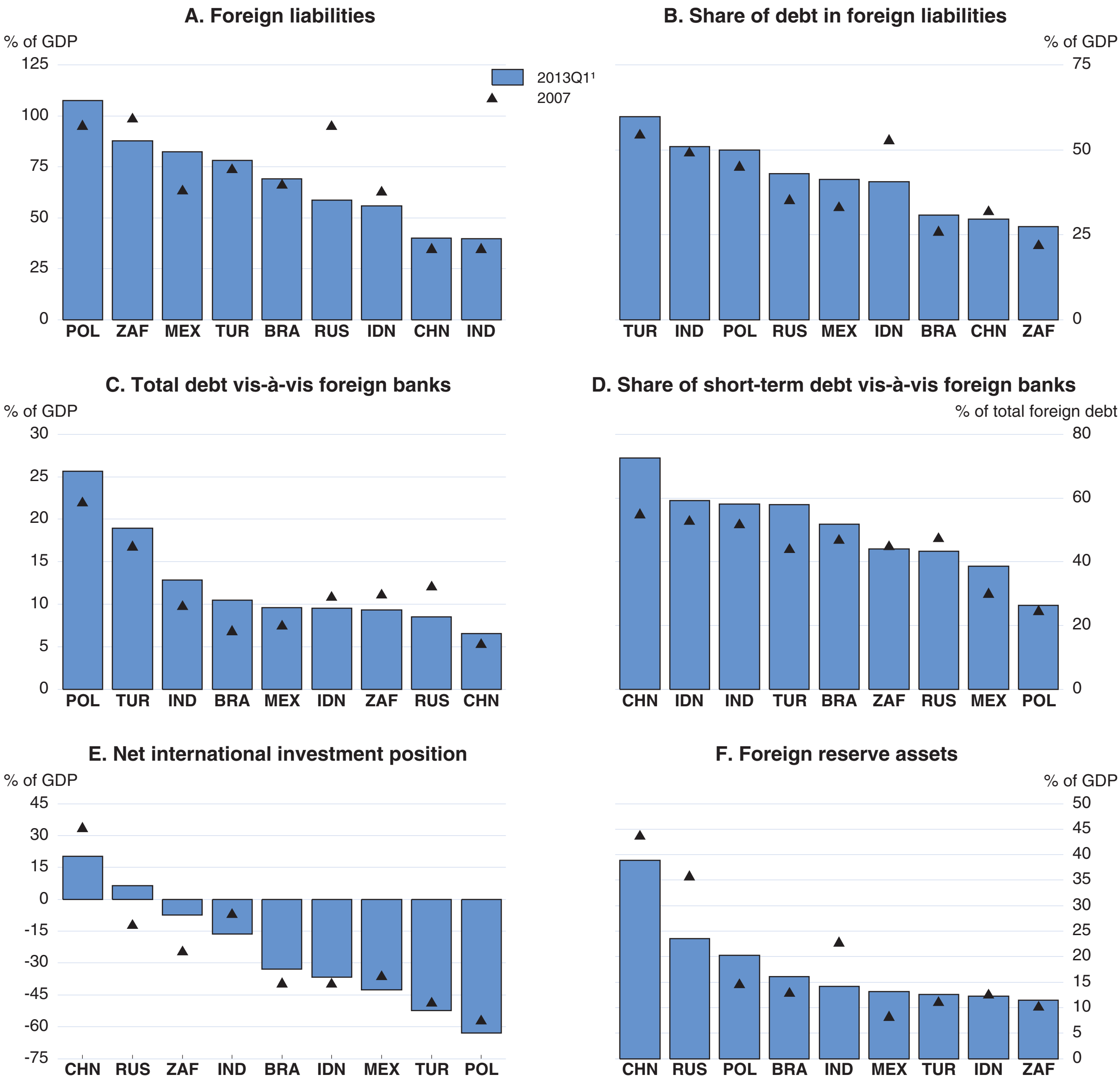
Source: BIS; Central Bank of the Republic of Turkey; and IMF Financial Soundness Indicators.

StatLink http://dx.doi.org/10.1787/888932947884

... and external vulnerabilities have increased in some countries

- External financing patterns also point to vulnerabilities in some EMEs (see Annex 1.1). The increased dependence of some external deficit economies, notably India and Indonesia, on portfolio inflows has made them vulnerable to sudden stops of such financing (Figure 1.4). Financial vulnerabilities have also risen in a number of EMEs due to the increased share of debt in total foreign liabilities (notably in India, Turkey and Poland) and the increased dependence on short-term loans

Figure 1.4. **External vulnerability indicators in selected EMEs**



1. Or latest available figures.
Source: BIS; and IMF Balance of Payments statistics.

StatLink http://dx.doi.org/10.1787/888932947903

from foreign banks. Some of these risks might, however, be mitigated by foreign reserve assets that have been high or rising in recent years in some EMEs (Figure 1.4).

Economic growth has already slowed, reflecting…

Even before the recent tightening in financial conditions, economic growth in the major EMEs had softened steadily over the past eighteen months or so, with aggregate non-OECD GDP growth projected to be around 4¾ per cent this year, around 2 percentage points weaker than the annual average observed over the previous decade. This reflects different factors:

… subdued external demand…

- One common development in the major EMEs has been the adverse impact of soft external demand. This initially reflected the weak level of import demand in the OECD economies, especially in the euro area, but the impact of this on GDP growth in the EMEs has been lower this year than in 2012. More recently, the growing trade linkages between the EMEs have meant that the demand slowdown in the large emerging market economies has had broader negative spillover effects on other EMEs.[3] Direct trade linkages between China and many other Asian economies are particularly strong, even though, given the composition of global supply chain linkages, the key demand driver is more likely to be from the major advanced economies than from China. On the other hand, weaker demand from China has placed downward pressures on international commodity prices, especially for metals and minerals, with adverse terms-of-trade effects on other EMEs that are commodity producers.

… and a slowdown in potential growth rates

- There has also been a gradual slowdown in trend GDP growth rates in many emerging economies. For example, current OECD estimates suggest that the trend GDP growth rate for the BRIICS as a whole declined by 1¾ percentage points between 2007 and 2013. Contributory factors include: demographic developments, with working-age population growth now slowing in most of the BRIICS, and negative in Russia; signs that the effects of past structural reforms may be fading, with trend productivity growth slowing, especially in China and India; and subdued investment growth due to structural bottlenecks and rigidities, especially in Brazil and India. Further declines in trend growth in some of the BRIICS are incorporated in the current projections for 2014 and 2015. This partly reflects limited recent progress in structural reforms needed to raise comparatively low labour productivity levels, including: reductions in still-high regulatory barriers to competition; improvements in infrastructure investments; greater openness to FDI and trade; and the need to strengthen education access and teaching quality (OECD, 2013a).

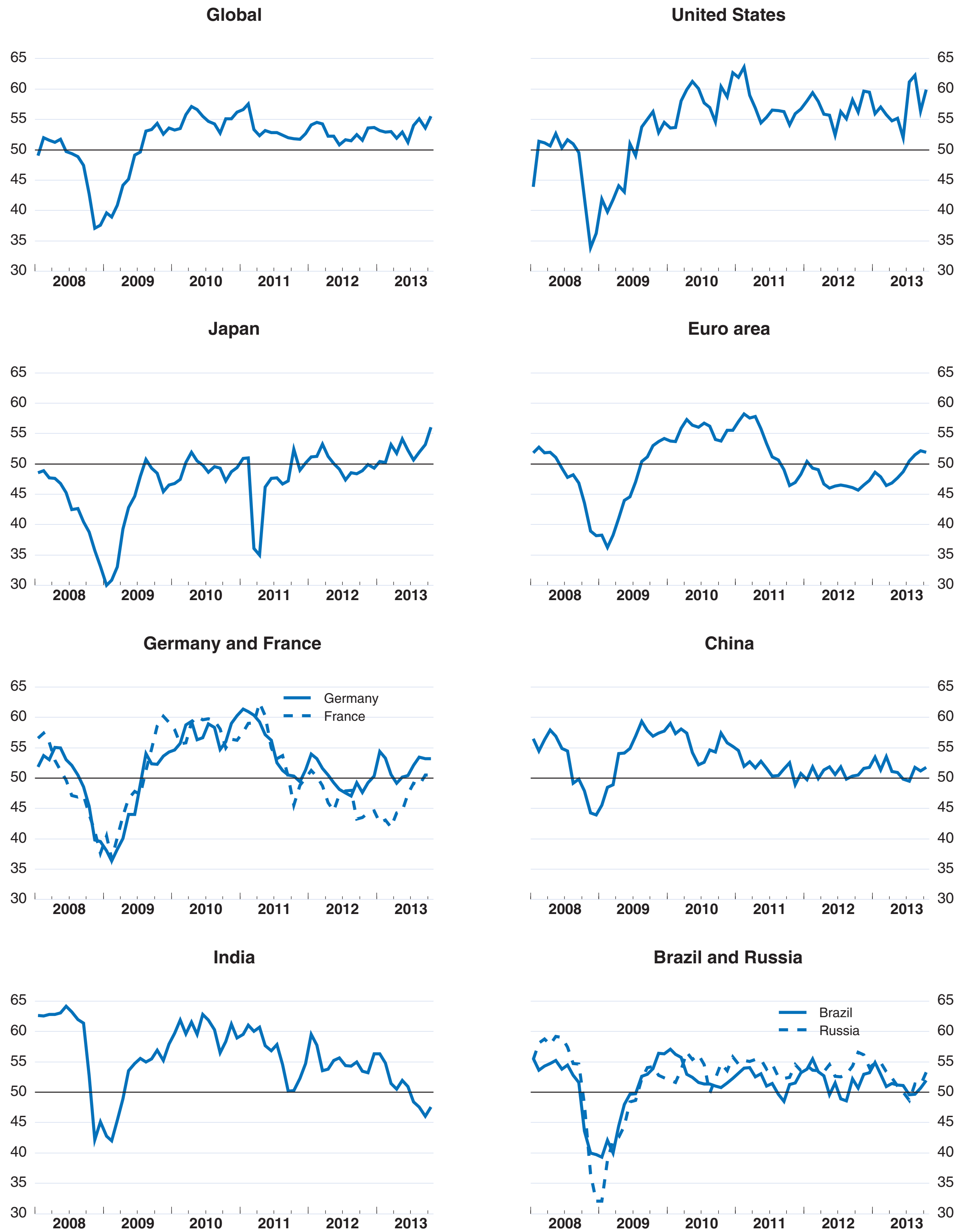
Recent activity indicators point to diverging activity prospects…

Notwithstanding slowing potential growth, forward-looking business surveys point to a gradual pick-up in near-term prospects for China and, more tentatively, Brazil and Russia (Figure 1.5). This is already reflected in cross-country differences in the strength of domestic demand, with growth improving in China, but being more sluggish in some other large EMEs.

3. On a gross value basis, South-South trade accounted for approximately 17% of global trade in 2012, up from 6½ per cent in 2002 (Garcia-Herrero et al., 2013).

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

Aggregate business PMI



Note: Weighted average of manufacturing output PMI and services business activity PMI.
Source: Markit.

... with solid demand growth in China...

- In China, retail sales growth remains solid and the housing market is buoyant, despite efforts to damp speculation this year, with strong price increases in the major cities. Investment in housing and infrastructure supply has also picked up, helped by increasing government outlays on railway investment and the strength of housing demand. This has raised the risks of eventual over-supply and a sharp correction in investment spending. The recent slowdown in credit growth and moves to rebalance the economy will also likely weigh on investment in the coming years.

... but weaker outcomes in some other EMEs

- Investment growth has lost momentum in some other large EMEs, especially India. Despite some recent structural initiatives, such as the partial deregulation of FDI and official efforts to fast-track large investment projects in India, and steps to encourage greater private sector participation in infrastructure projects in Brazil, more needs to be done to strengthen competition and lower obstacles to investment. Private consumption growth has also been muted in many EMEs, held back by high inflation and soft income growth.

These developments have potentially sizeable spillover effects on the global economy...

The growth slowdown in the EMEs, and the possibility that domestic vulnerabilities could lead to capital outflows intensifying again during the tapering of asset purchases and subsequent policy rate increases in the United States, have consequences for the major advanced economies, via spillovers that come through trade and financial channels. Some of the areas in which spillovers can occur if growth in the large EMEs were to slow further, either because of weaker trend growth or as a result of capital outflows and deteriorating financial conditions, are discussed in Box 1.1 and include:

... via trade effects...

- A sharp slowdown in domestic demand in the EMEs would have noticeable negative trade spillover effects. For instance, macro-model simulations suggest that a one year decline of 2 percentage points in domestic demand growth in all non-OECD countries apart from China, would, all else equal, lower OECD GDP growth by around 0.4 percentage point that year.[4] The US economy appears to be relatively sheltered in such circumstances, with the direct adverse activity effects being much stronger in Japan and also in China, reflecting their greater trade integration with the other non-OECD economies.

4. The first year impact of this shock would lower non-OECD GDP growth by a little over 1½ percentage points. The first-year effects from the shock are thus broadly equivalent to those that might result from a 200 basis point rise in the US term premium (which, all else equal, could lower non-OECD GDP growth by around ½ percentage point) together with a 1 percentage point slowing in non-OECD GDP growth. A very large increase in the US long-term interest rate would be required to generate the full 1½ percentage point hit to non-OECD GDP in the absence of the demand shock, one that would likely imply a significant deterioration in global financial conditions and widespread recession.

Box 1.1. **Global spillovers from the growth slowdown in emerging market economies**

The growth slowdown in the emerging market economies (EMEs) gives rise to broader negative spillover effects on activity in the world economy as a whole. Moreover, with the six BRIICS now accounting for 30% of world GDP (at PPP rates) and 15% of global equity markets, and other non-OECD countries comprising a further 12% of world GDP, a growth slowdown has larger effects on the global economy and OECD countries than in the past. This box considers spillovers that arise from trade and financial cross-border linkages. Other possible transmission channels, such as spillovers on business sentiment, may also be quite important, particularly in a more serious slowdown.

OECD countries' trade exposures (in gross or value-added terms) are largely to other OECD countries; but direct trade exposures to non-OECD countries have risen substantially over the past two decades. In 2012, gross merchandise exports from OECD economies to non-OECD countries amounted to around 6% of OECD GDP. However, trade linkages vary considerably across countries, with commodity producers and countries strongly linked in global value chains tending to have a higher share of exports to EMEs (see first figure below). Korea had the highest direct export exposure of the OECD countries, with goods exports in 2012 amounting to one-third of GDP. Estonia, Slovenia and Hungary also have relatively high exposures. Some of the BRIICS, as well as OECD economies such as Chile and Turkey, also have a sizeable exposure to the non-OECD economies, equivalent to 10% of GDP or more, by this measure. A sharp slowing in external demand could prove particularly problematic for countries such as Turkey and South Africa, with gross merchandise exports to non-OECD economies that are around 12% of GDP and current account deficits of around 6% of GDP.

Gross export data are likely to overstate the economic importance of direct trade exposures, as the former typically have a high import content. OECD/WTO trade-in-value-added data allow for this, although the data are currently available only up to 2009. Using the value-added data for combined exports of goods and services, OECD exports to the non-OECD countries accounted for around 30% of total OECD value-added exports and 5% of OECD GDP in 2009. Cross-country differences in the extent of exposure are, however, not that different to those found using gross export data (see first figure below), with Korea and commodity-producing economies such as Chile and Australia having relatively high exposures in value-added terms. Amongst the large OECD economies, Japan and Germany have the highest direct exposures to the non-OECD economies, likely reflecting their relative specialisation in exports of capital goods, often to the foreign subsidiaries of domestic companies.

Any slowdown in emerging economies is also likely to lower commodity prices, with adverse effects on the terms of trade of commodity exporters. This is particularly true of weaker growth in China, which accounts for around three-fifths of world iron ore imports, close to one-third of copper imports and 12% of crude oil imports. Incomes in Australia and Chile may be most exposed; the terms-of-trade in these economies have risen by almost 70 per cent over the past decade, reflecting both the rise in commodity prices and concurrent falls in prices of manufactured goods. Other emerging market economies that have benefited from past commodity price strength – such as Brazil, Russia and South Africa – would also suffer, potentially prolonging their growth slowdowns.[1] Oil exporters would also be affected, with further spillovers.

An idea of the magnitude of the trade-related spillovers and the additional second-round effects that might result from a demand slowdown in the non-OECD economies can be obtained from simulations using NiGEM, the global macroeconomic model of the National Institute of Economic and Social Research. In the illustrative scenario shown here, there is a one-year decline of 2 percentage points in domestic demand growth in all the non-OECD economies apart from China. This scenario can be seen as an approximation of the hit to domestic demand in the non-OECD economies brought about by a higher term premium on long bond rates in the United States (as occurred this year) combined with an underlying slowing of growth due to domestic bottlenecks and rigidities in many non-OECD economies (though not China).

Box 1.1. **Global spillovers from the growth slowdown in emerging market economies** *(cont.)*

Such a slowing would have negative feedback effects on the OECD economies, with OECD GDP growth likely to decline by some 0.4 percentage points in the first year, though the feedback on the United States is weak and smaller than spillovers to other OECD economies (see second figure below). In the simulations used here, policy interest rates and exchange rates are assumed to remain at their baseline settings. In practice, exchange rate adjustments could cushion the shock somewhat in the non-OECD economies, as well as in commodity producers such as Australia and Chile, but add to the shock in the major OECD economies.

Financial linkages would be likely to raise the impact of a growth slowdown in the EMEs still further. Globalisation of financial markets has helped to more than double the share of OECD international portfolio and direct investment assets held in the BRIICS from a decade earlier (for countries with available data), although the share remains relatively small, at around 5%. An orderly but generalised slowdown in the non-OECD economies would be likely to have adverse effects on asset values and also lower earnings from equity and foreign direct investments. Data for the United States show that the effect on corporate profits might be non-negligible, with over one-third of the profits of the majority-owned foreign affiliates of US parent companies coming from affiliates in non-OECD economies (including around 10% from affiliates located in the BRIICS).[2] Overall, Korea has the highest concentration of its foreign investments in the BRIICS, while the financial centres have larger direct exposures relative to GDP.

Banking links may also transmit EME developments to OECD economies. Bank for International Settlements (BIS) data on foreign claims on a consolidated, ultimate risk basis show that exposures to the EMEs are higher than before the financial crisis in banks from a range of countries, including the United States, the United Kingdom, Japan and some euro area economies.[3] Amongst those countries for which these data are available, the exposures to EMEs of banks in Spain, the United Kingdom, the Netherlands and Switzerland appear to be larger relative to GDP than those of banks in other OECD countries, but are in all cases small relative to bank assets (see third figure below).[4]

A generalised growth slowdown in the EMEs might result in weaker returns and potentially even an increase in credit impairment, especially if financial sector vulnerabilities in the EMEs were to deepen the impact of the initial slowdown. This could add to problems facing the banking sector of lending countries in which banks are under-capitalised. If some of the more weakly capitalised banking sectors are exposed to large losses, banks could even cut back on new lending, thereby propagating the crisis.

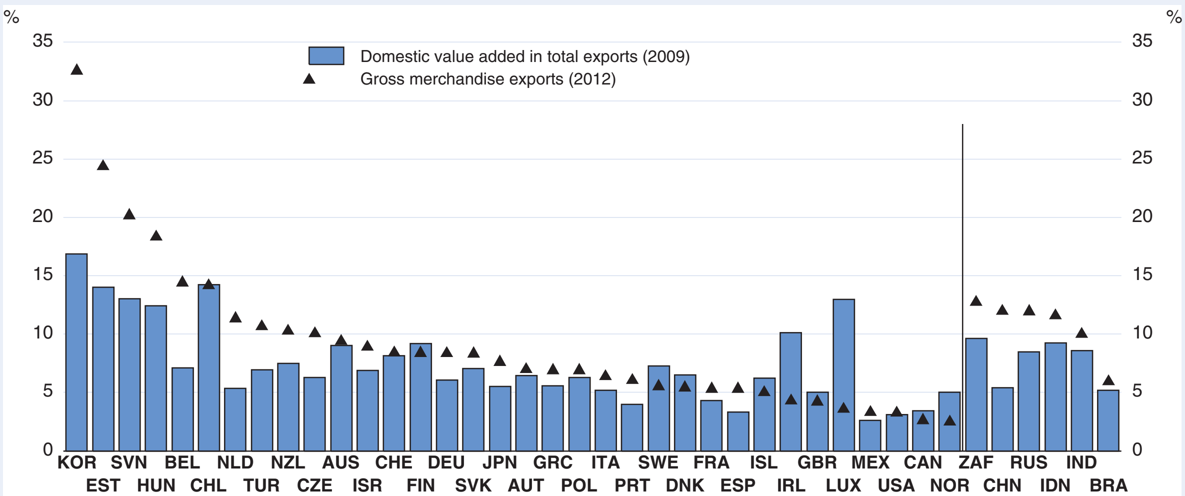
Overall, if risks materialise for EMEs individually, spillovers to most high-income economies are likely to be limited: even large emerging economies such as China and India account only for a relatively limited share of developed economies' exports. Moreover, on a bilateral basis, only a relatively modest share of high-income economies' external assets is held in the EMEs. However, in the event of a broader slowdown in the EMEs, brought about, for instance, by further capital outflows as the tapering of asset purchases begins in the United States, potentially sizeable spillover effects can occur in the OECD economies as well as in other EMEs. A systemic event arising from financial vulnerabilities in the EMEs would have much larger effects.

1. The terms of trade for commodity exporters have already fallen with the declines in commodity prices from their peaks, due to both lower global demand and rising supply following large investments to expand production.
2. Based on the profits of the majority-owned foreign affiliates of US companies in 2010, with profits approximated by total nominal value added less compensation of employees. Profits from outside the United States represent around one-third of total pre-tax US corporate profits.
3. The consolidated foreign claims data used here better capture the potential exposure of banks to lower earnings than the channels for contagion because the capital of affiliates operating in foreign countries will provide some protection against these shocks. However, linkages through offshore centres, which are not included in the data here, would add to OECD exposures.
4. These data capture loans, but do not capture off balance sheet exposures, which may exacerbate or mitigate losses.

Box 1.1. **Global spillovers from the growth slowdown in emerging market economies** *(cont.)*

Direct trade exposures to non-OECD economies are large in some countries

Exports, in per cent of GDP[1]



1. Within the two groups of OECD countries and BRIICS, countries are ordered by the non-OECD share of gross merchandise exports in 2012.

Source: OECD Economic Outlook 94 database; IMF Direction of Trade Statistics; and OECD calculations.

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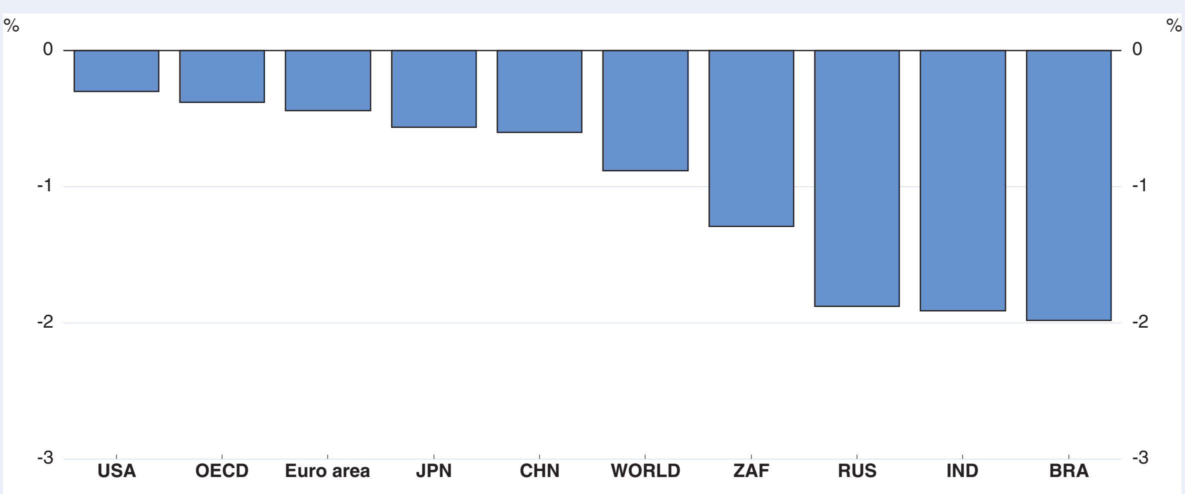
A domestic demand slowdown in the non-OECD could have sizeable adverse activity effects

First-year change in GDP from baseline



Note: Based on a one-year decline of 2 percentage points in domestic demand growth in all non-OECD countries apart from China.

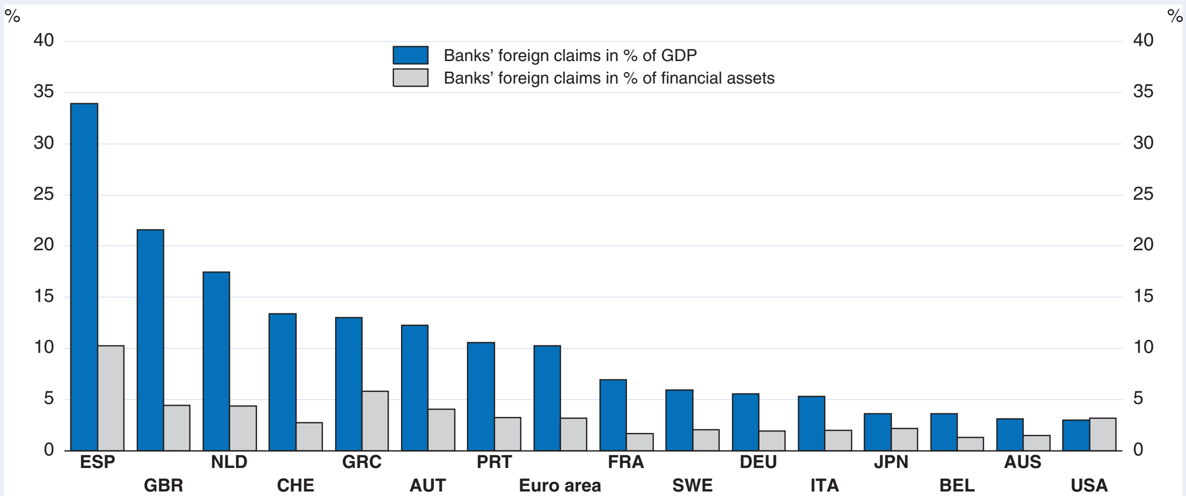
Source: OECD Economic Outlook 94 database; and OECD calculations.

StatLink http://dx.doi.org/10.1787/888932947732

Box 1.1. **Global spillovers from the growth slowdown in emerging market economies** *(cont.)*

Banks' foreign claims on emerging market economies[1]

Consolidated claims on an ultimate risk basis[2]



1. The emerging market economies are the BRIICS plus Chile, Hungary, Poland, Mexico and Turkey.
2. Data are for 2013Q2. Exposures for Austria and France are understated due to missing data. The euro area is calculated based on the countries shown.

Source: OECD Economic Outlook 94 database; BIS and OECD calculations.

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... and financial linkages

- Financial linkages would be likely to raise the impact of a growth slowdown in the EMEs still further, given the sizeable proportion of OECD external assets held in the non-OECD economies. An orderly but generalised slowdown in the non-OECD economies would have adverse effects on asset values, lower earnings from equity and foreign direct investments, and result in weaker returns from banking sector investments. Banks in the United States appear to have a modest direct exposure to developments in the major EMEs relative to that of some other OECD economies (Box 1.1).

A systemic event could have much larger effects

- The direct spillovers on the advanced economies would be much greater if financial vulnerabilities in the EMEs were to result in the occurrence of an adverse event with systemic implications. Financial institutions in the EMEs have higher capital buffers than before earlier event shocks, such as those in Asia and Russia in 1997-98, but are also much more heavily integrated into the global economy than at that time. This raises the risks of a systemic event, with marked adverse effects on OECD financial conditions and growth prospects.[5]

5. Trade data and financial exposures based on official external asset and liabilities could also understate high-income countries' vulnerability to EMEs, reflecting, for example, the likely role of financial centres in channelling some investments to EMEs and the number of countries for which information on current bilateral banking exposures are not available.

Financial conditions in OECD countries

Financial conditions have tightened...

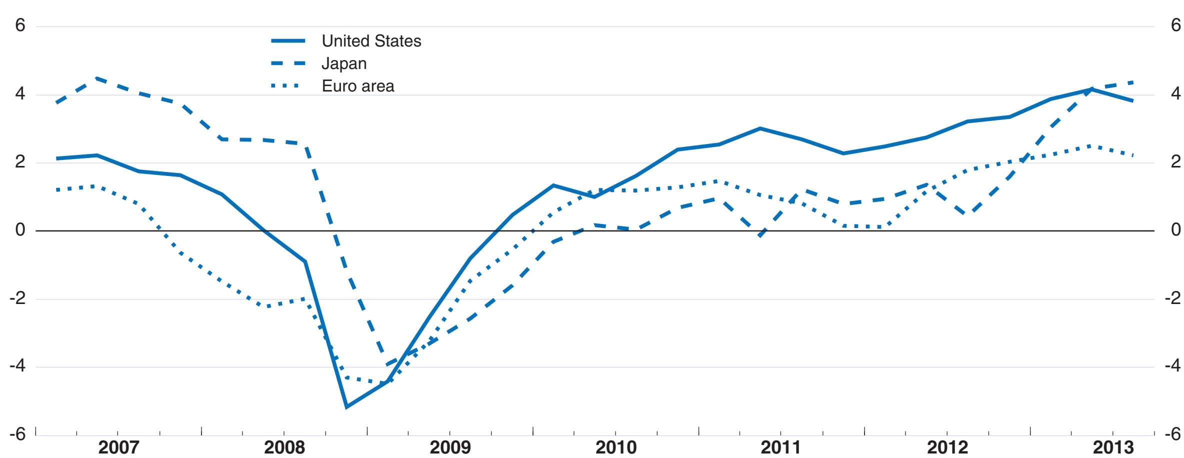
OECD financial conditions tightened in the second half of 2013. Against the backdrop of improving activity prospects in the United States and other advanced economies, the bond sell-off in the United States at the end of May, triggered by the Federal Reserve's communication about the future tapering of asset purchases, also affected many OECD countries, with prices of their equities, government bonds and currencies being driven down (Figure 1.1).[6] Following the Federal Reserve's clarification of its policy intentions, and, more recently, its decision to maintain unchanged asset purchases, equity prices rebounded to or above their mid-May levels and government bond yields eased. Overall, in the third quarter, financial conditions measured by the OECD Financial Conditions Indices tightened slightly in the United States and the euro area, but eased in Japan (Figure 1.6). This is likely to weaken financial tailwinds for economic growth in the United States and the euro area but not derail the recovery.

Key developments in the main economies include:

... in the United States...

- In the United States, 10-year government bond yields are around 100 basis points higher than in early May and the dollar has strengthened slightly in real terms. These developments reflect market expectations

Figure 1.6. **Aggregate financial conditions have tightened slightly in the euro area and the United States**



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). Based on available information up to 12 November 2013.

Source: Source: Datastream; OECD Economic Outlook 94 database; and OECD calculations.

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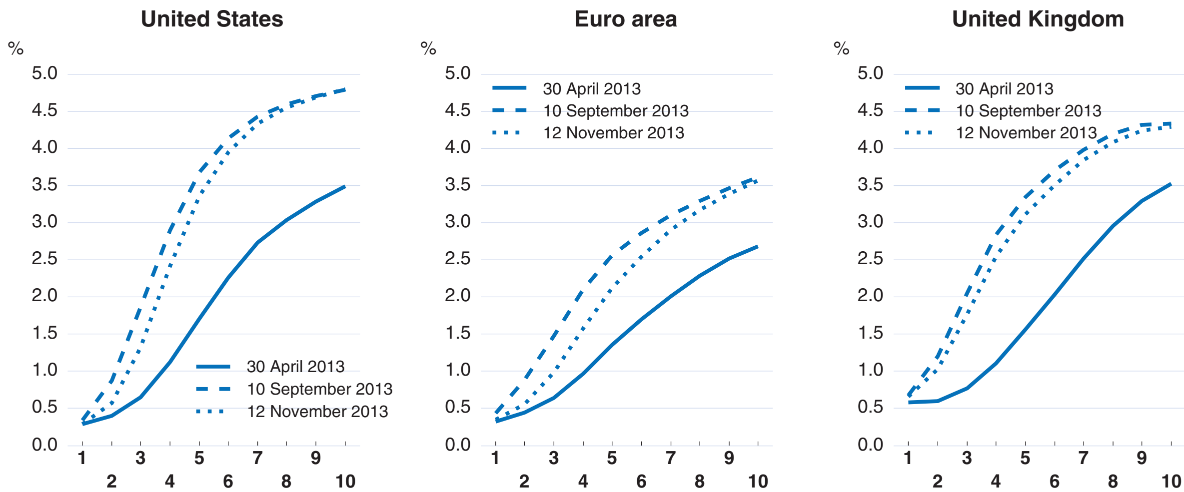
6. The deterioration in financial conditions was compounded by country-specific shocks, including policy-induced bond market volatility in Japan and political tensions in some of the euro area countries.

Figure 1.7. **Market participants now expect earlier and faster monetary policy tightening**

Future interest rates derived from zero yield curves



Note: Horizontal axes refer to the number of years into the future.
Source: OECD calculations based on Datastream data.

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of both earlier exit from continued quantitative easing and earlier and faster policy rate increases (Figure 1.7). Financing conditions for the non-financial private sector have also tightened, with corporate bond yields (except for high-yield bonds), mortgage interest rates and MBS yields higher than six months ago. However, equity prices have risen, despite some volatility (Figure 1.1), reflecting market expectations about improving growth prospects and rebalancing of investment portfolios into equities from bonds. Banks, on balance, have continued to ease their lending standards, but the year-on-year growth of credit is now somewhat weaker than in early 2013.

... and the euro area...

- In the euro area as a whole, financial conditions have tightened, with higher real interest rates and the euro appreciation outweighing the beneficial effects of higher equity prices. Spillovers from the United States drove up government bond yields in the core euro area countries while the euro strengthened. In addition, they seem to have brought forward expectations about future policy interest rate increases (Figure 1.7).[7] Financial conditions continued to normalise in many vulnerable countries, but at a slower pace than previously. Despite political tensions in some of them, 10-year government bond yields have been little changed and spreads against German bunds have declined since early May. The better performance of bond markets in the euro area periphery reflects improved risk perceptions, with credit default swap spreads also declining. In addition, Target 2 imbalances

7. Some of the increase in swap-based future curves may, however, reflect changing duration risk.

continued to narrow, cross-country loan interest rate differentials stabilised and, in some vulnerable countries, the cost of credit declined.

...but not in Japan

- In Japan, financial markets have been very volatile but, on balance, financial conditions have eased slightly since the second quarter. Government bond yields have gone down since May, with yields hardly affected by the global bond repricing. In contrast, equity prices initially reacted strongly to the global financial market turbulence (Figure 1.1) but subsequently rebounded and have recently been close to their levels in early May. The yen nominal and real effective exchange rates have fluctuated over the past six months, but remain 20% weaker than a year ago.

Demand and activity developments in OECD economies

Key demand and activity developments include:

Business surveys point to differentiated activity prospects

- Forward-looking business surveys and composite leading indicators signal growth in the advanced economies rising towards, or above, trend rates. Signs of activity improvements are particularly apparent in the United Kingdom, Japan and the United States, with a more modest, but broad-based improvement also increasingly visible in the euro area economies (Figure 1.5).

Trade growth is recovering gradually

- Global trade growth has picked up this year relative to the latter half of 2012, helped by stronger final demand in the major OECD economies. However, key indicators do not currently point to a further acceleration in the near term. New export orders have changed only marginally in recent months; shipping costs remain at comparatively low levels; and trade-intensive global tech activity indicators remain mixed. Subdued growth in the BRIICS is also holding down export growth from OECD economies, especially major commodity producers and trading partners linked via global supply chains. Provided trade restrictions do not intensify,[8] trade growth is expected to strengthen gradually relative to GDP growth over the projection period, rising by just over one-and-a-half times GDP growth in 2015, just under the pre-crisis norm. A stronger recovery in capital investment (a trade-intensive category of expenditure) could help to bring about a more marked pick-up in trade growth.

Household demand remains weaker in the euro area than in other major economies

- Consumption growth has been resilient this year in the United States and Japan, with on-going improvements to household balance sheets resulting from strong asset price growth, improving labour market outcomes and substantive deleveraging (helped in the United States, by institutions conducive to debt write-downs). These forces should

8. The most recent G20 report on trade and investment measures highlighted a growing stock of trade restrictions in many countries and industries (OECD/UNCTAD/WTO, 2013).

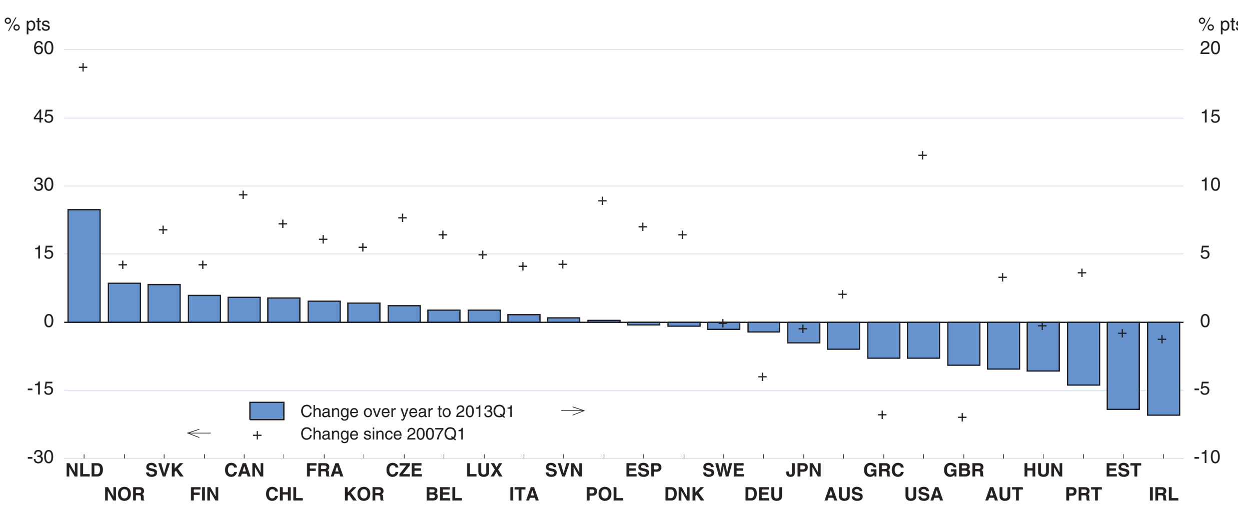
continue to support private consumption growth, with additional balance sheet adjustment taking place whilst saving ratios remain close to their current levels. In Japan, spending growth and the saving rate are likely to fluctuate during 2014 and 2015, due to the planned increases in the consumption tax rate. In the euro area, outside of Germany, household demand is expected to remain much softer, reflecting a mix of weak income growth, high unemployment, declines in property values and debt deleveraging, which has yet to begin in some economies (Figure 1.8). However, area-wide car sales and retail sales have both now started to increase and private consumption is expected to pick up slowly through 2014-15. That said, there is a risk that household saving ratios may turn out to be somewhat higher than assumed in the projections in some countries, such as the Netherlands, Spain and Italy, to counteract on-going balance sheet deterioration via declines in property values.

Investment growth could start to pick up in the next two years

- OECD-wide business capital spending has been subdued in recent years, even allowing for soft demand growth, with investment growth only recently becoming positive in countries such as Japan, Germany and the United Kingdom. The reasons for this remain unclear, though survey and anecdotal evidence from business have pointed to factors such as the higher cost (or even unavailability) of capital post-crisis and policy uncertainty. However, the pre-conditions for stronger investment growth now appear more favourable, especially outside the euro area. Greater risk appetite, as reflected in stronger equity prices, has raised the availability of external finance, and the aggregate balance sheet position of the non-financial corporate sector

Figure 1.8. **Household financial liabilities are now declining in more economies**

Change in ratio of financial liabilities to disposable income



Note: Gross disposable income is the sum of the latest two quarters annualised; OECD estimates are used where data are unavailable. Netherlands estimates are based on partial data.

Source: OECD Economic Outlook 94 database; and OECD, National Accounts database.

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has improved in some countries. Against this, the cost of borrowing has risen this year, reflecting the increases in long-term interest rates since May, with additional increases assumed to occur over the next two years (see Box 1.2). Reflecting the return of risk appetite, improved financial conditions and an acceleration-type mechanism as final demand strengthens, in particular in the United States, Japan and the United Kingdom, OECD-wide business investment growth is projected to pick up over the next two years. However, the share of business investment in GDP would still remain below longer-term norms, reflecting the long period of weak investment since the crisis began. Even so, there is a downside risk, especially if interest rates were to increase more sharply or demand growth were to be slower than projected. Prospects remain weaker in the euro area, outside Germany, than elsewhere, reflecting subdued final demand, less favourable balance sheet developments that may show up in debt repayment rather than capital spending, still high barriers to competition and continued financial fragmentation. Structural policy priorities in particular economies to tackle barriers to credit supply, and implement product market reforms that raise general competitive pressures, are discussed further below.

Housing markets are now improving on average in the OECD

- Housing markets are now improving in the OECD as a whole, but conditions vary considerably across economies (Table 1.2). In the United States, the on-going significant rebound in real prices has been accompanied by further improvements in builders' confidence and an upturn in sales and real housing investment, although the recent rise in the long-term mortgage rate has tempered developments somewhat. Even so, the upturn in activity is expected to persist, with housing investment rising at double-digit rates through the projection period. Strong growth in household disposable income and favourable financing conditions are also boosting real house price growth in Germany and Switzerland, despite tightening macro-prudential measures in the latter. In these economies, prices are now better aligned with household rents and incomes. Real prices are also still rising in Belgium, Canada, New Zealand, Norway and Sweden, even though prices are high relative to rents, pointing to a risk of future correction, especially with borrowing costs now rising.[9] By contrast, real house prices continue to decline in Japan, France, and most other euro area economies, with the pace of the decline being particularly sharp in the Netherlands, Greece, Spain, Italy and Portugal, putting pressure on household balance sheets and potentially adding to non-performing loans in the banking sector.

9. House price inflation is also high in a number of countries with a comparatively short span of historical data, including Austria, Estonia, Israel and Turkey.

Table 1.2. **Housing market developments continue to diverge**

	Per cent annual rate of change				*Level relative to long-term average* [1]		
	2004-2011	**2012**	**2013** [2]	**Latest quarter** [3]	**Price-to-rent ratio**	**Price-to-income ratio**	**Latest available quarter**
Australia	2.4	-2.9	3.1	5.7	142	123	Q3 2013
Austria	2.0	9.5	1.2	2.7	..	..	Q2 2013
Belgium	4.2	0.1	0.8	1.0	162	150	Q2 2013
Canada	5.2	3.4	1.2	1.4	168	132	Q3 2013
Czech Republic		-4.0	-1.6	-2.0	..	..	Q2 2013
Denmark	1.3	-5.6	1.3	1.7	113	109	Q2 2013
Estonia		3.5	2.5	4.1	..	..	Q2 2013
Finland	2.3	-1.3	-0.4	-2.2	136	99	Q3 2013
France	3.6	-2.3	-1.9	-2.4	132	129	Q2 2013
Germany	-0.2	3.8	3.9	4.3	89	83	Q2 2013
Greece	-0.9	-12.5	-7.8	-10.8	82	103	Q2 2013
Hungary		-9.3	-6.2	-7.2	..	..	Q2 2013
Iceland		1.3	1.1	1.9	..	..	Q2 2013
Ireland	-3.7	-13.2	-1.4	1.4	92	92	Q3 2013
Israel	4.0	1.0	5.4	6.7	110	..	Q2 2013
Italy	0.3	-5.4	-5.5	-7.2	95	112	Q2 2013
Japan	-2.1	-2.1	-0.9	-1.3	62	64	Q1 2013
Korea	1.2	0.7	-1.5	-1.7	104	61	Q3 2013
Luxembourg		2.5	2.0	3.4	..	..	Q2 2013
Netherlands	-0.4	-8.3	-8.6	-7.0	105	118	Q3 2013
New Zealand	1.8	3.9	6.1	8.8	166	126	Q2 2013
Norway	5.2	5.8	2.2	0.0	168	127	Q3 2013
Portugal	-0.2	-3.6	-3.5	-3.8	86	94	Q3 2013
Slovak Republic		-4.4	-1.0	-0.9	..	..	Q2 2013
Slovenia		-8.4	-3.8	-5.6	..	..	Q2 2013
Spain	-0.9	-11.1	-6.8	-9.5	106	107	Q2 2013
Sweden	4.6	-2.6	1.9	2.5	132	120	Q3 2013
Switzerland	2.2	4.8	4.8	5.5	101	97	Q3 2013
Turkey		3.2	3.3	6.0	..	..	Q2 2013
United Kingdom	-0.2	-0.9	0.3	0.8	132	122	Q3 2013
United States	-2.8	1.5	4.8	6.1	102	88	Q2 2013
Euro area[4]	0.8	-2.7	-1.8	-2.6	107	107	Q2 2013
Total OECD[4]	-0.6	-0.3	1.4	1.9	105	95	Q2 2013

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. Using 2010 GDP weights, calculated using latest country data available.

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

StatLink http://dx.doi.org/10.1787/888932949081

The near-term projections

Economic prospects are for a continued but mild recovery in…

The near-term economic outlook is for a continued moderate recovery in activity in the major economies provided none of the marked downside risks materialise. In the OECD as a whole, on-going support from accommodative monetary policies (Box 1.2), the feed-through of past

Box 1.2. **Policy and other assumptions underlying the projections**

Fiscal policy settings for 2013, 2014 and 2015 are based as closely as possible on legislated tax and spending provisions. Where government plans 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 close to 1% of GDP in both 2014 and 2015, roughly as implied by current legislation including continuation of the sequester though the fiscal drag from the sequester tapers off over the projection period.

In Japan, the projections incorporate the consumption tax increases from 5% to 8% in 2014 and to 10% in 2015. They also incorporate the fiscal stimulus package (about 1% of GDP) and the additional 1 trillion yen tax cut that will accompany the consumption tax increases. Overall, the underlying primary balance is assumed to improve by 1½ per cent of GDP in 2014 and a further 2% of GDP in 2015.

In euro area countries, fiscal consolidation in 2014 and 2015 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 draft budget laws or, if these are not available, 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 the Stability Programme, have been built into the projections. In France, the projections incorporate a cumulative reduction in the structural deficit of 1.5% of GDP in 2014 and 2015, with consolidation shifting toward greater efforts on the spending side, as presented in the draft budget law. For Italy, the projections incorporate the government's medium-term fiscal plans, as presented in the September 2013 update of the Economic and Financial Document.

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 *Economic Outlook* is based on national accounting conventions. These require that liabilities be recorded at market prices as opposed to constant nominal prices (as is the case, in particular, for the Maastricht definition of general government debt). During and following the financial and economic crisis, euro area programme countries (Greece, Ireland and Portugal) experienced large changes 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, the change in government debt in 2010, 2011 and 2012 in these countries 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 be raised gradually between March and end-2015 from the current level of ¼ per cent to 1½ per cent.
- In the euro area, the refinancing rate is assumed to be kept at 0.25% throughout the projection period.
- In Japan, the short-term policy interest rate is assumed to be kept at 0.1% for the entire projection period.

Box 1.2. **Policy and other assumptions underlying the projections** *(cont.)*

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 are assumed to cease around mid-2014 and the stocks maintained until the end of the projection period. In Japan, asset purchases are assumed to increase in line with the stated plans of the monetary authorities. In the euro area, no additional purchases are built into the projections, and no new Long-Term Refinancing Operations are assumed.

In the United States, Japan, Germany and 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 interest rates, a term premium and an additional fiscal premium. The latter premium is assumed to be 2 basis points per each percentage point of the gross government debt-to-GDP ratio in excess of 75% and an additional 2 basis points (4 basis points in total) per each percentage point of the debt ratio in excess of 125%. In Japan, the premium is assumed to be 1 basis point per each percentage point of the 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 end-2015.

The projections assume unchanged exchange rates from those prevailing on 25 October 2013: one US dollar equals 97.02 JPY, EUR 0.72 (or equivalently one euro equals 1.38 dollars) and 6.08 renminbi.

The price of a barrel of Brent crude oil is assumed to increase at a rate of $5 per year from the first quarter of 2014 onwards, from an assumed price of $110 in the last quarter of 2013. Non-oil commodity prices are assumed to be constant over the projection period at their average levels of September 2013.

The cut-off date for information used in the projections is 14 November 2013. Details of assumptions for individual countries are provided in Chapters 2 and 3.

improvements in financial market conditions and a gradual easing in the pace of fiscal consolidation should help the momentum of the recovery strengthen gradually. In the BRIICS, growth is expected to remain subdued by past standards, especially in economies in which inflation remains high and activity is held back by supply-side constraints, recent policy actions and the recent tightening of financial conditions. In some of the EMEs within the OECD, including Turkey and Mexico, growth is set to remain relatively resilient, despite the additional headwinds from more subdued external demand and tighter financial conditions.

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

… the United States…

- In the United States, final demand growth remains at a moderate rate, held back by the poorly-targeted budgetary sequestration, higher long-term interest rates and, more recently, the adverse impact on confidence of the political impasse over the debt ceiling. Provided that the latter does not reoccur, the economy should gradually gain momentum through the course of 2014 and 2015, with private final demand buoyed by still-supportive financial conditions, strengthened private sector balance sheets and accommodative monetary policy. On-going fiscal consolidation and net exports will however remain a drag on the recovery. Solid employment growth is projected to continue, with the unemployment rate declining to just above 6% by end-2015 and the negative output gap narrowing steadily.

... the euro area...

- In the euro area, growth has resumed and confidence is now improving in almost all member states, with some of the vulnerable economies exiting from recession or close to doing so. However, the recovery remains hesitant, reflecting remaining fiscal pressures, high unemployment and the lingering effects of the euro area crisis on balance sheets and credit conditions. Growth is thus likely to gain momentum only slowly, helped by further monetary accommodation, the fading pace of fiscal consolidation and stronger external demand. Although growth is projected to move above trend rates from mid-2014 onwards, the large negative output gap is set to close only slowly, with the area-wide unemployment rate remaining above 12% until mid-2015. GDP growth in Germany, and also a handful of smaller economies, including Ireland, is projected to be a ½ percentage point or more above that for the area as a whole.

... and Japan

- A strong cyclical upturn has occurred in Japan this year, helped by the large monetary stimulus, favourable financial conditions and improved private sector confidence. Looking ahead, these factors, along with gradual labour market recovery, should remain supportive of growth through 2014 and 2015. Solid export growth, helped by improving external demand and the lagged effects from the yen effective rate depreciation in the last year, and improving corporate profitability should also help the recent rebound in business investment to strengthen further. However, fiscal consolidation, including reductions in public investment and the rise in the consumption tax rates in 2014 and 2015, will exert a substantial drag on activity in the next two years and gradually moderate the pace of the upturn.

The outlook varies in the large non-OECD economies...

Despite tighter financial conditions and slowing potential growth, output growth in the non-OECD economies is expected to strengthen modestly to between 5¼-5½ per cent in 2014 and 2015 (Table 1.1). However, there are marked differences in developments across the major economies:

... with above-par growth set to persist for a while in China...

- Growth in China has now turned up once more, helped by the impact of modest fiscal stimulus and rapid growth in credit up to June this year. As the impact of these effects fades, domestic demand growth should ease, with GDP growth slowing from a little over 8% in 2014 to around 7½ per cent in 2015, close to estimated potential rates.

... but growth strengthening more slowly in India...

- In India, annual GDP growth is expected to increase gradually, with the recent exchange rate depreciation helping to boost export growth and new infrastructure projects getting underway. However, the recovery is likely to be subdued by past standards, with strong supply rigidities and tighter domestic financial conditions limiting the pace of the upturn, with GDP rising by 4¾ per cent in 2014 and just under 5¾ per cent in 2015.

... Brazil...

- In Brazil, growth is expected to continue at close to its present moderate pace, with GDP projected to rise by around 2¼ per cent in 2014 and 2½ per cent in 2015, with the recent currency depreciation helping to reduce significantly the drag exerted by strong net import growth. Continued monetary tightening is likely to check domestic demand, but private investment should strengthen, helped by on-going infrastructure and tax reforms.

... and Russia

- In Russia, output growth is projected to improve slowly from its current modest pace to around 2¼ per cent in 2014 and just below 3% in 2015, with moderating headwinds from high price inflation and a pick-up in infrastructure investment helping to boost domestic demand.

Inflationary pressures in OECD economies are weak...

Consumer price inflation rates remain low in most OECD economies:

... edging up in the United States but not in the euro area...

- Core inflation rates have remained very low for several months in the United States and the euro area, stabilising at between 1-1¼ per cent in the United States, but declining unexpectedly sharply to around ¾ per cent in the euro area despite increases in indirect taxes and administered prices. Nonetheless, swap-based measures of inflation expectations have generally remained well-anchored. Looking ahead, the divergence in activity outcomes is likely to be reflected in diverging inflation prospects. In the United States, core inflation could drift up slowly towards 2% during 2014-15 as economic slack is reduced and the labour market firms. In contrast, in the euro area, with economic slack projected to narrow only slowly and remain sizeable at the end of 2015, core inflation is expected to stay very low, at just over 1% through next year and edge up only marginally in 2015. This would be well below the ECB definition of price stability, with intensifying risks of entering deflation if growth does not strengthen as projected or if the euro effective exchange rate were to appreciate significantly further.

... and rising modestly in Japan

- In Japan, domestic deflation is slowing gradually. Quarterly movements in prices have been volatile, but the year-on-year headline inflation rate has recently become clearly positive, with the large effective exchange rate depreciation pushing up import prices and having additional indirect effects via stronger output growth. The year-on-year rate of core inflation is now close to zero, longer-term inflationary expectations have risen and the OECD estimate of the output gap has turned positive. Prices are projected to rise in the remainder of this year, with the annualised quarterly rate of core inflation reaching a little over 1% in the latter half of 2015. The impacts of the planned increases in the consumption tax rate in 2014 and 2015 should raise the price level further, by around 2 percentage points and 1.4 percentage points respectively.

Inflation pressures remain high in many EMEs…

Inflationary pressures remain high in many large EMEs despite subdued growth, with the recent exchange rate depreciations likely to push up import prices markedly.

… including India…

- In India, consumer price inflation remains above 9½ per cent, in part reflecting administered price increases on fuel products and food price inflation. With a likely moderation in domestic food price pressures, the recent tightening of monetary policy and rising spare capacity could eventually ensure that inflation begins to moderate, provided the exchange rate does not depreciate much further.

… and Brazil…

- In Brazil, consumer price inflation has now edged below the upper limit of the target band, but remains high despite subdued output growth, pointing to limited spare capacity in the economy. However, recent and assumed future monetary policy lightening should allow inflation to be brought down to target, with future growth expected to be moderate.

… but not China

- In China, headline inflation continues to be boosted by food price pressures, but these should fade when weather conditions return to normal. Non-food consumer price inflation has remained low in recent months, at between 1½ and 2 per cent. Looking forward, activity growth is not projected to be at a pace that would raise core inflation much further, with the output gap now estimated to be small and projected to remain so.

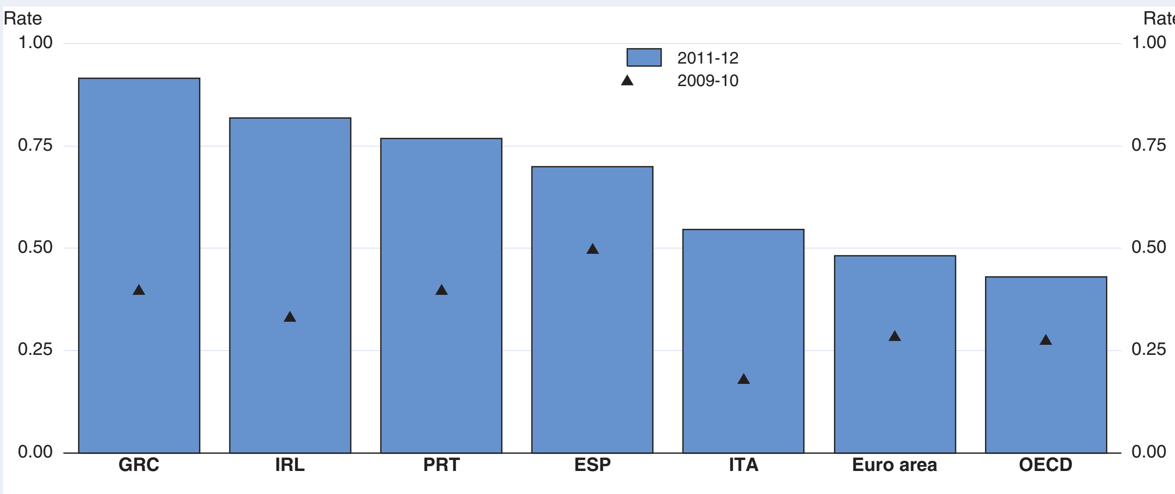
Labour market conditions have diverged…

The OECD-wide unemployment rate has stabilised at a high level, with diverging developments in the major OECD economies. As noted in the May 2013 *Economic Outlook*, employment outcomes over the past two years in the United States, the United Kingdom and Germany have been persistently better than might have been expected on the basis of past relationships with output growth. In the United States, soft productivity growth, likely reflecting an adjustment of employment to more normal levels following heavy job losses in 2008-09, has supported job growth, with on-going declines in labour force participation helping these gains to be reflected in a declining unemployment rate. In Germany and the United Kingdom, the resilience in job growth likely reflects wide-ranging, albeit very different, labour market reforms put in place to enhance the scope for businesses to use employees more flexibly and to strengthen job matching through greater help with job search and stronger work availability requirements. In many other euro area economies, job losses in recent years have been extremely large even allowing for the severity of the fall in demand, although this may change as the impact of recent structural reforms begins to be felt later on during the projection period (Box 1.3).

Box 1.3. **Progress on structural reform in the vulnerable euro area countries**

The financial crisis and ensuing euro area crisis were accompanied by extraordinary financial market pressures on Greece, Ireland, Italy, Portugal and Spain to rebalance their economies. The OECD has emphasised the role for structural reforms, particularly in labour and product markets, to improve these countries' international competitiveness and public debt dynamics through stronger growth. Indeed, for the EU-IMF programme countries, financial assistance has been made conditional on wide-ranging structural reforms. As a result of financial market pressures and programme conditionality, the pace of reform in the vulnerable countries has accelerated in recent years and outpaced that of other economies (see first figure).

Responsiveness to Going for Growth recommendations



Note: Responsiveness rates are calculated as the share of priority areas in Going for Growth in which 'significant' action has been taken. The euro area and OECD rates are calculated as an unweighted average.
Source: OECD, Going for Growth (2013).

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Since the downturn, the vulnerable countries have undertaken a range of labour market reforms. One sign of progress is the declines that have occurred in the OECD indicator of employment protection legislation in many of these countries (see second figure), but reforms have also been made in other areas influencing labour utilisation.

- Measures to reduce the *cost of labour* of regular workers include successive reforms in Portugal to shorten notice periods required for dismissal and reduce severance pay, as well as reducing the difficulty of dismissal and procedural inconvenience, with further reforms to become effective from November. Greece has also initiated similar reforms. Reforms in Italy and Spain have concentrated on easing the difficulty of dismissal and procedural inconvenience. Even so, employment protection legislation remains as, or more, restrictive in the vulnerable countries than the OECD average, with the exception of Ireland.
- Several countries have undertaken reforms to improve the *responsiveness of wages* to labour market conditions. Greece has overhauled its wage bargaining institutions fundamentally, abolishing the administrative extension of collective contracts to third parties and decentralising collective bargaining. Ireland has also enacted reforms to improve the responsiveness of wages set in collective agreements to economic conditions and limit the extension of collective agreements. In Portugal and Spain, some changes have been made to the collective wage bargaining system, but these systems remain important areas for reform.
- Unemployment benefit schemes have also been adjusted to strengthen incentives and make them more inclusive. In Ireland, Portugal and Spain, benefit rates have been lowered and in Portugal, the duration has been reduced. At the same time, in Portugal and Italy the coverage of schemes has been broadened.

Box 1.3. **Progress on structural reform in the vulnerable euro area countries** *(cont.)*

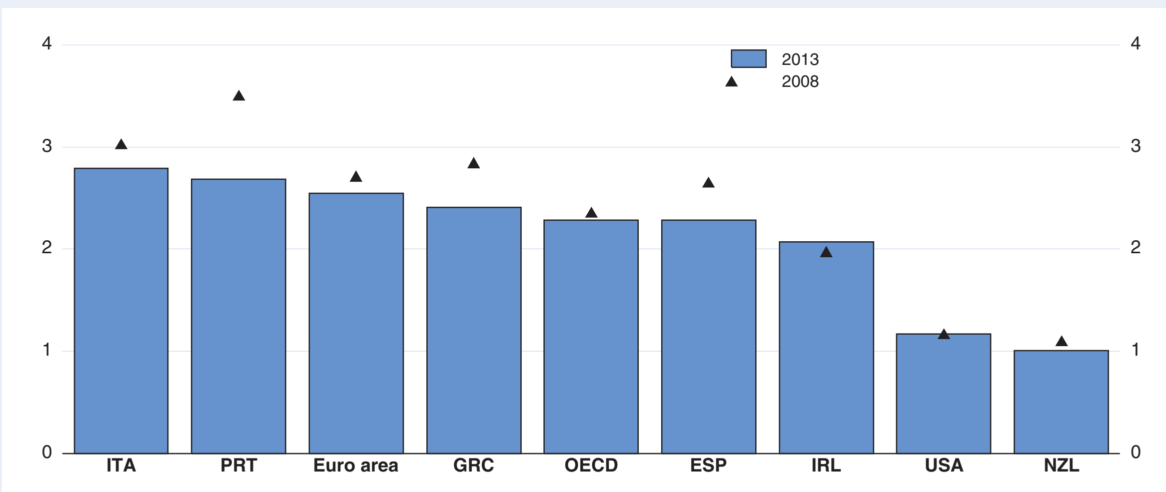
Considerable product market liberalisation has occurred in Greece and Portugal, whereas product market reforms have been minimal overall in Ireland, Italy and Spain. In all five countries, the effective implementation of planned reforms is crucial to improving competitiveness.

- In Greece and Portugal, there have been reductions in state control of the economy and various barriers to entrepreneurship, including in the services sector. In Greece, three-quarters of professions have been opened to competition. Greece has also reduced barriers to trade, such as differential treatment of foreign suppliers.
- In Ireland and Spain, legislative programmes to reform the utilities sector, reduce administrative burdens, and strengthen competition are underway although there have been some delays. In Italy, there has been some liberalisation of professional services, for example, but government involvement in business operations remains relatively high.

Despite the progress that has been made, there is much scope for further improvement in these countries.

There has been progress in reforming labour markets[1]

Strictness of employment protection[2]



1. The two countries with the least strict regulation are shown for comparison. The OECD and the euro area points are the average of the available countries.
2. Protection of regular workers against individual and collective dismissals.

Source: OECD, Database on Employment Protection. StatLink http://dx.doi.org/10.1787/888932947789

Some important reforms have been initiated in other areas, such as taxation and pensions. Greece and Portugal have implemented reforms to improve the efficiency of the taxation system: Greece has broadened its tax base and simplified the tax system; and Portugal has implemented major reforms shifting taxation towards consumption and property taxes. Greece and Spain have made substantial progress in the area of pension reform.

The benefits of reforms undertaken to date could be large. For example, previous OECD work has shown that:[1]

- The marginal impact of reforms that would lower the value of the employment protection index by the same amount as achieved on average by OECD countries that undertook reforms between 2000 and 2008 would be to raise average annual labour productivity growth by 1.6 percentage points over 10 years.
- Reforms that would reduce the OECD's product market regulation indices by the same amount as achieved on average by OECD countries that undertook reforms between 2000 and 2007 would increase average annual total factor productivity and GDP growth by about 0.7 percentage points over 10 years.

Box 1.3. **Progress on structural reform in the vulnerable euro area countries** *(cont.)*

- A 3-percentage-point reduction (the median over the past three decades) in the share of tax revenue accounted for by taxes on income, profits and capital gains (rather than property or consumption) raises productivity by about 1% in the long run.
- Benefits of these reforms may take longer to increase growth outcomes; other reforms that have also been undertaken, such as increasing wage responsiveness to economic conditions, could add to job creation in the near term.

Looking ahead, for the vulnerable countries, it is crucial to maintain reform momentum as activity improves, given the need to strengthen growth prospects, further enhance externally-oriented sectors and reduce the risk of high unemployment becoming structural. Key priorities going forward include:

- Further reductions in regulatory barriers to firm entry and competition, including through privatisation, to boost competitiveness and job creation. In particular, greater liberalisation of retail trade and services sectors could yield large returns.
- Further labour market reforms to reduce the cost of labour and improve competitiveness, including lowering the tax wedge and reforming the system of collective wage bargaining to enable wages to be more responsive to labour market conditions.
- Facilitating training and job-search assistance for unemployed workers to mitigate the risks of rising structural unemployment.

1. See OECD and World Bank (2013). Note that the estimates were based on the indicators of employment protection and product market regulation in 2008.

... with this pattern likely to persist...

Looking ahead, these cross-country labour market trends seem likely to continue (Table 1.3 and Figure 1.9):

Table 1.3. **OECD labour market conditions are likely to improve slowly**

	2010	2011	2012	2013	2014	2015
	Percentage change from previous period					
Employment						
United States	-0.6	0.6	1.8	1.1	1.4	1.6
Euro area	-0.3	0.3	-0.7	-0.9	0.0	0.5
Japan	-0.3	-0.1	-0.3	0.5	0.0	0.0
OECD	0.3	1.0	1.0	0.6	0.9	1.1
Labour force						
United States	-0.2	-0.2	0.9	0.4	0.8	1.0
Euro area	0.3	0.4	0.6	0.0	0.1	0.2
Japan	-0.3	-0.6	-0.6	0.2	-0.1	-0.1
OECD	0.5	0.6	1.0	0.7	0.8	0.8
Unemployment rate	Per cent of labour force					
United States	9.6	8.9	8.1	7.5	6.9	6.3
Euro area	10.0	10.1	11.3	12.0	12.1	11.8
Japan	5.0	4.6	4.3	4.0	3.9	3.8
OECD	8.3	8.0	8.0	8.0	7.8	7.5

Source: OECD Economic Outlook 94 database.

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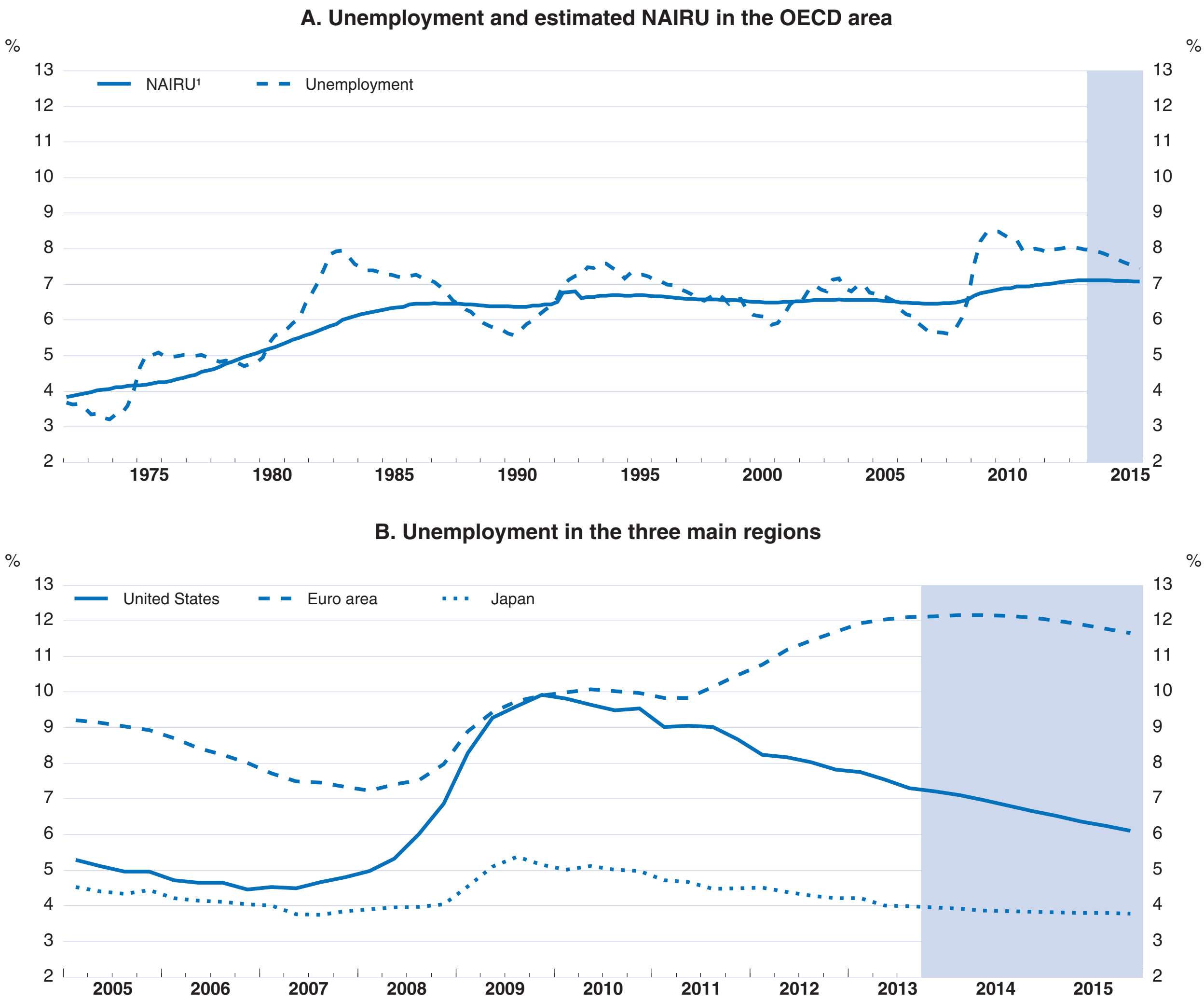
Figure 1.9. **Labour market slack is diverging and large overall**

Percentage of labour force



1. The NAIRU is based on OECD estimates.

Source: OECD Economic Outlook 94 database; and OECD calculations.

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... with only small improvements in the euro area...

- In the euro area, survey measures of hiring intentions remain soft and with output growth projected to pick up only slowly, net job growth seems likely to resume only from mid-2014, with the unemployment rate remaining above 12% until mid-2015 and falling only slowly thereafter.

... stronger outturns in Japan...

- In contrast, stronger output growth in Japan could allow the unemployment rate to remain below the long-term sustainable rate, helping wage growth to become positive during the projection period.

... and continued declines in unemployment in the United States

- In the United States, uncertainties about future labour market developments include the future behaviour of labour force participation and the likely strength of productivity growth. The present cyclical shortfall in the participation rate (estimated to be around 1 percentage point for those aged 15 and over) is expected to be largely eliminated by end-2015, with the actual participation rate stabilising close to its present level. With labour productivity growth assumed to pick up to around 1¾ per cent by 2015 from the unusually subdued rates seen recently, employment is projected to grow by around 1½ per cent per annum over the next two years. Against this background, the unemployment rate is likely to drift down gradually, falling below 6½ per cent early in 2015 and close to the current, albeit uncertain, OECD point estimate of the sustainable unemployment rate by the end of that year.

Reforms are essential to foster job growth

Against the background of only slowly strengthening demand, labour market reforms remain essential to foster employment growth and reduce the risk that persistent cyclical unemployment increasingly becomes structural. Reform efforts to improve labour utilisation by changing labour market regulations and welfare systems have recently intensified in a number of OECD economies (OECD, 2013a and Box 1.3), particularly in many euro area countries in which sizeable fiscal consolidation is being undertaken. Additional reforms are still needed to strengthen and redesign active labour market and social policies so as to cushion the near-term effects of high unemployment and improve the matching of workers and jobs, including in the United States and many EU economies, with specific priorities differing across countries. Product market reforms to relax regulatory restrictions in service sectors in which there is a strong potential for new job growth could also help improve labour market outcomes, including in Japan, Canada, Germany and France.

Global imbalances have eased since 2008 but momentum has recently stalled in...

Global imbalances declined from around 5% of global GDP in early 2008 to around 2½ per cent of GDP by end-2012,[10] but momentum has subsequently stalled, and they are expected to remain broadly unchanged over the projection period, rising in the United States and Japan but narrowing elsewhere (Table 1.4). A substantial proportion of the post-crisis narrowing – possibly up to one-half – can be accounted for by cyclical factors, such as more negative output gaps and soft housing investment in external deficit economies, and the impact of low interest rates on the investment income balances of both external credit and debtor economies (Ollivaud and Schwellnus, 2013). As such factors fade, it will be important to implement structural reforms that, in addition to their positive effects on medium-term growth prospects, help to lower saving-investment imbalances. Together with an additional adjustment

10. Global imbalances are measured as the sum of absolute current account balances in the major surplus and deficit economies.

Table 1.4. **World trade will strengthen only gradually**

Goods and services trade

	2011	2012	2013	2014	2015
	Percentage change from previous period				
World trade[1]	6.3	3.0	3.0	4.8	5.9
OECD exports	5.9	2.7	1.8	4.4	5.3
OECD imports	5.1	1.3	1.1	4.1	5.2
Trade prices[2]					
OECD exports	9.1	-3.7	0.7	2.9	1.3
OECD imports	10.7	-2.8	-0.2	3.0	1.4
Non-OECD exports	14.5	0.0	-0.7	2.6	3.1
Non-OECD imports	11.0	-0.5	-0.8	2.3	3.1
Current account balances	Per cent of GDP				
United States	-2.9	-2.7	-2.5	-2.9	-3.1
Japan	2.0	1.1	0.9	1.2	1.5
Euro area	0.7	1.9	2.6	2.6	2.7
OECD	-0.6	-0.5	-0.2	-0.2	-0.2
China	1.9	2.4	2.3	1.5	1.5
	$ billion				
OECD	-295	-228	-84	-117	-127
United States	-458	-440	-422	-501	-578
Japan	118	66	43	60	78
Euro area	88	228	326	344	378
Non-OECD	871	820	787	755	769
China	136	193	208	152	169
Major oil producers	830	846	835	862	901
Rest of the world	-95	-220	-256	-259	-301
World	575	592	703	638	643

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 94 database.

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of real exchange rates and the continued fiscal consolidation needed in external deficit economies, these can help to bring about further durable reductions in global imbalances. Amongst the major economies, key developments and policy requirements to aid rebalancing include:

... the United States...

- In the United States, the current account deficit has been broadly stable over the past year, at around 2½ per cent of GDP, with rising net exports of petroleum products, on the back of favourable domestic supply developments, offset by an increasing non-oil deficit, reflecting the relative strength of domestic demand. Whilst monetary conditions remain accommodative, strong domestic demand growth over 2014-15 is projected to push the external deficit up to a little over 3% of GDP in 2015. Reforms to reduce the generosity of the tax treatment of interest expenses and fiscal consolidation could help to increase saving, improve resource allocation and reduce both the fiscal and external deficits.

… China…

- In China, the overall current account surplus is projected to have remained broadly unchanged this year at between 2¼-2½ per cent of GDP. On the domestic side, only limited adjustment towards consumption-driven growth has taken place, with domestic investment growth having picked up once more. The relative strength of domestic demand is projected to reduce the external surplus to around 1½ per cent of GDP by 2015, despite continued gains in export market share. Further ahead, the necessary adjustment of the economy away from the high rate of investment towards a more sustainable pattern of demand will have to be accompanied by measures to reduce domestic saving in order to avoid a rebound in the external surplus. Structural reforms that improve the prospects for both internal and external rebalancing include the development of social safety nets, the removal of obstacles to the development of the services sector and additional financial liberalisation.

… and Japan

- In Japan, there are now signs of stabilisation in the current account surplus, following a declining trend brought about by rising energy imports since the earthquake in 2011. The depreciation of the yen has worsened the terms of trade, but the impact on the current account is now set to be offset by strong net export volume growth and a stabilisation of the already-strong net investment income balance. With fiscal consolidation likely to damp domestic demand through 2014 and 2015, the current account surplus is projected to pick up from around 1% of GDP this year to 1½ per cent of GDP in 2015. Yet-to-be tackled reforms to raise competition in product markets and to liberalise border measures on agricultural goods would boost medium-term growth and at the same time aid rebalancing by strengthening the incentives for private sector capital investment.

External deficits are set to fall in India and other large EMEs

- In India, South Africa and, to a lesser extent, Brazil and Indonesia, recent sizeable currency depreciations are expected to help gradually moderate external deficits as net trade volumes benefit from improved cost competitiveness. In addition to fiscal consolidation where budget deficits are high (as in India), key policy requirements are to enact structural reforms to strengthen domestic growth prospects and improve the incentives for long-term capital inflows. These include the removal of restrictions on inward FDI, and reforms to tackle bottlenecks and rigidities that constrain the growth of industrial sectors.

Intra-euro area rebalancing remains asymmetric

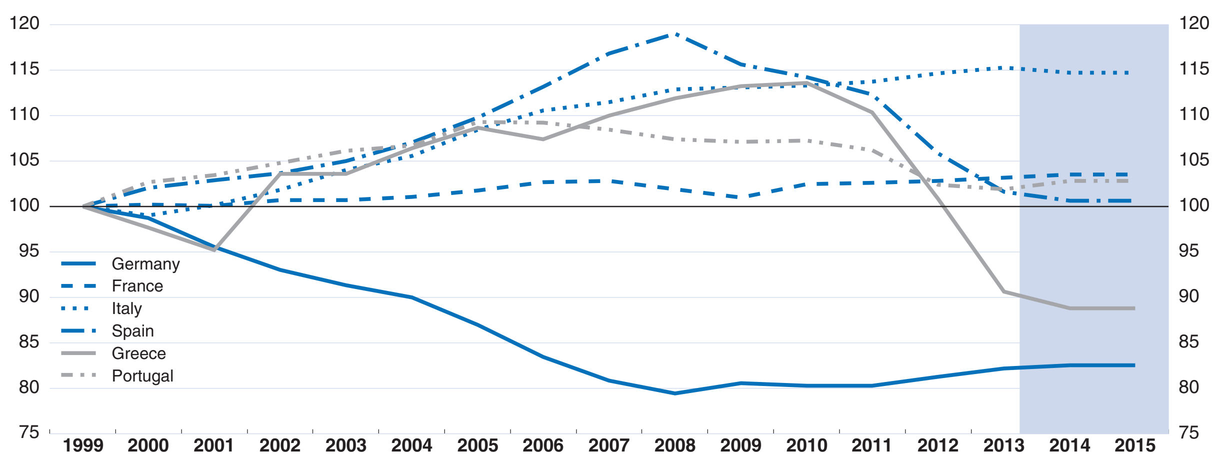
The euro area external surplus this year is projected to be around ¾ percentage point of GDP higher than in the latter half of 2012, at around 2½ per cent of GDP. An additional increase of around ¼ per cent is projected over the next two years. This reflects the continuing asymmetric nature of intra-euro area rebalancing and associated comparatively subdued growth of domestic demand.

Improvements are occurring in vulnerable economies but more reforms are needed

- Ireland, Spain, Italy, and more recently, Portugal and Greece all now have current account surpluses, which are projected to rise further over the next two years. This reflects strong structural reform efforts (Box 1.3) and wage adjustments stemming from large negative output gaps which have helped relative unit labour costs become better aligned (Figure 1.10), but further adjustment may still be needed as cyclical conditions improve.[11] Extremely weak domestic demand has contributed to the rebalancing,[12] but there have also been strong improvements in export performance observed in Spain and Portugal since 2008-09 and projected to occur in Greece over 2014-15.[13] For these improvements to be continued, further reforms in both labour and product markets to help strengthen productivity and improve price and non-price competitiveness will be necessary. Sticking to already-agreed ambitious medium-term fiscal targets in vulnerable economies will also help to ensure that the improvements in their external balances persist as the recovery gets underway.

Figure 1.10. **Relative unit labour costs are continuing to adjust in the euro area**

Index 1999 = 100



Note: The figures shown are for whole economy unit labour costs relative to unit labour costs in the rest of the euro area.
Source: OECD Economic Outlook 94 database; and OECD calculations.

StatLink http://dx.doi.org/10.1787/888932947998

11. The competitiveness adjustments in some external deficit countries may be overstated, 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.
12. Cyclical effects improved the combined current account balance in these countries by around 2% of GDP in 2012 (Ollivaud and Schwellnus, 2013).
13. One positive aspect for the vulnerable economies, highlighted in new OECD/WTO statistics on trade in value added, is that exports of services account for a higher proportion of the value-added component of exports than they do of gross exports. Thus the required structural shift of resources into tradeables in these economies does not necessarily imply a large shift into manufacturing sectors, but instead into tradable services (Benito, 2013).

Slower progress is occurring in external surplus economies and reforms are needed to boost growth and rebalancing

- In euro area surplus countries, there has been less policy adjustment to foster rebalancing, with the German external surpluses remaining at around 7% of GDP over the past year, and the external surpluses of the Netherlands and Austria rising by around 1½ percentage points of GDP this year. In Germany, rising relative unit labour costs (albeit from a low level) are now starting to check export performance improvements, but the recent pace of structural reforms has been slow. A key remaining priority is to further improve domestic investment prospects by undertaking product market reforms to enhance competitive pressures and entry into sheltered sectors such as professional services and network industries. This would help to rebalance growth in Germany and help limit the overall adjustment of euro area imbalances from being largely one-sided and disinflationary, and thereby acting to increase global imbalances.

Risks to the outlook

Sizeable downside risks still remain

Durable exit from the crisis onto a strong growth path is not yet assured and, despite some positive signs of improving growth momentum in the OECD economies, sizeable downside risks remain. Some are long-standing sources of risk that have yet to be tackled fully, such as the fragility of the euro area banking sector and the unsustainability of the Japanese fiscal situation. These have been augmented by new concerns, relating to the potential large costs of the present nominal debt ceiling in the United States becoming binding, and the possibility of financial turbulence during a gradual exit from unconventional monetary policies in the United States. The first three of these risks are discussed in this section, with the various uncertainties associated with the monetary policy exit in the United States set out in detail in the section above on spillovers and feedback effects from emerging markets and the section below on monetary policy requirements.

Fiscal risks in the United States

A binding debt ceiling would lead to a large reduction in federal government expenditure…

If the debt ceiling became binding, as it nearly did in October and could still early next year, it would have large adverse effects on the stability and growth of the world economy. The federal government would face the choice of defaulting or finding some means to muddle through whilst balancing its budget. A number of suggestions for muddling through have been made, including prioritising interest payments, with the associated risk of the federal government breaching other contractual obligations. In any event, the federal government would need to contract spending massively to balance the budget, with recent CBO projections pointing to a Federal deficit of around 3.3% of GDP in the current US fiscal year.

… and have negative effects on financial markets and confidence

A failure to raise the debt ceiling would likely be accompanied by a severe deterioration in financial conditions, with significant declines in equity prices worldwide, a higher term premium on US government debt (as occurred after the Treasury missed a debt interest payment in 1979) and, possibly, a worldwide rise in risk aversion. All of these would significantly worsen the impact of the initial fiscal consolidation, and would also imply that the consolidation would have to be even larger in order to ensure the budget was balanced.

The US economy would be pushed into a deep recession immediately with large negative spillover effects

The scenarios set out in Box 1.4 use macroeconomic model simulations to illustrate the possible economic effects from the application of the debt ceiling for one year in the United States. They assume that there is no debt default, so that the Treasury is able to prioritise debt interest payments successfully, and avoid the complications that could arise from the

Box 1.4. **Quantifying the possible macroeconomic effects of a binding US debt ceiling**

The scenarios in this box provide some illustrative indications of the possible economic effects of the application of the debt ceiling for one year in the United States and the large fiscal contraction that would be necessary to balance the budget in such circumstances. As consolidation has negative effects on activity and hence the budget deficit, the actual consolidation required has to be greater than the projected size of the budget deficit in the baseline. For simplicity, the resulting expenditure reduction is assumed to occur via a reduction in final government consumption.

Given the likely adverse impact on financial markets of the failure to raise the debt ceiling, it is likely that it would also be accompanied by a severe deterioration in financial conditions. For simulation purposes it has been assumed that the term premium on US long-term government bond yields would rise by around 200 basis points following the failure to raise the debt ceiling.[1] In addition to this, a worldwide decline of 25% in equity prices is also imposed.[2]

A broad picture of the possible near-term outcomes and effects if the debt ceiling was hit can be obtained from simulations on NiGEM, the global macroeconomic model of the National Institute of Economic and Social Research. The model permits a full account to be taken of the spillovers between countries arising from changes in trade and international financial linkages via asset prices and net foreign asset accumulation. However, it does not allow for the possible additional effects that might arise were private sector confidence to plummet throughout the world. In the simulations used here, policy interest rates and exchange rates are assumed to remain fixed at their baseline settings. The implications of relaxing these assumptions are discussed below.

The scenarios are built up in two stages. The first abstracts from financial market effects to get an idea of the size of the one-year consolidation necessary to ensure that the budget deficit declines by 3.3% of GDP. Thus, spillovers to other countries primarily stem from trade linkages. The second augments the first scenario with the additional financial market effects – the higher term premium of long-term interest rates in the United States and the global equity price decline, so that spillovers arise via both trade and financial market linkages.

The first set of simulation results (first table below) show that, abstracting from financial market effects, a one-year fiscal contraction of approximately 4% of GDP, assumed for simplicity to start in the first quarter of 2014, would be the minimum needed in the United States in order to obtain a balanced budget. The multiplier effects from this contraction, and the additional indirect effects arising from worldwide weakness, would reduce US GDP by around 4¼ per cent in the first year, pushing the US economy into outright recession. The US unemployment rate would rise by some 1½ percentage points, and disinflationary pressures would intensify, with US inflation around 1 percentage point lower than otherwise. The impact of this shock alone would be felt worldwide, with a decline of over ½ percentage point in GDP growth in the euro area, Japan and China, and world trade falling by around 3%.

Box 1.4. **Quantifying the possible macroeconomic effects of a binding US debt ceiling** *(cont.)*

US fiscal consolidation only

	2014
United States	
GDP growth (%)	-4.3
Inflation (%)	-1.0
Unemployment rate (%)	1.6
Euro area	
GDP growth (%)	-0.5
Inflation (%)	-0.2
Unemployment rate (%)	0.2
Japan	
GDP growth (%)	-0.8
Inflation (%)	-0.1
Unemployment rate (%)	0.1
China	
GDP growth (%)	-0.8
Inflation (%)	-0.3
Unemployment rate (%)	0.2
OECD	
GDP growth (%)	-1.9
Inflation (%)	-0.5
World	
GDP growth (%)	-1.3
Trade growth (%)	-3.0

Note : Government consumption reduced by 4% of GDP in 2014. Short-term interest rates and nominal exchange rates held fixed. Budget solvency rule turned off in 2014 for the United States. Model run in backward-looking mode.

Source: OECD calculations.

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The second set of simulation results, incorporating an adverse reaction in financial markets, points to significantly bleaker outcomes. In this scenario a one-year fiscal contraction of approximately 5% of GDP would be the minimum needed in the United States in order to obtain a balanced budget, reflecting the additional declines in activity brought about by the deterioration in financial conditions. A deep recession would result in the United States, with GDP contracting by around 6¾ per cent relative to baseline, the unemployment rate rising by almost 2½ percentage points and very strong disinflationary pressures (see second table below). The OECD as a whole would be in recession, with GDP declining by over 3 percentage points relative to baseline, and the euro area and Japan would both be close to or in recession.[3] Over 4½ million additional people would become unemployed in the United States, the euro area and Japan and well over 5 million in the OECD as a whole. The non-OECD economies would also suffer a sizeable hit, with global trade volumes over 5% lower than baseline, and the value of their international asset holdings being hit by weaker equity prices. If a worldwide increase in risk aversion were to occur – implying higher risk premia in all economies rather than just the United States – the adverse near-term effects on growth would be intensified significantly further.

If exchange rates were allowed to adjust in these simulations it could change the balance of the different activity effects for different economies somewhat. In particular, the US dollar exchange rate could be expected to depreciate, which would ease the adverse activity effects by raising the external competitiveness of US exporters, and also ease disinflationary pressures by raising import prices. In contrast, the adverse activity impacts and disinflationary effects would likely be higher in other economies, given the appreciation of their currencies relative to the dollar.

Box 1.4. **Quantifying the possible macroeconomic effects of a binding US debt ceiling** *(cont.)*

US fiscal consolidation financial markets shock

	2014
United States	
GDP growth (%)	-6.8
Inflation (%)	-1.5
Unemployment rate (%)	2.4
Euro area	
GDP growth (%)	-1.0
Inflation (%)	-0.3
Unemployment rate (%)	0.4
Japan	
GDP growth (%)	-1.6
Inflation (%)	-0.1
Unemployment rate (%)	0.2
China	
GDP growth (%)	-1.8
Inflation (%)	-0.4
Unemployment rate (%)	0.5
OECD	
GDP growth (%)	-3.2
Inflation (%)	-0.8
World	
GDP growth (%)	-2.3
Trade growth (%)	-5.2

Note : Government consumption reduced by 5% of GDP in 2014 with the budget solvency rule turned off in 2014. Term premium in long term interest rates up by 200 basis points in 2014 in the United States. Equity prices drop by 25% in 2014 in all countries (endogenously for the United States). Short-term interest rates and nominal exchange rates held fixed. Model run in backward-looking mode.

Source: OECD calculations.

StatLink http://dx.doi.org/10.1787/888932949176

A scenario of this kind would also be likely to induce urgent counteracting policy action, with further non-standard monetary policy actions being undertaken in the United States and elsewhere, along with reductions in policy interest rates in other economies with sufficient room to do so. Such effects are not incorporated in the simulations presented here, and their impact is uncertain, but they would likely alleviate the overall hit to activity somewhat.

1. The small technical default in 1979 is estimated to have raised interest rates on Treasury bills by around 60 basis points, with this effect persisting for some time afterwards (Zivney and Marcus, 1989).
2. The NiGEM model suggests that a one-year rise of 200 basis points on US long rates reduces US equity prices by around 25%. This effect is assumed to be mirrored in all other equity markets. In contrast, a 40% decline in global equity prices occurred between the latter half of 2007 and the first quarter of 2009.
3. The negative activity effects in the simulation for the euro area and Japan are of a similar magnitude to the baseline GDP growth projections for 2014.

variability in the timing of tax receipts and debt interest payments. Even in the absence of adverse financial effects, a contraction of at least 4% of GDP in federal spending would be required to achieve a balanced budget, once account is taken of the associated multiplier effects on activity. The US economy would be pushed into recession immediately, with large negative spillover effects on other economies and substantive disinflationary pressures. If, as most likely, the expenditure reduction was accompanied by deteriorating financial conditions, the consequences for the global economy would be much more severe, with a contraction of at least 5% of GDP in federal spending required for a balanced budget. The OECD as a whole would be in recession, with more than an additional 5 million people becoming unemployed. Urgent counteracting monetary policy actions in the United States and elsewhere could perhaps cushion the impact a little, but their impact would be uncertain.

An outright default would have extremely severe effects

Even the possibility of an outright default will unsettle financial markets worldwide, and damage confidence, with negative effects on activity. If a technical default could not be avoided, the consequences would be extremely uncertain and hard to quantify *ex ante*, but would be much more severe than shown in the scenarios set out here. It would be likely to create large confusion and uncertainty in financial markets given the importance of US government bond rates in pricing financial instruments worldwide and the widespread use of US government bonds as collateral in many financial operations, and trigger a systemic flight to liquidity that could prove as catastrophic and costly as that in the days following the Lehman failure in 2008. Given the risk of incurring such costs, and the increasing frequency at which this risk has resurfaced, there is a strong case for scrapping the nominal debt ceiling altogether, so that the borrowing implied by budgets and resolutions passed by Congress is authorised automatically. In addition, a credible medium-term strategy should also be put in place to ensure long-run fiscal sustainability.

Addressing remaining risks in the euro area

Developments in the euro area could still unsettle financial markets

Still weak bank balance sheets, unsustainable public finances and the uncertain political situation in some vulnerable euro area countries mean that financial markets could become unsettled again, even though they have remained calm recently in the face of adverse developments. Possible financing shortfalls in some programme countries may renew financial tensions and put the ECB's Outright Monetary Transactions (OMT) scheme to the test if redenomination risks were to be rekindled. Losses for official creditors and the need for additional loans could lead to resistance in creditor countries, while losses for domestic banks could undermine financial stability. Moreover, the planned comprehensive assessment of euro area banks in 2014 could unsettle confidence if it is not embarked upon with clear procedures on how to deal with identified capital shortfalls (see below).[14] The consequences of renewed financial tensions could be serious, posing downside risks to the mild recovery currently projected in the euro area.

14. The comprehensive assessment consists of three elements – a supervisory risk assessment, an asset quality review and a stress test (ECB, 2013).

Institutions still need to be completed to deal efficiently with financial and political crises

- Institutions still need to be strengthened to deal efficiently with financial and political crises. The OMT scheme has not yet been used and the associated conditionality may prevent a government from seeking or receiving assistance, especially if the government lacks a strong mandate to push through reforms or faces signs of adjustment fatigue. The Eurogroup agreement in June on the principles of bank recapitalisation via the ESM is welcome, but no direct capital injections by the ESM will be possible until late-2014 after the Single Supervisory Mechanism starts operating, most likely in November. Even then, ESM funds available for this purpose will be limited to 60 billion euros.

Private investors are likely to bear more of the costs of bank resolution in the future

- Private investors are likely to bear more of the costs of the resolution of financial institutions in the future, following the bail-in implemented in the most recent rescue package and provisions contained in the proposed bank resolution directive agreed in June. An enhanced private sector role is welcome in principle, as it should significantly reduce moral hazard, improve *ex ante* risk awareness and weaken feedback loops between banks and public finances, with the directive foreseeing a bail-in of up to 8% of total liabilities before government funding is possible. However, in the context of weak bank capitalisation, it could trigger adverse dynamics if initial signs of problems were to spark a bank run by uninsured depositors and a bond sell-off, intensifying underlying bank funding problems. This risk is particularly high for banks with insufficient capital to absorb losses.

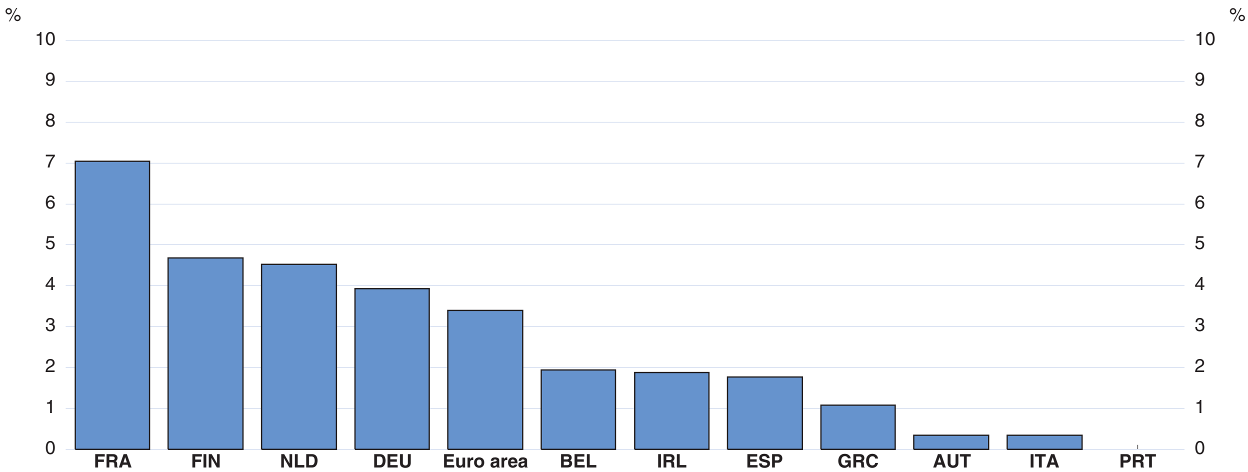
Many euro area banks remain insufficiently capitalised

- Many euro area banks are still insufficiently capitalised, making them a drag on growth and also a potential source of negative feedback loops between banks and government finances. Capital levels appear high on a risk-weighted basis, but this indicator is a poor predictor of banking problems. Capital levels relative to total assets (i.e. the leverage ratio) are still low in many banks, including in the core euro area countries. For instance, although the capital needs for individual national banks to reach a 5% leverage ratio over the medium term, which, as OECD studies indicate, would leave banks at a prudent distance from default, declined over past 12 months, they are still around 4% of GDP or more in four euro area countries and just under 3½ per cent of GDP for the euro area as a whole (Figure 1.11).[15] High and rising non-performing loans in many euro area countries, reflecting weak growth, increasing unemployment and declining property prices, add to recapitalisation challenges. A failure to clean up bank balance sheets and strengthen

15. A minimum 5% leverage has been recommended by the OECD. It is used as a benchmark for well-capitalised banks by the US Federal Deposit Insurance Corporations (a ratio of 6% has been recently proposed as a regulatory minimum for the largest financial institutions in the United States). According to an empirical analysis, an average core Tier 1 ratio of 5% or higher significantly increases the distance to default of banks compared with a core Tier 1 ratio of less than 3% (Blundell-Wignall and Atkinson, 2012; Blundell-Wignall and Roulet, 2012). It is higher than the 3% leverage ratio in Basel III scheduled to apply in 2018. For estimates done last year, see Box 1.5 in OECD (2012).

Figure 1.11. **Capital needs in euro area banks to reach a 5% leverage ratio are still large**

In per cent of GDP



Note: Based on available information at the end of September 2013.
Source: OECD calculations.

StatLink http://dx.doi.org/10.1787/888932948017

bank capital positions could lower economic growth in the medium term.

Credible steps towards banking union and greater transparency are required

These risks require further policy measures. Progress in establishing a single supervisory mechanism and in agreeing on the design of a single bank resolution regime needs to be followed by adopting an adequate joint fiscal backstop and, possibly, a joint deposit guarantee. The building blocks of a fully-fledged banking union need to be put in place as quickly as possible and the date for an effective single bank resolution regime should be brought forward from the current 2018 target. It is also important that the asset quality review and stress tests by the ECB and the EBA, planned for 2014, are viewed as fully credible, as they are essential to help restore confidence in the banking system However, the absence of a common fiscal backstop in the short term may complicate the exercise, and a clarification of how identified capital shortfalls will be addressed will be key in ensuring that credible stress tests do not come with a risk of renewed tensions.[16] To provide reliable estimates of capital needs, the asset quality review will have to be comprehensive, as planned, and properly evaluate all assets and the adequacy of loan-loss provisions. In particular, non-performing loans, which in some core euro area countries remain surprisingly low in view of recent economic weaknesses, must be identified on a consistent basis, as planned. Details of the bank stress tests have yet to be published, but confidence in the tests would be enhanced by: making the results transparent (including publishing

16. The ECB announcement of the comprehensive assessment recognised the potential need for public backstops, but stressed that capital shortfalls should be made up primarily by private investors (ECB, 2013).

exposures to sovereign bonds); using common definitions of key indicators; consistency checks; and using demanding macroeconomic assumptions. In addition, marking to market all government securities (not only these in the trading book) would be welcome.[17]

Fiscal policy risks in Japan

Japanese debt dynamics could become unsustainable

Japan faces risks of turmoil related to fiscal debt sustainability given its still formidable fiscal challenges. Even if the government's fiscal target for fiscal year 2020, recently confirmed in the new medium-term fiscal plan (see below), is met, government debt will continue to rise over next years from an already high level and the risk of a change in market sentiment will persist. A rise in the real yields of sovereign bonds would aggravate debt dynamics, potentially fuelling a spiral of adverse market reactions. To reduce such a risk, it is crucial to adopt a detailed and credible consolidation strategy for the medium and long term and to pursue structural reforms to boost economic growth and improve debt dynamics – two elements in the government's economic strategy which still need to be made more concrete.

Economic policy requirements in the major economies

Monetary policy

Monetary policy in the main OECD areas continues to be eased, in contrast to some EMEs

Monetary policy has become increasingly accommodative in the large OECD economies since early May. The US Federal Reserve is continuing to purchase $85 billion of Treasury and mortgage-backed securities per month (0.5% of annual GDP). The Bank of Japan is pursuing its new ambitious goal to double the monetary base by the end of 2014, primarily through bond purchases of increasing maturity. In November, the ECB cut the main refinancing rate to 0.25% and the marginal lending rate to 0.75%, indicated that the policy rates would remain at present or lower levels for an extended period and extended the period of full allotment of liquidity. The Bank of England issued forward guidance in August, implying that the policy rate would not be raised and the stock of purchased assets maintained at least until the unemployment rate has fallen to 7%, subject to three "knockouts" related to price and financial stability.[18] By contrast, in the largest EMEs, the monetary policy stance has been tightened since early May: policy interest rates have been raised in Brazil by 200 basis points and in Indonesia by 175 basis points, and liquidity has been tightened in China. In India, the May cut in the repo rate was more than offset by increases in September and October, while the recent exceptional tightening measures to defend the rupee were unwound partially.

17. The EBA recapitalisation exercise in December 2011 assumed that all government bond holdings were marked to market, while the EU-wide bank stress test in July 2011 applied such a treatment only to bonds held in the trading book, which is consistent with international practice.
18. The Bank of England also lowered required liquidity standards for the largest financial institutions that meet the minimum 7% capital thresholds.

Monetary policy requirements diverge across…

Increasing cross-country differences in growth and inflation prospects imply the following diverging monetary policy requirements in the major economies:

… the United States…

- In the United States, very accommodative monetary policy is warranted over the projection period in view of the moderate recovery with still important downside risks, low inflation and well anchored inflation expectations. Nevertheless, with reduced slack and the steady increase in inflation towards its target, monetary stimulus will need to be scaled back gradually to prevent the risk of de-anchoring inflation expectations or triggering asset price bubbles. Conditional on projected activity developments, it would be appropriate to wind down asset purchases in the course of 2014 and then to consider gradual increases in the target federal funds rate in 2015. Notwithstanding assumed increases in the policy rate, the rate at the end of the year would be only 1½ per cent at a time when slack in the economy has been significantly reduced and inflation has risen near to its target. While this unusually low policy rate when inflation is on target and remaining slack is modest is consistent with the Federal Reserve's dual mandate of attaining both price stability and full employment, it risks excessively boosting asset prices, unless the latter is effectively mitigated by macro-prudential instruments. After 2015, it will be necessary to increase the policy rate to avoid unsettling inflation expectations. To minimise financial market volatility, the Federal Reserve should consider signalling its tightening schedule in advance. However, the timing and speed of reductions in monetary stimulus should be adjusted if growth looks set to be significantly weaker than projected. In this uncertain context, the Federal Reserve should also carefully assess the international spillovers from its policy actions and communications and take into account their possible feedbacks on the US economy, particularly if the risks associated with negative events were to materialise and have systemic repercussions in the still fragile global economic environment (see above and Box 1.1).

… Japan…

- In Japan, the current strong quantitative and qualitative monetary easing (QQME) is appropriate as inflation is still well below its target and growth is expected to moderate due to fiscal headwinds. Recent technical amendments to QQME operations seem to have been effective in boosting bond market liquidity and reducing yield volatility.[19]

… the euro area…

- In the euro area, the current accommodative monetary policy stance is appropriate, provided disinflationary pressures do not intensify. With underlying inflation falling to very-low levels and set to be well below the ECB's medium-term objective for inflation due to extensive slack, the ECB should keep the main refinancing policy rate unchanged at

19. The amendments included increasing the number of operations from six to about ten per month, and relaxing rules on the timing of purchases.

least until end-2015. At the same time, it should provide adequate liquidity to the market so that the overnight rate remains close to the deposit rate even if some banks repay in advance funds borrowed via the Long-Term Refinancing Operations (LTRO). Institutional changes should also be considered so that additional non-conventional measures are available if disinflationary pressures were to strengthen or turn deflationary, or if substantial uncertainties were to re-emerge, and these challenges could not be addressed by existing monetary tools. Such measures could include purchases, on a non-discriminatory basis, of government and corporate bonds, and programmes to foster bank lending to the non-financial private sector.

... the United Kingdom...

- In the United Kingdom, the current expansionary stance of monetary policy still remains appropriate in view of the ample, though declining, slack in the economy and broadly stable long-term inflation expectations. However, given the projected closing of the output and unemployment gaps and inflation outcomes slightly above target, the normalisation of policy rates should start at end-2015 and interest rates will have to increase more thereafter to prevent de-anchoring inflation expectations and asset price bubbles, unless these can be contained by macro-prudential instruments.

... China...

- In China, if the projected recovery materialises, it will be important to moderate the growth of money and credit by raising the key one-year deposit rate, so that real rates come back closer to their long-term average. At present, a partial deregulation of interest rates has resulted in undue arbitrage between different markets that could undermine financial stability. Such developments suggest that bank interest rates should be further deregulated and that stability concerns should be better addressed, including by macro-prudential measures, and co-ordinated by the recently established cross-regulatory body.

... and other EMEs

- Some other EMEs face a dilemma in the setting of monetary policy due to weak activity amidst pressures on exchange rates, capital flows and domestic prices. In India, still high inflation and a sharp depreciation of the rupee, in the context of a large current account deficit and capital outflows, call for tighter monetary policy. The pace of interest rate rises should, however, take account of the risks of undermining the recovery. In Brazil, some further tightening of the monetary policy stance would also be desirable in the near term to bring down inflation closer to the mid-point of the target range, especially if downward pressures on the exchange rate intensify. Its pace and scale would need to account for the risks of weakening already subdued growth. In Indonesia, despite recent increases in policy rates, the exchange rate remains weak and inflation high. The central bank should stand ready to lift interest rates further if signs emerge that high inflation is becoming entrenched, such as further exchange rate depreciation. In Russia, current policy rates and the liquidity provision are appropriate given the projected gradual decline in inflation towards the upwardly revised 2014 target and only modest expected growth. However, the stance may need to be reassessed if stronger exchange rate depreciation were to affect materially the inflation outlook or if continued economic weakness were to lead to a more rapid decline in core inflation.

Macro-prudential measures could complement monetary policy tools

The on-going need for policy stimulus to the economy in the coming years raises concerns about the possible undesirable side-effects of low interest rates and abundant liquidity on specific markets. Macro-prudential policies provide a partial response to such concerns if employed pre-emptively. This option could be attractive for advanced OECD countries where such policy instruments have been little used so far but more active use of some macro-prudential instruments could also be advantageous in EMEs (see Box 1.5 in OECD, 2013b). Empirical evidence suggests that macro-prudential policies can be effective, but there are limits to their effectiveness and their implementation can be challenging.[20] Thus, they should not be relied on exclusively and should not substitute for eventual interest rate normalisation.

Normalisation of monetary policy will be challenging…

Highly expansionary monetary policies in the main OECD areas over the past five years have helped stabilise the economy but also increased the prices of many assets to very high levels and encouraged risk taking. Unwinding these policies is necessary in due course but the process risks triggering disorderly asset price corrections and financial instability. Developments since May are a salient reminder of such possible outcomes. Further turmoil and contagion cannot be excluded, especially when asset purchases eventually start to be wound down and interest rates increased. Their consequences are difficult to predict, reflecting the scale of current stimulus, the likely unsynchronised exit in the main OECD economies and large uncertainties about prevailing vulnerabilities in the financial sector. Such developments could prove destabilising, including through negative effects on banks, in particular in Japan (Box 1.5), and on EMEs (see above).

… requiring judicious communication

Recent developments have revealed the limits in the extent to which central banks can control market expectations, including via forward guidance. In principle, forward guidance can help to clarify the reaction function of a central bank and reduce uncertainty about the future path of monetary policy. However, if markets interpret guidance as commitment, they may react strongly when central banks have to use discretion in

20. The potential challenges involve: deciding on the right timing to introduce a given measure; calibration of various instruments so as to take into account their expected costs and benefits as well as interactions with other measures and policies; and redistribution effects across interest groups. These challenges imply that the responsibility for macro-prudential policies should preferably lie with a single institution having control over suitable tools. If this is not the central bank, then these policies should be closely co-ordinated with the monetary authorities.

Box 1.5. **The impact of government bond yield increases on banks**

Until the recent sell-off, government bond yields in many OECD countries had been at historical lows for over two years. Since then, yields have risen significantly in some countries, and they may eventually increase further with the expected normalisation of monetary policy and dissipation of safe haven effects. Future changes may be quite abrupt given the nature of swings in investors' sentiment, as experienced for instance in 1994 or more recently. Against this backdrop, this box provides an illustrative analysis of the consequences of rising government bond yields for banks in selected OECD countries.

A rise in government bond yields has *a priori* ambiguous effects on commercial bank balance sheets. On the negative side, falling bond prices would inflict losses if bonds are sold or lead to an accumulation of unrealised losses which could flow through to capital.[1] Net interest income may also deteriorate initially if returns on assets are fixed for longer than interest paid on liabilities, implying a slow adjustment of long-term bond portfolios, and thus affect capital via potentially lower retained earnings.[2] In addition, if the interest rate increases are driven by negative shocks, such as higher uncertainty about monetary and fiscal policies, the inflation outlook or spillovers from abroad, banks could be negatively affected by falling equity prices and business activity.[3] In contrast, if the interest rate increases reflect improvements in economic prospects, banks could benefit from higher stock prices and more business activity. Thus, to fully analyse the impact of higher bond yields on banks it is necessary to account for the size, structure and maturity of total bank balance sheets and the extent of hedging in a specific macroeconomic scenario. This box, however, reports a limited and illustrative analysis by looking only at the direct impact of a fall in government bond prices.

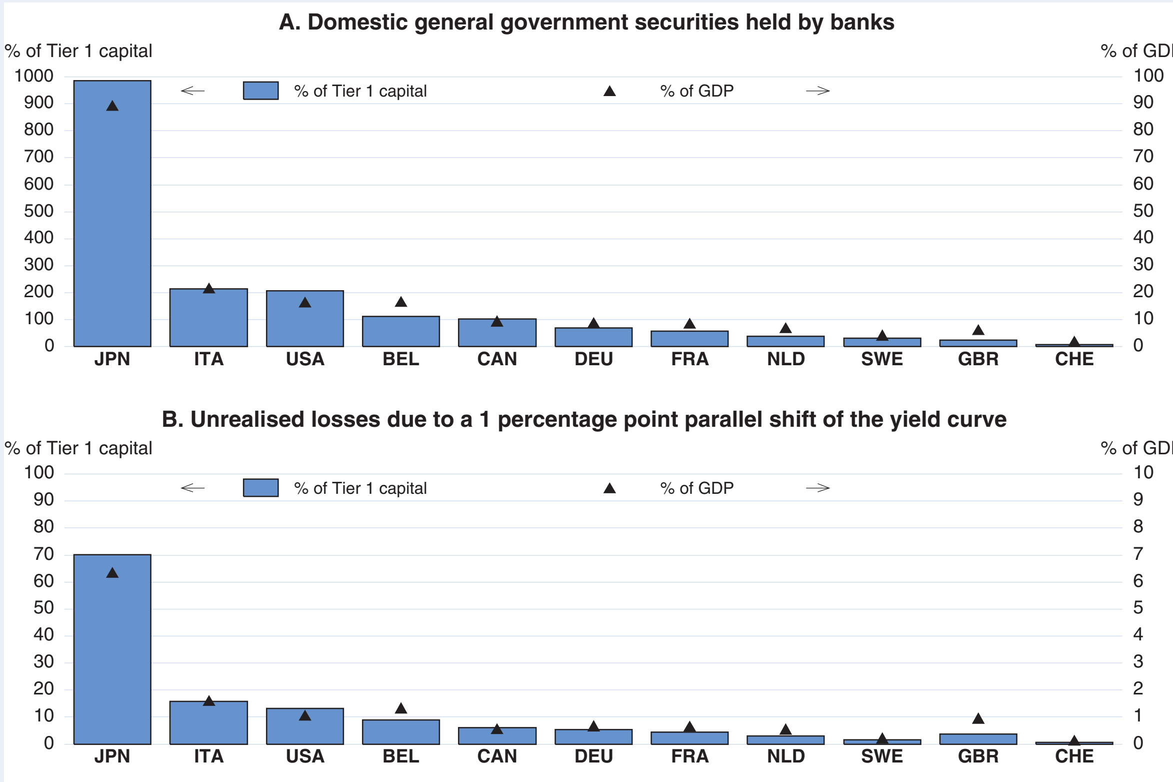
Unrealised losses of banks due to an increase in government bond yields will increase with the amount of bonds held in the trading book and their maturity. To illustrate the potential scope for such losses, stylised calculations for aggregated banking systems in selected OECD countries are made. They use data on the total banking sector holdings of domestic general government securities, which vary significantly across the analysed countries and are particularly high in Japan – almost 1000% of Tier 1 capital (see figure below). It is assumed that all these bonds are in the trading book – and therefore marked to market – and that the maturity structure is the same as that of outstanding central government debt, and that bond yields increase by 1 percentage point across the yield curve. In practice, not all bonds would be marked to market and banks could keep bonds with shorter maturities, but loss estimates based on these assumptions give an upper limit and can be a useful benchmark. Assuming a smaller share of bonds in the trading account and lower average maturity would result in proportionally smaller losses. Similarly, losses would be smaller if the yield curve steepened with the increase in bond yields at the longer end limited to 1 percentage point. Steepening of the yield curve is likely when central banks start to reduce the scale of their asset purchase programmes.

The results suggest that, for most of the countries covered, the capital losses due to a 1-percentage point parallel upward shift of the yield curve are small (see figure below). Japan appears a notable exception, with Japanese banks incurring losses corresponding to 70% of Tier 1 capital, but this is likely to be an overestimation given the simplifying assumptions. For example, the Bank of Japan (2013) estimates – based on disaggregated data – that with the same shock, Japanese banks would incur unrealised losses of 6 trillion yen, i.e. only one-fifth of the above estimate.[4] This may be partly due to the fact that the average maturity of bonds held by large and regional banks in Japan are around 2.5 and 4 years, respectively, while the average maturity of the Japanese central government's outstanding ordinary bonds is 7.3 years,[5] and that not all bond holdings are marked to market.

However, banks could be hit harder if increases in bond yields are larger and take place in the context of subdued economic growth and declines in corporate bond prices. In addition, it cannot be excluded that some individual banks could be severely affected, given the heterogeneity in exposure to sovereign bonds among banks.

Box 1.5. **The impact of government bond yield increases on banks** *(cont.)*

The impact of government bond yield increases on banks' balance sheets



Note: The lower figure is based on stylised calculations assuming that all government bonds are marked to market and that the maturity structure of banks' bond holdings is identical to that of outstanding central government debt. As discussed in the text, banks in Japan hold government bonds with a shorter maturity than the average for outstanding bonds, which significantly reduces the impact of interest rate increases.

Source: Bank of Canada; Bank of Japan; Bloomberg; European Central Bank; Federal Reserve Board; IMF; Swiss National Bank; and OECD calculations.

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1. Bonds classified as ready for sale are subject to mark-to-market accounting. Thus, bond yield increases generate unrealised losses, which under the Basel III regulation lower common equity Tier 1 capital. Not all banks are currently subject to this accounting requirement. Bonds held to maturity (recorded in the banking book) are not marked to market.
2. The implications may vary, however, with the pass-through of market interest rates to interest earned on assets and to the cost of funding and with the structure of assets and liabilities. For instance, if deposits, which are often less responsive to changes in market interest rates, are the primary source of bank funding and most assets are at floating interest rates, then net interest income could improve with rising interest rates.
3. The impact on banks' balance sheets will be affected by the degree of their off-balance sheet activities to hedge, or also to take, interest rate risk via derivatives, including with counterparties outside the banking sector.
4. Even with a parallel upward shift of the yield curve by 3 percentage points, unrealised losses would be 15.3 trillion yen, i.e. around 35% of Tier I capital of large and regional banks.
5. Assuming the average maturity of bonds to be 4 years, unrealised losses in the stylised calculations would almost halve.

pursuing their mandate. This may complicate the eventual exit from the ultra-accommodative monetary policy stance. If the monetary authorities are worried about sharp market reactions to the scaling down of support, they may be inclined to delay the normalisation of monetary policy, even if tighter policy would be appropriate for stabilisation purposes and in line with previous conditional announcements. This would come at the cost of higher inflation of goods, services and assets prices, and necessitate a subsequent more rapid increase in policy interest rates.

Fiscal policy

The overall pace of fiscal consolidation is slowing gradually

The overall pace of fiscal consolidation in the OECD is slowing gradually. After consolidation of a little over 1% of GDP in 2013, the area-wide OECD underlying primary deficit is expected to fall by a bit more than ¾ per cent of GDP in both 2014 and 2015 (Table 1.5). The rise in public indebtedness that had accelerated with the financial and economic crisis will come to a stop by the end of the projection period. On current plans, by end-2014, fiscal positions in a large group of OECD countries will have improved to such an extent that an additional tightening of only 1% of GDP or less will be needed to reduce public debt to 60% of GDP by 2030, though much bigger consolidation will be required in some of the larger countries and some euro area programme countries (OECD, 2013b).

Table 1.5. **Fiscal positions will continue to improve**

Per cent of GDP / Potential GDP

	2011	2012	2013	2014	2015
United States					
Actual balance	-10.7	-9.3	-6.5	-5.8	-4.6
Underlying balance	-9.0	-8.1	-5.5	-5.0	-4.1
Underlying primary balance	-6.0	-5.1	-3.1	-2.1	-1.1
Gross financial liabilities	98.8	102.1	104.1	106.3	106.5
Euro area					
Actual balance	-4.1	-3.7	-2.9	-2.5	-1.8
Underlying balance	-3.5	-2.1	-1.1	-0.6	-0.1
Underlying primary balance	-0.9	0.4	1.4	1.9	2.4
Gross financial liabilities	95.8	104.3	106.4	107.1	106.8
Japan					
Actual balance	-8.9	-9.5	-10.0	-8.5	-6.8
Underlying balance	-7.8	-8.6	-9.4	-8.2	-6.5
Underlying primary balance	-7.0	-7.8	-8.4	-6.8	-4.7
Gross financial liabilities	210.6	218.8	227.2	231.9	235.4
OECD[1]					
Actual balance[1]	-6.6	-5.9	-4.8	-4.0	-3.2
Underlying balance[2]	-6.0	-5.3	-4.0	-3.5	-2.7
Underlying primary balance[2]	-3.8	-3.1	-2.1	-1.3	-0.5
Gross financial liabilities[2]	102.5	107.4	110.3	111.8	112.0

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 94 database.

StatLink http://dx.doi.org/10.1787/888932949138

In the United States, fiscal consolidation should be at a moderate pace

In the United States, a substantial turnaround in the short-run budget situation has occurred, attributable to higher taxes on the wealthy and on payrolls enacted in January, sweeping spending cuts, dividends from the public housing finance corporations and the steady, though still moderate, economic recovery delivering more revenue to the government. The long-run budget situation has also improved, largely on account of health spending rising more slowly than previously expected, but it remains of concern. The gridlocked political situation has been unable to deliver reforms that would adequately cut the long-term cost of big social safety net programmes such as Medicare and Social Security, as well as secure the additional revenues that a long-term fiscal solution should include. Indeed, the improvement in the budget position may have reduced the immediate pressure to tackle the solvency of entitlement programmes. The projections assume that the 2014 draft budget is implemented. With spending sequestration biting in full, as well as some tax increases, fiscal tightening is estimated at around 1% of GDP in both 2014 and 2015. This slowdown in the pace of fiscal tightening – from an estimated 2% of GDP in 2013[21] – is appropriate. A medium-term roadmap is needed to restore long-run fiscal sustainability and give policy makers greater flexibility in adjusting near-term consolidation (notably that due to sequestration) to better suit the needs of the economy without risking adverse consequences in financial markets. Consideration should also be given to legal reforms that would reduce the occurrence of brinkmanship over government borrowing, preferably by dropping the nominal debt ceiling entirely.

Japan is embarking on a rapid fiscal consolidation path next year

In Japan, the underlying primary deficit will fall by about 1½ per cent in 2014 and 2% of GDP in 2015, but public debt remains on an unsustainable path. Hence, the announced increase in the consumption tax rate to 8% in April 2014 is just the first step toward achieving fiscal sustainability and should be followed by the second increase, to 10%, in 2015. A fiscal package, expected to amount to around 1% of GDP, will accompany the 2014 tax change to offset its immediate negative impact on activity. Around one-third of this will comprise tax cuts and the rest additional spending. The government plans to finance the package without new bond issuance. To bring maximum benefits, the stimulus package should be focused on one-time measures with high fiscal multiplier effects, while avoiding permanent measures that would limit progress on fiscal consolidation. In addition to the fiscal package, Japan will cut taxes by 1 trillion yen. The government approved a new medium-term fiscal plan in August, which confirmed that it aims to halve the primary budget deficit (relative to GDP) of central and local governments from an estimated 6.6% in FY 2010 to 3.3% in FY 2015 and achieve balance by FY 2020, and thereafter steadily reduce the public debt ratio. With some 3½ percentage points of GDP in consolidation over the next two years, the 2015 objective can be met only if fiscal tightening has a small adverse effect on activity. This is far from granted given the large estimated fiscal multipliers for permanent consolidation measures in Japan (Barrell et

21. This estimate is not adjusted for the impact of the shifting of income into 2012 in anticipation of tax rate changes that occurred at the beginning of 2013. This may have increased government revenue in 2013 (when the taxes due were paid), as well as the change in the underlying primary balance used to assess fiscal tightening, by approximately 0.4% of GDP.

al., 2012). A more detailed roadmap is essential to underpin the credibility of the plan to achieve the 2020 objective and sustain confidence in Japan's public finances. Such a roadmap should include social security reforms to limit spending increases, particularly in the areas of health and long-term care, as well as revenue increases.

In the euro area, the pace of fiscal consolidation will slow markedly

In the euro area, after structural fiscal consolidation of 1% of GDP in 2013, the pace of fiscal tightening is set to slow. With a neutral fiscal stance in Germany, and with Italy, France and Spain all planning to slow the pace of efforts in 2014 and 2015 relative to this year, area-wide consolidation is expected to amount to ½ percentage point of GDP in 2014 and the same in 2015. Greece and Portugal and Ireland are likewise projected to gradually relax their budget consolidation efforts. Given the progress already made and the still-weak economy, a slowdown in the pace of fiscal adjustment is appropriate. The automatic stabilisers should be allowed to operate fully around the slower structural consolidation paths, but euro area governments should also avoid relaxing fiscal adjustment efforts relative to the structural commitments they have made if there are positive growth surprises or reduced financial market pressure. These commitments and the various EU fiscal rules will require sustained consolidation efforts even beyond the projection horizon in many euro area countries (Box 1.6). Further debt relief may also need to be considered where public debt proves to be on an unsustainable path.

Box 1.6. **Fiscal consolidation needed after 2015 under the EU fiscal rules**

Despite considerable progress on needed fiscal consolidation over the past few years in EU countries, and additional fiscal tightening over 2014 and 2015 of around 1% of GDP in the euro area, the existing set of EU fiscal rules will require additional budgetary efforts beyond the short-term projection horizon that ends in 2015. This box updates estimates, first presented in the May 2012 *OECD Economic Outlook* and detailed in Barnes et al. (2012), of the amount of fiscal consolidation that EU fiscal rules introduced by recent reforms strengthening the Stability and Growth Pact (the "six-pack" and the "two pack") and the Treaty on Stability Coordination and Governance (the "fiscal compact") imply beyond 2015. The update uses the current set of short-term projections which are then extended into the medium-term following the usual methodology for long-term scenarios presented in Johansson et al. (2013).[1] For the short-term projection horizon up to 2015, fiscal projections are based on current budget and medium-term plans (see Box 1.2). Beyond 2015, the required amount of fiscal consolidation is computed for various fiscal rules. The most restrictive rule (i.e., the one requiring the largest fiscal consolidation) is considered to be binding in that year and the overall amount of fiscal consolidation required over the medium term is then computed from the resulting "most restrictive" path. After 2015, a country's short term interest rate is assumed to continue normalising towards a neutral rate that depends on the country's or area's potential growth rate and inflation target, as well as the country's external debt and fiscal positions.

1. See also Box 4.1 of OECD (2013).

Box 1.6. **Fiscal consolidation needed after 2015 under the EU fiscal rules** *(cont.)*

Three fiscal rules are considered for the period 2016 to 2023:

- *The Excessive Deficit Procedure (EDP)*. It stipulates that the headline deficit should be reduced to below 3% of GDP. Because the exact amount of fiscal consolidation under the EDP is not specified, it is assumed that if the deficit is above the 3% threshold, the structural budget balance in the following year is reduced by ½ per cent of potential GDP.
- *The debt convergence rule*. It requires a debt-to-GDP ratio (Maastricht definition) exceeding 60% of GDP to be reduced over three years at an average rate of 1/20th of the excess over 60% of GDP. The required debt reduction is calculated using the European Commission guidelines. For countries that are currently in the EDP, the rule will start applying after a transition period of three years after closure of the EDP. During this transition period, the debt ratio has to decline at a sufficient pace, approximated here by a constant adjustment of the underlying balance with maximum structural adjustment of ¾ per cent of GDP per year, over the three years.
- *The Medium-term Objective (MTO)* for the structural balance agreed for each country in the context of the Stability and Convergence Programme (SCP). Unless the MTO is already met, countries are assumed to move towards it by consolidating at the annual rate of ½ per cent of potential GDP. MTOs are set at levels agreed in 2013 the SCPs and they are assumed not to vary over the simulation period.

Some important caveats apply and the simulation results should only be treated as indicative. The simulation assumes that countries follow the rules exactly. This may be too mechanistic an assumption given the past experience of over- or under-performance. The results are also sensitive to the interest rate and GDP growth projections and to the assumption that these are independent of fiscal policy. It is assumed that the MTOs remain unchanged throughout the simulation, but they could be revised and imply faster fiscal consolidation. Finally, due to differences in output gap estimates, automatic stabilisers and one-offs, the assessment of structural balances may differ from the official EU estimates.

Keeping these caveats in mind, the following conclusions can be drawn as to which of the EU fiscal rules are likely to be binding in OECD-EU countries[2] (see Table):

- Current EDP procedures are projected to be closed on time with the exception of Ireland, Spain and Portugal where deadlines for EDP correction will likely have to be extended by one year, and Poland, where it will likely have to be extended by a few years, the large 2014 fiscal surplus related to a one-off transfer of pension assets notwithstanding.
- In France, Greece, the Netherlands, Portugal and Slovenia, the debt rule, or its transition version, is expected to be binding after EDP procedures are closed, but in some cases (the Netherlands, France and Slovenia) only over a short period due to the fact that the structural balances consistent with these rules are very close to those implied by the countries' MTOs.
- The debt rule is also binding in Italy before the MTO is reached in 2018. Despite a high debt level, the primary balance is projected to reach 3½ per cent of GDP in 2015, sufficient to put the debt ratio on a fairly steep downward trajectory.
- In Finland, between 2018 and 2023, maintaining the structural balance as required by the MTO rule results in breaching the 60% gross debt ceiling and activation of the debt rule.

One way to assess the fiscal effort that EU fiscal rules will demand is to look the amount of fiscal consolidation necessary to meet them. In 11 out of the 20 OECD economies covered by EU fiscal rules, the required improvement in the underlying primary balance between 2014 and 2023 is less than 1% of potential GDP, with some even afforded a slight fiscal loosening. For the euro zone countries, the aggregate required improvement is 0.7% of potential GDP. However, Spain, Portugal, Ireland and Greece would have to strengthen their underlying fiscal position by up to 4% of GDP (see Figure, panel A).

2. By virtue of Protocol 15 on certain provisions relating to the United Kingdom annexed to the Treaty on the Functioning of the European Union (TFEU), numerical fiscal rules and the EDP reference values on the deficit and the debt do not apply to the United Kingdom.

Box 1.6. **Fiscal consolidation needed after 2015 under the EU fiscal rules** *(cont.)*

Binding fiscal rules over the medium term

	Current deadline for EDP correction	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Austria	2013	..	..	..	..	..	debt	=	=	=	=	=	=	=
Belgium	2013	3%	3%	..	..	..	=	=	=	=	=	=	=	=
Estonia	..	..	..	..	..	..	=	=	=	=	=	=	=	=
Finland	..	..	..	..	..	..	debt	=	debt	debt	debt	debt	debt	debt
France	2015	3%	3%	3%	3%	..	trans.	=	=	=	=	=	=	=
Germany	..	..	..	..	..	..	=	=	=	=	=	=	=	=
Greece	2016	3%	3%	..	..	..	trans.	debt	debt	=	=	=	=	=
Ireland	2015	3%	3%	3%	3%	3%	3%	=	=	=	=	=	=	=
Italy	..	3%	..	..	..	..	debt	debt	=	=	=	=	=	=
Luxembourg	..	..	..	..	..	..	=	=	=	=	=	=	=	=
Netherlands	2014	3%	3%	3%	3%	..	trans.	trans.	=	=	=	=	=	=
Portugal	2015	3%	3%	3%	3%	3%	3%	trans.	trans.	trans.	debt	debt	=	=
Slovak Rep.	2013	3%	3%	..	..	..	->MTO	->MTO	=	=	=	=	=	=
Slovenia	2015	3%	3%	3%	3%	..	trans.	trans.	=	=	=	=	=	=
Spain	2016	3%	3%	3%	3%	3%	3%	3%	=	=	=	=	=	=
Czech Rep.	2013	3%	3%	..	..	..	->MTO	->MTO	=	=	=	=	=	=
Denmark	2013	..	3%	..	..	..	->MTO	=	=	=	=	=	=	=
Hungary	..	..	..	..	..	..	debt	=	=	=	=	=	=	=
Poland	2014	3%	3%	3%	3%	3%	3%	debt	=	=	=	=	=	=
Sweden	..	..	..	..	..	..	=	=	=	=	=	=	=	=

Notes: "3%" is the 3% defiict ceiling rule under the current EDP; "trans." is the transition rule; "debt" is the debt convergence rule; "->MTO" stands for the transition to MTO; "=" denotes that the MTO is reached and maintained. Calculations start in 2016, following the end of the short-term projection horizon.

Source: OECD calculations.

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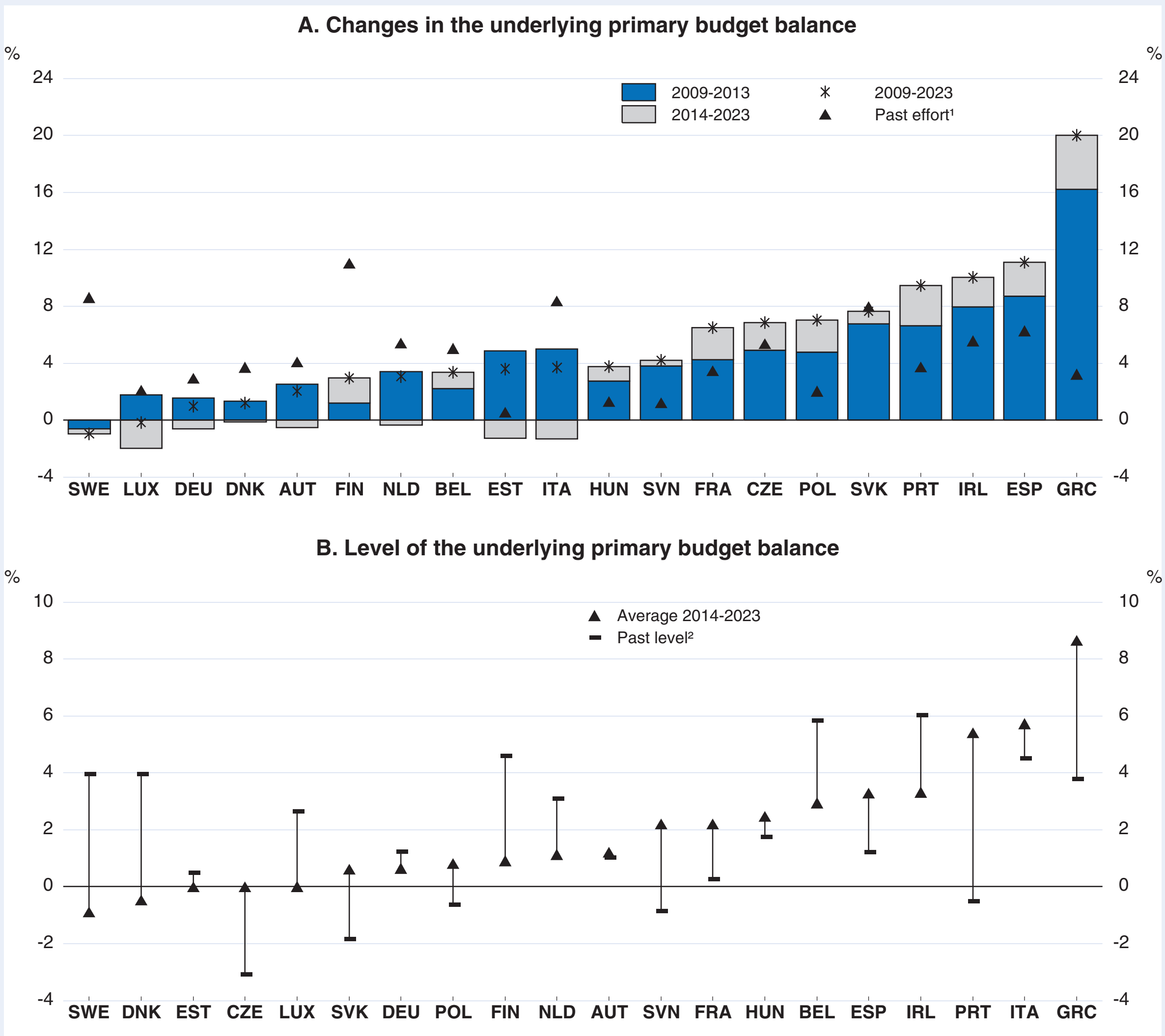
Although the medium-term fiscal headwinds post-2013 appear moderate, mainly a result of the very large fiscal consolidation effort already accomplished, the difficulties of maintaining high structural primary balances over an extended period should not be under-estimated. In Greece, Portugal and Italy for instance, partly because of high debt levels, the fiscal rules imply maintaining an average underlying primary surplus of more than 5% of GDP between 2014 and 2023. Ireland, Spain, Belgium, Hungary, Slovenia and France could all need to have an average underlying primary surplus of 2% of GDP or more during this period. Except for Belgium and Ireland, the other countries have never had such high underlying primary surpluses in any 5-year period between 1987 and 2009 (see Figure, panel B). The difference between the highest underlying primary balance sustained in the recent past and that required by the EU fiscal rules is also large in the Czech Republic.

Box 1.6. **Fiscal consolidation needed after 2015 under the EU fiscal rules** *(cont.)*

Fiscal policy stance under the EU fiscal rules

In per cent of potential GDP



1. Past effort refers to biggest consolidation between 1987 and 2009 (depending on data availability).
2. Past level refers to the country-specific 5-year period between 1987 and 2009 (again, depending on data availability) with the highest level of underlying budget balances.

Source: OECD EO94 database; and OECD calculations.

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The United Kingdom must continue on the path of deficit reduction

The United Kingdom is planning about 1¾ per cent of GDP in structural budget consolidation over the next two years, which is appropriate given the still-large fiscal deficit (nearly 7% of GDP in 2013) and the need to retain market confidence. The announced reprioritisation of spending towards public investment is also welcome, as cuts in infrastructure and other public capital spending can weaken longer-term growth prospects. The recently established government "Help to Buy" property programme needs to be carefully monitored, as planned, and swiftly adjusted if it risks triggering sharp increases in house prices as a result of supply rigidities.

China may have exhausted room for significant fiscal stimulus

In China, after the economy slowed markedly at the turn of the year, the government shifted its focus to supporting activity to meet its 7.5% growth objective for this year. In July, the State Council announced a small fiscal stimulus package,[22] which is consistent with the stated objective of developing the role of the market and improving the supply side of the economy. The combined deficit of the national government and social security is set to narrow somewhat from 0.9% to about 0.6% of GDP in 2014, though it would be higher if it included local governments and, as in the case of public-sector liabilities, much higher if it included various off-budget vehicles. Taking into account various off-budget forms of debt, the latest *OECD Economic Survey of China* (OECD, 2013c) placed total public debt at 57% of GDP at the end of 2010, still relatively low, but the concern is less about the level than the recent rate of increase. A broad accounting of the public sector's fiscal position thus suggests that much of the scope for countercyclical fiscal policy may have been used already. It also raises concerns in view of the potential fiscal cost of any eventual credit crisis. The government's fiscal position, as well as its ability to boost social spending and hence consumption, could be strengthened by not allowing funds from profitable state-owned enterprises to subsidise loss-making companies but instead transferring increased dividends to the general budget.

Fiscal policy in other EMEs must contend with portfolio capital outflows

Fiscal policy requirements differ across other EMEs. The appropriate fiscal policy response in countries faced with portfolio capital outflows depends on policy credibility and initial fiscal positions, which vary across economies:

India needs more progress on budgetary consolidation…

- India's central government has a fiscal consolidation roadmap but the economic slowdown, the higher cost of oil subsidies following the rupee depreciation and newly adopted costly measures mean that progress recently has been limited. Given the large fiscal deficit (about 7% of GDP this year for general government), and the need to strengthen confidence in economic management in view of the sharp depreciation

22. The measures suspend taxes on small businesses, reduce fees and administrative burdens for exporters, and promote new funding sources for railway construction. The announcement did not stipulate the additional amounts to be spent.

of the currency, more rapid progress on the fiscal consolidation roadmap may be necessary, even as monetary policy is also tightened.

… Brazil should scale back fiscal stimulus…

- With economic activity in Brazil unexpectedly weak, fiscal policy has been providing support via automatic stabilisers and also discretionary measures, including tax exemptions and credit provision by public-sector banks. Moreover, the use of substantial quasi-fiscal operations suggests that the actual fiscal stance may be looser than suggested by the primary surplus alone. The stimulus measures should be scaled back as the economy recovers and the clarity of fiscal accounts should be preserved by avoiding exemptions from the primary surplus definition and quasi-fiscal operations involving public enterprises.

… and Russia does not need further fiscal stimulus

- In Russia, the government approved a stimulus package in July, using money from the National Welfare Fund (now worth 4.3% of GDP) for investment in infrastructure projects and support to bank lending programmes for small businesses. No additional stimulus is warranted. Rather, fiscal policy should be tightened gradually in line with the fiscal rule, while the prioritisation and the efficiency of public spending should be improved.

The policy mix in Indonesia leaves the fiscal stance mildly expansionary

- In Indonesia, savings from the reduction in government fuel subsidies are being offset by the compensation package to low-income earners and recent stimulus measures, leaving the fiscal policy stance mildly expansionary at present. Despite low and sustainable public debt, further loosening next year is not warranted, given high inflation and the sizeable external deficit.

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ANNEX 1.1

Indicators of potential financial vulnerabilities

The following table and set of diamond charts show the position of OECD and non-OECD countries on a number of indicators that could reveal potential exposure to financial turbulence. The main focus of the table is on domestic vulnerabilities of OECD and BRIICS countries, that of the diamonds on financial account vulnerabilities of OECD and non-OECD G20 countries.

The **table** presents indicators typically associated with financial vulnerabilities (*e.g.* International Monetary Fund, 2012; European Commission, 2012) arising primarily from the domestic economy in four broad categories: the real economy, the non-financial sector, the financial sector and the public finances. Possible weaknesses to the real economy are captured by the difference between the potential and the actual GDP growth rate, the difference between the actual unemployment rate and the natural rate of unemployment (or NAIRU), the current account deficit and the evolution of relative unit labour costs. Indicators of financial market excesses related to the non-financial sector are household debt, non-financial corporations' debt and house price growth. Non-performing loans, financial corporations' debt and core Tier-1 capital additions required to reach 5% (without any normative implications) of total assets in each of the country's selected banks are included to account for the direct risk exposure of the financial sector. The calculations of the core Tier-1 capital additions are based on over 1200 commercial banks, including 915 in the United States, 197 in the OECD euro area countries, 23 in the United Kingdom, 11 in Canada and 7 in Japan. Vulnerabilities stemming from the public sector are quantified along three dimensions: government net borrowing, gross government debt and the difference between 10-year sovereign bond yields in real terms and the potential GDP growth rate.

The four OECD countries with the weakest scores are labelled in dark grey, the four OECD countries with the next weakest scores in light grey. Higher values generally indicate a larger vulnerability. The table also includes the current sovereign credit ratings issued by Standards and Poor's.

The **diamond charts** (an updated version of Ahrend and Valdivia, 2012) display financial-accounts-related risk factors to financial stability based on previous OECD empirical analysis (Ahrend and Goujard, 2012a, 2012b) covering OECD and emerging market economies over the past three decades. This shows that a bias in gross external liabilities towards debt, in particular bank debt, substantially increases the risk of financial crises (bank debt being defined as debt to a foreign bank). In contrast, a larger share of FDI in gross external liabilities decreases such risk. Shorter banking debt maturities have also been found to increase crisis risk, mainly by increasing exposure to financial contagion. The size of reserve holdings appears to reduce the probability of crises, whereas neither external assets (excluding reserves) nor liabilities as a share of GDP are found to influence crisis risk, except when they are exceptionally large.

The diamonds show: *i)* the position of each country in the first quarter of 2013 (or the latest available) along various dimensions of its financial account structure relative to the OECD median, and *ii)* the country-specific change, from 2007 to the beginning of 2013, on each dimension relative to the 2007 OECD median (for simplicity and without any normative implications). Indicators are measured in multiples of the standard deviation across countries for the variable in question. Larger values indicate a financial account structure that presents a larger risk to financial stability compared with the OECD median.

The main highlights emerging from the analysis include:

- Countries with a large financial sector – as, for example, proxied by the size of financial corporations' gross debt relative to GDP in the table – tend to exhibit the largest financial-accounts-related risk factors to financial stability (in the diamonds). These include Denmark, Luxembourg, the Netherlands, Switzerland and the United Kingdom.
- The euro area programme countries tend to perform weakly across a broad range of indicators in both the table and the diamonds. Based on the table (which mainly focuses on domestic indicators), the least vulnerable OECD countries include Austria, Estonia, Finland, Germany, Israel and the Slovak Republic.
- According to the table, countries which are generally perceived as vulnerable score weakly on some indicators, *e.g.* Italy (low growth, non-performing loans, public debt, bond yields), Slovenia (low growth, non-performing loans, bond yields), Spain (high unemployment, government net borrowing, bond yields). Although Italy, Slovenia and Spain do not stand out particularly in the diamonds, their external liabilities exhibit a systematic debt bias (above the OECD median).
- There are indications that some OECD countries (Australia, Canada, New Zealand, Norway and Sweden) which have suffered relatively little from the global financial and euro area crises are exposed to vulnerabilities stemming from the non-financial sector (most or all from household debt, house prices and relative unit labour costs). On the other hand, their financial sector does not appear to exhibit significant external vulnerability, as evidenced by the diamonds.
- Overall, the diamonds suggest only modest increases in external financial stability risks for non-OECD G20 countries since 2007. The general exception to this pattern is a relatively short maturity of their external bank debt which has become more pronounced since 2007, possibly related to increased inflows of foreign capital, raising the risk of rapid outflows.

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Table A1a. **Indicators of potential financial vulnerabilities**

	Real economy				Non-financial sector		
	Potential GDP growth rate-actual GDP growth rate differential	Actual unemployment rate-NAIRU differential	Current account deficit[1]	Relative unit labour cost	Household gross debt[2,3]	Non-financial corporation gross debt[1,3]	Real house prices
	2012	2013 Q2 [5]	2012	% change 2000Q1-13Q2	2012 [6]	2012 [6]	% change 2000Q1-13Q2
United States	-0.8	1.4	2.7	-25.9	111.0	106.6	11.9
Japan	-1.2	-0.3	-1.1	-46.2	134.6	164.7	-30.2
Germany	0.3	-1.1	-7.1	-14.6	93.2	72.7	-5.1
France	1.2	1.3	2.2	5.2	107.8	106.2	76.5
Italy	2.2	2.6	0.6	14.2	81.6	94.5	19.5
United Kingdom	0.8	0.9	3.8	-20.4	151.5	91.5	57.2
Canada	0.2	-0.1	3.4	48.0	168.8	140.4	86.5
Australia	-0.6	0.4	3.7	54.1	184.9	77.5	79.4
Austria	1.1	0.4	-1.6	-1.9	92.8	101.1	19.2
Belgium	1.5	0.7	2.0	10.5	98.2	99.0	63.4
Chile	-0.8	-2.7	3.5	25.6	73.2	131.4	..
Czech Republic	2.2	0.8	2.4	42.2	66.6	64.8	..
Denmark	1.0	1.1	-5.9	13.1	321.1	112.3	23.4
Estonia	-1.6	-2.0	1.8	33.4	91.5	103.9	..
Finland	1.8	0.8	1.9	3.7	122.8	101.7	31.9
Greece	5.3	12.1	3.4	-6.8	109.7	73.8	-1.5
Hungary	1.7	0.2	-0.9	29.8	62.6	112.1	..
Iceland	-0.6	0.5	5.5	-21.1	98.7	357.2	..
Ireland	1.1	3.2	-4.4	13.6	230.4	248.6	-10.4
Israel	0.7	-0.6	-0.1	-18.0	..	74.3	25.2
Korea	1.7	-0.2	-3.8	-4.5	163.8	163.7	25.1
Luxembourg	2.2	1.3	-6.6	29.0	153.3	318.9	..
Mexico	-0.8	0.3	1.2	3.5	..	..	..
Netherlands	2.0	2.7	-9.4	6.5	311.5	107.4	-2.8
New Zealand	-1.3	0.0	4.7	51.6	..	..	87.6
Norway[9]	-1.1	0.1	-14.2	58.8	212.9	104.5	85.7
Poland	1.0	0.6	3.7	-8.7	58.9	53.7	..
Portugal	3.1	5.0	1.5	0.5	146.3	157.6	-10.3
Slovak Republic	1.7	-0.2	-2.3	28.3	54.9	77.7	..
Slovenia	2.8	2.8	-3.3	0.4	57.8	105.8	..
Spain	2.2	5.0	1.1	2.4	141.1	124.6	23.3
Sweden	0.9	1.0	-6.0	-5.7	172.0	151.5	77.9
Switzerland	0.8	0.5	-11.1	25.4	200.8	..	42.2
Turkey	3.0	-0.1	6.0	-17.1	..	3.1	..
Brazil	2.4	..	2.4	30.6	..	..	..
China	0.7	..	-2.4	92.0	..	..	..
India	2.5	..	5.0	-39.9	..	..	..
Indonesia	-0.2	..	2.8	2.6	..	..	..
Russian Federation	-0.3	..	-3.6	204.4	..	..	..
South Africa	0.8	..	6.3	-13.7	..	..	..

1. In per cent of GDP.
2. In per cent of gross household disposable income.
3. Consolidated for most countries and not consolidated otherwise; and defined as liabilities less financial derivatives and shares and other equity.
4. Long-term foreign currency rating.
5. Economic Outlook 94 estimates for Mexico and Turkey.
6. Or latest available.
7. Economic Outlook 94 estimates for Japan, Israel, Korea, Mexico, New Zealand, Japan, Indonesia and Russian Federation.
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9. Mainland (potential) GDP is used instead of total (potential) GDP where applicable.

Labels the 4 OECD countries with the weakest scores.

Labels the 4 OECD countries with the next weakest scores.

Source : OECD Economic Outlook 94 database; OECD National Accounts database; IMF Financial Soundness Indicators database; European Central Bank; European Commission; OECD Housnig Prices database; OECD calculations; and Standards & Poors.

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Table A1b. **Indicators of potential financial vulnerabilities *(cont'd)***

Financial sector: Core Tier-1 capital required to reach 5% of assets in selected banks [1]	Financial sector: Non-performing loans to total loans, Latest available	Financial sector: Financial corporation gross debt[1,3], 2012 [6]	Public finance: Headline government budget deficit[1], 2012 [7]	Public finance: Gross government debt[1], 2012 [8]	Public finance: Real 10-year sovereign bond yield-potential GDP growth rate differential, 2013Q3[6]	Sovereign credit rating S&P[4], latest	
0.6	3.2	328.2	9.3	102.1	-1.1	AA+	United States
0.3	2.3	553.5	9.5	218.8	0.9	AA-	Japan
3.9	3.0	331.1	-0.1	88.3	-1.2	AAA	Germany
7.1	4.3	286.1	4.8	109.3	-0.4	AA	France
0.3	12.9	214.3	2.9	142.2	3.2	BBB	Italy
4.6	3.7	714.7	6.2	102.4	-0.4	AAA	United Kingdom
3.2	0.6	328.9	3.4	96.1	-1.5	AAA	Canada
..	1.6	318.7	3.5	32.4	-0.1	AAA	Australia
0.3	2.8	248.5	2.5	85.6	-1.4	AA+	Austria
1.9	3.5	314.4	4.1	104.0	-0.4	AA	Belgium
..	2.2	195.8	..	..	-1.7	AA-	Chile
..	5.2	127.1	4.4	55.7	0.2	AA-	Czech Republic
0.5	4.7	461.0	3.9	59.3	-0.4	AAA	Denmark
..	2.1	119.0	0.2	13.6	..	AA-	Estonia
4.7	..	250.2	2.2	64.0	-1.5	AAA	Finland
1.1	27.9	212.7	9.0	167.3	11.6	B-	Greece
..	16.8	106.3	2.1	90.1	2.8	BB	Hungary
..	..	1 024.7	3.8	129.6	1.2	BBB-	Iceland
1.9	21.7	1 010.3	8.1	127.5	1.9	BBB+	Ireland
..	2.6	211.4	4.9	68.2	-2.8	A+	Israel
..	0.7	383.1	-1.7	35.5	-1.8	A+	Korea
..	0.3	5 152.5	0.6	30.2	-3.4	AAA	Luxembourg
..	2.6	..	-0.1	..	-0.6	BBB	Mexico
4.5	3.0	703.3	4.0	82.7	0.1	AAA	Netherlands
..	..	..	3.9	42.6	1.0	AA	New Zealand
..	1.5	208.3	-13.8	34.4	-3.5	AAA	Norway [9]
..	5.2	100.6	3.9	62.4	-0.8	A-	Poland
0.0	10.4	276.8	6.5	134.5	6.8	BB	Portugal
..	5.3	119.7	4.5	56.9	-1.2	A	Slovak Republic
..	17.4	144.0	3.8	61.6	5.7	A-	Slovenia
1.8	7.6	244.6	10.6	92.8	3.4	BBB-	Spain
0.5	0.7	283.8	0.4	48.8	-0.9	AAA	Sweden
..	0.8	..	0.2	42.4	-1.2	AAA	Switzerland
..	2.6	99.7	..	..	-3.0	BB+	Turkey
..	3.2	..	2.5	..	1.0	BBB	Brazil
..	1.0	..	0.3	..	-7.4	AA-	China
..	3.6	..	7.6	..	-5.5	BBB-	India
..	1.8	..	2.0	..	-5.4	BB+	Indonesia
..	6.3	..	-0.4	..	-5.8	BBB	Russian Federation
..	3.9	..	6.2	..	-1.6	BBB	South Africa

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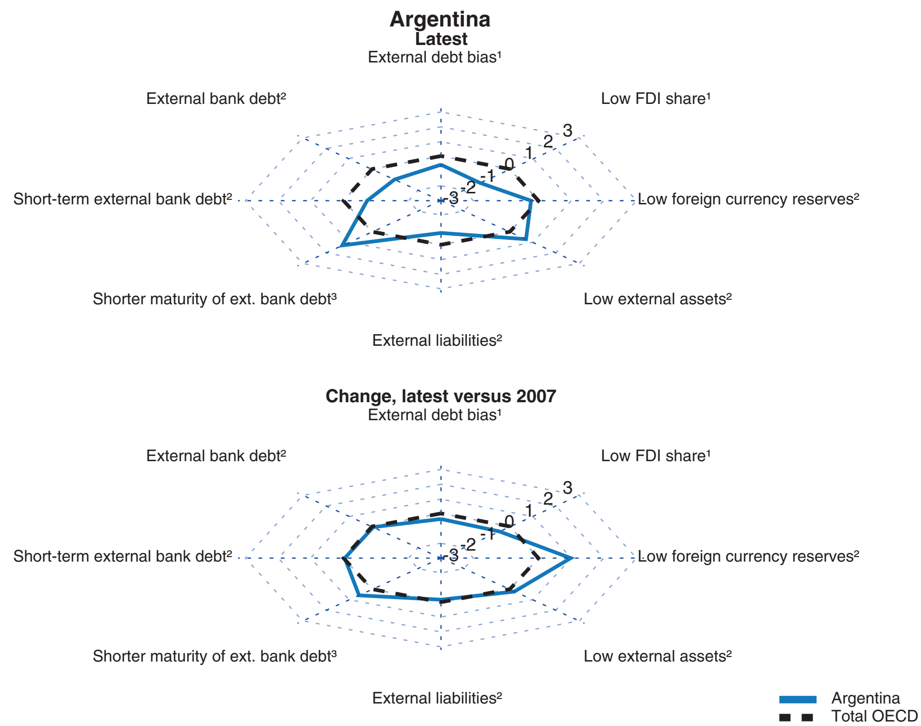
Financial-accounts-related risk factors to financial stability



Note: The diamond charts are explained in the introduction to the annex.
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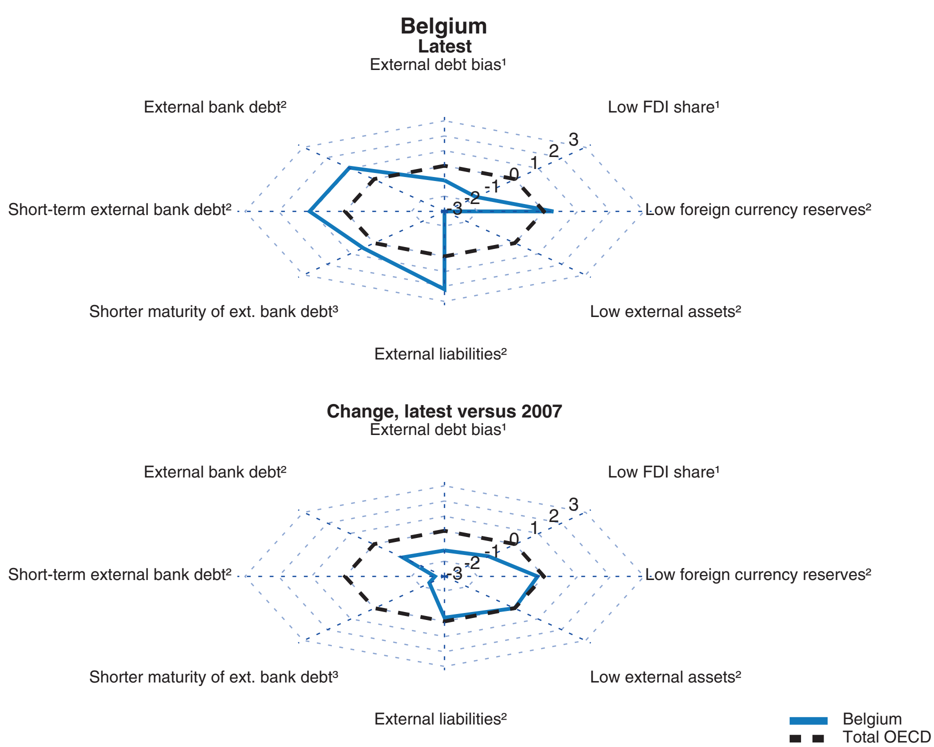

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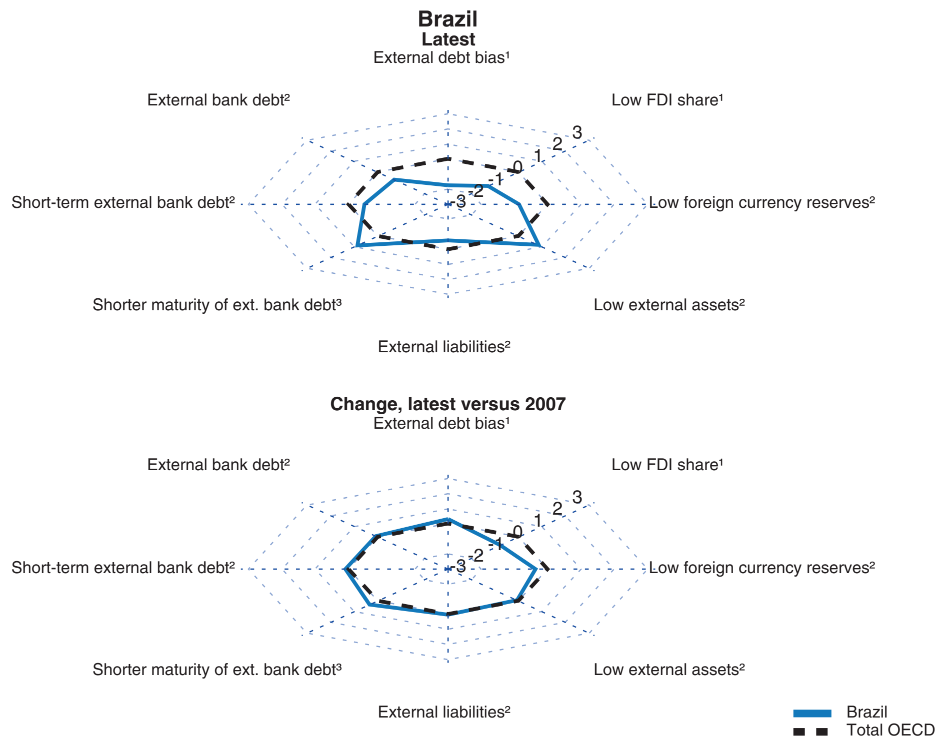

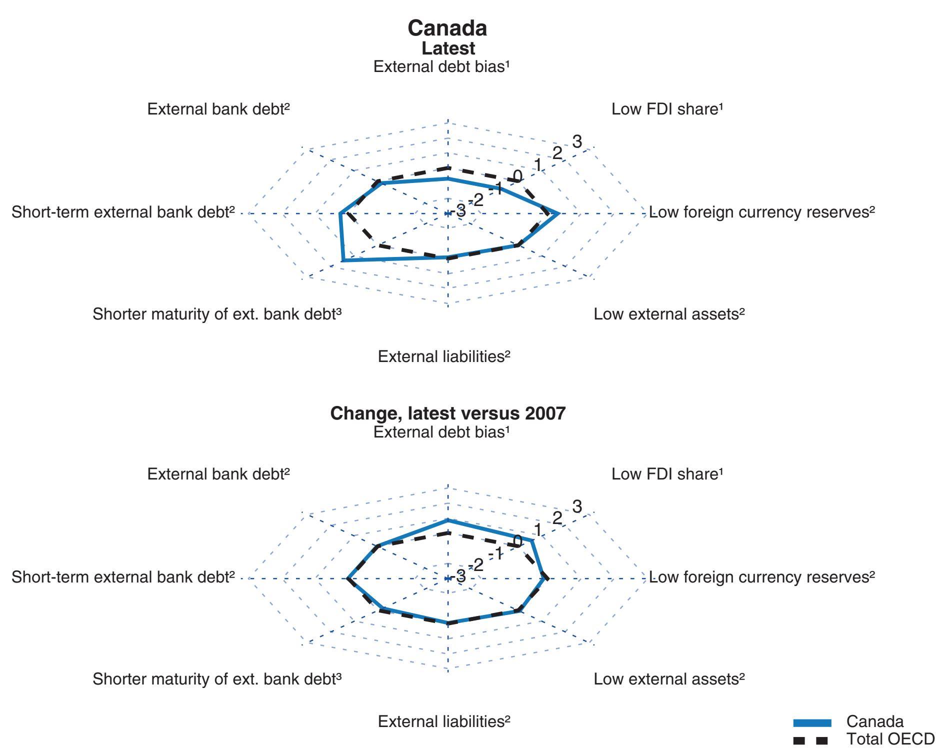

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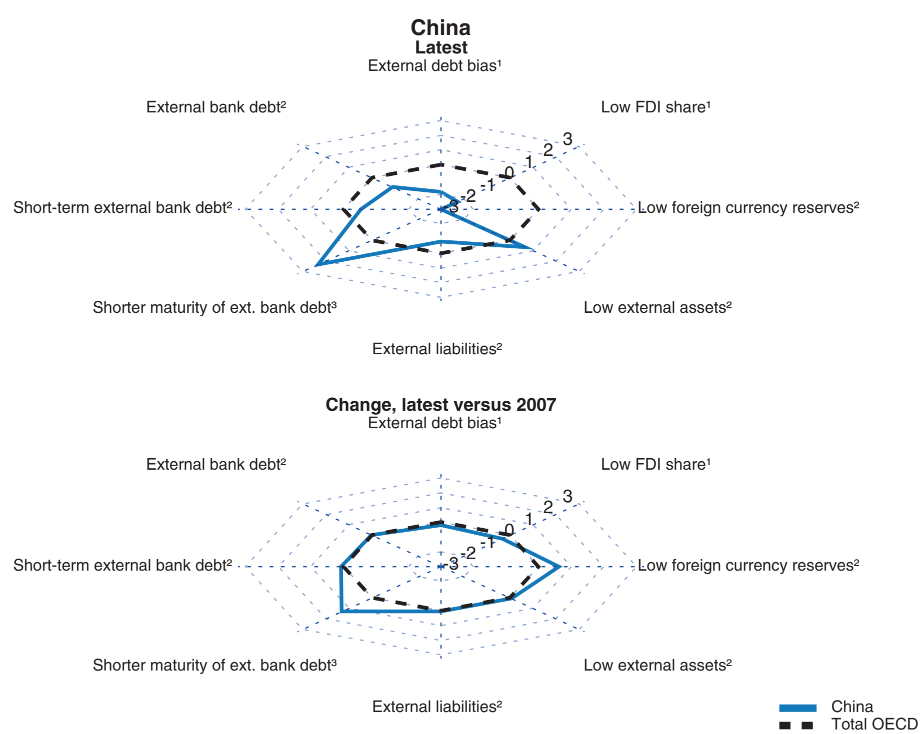

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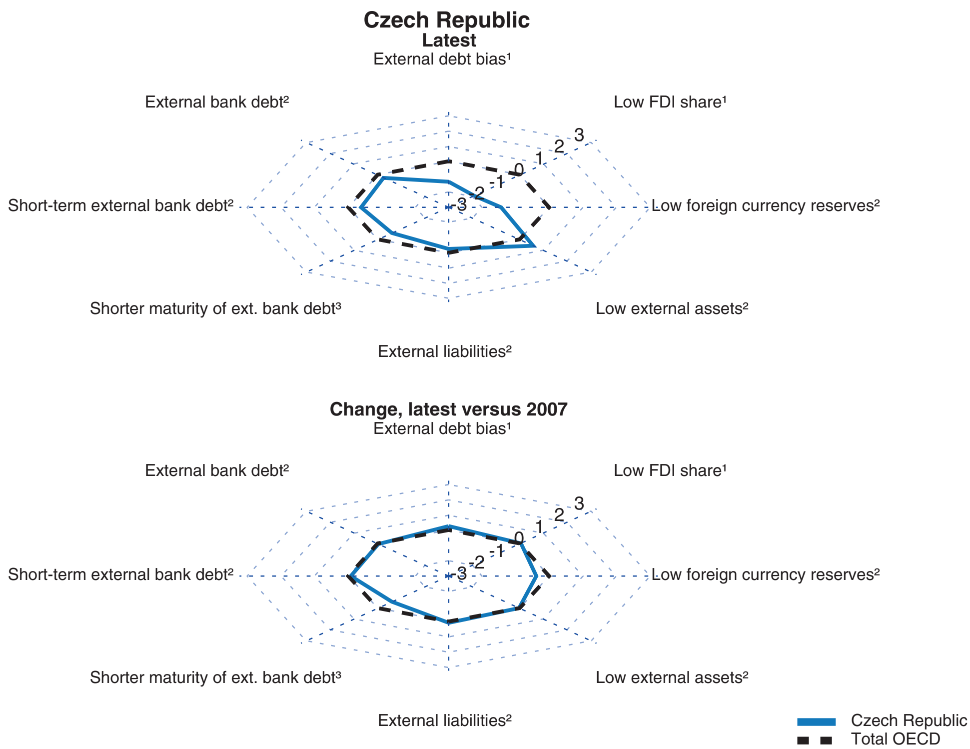

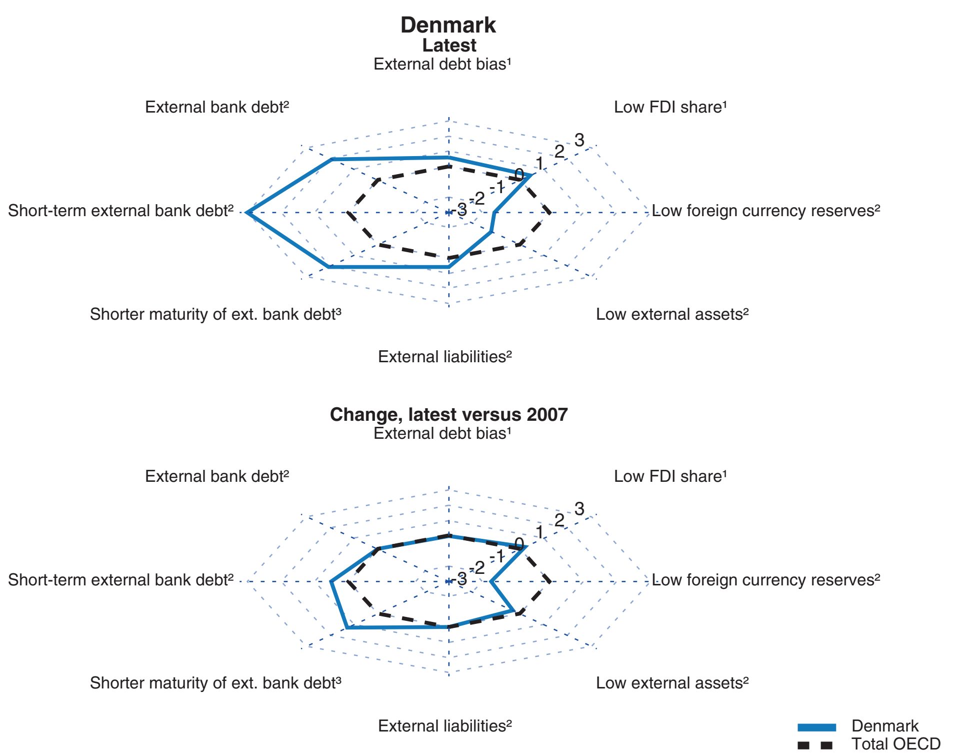

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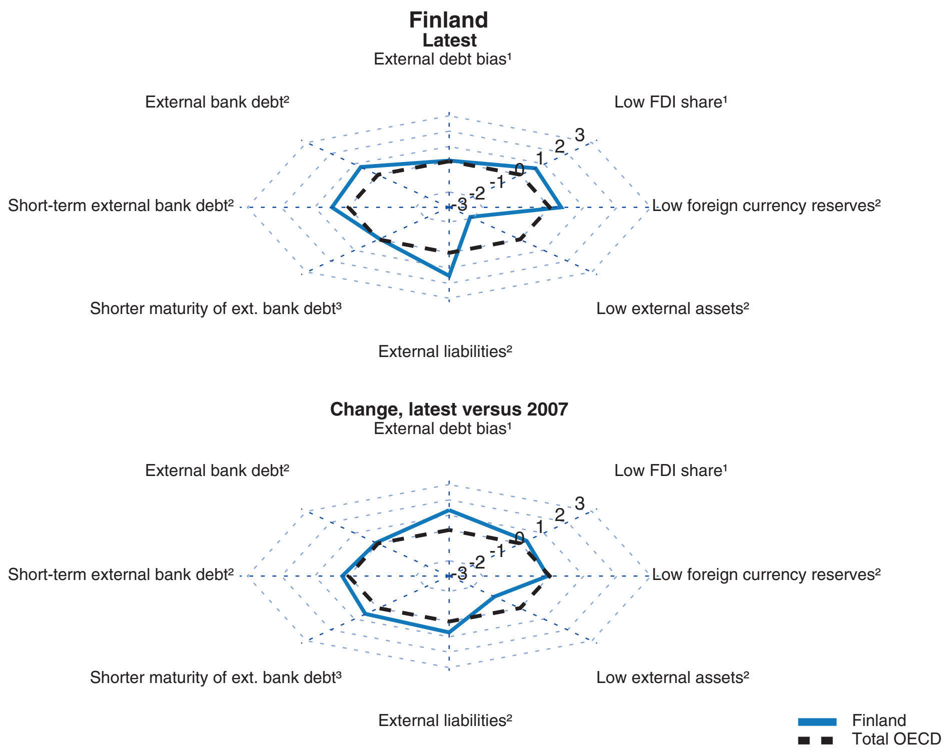

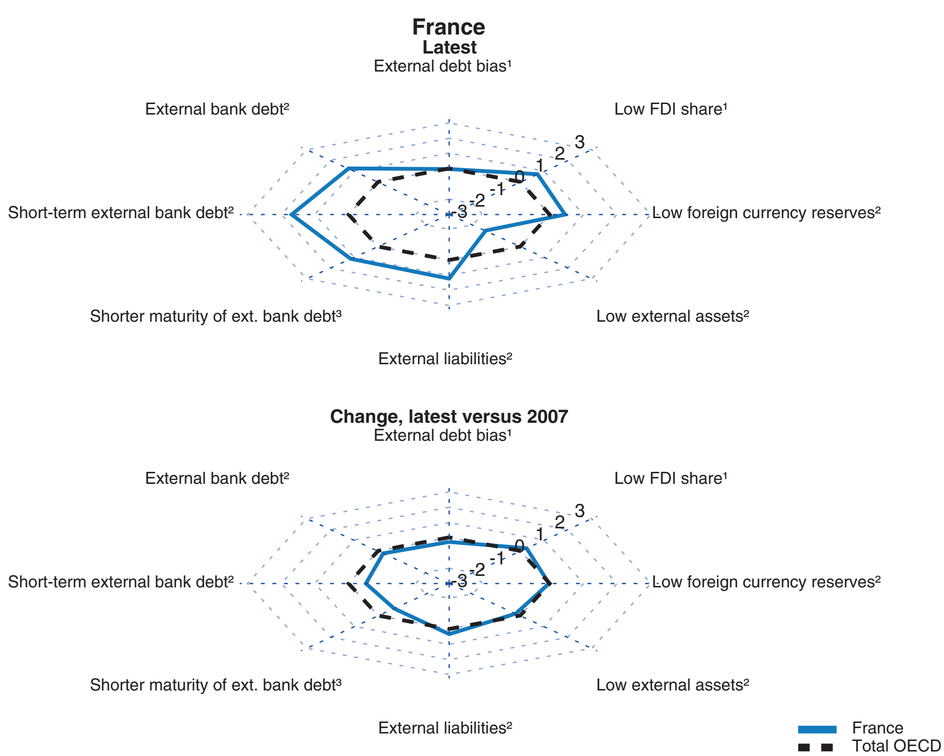

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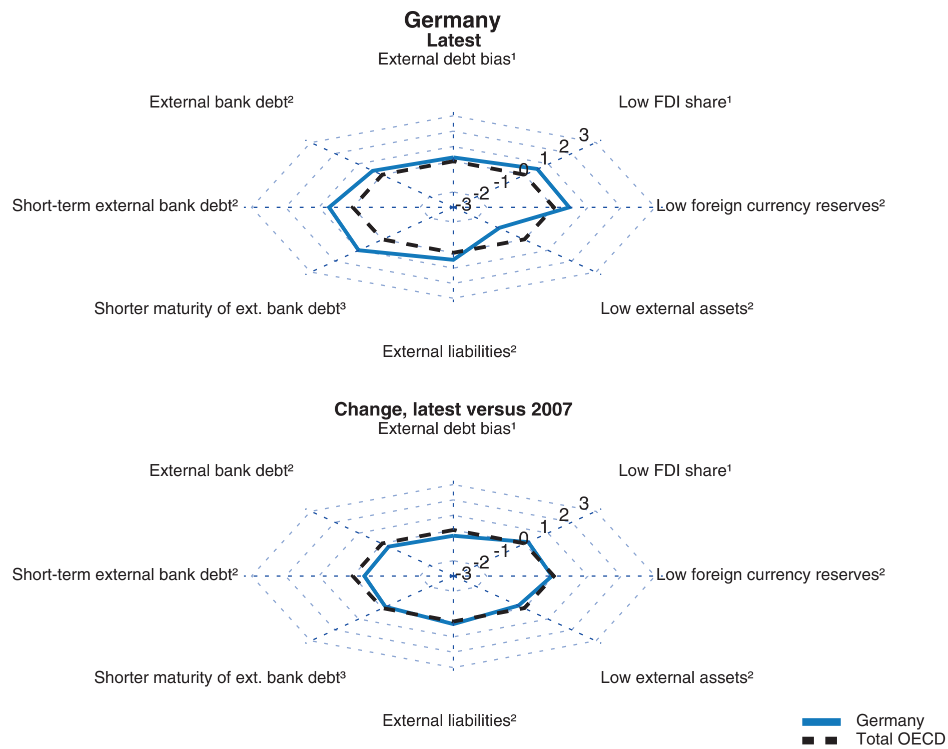

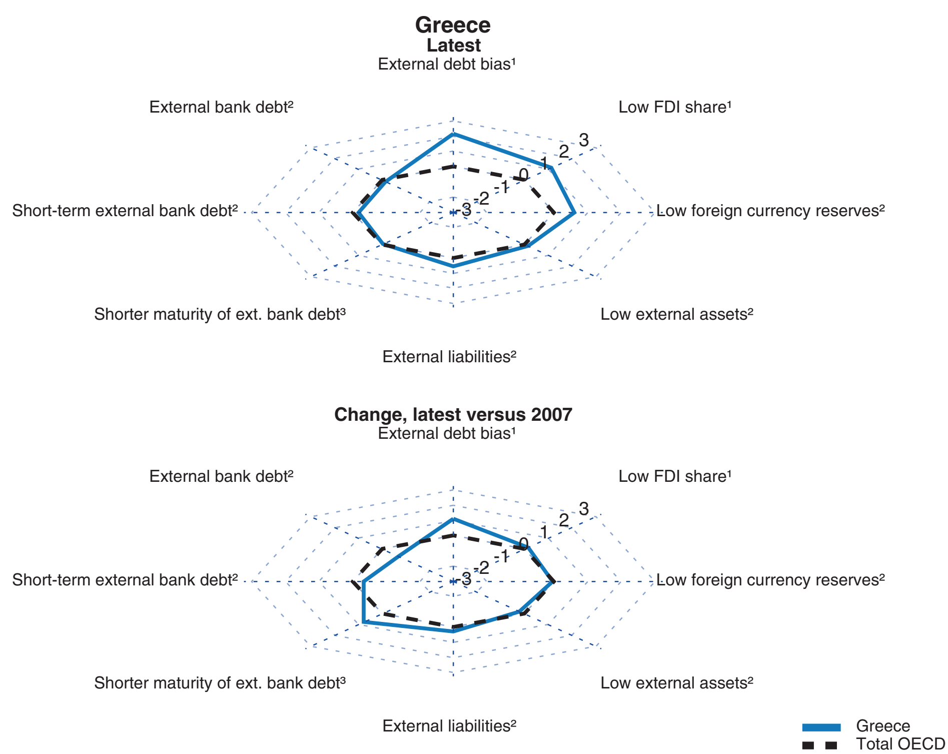

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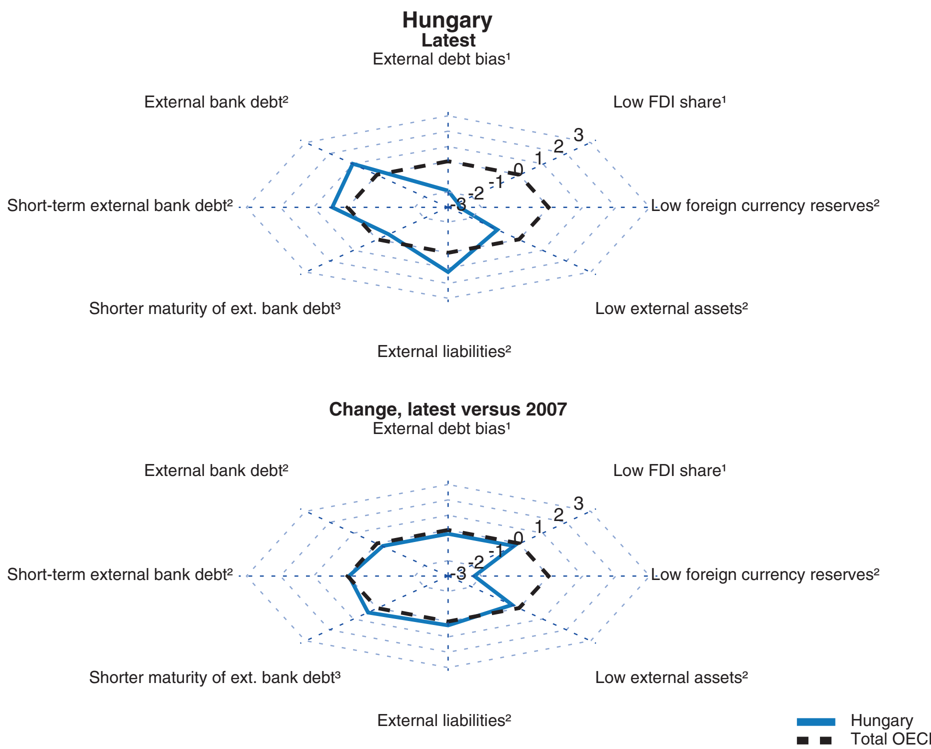

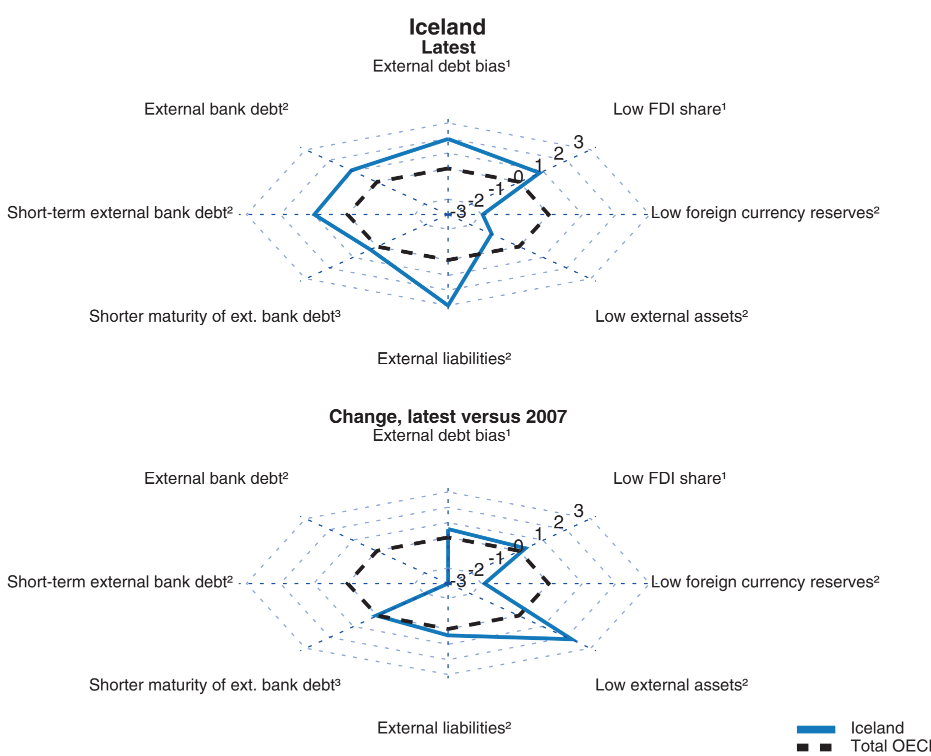

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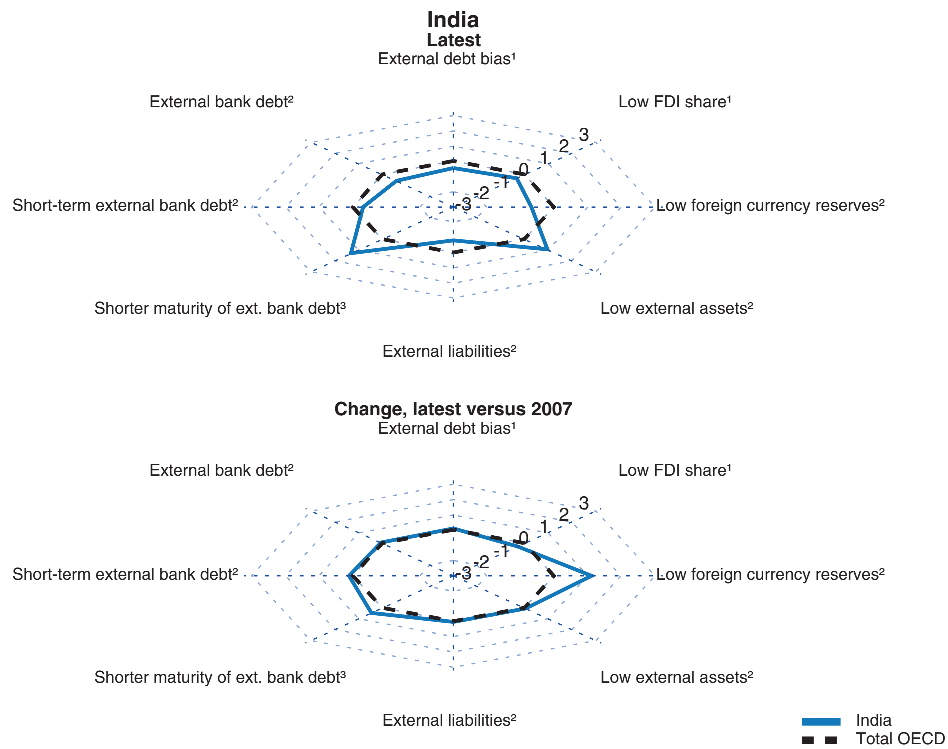

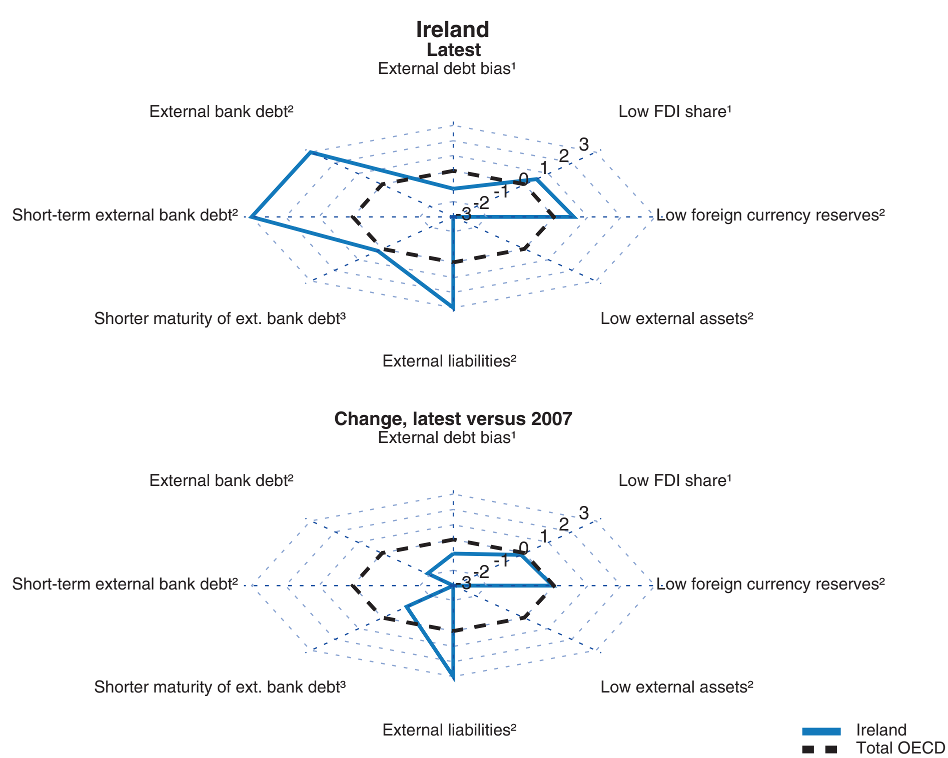

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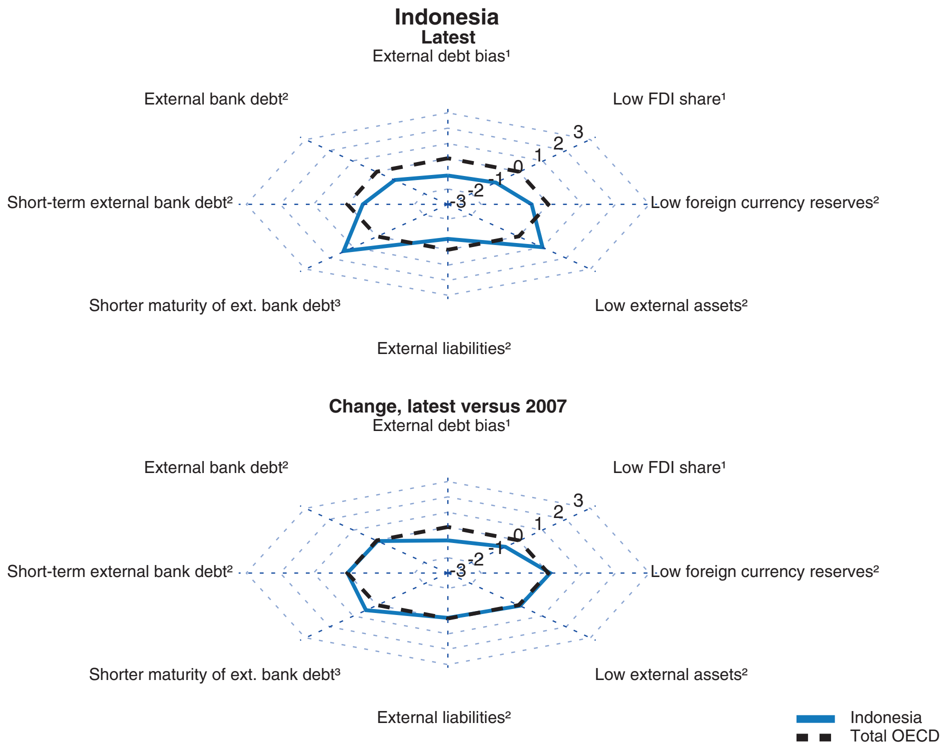

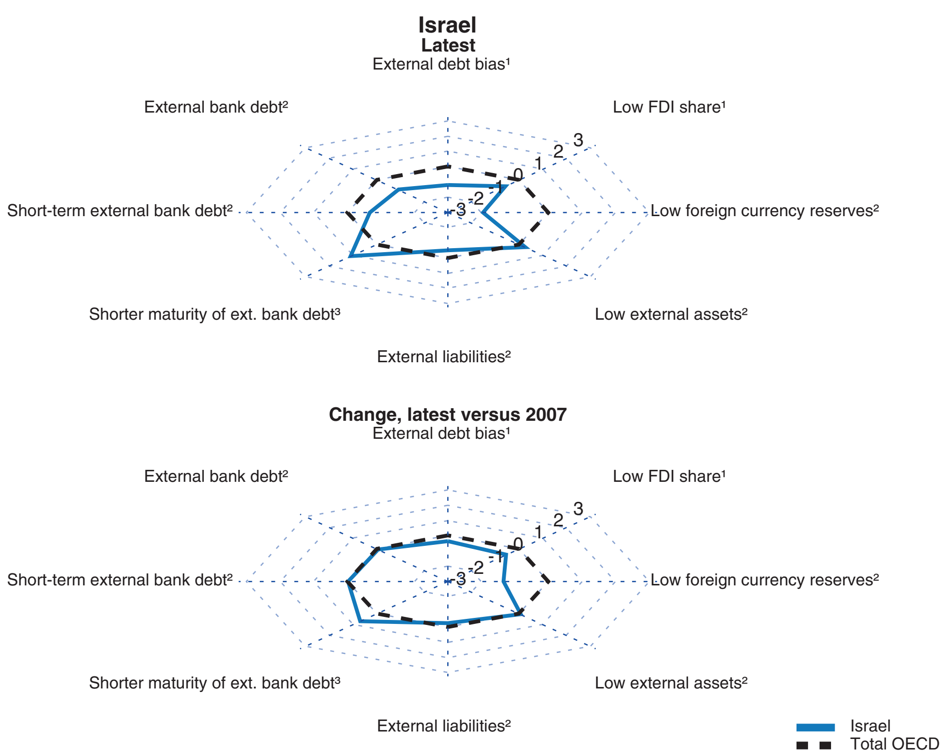

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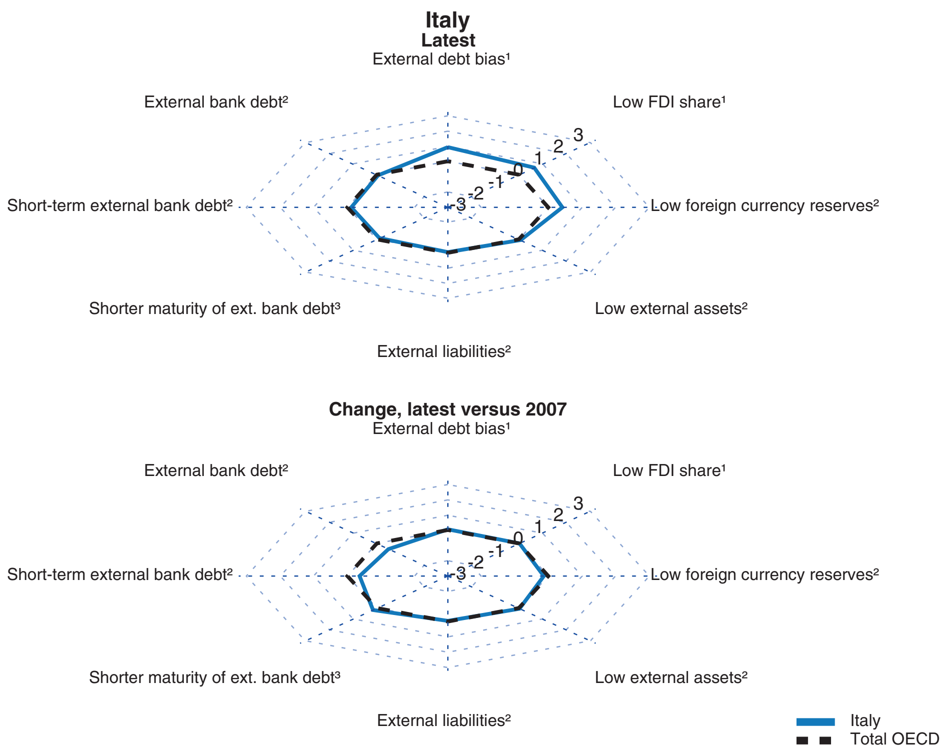

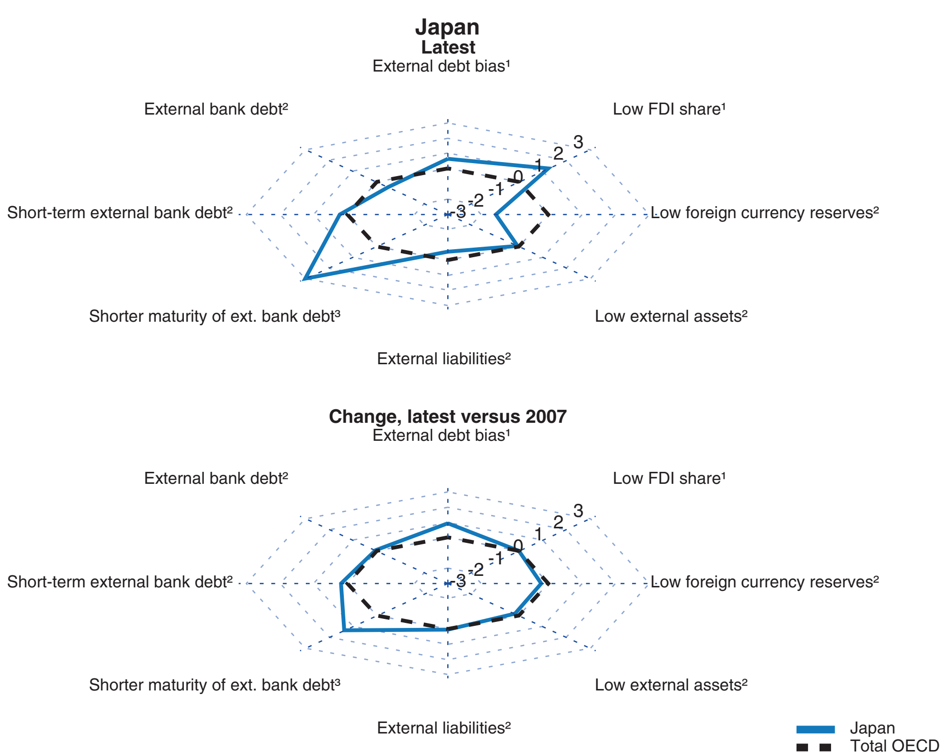

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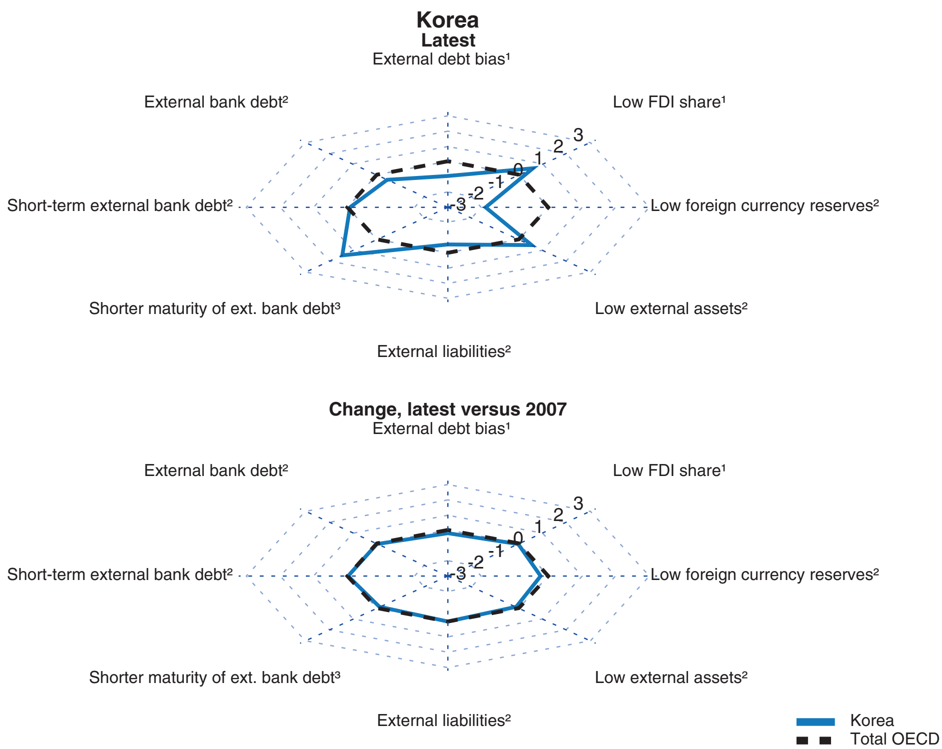

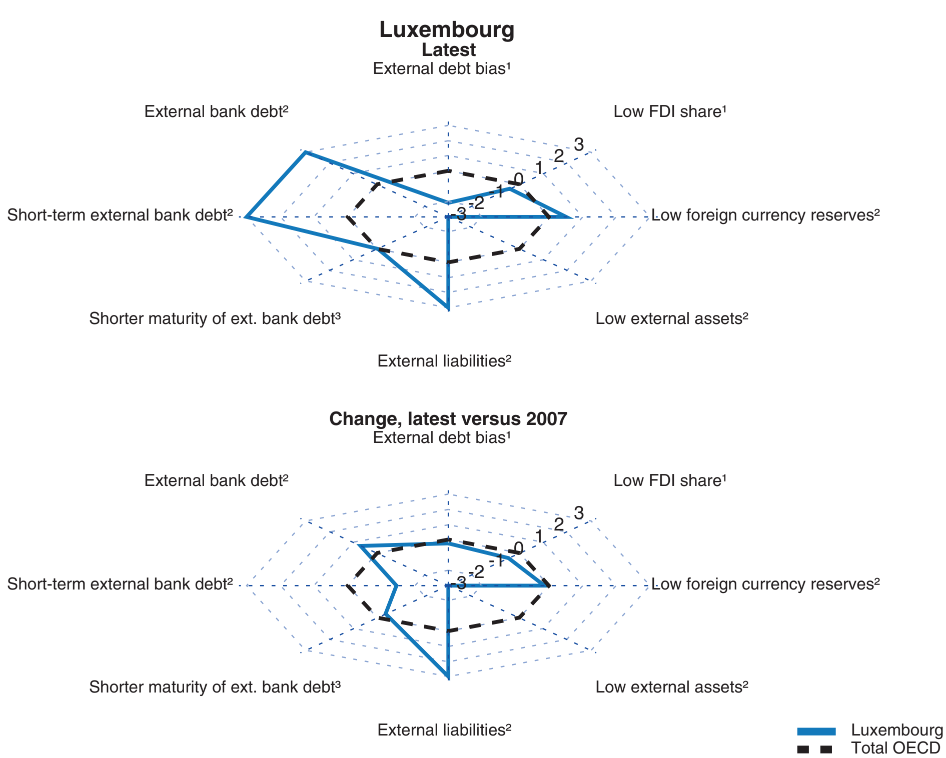

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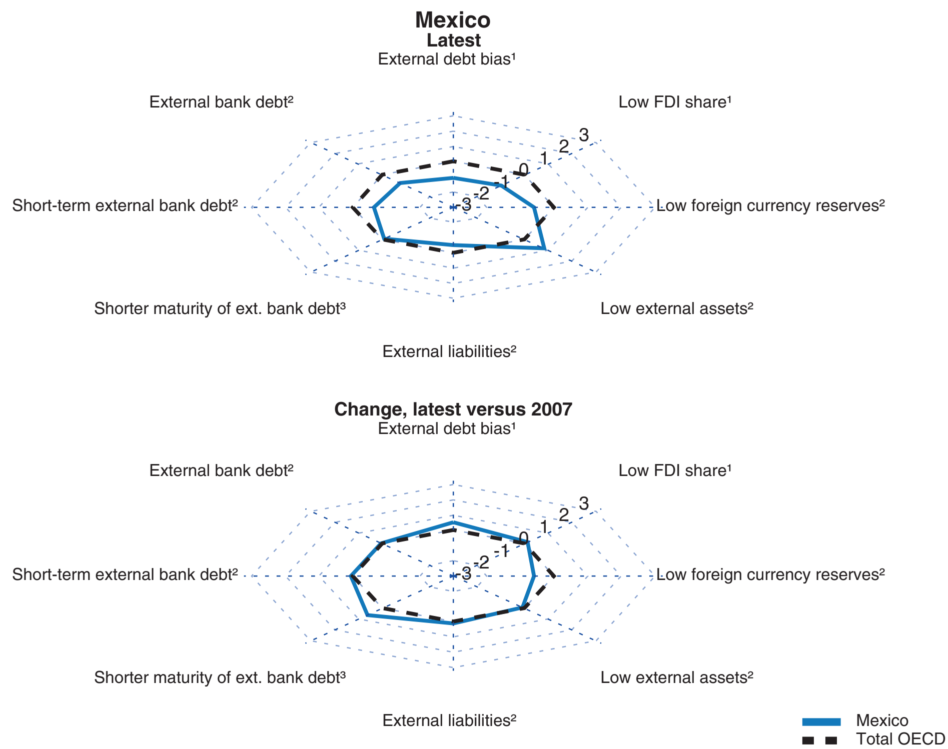

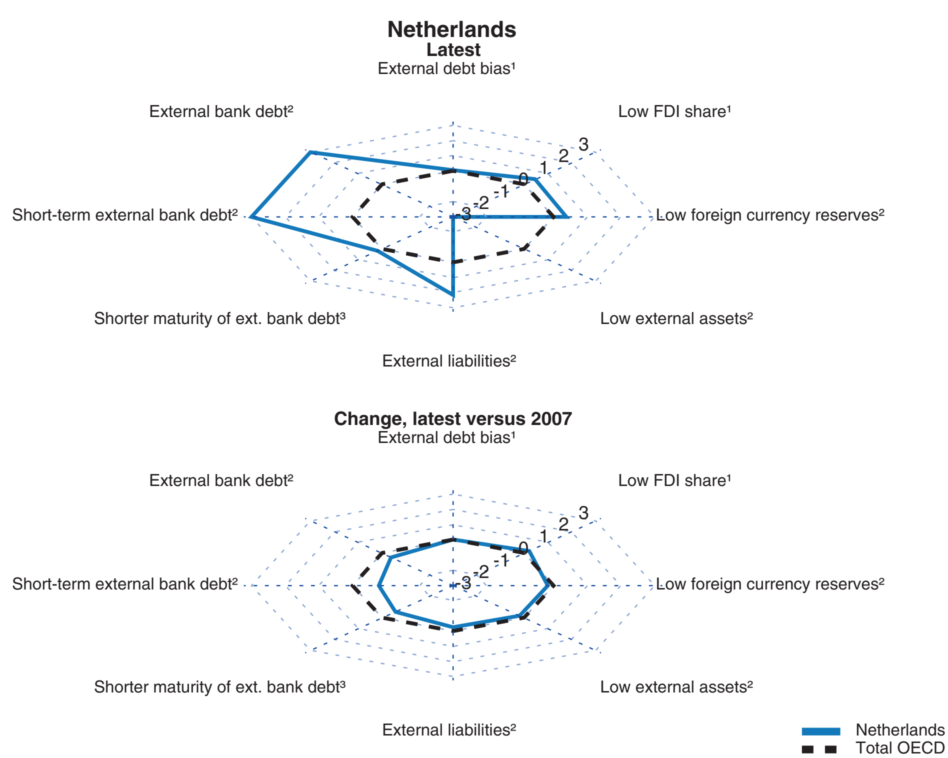

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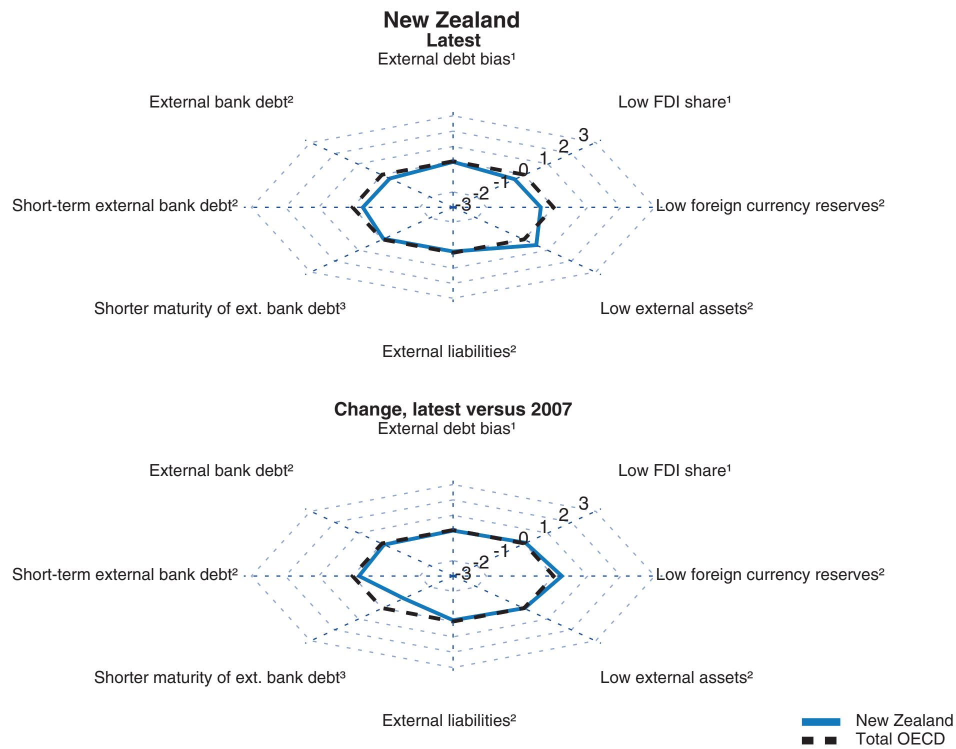

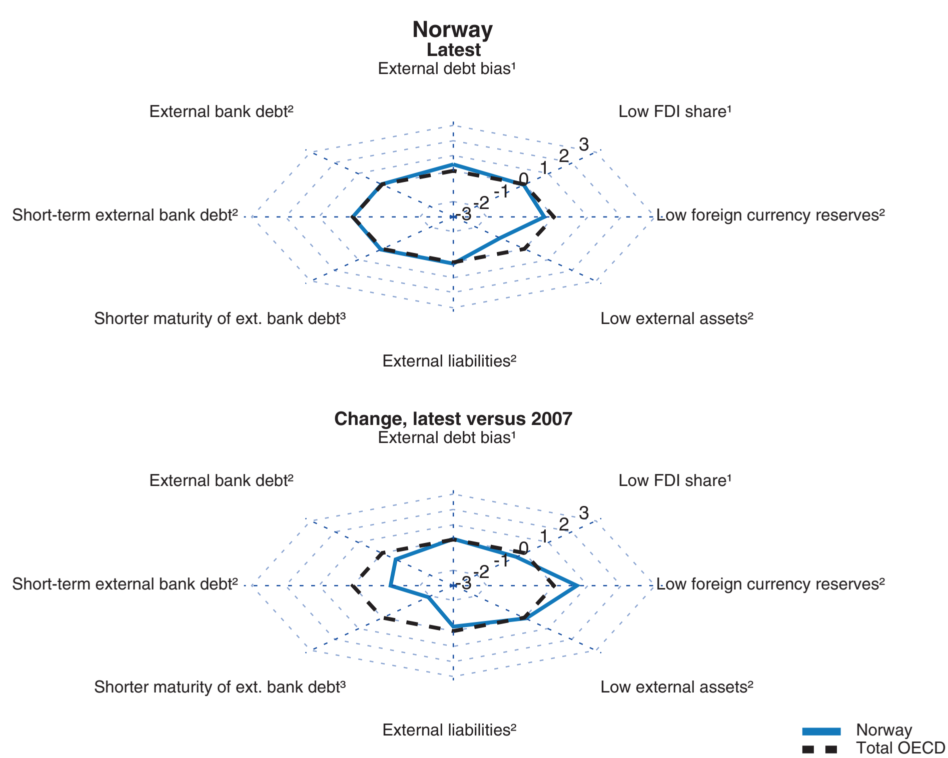

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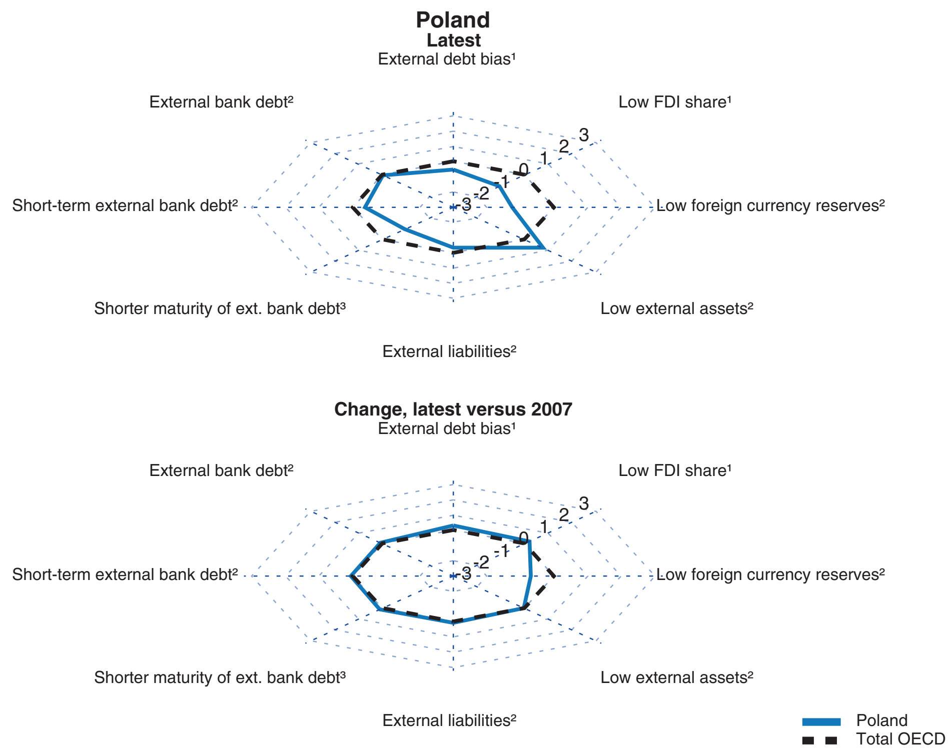

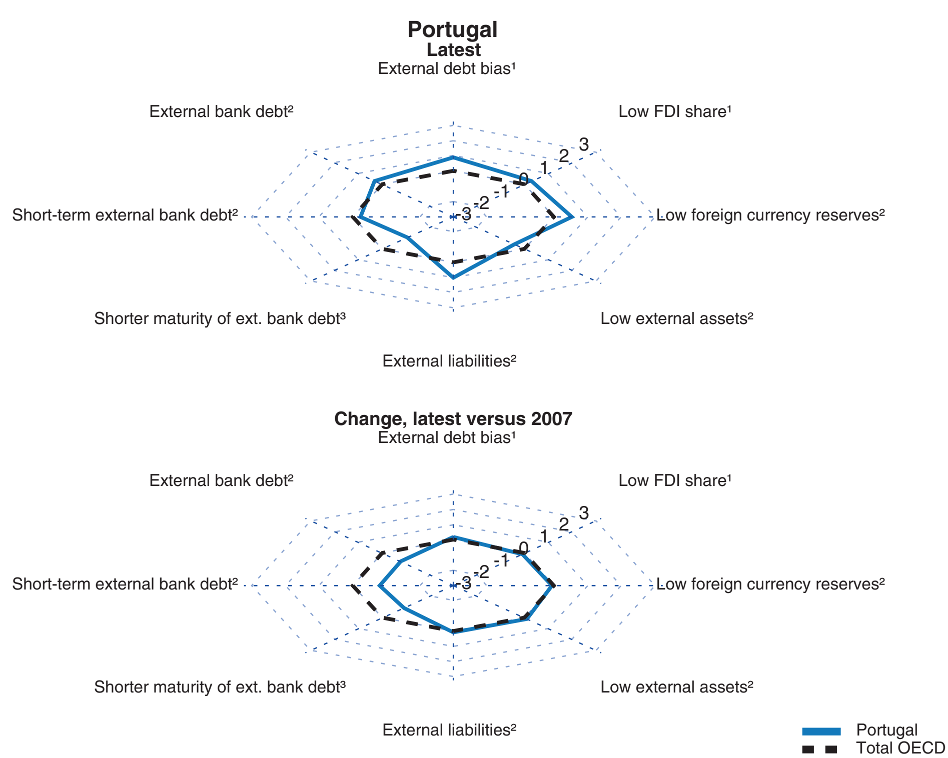

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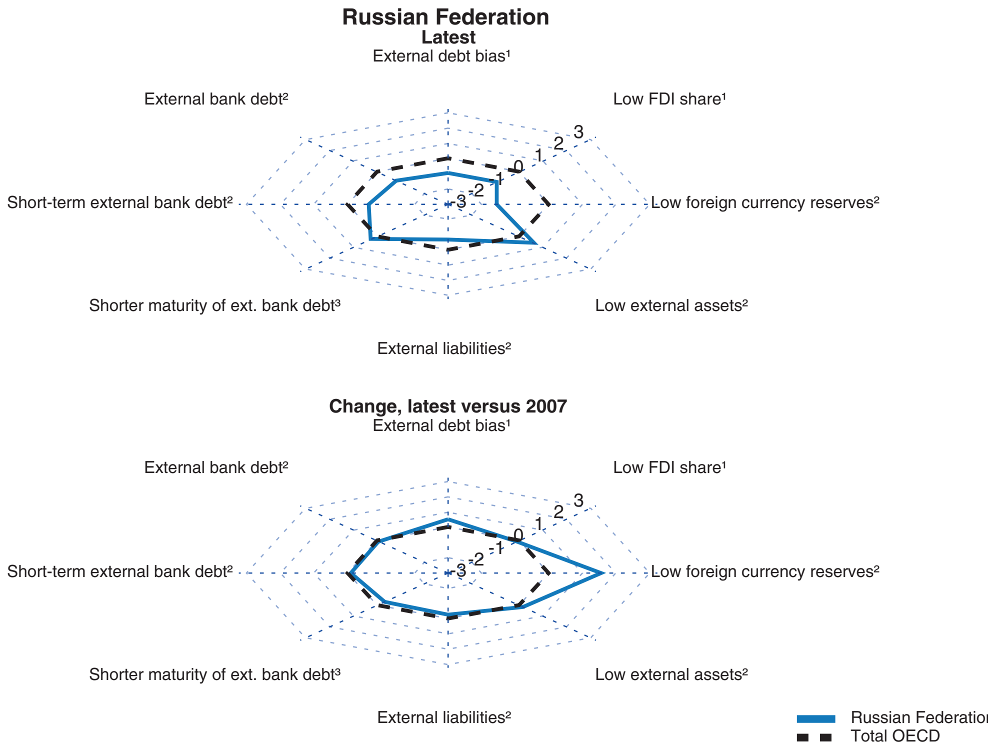

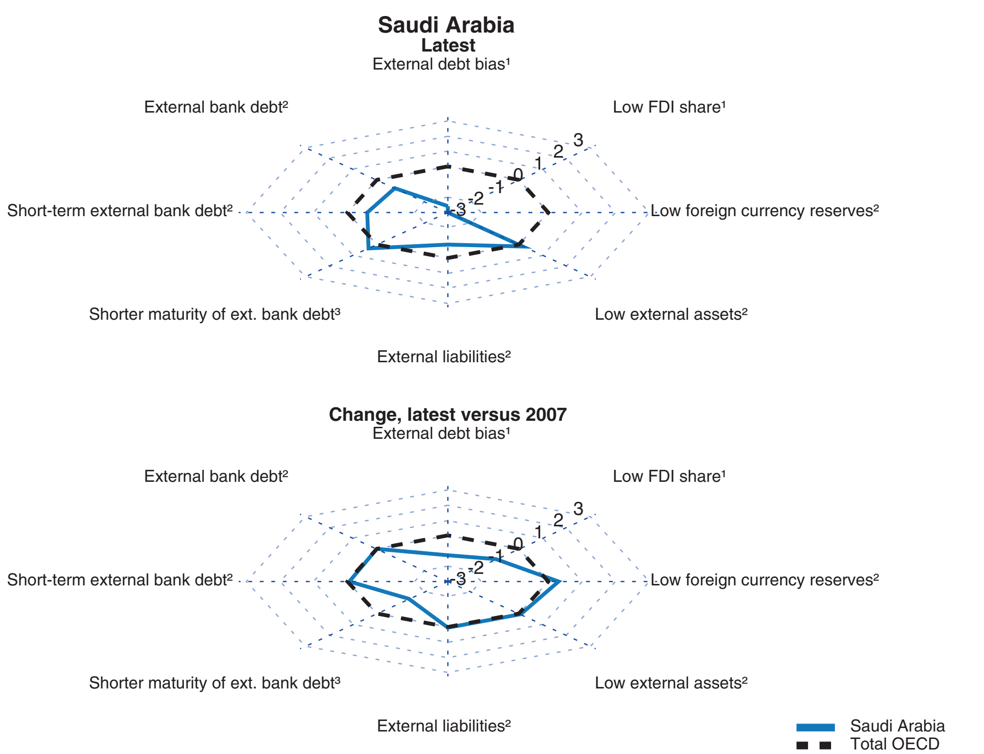

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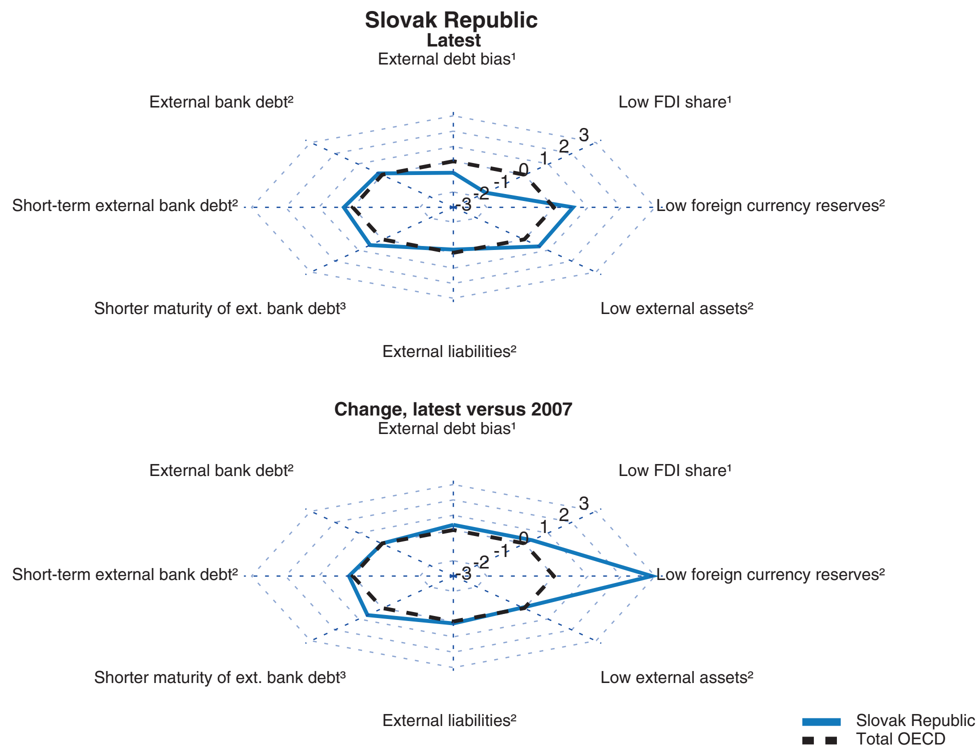

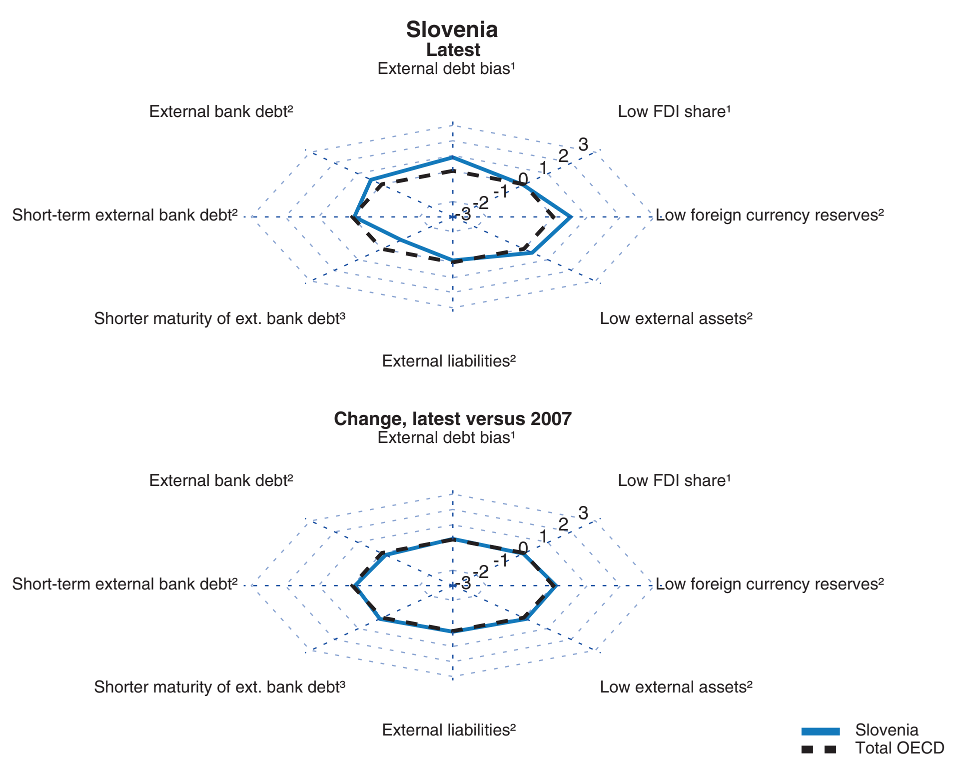

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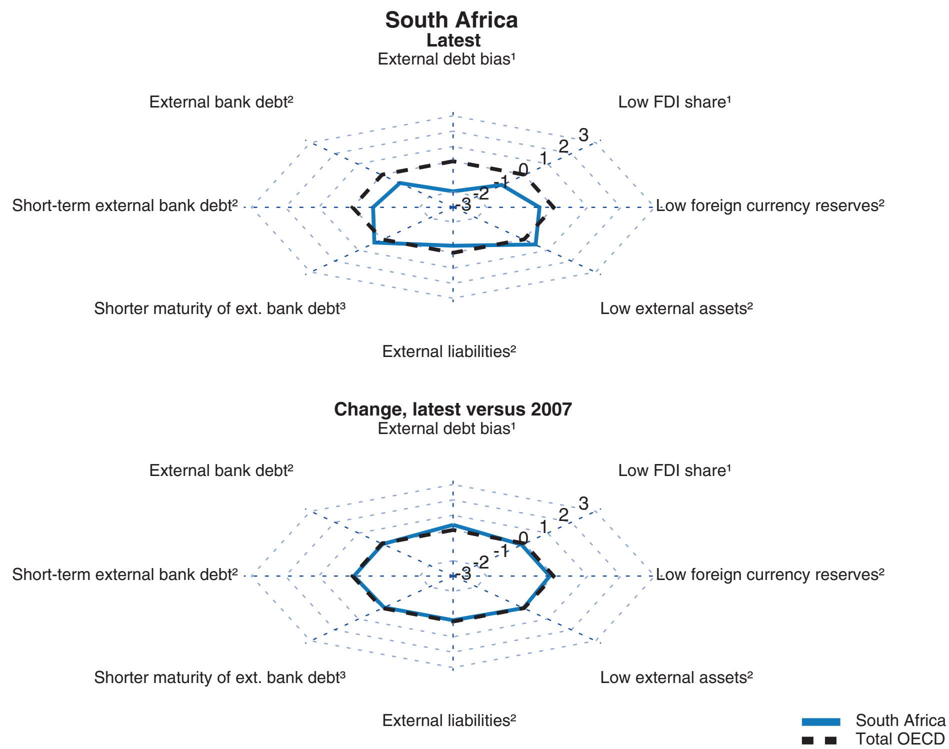

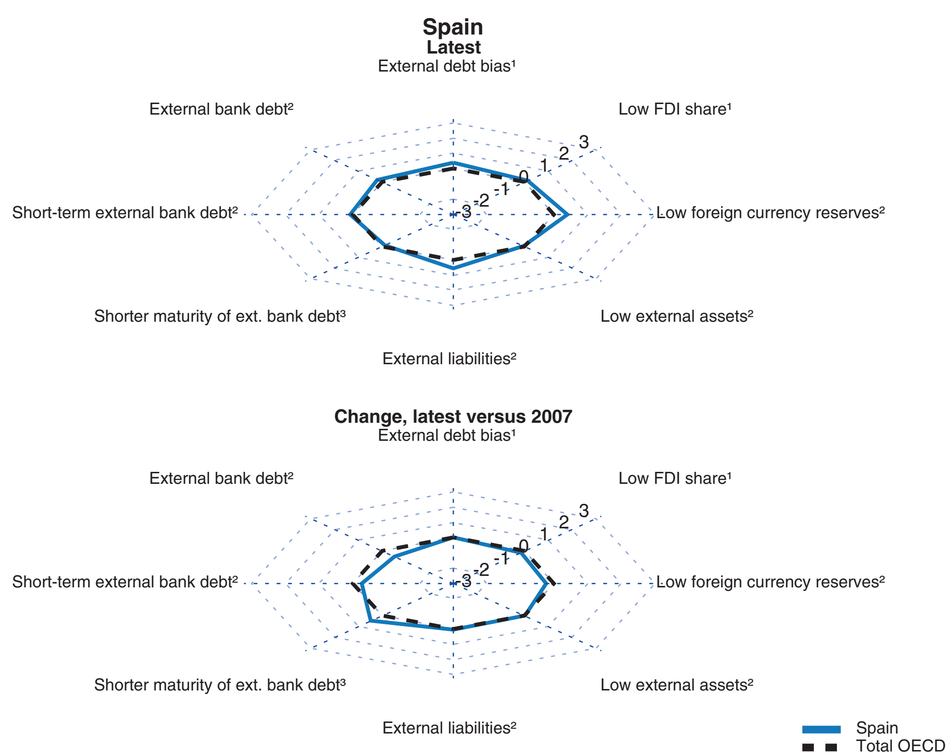

Note: The diamond charts are explained in the introduction to the annex.
(1) As a per cent of external liabilities. (2) As a per cent of GDP. (3) As a per cent of external bank debt.
Source: OECD calculations.
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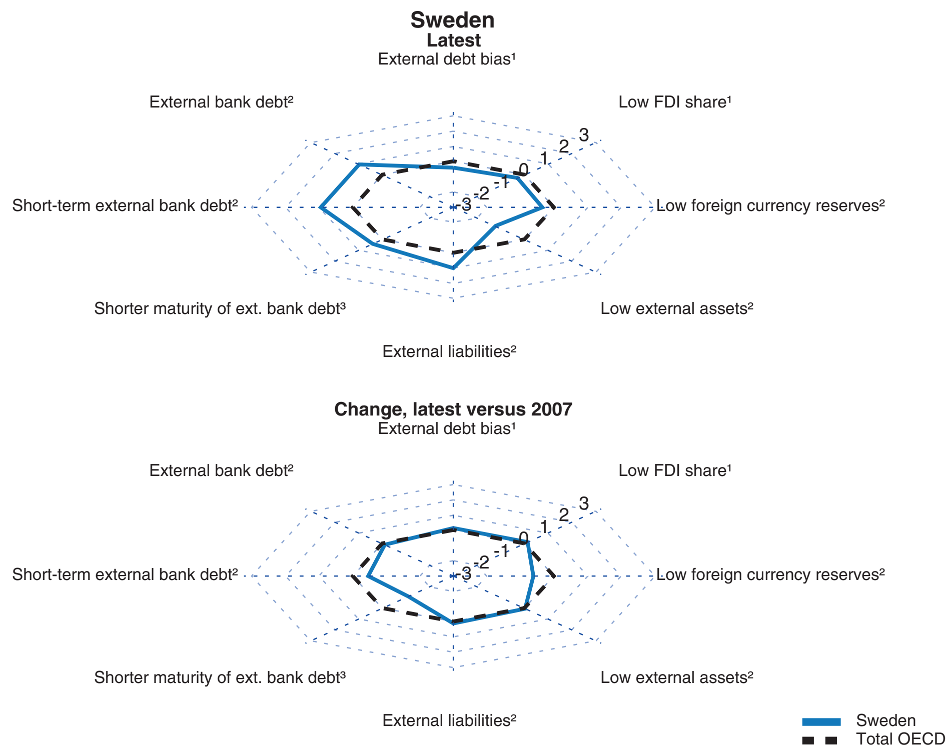

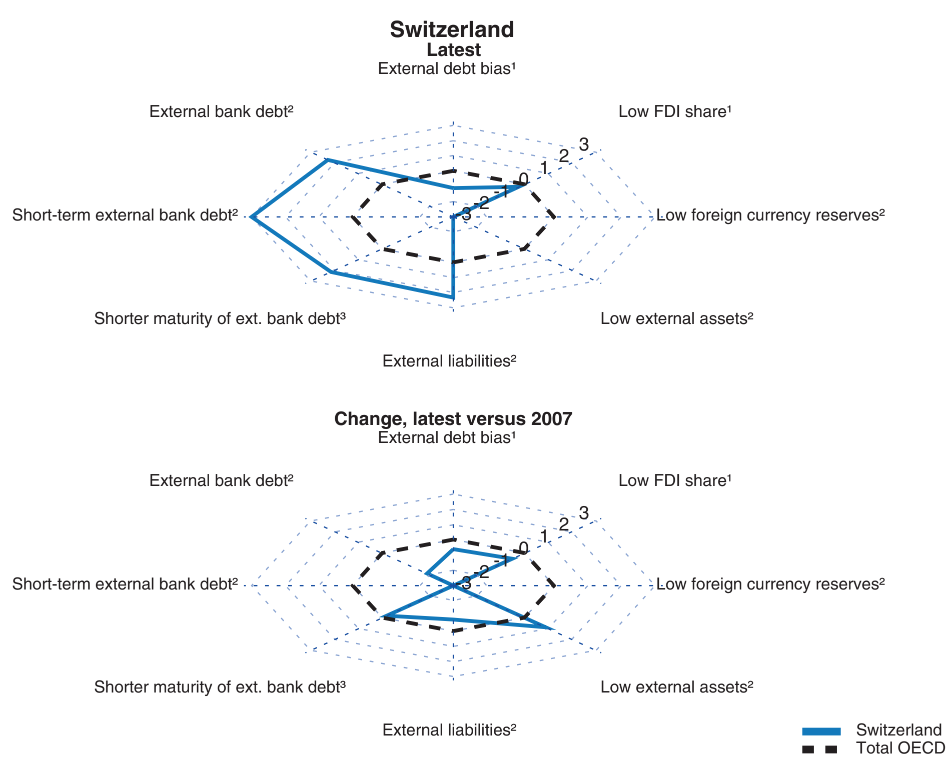

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Source: OECD calculations.

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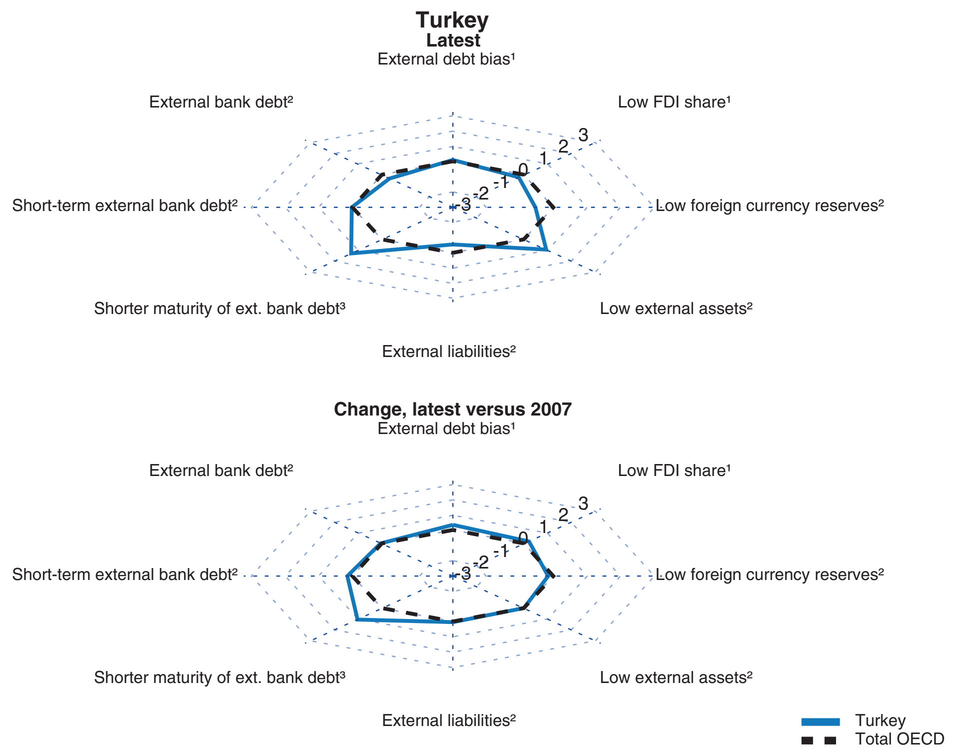

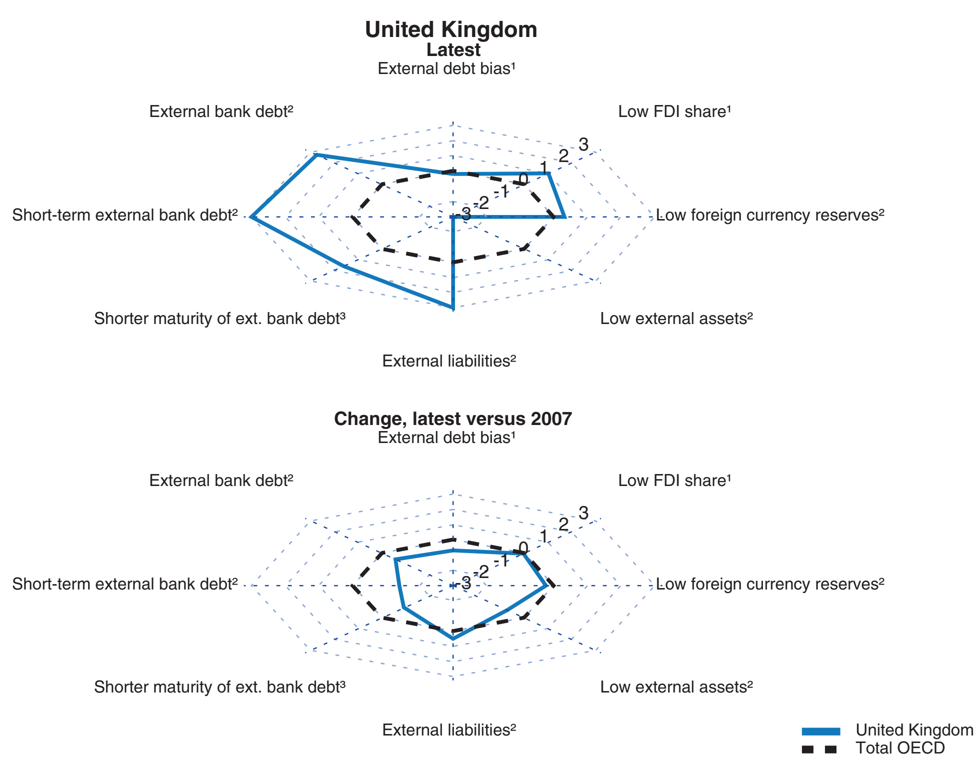

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Source: OECD calculations.

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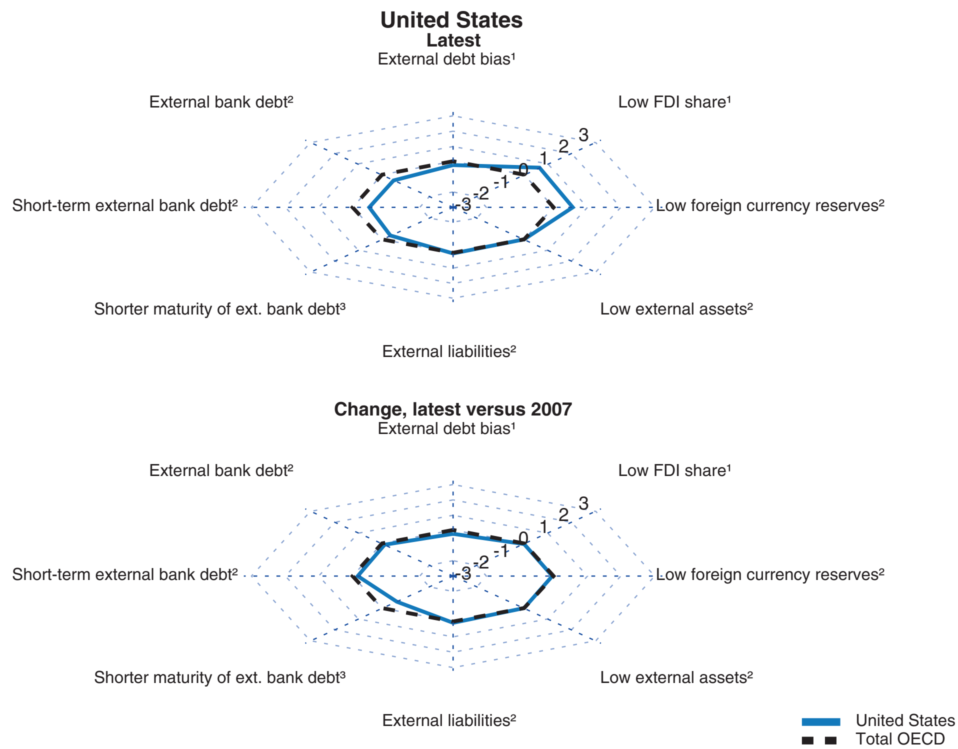

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Source: OECD calculations.

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OECD Economic Outlook
Volume 2013/2

Chapter 2

DEVELOPMENTS IN INDIVIDUAL OECD COUNTRIES

UNITED STATES

Economic growth has been modest in 2013 but will gather momentum in 2014 and 2015. The on-going fiscal contraction and low consumer and business confidence have been creating strong headwinds, but are assumed to diminish during 2014. Gradual labour market recovery, debt deleveraging and gains in asset prices will underpin consumption and residential investment growth. Easing credit conditions and ample corporate cash flow will support increasing business investment.

The budget situation is becoming healthier, but much of the progress is due to across-the-board spending cuts and the expiration of past tax cuts. Less attention has been paid to the necessary task of developing a medium-term strategy to ensure fiscal sustainability. Monetary policy needs to remain accommodative for some time. Nevertheless, if economic growth strengthens as expected, monetary policy should begin the gradual process of normalisation, first by tapering large-scale bond purchases and then, in the course of 2015, by starting to raise policy interest rates towards a more neutral stance.

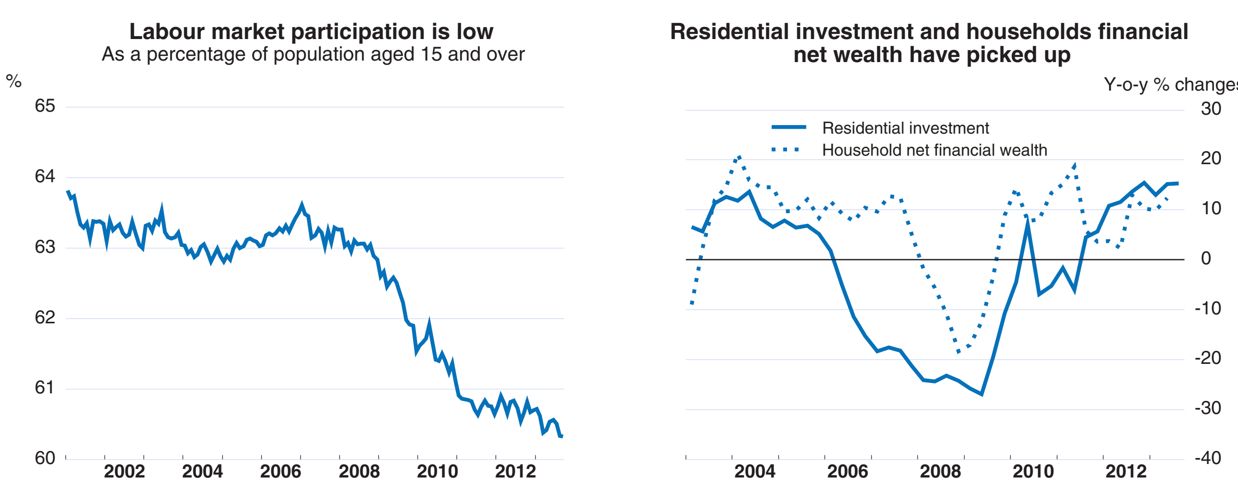
The economy is going through a soft spot

Following moderate growth in 2012, the economy appeared to stumble as fiscal drag held back aggregate demand and rises in long-term interest rates slowed the housing market. The political impasse over the budget leading to the government shutdown and the uncertainties linked to the debt ceiling are estimated to have subtracted about 0.5% from growth (at an annual rate) in the last quarter of 2013.

The labour market is gradually improving

Steady employment gains have contributed to a falling unemployment rate and point to the underlying strength of the economy during a period of strong headwinds. However, labour force participation has also fallen substantially since 2008.While this partly reflects demographic changes, some of it is cyclical, and, as in past cyclical rebounds, workers who are currently only marginally attached to the labour market, or who are

United States



Source: OECD Economic Outlook 94 database.

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

Percentage changes

	2011	2012	2013	2014	2015
Employment[1]	1.0	1.6	1.3	1.5	1.6
Unemployment rate[2]	8.9	8.1	7.5	6.9	6.3
Compensation per employee[3]	2.6	2.3	1.0	1.7	2.5
Labour productivity	0.9	1.1	0.3	1.4	1.7
Unit labour cost	2.0	1.2	0.9	0.5	0.7
GDP deflator	2.0	1.7	1.5	1.8	2.0
Consumer price index	3.1	2.1	1.5	1.8	1.9
Core PCE deflator[4]	1.4	1.8	1.3	1.6	1.8
PCE deflator[5]	2.4	1.8	1.2	1.6	1.8
Real household disposable income	2.4	2.0	0.7	2.3	2.6

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 94 database.

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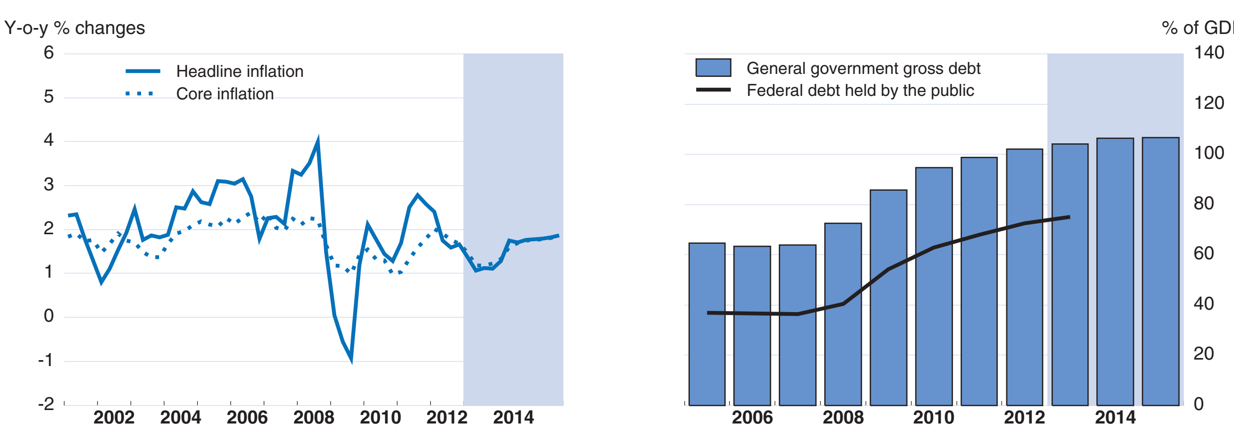
working part time for economic reasons, are likely to seek jobs more actively once the job market regains its strength. If so, the reduction in the unemployment rate will be muted.

The outlook for consumption and investment is improving

Significant progress in household balance sheet repair, higher house and asset prices which will sustain consumer wealth, and still supportive financial conditions should underpin higher levels of consumption and residential investment going forward. Business investment is likely to accelerate steadily given ample corporate cash flow, an improved demand outlook and somewhat easier lending conditions.

United States

Inflation remains low | **Government debt remains high**



Source: OECD Economic Outlook 94 database; and the Congressional Budget Office.

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United States: **Financial indicators**

	2011	2012	2013	2014	2015
Household saving ratio, net[1]	5.7	5.6	4.5	4.4	3.9
General government financial balance[2]	-10.7	-9.3	-6.5	-5.8	-4.6
General government gross debt[3]	98.8	102.1	104.1	106.3	106.5
Current account balance[2]	-2.9	-2.7	-2.5	-2.9	-3.1
Short-term interest rate[4]	0.4	0.4	0.3	0.3	1.0
Long-term interest rate[5]	2.8	1.8	2.3	3.1	3.8

1. As a percentage of disposable income.
2. As a percentage of GDP.
3. As a percentage of GDP at market value.
4. 3-month rate on euro-dollar deposits.
5. 10-year government bonds.

Source: OECD Economic Outlook 94 database.

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Monetary policy remains accommodative

With inflationary pressures weak, low inflation expectations and a still-fragile recovery, monetary policy appropriately remains accomodative. The continuing slack in the economy suggests little wage or price pressure will emerge for the time being. Furthermore, long-term interest rates rose in the middle of the year following talk that the Federal Reserve would taper large-scale asset purchases.

Fiscal policy is contractionary

Fiscal consolidation, while necessary, is acting as a headwind throughout the projection. So-called sequestration has triggered across-the-board spending cuts that started in 2013 and will amplify in 2014,

United States: **Demand and output**

	2012	2013	2014	2015	Fourth quarter 2013	Fourth quarter 2014	Fourth quarter 2015
	Current prices $ billion	Percentage changes from previous year, volume (2009 prices)					
GDP at market prices	**16 244.6**	**1.7**	**2.9**	**3.4**	**2.1**	**3.2**	**3.5**
Private consumption	11 149.6	1.9	2.3	2.9	1.9	2.6	3.0
Government consumption	2 548.1	-1.7	-0.5	-0.6	-1.4	-0.2	-0.7
Gross fixed investment	3 028.1	3.0	7.7	9.3	3.2	9.0	9.3
Public	619.0	-3.0	0.1	-0.3	-1.1	-0.6	-0.4
Residential	439.2	14.2	14.3	15.0	13.3	15.0	15.0
Non-residential	1 970.0	2.4	8.2	10.3	2.2	10.2	10.3
Final domestic demand	16 725.8	1.5	2.9	3.6	1.6	3.4	3.7
Stockbuilding[1]	66.0	0.1	0.1	0.0			
Total domestic demand	16 791.8	1.6	3.0	3.6	2.2	3.4	3.7
Exports of goods and services	2 195.9	2.4	4.7	5.0	3.7	4.7	5.2
Imports of goods and services	2 743.1	1.6	5.3	6.3	3.7	5.9	6.5
Net exports[1]	- 547.2	0.1	-0.3	-0.4			

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 94 database.

StatLink http://dx.doi.org/10.1787/888932949252

United States: **External indicators**

	2011	2012	2013	2014	2015
			$ billion		
Goods and services exports	2 101.2	2 195.9	2 253.2	2 372	2 520
Goods and services imports	2 669.9	2 743.1	2 764.6	2 935	3 151
Foreign balance	- 568.8	- 547.2	- 511.4	- 563	- 630
Invisibles, net	111.0	106.8	89.4	62	53
Current account balance	- 457.7	- 440.4	- 422.0	- 501	- 578
			Percentage changes		
Goods and services export volumes	7.1	3.5	2.4	4.7	5.0
Goods and services import volumes	4.9	2.2	1.6	5.3	6.3
Export performance[1]	0.5	0.0	- 0.9	- 0.1	- 0.6
Terms of trade	- 1.3	0.4	1.0	- 0.2	0.2

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

Source: OECD Economic Outlook 94 database.

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restraining domestic demand. The government deficit will not decline as quickly in 2014 as in the previous year, mainly due to the unusual timing of certain receipts in 2013: one-off dividend payments made by Freddie Mac and Fannie Mae to the federal budget totalled over 0.5% of GDP; and a tax-induced pull forward of dividend payments raised tax receipts. Abstracting these effects, after a large underlying tightening of the fiscal stance in 2013 of 2% of GDP, the pace of consolidation is assumed to be 1% in 2014, and further tightening of 1% of GDP is assumed in 2015, reflecting policies to secure fiscal sustainability.

Continued fiscal impasse and the monetary policy exit strategy contain risks

The episode of budget brinkmanship in October 2013 has once again shaken global markets and harmed consumer confidence. Further such episodes must be avoided as they would heighten risks. Instead, the authorities should agree a credible and stable framework of fiscal responsibility that promises progress towards long-term budget sustainability. The course of monetary policy will depend on economic developments, but it needs to balance the risks of premature exit from unconventional measures, which would risk choking off the recovery, against the risks of a build-up of inflationary pressures and financial market instability. Conditional on this projection, monetary policy should start gradually moving back towards a more neutral stance by tapering asset purchases in 2014 and begin to raise policy rates in 2015. To deal with asset prices, the authorities should stand ready to apply macro-prudential tools as a first line of defence.

JAPAN

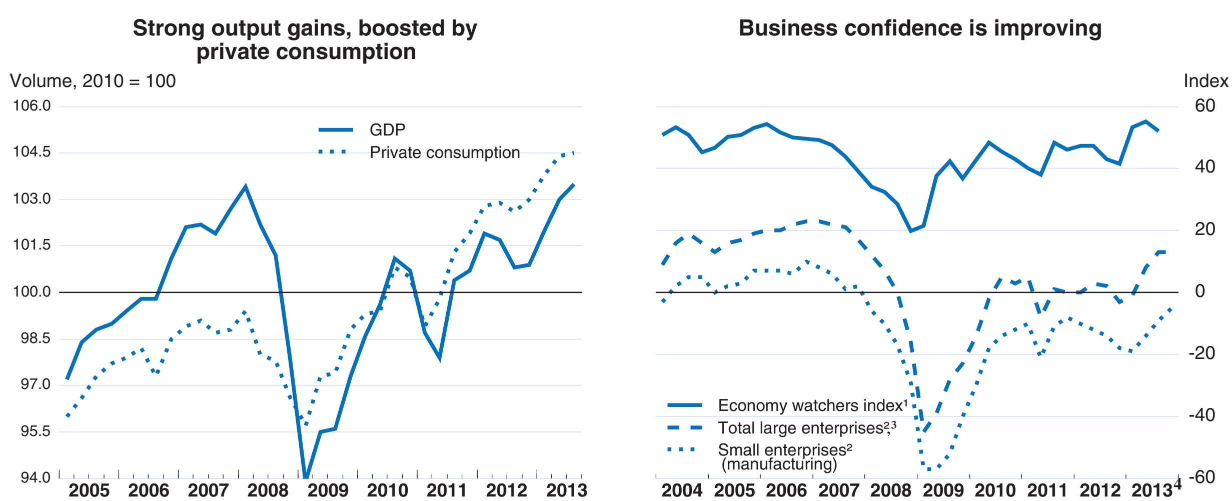
Japan's recovery from its 2012 recession is being driven by strong export growth, consumer spending amid rising confidence and employment, and a rebound in business investment. The expansion, which is being supported by strong monetary stimulus and a fiscal package, is expected to continue. However, fiscal consolidation, including the consumption tax hikes in 2014 and 2015, is projected to slow output growth to around 1½ per cent in 2014 and 1% in 2015. The sustained recovery will help push inflation toward the 2% target.

With gross public debt surpassing 230% of GDP, a detailed and credible fiscal consolidation plan to achieve the target of a primary budget surplus by FY 2020 is a top priority to sustain confidence in Japan's public finances. The hike in the consumption tax rate to 8% in 2014 is an important first step to achieve fiscal sustainability and it should be followed by the second hike, to 10%, in 2015. Additional fiscal stimulus packages beyond that planned for 2014 might jeopardise the needed fiscal consolidation. Increasing sustainable growth through bold structural reforms is also essential to address the fiscal situation, as is expansionary monetary policy. The Bank of Japan's "quantitative and qualitative monetary easing" should continue until the inflation target has been sustainably achieved in order to ensure a definitive exit from deflation.

The recovery from the 2012 recession is on track

Japan's economy grew at an annual rate of around 4% in the first half of 2013, the fastest among the G7 countries. Double-digit export growth during the same period was driven by a 20% depreciation of the yen (in real, trade-weighted terms) during the past year, and strong demand from the United States. Business confidence has risen to its highest level since the 2008 global financial crisis, leading to a rebound in business

Japan



1. 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.
2. Diffusion index of "favourable" minus "unfavourable" conditions.
3. Large enterprises are capitalised at a billion yen or more and small enterprises at between 20 million yen and a hundred million yen.
4. Except for economy watchers index where there are no projections, numbers for the fourth quarter are companies' projections made in September 2013.

Source: OECD Economic Outlook 94 database; Bank of Japan; and Cabinet Office.

StatLink http://dx.doi.org/10.1787/888932948549

Japan: **Employment, income and inflation**

Percentage changes

	2011	2012	2013	2014	2015
Employment	-0.1	-0.3	0.5	0.0	0.0
Unemployment rate[1]	4.6	4.3	4.0	3.9	3.8
Compensation per employee[2]	0.3	0.0	0.2	1.6	2.6
Unit labour cost	1.1	-2.0	-0.8	0.3	1.7
Household disposable income	-0.3	0.3	1.5	2.8	3.0
GDP deflator	-1.9	-0.9	-0.5	1.2	1.3
Consumer price index[3]	-0.3	0.0	0.2	2.3	1.8
Core consumer price index[4]	-0.9	-0.5	-0.2	2.0	1.7
Private consumption deflator	-0.8	-0.6	-0.3	2.0	1.8

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

Source: OECD Economic Outlook 94 database.

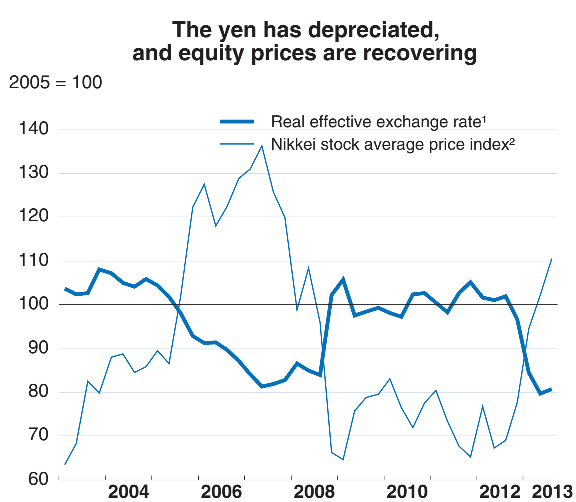
StatLink http://dx.doi.org/10.1787/888932949290

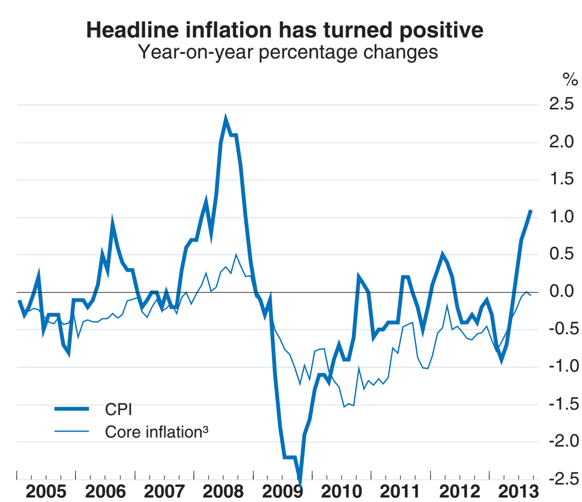
investment. Meanwhile, employment gains have reduced the unemployment rate to around 4% and wage growth has turned positive.

The government will raise the consumption tax rate in 2014, accompanied by temporary fiscal relief

Given the robust economic recovery, the government has decided to go ahead and raise the consumption tax rate from 5% to 8% in April 2014 to help secure funds to cover swelling social spending due to population ageing, while reducing the budget deficit. The consumption tax hike, the first since 1997, will generate additional tax revenue of around 1½ per cent of GDP annually. The tax hike will be accompanied by a fiscal

Japan





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

Source: Bank of Japan; and OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932948568

Japan: **Financial indicators**

	2011	2012	2013	2014	2015
Household saving ratio, net[1]	2.3	0.8	0.8	0.6	0.5
General government financial balance[2]	-8.9	-9.5	-10.0	-8.5	-6.8
General government gross debt[3]	210.6	218.8	227.2	231.9	235.4
Current account balance[2]	2.0	1.1	0.9	1.2	1.5
Short-term interest rate[4]	0.2	0.2	0.2	0.1	0.2
Long-term interest rate[5]	1.1	0.8	0.7	1.2	2.0

1. As a percentage of disposable income.
2. As a percentage of GDP.
3. As a percentage of GDP at market value.
4. 3-month inter-bank rate.
5. 10-year government bonds.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949309

stimulus package of 5 trillion yen (1.0% of GDP) to smooth the possible negative impact from higher taxes. The package, which will be finalised in December, is expected to include public works spending and cash benefits to low-income households and those who purchase housing. In addition, Japan will cut taxes by 1 trillion yen, primarily to boost business investment.

Japan: **Demand and output**

	2012	2013	2014	2015	Fourth quarter 2013	Fourth quarter 2014	Fourth quarter 2015
	Current prices ¥ trillion	Percentage changes from previous year, volume (2005 prices)					
GDP at market prices	475.6	1.8	1.5	1.0	3.2	0.6	0.7
Private consumption	289.7	1.8	1.0	1.3	2.7	-0.2	1.0
Government consumption	97.3	1.4	0.2	-0.9	1.0	-0.4	-0.4
Gross fixed investment	100.6	3.5	1.4	0.2	5.7	-0.6	0.1
Public[1]	23.3	13.3	-8.2	-16.5	9.0	-15.2	-14.1
Residential	13.8	9.1	-2.5	2.7	11.0	-7.8	-1.4
Non-residential	63.6	-1.3	5.9	5.2	3.0	6.5	4.6
Final domestic demand	487.7	2.1	1.0	0.6	3.0	-0.3	0.5
Stockbuilding[2]	- 2.7	-0.2	0.0	0.0			
Total domestic demand	485.0	1.9	0.9	0.7	2.8	-0.1	0.5
Exports of goods and services	69.7	1.9	7.8	7.2	8.6	8.9	6.3
Imports of goods and services	79.2	2.4	4.1	4.9	5.4	4.1	4.8
Net exports[2]	- 9.4	-0.1	0.5	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 public corporations.
2. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949328

Japan: **External indicators**

	2011	2012	2013	2014	2015
			$ billion		
Goods and services exports	895.3	873.9	800.4	877	951
Goods and services imports	949.6	991.9	926.6	982	1 043
Foreign balance	- 54.3	- 118.0	- 126.3	- 105	- 91
Invisibles, net	172.7	183.5	168.8	166	169
Current account balance	118.4	65.5	42.5	60	78
			Percentage changes		
Goods and services export volumes	- 0.4	- 0.1	1.9	7.8	7.2
Goods and services import volumes	5.9	5.5	2.4	4.1	4.9
Export performance[1]	- 6.7	- 3.8	- 2.7	1.7	0.0
Terms of trade	- 7.6	- 1.4	- 1.4	- 0.2	0.0

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949347

Further fiscal consolidation is needed

Assuming that the government goes ahead with the second hike in the consumption tax rate to 10% in 2015, the primary budget deficit is projected to narrow from 9% of GDP in 2013 to 5% in 2015. Achieving the government's target of balancing the primary budget (for central and local governments) by FY 2020 will thus require further measures to raise revenues and contain spending. Moreover, the government's objective of putting the public debt ratio on a downward trend is likely to require a significant primary budget surplus.

The Bank of Japan is implementing its new monetary policy

The Bank of Japan set a new inflation target of 2% over a time horizon of about two years, and launched "quantitative and qualitative monetary easing" in April 2013 to achieve it. The monetary base is rising, primarily through expanded purchases of government bonds, in line with the goal of doubling it by the end of 2014. The policy appears to have increased inflation expectations, and headline consumer price inflation has been positive since mid-2013. Higher inflation has been driven primarily by the weaker yen, which is related to the new monetary policy strategy, although Japan is not targeting the exchange rate. This has boosted the price of imported food and energy; excluding these components, core inflation is still around zero.

The expansion is projected to continue

Output growth is likely to slow in 2014-15 due to fiscal consolidation. Nevertheless, private domestic demand and export growth, sustained by the expected pick-up in world trade, are projected to support output growth of around 1½ per cent in 2014 and 1% in 2015, above Japan's potential level. Inflation – excluding the effect of higher consumption taxes – is projected to reach around 1% in 2015.

There are many risks, both domestic and external

While the progress in exiting deflation is encouraging, it will further weaken household confidence and private consumption unless higher prices are accompanied by wage increases. Any decision to delay fiscal consolidation would increase the risk of a run-up in long-term interest rates, particularly in the context of expanded bond purchases by the central bank, with risks for the financial sector, fiscal sustainability and growth. On the external side, there are both upside and downside risks related to the world economy.

EURO AREA

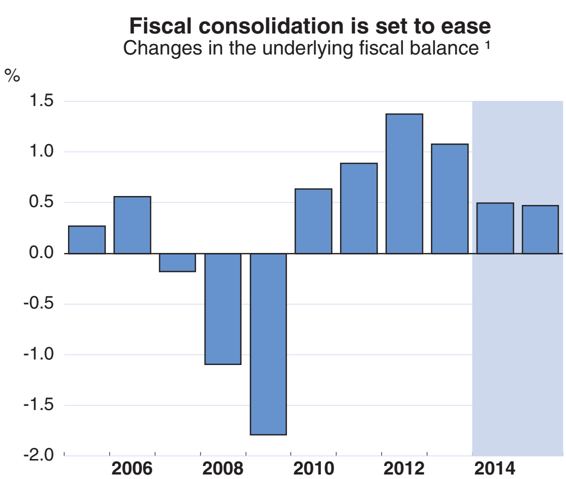
Economic activity is projected to recover in 2014 and 2015 as confidence improves further, financial market fragmentation declines and fiscal consolidation eases. The pace will remain moderate though, with deleveraging, weak bank balance sheets and tight credit conditions bearing on economic activity, especially in the vulnerable countries. High unemployment and large margins of excess capacity will recede only slowly and inflation will therefore remain subdued.

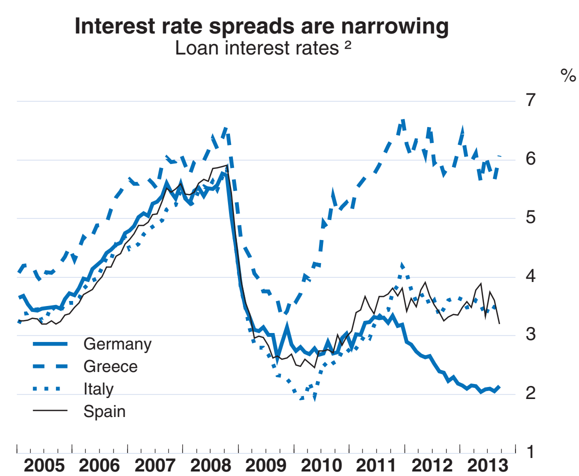
Fiscal consolidation should continue as planned, given debt levels that are still much too high. At the same time, the automatic stabilisers should be allowed to operate fully to avoid undermining the still-hesitant economic recovery. After reducing its policy rate in November, the ECB should consider further non-standard measures if the recovery flags or deflationary risks become serious. Credible stress tests, a rigorous asset quality review and, where needed, recapitalisation and restructuring of banks are required to support the upswing. Meaningful and rapid progress on the banking union is a precondition for resolving the financial crisis in the euro area. Structural reforms in labour and product markets are necessary to boost growth and jobs, with more emphasis given to completing the EU Single Market programme.

The economy has exited recession

The euro area exited from recession in the second quarter 2013, following six quarters of GDP decline, but activity barely grew in the third quarter. Confidence improved against the backdrop of the Outright Monetary Transactions (OMT) scheme, progress in fiscal consolidation and external rebalancing, and steps forward in reforming EU banking supervision. Overall, high margins of economic slack are keeping inflation low. However, economic activity remains very uneven, with visible signs of recovery in some countries, but extremely high unemployment and deep social tensions in others.

Euro area





1. As a percentage of potential GDP.
2. Interest rates on new loans to non-financial corporations (all maturities) except for Greece (maturity up to one year).

Source: European Central Bank; and OECD Economic Outlook 94 Database.

StatLink http://dx.doi.org/10.1787/888932948283

Euro area: **Employment, income and inflation**

Percentage changes

	2011	2012	2013	2014	2015
Employment	0.3	-0.7	-0.9	0.0	0.5
Unemployment rate[1]	10.1	11.3	12.0	12.1	11.8
Compensation per employee[2]	1.9	1.4	1.5	1.7	2.0
Labour productivity	1.2	-0.1	0.4	1.0	1.1
Unit labour cost	0.6	1.2	0.9	0.5	0.8
Household disposable income	2.1	0.2	1.1	1.7	2.2
GDP deflator	1.2	1.3	1.5	1.0	1.1
Harmonised index of consumer prices	2.7	2.5	1.4	1.2	1.2
Core harmonised index of consumer prices[2]	1.4	1.5	1.1	1.1	1.2
Private consumption deflator	2.4	2.1	1.3	1.1	1.1

Note: Covers the euro area countries that are members of the OECD.

1. As a percentage of labour force.
2. In the total economy.
3. Harmonised index of consumer prices excluding energy, food, drink and tobacco.

Source: OECD Economic Outlook 94 database.

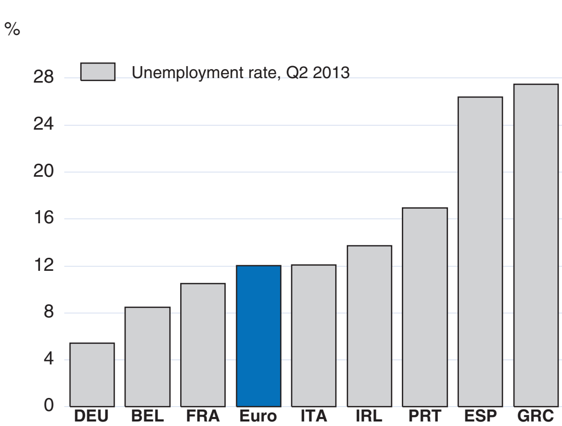
StatLink http://dx.doi.org/10.1787/888932949689

Slow rebalancing is underway

External rebalancing is progressing, supported by fiscal consolidation, on-going private sector deleveraging and improved export performance in some vulnerable countries. However, more progress on restoring competitiveness is necessary while making the adjustment more symmetric. The negative net international investment positions of vulnerable countries are still very large and it will require several years of current account surpluses to reduce them significantly. Surplus countries can contribute to rebalancing by implementing competition-friendly reforms.

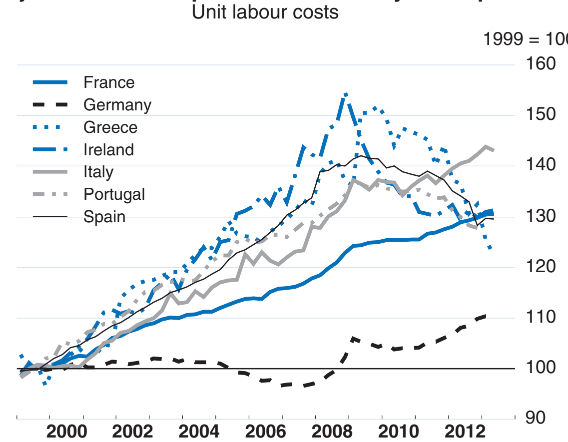
Euro area

Unemployment is high in almost all countries



Adjustment in competitiveness is not yet complete

Unit labour costs



Source: OECD Economic Outlook 94 database.

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Euro area: **Financial indicators**

	2011	2012	2013	2014	2015
Household saving ratio, net[1]	8.0	7.6	7.9	7.9	7.8
General government financial balance[2]	-4.1	-3.7	-2.9	-2.5	-1.8
General government gross debt[3]	95.8	104.3	106.4	107.1	106.8
General government debt, Maastricht definition[2]	88.1	92.7	95.2	95.9	95.6
Current account balance[2]	0.7	1.9	2.6	2.6	2.7
Short-term interest rate[4]	1.4	0.6	0.2	0.1	0.3
Long-term interest rate[5]	4.2	3.7	2.9	3.2	3.5

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. As a percentage of GDP at market value.
4. 3-month interbank rate.
5. 10-year government bonds.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949708

Risk perceptions have improved but financial conditions remain difficult

Deposit outflows from vulnerable countries have been reversed, and, despite political uncertainties, risk premia in bond markets have remained substantially below past peak levels. The better performance of bond markets in the euro area periphery reflects improved risk perceptions, as suggested by falling credit default swap spreads. 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.

Euro area: **Demand and output**

	2012	2013	2014	2015	Fourth quarter 2013	Fourth quarter 2014	Fourth quarter 2015
	Current prices € billion	Percentage changes from previous year, volume (2009 prices)					
GDP at market prices	9 460.3	-0.4	1.0	1.6	0.4	1.3	1.8
Private consumption	5 431.8	-0.6	0.6	1.2	0.2	0.8	1.3
Government consumption	2 034.4	0.2	0.3	0.3	0.4	0.5	0.2
Gross fixed investment	1 737.5	-3.5	1.5	3.2	-1.7	2.3	3.5
Final domestic demand	9 203.8	-1.0	0.7	1.3	-0.2	1.0	1.5
Stockbuilding[1]	6.0	0.0	0.1	0.0			
Total domestic demand	9 209.8	-1.0	0.8	1.3	0.1	1.0	1.5
Net exports[1]	250.5	0.6	0.3	0.3			

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 94 database.

StatLink http://dx.doi.org/10.1787/888932949727

Euro area: **External indicators**

	2011	2012	2013	2014	2015
	$ billion				
Foreign balance	180.7	321.6	447.7	498	541
Invisibles, net	- 92.2	- 93.6	- 121.3	- 154	- 163
Current account balance	88.5	228.1	326.4	344	378

Note: Covers the euro area countries that are members of the OECD.
Source: OECD Economic Outlook 94 database.

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The financial system needs to be strengthened

Elements of a banking union are being put in place. Further progress towards a full banking union, including common bank supervision, a common mechanism for crisis resolution and a common fiscal backstop, is indispensable for cutting sovereign-bank feedback loops, preventing excessive financial sector risk taking and stabilising the financial sector in the euro area. The asset quality review and stress tests – scheduled for 2014 – need to be credible if they are to be a basis for cleaning up non-performing loans and for decisions about bank recapitalisation or resolution. Should recapitalisation and resolution prove to be necessary, they need to be carried out efficiently, taking into account persistent fragilities, and applying common principles.

The pace of fiscal consolidation will slow markedly

The pace of fiscal consolidation is set to slow markedly in 2014 and 2015. While the largest part of the required fiscal adjustment has already been undertaken in many countries, strong fiscal positions will need 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.

Weak activity and disinflationary pressures may require further monetary policy easing

With economic slack projected to narrow only slowly and remain sizeable even at the end of 2015, inflation might run at 1.2%, well below the ECB definition of price stability. The outlook for low inflation prompted the ECB to lower its policy rate by 25 basis points in November, to 0.25%. If the recovery flags or deflationary risks become serious, the ECB should consider introducing additional non-conventional measures.

Near-term growth will be slow

Economic activity will recover in 2014 and 2015, as confidence improves further, financial market fragmentation declines and fiscal consolidation eases. However, private demand will remain fragile in most countries, with high unemployment, weak income growth and tight credit conditions weighing on activity. Unemployment is projected to persist at currently high levels in 2014, but to start to decline in 2015.

Downside risks remain high

Downside risks still dominate. 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 asset quality review and stress tests in 2014; and insufficient progress on structural reforms in both debtor and creditor countries. Unexpected events could still cause serious spillovers across borders. However, more rapid progress on institutional and structural reform could improve financial conditions and confidence, bringing about a stronger turnaround in macroeconomic activity.

GERMANY

Economic growth is projected to strengthen, supported by domestic demand. Real wage gains and low unemployment should sustain consumption growth while improving confidence in the euro area recovery and low interest rates are expected to boost investment spending. Exports will accelerate gradually as the recovery takes hold in the euro area and emerging market economies strengthen again. The current account surplus may shrink to 5½ per cent of GDP in 2015. The unemployment rate is projected to fall to 5% at the end of 2015, generating some inflation pressure.

Fiscal policy should remain neutral, consistent with the fiscal rule for the central government. Reducing high leverage among systemically important banks could strengthen confidence and make the recovery more resilient to financial shocks. The establishment of one-stop shops for business start-ups is welcome and should facilitate more dynamism in Germany's domestic economy. Structural reforms to deregulate professional services, remove barriers to full-time female employment and further improve access to tertiary education would all strengthen growth and contribute to global rebalancing.

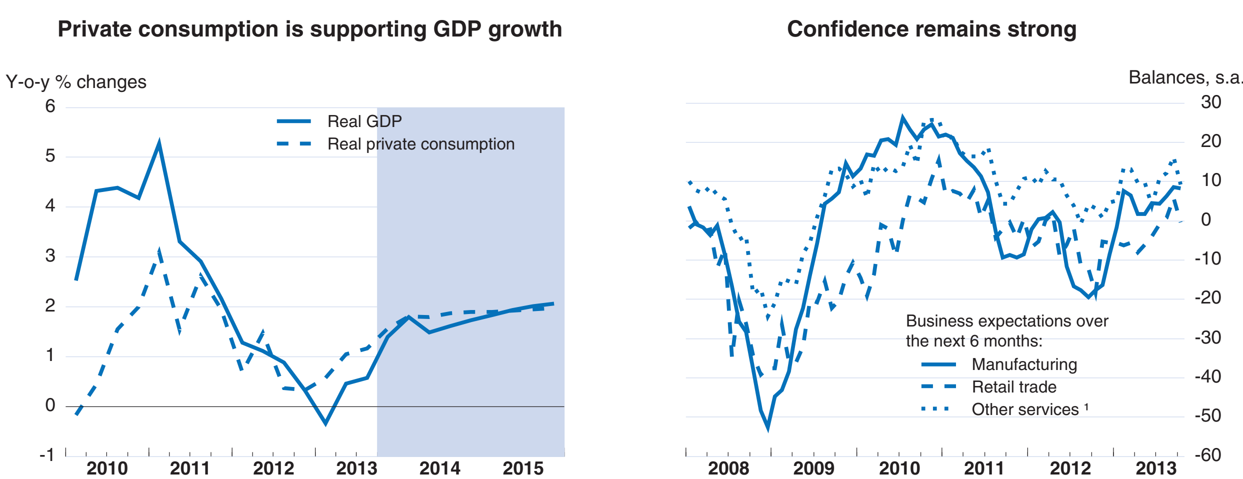
Economic growth is supported by private consumption

Low unemployment has boosted consumer confidence, supporting private consumption. Employment expanded little, as firms in some manufacturing-oriented sectors shed jobs, whereas job creation continued in services, although for some skills, such as in ICT, employers faced difficulties filling jobs. Wage growth has decelerated recently and consumer price inflation remains low. House prices and rents have risen but mortgage lending is expanding modestly, despite low interest rates, and housing investment is picking up only gradually.

Export growth has been weak but the fall in business investment has been arrested

However, export growth remained subdued in the third quarter, as demand from emerging market economies, notably for investment goods, slowed and European export markets remained weak. Nevertheless, domestic business investment appeared to bottom out after declining for

Germany



1. Private sector services excluding wholesale and retail trade and financial services.
Source: OECD Economic Outlook 94 database; and Ifo Business Survey.

StatLink http://dx.doi.org/10.1787/888932948188

Germany: **Employment, income and inflation**

Percentage changes

	2011	2012	2013	2014	2015
Employment	2.3	1.0	0.7	0.4	0.5
Unemployment rate[1]	6.0	5.5	5.4	5.4	5.2
Compensation per employee[2]	3.0	2.6	2.0	2.9	3.4
Unit labour cost	0.9	3.0	2.2	1.7	1.8
Household disposable income	3.8	2.3	2.0	3.1	3.5
GDP deflator	1.2	1.5	2.1	1.3	1.6
Harmonised index of consumer prices	2.5	2.1	1.7	1.8	2.0
Core harmonised index of consumer prices[3]	1.2	1.3	1.2	1.6	2.0
Private consumption deflator	2.1	1.6	1.7	1.4	1.7

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

Source: OECD Economic Outlook 94 database.

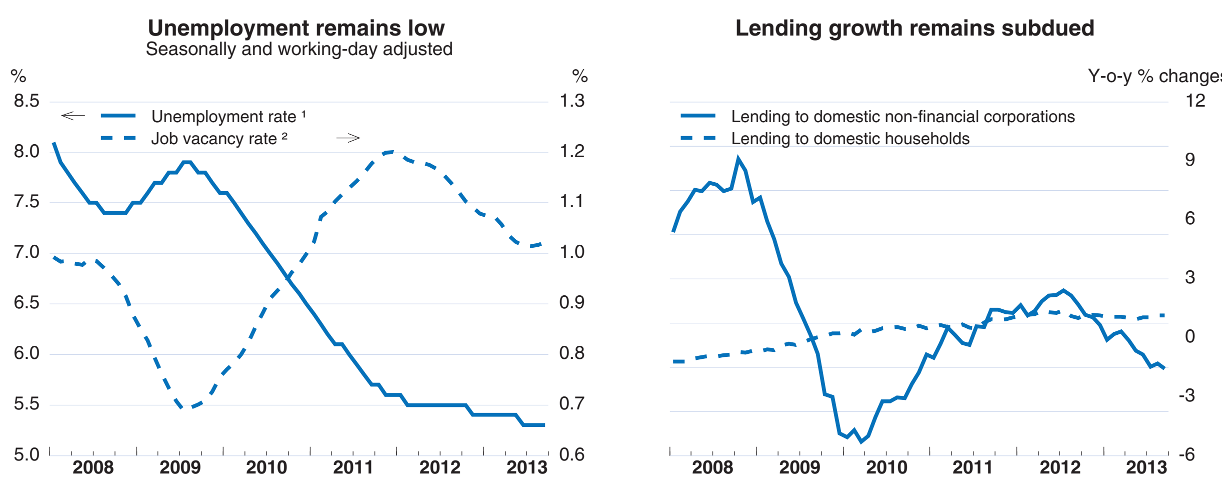
StatLink http://dx.doi.org/10.1787/888932949366

two consecutive years, as financial tensions in the euro area diminished and as firms met accumulated replacement investment needs.

Fiscal policy is expected to remain broadly neutral

The government financial balance is expected to improve in 2014 and 2015. This reflects cyclical factors. An increase in the basic income tax allowance will lower revenues somewhat in 2014, while spending to repair damage from the floods in the summer of 2013 and higher transfer payments to families will raise spending. However, the impact on the budget balance is expected to be largely offset by revenue-raising and spending-reducing measures, including increased tobacco taxes and

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.

Source: Statistisches Bundesamt; and Deutsche Bundesbank.

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Germany: **Financial indicators**

	2011	2012	2013	2014	2015
Household saving ratio, net[1]	10.4	10.3	9.9	9.8	9.7
General government financial balance[2]	-0.8	0.1	0.1	0.2	0.6
General government gross debt[3]	85.8	88.3	86.1	83.4	80.9
General government debt, Maastricht definition[2]	80.1	81.0	78.8	76.1	73.6
Current account balance[2]	6.2	7.1	7.0	6.1	5.6
Short-term interest rate[4]	1.4	0.6	0.2	0.1	0.3
Long-term interest rate[5]	2.6	1.5	1.6	2.1	2.6

1. As a percentage of disposable income.
2. As a percentage of GDP.
3. As a percentage of GDP at market value.
4. 3-month interbank rate.
5. 10-year government bonds.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949385

lower spending on the public employment service as well as spending restraint at subnational government levels. Several regional governments need to consolidate their budgets ahead of the requirement of a zero structural budget balance from 2020. Some have limited growth of civil servants' wages.

Germany: **Demand and output**

	2012	2013	2014	2015	Fourth quarter 2013	Fourth quarter 2014	Fourth quarter 2015
	Current prices € billion	Percentage changes from previous year, volume (2005 prices)					
GDP at market prices	2 668.0	0.5	1.7	2.0	1.4	1.7	2.1
Private consumption	1 532.6	1.1	1.8	1.9	1.6	1.9	2.0
Government consumption	514.3	1.0	1.7	1.8	1.4	1.8	1.8
Gross fixed investment	471.9	-1.0	4.3	4.7	1.5	4.4	4.8
Public	41.3	-3.4	4.5	1.8	1.1	1.8	1.8
Residential	154.4	1.0	4.9	4.1	4.2	4.2	4.1
Non-residential	276.2	-1.7	3.9	5.3	0.0	4.8	5.5
Final domestic demand	2 518.8	0.7	2.3	2.4	1.5	2.3	2.5
Stockbuilding[1]	- 10.2	0.1	0.0	0.0			
Total domestic demand	2 508.7	0.8	2.2	2.4	1.8	2.3	2.5
Exports of goods and services	1 384.3	0.6	3.6	4.6	2.4	3.9	4.8
Imports of goods and services	1 224.9	1.3	5.0	5.8	3.4	5.5	5.9
Net exports[1]	159.3	-0.3	-0.4	-0.3			
Memorandum items							
GDP without working day adjustments	2 666.5	0.4	1.7	2.2			

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 94 database.

StatLink http://dx.doi.org/10.1787/888932949404

Activity is projected to rise above potential

Economic growth is projected to accelerate. Collective bargaining agreements indicate that wage growth will strengthen under pressure from low unemployment and skills shortages. While long-term interest rates are expected to rise as safe haven effects diminish, monetary conditions will remain expansionary, boosting private sector investment spending. The gradual recovery in the euro area is expected to improve export prospects. Overall, these factors should result in some welcome rebalancing of the economy towards domestic demand. With activity picking up and unemployment falling further, consumer price and wage inflation are projected to rise.

The euro area crisis remains the main risk

As demand growth from emerging market economies may not recover to the strong pace observed in recent years, the economic recovery is likely to depend to a larger extent on recovery in Europe. Renewed financial tensions within the euro area could lower exports and investment and push up unemployment.

FRANCE

Economic growth is projected to rise gradually from the trough in the level of real GDP reached in the first quarter of 2013 to about 1½ per cent in 2015, given less fiscal consolidation and improving economic prospects in the euro area. The national unemployment rate should stabilise slightly above 11% in 2014 before declining slowly. Despite VAT hikes, inflation pressure is likely to remain subdued.

Fiscal policy has been less tight in 2013 than initially planned, and the pace of fiscal consolidation is to be reduced further in 2014 and 2015. The automatic stabilisers should be allowed to play fully around the new structural consolidation path. Future fiscal efforts should focus on restraining public spending, especially by cutting inefficient and non-priority items. Accelerating the implementation of a wide range of structural reforms to boost medium-term productive capacity would facilitate consolidation and strengthen the credibility of fiscal policy.

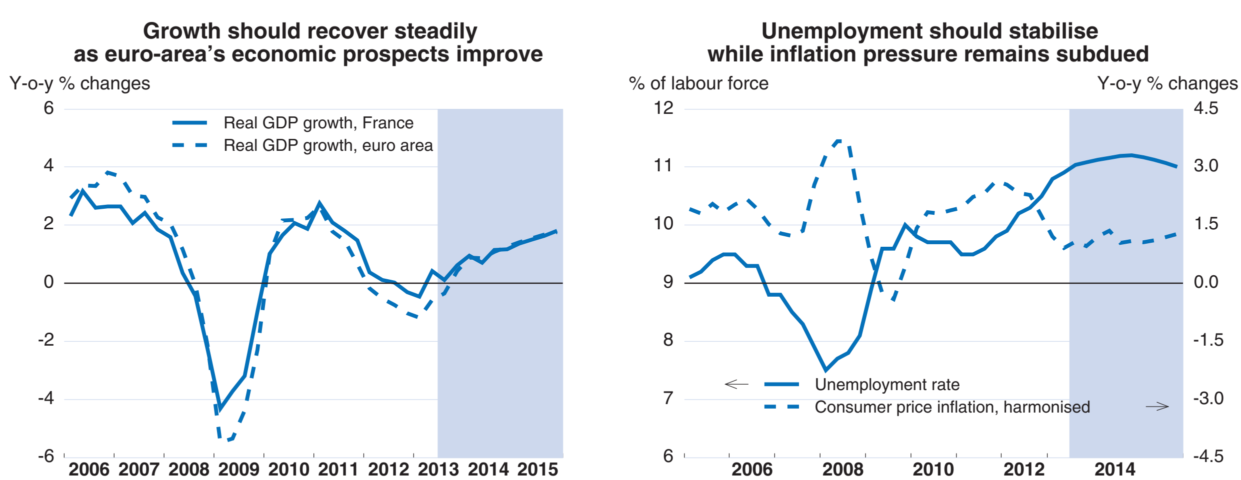
Economic conditions have improved

Economic growth has been erratic, with the unexpectedly strong outcome in the second quarter, driven by both private and public consumption and by exports, followed by a correction in the third quarter. Business investment is slowly recovering, but the construction sector remains very weak. The rise in unemployment has slowed, in part due to subsidised jobs targeted at the low-skilled in the non-market sector. However, high unemployment and ample economic slack have pushed inflation down further, despite very accommodative monetary conditions in the euro area.

Some imbalances have receded

The goods and services external deficit is now around 2¼ per cent of GDP, compared to a peak of 3% in 2011. The internal devaluation resulting from the joint business-tax credit, VAT increase and public spending cuts, which will have its full effects in 2014 and 2015, should lower production costs provided that wages increase only moderately. Nevertheless, more structural reforms will be needed to restore competitiveness. Fiscal imbalances have also diminished significantly, but further efforts (of

France



Source: OECD Economic Outlook 94 database.

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France: **Employment, income and inflation**

Percentage changes

	2011	2012	2013	2014	2015
Employment	0.3	0.0	-0.8	0.1	0.5
Unemployment rate[1]	9.2	9.8	10.6	10.8	10.7
Compensation per employee[2]	2.7	2.1	2.0	1.9	1.9
Unit labour cost	1.0	1.9	1.5	1.2	0.9
Household disposable income	2.8	0.8	1.1	1.7	2.1
GDP deflator	1.3	1.5	1.5	0.8	1.0
Harmonised index of consumer prices	2.3	2.2	1.0	1.2	1.2
Core harmonised index of consumer prices[3]	1.1	1.5	0.7	1.1	1.1
Private consumption deflator	2.1	1.8	0.7	0.9	1.0
Memorandum item					
Unemployment rate[4]	9.6	10.2	11.0	11.2	11.1

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

Source: OECD Economic Outlook 94 database.

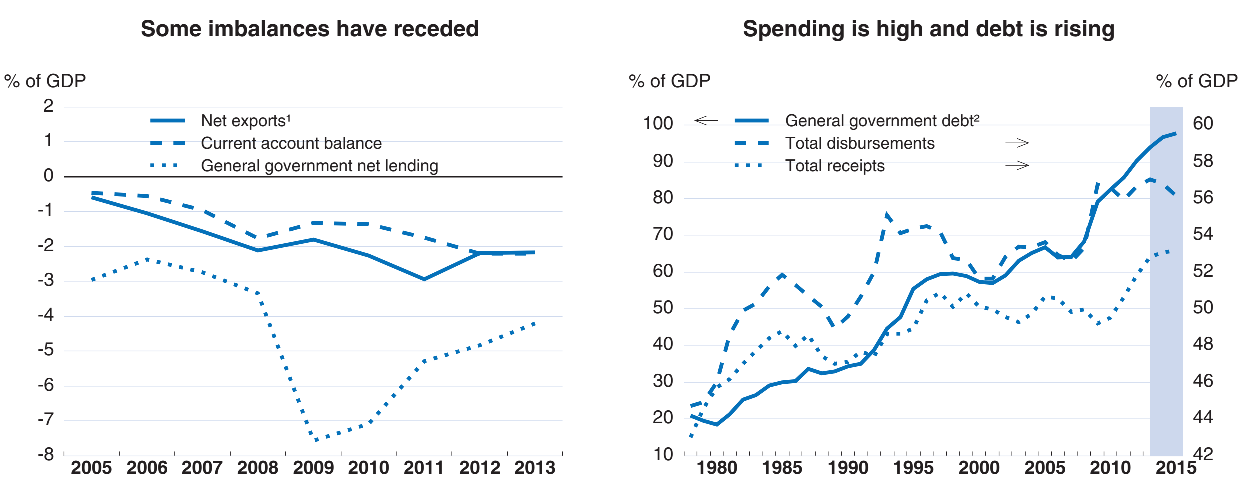
StatLink http://dx.doi.org/10.1787/888932949423

about 2.5 percentage points of GDP) will be necessary to balance government accounts over the medium term and put public debt on a firmly declining trend. Real house prices are 8% lower than at the end of 2007. On the other hand, labour and product market slack have continued to grow.

Lower tail risks and less fiscal tightening than expected have helped

Pressure on the financial system and the most severe risks to the euro area have diminished, improving confidence, even though there is still significant uncertainty regarding the solidity of banks. The economy

France



1. Goods and services.
2. Maastricht definition.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932948359

France: **Financial indicators**

	2011	2012	2013	2014	2015
Household saving ratio, gross[1]	16.4	15.7	15.4	15.4	15.2
General government financial balance[2]	-5.3	-4.8	-4.2	-3.7	-3.0
General government gross debt[3]	99.3	109.3	113.0	115.8	116.9
General government debt, Maastricht definition[2]	85.8	90.3	94.0	96.7	97.8
Current account balance[2]	-1.8	-2.2	-2.2	-2.4	-2.3
Short-term interest rate[4]	1.4	0.6	0.2	0.1	0.3
Long-term interest rate[5]	3.3	2.5	2.2	2.7	3.1

1. As a percentage of disposable income (gross saving).
2. As a percentage of GDP.
3. As a percentage of GDP at market value.
4. 3-month interbank rate.
5. 10-year benchmark government bonds.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949442

has also benefited from a slower pace of fiscal consolidation than planned. Indeed, not only were automatic stabilisers allowed to operate fully to cushion the impact of the recession that ended in the first quarter of 2013, consistent with OECD recommendations, but underlying fiscal consolidation is now expected to have been only 1.3 percentage points of GDP in 2013 compared with 1.8 percentage points in the initial budget. This easier stance did not have negative repercussions on the cost of financing public debt as fiscal efforts were sizeable nonetheless and the

France: **Demand and output**

	2012	2013	2014	2015	Fourth quarter 2013	Fourth quarter 2014	Fourth quarter 2015
	Current prices € billion	Percentage changes from previous year, volume (2005 prices)					
GDP at market prices	2 031.8	0.2	1.0	1.6	0.6	1.2	1.8
Private consumption	1 171.6	0.5	0.9	1.4	0.9	0.9	1.6
Government consumption	502.6	1.6	0.9	0.5	1.4	0.7	0.4
Gross fixed investment	401.5	-2.4	0.6	2.8	-1.8	1.8	3.2
Public	63.7	-1.5	-1.3	0.6	-1.2	-0.5	0.6
Residential	114.4	-3.7	0.3	2.0	-3.6	1.7	2.1
Non-residential	223.3	-2.1	1.3	3.7	-1.0	2.4	4.3
Final domestic demand	2 075.7	0.2	0.8	1.4	0.5	1.0	1.6
Stockbuilding[1]	0.7	0.2	0.3	0.0			
Total domestic demand	2 076.4	0.4	1.1	1.4	1.3	1.0	1.6
Exports of goods and services	557.6	0.3	3.1	5.3	0.9	4.4	5.8
Imports of goods and services	602.3	1.1	3.3	4.4	3.2	3.5	4.7
Net exports[1]	- 44.6	-0.3	-0.1	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. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949461

government maintained a firm commitment to pursue future consolidation. This implies, however, that the required remaining consolidation will be somewhat larger.

Public spending must be restrained

The current fiscal plan is to reduce the structural deficit by 0.9% of GDP in 2014 and by an additional 0.8% in 2015, which is appropriate given the sluggishness of the expected recovery. The current projections incorporate slightly less underlying consolidation in 2014 as employment may be less dynamic than forecast by the government. The automatic stabilisers should continue to play fully if the economy under or over-performs current expectations. The government is to put greater emphasis on reducing public expenditure. This is a welcome move given the scale of public spending and the scope for tackling inefficient or unnecessary spending. Reduced public spending should be linked to enhancing work incentives and boosting economic performance in the medium term. Structural reforms in a variety of areas could boost confidence and growth and reduce the burden of debt more rapidly.

Growth is projected to increase gradually

The gradual acceleration in business investment and the slowing of fiscal consolidation should place the economic outlook on a better footing. Construction dynamics should improve after the 2014 local elections as many public projects and building authorisations have been put on hold. Real GDP growth is projected to pick up by enough for the unemployment rate to stabilise and even fall slightly in the course of 2015. Notwithstanding the short-term impact of the VAT hike in 2014, inflation is set to stay at around or slightly above 1% per annum.

Risks are becoming more balanced

Downside risks remain significant in the euro area, and French banks are heavily exposed to some vulnerable countries, mainly Italy. Their non-performing loans remain at surprising low levels, but the quality of mortgages could deteriorate if growth falters and unemployment rises further. On the other hand, greater progress towards addressing the euro-area banking weaknesses could restore confidence. The household saving rate remains high, allowing for a potential consumption boost once confidence improves.

ITALY

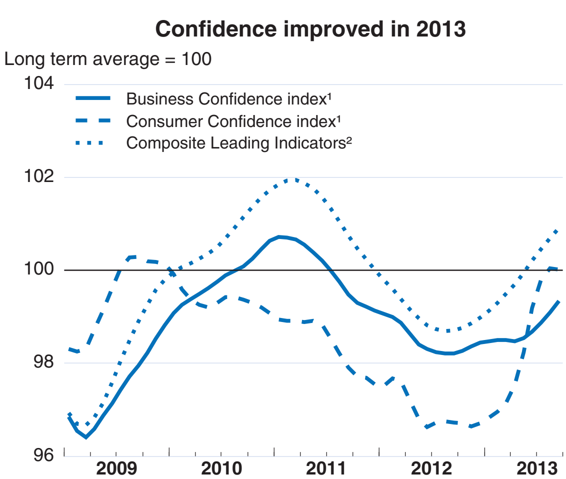
Italy is exiting recession and growth is projected to rise through 2014-15 as fiscal consolidation eases. However, economic slack will remain large. The return to growth is supported by exports, which are projected to gain further momentum in the next two years as foreign demand accelerates. Domestic demand will gain momentum during 2014 as investment turns round. Unemployment is set to remain high as the impact of rising demand is likely to initially increase average working hours of persons already employed. Cost and price pressures will stay weak.

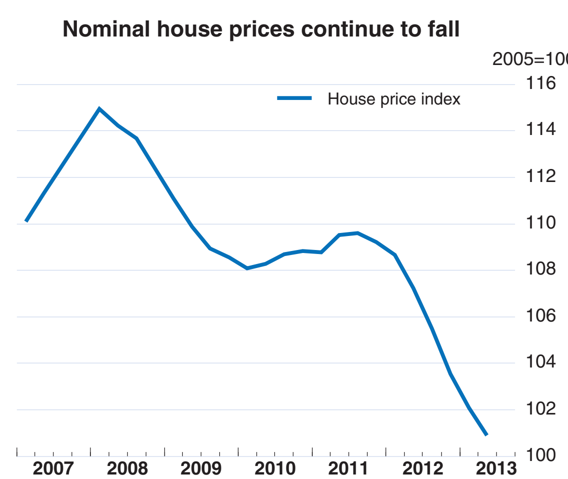
The underlying improvement in the budget deficit was substantial in 2013. The likely 2013 deficit of 3% of GDP reflects the appropriate operation of the automatic stabilisers, but with the debt-to-GDP ratio still rising, fiscal tightening of at least as much as programmed is needed in 2014-15. Putting recent reforms into practice is essential to strengthen the still weak recovery. Further reductions in labour taxation should be part of a coherent overall tax reform

Growth resumed in late 2013

In late 2013, the fall in GDP, which began in mid-2011, came to a halt. Confidence has been rising for some time, even though "hard" data do not show a clear upturn. The strong rise in unemployment abated in mid-2013, though employment in large companies continued to fall into the third quarter. The volume of fixed investment has declined by over a quarter since 2008, reducing the already low potential growth rate of the economy, and continued to fall in the first half of 2013. Nevertheless, economic slack is substantial with the result that wage settlements have been subdued, and earnings growth remains low as the recession has cut average hours worked. Likewise, consumer price inflation has been falling. Weak price pressures have been reflected in export prices, resulting in modest gains in competitiveness.

Italy





1. Seasonally adjusted.
2. Amplitude adjusted.

Source: OECD, Main economic indicators database; and OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932948511

Italy: Employment, income and inflation

Percentage changes

	2011	2012	2013	2014	2015
Employment[1]	0.3	-0.3	-1.6	-0.4	0.4
Unemployment rate[1,2]	8.4	10.7	12.1	12.4	12.1
Compensation of employee[3]	1.2	0.0	1.3	1.0	2.0
Unit labour cost	1.2	2.5	1.7	0.1	1.2
Household disposable income	2.0	-2.2	-0.3	0.6	1.8
GDP deflator	1.4	1.7	1.5	1.1	0.7
Harmonised index of consumer prices	2.9	3.3	1.4	1.3	1.0
Core harmonised index of consumer prices[4]	2.0	2.0	1.3	1.3	0.9
Private consumption deflator	2.8	2.8	1.4	1.3	1.0

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. In the total economy.
4. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949480

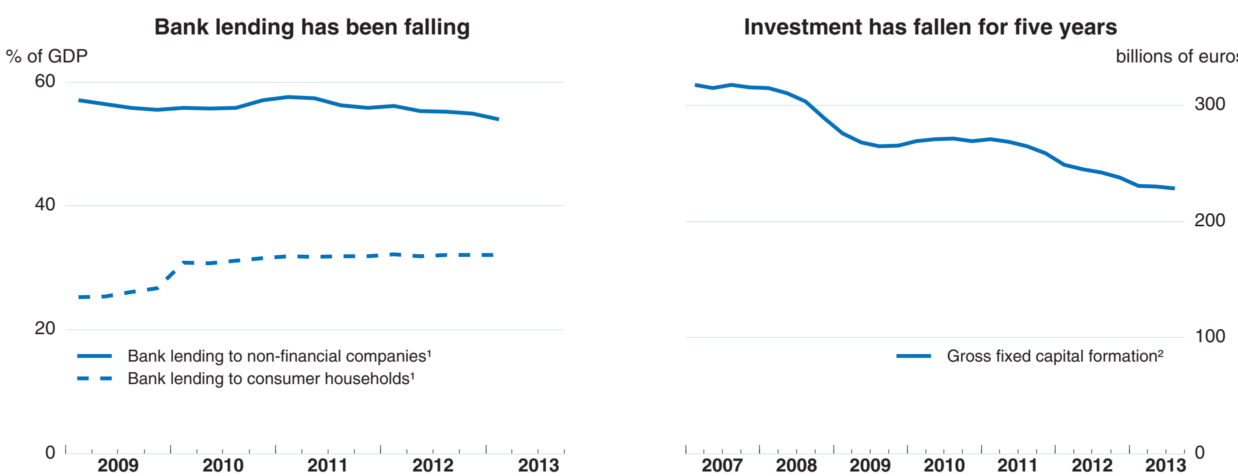
Bank credit has continued to decline

Bank lending has continued to shrink, partly due to reduced demand for credit. However, interest rates charged to borrowers are significantly higher than in some other euro area countries, suggesting that supply of loans is also a constraint, restricting investment and perhaps consumption.

Much fiscal tightening has been achieved, a little more is needed

Against a difficult background, the government succeeded in continuing underlying fiscal consolidation in 2013, although the headline deficit did not fall, mainly because of weak activity. Hence the ratio of

Italy



1. Level at the end of the quarter divided by quarterly GDP annualised.
2. In constant 2005 prices.

Source: Bank of Italy; and OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932948530

Italy: **Financial indicators**

	2011	2012	2013	2014	2015
Household saving ratio, net[1]	4.3	3.6	4.3	3.6	3.6
General government financial balance[2]	-3.7	-2.9	-3.0	-2.8	-2.0
General government gross debt[3]	124.0	142.2	145.7	146.7	146.1
General government debt, Maastricht definition[2]	120.7	127.0	132.7	133.2	132.6
Current account balance[2]	-3.1	-0.6	1.2	1.8	2.0
Short-term interest rate[4]	1.4	0.6	0.2	0.1	0.3
Long-term interest rate[5]	5.4	5.5	4.4	4.5	4.6

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. As a percentage of GDP at market value.
4. 3-month interbank rate.
5. 10-year government bonds.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949499

public debt to GDP is still rising, even adjusted for contributions to the EFSF and ESM. After some measures taken in late 2013 to keep the 2013 deficit within the 3% of GDP limit, these projections incorporate the government's announced further overall tightening of 0.5% of GDP by 2015. This should be sufficient for the debt-to-GDP ratio to begin to fall. Ensuring a rapid decline in the debt ratio could require a somewhat more ambitious programme of underlying consolidation.

The investment cycle and exports will underpin growth

Underlying prospects are beginning to improve. During 2014, exports are projected to accelerate as foreign demand increases. Domestic demand will begin to expand as there will be much less fiscal tightening

Italy: **Demand and output**

	2012	2013	2014	2015	Fourth quarter 2013	Fourth quarter 2014	Fourth quarter 2015
	Current prices € billion	Percentage changes from previous year, volume (2005 prices)					
GDP at market prices	1 567.1	-1.9	0.6	1.4	-0.9	1.1	1.6
Private consumption	953.7	-2.4	0.0	0.8	-1.3	0.6	0.8
Government consumption	315.0	-0.2	0.1	-0.1	-0.3	0.7	-0.6
Gross fixed investment	280.8	-5.9	0.1	3.7	-4.5	1.9	4.5
Final domestic demand	1 549.4	-2.6	0.1	1.1	-1.7	0.9	1.2
Stockbuilding[1]	0.0	-0.4	-0.1	0.0			
Total domestic demand	1 549.4	-3.0	0.0	1.1	-1.7	0.9	1.2
Exports of goods and services	473.8	0.0	3.6	4.9	0.6	4.3	5.1
Imports of goods and services	456.1	-3.9	1.8	4.2	-2.1	3.8	4.3
Net exports[1]	17.7	1.1	0.6	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 94 database.

StatLink http://dx.doi.org/10.1787/888932949518

than in 2012-13. Investment growth in particular should begin to pick up through to 2015, due to some bounce-back from the recent decline and to rising exports. Unemployment will decline, but only slowly, as the first impact of increased labour demand is likely to be higher hours worked. High unemployment should keep wage settlements modest, but low inflation and some recovery in hours worked will generate income growth and boost private consumption.

Finance constraints are a risk, but investment might be stronger

The projected recovery could be undermined if the health of the banking system restricts credit and interrupts the normal investment cycle. The ECB's Outright Monetary Transactions programme has successfully limited the impact of crises or fiscal slippage on financial markets, but such risks remain until public debt is clearly declining relative to GDP. Somewhat more fiscal tightening up to 2015 than currently planned would reduce this risk. On the positive side, investment and therefore GDP could recover more strongly than projected, especially if the programme for repaying outstanding public trade credit succeeds in giving a substantial boost to the economy, rather than the small impact included in these projections.

UNITED KINGDOM

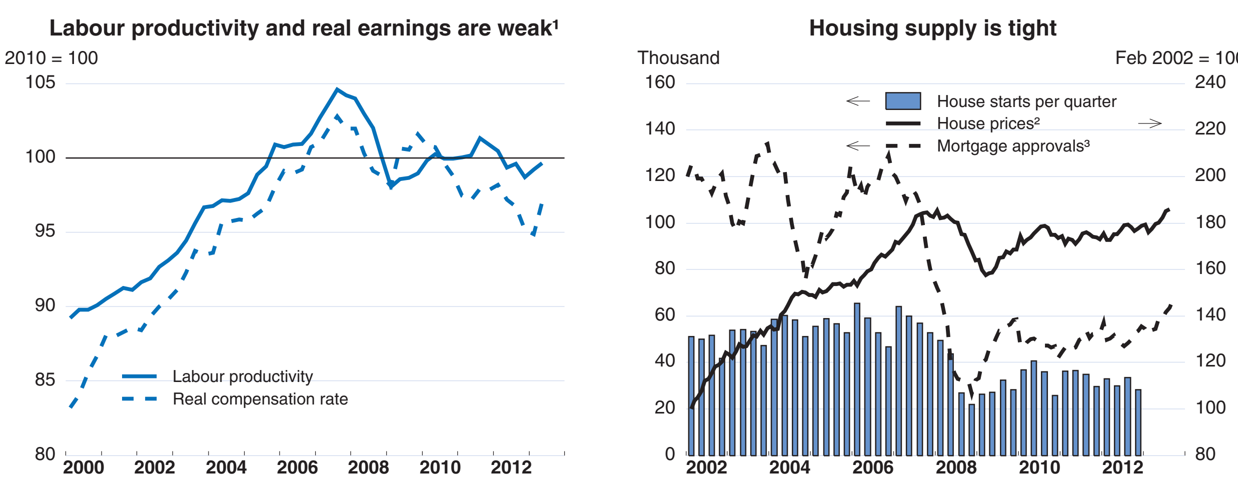
Economic activity has picked up and broadened, supported by a turnaround in private sector confidence, continued monetary stimulus, a policy-induced recovery in the housing market and a more gradual pace of household and public sector deleveraging as automatic stabilisers operate. Growth is projected to strengthen further in 2014 and 2015, mainly supported by an upturn in gross fixed investment and exports. Despite exceeding the inflation target of 2%, headline inflation is projected to fall gradually in the next two years.

Consistent with its newly adopted state-contingent forward guidance, the Bank of England has announced its intention to keep interest rates low to support the recovery. The welcome efforts to speed up the recapitalisation of the banking sector should underpin financial stability. While headline deficits are expected to shrink as growth recovers, it is important to maintain existing consolidation plans to restore fiscal sustainability. Further relaxing the barriers holding back housing supply is an important policy priority to contain house price inflation.

The economy has gathered momentum

Recovery has been underpinned by a rebound in private sector confidence, a revival of the housing market, a slower pace of household and public sector deleveraging as automatic stabilisers operate and improving growth prospects in Europe. There has also been a broad-based upturn in services, industrial production, construction output and retail sales. However, real earnings have continued to fall, with inflation exceeding weak nominal wage growth, as wages respond to poor labour productivity. Gross fixed investment seems to have bottomed out at 13% of GDP, while survey indicators suggest a narrowing of capacity utilisation rates within companies.

United Kingdom



1. Total economy.
2. Index based on mortgages completed and adjusted for the mix of dwellings sold.
3. Total sterling approvals for house purchase to individuals, seasonally adjusted.

Source: OECD Economic Outlook 94 database; Bank of England; Office for National Statistics; and Department of Communities and Local Government.

StatLink http://dx.doi.org/10.1787/888932948378

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

Percentage changes

	2011	2012	2013	2014	2015
Employment	0.5	1.2	1.0	1.0	1.2
Unemployment rate[1]	8.1	7.9	7.8	7.5	7.2
Compensation per employee[2]	2.0	2.0	1.9	2.8	3.1
Unit labour cost	1.2	2.6	1.6	1.2	1.5
Household disposable income	2.6	4.3	2.6	3.6	3.1
GDP deflator	2.3	1.7	2.1	1.6	1.9
Harmonised index of consumer prices[3]	4.5	2.8	2.6	2.4	2.3
Core harmonised index of consumer prices[4]	3.0	2.2	2.0	2.3	2.3
Private consumption deflator	3.9	2.6	2.6	2.5	2.3

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

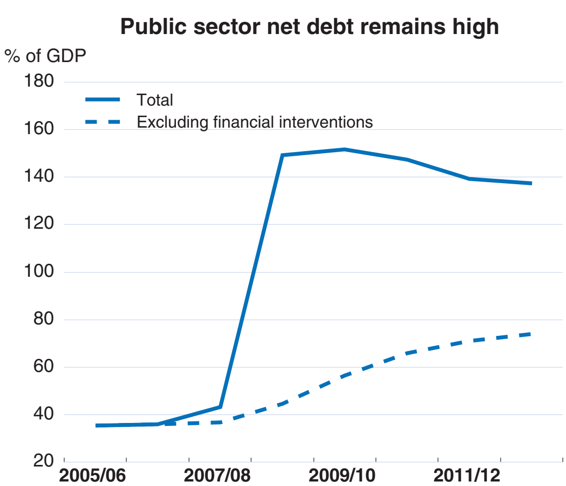
Source: OECD Economic Outlook 94 database.

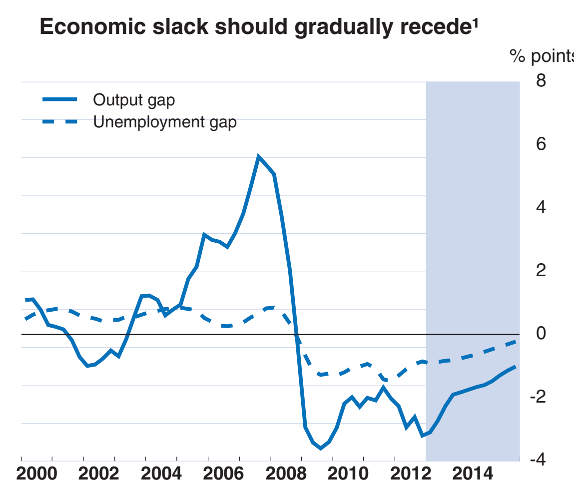
StatLink http://dx.doi.org/10.1787/888932949537

Labour market slack is persistent

Employment growth in the private sector has been strong since early in the global downturn, offsetting job cuts in the public sector and helping to absorb increases in the labour force. This has mitigated rises in the unemployment rate. However, the unemployment rate remains high and many workers would like to increase their working hours, which suggests an additional margin of slack. Labour supply has been bolstered by net immigration and rising participation rates among older workers. Labour market participation is projected to be further bolstered by benefit reforms and improving growth.

United Kingdom





1. The output gap for the total economy is the difference between real and potential GDP. The unemployment gap shows the difference between the unemployment rate and the NAIRU (non-accelerating inflation rate of unemployment).

Source: OECD Economic Outlook 94 database; and Office for National Statistics.

StatLink http://dx.doi.org/10.1787/888932948397

United Kingdom: **Financial indicators**

	2011	2012	2013	2014	2015
Household saving ratio, gross[1]	6.7	6.8	5.8	5.5	4.4
General government financial balance[2]	-7.9	-6.2	-6.9	-5.9	-4.7
General government gross debt[3]	99.0	102.4	107.0	110.0	111.6
General government debt, Maastricht definition[2]	84.3	88.7	91.8	95.2	98.5
Current account balance[2]	-1.5	-3.8	-3.4	-2.5	-2.3
Short-term interest rate[4]	0.9	0.8	0.5	0.5	0.7
Long-term interest rate[5]	3.1	1.9	2.4	3.1	3.8

1. As a percentage of disposable income (gross saving).
2. As a percentage of GDP.
3. As a percentage of GDP at market value.
4. 3-month interbank rate.
5. 10-year government bonds.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949556

Fiscal consolidation should continue

Recent data revisions have showed better fiscal outturns, while stronger growth will boost revenues and lower cyclical spending. However, public finances remain weak and the authorities are therefore assumed to stick to their medium-term fiscal consolidation plans of tightening the underlying budget deficit by 1¾ per cent over the next two years.

Monetary policy should remain very accommodative

The Bank of England adopted state-contingent forward guidance in August 2013 and committed to keep its policy rate on hold at 0.5% and maintain the stock of asset purchases (£375 billion, 25% of GDP) at least as

United Kingdom: **Demand and output**

	2012	2013	2014	2015	Fourth quarter 2013	Fourth quarter 2014	Fourth quarter 2015
	Current prices £ billion	Percentage changes from previous year, volume (2010 prices)					
GDP at market prices	1 564.6	1.4	2.4	2.5	2.6	2.0	2.8
Private consumption	1 029.8	1.7	1.8	2.0	1.7	1.9	2.0
Government consumption	341.2	0.4	-0.7	-0.3	1.0	-1.9	0.8
Gross fixed investment	224.4	-2.5	6.4	7.0	4.1	6.7	7.1
Public[1]	34.6	-7.2	5.5	1.7	2.0	2.3	1.3
Residential	62.4	5.7	6.1	6.5	7.9	6.3	6.6
Non-residential	127.5	-5.1	6.8	8.6	2.8	8.1	8.9
Final domestic demand	1 595.5	0.8	1.9	2.3	1.9	1.8	2.5
Stockbuilding[2]	3.8	0.3	0.2	0.0			
Total domestic demand	1 599.3	1.1	2.1	2.2	2.0	1.8	2.5
Exports of goods and services	493.9	2.6	4.4	4.3	5.0	4.0	4.5
Imports of goods and services	528.5	1.9	3.5	3.5	3.5	3.1	3.7
Net exports[2]	- 34.6	0.2	0.2	0.2			

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 94 database.

StatLink http://dx.doi.org/10.1787/888932949575

United Kingdom: **External indicators**

	2011	2012	2013	2014	2015
			$ billion		
Goods and services exports	790.1	782.6	802.2	871	920
Goods and services imports	827.5	837.5	836.8	901	945
Foreign balance	- 37.4	- 54.9	- 34.6	- 30	- 25
Invisibles, net	1.4	- 40.0	- 51.0	- 38	- 41
Current account balance	- 36.0	- 94.9	- 85.6	- 68	- 66
			Percentage changes		
Goods and services export volumes	4.5	1.0	2.6	4.4	4.3
Goods and services import volumes	0.3	3.1	1.9	3.5	3.5
Export performance[1]	- 1.2	- 1.2	0.6	0.1	- 1.1
Terms of trade	- 1.6	- 0.2	1.9	0.0	- 0.1

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

Source: OECD Economic Outlook 94 database.

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long as the unemployment rate is above 7%. The implementation of forward guidance is also conditional on the CPI inflation forecast not exceeding 2.5% 18 to 24 months ahead, anchored medium-term inflation expectations and financial sector stability. The new framework should help support recovery by boosting confidence. Monetary policy is assumed to remain accommodative throughout most of the next two years, but, given these projections, slack in labour and product markets will narrow and the stance of monetary policy should start to normalise in the last quarter of 2015.

Maintaining financial stability is essential

Recent steps to identify banks' capital shortfalls and to take remedial action should enhance financial sector resilience and support lending activity. Housing demand has been spurred by the Funding for Lending and Help to Buy schemes. The Financial Policy Committee has been asked by the government to review, in September of each year, key parameters of the Help to Buy mortgage guarantee scheme to ensure financial stability. Yet despite recent progress in reforming the planning system, it is urgent to continue to relax the barriers to housing supply to prevent overheating in the property markets.

Growth should pick up

Growth is projected to accelerate, mainly driven by stronger gross fixed investment and a gradual strengthening of private consumption. Labour productivity is expected to recover somewhat, which should increase wage growth, while the unemployment rate is expected to diminish steadily towards 7% by end-2015.

Risks are tilted to the upside

Vigorous house price increases could boost wealth and private consumption, but could also undermine affordability and stretch the balance sheet of first-time buyers. Labour productivity could bounce back more if reallocation of resources across sectors accelerates and credit availability to small and medium-sized enterprises improves. While forward guidance provides assurance that monetary policy will not choke off the recovery with premature policy hikes, risks of rising medium-term inflation need to be closely monitored as the extent of slack in the economy might be less than expected.

CANADA

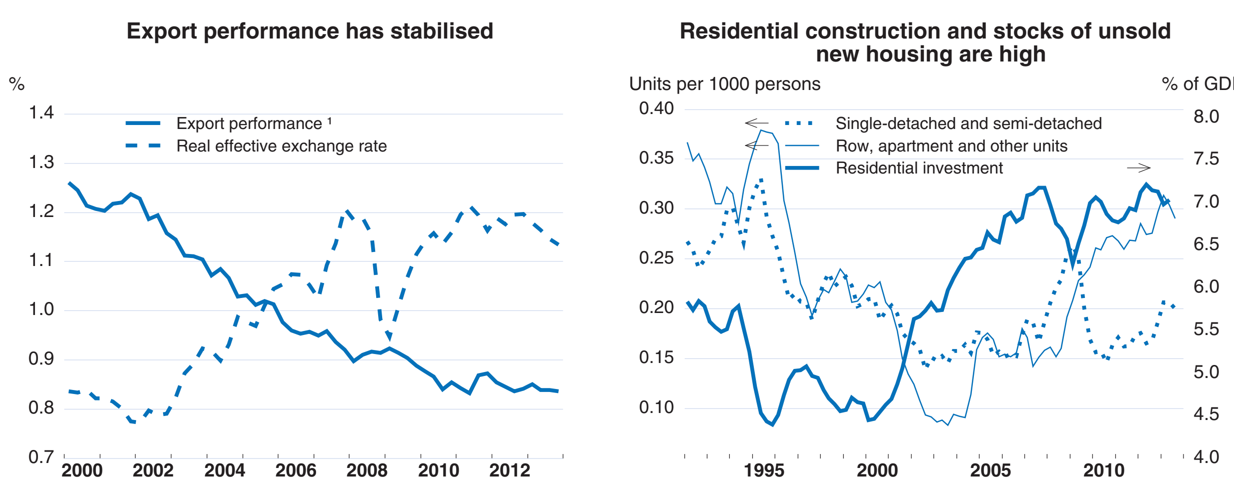
Growth is projected to strengthen through 2014 and 2015, led by exports and business investment. Improving exports result from the recovery in foreign markets and steps firms are taking to expand into the fastest-growing markets and enhance competitiveness, while business investment should be supported by declining spare capacity and cheap and readily available credit. Residential investment is likely to weaken since the housing stock seems greater than underlying demand. Projected growth should be enough to absorb the small degree of remaining excess capacity by end-2015, and the inflation rate should increase to near the 2% target rate.

With economic slack being absorbed, monetary stimulus will need to be progressively withdrawn from late 2014 to counter inflationary pressures. Should house-price pressures re-emerge, further macro-prudential measures may be needed to reduce risks to financial stability. Fiscal consolidation should continue as planned at both the federal and provincial levels of government.

The pause in the economic recovery has continued

The pause in the economic recovery since early 2012 has continued this year. Exports have been weaker than expected, possibly reflecting shifts in trade linkages and on-going competitiveness challenges. This, together with declining corporate profits, has depressed business investment. Survey evidence suggests that investment growth will remain low in the near term, with firms using existing capacity more intensively. Residential investment had been falling since mid-2012 but bounced back in the second quarter of 2013 to near record levels, despite a large overhang of unsold inventory. Private consumption expenditure, on the other hand, has remained buoyant, supported by gains in labour income. Recovery in export markets, and signs that Canadian firms are expanding into the fastest-growing emerging markets and investing more in innovation, marketing and efficiency improvements, should boost export

Canada



1. Export performance is measured as the difference between volume growth in exports and export markets.
Source: Statistics Canada; and OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932948093

Canada: **Employment, income and inflation**

Percentage changes

	2011	2012	2013	2014	2015
Employment	1.5	1.2	1.3	1.1	1.3
Unemployment rate[1]	7.5	7.3	7.1	7.0	6.9
Compensation per employee[2]	3.4	3.0	2.4	3.0	3.6
Unit labour cost	2.7	2.7	1.8	1.7	2.3
Household disposable income	4.6	3.9	3.1	3.4	4.2
GDP deflator	3.2	1.7	1.1	1.3	1.8
Consumer price index	2.9	1.5	1.0	1.6	2.0
Core consumer price index[3]	1.7	1.7	1.3	1.6	1.9
Private consumption deflator	2.1	1.4	0.9	1.1	1.4

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

Source: OECD Economic Outlook 94 database.

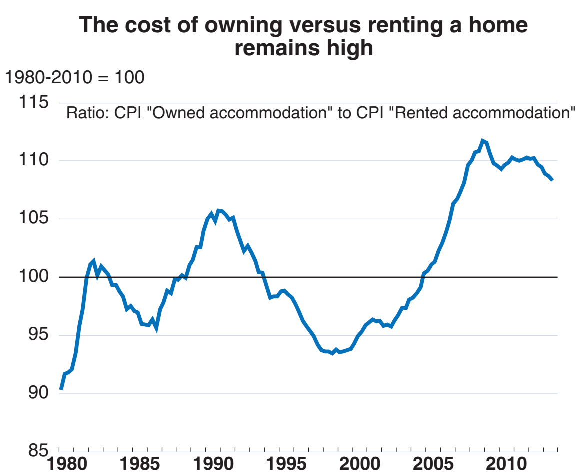
StatLink http://dx.doi.org/10.1787/888932949613

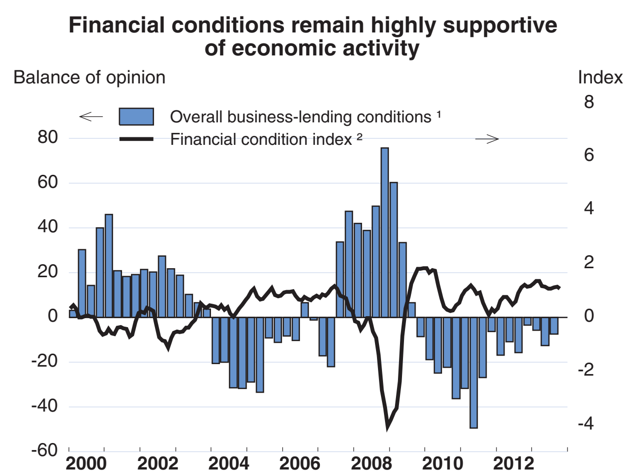
growth. This, along with rising capacity utilisation and firms having low leverage and high liquidity, should lead to an eventual investment recovery.

Unemployment has fallen and inflation remains low

Employment growth has picked up and the unemployment rate has fallen to just below 7%. Real wage growth has edged down and remains moderate. Headline and core inflation have stayed low, at 1 to 1¼ per cent

Canada





1. Weighted percentage of surveyed financial institutions reporting tightened credit conditions minus the weighted percentage reporting eased credit conditions. A positive (negative) value indicates tightening (easing).
2. The Bank of Canada's Financial Conditions Index (FCI) is a weighted average of financial variables (credit conditions, corporate bond spread, short-term interest rate, long-term interest rate, real exchange rate, stock prices and housing prices). The FCI is normalized with an average of zero over the last ten years. Downward movements in the FCI capture tighter financial conditions, upward movements represent improving financial conditions.

Source: Bank of Canada; and OECD Housing prices database.

StatLink http://dx.doi.org/10.1787/888932948112

Canada: **Financial indicators**

	2011	2012	2013	2014	2015
Household saving ratio, net[1]	4.4	5.0	5.0	4.9	4.9
General government financial balance[2]	-3.7	-3.4	-3.0	-2.2	-1.3
General government gross debt[3]	93.6	96.1	97.0	97.1	96.6
Current account balance[2]	-2.8	-3.4	-3.1	-2.9	-2.5
Short-term interest rate[4]	1.2	1.2	1.2	1.2	2.1
Long-term interest rate[5]	2.8	1.9	2.2	3.0	3.6

1. As a percentage of disposable income.
2. As a percentage of GDP.
3. As a percentage of GDP at market value.
4. 3-month interbank rate.
5. 10-year government bonds.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949632

over the past year, consistent with modest economic slack. Inflation expectations are well anchored at the 2% inflation target.

The pace of fiscal consolidation is set to rise

The pace of fiscal consolidation is set to pick up. The federal government announced in the 2013 budget that it aims to reduce its deficit from 1.4% of GDP in FY 2012/13 to zero in FY 2015/16, with three quarters of this reduction to come from lower expenditure. Collectively, provincial governments have announced budgets that would reduce their combined deficit by almost

Canada: **Demand and output**

	2012	2013	2014	2015	Fourth quarter 2013	Fourth quarter 2014	Fourth quarter 2015
	Current prices CAD billion	Percentage changes from previous year, volume (2007 prices)					
GDP at market prices	1 820.0	1.7	2.3	2.6	2.2	2.4	2.7
Private consumption	1 012.4	2.3	2.3	2.7	2.4	2.3	2.9
Government consumption	394.5	1.3	1.1	1.0	1.4	1.0	1.0
Gross fixed investment	439.3	0.7	3.0	2.2	1.1	2.9	2.0
Public[1]	76.0	0.1	0.6	0.6	-1.2	0.9	0.5
Residential	130.2	0.8	3.5	-1.3	3.3	1.2	-2.0
Non-residential	233.1	0.9	3.4	4.5	0.6	4.4	4.5
Final domestic demand	1 846.2	1.7	2.2	2.2	1.9	2.2	2.3
Stockbuilding[2]	10.0	-0.1	-0.1	0.0			
Total domestic demand	1 856.2	1.6	2.2	2.2	1.9	2.2	2.2
Exports of goods and services	546.6	1.9	4.6	5.7	3.8	5.2	5.9
Imports of goods and services	582.8	1.6	4.1	4.4	3.0	4.3	4.4
Net exports[2]	- 36.2	0.1	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. Excluding nationalised industries and public corporations.
2. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949651

Canada: **External indicators**

	2011	2012	2013	2014	2015
	$ billion				
Goods and services exports	546.5	547.0	548.3	570	609
Goods and services imports	568.8	583.3	582.6	602	634
Foreign balance	- 22.3	- 36.2	- 34.3	- 33	- 26
Invisibles, net	- 26.8	- 26.0	- 21.3	- 21	- 22
Current account balance	- 49.1	- 62.3	- 55.6	- 54	- 48
	Percentage changes				
Goods and services export volumes	4.7	1.5	1.9	4.6	5.7
Goods and services import volumes	5.7	3.1	1.6	4.1	4.4
Export performance[1]	- 0.5	- 1.1	- 0.2	- 0.6	- 0.5
Terms of trade	3.4	- 0.9	0.0	- 0.1	0.2

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949670

1% of GDP over the same period. In line with these budget plans, it is assumed in the projections that a cumulative structural consolidation amounting to 1¾ per cent of GDP occurs over calendar years 2013-15.

Monetary policy will need to become less accommodative

Monetary policy remains highly accommodative. The Bank of Canada has indicated that, with continued economic slack and low inflation, the official policy interest rate will not be increased from the current 1% rate for an extended period. However, with spare capacity narrowing by the end of 2015, monetary policy tightening may need to begin by late 2014 to avoid a build-up of inflationary pressures. It is assumed in the projection that the first policy rate increase occurs in the fourth quarter of 2014 and that the rate rises steadily to 2¼ per cent by the end of 2015. If house-price pressures re-emerge, further macro-prudential measures may also be required.

Growth is projected to be export and investment led

Growth is projected to rise progressively to 2½ per cent by 2015, led by exports and business investment, with the latter driven by rising exports and tightening capacity constraints. Gains in private consumption expenditure are also set to increase, buoyed by rising household incomes. Residential construction, on the other hand, is projected to decline, to work off excess supply. With economic slack being fully absorbed by late 2015, the inflation rate is projected to rise to near the 2% target rate.

There are downside risks to exports and the housing market

The main risks to the projections are on-going uncertainty about the US economy and the potential for renewed tensions in sovereign-debt markets and the financial sector in the euro area. Both factors could reduce exports and tighten financial conditions, reducing economic growth. There is also a risk of a disorderly correction in the housing market, in the context of a high level of household debt. Such a correction would depress consumption and residential construction and in an extreme case could threaten financial stability.

AUSTRALIA

Growth should remain moderate at 2½ per cent in 2014, before gradually accelerating toward its potential rate of 3% in 2015. The slower pace of mining investment should be offset by the gradual strengthening of non-mining sectors, which will benefit from recent improvements in confidence, the currently lower exchange rate and expansionary monetary policy.

In the absence of inflationary pressures, a continued policy of monetary accommodation will be needed to sustain demand once the mining investment cycle comes to an end. It will also be important to avoid any additional tightening of fiscal policy in the short term above that already factored in. The authorities' medium-term objective of restoring some room for manoeuvre on fiscal policy is welcome. This should be accompanied by a tax reform that will make real estate taxation more efficient and reduce the corporate tax burden to encourage the restructuring now underway in the economy.

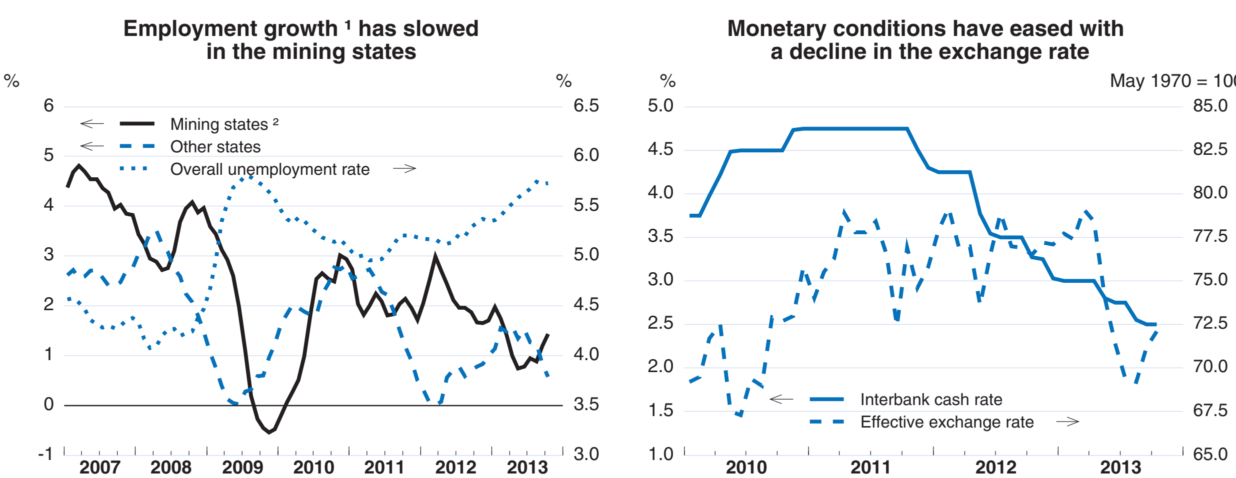
The economy is somewhat sluggish

The economy is still in a transition phase: it has been growing at around 2½ per cent since the second half of 2012. Mining investment has slowed, fewer jobs are being created in this sector, and the terms of trade have deteriorated, thereby damping domestic demand. However, these developments have been partially offset by stronger exports, thanks to the expansion of mining output capacity. The accommodating monetary policy is also giving a boost to the real estate sector. The unemployment rate has drifted above 5½ per cent since the beginning of 2013, while inflation has remained low at 2¼ per cent.

The monetary stance has been further relaxed

In August 2013, the central bank again lowered its policy rate by 25 basis points, to 2.5%. This easing has given a boost to the real estate market, where prices have recovered. At the same time the exchange rate, which had become less attractive to investors, recorded a decline of

Australia



1. Three-month moving average.
2. Queensland and Western Australia.

Source: Australian Bureau of Statistics, Cat. No 6202.0; and Reserve Bank of Australia.

StatLink http://dx.doi.org/10.1787/888932948036

Australia: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices AUD billion	Percentage changes, volume (2010/2011 prices)				
GDP at market prices	1 357.0	2.4	3.7	2.5	2.6	3.1
Private consumption	731.6	3.3	3.2	2.2	3.2	3.7
Government consumption	244.7	2.5	3.2	1.0	0.6	0.7
Gross fixed capital formation	364.4	7.1	8.9	-1.1	0.6	1.1
Final domestic demand	1 340.7	4.2	4.8	1.0	2.0	2.4
Stockbuilding[1]	1.9	0.4	0.0	-0.4	0.1	0.0
Total domestic demand	1 342.7	4.6	4.7	0.6	2.1	2.5
Exports of goods and services	283.5	-0.8	6.3	6.5	6.7	7.5
Imports of goods and services	269.2	10.6	6.3	-1.2	4.3	4.5
Net exports[1]	14.3	-2.3	0.1	1.6	0.5	0.6
Memorandum items						
GDP deflator	_	3.9	-0.6	0.9	1.5	2.4
Consumer price index	_	3.4	1.7	2.1	2.1	1.9
Private consumption deflator	_	2.4	2.2	2.1	2.1	1.9
Unemployment rate	_	5.1	5.2	5.7	6.1	6.3
Household saving ratio, net[2]	_	10.8	10.4	11.1	10.5	10.0
General government financial balance[3]	_	-3.6	-3.5	-2.4	-2.5	-2.2
General government gross debt[4]	_	27.1	32.4	34.4	36.4	37.8
Current account balance[3]	_	-2.3	-3.7	-2.9	-3.5	-2.8

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.
4. As a percentage of GDP at market value.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949765

around 10% year-on-year in effective terms in the third quarter of 2013. However, credit growth is recovering only slowly. The authorities will have to maintain an accommodating monetary policy to sustain demand.

The return to budgetary balance should be gradual

The general government budget deficit for fiscal year 2012/13 stood at 2.6% of GDP. The government that took office following the September 2013 elections seems intent on the objective of bringing that deficit to zero in the next four years. That policy implies a mildly restrictive fiscal stance over the short term. Moreover, the authorities are committed to achieving a sustained surplus of around 1% of GDP by 2023-24.

Economic activity will recover gradually

Growth is projected to recover only gradually in 2014-15, as the economy continues to adjust in response to the end of the mining investment boom and the decline in the terms of trade. The accommodating monetary stance, the lower exchange rate and the sharp improvement in confidence following the federal elections will encourage non-mining activities, particularly in the real estate sector. Exports should also strengthen further. As the mining investment cycle approaches its end and as firms' productivity efforts take effect, employment growth will probably remain modest. This is likely to push the unemployment rate above 6% in 2014-15, but keep inflation low.

The risks seem balanced

The extent and the speed of the retreat in mining investment in Australia are subject to questions, reflecting in particular the uncertainties over the pace of Chinese growth and commodity price development. The strength of non-mining activities will also depend on business and household confidence, which remain fragile.

AUSTRIA

GDP growth is set for a moderate but steady recovery. Export market growth is projected to pick up and it will spill over to private investment as confidence improves and financing conditions remain generally favourable. Private consumption remains subdued on account of slow employment growth, weak real incomes and on-going deleveraging, but will pick up towards the end of the projection period.

Fiscal consolidation is on track and the automatic stabilisers should be allowed to work freely around the planned structural improvement. However, several of the planned additional revenues and spending cuts may not generate the savings currently predicted, and shortfalls would have to be made up. Restructuring of the banking sector has advanced but support to the sector may still require additional measures, which should be debt financed so as not to endanger the fragile recovery.

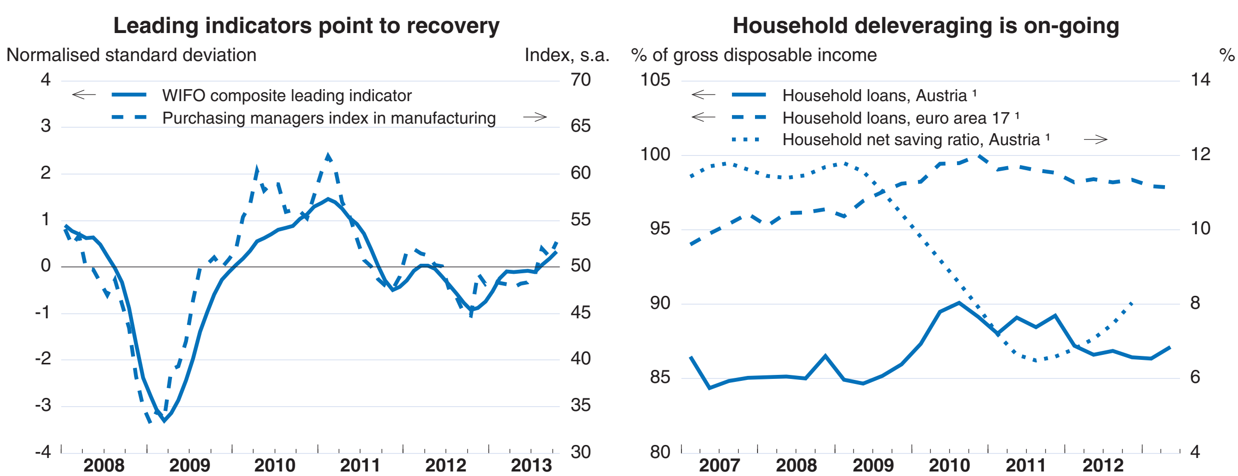
A moderate recovery is underway

The economy barely grew in the first half of 2013 due to weak private consumption, a decline in investment and, reflecting the weak European economy, only moderate export growth. High frequency indicators suggest that the recovery has gained momentum towards the end of 2013.

Exports will lead growth

With the outlook in the euro area and other trading partners projected to improve, export market growth is set to pick up moderately. With confidence further improving and financing conditions remaining supportive, private investment will gain strength in 2014. However, consumption growth in the household and public sectors is projected to remain weak for some quarters, as both sectors continue to deleverage and the weak labour market holds back household income growth. With the recovery gaining pace, however, a firming labour market will support stronger private consumption from the end of 2014. Inflation is projected to pick up slightly in 2015 as spare capacity is reduced.

Austria



1. Including non-profit institutions serving households.

Source: OECD, Main Economic Indicators database; Datastream; ECB database; and OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932948055

Austria: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices € billion	Percentage changes, volume (2005 prices)				
GDP at market prices*	285.3	2.9	0.6	0.4	1.7	2.2
Private consumption	156.7	1.1	0.3	-0.2	0.5	1.1
Government consumption	55.6	0.5	0.0	0.8	0.5	0.4
Gross fixed capital formation	57.8	7.4	1.7	-2.5	2.6	4.5
Final domestic demand	270.1	2.3	0.6	-0.5	0.9	1.7
Stockbuilding[1]	3.2	-0.5	-0.6	-0.1	0.0	0.0
Total domestic demand	273.3	2.6	-0.2	-0.8	0.9	1.7
Exports of goods and services	154.6	6.8	1.7	1.5	4.0	5.6
Imports of goods and services	142.6	7.5	0.0	-0.5	2.7	5.0
Net exports[1]	12.0	0.0	1.0	1.2	0.9	0.6
Memorandum items						
GDP deflator	_	2.0	1.8	1.9	1.3	1.4
Harmonised index of consumer prices	_	3.6	2.6	2.0	1.6	1.7
Private consumption deflator	_	3.4	2.6	2.2	1.6	1.6
Unemployment rate[2]	_	4.2	4.4	4.8	4.7	4.3
Household saving ratio, net[3]	_	6.7	7.4	8.2	8.5	9.1
General government financial balance[4]	_	-2.4	-2.5	-2.3	-1.9	-1.2
General government gross debt[5]	_	80.3	85.6	87.3	87.6	87.1
General government debt, Maastricht definition[4]	_	72.7	74.1	75.7	76.1	75.5
Current account balance[4]	_	1.6	1.6	3.1	3.4	3.8

* Based on seasonal and working-day adjusted quarterly data; may differ from official non-working-day adjusted annual data.
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.
5. As a percentage of GDP at market value.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949784

Fiscal consolidation is on track

Fiscal consolidation has advanced quickly in recent years and Austria is on track to meet the medium-term objective of a structural deficit of 0.45% of GDP sooner than the targeted 2017. However, several risks surround the consolidation path. Extra revenues from a financial transaction tax are not likely to materialise soon. On the spending side, planned savings appear rather optimistic and recent pension projections show an increase compared with current plans. Fiscal outcomes should thus be closely monitored and contingency plans prepared by the new government. Unilateral measures against Austrian banks abroad to relieve stressed households could aggravate their situation, calling for intensified consultation and coordination with financial supervisors in the relevant countries.

Risks to the outlook are broadly balanced

Risks to the outlook are two-sided. On the positive side, a stronger-than-projected recovery in Austria's trading partners and a quicker restoration of confidence could lead to a stronger pick up in exports and domestic demand. On the downside, renewed turbulence in the euro area or weaker growth in Central, Eastern and South-Eastern Europe would harm export growth and exacerbate financial sector tensions, with potential negative spillovers to growth and government finances. Despite significant improvements, systemically important Austrian banks still have below average capitalisation levels *vis-à-vis* their peers. If sufficient market funding to strengthen capital positions does not become available, this may lead to reductions in bank assets with negative repercussions on credit developments and growth in the region.

BELGIUM

Activity is gradually accelerating as world trade strengthens and monetary conditions remain supportive. However, fiscal consolidation, subdued household income growth and a weak housing market will all weigh on domestic demand. The unemployment rate will stabilise in the course of 2014 but, reflecting the sizeable output gap and wage moderation, underlying inflation will decline further.

The authorities are committed to fiscal consolidation of ½ per cent of GDP in 2014 and 1¼ per cent in 2015, with the aim to balance the budget in structural terms in 2015. Achieving a balanced budget is appropriate in view of the high public debt, but if growth deviates from expectations, the automatic stabilisers should be allowed to operate. Building on the fiscal federalism reform, concluding a robust medium-term burden sharing agreement across government levels would facilitate fiscal consolidation.

Growth is gradually increasing

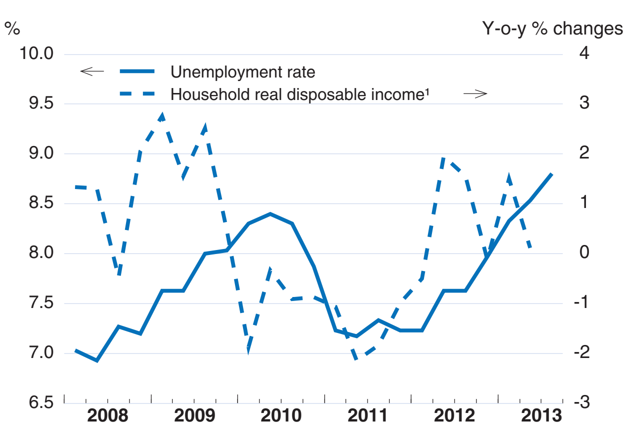
After very slow growth in the first half of 2013, activity is edging up as domestic demand gradually recovers and export growth rises. Business investment is supported by low interest rates. However, weak income growth and rising unemployment weigh on household spending, resulting in subdued private consumption growth and falling residential investment. Employment is still contracting, reflecting past weakness in activity and less labour hoarding than in the past. Core price inflation is broadly stable around 1½ per cent and wage increases have been moderated by the government decision to allow no across-the-board wage increases above indexation to price developments in 2013-14, in both the public and the private sector.

The fiscal consolidation profile is uneven

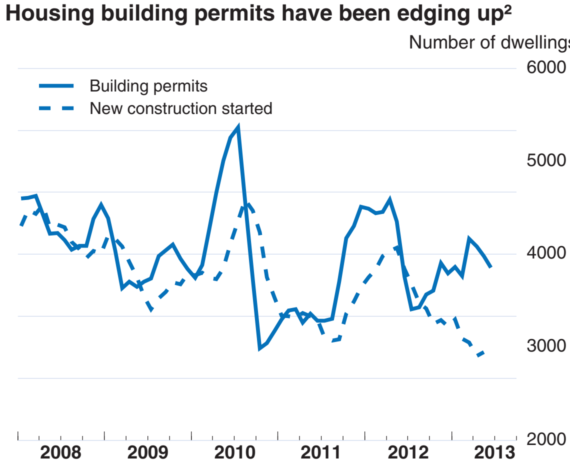
Financial conditions have been improving, although long-term interest rates edged up over the summer. After an underlying fiscal consolidation of around 1% of GDP in 2013, the budget for 2014 implies an additional consolidation of ½ per cent of GDP, mainly on the spending side. For 2015,

Belgium

Unemployment and weak incomes weigh on demand



Housing building permits have been edging up²



1. Deflated by consumer price index (CPI).
2. 3-month moving average is applied on seasonally adjusted series.

Source: National Bank of Belgium; and OECD Main Economic Indicators database.

StatLink http://dx.doi.org/10.1787/888932948074

Belgium: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices € billion	Percentage changes, volume (2010 prices)				
GDP at market prices	356.1	1.9	-0.3	0.1	1.1	1.5
Private consumption	188.5	0.2	-0.3	0.5	0.7	1.1
Government consumption	86.3	1.1	0.4	0.3	1.0	0.7
Gross fixed capital formation	71.2	4.2	-0.6	-2.6	1.1	2.8
Final domestic demand	345.9	1.3	-0.2	-0.2	0.8	1.3
Stockbuilding[1]	1.9	0.7	-0.3	-0.2	0.0	0.0
Total domestic demand	347.9	2.0	-0.5	-0.5	0.8	1.3
Exports of goods and services	284.5	5.5	0.7	0.0	3.1	3.9
Imports of goods and services	276.3	5.7	0.5	-0.7	2.7	3.7
Net exports[1]	8.2	-0.1	0.2	0.5	0.3	0.2
Memorandum items						
GDP deflator	_	2.0	2.0	1.6	1.7	1.5
Harmonised index of consumer prices	_	3.4	2.6	1.1	1.1	1.3
Private consumption deflator	_	3.1	2.6	1.3	1.3	1.3
Unemployment rate	_	7.2	7.6	8.6	9.1	9.0
Household saving ratio, net[2]	_	8.4	9.6	9.8	9.6	9.4
General government financial balance[3]	_	-3.9	-4.1	-2.7	-2.4	-1.1
General government gross debt[4]	_	101.9	104.0	104.5	104.7	102.8
General government debt, Maastricht definition[3]	_	97.7	99.7	100.2	100.4	98.5
Current account balance[3]	_	-1.1	-2.0	-1.9	-0.6	-0.3

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. As a percentage of GDP at market value.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949803

the authorities have committed in their EU stability programme to consolidate further by 1¼ per cent of GDP, with the aim to balance the budget structurally in that year. The public debt ratio, which the authorities have committed to keep below 100% (Maastricht definition) in 2013, would stabilise in 2014 and start declining in 2015.

Growth will recover by mid-2014

On the back of stronger world trade and supportive monetary conditions, growth will gradually strengthen by mid-2014. A further increase in growth in 2015 will be limited by the intensifying fiscal consolidation. Unemployment will stabilise in the course of 2014 and decline only slightly in 2015. Considerable spare capacity will persist and inflation is therefore projected to decline somewhat further.

The main downside risk is higher long-term interest rates

The strength of the recovery will depend on developments in the euro area, Belgium's main trading partner. The main domestic downside risk is that a sharper-than-anticipated increase in long-term interest rates in the run-up to monetary policy normalisation reduces business investment growth or triggers a correction in housing prices. On the upside, the recent uptick in building permits may signal a less weak construction sector than anticipated.

CHILE

After a period of strong economic growth, domestic demand, notably investment, is cooling and export markets remain weak. Consumer confidence and wage growth have started to trend down, though retail sales have been resilient so far. GDP growth is projected to fall below potential growth, but then pick up gradually to around 5% by 2015 as trading partners' growth increases.

Following a period of disinflation, exchange-rate weakness and higher energy prices have brought inflation back up to within the central bank's target range and inflation expectations remain well anchored. The authorities expect to achieve a structural fiscal deficit of 1% of GDP in 2013, which is projected to persist into 2014 and 2015. If activity weakens, both monetary and fiscal policies are in a strong position to respond.

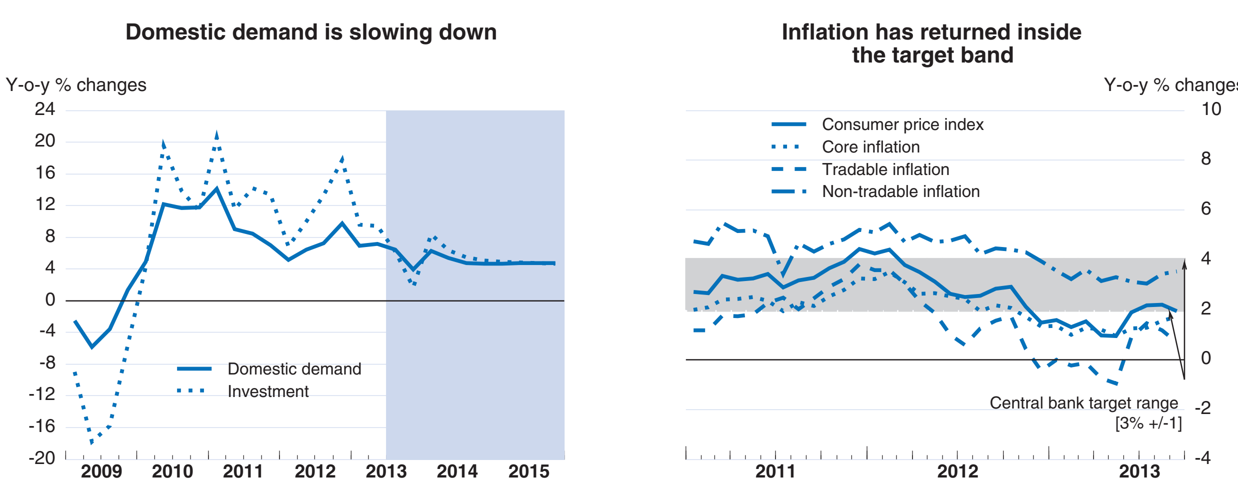
Domestic demand is cooling

Growth has slowed in 2013 with domestic demand cooling, in large part because investment in major mining and energy projects approached completion. Private consumption is supported by falling unemployment and income growth, but consumer confidence and wage growth have softened. Despite weaker demand, imports have expanded rapidly. Combined with subdued export growth and lower copper prices, this has resulted in an increasing current account deficit, which is to a significant extent funded by FDI inflows.

The monetary policy stance is appropriate

Recent peso depreciation and the rise in energy prices have pushed inflation back inside the central bank's target range (3% +/- 1), though it remains close to its lower boundary. With the slowdown of activity and wage growth, and well anchored expectations, inflationary pressures are not a concern. Monetary policy is well placed to respond quickly should such pressures emerge, or on the contrary should activity weaken as occurred recently with the lowering of the policy rate by 25 basis points, to 4.75%, in response to various indicators signalling a deceleration of activity.

Chile



Source: OECD Economic Outlook 94 database; and Central Bank of Chile.

StatLink http://dx.doi.org/10.1787/888932948150

Chile: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices CLP billion	Percentage changes, volume (2008 prices)				
GDP at market prices	111 007.9	5.8	5.6	4.2	4.5	4.9
Private consumption	65 522.8	9.0	6.0	6.5	5.0	4.8
Government consumption	13 645.2	3.2	3.9	3.0	4.5	4.3
Gross fixed capital formation	23 406.7	14.8	12.0	6.5	6.3	4.8
Final domestic demand	102 574.7	9.5	7.2	6.1	5.3	4.7
Stockbuilding[1]	1 441.3	-0.2	0.0	-1.7	-1.4	0.0
Total domestic demand	104 016.0	9.3	7.3	4.4	4.0	4.8
Exports of goods and services	42 246.0	5.0	0.9	4.8	5.0	5.0
Imports of goods and services	35 254.1	14.6	4.8	6.3	5.7	4.6
Net exports[1]	6 991.9	-2.7	-1.3	-0.5	-0.3	0.1
Memorandum items						
GDP deflator	_	3.5	1.7	1.4	2.6	3.0
Consumer price index	_	3.3	3.0	2.0	2.9	3.0
Private consumption deflator	_	4.2	3.5	2.4	3.3	3.3
Unemployment rate	_	7.1	6.4	6.1	6.3	6.4
Central government financial balance[2]	_	1.3	0.6	-1.0	-0.9	-1.0
Current account balance[2]	_	-1.3	-3.5	-3.3	-3.8	-3.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949822

The fiscal position remains strong

The government's financial position has remained strong thanks to the operations of the fiscal rule, whose framework has been recently further improved. The government plans to contain the structural and headline fiscal deficits at 1% of GDP in 2013, despite expanding spending by 5.9% in real terms. Given the spending needs on education and social programmes, the 2014 budget proposal aims at maintaining the structural deficit at 1% of GDP, which on the OECD projection is set to persist into 2015.

Growth will return to a sustainable path

Growth is projected to pick up steadily to 4.9% in 2015, in line with potential growth, as trading partners' growth increases and import growth falls. Inflation should converge towards the 3% mid-point of the inflation target.

Risks are external as well as internal

Growth depends crucially on global demand, especially from China, the main export market for Chile's raw materials. The expectation of "tapering" and eventual reversal of US monetary stimulus triggered a temporary reversal of capital flows in some emerging markets around mid-year and put their currencies under pressure. The policy shift itself could prove disruptive, although Chile is relatively well positioned to deal with the fallout. The main domestic risk comes from persistently strong domestic demand and a tight labour market, although the slower pace of activity in 2013 has greatly lessened inflationary risks.

CZECH REPUBLIC

An erratic export-led recovery started in early 2013, after six quarters of contraction. Growth is expected to gather pace in 2014, as fiscal consolidation will make a pause and external demand accelerates. The recovery will be sufficiently strong to gradually narrow the output gap, although unemployment will decrease only marginally due to an unwinding of labour hoarding.

The government plans to have a broadly neutral fiscal stance in 2014-15, resulting in a deficit of just under 3% of GDP through the projection period. Positive growth surprises should be used to halt and eventually reverse the rising debt-to-GDP ratio. Monetary policy should remain accommodative as inflation is low and expectations appear well anchored. Intensified active labour market policies are needed to keep high unemployment from becoming structural.

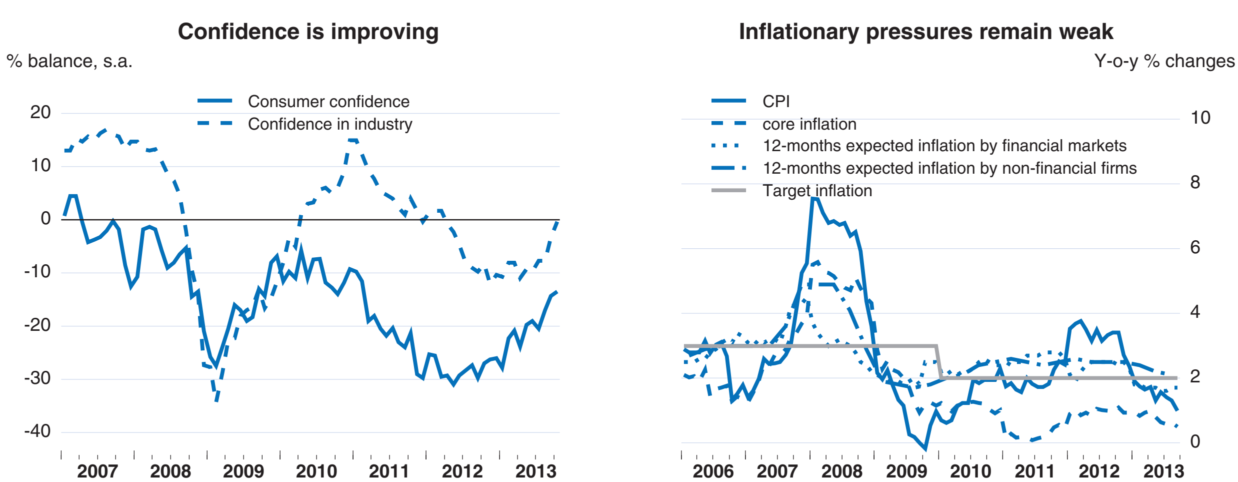
The economy is set to recover

Underlying economic activity is gradually recovering in response to faster export market growth. Domestic demand, however, is subdued owing to the weak labour market, low confidence and fiscal consolidation. Improved business confidence in the autumn and higher manufacturing orders, especially from abroad, suggest that economic growth is gathering pace. Employment is increasing, partly reflecting continued labour hoarding, but it is not growing sufficiently fast to absorb an increasing labour supply.

Fiscal policy is set to be broadly neutral

The protracted decline in output has led the government to abandon its 2014-15 fiscal consolidation plans. In 2013, fiscal consolidation that relies about half on spending constraint and half on revenues measures should bring the budget deficit below 3% of GDP. In 2014-15, it is assumed that the previous government's plans will be implemented and that in 2015 a planned tax reform lowering direct taxes will be introduced, allowing for an unchanged budget deficit.

Czech Republic



Source: OECD Economic Outlook 94 database; and Czech Statistical Office.

StatLink http://dx.doi.org/10.1787/888932948169

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

	2010	2011	2012	2013	2014	2015
	Current prices CZK billion	Percentage changes, volume (2005 prices)				
GDP at market prices	3 790.9	1.8	-1.0	-1.5	1.1	2.3
Private consumption	1 916.6	0.5	-2.1	0.3	0.8	2.0
Government consumption	807.5	-2.7	-1.9	1.5	0.1	1.3
Gross fixed capital formation	930.5	0.4	-4.5	-4.3	0.4	2.3
Final domestic demand	3 654.6	-0.2	-2.7	-0.6	0.6	1.9
Stockbuilding[1]	9.2	0.1	-0.1	-1.6	-0.2	0.0
Total domestic demand	3 663.8	-0.1	-2.8	-2.3	0.4	2.0
Exports of goods and services	2 554.4	9.5	4.4	0.0	4.6	5.0
Imports of goods and services	2 427.3	7.0	2.2	-0.9	3.9	4.9
Net exports[1]	127.1	1.9	1.7	0.7	0.8	0.5
Memorandum items						
GDP deflator	_	-0.9	1.6	1.6	1.1	1.6
Consumer price index	_	1.9	3.3	1.4	1.0	1.3
Private consumption deflator	_	0.5	2.7	1.2	1.1	1.3
Unemployment rate	_	6.7	7.0	7.0	6.9	6.8
General government financial balance[2]	_	-3.2	-4.4	-2.9	-2.9	-2.9
General government gross debt[3]	_	48.2	55.7	58.6	61.2	63.5
General government debt, Maastricht definition[2]	_	41.4	46.2	49.0	51.6	53.9
Current account balance[2]	_	-2.7	-2.4	-2.1	-2.3	-1.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
3. As a percentage of GDP at market value.
Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949841

Monetary policy should continue to support the economy

Owing to weak economic conditions, but also to falling fuel and utility prices, inflation is below 1% – the lower boundary of the National Bank's tolerance band – and core inflation is close to zero. Low demand-side pressures and decelerating food prices are containing inflation pressures in the near term. With interest rates technically at zero and excess liquidity in the banking sector, the National Bank has started foreign exchange interventions to prevent a long-term undershooting of the inflation target. Foreign exchange interventions should continue until inflation rises into the boundaries of the inflation target range and conventional monetary policy tools become effective again.

Growth depends on global trade picking up

The export-led recovery will take time to broaden and deepen. Eventually, the improvement in the external environment should gradually boost domestic confidence to secure a more broad-based economic expansion, which will be sufficiently strong to start closing the output gap.

Risks are mostly external

The recovery depends on developments in the euro area, the Czech Republic's main export market. If downside risks materialise in this area, export growth would stall, harming confidence and the recovery. On the upside, a faster-than-expected recovery in domestic confidence could trigger more investment and job creation, which would boost confidence and consumption.

DENMARK

Growth is projected to continue to pick up as domestic demand, supported by low interest rates and improved confidence, gains momentum, and as exports accelerate on the back of strengthening external demand. Employment growth will gradually increase in 2014, contributing to a fall in the unemployment rate.

Fiscal policy is expected to be broadly neutral in 2014, although the effects of past measures will continue to support private demand. Given the large automatic stabilisers, further discretionary stimulus is not warranted. To limit the risks arising from high household debt, financial supervision and macro-prudential policies should continue to be strengthened.

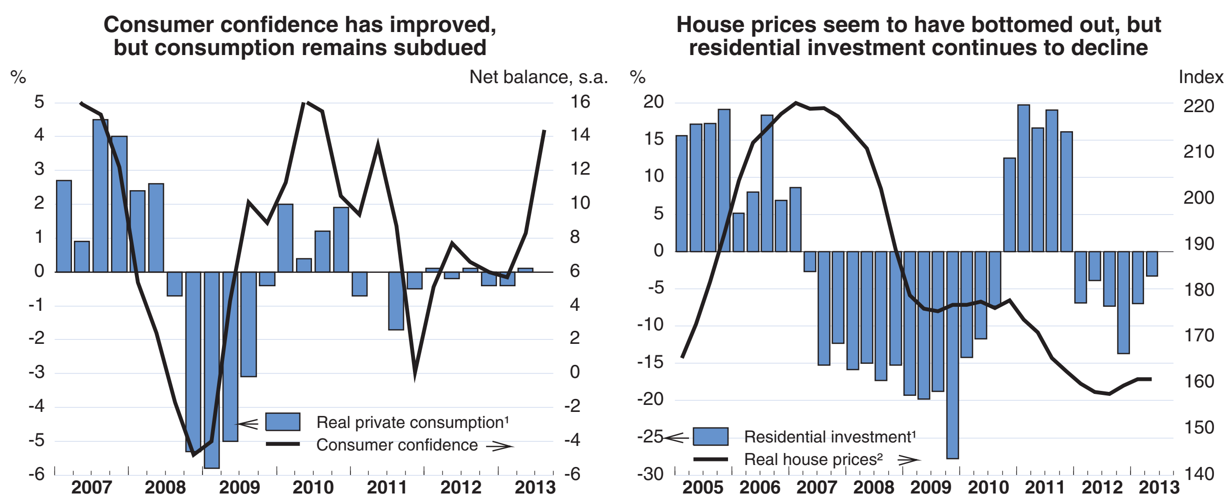
Activity is slowly picking up

Activity has started to improve. Exports expanded in the first half of 2013, reflecting improved external demand. Temporarily more generous depreciation allowances have boosted spending on equipment and business confidence has begun to strengthen. However, total business investment has not rebounded so far, despite historically high corporate saving. Consumer confidence has improved, but since household debt is high and employment growth remains weak, private consumption has continued to be subdued. Inflation has fallen to record lows due to slack in the economy and some temporary factors.

Financial conditions have not fully normalised

Since January 2013, capital inflows have abated and the Danish National Bank has not intervened in the foreign exchange market. Long-term interest rates have normalised, returning to levels above those in Germany. Policy interest rates remain very low, but lending surveys still point to tight lending standards. While house prices have stabilised, sales of dwellings remain modest. Financial stability was enhanced by the

Denmark



1. Year-on-year percentage changes.
2. Deflated using the private consumption deflator. Average 1970-90 = 100.

Source: OECD Economic Outlook 94 database; and Monthly Economic Indicators Database.

StatLink http://dx.doi.org/10.1787/888932948226

Denmark: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices DKK billion	Percentage changes, volume (2005 prices)				
GDP at market prices	1 760.1	1.1	-0.4	0.3	1.6	1.9
Private consumption	855.4	-0.7	-0.1	0.2	1.4	1.9
Government consumption	509.6	-1.4	0.4	0.5	0.5	0.6
Gross fixed capital formation	297.8	3.3	0.8	-0.9	4.5	4.0
Final domestic demand	1 662.8	-0.2	0.2	0.0	1.7	1.9
Stockbuilding[1]	- 0.3	0.4	-0.3	0.2	-0.3	0.0
Total domestic demand	1 662.4	0.2	-0.1	0.6	1.5	1.9
Exports of goods and services	887.8	7.0	0.4	0.8	3.2	4.3
Imports of goods and services	790.2	5.9	0.9	1.4	3.2	4.5
Net exports[1]	97.6	0.9	-0.2	-0.3	0.2	0.1
Memorandum items						
GDP deflator	_	0.7	2.3	1.6	1.1	1.5
Consumer price index	_	2.8	2.4	0.7	1.2	1.6
Private consumption deflator	_	2.7	2.8	1.3	1.3	1.5
Unemployment rate[2]	_	7.6	7.5	7.0	6.7	6.5
Household saving ratio, net[3]	_	0.7	-0.7	-1.1	-1.4	-1.4
General government financial balance[4]	_	-2.0	-3.9	-1.5	-1.5	-1.9
General government gross debt[5]	_	59.9	59.3	58.8	60.0	61.5
General government debt, Maastricht definition[4]	_	46.4	45.4	44.8	46.0	47.5
Current account balance[4]	_	5.6	5.9	6.1	6.1	6.0

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.
5. As a percentage of GDP at market value.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949860

creation of a Systemic Risk Council for macro-prudential regulation in March 2013 and the introduction of stricter requirements for systemically important banks in October 2013.

The fiscal stance is broadly neutral in 2014

In 2014, the fiscal stance will be broadly neutral, which is appropriate. The newly introduced public expenditure ceilings will contribute to long-term fiscal sustainability. Recent reform of the vocational education system should boost youth transitions to employment. In 2015, the end of temporary revenues due to changes to pension taxation will lead to an increase in the general government financial deficit, while the fiscal stance will remain broadly neutral.

Domestic demand and external conditions will stimulate growth

Growth is projected to continue to gain strength as the pick-up in world trade boosts exports and supports business investment. Receding uncertainties, a gradual recovery in the housing market and improving labour market conditions will help private consumption recover. With spare capacity remaining significant, inflation will stay subdued.

Risks are largely external

Weaker-than-expected euro area growth would weigh on exports and damp confidence. If the recovery in labour and housing markets is weaker than projected, deleveraging by highly indebted households could hold back private consumption. In contrast, stronger world trade growth or wage competitiveness improvements would lead to higher export growth. If the krone continues to be seen as a safe haven and Denmark recovers faster than the euro area, fiscal policy will have to be tightened more than projected since monetary policy will remain very accommodative to contain appreciation pressures.

ESTONIA

Output fell in the first half of 2013 but growth is projected to pick up gradually, as wage growth and falling unemployment support private consumption. Headline inflation is expected to decline in 2014 as the impact of the liberalisation of subsidised electricity prices vanishes.

The fiscal position is sound, and the policy framework is to be further strengthened by the introduction of a multi-year spending ceiling and an independent fiscal council. Stronger active labour market policies and life-long learning policies, and a lower tax wedge for low-income earners, would make growth more socially inclusive.

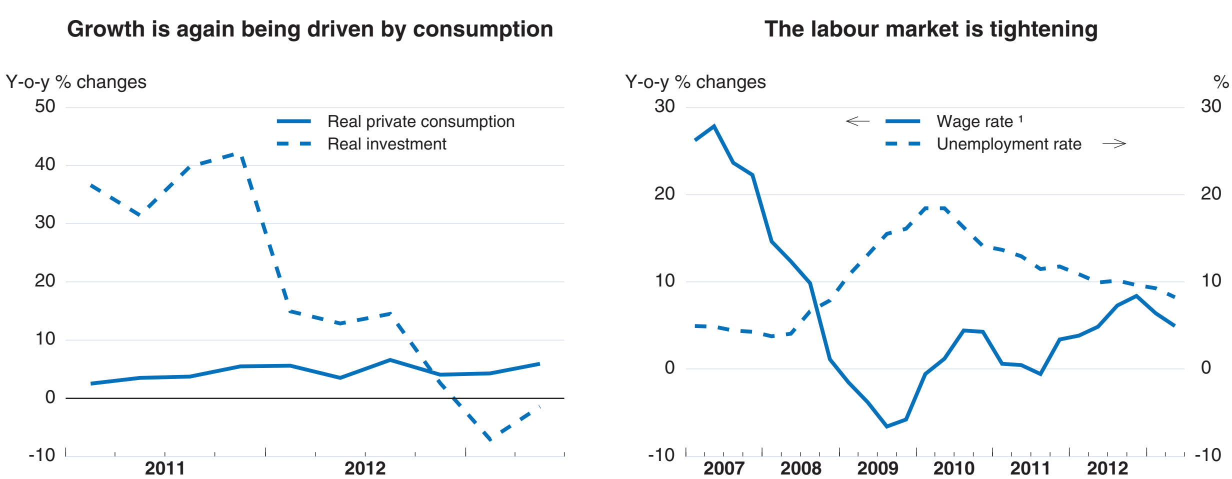
Economic growth is picking up

The economy was weak in the first half of 2013, partly on account of one-off factors related to energy-efficiency investment projects and weak public consumption and construction activity. Private consumption continued to be strong, underpinned by rising employment and strong wage growth. Inflation has fallen in recent months on account of the introduction of free public transport in the capital city, the abolition of tuition fees in higher education and decreasing external prices on food and fuel.

Lower public spending will damp domestic demand in the near term

The budget will remain close to balance throughout the forecast horizon, both in nominal and structural terms. Public investment will no longer be boosted by projects funded by the one-off sales of Kyoto permits in 2010 and 2011. Public investment and active labour market policies will also diminish somewhat owing to declining earmarked transfers from the European Union. Cuts in unemployment insurance contribution rates and higher government transfers to the second pillar pension fund from 2014 onwards will be partly offset by rising excise duties on alcohol and tobacco.

Estonia



1. Average nominal wage per employee, seasonally adjusted.
Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932948264

Estonia: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices € billion	Percentage changes, volume (2005 prices)				
GDP at market prices	14.4	9.6	3.9	1.0	2.4	4.0
Private consumption	7.5	3.8	4.9	4.5	3.2	3.7
Government consumption	3.0	1.3	3.8	0.3	1.2	1.5
Gross fixed capital formation	2.7	37.6	10.9	-3.8	6.6	5.9
Final domestic demand	13.2	10.3	6.2	1.4	3.6	3.8
Stockbuilding[1]	0.1	2.8	-0.5	-0.2	0.2	0.0
Total domestic demand	13.4	13.3	6.0	1.4	3.7	3.7
Exports of goods and services	11.4	23.4	5.6	4.7	4.8	5.7
Imports of goods and services	10.4	28.4	8.8	5.5	5.6	5.3
Net exports[1]	1.0	-2.0	-2.6	-0.7	-0.7	0.3
Memorandum items						
GDP deflator	_	3.0	3.3	4.1	2.6	3.2
Harmonised index of consumer prices	_	5.1	4.2	3.6	3.2	3.3
Private consumption deflator	_	4.9	3.6	3.8	2.6	2.8
Unemployment rate	_	12.4	10.1	8.4	8.1	7.7
General government financial balance[2]	_	1.1	-0.2	-0.1	-0.1	0.0
General government gross debt[3]	_	10.1	13.6	13.3	13.1	12.7
General government debt, Maastricht definition[2]	_	6.1	9.8	9.5	9.3	8.9
Current account balance[2]	_	1.9	-1.8	-1.7	-2.5	-1.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
3. As a percentage of GDP at market value.
Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949879

Domestic demand and external conditions will stimulate growth

Growth is projected to continue to rely on household demand, boosted by solid labour market performance. The recovery in investment will be slow, partly because of weak confidence in construction. From 2014 onwards, however, business investment, supported by low interest rates and gradually improving external conditions, will provide additional impetus. The labour market will continue to recover but further employment gains are likely to be hampered by skill mismatches and the emigration of young workers, both of which will tend to intensify wage pressures. The consumer price index is projected to be above the euro area average, but remain stable.

Downside risks from external and internal shocks prevail

The main downside risk for growth comes from a delayed recovery of demand by Estonia's trading partners in the euro area and a possible prolongation of weak growth in Russia. The on-going outmigration of young Estonians risks undermining labour supply, which could reduce the potential growth rate and slow down convergence.

FINLAND

The economy is slowly coming out of recession. External demand is strengthening, although flat household purchasing power, weak consumer confidence and declining employment weigh on consumer spending. Growth will gather pace as the international environment brightens, pushing up exports, restoring confidence and eventually bolstering investment.

Fiscal policy is broadly neutral, which is appropriate given future public spending commitments, and despite weak activity. The automatic stabilisers should be allowed to continue to operate. Reforms to increase labour force participation and public sector efficiency are needed to ensure longer-term fiscal sustainability, as ageing is increasingly pushing up government spending.

Activity is weak as domestic demand shrinks

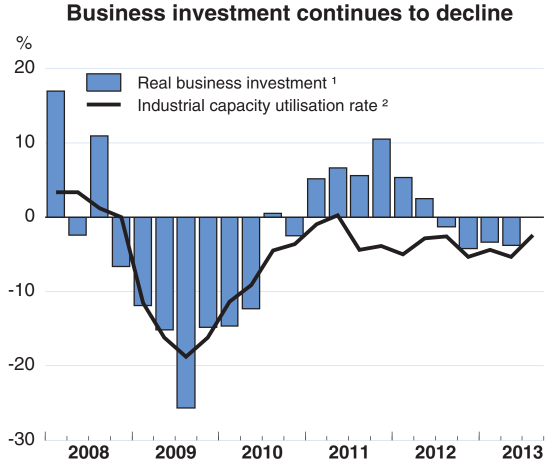
Private consumption growth is being held back as household confidence is weak, unemployment is relatively high and tax increases and modest wage growth are eroding disposable income. Exports are starting to show signs of revival, which combines with weak imports to generate a strong positive foreign trade contribution to output growth in 2013. As capacity utilisation remains below historical levels, low investment continues to be a drag on growth. A large negative output gap is also pulling down underlying inflation, even though hikes in indirect taxes are pushing the headline rate above the euro area average.

Policies are supportive, but restoring fiscal sustainability will require reforms

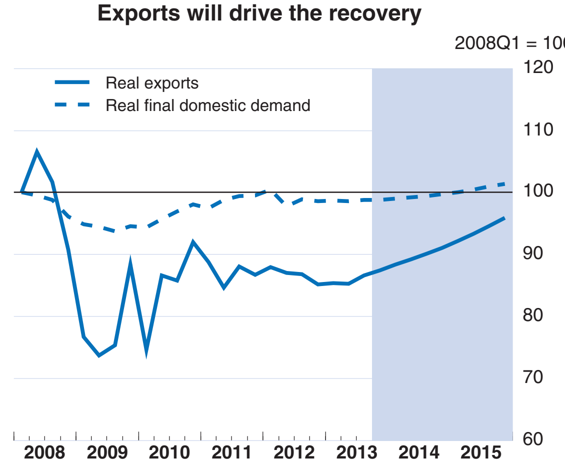
Low interest rates continue to support the economy, easing pressure on households, as most mortgages carry variable rates. Although lending standards have tightened somewhat recently, credit remains widely available, including for small and medium-sized enterprises. The fiscal stance is broadly neutral, as consolidation measures, mainly tax increases, are being offset by rising age-related spending. Nevertheless, weak activity is delaying the return to a balanced budget.

Finland

Business investment continues to decline



Exports will drive the recovery



1. Year-on-year percentage changes.
2. Deviation from the average since 1995.

Source: European Commission; and OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932948321

Finland: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices € billion	Percentage changes, volume (2000 prices)				
GDP at market prices	178.6	2.7	-0.8	-1.0	1.3	1.9
Private consumption	99.1	2.6	0.2	-0.3	0.7	1.4
Government consumption	44.2	0.5	0.6	0.9	0.8	0.7
Gross fixed capital formation	33.7	5.7	-1.0	-1.2	-0.1	2.6
Final domestic demand	177.0	2.7	0.1	-0.2	0.6	1.4
Stockbuilding[1,2]	- 0.8	1.5	-0.9	-0.7	0.5	0.0
Total domestic demand	176.2	4.1	-0.7	-0.9	1.1	1.5
Exports of goods and services	72.1	2.7	-0.4	-0.6	4.1	4.8
Imports of goods and services	69.7	6.2	-1.2	-3.4	5.3	3.6
Net exports[1]	2.4	-1.3	0.3	1.2	-0.5	0.5
Memorandum items						
GDP without working day adjustments	_	2.7	-0.8	..	..	..
GDP deflator	_	2.8	2.9	1.7	1.6	1.8
Harmonised index of consumer prices	_	3.3	3.2	2.3	2.2	1.8
Private consumption deflator	_	3.5	3.0	2.3	2.3	1.7
Unemployment rate	_	7.8	7.7	8.3	8.3	8.0
General government financial balance[3]	_	-1.0	-2.2	-2.5	-2.3	-1.8
General government gross debt[4]	_	58.2	64.0	66.7	70.4	73.1
General government debt, Maastricht definition[3]	_	49.2	53.6	56.4	60.0	62.7
Current account balance[3]	_	-1.6	-1.9	-0.7	-1.0	-0.5

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

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949898

Growth will gather speed gradually as external demand picks up

Exports will accelerate on the back of strengthening external demand and improved price competitiveness, with recent agreements foreshadowing wage moderation over the next two years. This will support confidence and eventually bolster business investment as unused capacity shrinks. Stronger growth will reduce unemployment and boost tax revenue. Combined with tax increases, this will reduce the fiscal deficit. However, general government gross debt (Maastricht definition) will exceed 60% of GDP from 2014. Inflation will decrease throughout the projection period as spare capacity lingers.

Risks are broadly balanced

As a very open economy, Finland is very sensitive to external demand, which could accelerate, but remains fragile, notably in the euro area and Russia, two key trading partners. Export performance could weaken further as a result of the structural slump in electronics and forestry, but other export industries may emerge stronger as the economy restructures. A faster-than-expected pick-up in global investment would boost exports, as Finland's product composition is tilted towards capital and intermediate goods.

GREECE

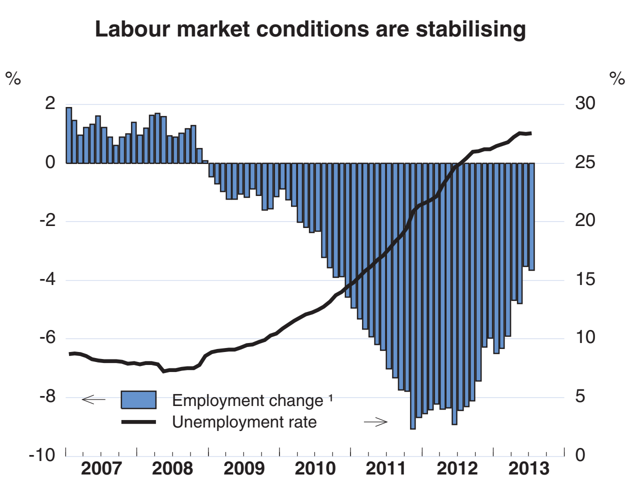
Growth is expected to turn positive in the course of 2014 and to strengthen in the following year as competitiveness improves further, world trade expands and investment rises. However, the required fiscal consolidation and weak bank balance sheets will restrain domestic demand. Very high unemployment will persist, keeping inflation negative.

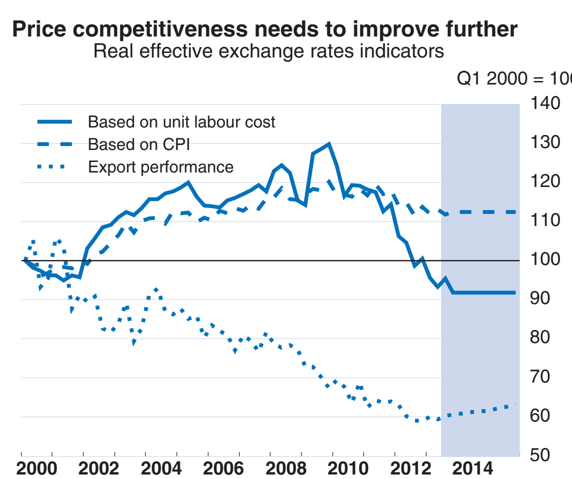
Fiscal consolidation needs to continue as planned, given high debt levels, but automatic stabilisers should be allowed to work if activity turns out to be weaker than projected. The need for further debt relief to achieve fiscal sustainability cannot be excluded. Bank balance sheets need to be restructured to allow credit growth to resume. Product market reforms already undertaken should improve price competitiveness and reallocation of resources towards internationally-oriented activities, although further reform will be needed. A more efficient and fair tax system is also essential for growth and social inclusion.

Activity is turning a corner

Output continued to contract in 2013, but at a slower pace than earlier thanks to buoyant tourist arrivals. On the other hand, substantial fiscal contraction, shrinking real incomes and limited access to credit held back domestic demand. Unemployment climbed to over 27% of the labour force in August 2013, although labour market conditions seem to be stabilising. Unit labour costs continued to decline substantially, as wages have been falling. However, declines in prices, including export prices, have been limited so far, although headline consumer price inflation turned negative in 2013, in part because the effects of indirect tax increases waned. Greater improvement in price competitiveness is essential for a sustained recovery, but this is still hindered by product market rigidities.

Greece





1. Year-on-year percentage changes.

Source: ELSTAT; and OECD Economic Outlook 94 Database.

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Greece: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices € billion	Percentage changes, volume (2005 prices)				
GDP at market prices	222.2	-7.1	-6.4	-3.5	-0.4	1.8
Private consumption	163.1	-7.7	-9.1	-6.4	-2.6	0.5
Government consumption	40.7	-5.2	-4.2	-4.9	-4.0	-4.0
Gross fixed capital formation	39.2	-19.6	-19.2	-9.6	-1.2	2.0
Final domestic demand	243.0	-9.2	-9.7	-6.5	-2.7	0.0
Stockbuilding[1,2]	- 0.2	0.6	0.1	0.3	-0.2	0.0
Total domestic demand	242.8	-8.7	-9.4	-5.7	-2.8	0.0
Exports of goods and services	49.4	0.3	-2.4	2.3	6.6	7.8
Imports of goods and services	70.0	-7.3	-13.8	-7.9	-1.7	1.9
Net exports[1]	- 20.6	2.4	4.0	3.1	2.4	1.8
Memorandum items						
GDP deflator	_	1.0	-0.8	-2.2	-1.9	-1.7
Harmonised index of consumer prices	_	3.1	1.0	-0.7	-1.6	-1.4
Private consumption deflator	_	3.4	0.9	-1.4	-1.6	-1.4
Unemployment rate	_	17.7	24.2	27.2	27.1	26.6
General government financial balance[3,4]	_	-9.6	-9.0	-2.4	-2.2	-1.4
General government financial balance(EAP) [3,5]	_	-9.6	-9.0	-4.1	-3.6	-2.8
General government gross debt[6]	_	179.9	167.3	186.9	191.6	193.3
General government debt, Maastricht definition[3]	_	170.3	157.0	176.6	181.3	183.0
Current account balance[7]	_	-9.9	-3.4	-0.4	1.3	2.3

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 2.8% of GDP paid by the government because of bank resolution. Estimates for 2013 do not include capital transfers.
5. Estimates based on the Economic Adjustment Programme (EAP) methodology exclude Eurosystem bank profits on Greek government bonds remitted back to Greece. Estimated repatriated profits for 2013 and 2014 are based on the Greek Draft Budget for 2014 (October 2013), while for 2015 it is assumed the same amount as in 2014.
6. As a percentage of GDP at market value. In 2011 and 2012, because of large changes in the market value of liabilities, the change in government financial liabilities has been approximated by the change in the Maastrich definition of general government debt.
7. On settlement basis, as a percentage of GDP.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949917

Fiscal consolidation remains necessary

The 2013 target of eliminating the general government primary deficit appears to be on track. A further cumulative adjustment of 7¼ per cent of GDP is planned for 2013 and 2014, relying mainly on expenditure restraint. The OECD projections for general government budget balances (excluding Eurosystem bank profits on Greek government bonds remitted back to Greece) are in line with those in Greece's Economic Adjustment Programme for 2013. However, weaker projected nominal GDP growth and the assumed use of the automatic stabilisers yields budget deficits somewhat higher than projected by the authorities for 2014 and 2015. Achieving debt sustainability remains a key challenge. This would require further substantial consolidation efforts and solid output growth, including through rapid implementation of competitiveness-enhancing reforms. At the same time, policies need to ensure a fair distribution of the social costs of adjustment.

The economy will slowly recover

Growth is expected to turn positive in the course of 2014, and to strengthen further in 2015, notwithstanding the planned fiscal tightening. Activity will be boosted by rising competitiveness and by a pick-up in world trade. Better access to credit as the banking system recovers and balance sheets are cleaned up should strengthen domestic demand. Investment would also be supported by greater use of European Union funds, although lingering uncertainties related to public debt developments may continue to bear on investor decisions. Prices and wages will fall further given the substantial slack. The unemployment rate will decline slowly in 2015.

Downside risks remain

The projections are subject to downside risks related to reform fatigue and remaining administrative impediments that could jeopardise the implementation of the adjustment programme. Tight credit conditions may pose additional risks to the outlook. On the other hand, liquidity may increase more than assumed due to the recapitalisation of the main banks and repayment of government arrears. A rapid improvement in price competitiveness, which is possible, would boost exports and growth. Confidence may also strengthen further if planned privatisations go ahead.

HUNGARY

The on-going recovery is projected to continue, though at an uneven pace owing to deleveraging and supply-side impediments. While further cuts in administered energy prices will moderate headline inflation for a few quarters, inflation expectations are still above target, although they are declining, and cost pressures will tend to raise price pressures afterwards. Robust export growth throughout will lead to a rising current account surplus.

The authorities should remain committed to fiscal discipline. Prudent monetary policy is essential to stabilise expectations and, in view of declining but still high foreign currency indebtedness, avoid a potentially disruptive depreciation of the forint. Halting the persistent contraction in loans and fostering capital reallocation to more efficient uses requires tackling supply-side credit constraints by allowing better bank profitability and by cleaning up bank balance sheets.

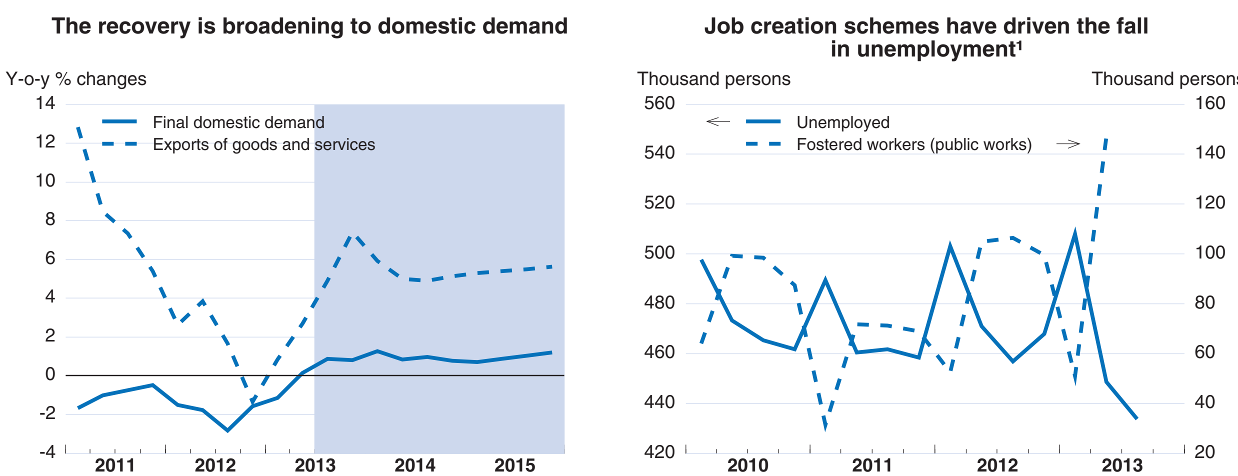
The recovery is broadening

GDP began growing again in early 2013, and over the course of the year dynamism has gradually broadened from exports to public investment and private consumption. However, tight credit, significant uncertainty and some recently imposed taxes continue to hamper private investment. Unemployment is still high, but has been reduced, in large part by some major public works schemes. Cuts in administered prices of utilities have brought headline inflation to a low level, but inflation expectations are still above the central bank's target, although they are falling.

Monetary policy easing has continued

The central bank has continued the easing cycle that started in August 2012, bringing its policy rate to historical lows. The authorities have also recently decided to substantially increase the Funding for Growth Scheme, which provides banks with central bank refinancing at

Hungary



1. Unemployed aged 15-64. Fostered workers covers public works and other types of publicly supported jobs; quarterly average of monthly data.

Source: OECD Economic Outlook 94 database; and Hungarian Central Statistical Office.

StatLink http://dx.doi.org/10.1787/888932948435

Hungary: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices HUF billion	Percentage changes, volume (2005 prices)				
GDP at market prices	26 513.0	1.6	-1.7	1.2	2.0	1.7
Private consumption	14 073.7	0.4	-1.6	0.5	1.4	1.2
Government consumption	5 827.5	0.0	-1.2	-0.6	-0.2	-0.1
Gross fixed capital formation	4 920.1	-5.9	-3.7	0.0	1.1	1.4
Final domestic demand	24 821.2	-1.0	-1.9	0.2	1.0	1.0
Stockbuilding[1]	190.3	0.4	-1.5	1.0	0.2	0.0
Total domestic demand	25 011.5	0.1	-3.7	1.6	1.2	0.9
Exports of goods and services	22 551.5	8.4	1.7	3.9	5.2	5.5
Imports of goods and services	21 050.0	6.4	-0.1	4.6	4.5	5.1
Net exports[1]	1 501.5	2.1	1.6	-0.3	1.0	0.8
Memorandum items						
GDP deflator	_	2.6	3.2	3.3	2.4	3.2
Consumer price index	_	3.9	5.7	1.9	2.1	3.5
Private consumption deflator	_	4.2	6.1	2.5	2.1	3.5
Unemployment rate	_	10.9	10.9	10.4	10.1	10.3
General government financial balance[2]	_	4.2	-2.1	-2.7	-2.9	-2.9
General government gross debt[3]	_	87.1	90.1	88.8	88.7	88.1
General government debt, Maastricht definition[2]	_	82.1	79.8	78.5	78.4	77.8
Current account balance[2]	_	0.4	0.9	1.8	2.1	2.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
3. As a percentage of GDP at market value.
Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949936

zero interest rate for lending to SMEs at a maximum 2.5%. Since further monetary easing entails risks, notably of currency depreciation, and domestic demand is already picking up, the policy rate should stay on hold for now. As economic slack diminishes and inflation begins to rise, the monetary stance should start to gradually normalise.

A moderate fiscal expansion is planned

The 2013 deficit is projected to remain below 3%, with a small loosening in the underlying fiscal stance relative to 2012. The budget for 2014 envisages a further underlying fiscal expansion of ¾ per cent of GDP, reflecting *inter alia* large pay increases for teachers (since September 2013) and hikes in family benefits. No significant change in the fiscal stance is projected in 2015.

The recovery is projected to continue

Mainly driven by private consumption, the final domestic demand recovery is set to continue. Growth will be strongest in the coming quarters, as real incomes will benefit from fiscal measures and from a new cut in energy prices in November 2013. As the cyclical slack narrows, inflation is projected to gradually increase. Robust export growth throughout will lead to a rising current account surplus.

A sharp depreciation remains the main risk

The economy is characterised by declining but stil high indebtedness in foreign currency. Therefore, loss of investor confidence associated with renewed tensions in global financial markets could lead to capital outflows and forint depreciation, depressing consumption and investment. On the upside, the Funding for Growth Scheme could induce a significant improvement in credit conditions.

ICELAND

The economy continues to recover, thanks to stronger consumer spending and tourism receipts. Declining unemployment and a foreign trade surplus are also signs of improvements. Growth is projected to increase as residential construction rebounds and investment in large energy-related projects picks up. As a result of this upswing, the slack in resource utilisation should be fully eliminated in 2015.

Monetary policy should continue to seek to lower inflation, which would require some tightening as slack is taken up, especially if wage pressures intensify. After fiscal slippages in 2013, the government's plans to reduce the budget deficit should be carried through, as this is needed to ensure that government debt remains on a downward path. Capital controls should be lifted as soon as this can be done in an orderly way.

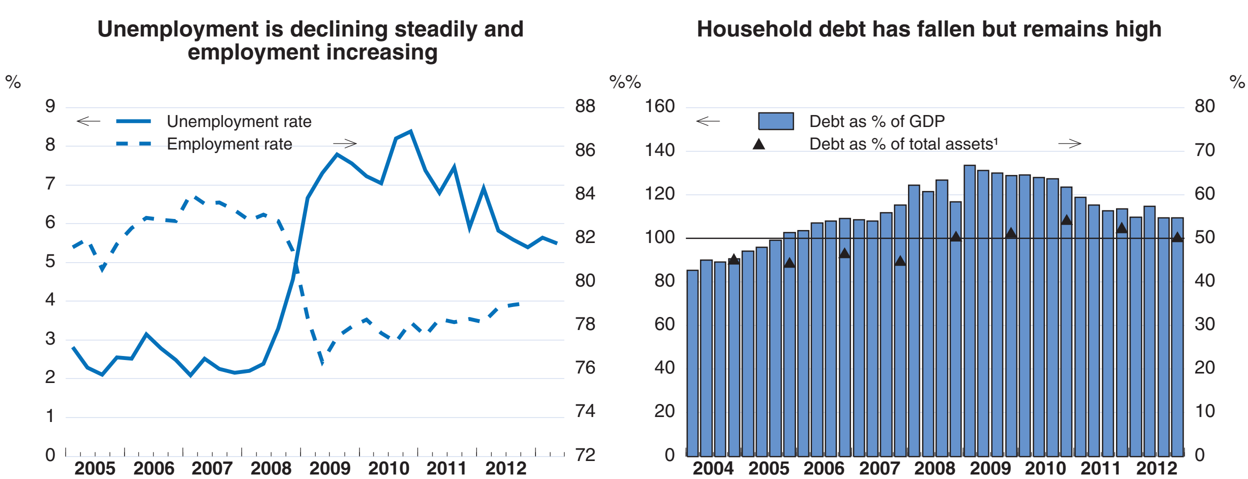
Growth is strengthening and the unemployment rate is falling

Although volatile, economic growth has been solid, leading to higher job creation and lower unemployment. Consumer demand has benefited from this labour market improvement and from stronger balance sheets. Court decisions on exchange-rate linked loans, repayments of loans and debt restructuring have all reduced household debt. Inflation has remained above the central bank's target, despite exchange-rate firmness, and inflation expectations remain anchored at the relatively high level of 4 to 5%.

Fiscal consolidation will continue in 2014

Fiscal policy has been somewhat less restrictive than planned in 2013, particularly at the central level. The new government aims to keep government debt on a downward path while unwinding some of the tax increases introduced after the financial crisis. These objectives will require spending restraint. The projection assumes that this plan will be carried through. Financial conditions remain supportive, with long-term

Iceland



1. Liabilities as a percentage of total assets excluding equity in pension funds.

Source: Central Bank of Iceland, Financial Stability Report, 2013-1; and OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949955

Iceland: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices ISK billion	Percentage changes, volume (2005 prices)				
GDP at market prices	1 535.9	2.7	1.4	1.8	2.7	2.8
Private consumption	790.9	2.6	2.4	1.6	2.2	2.4
Government consumption	398.6	-0.3	-1.4	0.7	0.3	0.8
Gross fixed capital formation	194.8	14.3	5.0	-2.5	6.2	7.1
Final domestic demand	1 384.2	3.4	1.8	0.7	2.3	2.7
Stockbuilding[1]	- 3.4	0.6	-0.1	0.3	-0.1	0.0
Total domestic demand	1 380.9	4.1	1.6	1.9	2.5	2.7
Exports of goods and services	865.8	3.8	3.8	1.2	3.1	3.2
Imports of goods and services	710.7	6.7	4.7	0.8	2.4	3.1
Net exports[1]	155.1	-1.0	-0.1	0.3	0.6	0.3
Memorandum items						
GDP deflator	_	3.3	2.8	3.4	4.9	3.3
Consumer price index	_	4.0	5.2	4.0	3.8	3.1
Private consumption deflator	_	4.1	5.6	3.4	3.9	3.3
Unemployment rate	_	6.9	5.9	5.4	4.9	4.6
General government financial balance[2]	_	-5.6	-3.8	-2.7	-1.3	-1.1
General government gross debt[3]	_	132.3	129.6	129.5	126.8	124.9
Current account balance[2]	_	-6.5	-5.5	-0.1	-0.2	0.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
3. As a percentage of GDP at market value. Includes unfunded liabilities of government employee pension plans, which amounted to about 25% of GDP in 2012.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949955

interest rates being kept low by capital control regulations that prohibit investing abroad. This is expected to contribute to a rebound in residential investment. As economic slack is eliminated, policy interest rates will need to rise in real terms to keep inflation in check.

The economic rebound is projected to strengthen

Growth is projected to gain strength in 2014-15, reflecting improved real wages and jobs, which will support private consumption. Residential investment is expected to continue to rebound from the current low level thanks to low real interest rates and, in places, low inventory of vacant houses. Business investment is also projected to grow strongly due to large-scale industrial and energy-related projects. Iceland will also benefit from stronger global activity, although weak aluminum and fish prices will moderate any effect on the current account balance. Inflation is projected to decline, reaching the central bank's inflation target by the end of the projection period. Wage settlements are assumed to remain moderate, with higher participation and immigration increasing the labour supply and easing potential pressures.

Lifting capital controls and high leverage create downside risks

Although Iceland's economy has improved, it remains subject to substantial downside risks. Capital controls need to be lifted at some point, but doing so poses risks of exchange-rate depreciation and higher inflation. The high debts of household, businesses and government make the economy vulnerable to sudden increases in interest rates, which could be triggered by rising wage pressures in a tight labour market. Finally, further delays could occur in the roll-out of energy-intensive investment projects, owing to difficulties with government approvals and overcapacity in the global aluminum industry. On the other hand, Iceland could benefit from a firmer global outlook, better-than-assumed terms of trade and a more rapid implementation of large-scale investment projects.

IRELAND

Ireland is successfully emerging from its post-crisis adjustment programme. Economic activity is showing signs of revival and is projected to gradually strengthen in 2014-15. Growth will continue to be led by exports, with private consumption making a rising contribution. Business investment is also projected to expand, reflecting Ireland's attractiveness for foreign direct investment. The unemployment rate will continue to decline, aided by the broadening of the recovery to more labour-intensive sectors.

Adherence to the fiscal targets should be maintained to bring the public debt onto a declining path, although automatic stabilisers should be allowed to work around the structural consolidation path if growth disappoints. Further efforts are also needed to restore the banking system to health and repair the bank credit channel. Getting long-term job seekers back to work should be prioritised to reduce the risk of high unemployment becoming structural. In particular, workers previously employed in the construction sector should be encouraged to acquire the skills and competencies demanded by job-creating sectors.

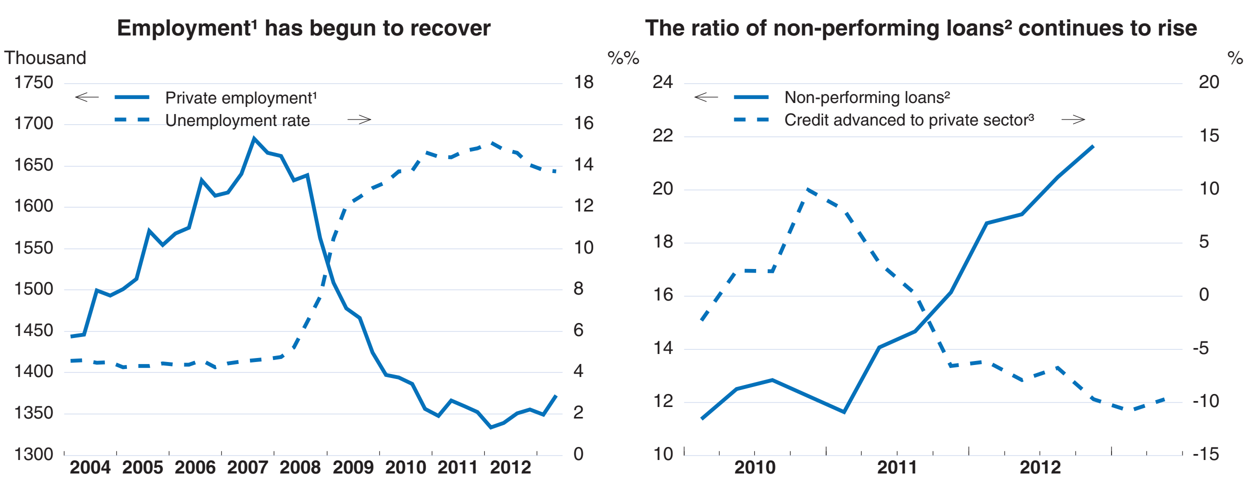
Activity is regaining strength

Short-term indicators signal that activity is regaining strength, and exports are expected to be the main source of growth in the years ahead, notwithstanding the expiry of some drug patents. High debts continue to constrain households' and firms' spending, although the housing market is showing the first signs of stabilisation. Inflationary pressures are expected to remain weak.

Fiscal consolidation is bringing public debt onto a declining path

Despite economic activity being weaker than expected, public finances seem to be on target for this year. Thanks to sustained fiscal consolidation the public debt is expected to peak in 2013 at a bit above

Ireland



1. Excluding public administration and defence, compulsory social security, education and health and social work. Before 2008 Q1, data refer to NACE rev 1.
2. As a percentage of gross loans.
3. Irish resident private-sectors enterprises. Year-on-year percentage changes.

Source: IMF, Financial Soundness Indicators; Eurostat; Central Bank; and OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932948454

Ireland: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices € billion	Percentage changes, volume (2011 prices)				
GDP at market prices	158.1	2.2	0.1	0.1	1.9	2.2
Private consumption	78.3	-1.4	-0.3	-1.1	0.8	0.7
Government consumption	30.0	-2.9	-3.2	-0.9	-1.9	-1.5
Gross fixed capital formation	19.2	-9.6	-0.7	-7.8	5.9	5.9
Final domestic demand	127.6	-3.0	-1.1	-2.2	0.8	0.9
Stockbuilding[1]	0.9	1.0	-0.4	0.5	0.0	0.0
Total domestic demand	128.5	-1.8	-1.6	-1.1	1.0	0.9
Exports of goods and services	157.9	5.3	1.6	0.1	3.7	3.9
Imports of goods and services	128.3	-0.4	0.0	-0.3	2.5	3.4
Net exports[1]	29.6	5.7	1.6	0.3	1.9	1.5
Memorandum items						
GDP deflator	_	0.7	0.7	0.3	0.6	1.1
Harmonised index of consumer prices	_	1.2	1.9	0.6	0.8	1.0
Private consumption deflator	_	2.1	0.5	1.5	0.6	0.9
Unemployment rate	_	14.6	14.7	13.6	13.2	12.3
General government financial balance[2,3]	_	-13.1	-8.1	-7.4	-5.0	-3.1
General government gross debt[4]	_	102.8	127.5	132.3	130.8	128.6
General government debt, Maastricht definition[2]	_	104.1	117.4	122.2	120.7	118.5
Current account balance[2]	_	1.2	4.4	4.3	3.9	3.4

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.
4. As a percentage of GDP at market value. In 2011 and 2012, because of large changes in the market value of liabilities, the change in government financial liabilities has been approximated by the change in the Maastrich definition of general government debt.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949974

120% of GDP (Maastricht definition). It is essential to remain on the fiscal path specified in the government programme in 2014-15 to further reduce debt and to retain sustainable and affordable access to financial markets. However, if growth is weaker than anticipated the automatic stabilisers should be allowed to operate.

Long-term unemployment remains a fundamental challenge

There are some recent signs of a recovery of employment growth, but outward migration remains high and involuntary part-time work is still increasing. Unemployment is projected to decrease gradually, partly reflecting positive labour supply conditions. The long-term unemployed risk being marginalised and discouraged unless they are provided with adequate activation and support. Training tailored to the requirements of jobseekers and employers will be key in this regard.

Reducing non-performing loans is a priority

Rising non-performing loans are weakening banks and SMEs continue to experience difficulties in accessing credit. Lending conditions remain among the tightest in Europe. The strategy set out by the Central Bank of Ireland, including quarterly quantitative targets for dealing with mortgage arrears, should be fully implemented to foster on-going balance sheet adjustments and improve credit supply.

Risks to the growth outlook remain significant

The export-led recovery is expected to gather strength in 2014 and 2015 in line with the projected pick-up in Europe. Domestic demand will gradually recover as the labour market improves. Nevertheless, weaker-than-anticipated growth in trading partners, contagion from adverse financial events elsewhere and a slow resolution of non-performing loans all pose downside risks. Thanks to its steadfast commitment, Ireland is well prepared to be the first euro area country to exit an EU-IMF programme at the end of 2013. A backstop might be appropriate to safeguard against potential adverse movements in financial market confidence.

ISRAEL*

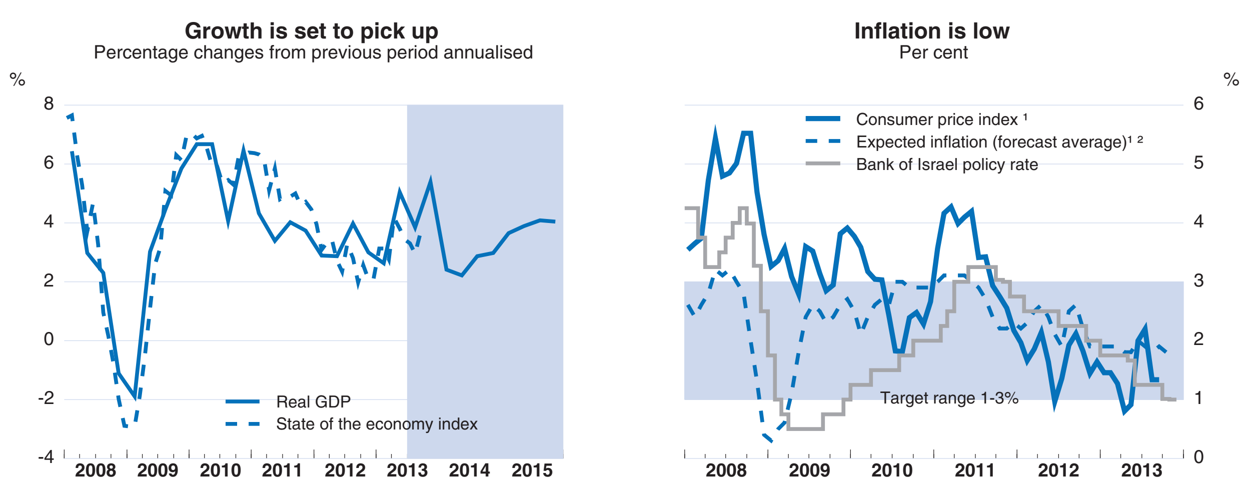
Against a backdrop of steadily improving external demand, new offshore natural gas production will provide an additional boost to output growth. Fiscal consolidation will restrain domestic demand, particularly in 2014. Inflation is currently low, but relatively tight labour and product markets may soon bring some price pressures.

The fiscal consolidation programmed in the 2013-14 budget should not be diluted, despite favourable surprises in revenues and spending growth. A return to more conventional monetary policy should now be on the horizon. Given a firming recovery and an inflation pick-up, increases in the base rate should begin and discretionary interventions in the foreign currency market should end when global monetary conditions normalise and capital flows stabilise.

GDP continues to grow moderately

Output growth in 2013 is set to be slightly higher than the year before, driven by household and government consumption. Investment has been falling for over a year. Residential construction has ebbed, notwithstanding government efforts on the supply side, and machinery and equipment outlays have shrunk, albeit from relatively high past levels due to earlier one-off investments in certain industries. Production from the Tamar gas field boosted GDP growth by approximately 1 percentage point in 2013 and will do so by about 0.7 percentage point in 2014 as well. Inflation outcomes and expectations remain within the lower half of the target band (1-3%) partly because of shekel appreciation. However, house

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 94 database.

StatLink http://dx.doi.org/10.1787/888932948492

*. *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**

	2010	2011	2012	2013	2014	2015
	Current prices NIS billion	Percentage changes, volume (2010 prices)				
GDP at market prices	866.2	4.6	3.4	3.7	3.4	3.5
Private consumption	492.7	3.8	3.2	3.4	2.7	3.6
Government consumption	201.4	2.5	3.2	5.0	4.0	3.6
Gross fixed capital formation	160.3	15.7	3.5	-4.0	3.6	5.8
Final domestic demand	854.4	5.7	3.3	2.3	3.2	4.0
Stockbuilding[1]	- 3.3	-0.1	0.5	-0.7	-0.1	0.0
Total domestic demand	851.1	5.5	3.9	1.6	3.1	4.0
Exports of goods and services	302.9	7.3	0.9	1.1	3.3	4.6
Imports of goods and services	287.8	10.5	2.3	-4.5	2.7	6.5
Net exports[1]	15.1	-0.9	-0.5	2.0	0.3	-0.5
Memorandum items						
GDP deflator	_	2.0	4.0	2.4	2.3	2.5
Consumer price index	_	3.5	1.7	1.5	2.0	2.4
Private consumption deflator	_	3.5	2.3	2.2	2.0	2.4
Unemployment rate[2]	_	7.1	6.9	6.7	6.9	6.6
General government financial balance[3,4]	_	-4.2	-4.9	-5.0	-3.9	-3.5
General government gross debt[5]	_	69.7	68.2	68.4	67.6	66.4
Current account balance[3]	_	1.0	0.1	2.6	2.6	1.9

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.
5. As a percentage of GDP at market value.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932949993

price growth remains strong, despite further recent tightening of mortgage-lending rules. Reflecting concerns about the weakness of demand, particularly exports (in part due to the strength of the shekel), the policy rate was reduced by 25 basis points to 1.0% in October. The central bank also continues to make discretionary purchases of foreign currency, and separately is making purchases to offset Tamar's effects on the exchange rate.

Substantial fiscal consolidation is underway

Significant overshooting of the deficit in 2012 and problems in keeping within the legislated expenditure ceiling due to multi-year public-sector wage agreements and an expansion of child-care support have prompted a substantial consolidation programme. The 2013-14 budget details spending savings of 2% of GDP and revenue increases of about 1.6% of GDP. Most of the consolidation will be felt in 2014. Since the budget was finalised in July, spending has been lower than expected and revenues higher.

A pick-up in growth is projected in 2015

Excluding the boost to output growth from Tamar, growth is projected to be 2.7% in both 2013 and 2014 and rise to 3.5% in 2015. On this projection, a tightening monetary stance, probably beginning in autumn 2014, will 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. Given the favourable surprises in budgetary outcomes, the general government deficit is projected to increase only marginally in 2013 and then decrease in 2014 and 2015, roughly in line with the consolidation implied by the legislated central-government deficit targets (which are 3% and 2.5% for 2014 and 2015, respectively).

The global economic climate and house-price increases pose risks

Geopolitical and global economic risks present the greatest threats to growth. Domestically, the continued house price increases are adding risks and tensions for monetary policy. On the other hand, fiscal risks have fallen considerably since the finalisation of the 2013-14 budget.

KOREA

Output growth is projected to pick up to around 4% in 2014-15 despite headwinds from a high level of household debt and a weak property market. Stronger growth, led by a rebound in exports and business investment, is expected to boost inflation from around 1¼ per cent toward the midpoint of the central bank's target range of 2.5% to 3.5%.

As the recovery gains pace, monetary policy will need to tighten to keep inflation in the target range. However, if downside risks materialise, Korea has scope to use both monetary and fiscal stimulus to support growth, given its budget surplus and low level of public debt. Sustaining growth over the medium term requires structural reforms to boost labour force participation, in line with the government's plan to raise the employment ratio to 70%, in the face of a declining working-age population from 2017 and to enhance productivity, particularly in services.

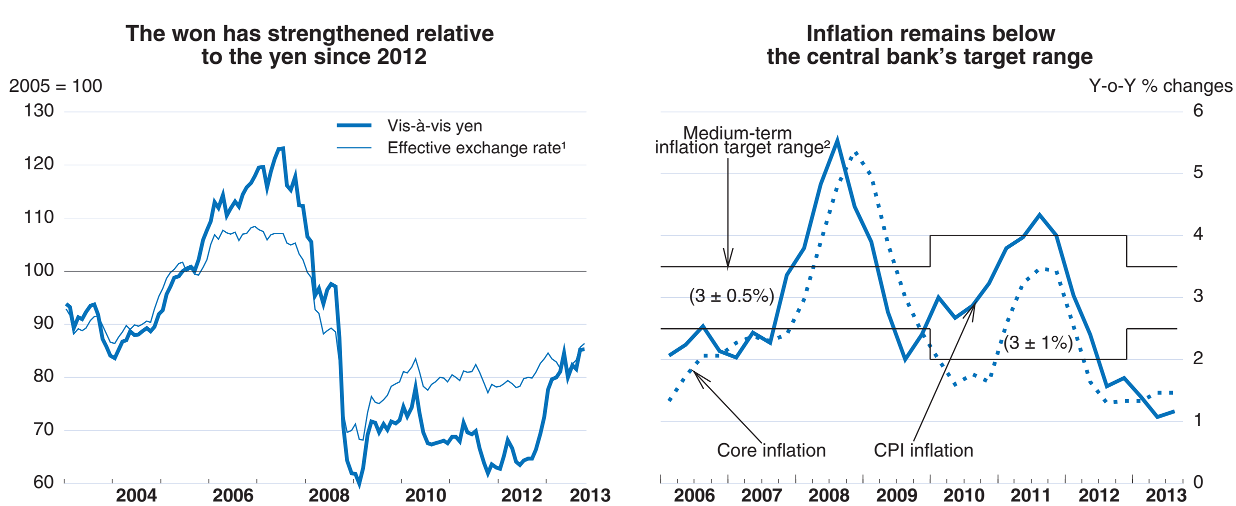
The expansion strengthened in mid-2013, led by exports

After two years of sluggish output growth at an annual pace of around 2%, Korea rebounded in 2013, thanks in part to faster export growth, which helped to reverse the decline in business investment and boost employment. In contrast to many emerging economies, Korea continues to receive capital inflows, which have contributed to the 6% appreciation in the Korean won in trade-weighted terms since June. Meanwhile, equity prices have risen by almost 10%, helping to improve business and household confidence.

A range of policy measures support activity

The upturn is being supported by fiscal and monetary policy. The government launched a supplementary budget in April 2013 and has decided to delay the 2014 target for balancing the consolidated central government budget (excluding the social security surplus) until 2017. Increased public outlays in 2014 will be led by a 7% rise in social spending.

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 94 database; and Bank of Korea.

StatLink http://dx.doi.org/10.1787/888932948587

Korea: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices KRW trillion	Percentage changes, volume (2005 prices)				
GDP at market prices	1 173.3	3.7	2.0	2.7	3.8	4.0
Private consumption	617.0	2.4	1.7	2.0	3.5	3.6
Government consumption	178.4	2.1	3.9	3.1	2.3	2.0
Gross fixed capital formation	331.7	-1.0	-1.7	3.8	5.7	6.1
Final domestic demand	1 127.1	1.3	1.1	2.6	3.9	4.1
Stockbuilding[1]	16.0	0.7	-0.1	-0.2	0.1	0.0
Total domestic demand	1 143.1	2.1	1.0	2.4	4.0	4.1
Exports of goods and services	613.4	9.1	4.2	4.3	5.5	8.7
Imports of goods and services	583.2	6.1	2.5	3.7	6.1	9.3
Net exports[1]	30.2	1.8	1.0	0.4	0.0	0.1
Memorandum items						
GDP deflator	_	1.5	1.0	1.3	1.1	1.6
Consumer price index	_	4.0	2.2	1.2	2.1	3.0
Private consumption deflator	_	3.7	2.1	1.1	1.9	2.7
Unemployment rate	_	3.4	3.2	3.2	3.1	3.0
Household saving ratio, net[2]	_	3.5	3.8	4.8	4.3	4.0
General government financial balance[3]	_	2.0	1.7	1.3	1.3	1.7
General government gross debt[4]	_	36.2	35.5	35.6	36.0	36.3
Current account balance[3]	_	2.3	3.8	5.5	4.5	3.7

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.
4. As a percentage of GDP at market value.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950012

Meanwhile, the Bank of Korea's policy interest rate has been reduced by 100 basis points during the past year to 2.5%. The government is addressing the household delinquent debt problem, which has been a headwind to private consumption growth. In particular, it launched the "National Happiness Fund" in March 2013 to restructure debt and convert high-interest loans to lower-interest ones. In addition, the government has unveiled two packages, including tax relief, in 2013 to boost the faltering property market. Nevertheless, housing prices continue to edge down.

A gradual pick-up in growth is projected during 2014-15

Output growth of around 4% is expected in both 2014 and 2015, thanks to a moderate pick-up in world trade that will help Korean exporters overcome the impact of the appreciation of the won, which is almost 30% higher relative to the Japanese yen than in 2012. Faster exports will in turn boost fixed investment and wages. However, the high level of household debt, which reached 164% of household disposable income at the end of 2012, will continue to constrain private consumption growth. The pick-up in output growth is expected to boost inflation to 3% in 2015, while reducing the current account surplus from 5½ per cent of GDP in 2013 to less than 4% in 2015.

There are domestic and external risks

Domestic risks are largely on the upside insofar as government initiatives to address household debt and the housing sector boost growth by more than expected. With exports accounting for more than one-half of GDP, Korea is particularly sensitive to global economic conditions and exchange rate shifts.

LUXEMBOURG

Growth will continue to pick up in 2014 as the euro area gradually recovers and the pace of fiscal consolidation lessens. In 2015, growth and the unemployment rate are projected to stabilise even as the new EU VAT regime for e-commerce bears on competitiveness and a higher VAT rate slows demand. The wage indexation system could transmit the price effects of the VAT increase to wages.

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 necessary to contain risks in the large financial sector. Reforms to enhance work incentives would reduce structural unemployment, while reducing barriers to competition and improving the education system would enhance growth potential.

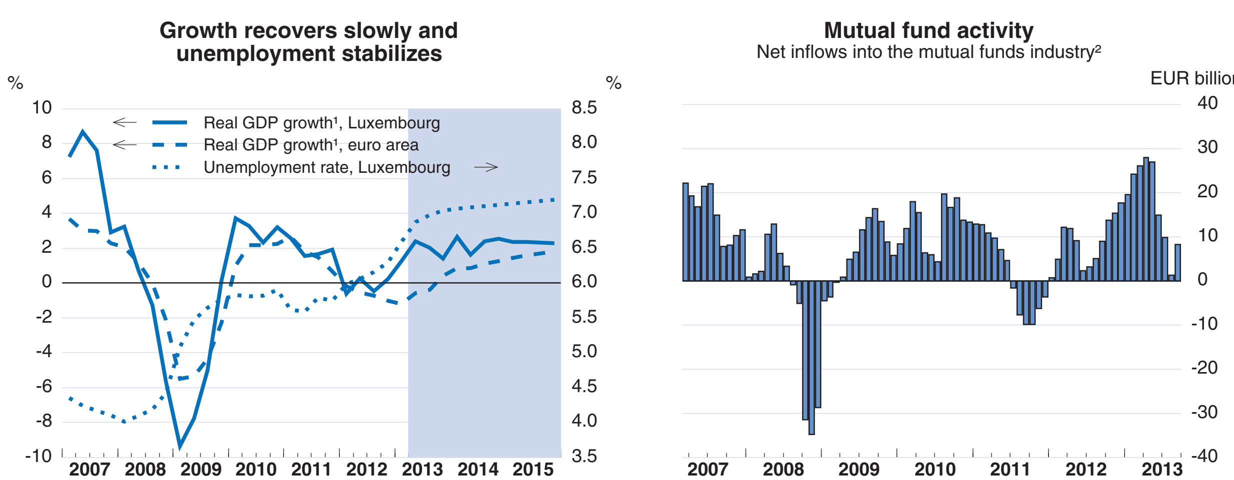
Economic activity is picking up

Economic activity has been picking up in 2013, supported by stronger export growth as the euro area slowly recovers, and by robust activity in the mutual fund industry at the beginning of the year. While stronger growth is pushing up household income, consumption growth is declining as high unemployment is boosting precautionary savings. Long-term unemployment has risen steadily over recent years; this can drive up structural unemployment, especially among low-skilled workers. Although the slack has created downward pressures on prices, wage indexation has kept inflation above the euro area average.

Fiscal policy will partly offset the effects of the new EU VAT regime

New EU rules will shift the e-commerce VAT from the country of sale to the country of consumption as from January 2015, which in Luxembourg is estimated to cut government revenues by 1½ per cent of GDP. The deficit is projected to increase as this is assumed to be only

Luxembourg



1. Year-on-year percentage changes.
2. Three-month moving average. Inflows are defined as net of markets' variations.
Source: OECD Economic Outlook 94 database; and Commission de Surveillance du Secteur Financier.

StatLink http://dx.doi.org/10.1787/888932948606

Luxembourg: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices € billion	Percentage changes, volume (2005 prices)				
GDP at market prices	39.3	1.9	-0.2	1.8	2.3	2.3
Private consumption	12.8	1.3	2.2	1.2	2.2	2.4
Government consumption	6.6	1.4	4.8	2.6	2.3	2.2
Gross fixed capital formation	6.8	12.0	3.5	0.7	0.0	0.2
Final domestic demand	26.2	4.1	3.3	1.4	1.7	1.8
Stockbuilding[1]	1.0	0.2	-0.5	-0.3	0.0	0.0
Total domestic demand	27.2	3.9	2.4	1.0	1.6	1.8
Exports of goods and services	67.1	5.5	-1.9	2.5	3.2	3.3
Imports of goods and services	55.0	7.4	-1.0	2.1	3.0	3.3
Net exports[1]	12.1	-1.0	-1.9	1.4	1.3	1.1
Memorandum items						
GDP deflator	_	4.2	3.0	3.2	0.7	-0.2
Harmonised index of consumer prices	_	3.7	2.9	1.7	1.6	2.0
Private consumption deflator	_	2.6	1.6	1.7	1.1	1.5
Unemployment rate	_	5.7	6.1	6.9	7.1	7.2
General government financial balance[2]	_	0.1	-0.6	-0.3	-0.3	-1.1
General government gross debt[3]	_	26.3	30.2	32.9	34.6	36.7
General government debt, Maastricht definition[2]	_	18.7	21.7	24.4	26.1	28.2
Current account balance[2]	_	6.6	6.6	1.0	-3.6	-3.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
3. As a percentage of GDP at market value.
Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950031

partially offset by a rise in VAT rates. Fiscal adjustment is appropriate as the change in the VAT rule is permanent. However, the automatic stabilisers should be allowed to work if growth proves weaker than expected.

Financial sector regulation has been updated

The financial sector weathered the crisis, and financial supervision has been strengthened further. 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.

Consumption will grow faster in 2014 and 2015

A decline in the saving rate from high levels will raise consumption and domestic demand growth in 2014 and 2015. The labour force will continue to grow steadily as workers from neighbouring countries are attracted by higher wages, The VAT rise will push up inflation in 2015, which could trigger an increase in indexed wages. Export growth will ease slightly as price competitiveness is reduced by the shift in the e-commerce VAT regime.

Risks are mostly on the downside

A deterioration in the euro area debt crisis would undermine confidence and exports and domestic demand. In addition, the negative impact of the new EU VAT regime on Luxembourg's position in the e-commerce industry could be larger than expected. At the same time, larger safe haven capital inflows might boost activity in the large financial sector.

MEXICO

The economy slowed abruptly in the first half of 2013, principally due to the delayed effects of weak export demand spilling over to the rest of the economy, thereby hurting consumer and investor confidence. As external conditions improve and government expenditure is stepped up, growth should rebound in 2014 and 2015.

Weak demand has muted inflation, despite some recent supply pressures from highly damaging weather conditions. The central bank cut policy rates in October to a record low, which should boost investment. Fiscal policy is expected to be stimulatory over the next year, with a temporary increase in the budget deficit envisioned prior to a rise in overall taxation. As confidence rebounds, exceptional spending may need to be tapered back, while monetary conditions will have to be adjusted to take account of the withdrawal of exceptional measures and higher potential growth from recent reforms.

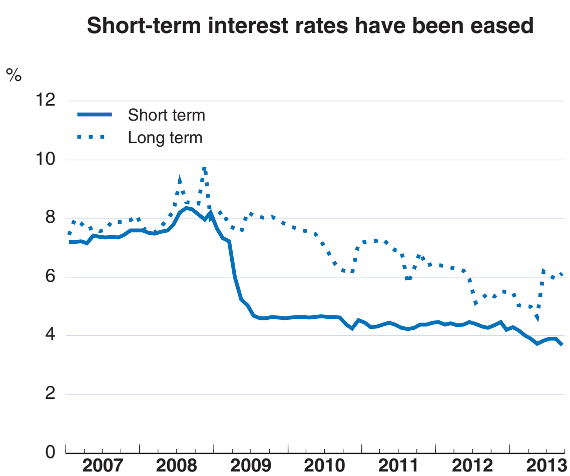
Growth has slowed abruptly

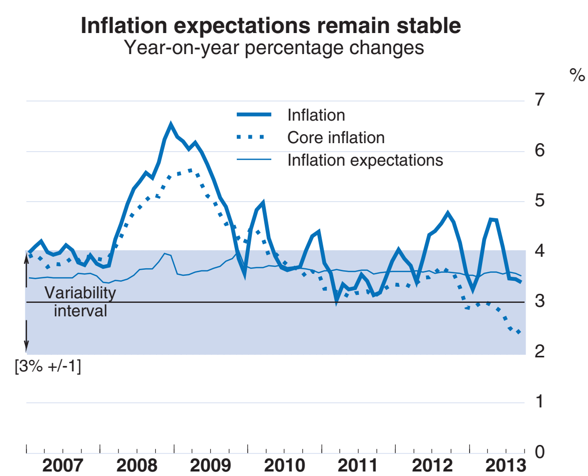
Feeble external demand, notably from the United States, has led to a lagged but sustained fall in industrial production since the start of 2013. The downswing was reinforced by a drop in business investment and construction and a delay in some large infrastructure projects. While consumption held up well initially, it has also weakened recently in the face of labour market uncertainty and damage from severe storms.

Monetary policy has been eased further

Policy rates were cut to a record low of 3.5% in October, consistent with very weak inflationary pressures. The exchange rate has remained broadly stable, especially compared to other emerging market economies that were more directly affected by talk of the US Federal Reserve tapering its large-scale purchase of assets. Mexico retains a high degree of positive market sentiment and capital inflows are still substantial, with their composition shifting towards more stable and long-term FDI.

Mexico





Source: Banco de México; INEGI; and OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932948625

Mexico: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices MXN billion	Percentage changes, volume (2008 prices)				
GDP at market prices	13 226.2	4.0	3.6	1.2	3.8	4.2
Private consumption	8 892.3	4.8	4.3	2.7	3.0	3.7
Government consumption	1 556.7	2.5	2.2	1.2	3.6	2.8
Gross fixed capital formation	2 800.2	8.1	4.5	0.8	5.1	5.4
Final domestic demand	13 249.2	5.2	4.1	2.1	3.5	4.0
Stockbuilding[1]	136.1	-1.2	-0.3	-0.4	0.1	0.0
Total domestic demand	13 385.3	3.9	3.8	1.7	3.6	4.0
Exports of goods and services	3 963.3	8.3	4.2	2.2	5.9	6.5
Imports of goods and services	4 122.4	8.1	4.8	3.7	5.2	6.0
Net exports[1]	- 159.1	-0.1	-0.3	-0.5	0.1	0.1
Memorandum items						
GDP deflator	_	4.8	3.8	1.8	3.8	3.8
Consumer price index	_	3.4	4.1	3.8	3.0	3.1
Private consumption deflator	_	3.6	4.7	3.2	3.7	3.8
Unemployment rate[2]	_	5.2	5.0	5.2	5.0	4.8
Public sector borrowing requirement[3,4]	_	-3.4	-2.9	-2.5	-3.0	-2.4
Current account balance[4]	_	-1.0	-1.2	-1.8	-1.1	-0.7

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 94 database.

StatLink http://dx.doi.org/10.1787/888932950050

Fiscal policy will become stimulatory

Fiscal policy is poised to become more supportive under the 2014 budget, which envisages additional spending. A budget deficit on the official basis of 0.4% of GDP is foreseen this year and 1.4% in 2014. Together with the draft budget itself, the authorities submitted to Congress other elements of a fiscal package. These include a new structural fiscal rule that would make policy less pro-cyclical. The package expands social security benefits, helping to make growth more inclusive, and broadens the tax base, which should reduce inefficiencies in the tax system.

Demand should bounce back in 2014

Once US demand recovers and the Mexican fiscal stimulus starts to have effects, external and domestic demand growth should pick up and start to absorb the excess capacity that appeared in 2013. Passage of the pending energy reform would reduce constraints on private investment in the sector, thus boosting investment. With inflationary expectations well anchored, and core inflation approaching the bottom of the target range, there may be scope for further reductions in policy rates to support demand should downside risks emerge.

Risks are on the downside

Substantial risks to growth remain. Uncertainties in the US budget debate as the early-2014 fiscal deadlines approach could hamper investment. Anticipated and actual tightening of US monetary policy could trigger market instability that would affect Mexico, driving up long-term interest rates. Should the energy and financial reforms fail to be adopted, the projected rebound would be delayed. On the other hand, recent structural reforms, notably enhanced competition in the business sector, could strengthen growth potential more than assumed and lead to a stronger expansion through higher rates of investment and trend productivity.

NETHERLANDS

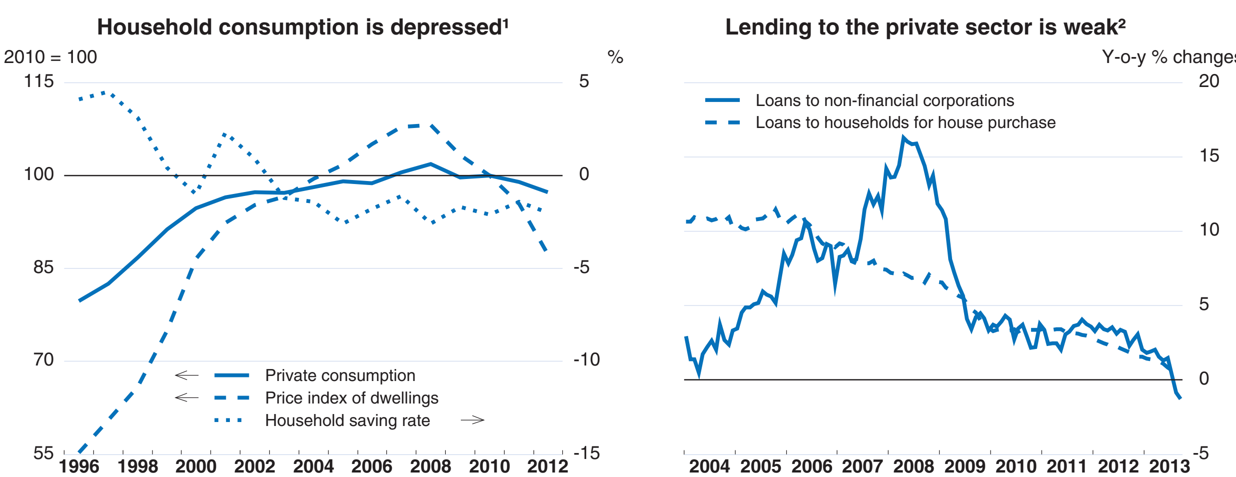
The Netherlands is in a protracted recession mainly owing to private and public sector deleveraging. Declining real house prices, falling real incomes and growing unemployment are holding back household consumption while overstretched balance sheets of banks and heightened risk have led to tight credit conditions. Sizeable fiscal retrenchment has further weakened activity. Growth is projected to resume only gradually, and inflation is expected to recede significantly owing to the substantial economic slack.

Fiscal consolidation is assumed as planned by the authorities, with net discretionary measures of about 2% of GDP in 2014 and 1% of GDP in 2015. However, the government should allow the automatic stabilisers to work fully in the event growth proves weaker than expected. Banking sector recapitalisation is needed to underpin financial stability and ease credit constraints.

The economy is weak

GDP has been falling almost continuously since mid-2011, driven by faltering domestic demand; exports have been the only engine of growth. Private consumption has been weakened by falling purchasing power, large declines in real house prices and insufficient liquidity buffers to support spending. However, recently, nominal house prices might have stabilised at 20% below their peak and private sector confidence has improved somewhat from low levels. Poor growth prospects and tight credit conditions have held back investment. A rapid pace of fiscal consolidation has further weighed on economic activity. Weak domestic demand has widened the current account surplus to an unprecedented level of more than 10% of GDP.

Netherlands



1. Private consumption is measured in volume. Price index of dwellings is deflated by consumer prices and refers to purchase prices of all dwellings sold to private individuals. Household saving rate does not include mandatory contributions to pension funds.
2. Data refer to loans granted by Dutch Monetary Financial Institutions (MFIs), including loans transferred by MFIs to special purpose vehicles (SPVs), and are adjusted for securitisations and breaks.

Source: OECD Economic Outlook 94 database; Statistics Netherlands (CBS); Netherlands Bureau for Economic Policy Analysis (CPB); and De Nederlandsche Bank (DNB).

StatLink http://dx.doi.org/10.1787/888932948644

Netherlands: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices € billion	Percentage changes, volume (2005 prices)				
GDP at market prices	586.7	0.9	-1.2	-1.1	-0.1	0.9
Private consumption	268.2	-1.1	-1.6	-2.1	-1.6	0.0
Government consumption	167.0	0.2	-0.7	-1.0	-0.1	0.2
Gross fixed capital formation	101.9	6.1	-4.0	-6.7	1.3	1.4
Final domestic demand	537.1	0.7	-1.8	-2.6	-0.6	0.3
Stockbuilding[1]	2.4	0.0	0.3	0.6	0.5	0.0
Total domestic demand	539.4	0.7	-1.5	-2.0	-0.1	0.3
Exports of goods and services	461.7	4.1	3.2	1.4	2.7	3.6
Imports of goods and services	414.4	4.2	3.3	-0.1	2.9	3.3
Net exports[1]	47.3	0.2	0.2	1.4	0.1	0.6
Memorandum items						
GDP deflator	_	1.1	1.3	1.6	1.0	0.8
Harmonised index of consumer prices	_	2.5	2.8	2.8	1.6	0.9
Private consumption deflator	_	2.4	2.2	2.7	1.4	0.8
Unemployment rate	_	4.3	5.2	6.7	7.8	8.1
Household saving ratio, net[2]	_	4.9	4.1	4.4	4.7	3.6
General government financial balance[3]	_	-4.3	-4.0	-3.0	-3.0	-2.3
General government gross debt[4]	_	76.1	82.7	86.9	88.5	89.0
General government debt, Maastricht definition[3]	_	65.7	71.2	75.4	77.0	77.5
Current account balance[3]	_	9.5	9.4	10.3	10.1	10.9

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.
4. As a percentage of GDP at market value.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950069

The labour market situation has worsened

As the recession continues, firms have stepped up job shedding, pushing the unemployment rate to around 7%. Job vacancies have been steadily declining and have reached their lowest level in nearly ten years. Increased spending on active labour market policies would help to contain a rise in structural unemployment by reducing the deterioration of human capital.

Sizeable fiscal consolidation is underway

Amid a wavering consensus about the pace of fiscal consolidation, the government is pursuing a sizeable adjustment with an additional tightening of 1% of GDP in 2014 compared to earlier plans, bringing discretionary measures to a total of 2% of GDP. Besides planned growth-supporting measures, the automatic stabilisers should be allowed to operate freely around the structural consolidation path so as to reduce the negative feedback loop between fiscal retrenchment and growth.

The economy should edge out of recession

GDP is projected to bottom out in the second half of 2014 and gradually recover in 2015. The unemployment rate is projected to creep up owing to further employment losses, and then to stabilise by mid-2015. Business investment is expected to turn around assuming that credit constraints are relaxed following the continued and necessary efforts to strengthen banks' capital buffers.

Downside risks dominate

Risks are mainly skewed to the downside. Additional declines in house prices could further reduce consumption. Negative results of the asset quality review by the European Central Bank could impinge on banks' access to funding in wholesale markets. On the upside, trade growth could be stronger than what is built into these projections, which would support economic activity given the large trade openness of the economy.

NEW ZEALAND

The economy is projected to expand as post-earthquake reconstruction drives robust investment and strengthening labour markets support consumption. A post-drought rebound in exports will be tempered by the sluggish global recovery and strong currency. Inflation is expected to rise as earthquake rebuilding stretches resources, pushing up costs.

Monetary policy remains accommodative, but stimulus should be removed soon to anchor inflation near the middle of the target band. Recent macro-prudential tightening measures will help contain financial stability risks, although their effectiveness needs to be monitored and adjustments made if needed. Fiscal consolidation should proceed as planned to reduce public debt before longer-term ageing pressures arise and in light of the large net foreign liabilities position.

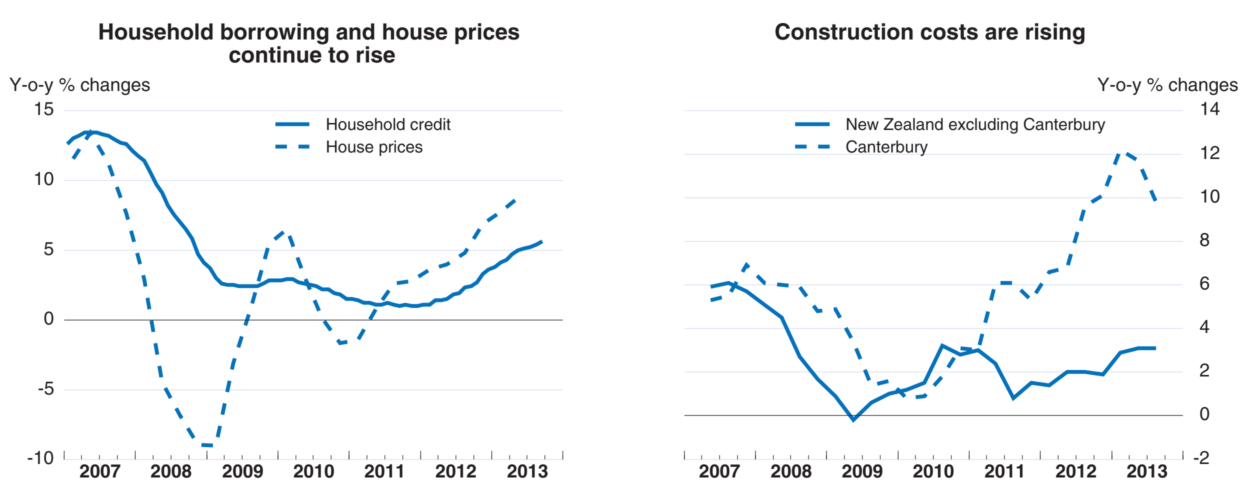
The economy is on a solid upswing

Although a severe drought temporarily depressed agricultural production and exports in the second quarter, underlying growth in the economy has been strong. Post-earthquake rebuilding has ramped up, bolstering investment in housing and public infrastructure. Buoyant financial conditions, terms of trade, business confidence and profits are further boosting domestic demand. Households are benefitting from higher employment and rising house prices, and have increased spending and borrowing despite already high debt levels. Meanwhile, weak global demand and a high exchange rate have constrained exports, and fiscal contraction remains an on-going headwind. The strong currency continues to weigh on prices, although inflation rose above 1% in the third quarter for the first time since mid-2012. However, costs are rising in the construction sector, and high capacity utilisation rates and falling unemployment indicate that excess capacity is narrowing steadily.

Monetary tightening should begin soon

As growth gathers pace, it is likely that policy rates will need to increase by early 2014 to head off inflation pressures. In response to rising

New Zealand



Source: Reserve Bank of New Zealand; and Statistics New Zealand.

StatLink http://dx.doi.org/10.1787/888932948682

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

	2010	2011	2012	2013	2014	2015
	Current prices NZD billion	Percentage changes, volume (1995/1996 prices)				
GDP at market prices	196.9	1.3	3.2	2.3	3.3	2.9
Private consumption	116.3	2.0	2.4	3.3	3.1	3.0
Government consumption	39.5	2.0	0.5	0.2	0.4	0.4
Gross fixed capital formation	36.4	3.3	6.5	8.9	11.3	6.9
Final domestic demand	192.2	2.2	2.8	3.8	4.2	3.4
Stockbuilding[1]	1.6	0.3	0.2	-0.2	0.1	0.0
Total domestic demand	193.9	2.5	3.0	3.5	4.3	3.3
Exports of goods and services	57.8	2.7	2.6	1.4	2.8	3.5
Imports of goods and services	54.8	6.5	2.1	4.9	6.3	5.2
Net exports[1]	3.0	-1.0	0.2	-1.0	-1.0	-0.5
Memorandum items						
GDP deflator	_	2.5	-0.8	2.6	2.2	1.7
Consumer price index	_	4.0	1.1	0.9	1.7	2.1
Core consumer price index[2]	_	2.7	1.0	1.2	1.8	2.0
Private consumption deflator	_	3.0	0.8	0.3	1.4	1.7
Unemployment rate	_	6.5	6.9	6.3	6.1	5.9
Household saving ratio, net[3]	_	-0.1	0.2	1.1	1.8	1.7
General government financial balance[4]	_	-5.3	-3.9	-2.6	-1.4	0.1
General government gross debt[5]	_	41.6	42.6	41.8	42.0	41.4
Current account balance[4]	_	-3.7	-4.7	-3.6	-3.6	-3.7

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.
5. As a percentage of GDP at market value.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950088

house prices, the Reserve Bank implemented new macro-prudential policies on 1 October 2013 by restricting banks' mortgage loans with less than 20% down-payment to no more than 10% of new residential lending. The Bank estimates that the impact on house prices and consumption is equivalent to a 30 basis point increase in the policy rate, delaying slightly the start of interest rate hikes.

Fiscal consolidation is on track

The government is projected to balance its operating budget by 2014-15, as planned, and thereafter to continue on a path of debt reduction. This fiscal prudence is appropriate given resource pressures coming from faster growth and to strengthen sustainability given the future costs of population ageing. It is to be achieved mainly through expenditure restraint, structural reforms to reduce welfare dependency and excise tax increases.

Earthquake reconstruction will drive strong growth

Real GDP is projected to advance at a brisk pace as agricultural production and exports recover from the drought and earthquake reconstruction builds momentum. Domestic demand will be underpinned by healthy business conditions and steadily declining unemployment, though still high household debt levels may moderate consumption growth somewhat. Although external demand is projected to strengthen progressively through 2015, the strong exchange rate will remain a drag on export performance for some time.

High house prices remain a risk to financial stability

House prices are very high relative to incomes and rents, and bottlenecks, which slow the supply response, may push them up further. Together with high household indebtedness, they pose risks to financial stability in the event of a negative shock. A deterioration in the global outlook, especially in China, would further weaken exports and see the terms of trade weaken from its current high levels.

NORWAY

The mainland economy is projected to expand robustly over the next two years, led by non-petroleum exports, while housing investment will slow. Consumption will remain solid on the back of sustained wage and employment growth. Inflation picked up recently, after having remained surprisingly low with respect to cost pressures, but it is not projected to exceed the central bank's target.

The authorities should continue to target a lower non-oil structural budget deficit than allowed under the fiscal guidelines. House price growth has moderated following the tightening of mortgage lending conditions, but the exposure of households and banks to high debt levels should nonetheless be monitored carefully. As inflation picks up, monetary policy accommodation will need to be gradually withdrawn.

Growth has moderated

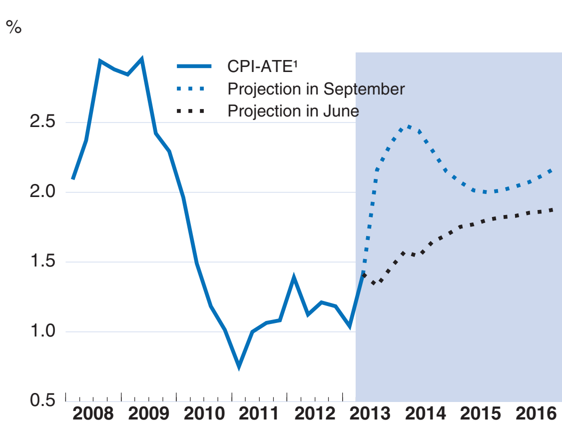
Growth in the mainland economy moderated in 2013, reflecting weakening global trade and hence contracting exports. Consumption has remained relatively solid, thanks to strong wage and employment growth. Housing investment has also been buoyant. Inflation surged in mid-2013, after a period of unexpectedly slow price increases, though largely due to temporary factors, such as food prices. Importantly though, prices of domestically-produced goods and services also began to accelerate, as had been expected for some time, due to cost pressures.

Monetary policy is set to tighten somewhat

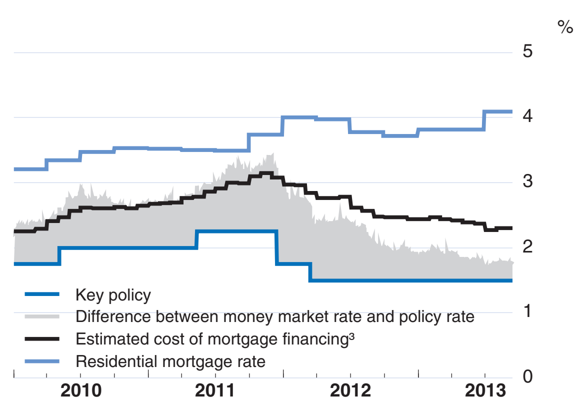
The central bank has kept its policy rate unchanged since last spring. It recently revised its inflation forecast upwards and projects that it will raise its policy interest rate in mid-2014. The inflation profile in the OECD projection is similar to this, as is the recommended interest rate path. A less supportive monetary stance would also mitigate the build-up of financial imbalances, particularly in the housing sector.

Norway

Central bank inflation projections have risen



Mortgage lending rates² increased



1. CPI-ATE refers to CPI adjusted for tax changes and excluding energy products.
2. The lending rate on lines of credit secured on dwellings provided by all banks and mortgage companies in Norway.
3. Estimated using weighted interest rates on covered bonds outstanding and weighted deposit rates.

Source: Norges Bank, Monetary Policy Report 02/13 and 03/13.

StatLink http://dx.doi.org/10.1787/888932948663

Norway: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices NOK billion	Percentage changes, volume (2010 prices)				
GDP at market prices	2 544.3	1.2	3.1	1.2	2.8	3.1
Private consumption	1 090.0	2.5	3.0	2.7	3.0	3.3
Government consumption	558.5	1.8	1.8	2.6	2.2	2.7
Gross fixed capital formation	482.0	7.6	8.0	6.3	4.9	4.9
Final domestic demand	2 130.4	3.5	3.9	3.6	3.3	3.6
Stockbuilding[1]	110.2	0.1	-0.2	-0.9	0.0	0.0
Total domestic demand	2 240.6	3.4	3.4	2.3	3.2	3.4
Exports of goods and services	1 030.0	-1.8	1.8	-1.5	2.2	2.9
Imports of goods and services	726.3	3.8	2.4	1.0	3.2	3.7
Net exports[1]	303.7	-1.8	0.1	-0.9	0.0	0.1
Memorandum items						
Mainland GDP at market prices[2]	_	2.5	3.4	1.9	3.0	3.4
GDP deflator	_	6.8	2.5	1.9	2.5	2.6
Consumer price index	_	1.3	0.7	2.2	2.3	2.1
Private consumption deflator	_	1.3	0.8	2.0	2.3	2.2
Unemployment rate	_	3.2	3.1	3.4	3.5	3.5
Household saving ratio, net[3]	_	7.1	8.5	8.7	8.7	8.7
General government financial balance[4]	_	13.4	13.8	11.3	11.0	10.6
General government gross debt[5]	_	33.9	34.4	34.2	35.5	37.9
Current account balance[4]	_	12.8	14.2	11.3	11.6	12.0

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.
5. As a percentage of GDP at market value.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950107

Fiscal policy will be more expansionary

Fiscal policy will be more expansionary under the new government's plans, and the non-petroleum structural deficit is assumed to increase by half a percentage point of mainland GDP in these projections. This comes from cuts in taxes on household income and more infrastructure spending. In order to avoid building up additional overheating pressures and damaging the competitiveness of the tradables sector, fiscal policy should continue to target a lower non-oil structural budget deficit than allowed under the fiscal guidelines, which specify a non-oil structural deficit of no more than 4% of the value of the sovereign wealth fund (Government Pension Fund Global). These guidelines imply an expansionary stance, given the rapidly rising size of the fund.

Mainland growth will become more balanced

Non-petroleum exports and business investment will recover as the global economy gradually improves, which will sustain overall activity. In contrast, petroleum investment is planned to slow markedly. Housing investment will also lose momentum. The housing market is cooling as shown by the recent fall in housing construction starts and the slower pace of house prices since mid-2013, following the tightening of mortgage lending conditions. Private consumption will be relatively solid on the back of sustained wage and employment growth, while the saving ratio will remain high.

Risks are greater than previously

Inflation has been volatile for several months. It is difficult to identify precisely the factors behind the increase in mid-2013, making the future inflation trajectory subject to large uncertainties. The saving ratio is high by historical standards but could increase further if households react strongly to the normalisation of interest rates, given their high indebtedness at floating rates. A significantly stronger fiscal stimulus than in these projections might induce overheating pressures in the economy, as well as a stronger rise in interest rates.

POLAND

GDP growth is projected to gain momentum with both exports and domestic demand strengthening over the projection period. Yet slack will hold inflation pressures down for some time before price increases rise to above 2 per cent in 2015.

With diminishing spare capacity, the central bank will need to begin removing monetary stimulus by increasing its policy rate in 2014. The reform of the second-pillar pension system will reduce public debt and improve the general government balance but implicit public pension liabilities will increase. As growth is expected to pick up and monetary policy is set to remain fairly accommodative, the government has the scope to implement greater fiscal efforts in 2015 to reach the medium-term fiscal consolidation objectives faster than planned, while allowing automatic stabilisers to play around the structural consolidation path.

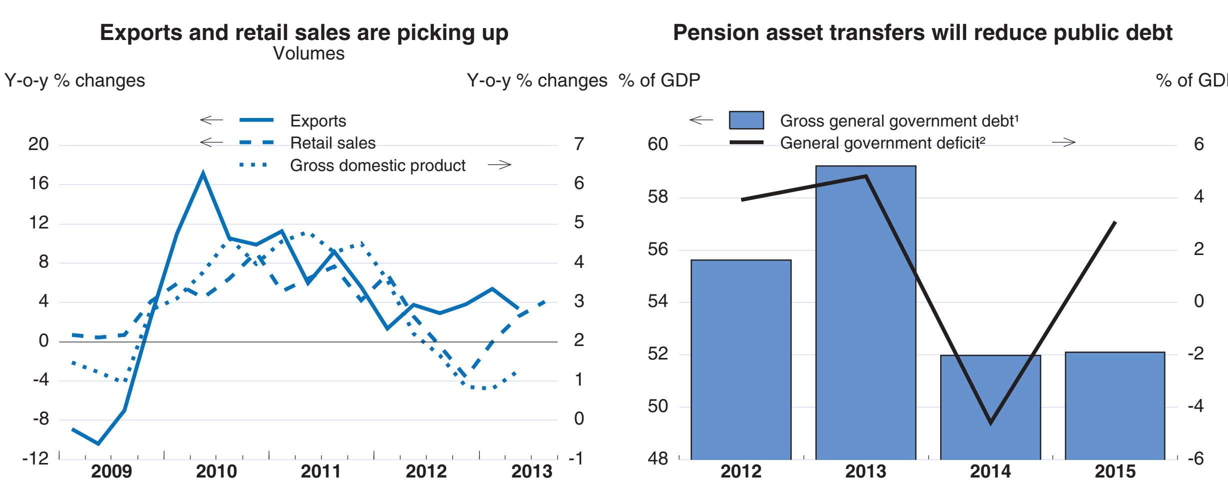
The economic outlook is improving

Real GDP growth rebounded in the second quarter of 2013. Exports are moving ahead rapidly and private consumption, which has been depressed by the weak labour market, is picking up slightly. The current account deficit has continued to narrow due to both strong exports and falling imports. This external rebalancing should reduce Poland's vulnerability to spillovers from emerging-market turmoil, even though long-term government bond yields have recently increased. Following a slowdown in 2013, EU funds are set to pick up again in 2014 and 2015 and should provide a stable source of funding for greater public investment.

The fiscal deficit widened as growth weakened, but some consolidation is planned

The sharp economic slowdown in the first part of 2013 led to lower than expected fiscal receipts and a widening deficit. With public debt rising, the government appropriately suspended the debt ceiling of 50% of GDP, thereby allowing the automatic stabilisers to operate in 2013, and

Poland



1. Maastricht definition.
2. According to SNA95. With asset transfers of 8.6 and 0.4 percentage points of GDP in 2014 and 2015, respectively.
Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932948701

Poland: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices PLN billion	Percentage changes, volume (2005 prices)				
GDP at market prices	1 414.9	4.5	2.1	1.4	2.7	3.3
Private consumption	868.8	2.6	1.2	0.7	2.2	3.1
Government consumption	267.2	-0.9	0.2	2.3	1.0	1.0
Gross fixed capital formation	278.2	8.1	-1.9	-1.7	4.4	5.7
Final domestic demand	1 414.2	3.0	0.4	0.5	2.4	3.2
Stockbuilding[1]	17.4	0.5	-0.7	-0.7	0.2	0.2
Total domestic demand	1 431.6	3.4	-0.4	-0.2	2.6	3.4
Exports of goods and services	598.9	8.0	3.0	4.7	5.0	6.3
Imports of goods and services	615.6	5.8	-1.9	1.1	4.2	6.4
Net exports[1]	- 16.7	0.8	2.2	1.7	0.4	0.0
Memorandum items						
GDP deflator	_	3.1	2.5	0.8	1.4	2.1
Consumer price index	_	4.2	3.6	1.1	1.9	2.2
Private consumption deflator	_	4.8	3.7	0.9	1.9	2.2
Unemployment rate	_	9.6	10.1	10.5	10.6	10.3
General government financial balance[2,3]	_	-5.0	-3.9	-4.8	4.6	-3.1
General government gross debt[4]	_	63.1	62.4	66.0	58.7	58.9
General government debt, Maastricht definition[2]	_	56.3	55.6	59.2	52.0	52.1
Current account balance[2]	_	-5.0	-3.7	-2.6	-2.7	-2.7

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.
4. As a percentage of GDP at market value.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950126

new fiscal rules will be implemented soon. Savings associated with a pension reform and some other measures will reduce the deficit from 4.8% of GDP in 2013 to 3.1% of GDP in 2015. As growth is expected to pick up and monetary policy is set to remain fairly accommodative, further fiscal consolidation of around 0.5% of GDP would be appropriate in 2015 to converge faster to Poland's medium-term objective of a deficit of 1% of GDP. The automatic stabilisers should be allowed to play fully if growth deviates from official projections.

The pension reform will lower public debt but raise implicit liabilities

According to the planned reform of the second-pillar pension system in 2014, the public debt corresponding to private pension funds' Treasury bond holdings will be cancelled, producing a one-off budget surplus of 4.6% that year and lowering consolidated gross public debt by around 8 percentage points of GDP. Workers will have the option to reallocate 15% of their pension contribution from the private to the public system. While increased social security contributions, savings on interest payments and transfers to the public pension system of second-pillar assets will reduce the general government deficit, the reform will also increase implicit public pension liabilities.

Growth is set to improve

Real GDP growth is projected to increase gradually from 1¼ per cent in 2013 to around 3¼ per cent in 2015, which should be enough to begin absorbing economic slack. Initially the weak labour market will act as a drag on private consumption, and inflation will be held down before gently rising as the output gap starts to close. The unemployment rate may start to decline slowly towards the end of 2014. As inflationary pressures would otherwise start to rise in 2015, the central bank should begin to increase its policy rate from around mid-2014.

Risks are balanced

A disappointing recovery in the euro area would depress exports. Polish banks are also vulnerable to a delayed resolution of European banking problems through their dependence on foreign funding. By contrast, private consumption and investment could respond strongly to swifter confidence improvements.

PORTUGAL

Against the background of on-going fiscal consolidation, the economy continued to contract in 2013. As global conditions improve and domestic demand recovers, growth should resume slowly, with marginally positive growth projected for 2014. Following recent positive improvements in the labour market, the unemployment rate is expected to continue a gradual decline throughout the forecasting horizon. As economic slack remains sizeable, inflation is set to remain very low. The current account has moved into surplus, reflecting in part improvements in competitiveness, but also very weak domestic demand.

Successful fiscal consolidation will bolster confidence but the authorities should allow the automatic stabilisers to operate fully to avoid adverse feedback loops. To boost potential output, the government should continue with structural reforms. These should include moving forward with the corporate income tax reform to attract investment, improving the functioning of the judicial system and restructuring SOEs.

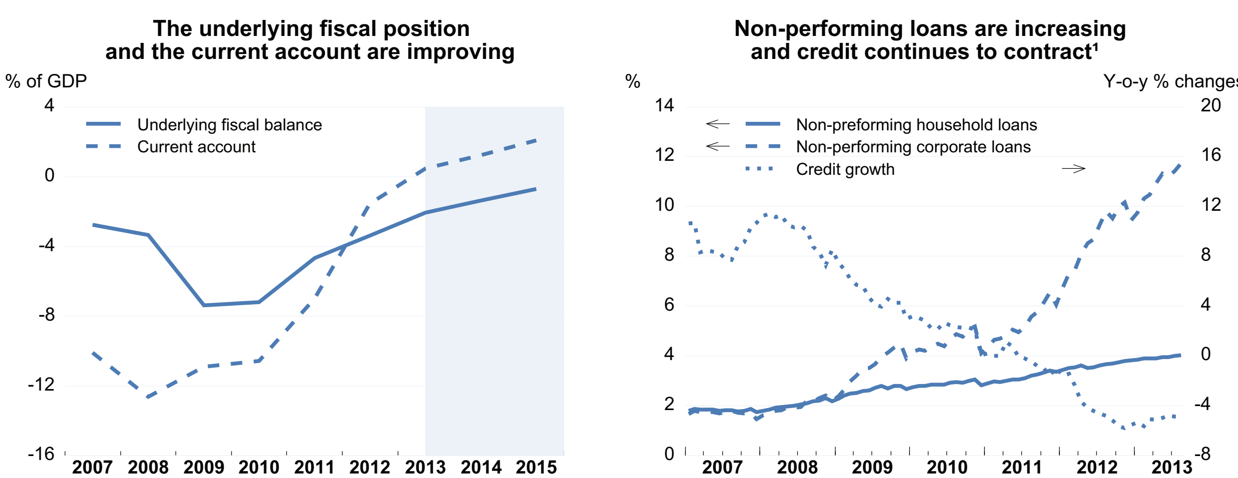
Economic activity is showing positive signs

The pace of economic contraction has eased, reflecting mainly stronger exports, and both business and consumer confidence are rising. The unemployment rate has been falling for two consecutive quarters now, to 15.6% in the third quarter of 2013, and this decline is expected to continue as the economy recovers. Low price and wage increases are improving cost competitiveness, reflected in gains in export market share. In combination with declining imports, which are, however, due to very weak domestic demand, this has lifted the current account into surplus.

Fiscal tightening will continue

The budget execution for the first half of 2013 was in line with the targets and a sizeable structural fiscal adjustment is still at work. A Constitutional Court ruling declared consolidation measures worth 0.8% of GDP unconstitutional, forcing the government to present a supplementary

Portugal



1. Both non-performing loans and credit growth refer to loans of other monetary financial institutions to private individuals and non-financial corporations. Non-performing loans are expressed as a percentage of total loans.

Source: Banco de Portugal; and OECD Economic Outlook 94 database.

StatLink *http://dx.doi.org/10.1787/888932948720*

Portugal: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices € billion	Percentage changes, volume (2006 prices)				
GDP at market prices	172.9	-1.3	-3.2	-1.7	0.4	1.1
Private consumption	114.0	-3.3	-5.4	-2.3	-0.6	0.3
Government consumption	37.3	-5.0	-4.7	-2.6	-2.5	-2.4
Gross fixed capital formation	33.8	-10.5	-14.3	-8.9	0.4	3.2
Final domestic demand	185.1	-5.0	-6.8	-3.4	-0.8	0.2
Stockbuilding[1]	1.0	-0.3	0.2	0.0	0.0	0.0
Total domestic demand	186.2	-5.2	-6.7	-3.4	-0.8	0.2
Exports of goods and services	54.1	6.9	3.2	5.9	4.3	5.3
Imports of goods and services	67.4	-5.3	-6.6	1.3	1.4	3.4
Net exports[1]	- 13.3	4.2	3.8	1.8	1.2	0.9
Memorandum items						
GDP deflator	_	0.3	-0.3	1.4	0.9	0.6
Harmonised index of consumer prices	_	3.6	2.8	0.5	0.6	0.4
Private consumption deflator	_	2.5	1.5	0.3	0.6	0.6
Unemployment rate	_	12.7	15.6	16.7	16.1	15.8
Household saving ratio, gross[2]	_	9.7	12.2	12.5	10.5	9.2
General government financial balance[3,4]	_	-4.3	-6.5	-5.7	-4.6	-3.6
General government gross debt[5]	_	118.4	134.5	135.4	137.9	140.0
General government debt, Maastricht definition[3]	_	108.2	124.1	124.9	127.4	129.5
Current account balance[3]	_	-7.0	-1.5	0.5	1.2	2.1

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.
5. As a percentage of GDP at market value. In 2011 and 2012, because of large changes in the market value of liabilities, the change in government financial liabilities has been approximated by the change in the Maastrich definition of general government debt.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950145

budget with alternative consolidation plans. For 2014, the Budget Law envisages consolidation measures amounting to 2.3% of GDP, 80% of which comes from the expenditure side, so as to meet the deficit target of 4% of GDP. As the economy remains weak, it is important to allow headline fiscal deficits to deviate from targets if growth turns out lower than expected, to avoid a negative spiral between macroeconomic conditions and budgetary objectives.

Restoration of credit supply remains crucial

Deleveraging is underway, while at the same time banks are reinforcing their capital buffers. However, credit continues to contract and non-performing loans, particularly in the corporate sector, keep increasing. Sovereign spreads have decreased substantially and the treasury recently issued 10-year bonds for the first time since 2011. The EFSM/EFSF maturity extensions greatly reduce the financing needs in the transition phase that will follow the end of the adjustment programme.

Risks remain skewed to the downside

Downside risks in 2014 include the possibility of a higher-than-expected contraction of private consumption due to austerity measures and lower-than-expected export growth. Lower growth would jeopardise the headline fiscal target. Political risks include a new Constitutional Court ruling against measures included in the Budget Law for 2014, which would make it harder to meet the deficit target and could raise interest rate spreads. On the upside, a faster restoration of credit supply would allow a more rapid recovery.

SLOVAK REPUBLIC

Growth is projected to strengthen as higher export market growth boosts investment and exports, especially in the automotive industry. Private consumption will continue to grow, but is likely to face headwinds due to unfavourable conditions in a labour market characterised by high and persistent unemployment. Budgetary measures needed to reach a targeted fiscal deficit below 3% of GDP in 2014 will damp domestic demand.

Constitutional debt ceilings are becoming binding and limit the flexibility of fiscal policy. Strengthening active labour market programmes is needed to make growth more job-intensive while sustaining productivity improvements. Public spending on infrastructure and education should remain a priority.

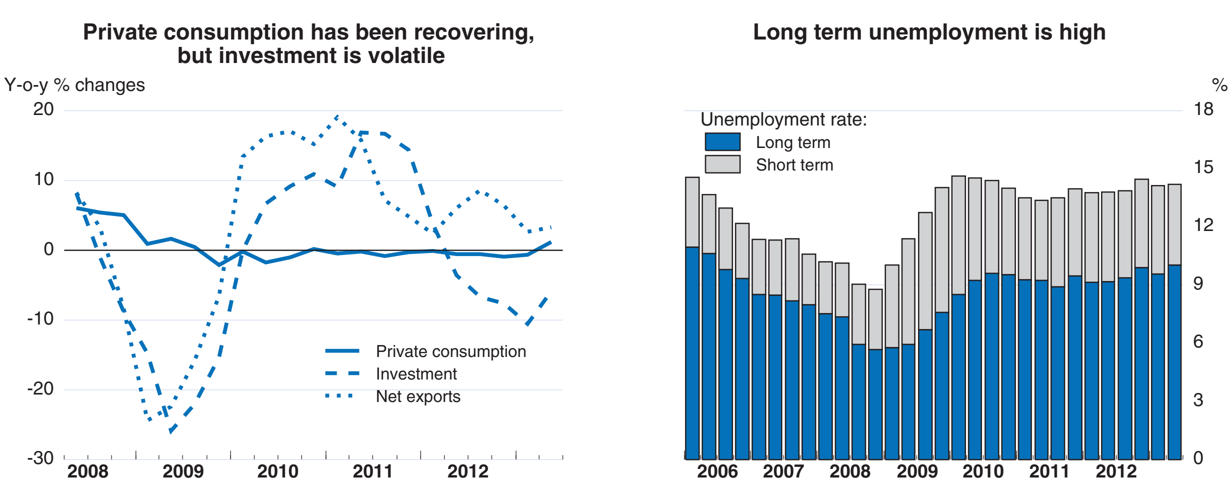
Economic growth remains weak and unbalanced

Growth remained weak and unbalanced in the first half of 2013, as exports were strong but domestic demand fell. Investment contracted in 2012 and through the beginning of 2013 following the completion of large projects in the automotive industry. However, private consumption increased for the first time after three years of decline thanks to higher real incomes and an improvement of consumer confidence. Employment has stopped falling but the labour market is very weak, with 14% of the labour force unemployed and two thirds of them having been unemployed for more than 12 months.

Fiscal consolidation is continuing

Constitutional debt ceilings are putting constraints on fiscal policy. In response, the government set deficit targets of 3% of GDP for 2013 and 2.9% for 2014, and this projection assumes measures will be put in place to achieve these targets. The government will further lower debt issuance by drawing on accumulated reserves and increasing privatisation revenues. Despite the fiscal pressures, the government should protect investment in education and infrastructure as much as possible.

Slovak Republic



Source: OECD Economic Outlook 94 database; and Eurostat.

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

	2010	2011	2012	2013	2014	2015
	Current prices € billion	Percentage changes, volume (2005 prices)				
GDP at market prices	65.9	3.0	1.8	0.8	1.9	2.9
Private consumption	38.5	-0.5	-0.2	0.9	1.0	1.6
Government consumption	12.7	-4.3	-1.1	-0.5	-1.1	-1.1
Gross fixed capital formation	13.9	14.2	-10.5	-7.7	2.6	2.8
Final domestic demand	65.0	1.9	-2.7	-1.2	0.9	1.4
Stockbuilding[1]	1.0	-0.8	-1.4	-1.7	-0.4	0.0
Total domestic demand	66.1	0.8	-4.2	-2.9	0.5	1.4
Exports of goods and services	53.0	12.2	9.9	5.1	5.6	5.9
Imports of goods and services	53.1	9.7	3.3	1.8	4.4	4.6
Net exports[1]	- 0.2	2.0	5.9	3.3	1.6	1.7
Memorandum items						
GDP deflator	_	1.6	1.3	1.3	1.8	1.9
Harmonised index of consumer prices	_	4.1	3.7	1.6	2.0	2.1
Private consumption deflator	_	3.8	3.4	1.3	1.9	2.1
Unemployment rate	_	13.6	14.0	14.4	14.2	13.7
General government financial balance[2]	_	-5.1	-4.5	-3.0	-2.8	-2.6
General government gross debt[3]	_	48.3	56.9	59.0	61.4	60.9
General government debt, Maastricht definition[2]	_	43.4	52.4	54.6	56.9	56.4
Current account balance[2]	_	-2.1	2.3	3.9	4.5	5.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
3. As a percentage of GDP at market value.
Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950164

A gradual and externally driven recovery is projected

As world trade picks up and the external environment improves, in particular in Germany and the Czech Republic, growth is expected to strengthen gradually but steadily. Investment will gain momentum with the launch of new projects in the automotive industries. However, the consumption recovery will be restrained by fiscal consolidation and the very poor labour market. Scaling up active labour market policies and focusing more on vulnerable groups could reduce structural unemployment.

Risks are more important on the downside

Downside risks are related to the uncertainty concerning the euro area crisis and the fragility of the recovery of Slovakia's main export industries. As a very open economy, Slovakia is vulnerable to global volatility, and a world slowdown could depress exports and investment. On the other hand, stronger-than-expected world growth and higher domestic absorption of EU funds would boost activity. From the domestic side, the main downside risk is government debt rising above 57% of GDP, which would under the constitution force substantial additional fiscal consolidation.

SLOVENIA

GDP growth is projected to remain negative through 2014. Delays in bank resolution together with continuing fiscal consolidation and deleveraging by the over-indebted corporate sector will be a drag on demand. Domestic demand is expected to slowly pick up towards the end of 2015. Improving conditions in world markets will stimulate exports. Despite the recent rise in indirect taxes, inflation will remain subdued due to the large degree of slack. Indeed, unemployment is likely to rise further.

Bank resolution and recapitalisation should proceed without delay. Restructuring of companies should be based on market-based solutions that use private capital. Planned privatisations of state-owned enterprises will help in this regard, as will enhanced corporate governance. Containing public debt remains a priority, although the automatic stabilisers should be allowed to operate fully around the structural consolidation path. The efficiency of key public spending programmes should be raised.

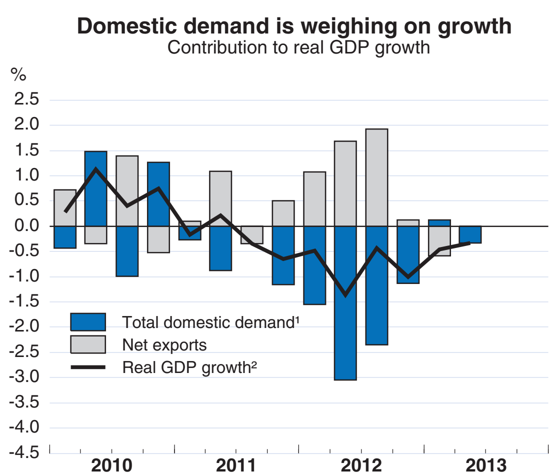
The economy remains in recession

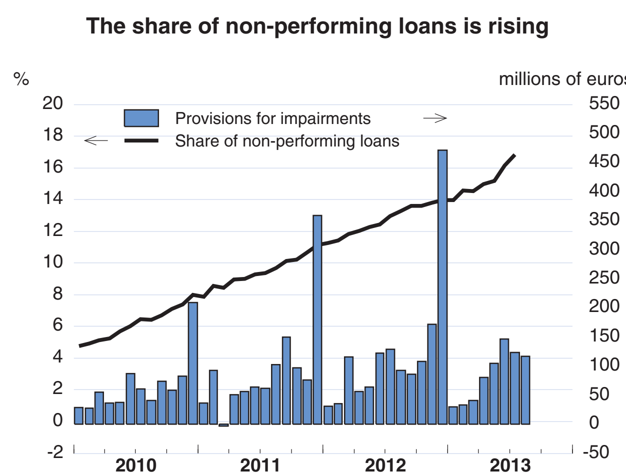
Delays in the resolution of the banking sector, deleveraging in the corporate sector and fiscal consolidation are undermining domestic demand. The labour market is weak and, despite some improvement, confidence remains low. Lending to the private sector continues to fall, and interest rates on new loans to companies are well above the euro area average. Exports have made a positive contribution to growth, yet the market share of Slovenian exporters has fallen recently.

Progress has been made in fiscal consolidation

Fiscal consolidation continued in 2013 with cuts in non-wage spending and public sector wages, and hikes in some taxes, including VAT. The government's objective is to bring the deficit below 3% of GDP by end-2015. However, the headline deficit is deteriorating due to capital injections into banks; they were recapitalised in the first half of 2013 at a budgetary cost of about 1.3% of GDP, and the government foresees further

Slovenia





1. Total domestic demand includes private and government consumption, investment, change in stocks and statistical discrepancy.
2. Quarter-on-quarter percentage changes.

Source: OECD, Main Economic Indicators database; OECD Economic Outlook 94 database; OECD National Accounts database; calculations by Insitute of Macroeconomic Analysis and Development; and Bank of Slovenia.

StatLink http://dx.doi.org/10.1787/888932948758

Slovenia: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices € billion	Percentage changes, volume (2000 prices)				
GDP at market prices	35.5	0.7	-2.5	-2.3	-0.9	0.6
Private consumption	20.3	0.8	-4.8	-3.6	-3.5	-1.2
Government consumption	7.4	-1.6	-1.3	-2.8	-1.8	-0.6
Gross fixed capital formation	7.0	-5.5	-8.2	-3.9	-4.2	-3.0
Final domestic demand	34.6	-0.9	-4.7	-3.5	-3.2	-1.4
Stockbuilding[1]	0.3	0.6	-1.8	-1.0	0.2	0.0
Total domestic demand	35.0	-0.3	-6.4	-4.2	-3.0	-1.4
Exports of goods and services	23.7	7.0	0.6	1.6	3.1	4.7
Imports of goods and services	23.2	5.6	-4.7	-0.4	0.5	2.6
Net exports[1]	0.5	1.0	3.8	1.5	2.1	1.9
Memorandum items						
GDP deflator	_	1.2	0.2	0.4	0.7	0.1
Harmonised index of consumer prices	_	2.1	2.8	2.2	1.7	1.3
Private consumption deflator	_	1.7	1.6	1.5	1.3	0.7
Unemployment rate	_	8.2	8.8	10.7	11.2	11.4
General government financial balance[2]	_	-6.3	-3.8	-7.1	-5.9	-2.9
General government gross debt[3]	_	51.2	61.6	70.3	77.7	81.9
General government debt, Maastricht definition[2]	_	47.1	54.4	63.1	70.5	74.7
Current account balance[2]	_	0.4	3.3	6.0	6.2	7.1

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

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950183

capital injections of about 3.4% of GDP, most of them assumed to occur in 2014. These are included in the projections.

Structural reform is underway

Pension and labour market reforms have been adopted, and insolvency procedures and the courts reformed. The constitution was amended to impose tighter conditions on the calling of referenda, in the past frequently used to block reforms. The parliament approved the government's plan to privatise 15 state-owned companies. Going forward, it is important to implement the privatisation plan, which, together with a clear asset management strategy, will help enhance corporate governance.

Resolving bank problems is a priority

The share of non-performing loans is high and banks are thinly capitalised. The government established a bad bank (Bank Asset Management Company, BAMC), but no toxic assets from banks have been transferred yet, pending results from the on-going asset quality reviews and stress tests, expected by the end of the year. In the meantime, the authorities launched a supervised liquidation of two small insolvent banks that hold a combined 4% market share. Repairing bank balance sheets and ensuring recapitalisation of banks are the most important policy issues for stabilising the economy. Assets moved to the bad bank should be transferred at market prices to avoid shifting of unviable liabilities.

The recession will last through 2014

The recession is expected to last through 2014. While exports are projected to be strong amid the improving international environment, domestic demand will only turn around at the end of 2015 when the effects of bank restructuring come through. Unemployment will rise further and inflation will remain subdued given the large degree of slack.

Downside risks prevail

The projection hinges on successful resolution of problems in the banking sector and continued access to international financial markets. The size and timing of future bank recapitalisations are still uncertain, but they might substantially increase the fiscal deficit and public debt.

SPAIN

Improving growth in export markets, gains in market share and the stabilisation of private domestic demand will help to foster a weak recovery in 2014 and 2015. However, fiscal consolidation and tight credit conditions will remain a drag on growth. The unemployment rate is expected to peak in 2014 before gradually declining as growth picks up. Continued large economic slack will keep wage and price pressures subdued.

With a recovery in sight but the economy still fragile, the government needs to pursue its structural fiscal consolidation path, but also allow automatic stabilisers to operate fully. To improve the economic environment and stimulate growth, the government must fully implement all its announced reforms. To reduce the extremely high structural and youth unemployment new activation and training measures to upgrade workforce skills and facilitate mobility across sectors are needed. Employers should play a major role in training design.

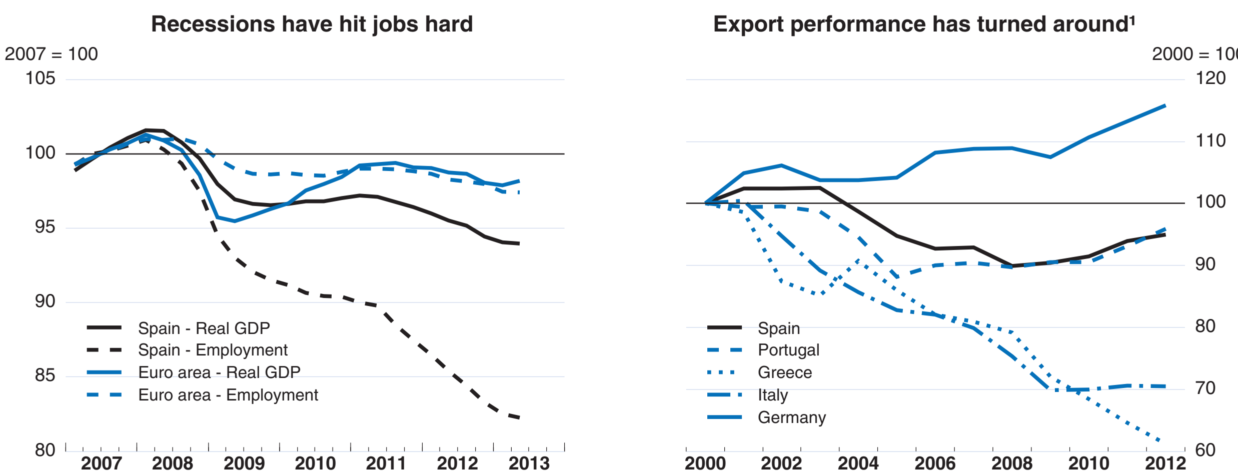
Spain is showing first signs the recession is ending

After two years of recession, the Spanish economy is showing signs of stabilising. Cost competitiveness has improved, exports are growing solidly, export market shares are rising and the current account has moved into surplus (although the current account improvement also reflects very weak domestic demand). More recent indicators suggest that the declines in domestic demand are starting to abate. Core inflation is also subsiding, boding well for consumer purchasing power. Nevertheless, massive job destruction has left an unemployment rate of over 25%.

The bank credit channel is impaired

Despite significant progress in restructuring and recapitalising the banking sector, credit is still falling. Credit demand is weak but interest rates for new loans to SMEs have risen substantially, suggesting that credit supply constraints are also at work. Banks faced with rising doubtful loans and further stress testing are maintaining tight credit

Spain



1. Export performance is the ratio of export volumes to export markets.
Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932948245

Spain: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices € billion	Percentage changes, volume (2008 prices)				
GDP at market prices	1 045.6	0.1	-1.6	-1.3	0.5	1.0
Private consumption	605.1	-1.2	-2.8	-2.6	-0.4	0.2
Government consumption	224.5	-0.5	-4.8	-2.3	-2.9	-2.6
Gross fixed capital formation	232.5	-5.4	-7.0	-6.2	-1.6	-0.1
Final domestic demand	1 062.1	-2.0	-4.1	-3.2	-1.2	-0.4
Stockbuilding[1]	6.2	-0.1	0.0	0.0	0.0	0.0
Total domestic demand	1 068.3	-2.0	-4.1	-3.2	-1.2	-0.4
Exports of goods and services	286.1	7.6	2.1	4.8	5.4	6.5
Imports of goods and services	308.7	-0.1	-5.7	-1.1	0.7	3.1
Net exports[1]	- 22.6	2.1	2.5	1.9	1.6	1.4
Memorandum items						
GDP deflator	_	0.0	0.0	0.8	0.5	0.7
Harmonised index of consumer prices	_	3.1	2.4	1.6	0.5	0.6
Private consumption deflator	_	2.5	2.5	1.3	0.5	0.6
Unemployment rate	_	21.6	25.0	26.4	26.3	25.6
Household saving ratio, net[2]	_	6.8	4.4	7.0	8.2	8.0
General government financial balance[3,4]	_	-9.6	-10.6	-6.7	-6.1	-5.1
General government gross debt[5]	_	78.9	92.8	99.6	104.8	108.7
General government debt, Maastricht definition[3]	_	70.5	86.0	92.8	98.0	101.8
Current account balance[3]	_	-3.8	-1.1	0.6	1.6	3.1

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 3.8% of GDP.
5. As a percentage of GDP at market value.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950202

standards. In addition, the gap between Spanish and euro area loan interest rates is continuing to widen.

Fiscal consolidation will continue

Consolidation is projected to continue in 2014 and 2015 although at a slower pace than in 2013, which will reduce the drag on demand. To maintain fiscal credibility the government must continue to specify and stick to a medium-term structural consolidation path. Continued improvements to the fiscal framework, including a fully independent fiscal council, could further enhance Spain's fiscal reputation.

The recovery will be weak

The recovery in Europe and stronger trading partner growth will reinforce the export-led recovery but overall growth is expected to remain only moderate. Tight credit supply, falling house prices, household debt reduction and fiscal consolidation, will all restrain domestic demand. Recent labour-market reforms to improve the flexibility of wage bargaining should help to stabilise employment and the unemployment rate is expected to peak in 2014. Price pressures are projected to remain very subdued.

Risks to the outlook are balanced

The recovery of domestic demand could take longer than expected, especially given the strong pressures households face from high debt, continuing falls in house prices, fiscal consolidation and high unemployment. Contagion from further financial turmoil in the euro area could push up Spain's sovereign borrowing and bank funding costs, undermining growth. On the upside, the external sector, which has a growing weight in the economy, could well out-perform current expectations.

SWEDEN

The economy has lost momentum, but is set to recover gradually as world trade picks up and as stronger exports and improving business confidence spark a revival in business investment. The unemployment rate is projected to continue to fall, but with ample spare capacity inflation will remain subdued.

Monetary policy should therefore remain accommodative while measures to enhance financial stability and address risks linked to high household debt need to be developed further. Fiscal policy, against the backdrop of sound public finances, is set to be appropriately slightly stimulative in 2014. Efforts to avoid unemployment becoming entrenched should continue.

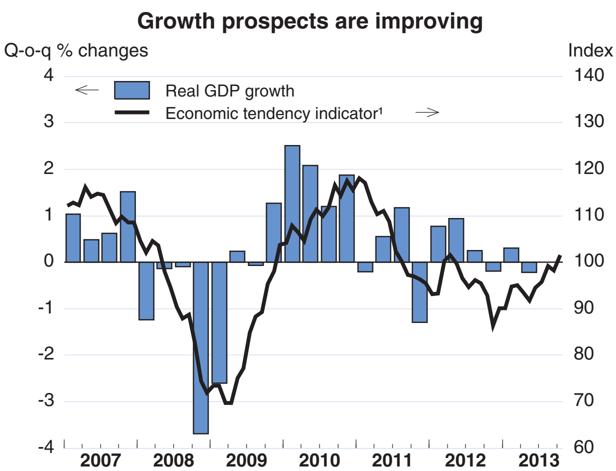
Activity has decelerated

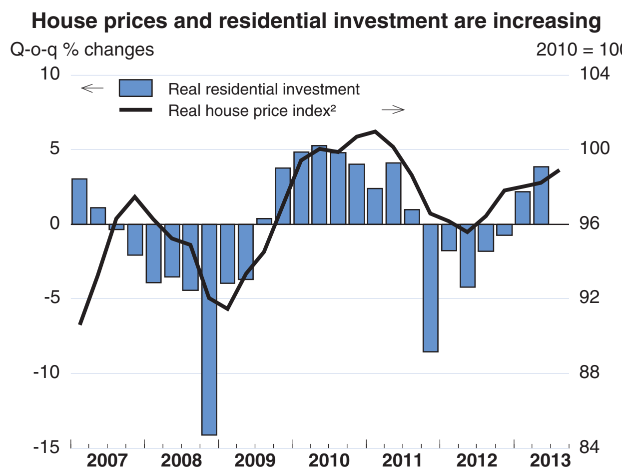
GDP growth was anaemic in the first half of 2013 and large historical data revisions show that over the past three years the economy has been weaker than previously thought. Exports have been falling since mid-2012 and private investment has plummeted. However, residential investment has started to recover. The unemployment rate has remained broadly stable over the past year and private consumption has continued to contribute to growth. With ample spare capacity, inflation has remained well below the 2% central bank target.

Monetary policy should stay accommodative

Monetary policy needs to remain accommodative in the near term given the economic weak patch, even though household debt, which mainly consists of mortgage loans, has reached high levels, and household credit growth and house prices have picked up again. As the central bank main policy rate is 1%, there is only limited room for further easing. In August 2013, the government announced measures to enhance

Sweden





1. 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.
2. Real estate price index for one- and two-dwelling buildings for permanent living, deflated using the private consumption deflator.

Source: National Institute of Economic Research; OECD Housing Prices database; and OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932948777

Sweden: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices SEK billion	Percentage changes, volume (2012 prices)				
GDP at market prices	3 332.1	3.0	1.3	0.7	2.3	3.0
Private consumption	1 616.0	1.7	1.7	1.9	2.6	3.2
Government consumption	887.6	1.1	1.1	1.0	1.1	1.1
Gross fixed capital formation	599.0	8.3	3.6	-2.6	2.8	3.8
Final domestic demand	3 102.5	2.8	2.0	0.8	2.2	2.7
Stockbuilding[1]	23.6	0.5	-1.2	0.5	0.1	0.0
Total domestic demand	3 126.1	3.3	0.7	1.3	2.3	2.7
Exports of goods and services	1 645.3	6.5	1.1	-1.4	3.2	5.2
Imports of goods and services	1 439.3	7.2	0.0	-0.9	2.9	4.6
Net exports[1]	205.9	0.1	0.6	-0.3	0.3	0.5
Memorandum items						
GDP deflator	_	1.3	0.9	0.8	1.5	1.7
Consumer price index[2]	_	3.0	0.9	0.1	1.0	1.2
Private consumption deflator	_	1.7	1.3	0.6	1.0	1.2
Unemployment rate[3]	_	7.8	8.0	8.0	7.8	7.5
Household saving ratio, net[4]	_	10.4	12.1	12.2	11.7	10.9
General government financial balance[5]	_	0.0	-0.4	-1.4	-1.7	-1.1
General government gross debt[6]	_	49.7	48.8	52.0	53.5	53.4
General government debt, Maastricht definition[5]	_	38.7	38.2	41.4	42.9	42.8
Current account balance[5]	_	6.4	6.0	5.2	5.2	5.5

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.
6. As a percentage of GDP at market value.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950221

financial stability, including a clear allocation of macro-prudential tools to the Financial Supervisory Authority. This is welcome, but further measures are required.

Fiscal policy is broadly neutral for 2014-15

Under the Budget Bill for 2014, the fiscal stance is expected to be marginally expansionary, despite a weak economy and a strong fiscal position. However, in addition to relatively large automatic stabilisers, the proposed increase in the earned-income tax credit and in the lower threshold for the state income tax will support household disposable income and raise incentives to take a job and to work more hours. Measures to promote the development of an apprenticeship programme and retargeting cuts in social contributions for youth to those who are below 23 will improve youth transitions to work. For 2015, the fiscal stance is projected to tighten slightly to move towards the government's fiscal targets.

Growth will pick up gradually

The economy is expected to strengthen gradually, driven by the projected pick-up in world trade. As confidence strengthens, business investment will recover while residential investment is projected to grow moderately. Private consumption will gather momentum as the labour market improves but the saving ratio will remain relatively high as debt repayment proceeds. Inflation should remain subdued.

Risks are partly domestic

High private debt could lead both firms and households to increase saving and so to cut back on investment and consumption. On the other hand, greater-than-foreseen price competitiveness gains due to unexpected wage moderation or higher productivity growth would boost exports further.

SWITZERLAND

Economic growth is expected to pick up steadily as external demand starts supplementing domestic spending. Exit from deflation is proving protracted as a strong Swiss franc and only a slow take-up of economic slack are both holding down price pressures. Despite employment gains, unemployment is not projected to fall significantly until 2015.

In light of this outlook, zero policy interest rates are set to persist in the near term. However, as inflation eventually picks up monetary policy will need to be gradually normalised by raising interest rates and ending the exchange rate ceiling. Productivity could be enhanced at modest fiscal cost by improving some kinds of infrastructure and increasing the supply and cutting the cost of childcare services.

Growth is picking up

GDP growth picked up in the first half of 2013. Strong consumer spending remains the main engine of expansion as export market growth is still weak. Despite strongly supportive monetary policy (including the ceiling on the Swiss franc) and rising employment, unemployment keeps edging up. This suggests that the Swiss economy is doing better than most of its European neighbours but is still growing below potential.

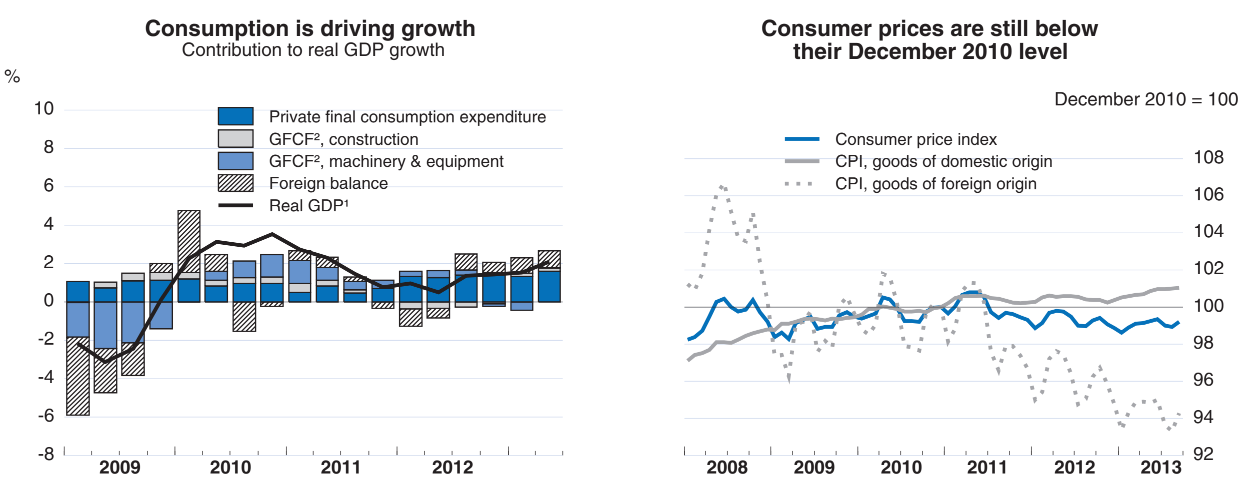
Consumption remains the main driver of growth

Steady immigration, rising real wages and buoyant consumer confidence have resulted in consumer spending rising at a fairly robust pace this year. After several weak quarters it remains to be seen whether the recent uptick in private investment (mostly machinery and equipment) is evidence that firms are finally implementing previously deferred investment.

The contribution of exports is expected to rise

While exports are growing faster than the domestic economy, their growth rate is still low. Demand for services exports remains robust, but goods exports are weak, especially of machinery. Signs of improvement in

Switzerland



1. Year-on-year percentage changes.
2. Gross fixed capital formation.
Source: OECD Economic Outlook 94 database; SNB.

StatLink http://dx.doi.org/10.1787/888932948131

Switzerland: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices CHF billion	Percentage changes, volume (2005 prices)				
GDP at market prices	572.7	1.8	1.0	1.9	2.2	2.7
Private consumption	331.8	1.1	2.4	2.6	2.4	2.7
Government consumption	62.9	1.2	3.2	1.7	1.0	1.1
Gross fixed capital formation	115.0	4.5	-0.4	0.9	2.6	2.8
Final domestic demand	509.8	1.8	1.8	2.1	2.3	2.5
Stockbuilding[1]	1.1	-0.1	-0.6	-0.7	0.0	0.0
Total domestic demand	510.9	1.7	1.2	1.3	2.3	2.5
Exports of goods and services	296.3	3.8	2.5	2.3	3.5	5.0
Imports of goods and services	234.6	4.2	3.1	1.1	4.1	5.1
Net exports[1]	61.8	0.2	0.0	0.8	0.1	0.5
Memorandum items						
GDP deflator	_	0.4	0.1	0.0	0.6	0.8
Consumer price index	_	0.2	-0.7	-0.4	0.2	0.6
Private consumption deflator	_	0.0	-1.1	-0.5	0.1	0.3
Unemployment rate	_	3.9	4.1	4.4	4.4	4.1
General government financial balance[2]	_	0.7	-0.2	0.1	0.0	0.0
General government gross debt[3]	_	42.3	42.4	42.3	42.1	41.9
Current account balance[2]	_	8.9	11.1	12.8	12.4	12.6

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

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950240

exports, led by tourism, are emerging, however, as the exchange rate shock is being absorbed and the economic outlook for European trading partners improves.

Monetary policy will need to be adjusted at some point

Spare capacity is projected to persist until end-2015, and absent any inflationary pressure monetary policy can afford to remain expansionary for the time being. However, once inflation pressures reappear on the horizon and the risks in the world economy become more balanced, the SNB should return to a free float and raise the policy rate. Fiscal policy should remain broadly neutral. Productivity could be enhanced within the scope of the debt-brake rule by improving infrastructure and increasing the supply, and lowering the cost, of childcare services.

External risks are still present

The combination of robust domestic demand and slowly rising exports should lift growth from 1.9% in 2013 to 2.7% in 2015. Risks are both domestic and external. On the positive side, if euro concerns recede further, Switzerland would be well placed to profit from improved confidence and stronger domestic and foreign demand, while exchange-rate tensions would diminish. On the downside, a persistently high franc may slow the expansion and low interest rates may fuel house prices to unsustainable levels.

TURKEY

Growth strengthened in the first half of the year, driven by a surge in public infrastructure and robust private consumption. Since May, international capital market turbulence has pushed interest rates up and the exchange rate down. Financing and credit conditions nonetheless remain supportive and export growth should increase as global demand recovers. Growth is projected to pick up to around 4% in 2014 and 2015.

Preserving hard-won confidence in the integrity of macroeconomic management is crucial. The general government fiscal accounts should be made more transparent. The quality of banking supervision should be preserved, notably by keeping the growth of consumer and SME loans under close surveillance. Given the magnitude of external financing needs, the projected widening of the external deficit could call for cooling-off measures even if the economy is running below potential.

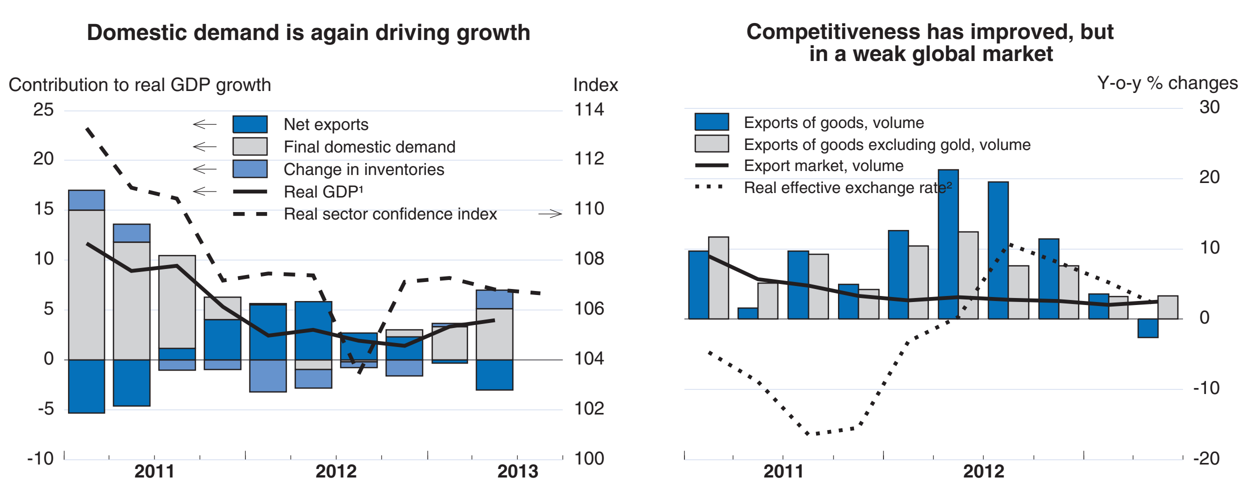
Recovery in 2013 was driven by domestic demand

Growth has picked up in 2013, driven by a surge in public infrastructure investment which played a strong counter-cyclical role, and robust private consumption backed by steady credit growth. Private investment was weak as export growth fell sharply in a subdued international market, despite competitiveness gains through 2013. After some weakening in the third quarter following international capital market turbulence, the economy may have regained momentum late in the year.

Inflation and the current account deficit remain high

Inflation and the current account deficit remain excessively high despite fairly weak growth. Consumer price inflation reached 7.9% in September. It should decelerate due to base effects but is expected to stay above the 5% target during the next two years. Core inflation is trending up, with further pass-through pressure from the depreciation of the

Turkey



1. Year-on-year percentage changes.
2. Based on the CPI.

Source: OECD Economic Outlook 94 database; Central Bank of the Republic of Turkey; Turkish Statistical Institute; and OECD calculations.

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Turkey: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices TRY billion	Percentage changes, volume (1998 prices)				
GDP at market prices	1 098.8	8.8	2.2	3.6	3.8	4.1
Private consumption	787.8	7.7	-0.6	3.4	3.3	3.9
Government consumption	157.5	4.7	6.1	6.4	4.0	4.2
Gross fixed capital formation	207.8	18.0	-2.7	3.4	5.1	8.3
Final domestic demand	1 153.1	9.1	-0.1	3.8	3.8	4.8
Stockbuilding[1]	6.7	-0.1	-1.4	1.0	0.0	0.0
Total domestic demand	1 159.8	9.0	-1.2	4.8	3.9	4.9
Exports of goods and services	233.0	7.9	16.7	2.4	5.1	5.4
Imports of goods and services	294.0	10.7	-0.3	7.1	6.1	7.6
Net exports[1]	- 61.0	-1.2	4.1	-1.6	-0.6	-1.1
Memorandum items						
GDP deflator	_	8.6	6.8	6.1	6.0	5.5
Consumer price index	_	6.5	8.9	7.5	6.1	5.8
Private consumption deflator	_	8.9	8.2	7.8	6.3	5.6
Unemployment rate	_	9.6	9.0	9.4	9.6	9.8
Current account balance[2]	_	-9.6	-6.0	-7.1	-7.2	-7.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950259

Turkish Lira. The cumulative current account deficit over the year ending in July 2013 stood at nearly 7% of GDP – with exceptional gold purchases having increased imports by about 1½ percentage points of GDP. These imbalances reflect the incomplete anchoring of inflation expectations on the one hand, and the incomplete rebalancing of domestic and external demand on the other. Structural reforms are therefore needed, including with respect to the labour market, to boost productivity and competitiveness.

Macroeconomic policy will stay mildly supportive

Monetary conditions have become tighter as a result of the central bank's responses to capital market pressures, but real interest rates remain very low. Fiscal policy is projected to tighten gradually despite the pending electoral cycle. The 2014-16 Medium-Term Economic Programme seeks to contain government consumption and investment and to reduce aggregate public borrowing. However, spending by local governments, social security institutions and state infrastructure and housing operators is less closely monitored. Moreover, quarterly reporting of general government accounts according to international norms would improve the assessment and analysis of the fiscal position. Strict banking regulation was reinforced in October 2013 with tighter rules for credit cards and overdrafts, and similar caution would be warranted for consumer and SME loans as well, as intended by the authorities.

The projected recovery is surrounded by risks

Growth is projected to pick up to around 4% in 2014-15. The magnitude of Turkey's external financing needs and the net foreign exchange exposure of the corporate sector leave the country vulnerable to reversals in international capital flows. Together with persisting geopolitical strains in the region, this implies significant downside risks for growth. However, a stronger-than-foreseen improvement in the euro area outlook, together with recent government initiatives to ease domestic political tensions might boost confidence and growth.

OECD Economic Outlook
Volume 2013/2

Chapter 3

DEVELOPMENTS IN SELECTED NON-MEMBER ECONOMIES

BRAZIL

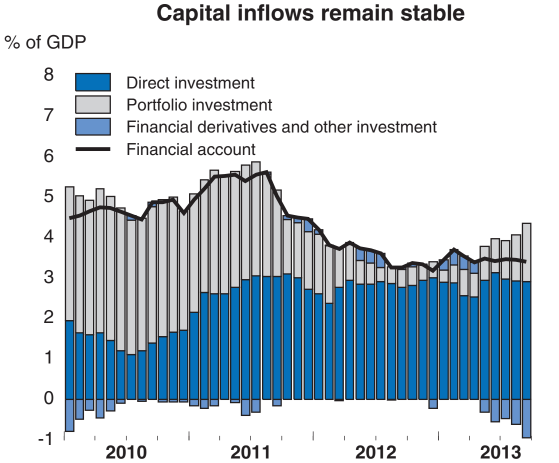
Economic growth has started to pick up on the back of stronger investment. Monthly inflation rates have been persistently above the mid-point of the inflation target, and inflationary pressures are likely to remain in place until the effects of tighter monetary policy are felt. Unemployment remains at record-low levels.

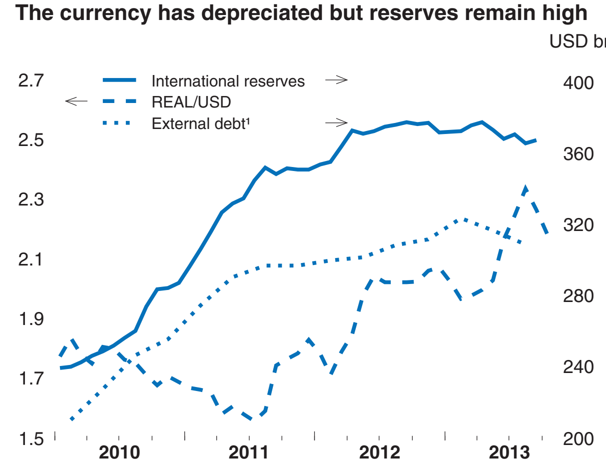
The monetary policy rate will need to rise further to bring inflation back towards the mid-point of the target. The structural factors underlying weak manufacturing performance should be addressed, notably by making further progress on improving infrastructure and by reducing the tax burden and tax complexity. Liquidity provision on foreign exchange markets has bolstered market confidence, and significant reserves would be available in case of turbulence on foreign exchange markets. In light of a high debt service burden on households and fast credit expansion, limiting the ratio of debt-service to income may help to avoid a build-up of financial imbalances.

Growth has started to recover

The economy has emerged from a patch of slow growth and an expansion is now underway, despite short-term indicators pointing to some weakness in the very near term. Investment and net exports, both of which had been weak in the recent past, have re-emerged as major sources of growth. Notwithstanding recent slow growth, inflationary pressures persist, reflecting a tight labour market, stimulus from tax exemptions and rapidly expanding credit from public-sector banks. Core inflation remains stable at close to 6% and inflation expectations point to higher inflation going forward. In response, the policy interest rate has appropriately been raised since April, but further tightening is likely to prove necessary to bring inflation back to the target.

Brazil





Source: Central Bank of Brazil.

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Brazil: **Macroeconomic indicators**

	2011	2012	2013	2014	2015
Real GDP growth	2.7	0.9	2.5	2.2	2.5
Inflation (CPI)	6.6	5.4	5.9	5.0	5.1
Fiscal balance (per cent of GDP)	-2.6	-2.5	-2.6	-2.7	-2.7
Current account balance (per cent of GDP)	-2.1	-2.4	-3.6	-3.3	-3.2

Note: Real GDP growth and inflation are defined in percentage change from the previous period.
Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950316

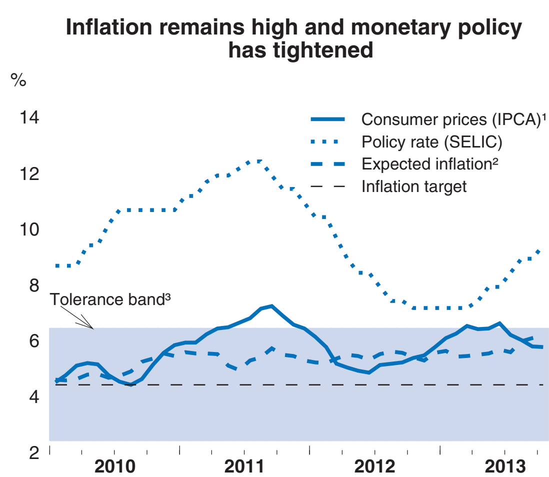
Developments in international capital markets have affected Brazil

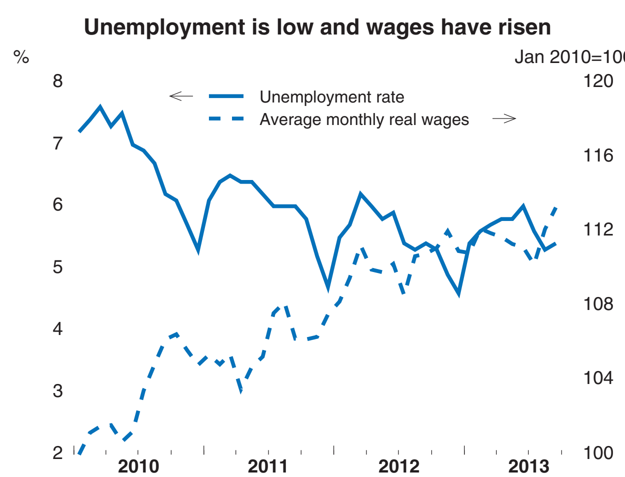
Like many other emerging market economies, Brazil has been affected by international capital market turmoil. The currency has depreciated, but successful provision of dollar liquidity by the central bank has demonstrated that Brazil is able to stabilise investor expectations in the event of changes in the international environment. Capital inflows consist overwhelmingly of direct investment and no net capital outflows have occurred so far.

Confidence in economic policies will be critical

Fiscal policy has been providing support to economic activity, but, as the economy recovers, stimulus measures, including tax exemptions and credit provision by public-sector banks, will need to be reduced. Looking further ahead, the clarity of the fiscal accounts could be improved by making the current nominal primary surplus rule more responsive to the business cycle, consolidating fiscal oversight to monitor compliance with the fiscal rule, and limiting quasi-fiscal operations. Such measures would build on and solidify Brazil's hard-won reputation for sound fiscal

Brazil





1. Year-on-year percentage changes.
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/10.1787/888932948872

Brazil: **External indicators**

	2011	2012	2013	2014	2015
			$ billion		
Goods and services exports	294.3	283.4	283.3	306	327
Goods and services imports	312.6	315.6	339.7	362	389
Foreign balance	- 18.3	- 32.2	- 56.4	- 56	- 62
Invisibles, net	- 34.2	- 22.0	- 25.3	- 23	- 20
Current account balance	- 52.5	- 54.2	- 81.7	- 78	- 83
			Percentage changes		
Goods and services export volumes	4.5	0.5	2.0	5.0	4.5
Goods and services import volumes	9.9	0.4	10.5	5.3	5.0
Terms of trade	8.5	- 4.8	0.8	1.7	- 0.2

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950335

management. Brazil also has a reputation for sound monetary policy based on inflation targeting. It will be important to continue to show resolve as inflationary pressures emerge.

Structural reforms are the key to improving productivity

An ambitious policy agenda for infrastructure investment and tax reform is likely to provide some relief to supply-side bottlenecks, provided that substantial progress can be made soon. At the same time, improving productivity requires that high labour costs and low skill levels, excessive administrative burdens, shallow credit markets and barriers to international trade are all addressed.

Growth will return towards trend rates

Growth is expected to return towards trend rates, although these have come down due to supply-side impediments. Rising investment demand will be a driving force behind this recovery, supported by on-going infrastructure and tax reforms. Private consumption will continue to be buoyant as unemployment remains low and wages steadily rise. Export performance is expected to improve due to a depreciated exchange rate and strengthening global demand. The current account deficit will recede gradually following a marked increase in 2013. Inflation is expected to return gradually towards the target as monetary policy is tightened further.

Risks are tilted to the downside

While investment has started a strong rebound that is expected to continue, confidence in macroeconomic policies will be crucial to sustain it. This will require clear fiscal accounts and a return of inflation towards the centre of the inflation target. Turbulence in global financial markets, associated perhaps with "tapering" in the United States, would likely affect Brazil. However, it has instruments to alleviate such risks, including large currency reserves. Developments on consumer credit markets should be watched closely and ratios of debt-service to income limited, as their high level points to risks from the household sector, especially as interest rates rise. The recent rapid credit expansions in some banks should also be monitored carefully. Upside risks include faster progress on structural reform than expected. For example, the potential impact of a successful agreement on a broader tax reform for growth is sizeable.

CHINA

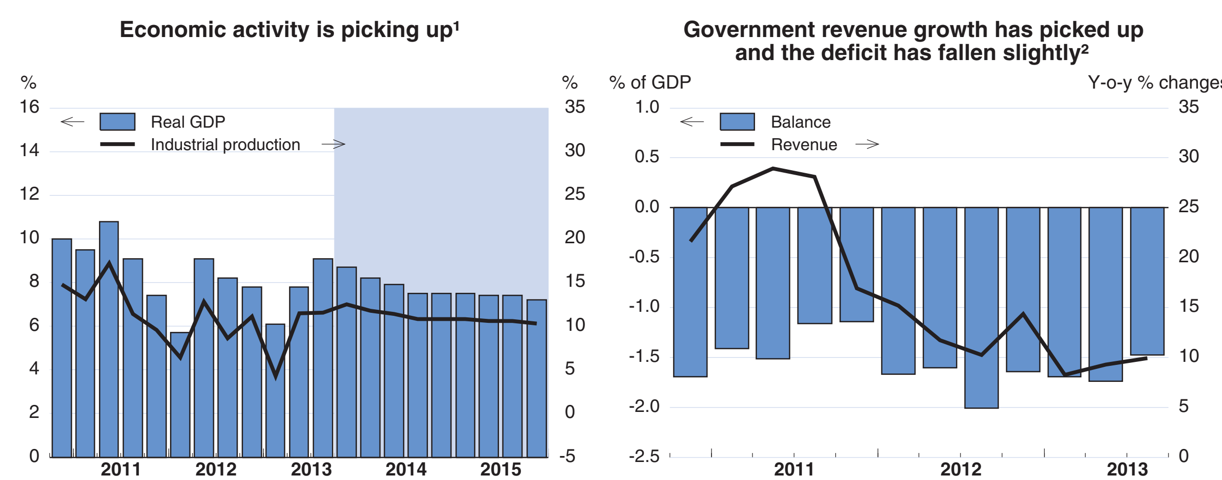
Growth is picking up and inflation remains low. Domestic demand has led the turnaround, aided by a small fiscal stimulus and rapid credit expansion that did not slacken until June 2013. By past standards though, the recovery is subdued, reflecting a marked slowing in potential growth in the past few years. The momentum of domestic demand is projected to help external rebalancing resume in 2014 but little change has occurred so far in the structure of domestic demand. Overall excess capacity is limited and shrinking. With a fairly neutral macroeconomic policy stance, growth is projected to peak in 2014 and then edge down to around 7.5% in 2015.

Money and credit growth need to be reined in. The key one-year deposit rate should gradually be lifted, so that real rates come back closer to their long-term average. Transparent measures should be taken to ensure the resolution of local government borrowing platforms unable to meet interest payments without fiscal subsidies. The government should increase the levels of some social benefits and move towards its target of lowering out-of-pocket expenditure on health to 30% of total costs. With the economy recovering, there is now a favourable window to push forward with structural reform, in particular financial liberalisation, encouraging labour mobility and tax reform.

Growth has regained greater momentum

Final domestic demand has started to accelerate as both housing and business investment have picked up and inventory decumulation, especially in the property sector, seems to have eased. After weak retail sales early in the year, consumption is gathering pace, especially of durable goods. However, there has been little domestic rebalancing since the contribution of investment was larger than that of consumption. This turnaround in domestic demand led to GDP growth of just over 9% at an annualised rate in the third quarter.

China



1. Quarter-on-quarter growth seasonally adjusted at annual rates.
2. The government deficit excludes social security accounts and is measured as a four quarter moving average in per cent of GDP.
Source: CEIC and OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932948891

China: **Macroeconomic indicators**

	2011	2012	2013	2014	2015
Real GDP growth	9.3	7.7	7.7	8.2	7.5
GDP deflator (per cent change)	7.8	1.9	0.9	1.2	1.8
Consumer price index (per cent change)	5.5	2.6	2.5	2.4	2.4
Fiscal balance (per cent of GDP)[1]	0.1	-0.3	-0.9	-0.6	-0.6
Current account balance (per cent of GDP)	1.9	2.4	2.3	1.5	1.5

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 94 database.

StatLink http://dx.doi.org/10.1787/888932950278

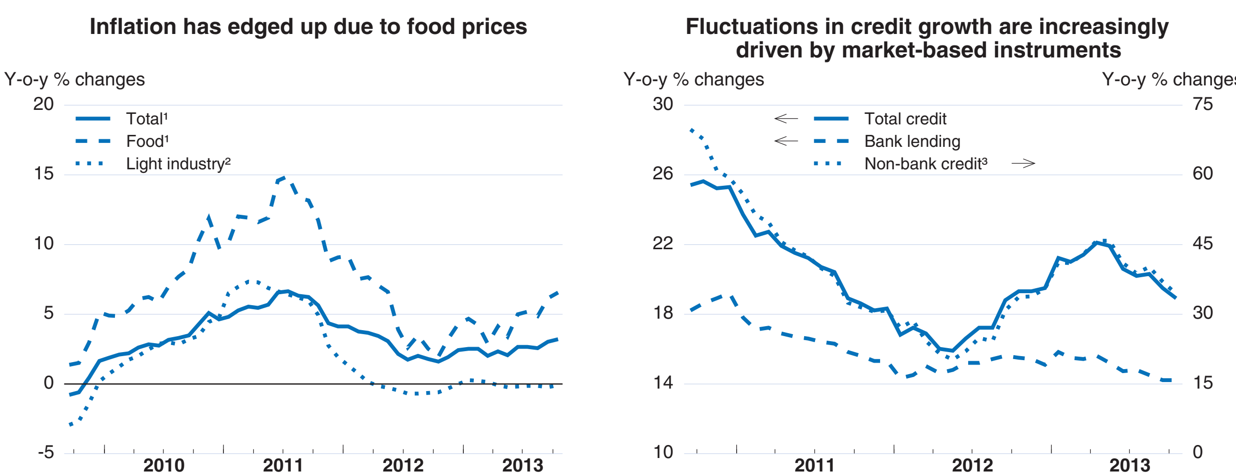
Inflation has picked up due to bad weather

The rate of inflation, measured by the CPI, rose to 3.2% in October as the usual fall in fresh fruit and vegetable prices did not occur after harsh weather cut supply. By contrast, prices of industrial products continued to fall, as wages slowed. Profits, especially in the private sector, grew markedly.

Fiscal reform has lowered taxes and estimates of public debt have risen

In 2012, the national and local government budget deficit widened somewhat as a result of the slowdown. In the first half of 2013, the headline deficit remained low as the government restrained spending. The acceleration of activity in the course of 2013 has pushed up the growth of tax receipts. A tax on services was replaced by a value added tax in certain sectors from August, in order to raise the demand for services. By design, the tax yield will fall, pushing up the deficit a bit. Central government debt stands at 16% of GDP. This is more than offset by the

China



1. Refers to consumer prices; seasonally adjusted.
2. Refers to producer prices.
3. Includes bankers acceptances, trust loans, entrusted loans and corporate notes.
Source: CEIC.

StatLink http://dx.doi.org/10.1787/888932948910

China: **External indicators**

	2011	2012	2013	2014	2015
	$ billion				
Goods and services exports	2 089.8	2 248.3	2 440.2	2 655	2 965
Goods and services imports	1 907.9	2 016.5	2 188.0	2 450	2 742
Foreign balance	181.9	231.8	252.1	206	223
Net investment income and transfers	- 45.8	- 38.7	- 43.9	- 54	- 54
Current account balance	136.1	193.1	208.2	152	169
	Percentage changes				
Goods and services export volumes	9.0	5.3	8.8	6.8	9.7
Goods and services import volumes	10.2	6.3	9.8	9.2	9.5
Export performance[1]	2.6	1.8	5.9	2.0	3.5
Terms of trade	- 3.4	2.8	0.9	- 0.7	- 0.4

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950297

financial assets in social security funds and other parts of the government. Even so, local public debt may be of the order of 35% of GDP according to some estimates, though its exact size is uncertain as the most recent audit was in 2010 and was not sufficiently wide-ranging. In addition, there are other loans guaranteed by the government which are contingent rather than actual liabilities, but which could weigh on public finances in the future. A more complete audit is underway. In any event, some local authorities may struggle to service the debt for which they are responsible, either directly or via off-budget financial platforms.

Overall credit growth has eased

The growth of overall credit has slackened. In the six months to October, credit expanded at an annualised rate of 14%, down from 24% in the previous six months. This followed a liquidity squeeze in June 2013 that briefly drove short-term interest rates to double-digit levels. The central bank was apparently warning banks to reduce their off-balance sheet lending. It has since announced that it will improve its communication policy. Progress is being made in liberalising interest rates, as half of total credit flows are now at market-based interest rates. Competition for deposits is growing, with the stock of money market type funds reaching 18% of GDP by mid-2013. In addition, the central bank has abolished the lower limit on bank lending rates, allowed the introduction of more modern financial instruments and envisages introducing large-denomination negotiable certificates of deposits in the near future.

Growth is set to remain healthy for several quarters

The recent credit buoyancy is set to continue to fuel growth in the near term. As destocking ends, the growth of final demand should boost activity. In addition, exports should benefit from the projected recovery in world demand during 2014-15. Finally, ample profits in 2013 bode well for future investment growth. However, potential output growth has slowed. Hence, spare capacity is likely to be eliminated in the course of 2014 and GDP growth is projected to revert to around its potential rate of 7.5% in

2015 as credit growth becomes more prudent. Against this backdrop, consumer price inflation is projected to stabilise at around 2.5%. With domestic demand rising strongly and diminishing gains in export market share, the current account surplus should continue to fall to around 1½ per cent of GDP in 2014-15.

Local authority debt poses a risk to stability

The expected structural reforms in a wide range of areas (financial sector, labour mobility and the extent of administrative control of the economy) should support growth eventually, even if certain reforms may have some short-term negative consequences. However, there are also downside risks, notably stemming from local public debt. Mishandled defaults, were they to occur, might jeopardise the health of the banking system and confidence in capital markets. If local governments were forced into large-scale sales of land to service debt, expectations of future rises in house prices might be scaled back, bringing an abrupt drop in speculative purchases of housing and deterring other buyers until markets settled. While lower land prices would be a healthy development over the long term, activity in the construction sector might fall in the short term.

INDIA

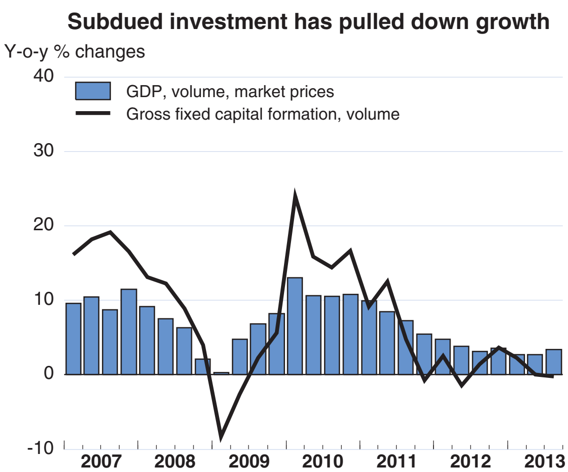
Economic activity is expected to recover gradually as the rupee depreciation supports exports, infrastructure projects cleared by the Cabinet Committee on Investment come on stream and political uncertainty declines after the general election due in the spring 2014. However, the rupee depreciation is putting pressures on inflation and the public finances, as well as on corporates and banks with high external debt exposure. Supply constraints will continue to restrain growth, adding to inflationary pressures and the current account deficit.

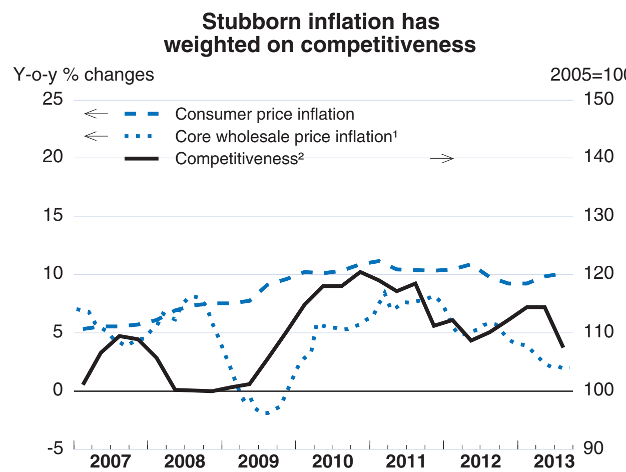
The new monetary policy framework, which puts more weight on inflation as a policy anchor, is welcome. However, containing inflation pressures also requires reducing the fiscal deficit and dealing with supply constraints that limit growth. The new Land Acquisition Law may promote investment, but the new Food Act will be fiscally costly. Priority should now be given to cutting energy subsidies, better targeting household transfers, implementing pending tax reforms, improving infrastructure and reforming the labour market.

The economy has remained weak, even as price pressures persist

The economy has grown by less than 3% over the first half of 2013 with GDP measured at market prices (as opposed to 4½ per cent when GDP is measured at factor costs). Prosperous harvests, helped by a good monsoon, and burgeoning public consumption have failed to compensate for sluggish industrial production, investment and exports. Nevertheless, consumer price inflation has hovered around 10% in the first half of 2013, reflecting steady food price inflation and the pass-through of fuel price increases. Persistently high inflation and low productivity contributed to a loss of competitiveness, with the real effective exchange rate in June 2013 over 10% above the 2000-08 average. The rupee depreciation over the summer has largely corrected the past appreciation but, along with rising oil and food prices, adds to inflationary pressures.

India





1. Core wholesale inflation focuses on the manufacturing sector excluding food production.
2. Real effective exchange rate based on consumer prices. An increase signals a loss of competitiveness.

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932948948

India: **Macroeconomic indicators**

	2011	2012	2013	2014	2015
Real GDP growth[1]	6.5	3.3	3.4	5.1	5.7
Inflation[2]	8.4	8.0	6.7	7.2	6.2
Consumer price index[3]	8.4	10.4	11.1	9.0	7.6
Wholesale price index (WPI)[4]	8.9	7.4	6.1	6.6	5.6
Short-term interest rate[5]	8.1	7.9	7.7	8.0	7.7
Long-term interest rate[6]	8.4	8.2	8.4	8.4	8.1
Fiscal balance (per cent of GDP)[7]	-8.1	-7.3	-6.9	-6.5	-6.3
Current account balance (per cent of GDP)	-4.2	-4.8	-4.1	-3.5	-3.5
Memorandum: calendar year basis					
Real GDP growth	7.7	3.8	3.0	4.7	5.7
Fiscal balance (per cent of GDP)[7]	-7.8	-7.6	-7.2	-6.7	-6.2

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.

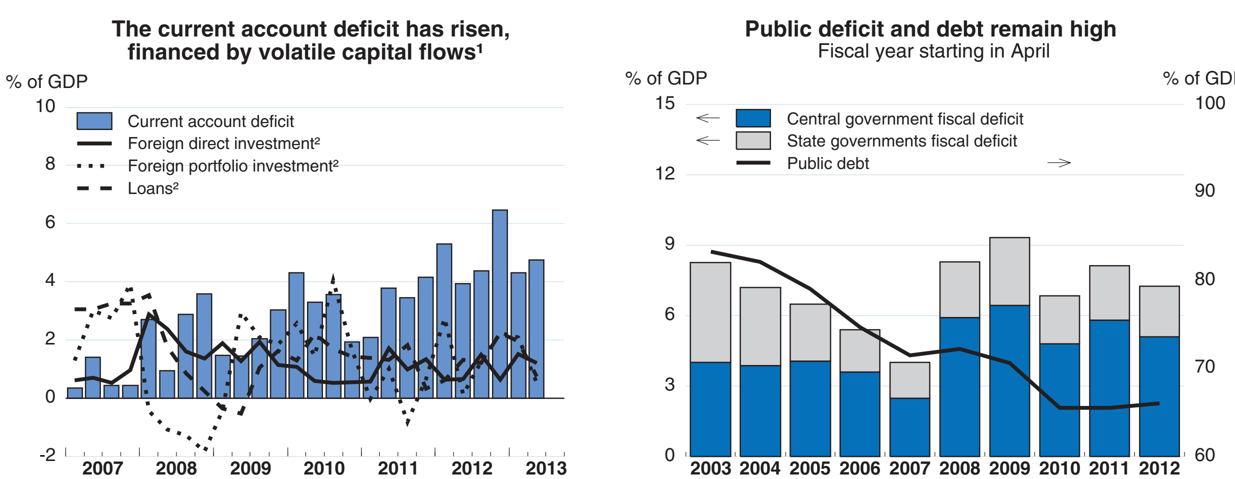
Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950392

Financing the current account deficit has been challenging

The current account deficit reached 4.8% of GDP in 2012, the highest in decades. It narrowed somewhat in the first half of 2013, as domestic demand tumbled and import duties were raised to curb gold imports. The increasing reliance on volatile, short-term and debt-creating capital flows has raised external vulnerability and has put pressure on the rupee.

India



1. All the variables are seasonally adjusted.
2. Net flows.

Source: Indian Central Statistical Organisation; and Reserve Bank of India.

StatLink http://dx.doi.org/10.1787/888932948967

India: **External indicators**

	2011	2012	2013	2014	2015
			$ billion		
Goods and services exports	446.8	438.8	448.8	500	572
Goods and services imports	568.5	581.5	568.0	619	698
Foreign balance	- 121.7	- 142.6	- 119.3	- 118	- 126
Net investment income and transfers	43.3	54.1	43.6	47	51
Current account balance	- 78.4	- 88.6	- 75.7	- 71	- 76
			Percentage changes		
Goods and services export volumes	15.9	3.9	4.9	6.8	7.0
Goods and services import volumes	21.5	6.8	0.8	4.2	6.2
Export performance[1]	11.1	- 0.3	0.2	0.9	0.4

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 94 database.

StatLink http://dx.doi.org/10.1787/888932950411

However, foreign exchange reserves, at 6 months of imports, remain at an adequate level.

The fiscal balance is coming under increasing pressure

The general government deficit narrowed slightly during the fiscal year 2012/13 but complying with the fiscal consolidation roadmap will be challenging. The new Food Act aims to provide subsidised food grains to two-thirds of the population, instead of one-third currently. The budgetary cost is projected to increase from 0.8% of GDP to between 1 and 1.8% of GDP once the programme is fully implemented. Tax revenues have suffered from the economic slowdown and the rupee depreciation is pushing up the cost of oil and fertiliser subsidies. Austerity measures announced in mid-September should be accompanied by additional consolidation measures to avoid fiscal slippage and allow for a decline in the public debt-to-GDP ratio, which is high by emerging market standards.

Monetary policy should anchor inflation expectations without endangering the recovery

Actual and expected inflation remain high, and monetary policy will have to ensure they are reduced to acceptable levels. This task is made harder by the structural bottlenecks that are holding back growth. Still, the repo rate will need to be raised, but care will be needed to avoid choking off an economic recovery.

Growth is projected to recover

Activity is projected to rise gradually over the next two years but, as supply rigidities bind, growth will likely remain well below rates observed in the second half of the previous decade. The depreciation of the rupee, combined with the projected increase in external demand, should boost exports. Investment should also recover as work on pending infrastructure programmes accelerates and the new Land Acquisition Law reduces business uncertainty. Boosting growth and making it more inclusive would however require addressing structural bottlenecks, in particular gaps in energy, transport and water infrastructure, overly stringent labour regulations and the shortage of skills. Tax reforms should aim at raising more revenue, being less distortive for growth and redistributing more from the rich to the poor.

Risks are mainly on the downside

Exports, which have been showing signs of recovery since mid-year, may be restrained by supply-side bottlenecks. The rapidly expanding balance sheets of the banking and corporate sectors may trigger some deleveraging and put the investment recovery at risk. This, coupled with the impact of the depreciation of the rupee on oil and fertiliser subsidies, could make needed and planned fiscal consolidation more challenging.

INDONESIA

Both domestic and foreign demand have slowed. Inflation has risen, at least temporarily, as fuel subsidies have been cut. The current account has continued to deteriorate, due to weak trading-partner growth, declining terms of trade and structural impediments in a number of export sectors. The currency has depreciated sharply, with the rupiah at its lowest level since March 2009.

The central bank should stand ready to raise interest rates further if signs emerge that high inflation is becoming entrenched, such as might be indicated by further substantial minimum wage increases. While low income earners were compensated for the cuts in fuel subsidies, further expanding the social safety net should be a priority. Measures also need to be taken to improve competitiveness, notably by investing in infrastructure.

Domestic demand has weakened

Consumer confidence has been hit hard in recent months as interest rates and fuel prices have risen, and there are signs of private consumption beginning to weaken. Investment remains soft, reflecting policy uncertainty, in part related to the mid-2014 elections. The external goods and services balance is improving in volume terms because of the weaker exchange rate, but the effect on the current account is being offset by the terms of trade.

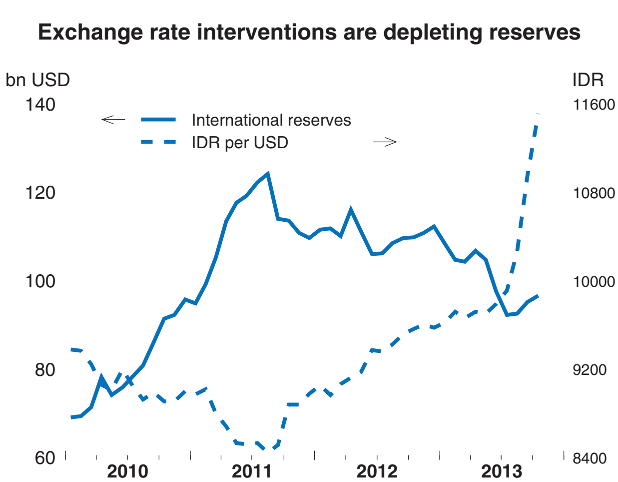
The fiscal stance is slightly expansionary

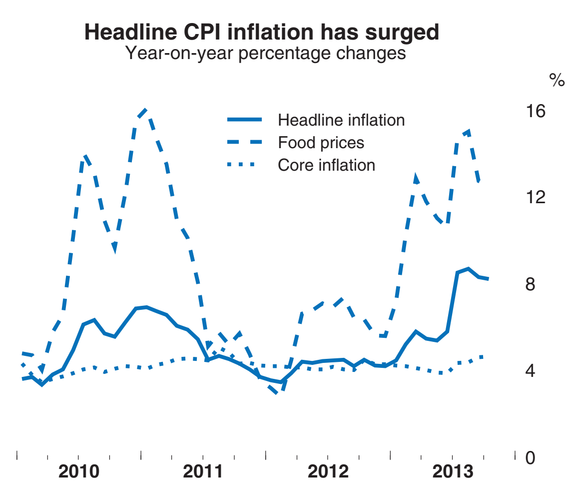
The cut in fuel subsidies was combined with equal-sized measures to compensate low income earners. There was also a stimulus package announced in September, implying fiscal policy loosening of about 0.2% of GDP in the lead up to the elections.

The rupiah has depreciated sharply

The rupiah has depreciated markedly both against the dollar and on a trade-weighted basis over the past 12 months. This is related to prospective Federal Reserve tapering and the fragility of the current account. Headline CPI inflation has been rising due to the reduction in

Indonesia





Source: Statistics Indonesia (BPS); and Datastream.

StatLink http://dx.doi.org/10.1787/888932948929

Indonesia: **Macroeconomic indicators**

	2011	2012	2013	2014	2015
Real GDP growth	6.5	6.2	5.2	5.6	5.7
Inflation (CPI), period average	5.4	4.3	7.2	6.5	4.9
Short-term interest rate	6.9	5.9	6.6	7.3	6.8
Fiscal balance (per cent of GDP)	-1.1	-2.0	-2.0	-1.9	-1.8
Current account balance ($ billion)	1.7	-24.4	-33.7	-34.8	-38.3
Current account balance (per cent of GDP)	0.2	-2.8	-3.9	-3.8	-3.8

Note: Real GDP growth and inflation are defined in percentage change from the previous period.
Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950430

subsidies and the falling currency. Nevertheless, core inflation remains within the central bank's target range (4.5% ±1%), although it has recently exceeded the midpoint of the band.

Monetary policy has tightened

Official interest rates have been raised from 5.75% in spring 2013 to 7.5%. This tightening has been in response to strong pressure on the exchange rate and rapidly rising inflation. The central bank had also been intervening heavily to support the rupiah. Official reserves declined markedly as a result, although more recently they have started to increase again.

Growth will be weaker

Growth is projected to remain weaker than it has been for several years. In particular, household consumption and business investment growth are projected to be weaker than in the past. Inflation is expected to ease as the effects of the energy subsidy cuts and food price increases wane. The significantly lower rupiah should provide impetus to exports while also curbing imports, so the trade balance is expected to continue to improve.

The main risks are both external and internal

There are several risks to the outlook. Inflation may remain high for quite some time, and depreciation pressures are likely to persist. This could imply a longer-than-expected period of monetary policy tightness, putting a further damper on activity. On the external side, the weakness in trading partners may be deeper and longer than projected.

RUSSIAN FEDERATION

Growth is projected to gradually strengthen, driven by higher infrastructure spending and, as the euro area recovers, stronger output, exports and investment in the mining sector. Consumption growth will remain solid as low unemployment fuels real wage growth. Strengthening domestic demand will be associated with a further decline in the current account surplus relative to GDP. Inflation is now falling due to the good harvest, but as economic growth picks up the pace of underlying disinflation will slow.

Fiscal policy should be tightened gradually while allowing the automatic stabilisers built into the medium-term fiscal framework to work. Prioritisation and efficiency of public spending need to be improved. Even though the 2014 inflation target has been increased and utility prices will be partly frozen, interest rate cuts will not be appropriate until core inflation declines more rapidly. Strengthening potential growth through business climate improvements remains a priority. Reducing the excessive dependence on oil and gas revenues requires further efforts to remove entry barriers, improve skill matches on the labour market and increase the effectiveness of innovation support.

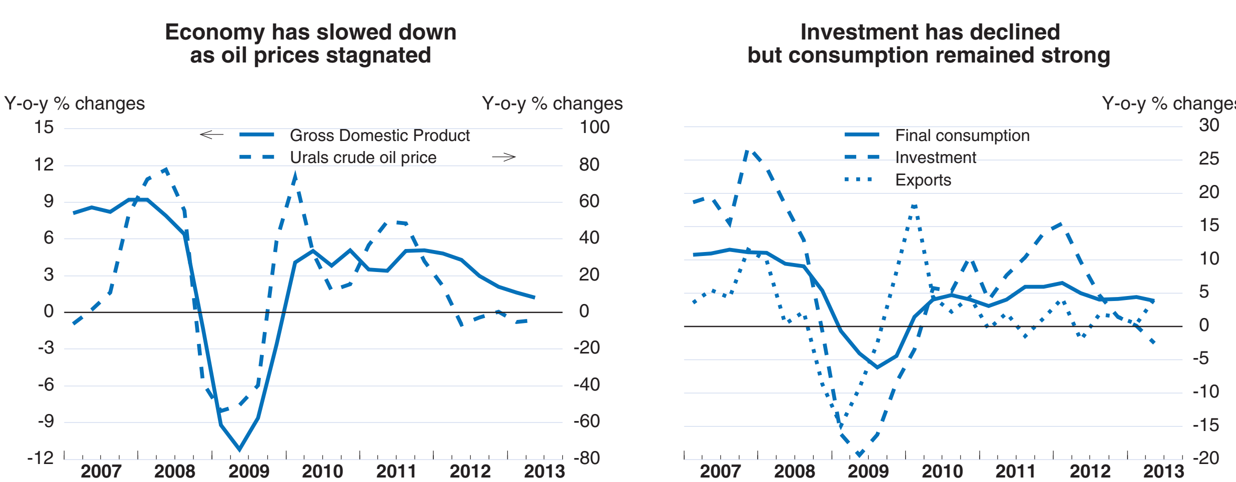
Economic weakness continues

GDP growth fell further in the second quarter of 2013 and, beyond the temporary boost from the good harvest, short-term indicators suggest only a weak recovery in the third quarter. Investment growth declined, driven down mostly by public sector and natural-resource-related sectors faced with stagnating or falling commodity prices. Uncertainty related to the situation in the world economy and the euro area, unclear domestic policy priorities and high capital outflows also contributed to the decline. Industrial production stagnated. Weak external demand contributed to reduced mining output and exports, but oil production is also increasingly constrained by the technical and financial feasibility of oil fields.

Consumption growth is strong

Although the economy has been weak overall, private consumption continues to sustain growth, reflecting mainly a still favourable situation in the labour market, with unemployment near all-time lows, and very

Russian Federation



Source: Rosstat; and Datasteam.

StatLink http://dx.doi.org/10.1787/888932948986

Russian Federation: **Macroeconomic indicators**

	2011	2012	2013	2014	2015
Real GDP growth	4.3	3.4	1.5	2.3	2.9
Inflation (CPI), period average	8.4	5.1	6.6	5.7	4.5
Fiscal balance (per cent of GDP)[1]	4.2	0.4	-0.7	-1.0	-0.9
Current account balance (per cent of GDP)	5.1	3.6	2.5	2.4	2.2

1. Consolidated budget.
Source: OECD Economic Outlook 94 database.

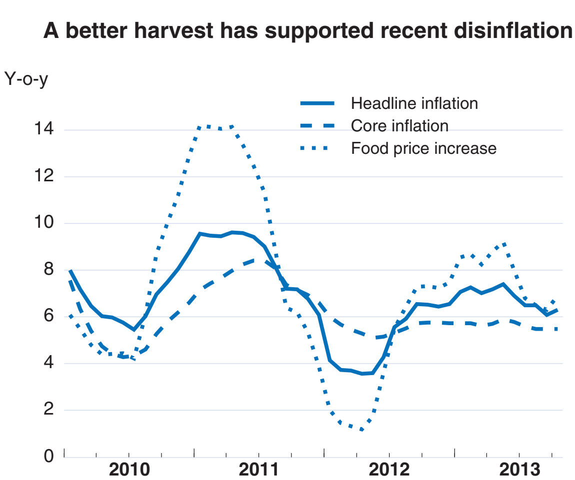
StatLink http://dx.doi.org/10.1787/888932950354

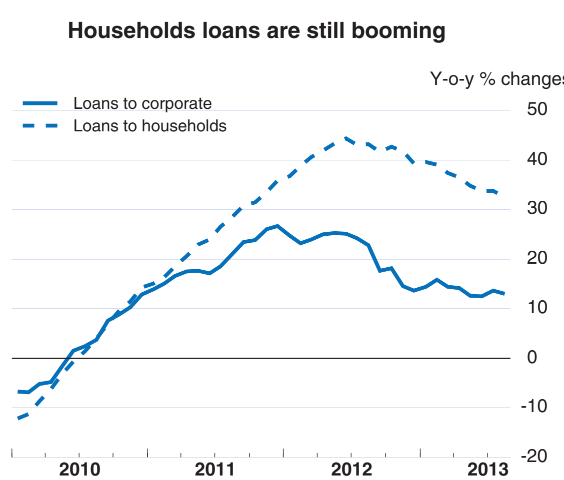
strong public sector wage growth. Consumption is however also fuelled by a continued consumer lending boom, which will not last forever. The headwind from high inflation, which slowed real wage and benefit growth is now fading.

Current monetary policy rates are appropriate

Inflation continues to decline towards the 2013 inflation target as food prices have slowed sharply in the wake of a good harvest this year. However, core inflation and inflation expectations are more sticky and the labour market remains tight, suggesting that further disinflation could be more difficult to achieve despite the government decisions to temporarily abandon full price indexation of utility prices and freeze state employees' wages in 2014. Also, recent currency depreciation adds to inflation pressures, notwithstanding its positive role as a shock absorbing mechanism. These pressures are reflected in the recent central bank decision to increase the 2014 inflation target from 4.5% to 5%, while widening the tolerance band around the central target. Therefore, little space is available for monetary policy rate cuts in 2013 and 2014.

Russian Federation





Source: Rosstat; and Datastream.

StatLink http://dx.doi.org/10.1787/888932949005

Russian Federation: **External indicators**

	2011	2012	2013	2014	2015
			$ billion		
Goods and services exports	576.1	593.9	594.4	638	671
Goods and services imports	413.9	446.4	473.8	498	528
Foreign balance	162.2	147.5	120.6	140	143
Invisibles, net	- 64.9	- 75.4	- 66.5	- 85	- 88
Current account balance	97.3	72.0	54.1	55	54
			Percentage changes		
Goods and services export volumes	0.3	1.4	3.9	2.7	1.6
Goods and services import volumes	20.3	9.5	4.4	3.6	3.6
Terms of trade	20.8	3.1	- 5.1	2.9	1.1

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950373

Other policy instruments could be used to improve financial conditions

The central bank should continue to address segmentation in the inter-bank market by expanding the use of newly introduced liquidity instruments. Monetary policy rate transmission mechanisms could also be improved through further reductions in foreign exchange interventions. While a continued consumer credit boom could become a risk for financial stability, tightening macro-prudential controls is currently more appropriate than increasing interest rates.

The fiscal rule drives a very gradual consolidation

The oil-price-based fiscal rule and the medium term fiscal framework drive fiscal policy appropriately towards gradual narrowing of the non-oil deficit. However, the automatic stabilisers should allow the deficit to raise temporarily if growth disappoints. Although the pressures for fiscal stimulus have led to the decision to make the National Welfare Fund available for investment lending, the fiscal constraints are reflected in the draft budget submitted to the State Duma. The budget outlines savings, including a wage freeze for state employees, in an attempt to free fiscal room for previously announced spending priorities: modernising the army, strengthening social protection and investing in infrastructure. Planned changes in the pension system mark a welcome step towards fiscal sustainability.

Growth will strengthen gradually

A gradual strengthening of GDP growth is projected. The economy will benefit from the recovery in the euro area, which will boost output, exports and investment in the mining sector. Large-scale public infrastructure projects should also contribute to an investment recovery. Private consumption growth will moderate, responding to the softening in the labour market and the slowing of consumer loan growth. With domestic demand projected to outpace exports, the current account surplus will continue to diminish relative to GDP.

Weaknesses on the supply side will eventually restrain growth

The shrinking labour force, a poor business environment, and weak incentives for productivity improvements in the SOE-dominated economy will eventually restrain growth. One consequence is that economic slack is probably limited, which will complicate achieving the medium-term disinflation path targeted by the central bank.

Risks are mostly negative

A resurfacing euro area crisis and a further slowdown in emerging market economies could put downward pressure on oil and gas prices, which would be a major blow for the Russian economy. A sudden deterioration in financial market sentiment and a global flight to quality could lead to much larger capital outflows, tightening financial conditions and worsen the investment outlook in Russia. On the positive side, a more decisive implementation of structural reforms could strengthen growth as early as 2015.

SOUTH AFRICA

The economy is projected to pick up as exports benefit from a weaker rand and strengthening world trade growth. Domestic demand is hampered by low confidence and slow income and employment growth, but should gradually pick up on the back of faster exports. Inflation is set to recede due to the substantial slack in the economy.

The government should implement further fiscal consolidation and use cyclical increases in revenues to reverse some of the recent increases in the public debt-to-GDP ratio. The supportive monetary policy stance should be continued as long as inflation remains contained and expectations anchored. Structural reforms to tackle the insider/outsider divide in the labour market and the sizeable rents in product markets would promote durable job creation and ease sector-specific supply constraints, unleashing the full potential of the economy.

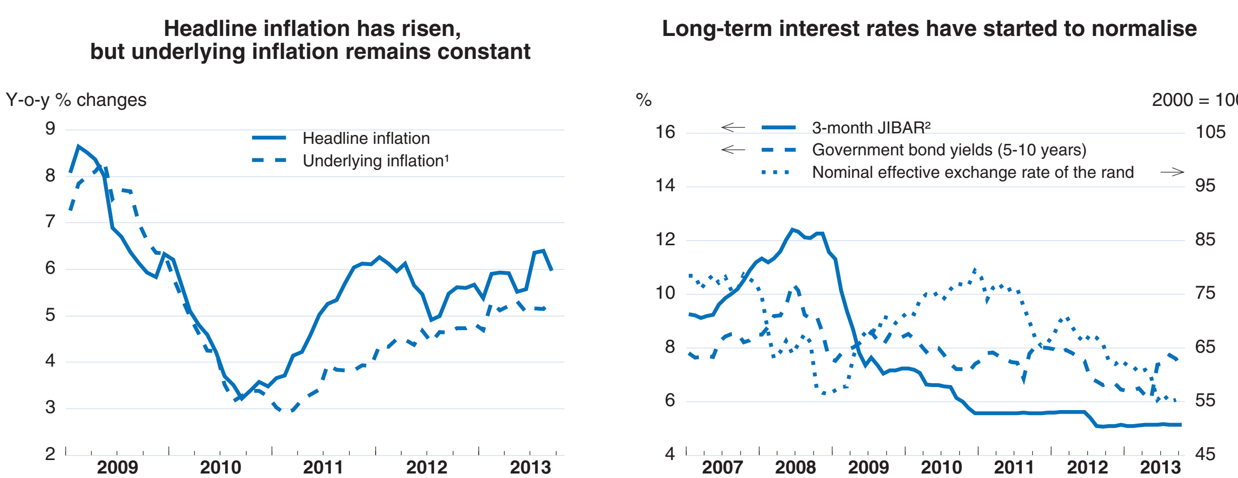
The economy has begun to pick up

The economy was slowing until spring 2013 but then started to recover on the back of export market growth and the rand depreciation, although the pace in the first half of the year was constrained by capacity problems in the electricity sector and by industrial action. Domestic demand is likely to remain weak in the near term as consumer and business confidence have been falling and long-term interest rates have risen by nearly 200 basis points, partly as a result of changing investor sentiment in the wake of shifts in expectations about US monetary policy.

Substantial labour market slack has contained wage pressures

After mid-year, inflation spiked above the upper band of 6% in the inflation target. It then began to recede as the effects of the weaker rand faded away and the substantial labour market slack – despite the employment gains since end 2012 – contained wage pressures. The rand

South Africa



1. Consumer Price Index excluding food, non-alcoholic beverages, petrol and energy.
2. Johannesburg Interbank Agreed Rate.

Source: Statistics South Africa; South Africa Reserve Bank; and Datastream.

StatLink http://dx.doi.org/10.1787/888932949024

South Africa: **Macroeconomic indicators**

	2011	2012	2013	2014	2015
Real GDP growth	3.5	2.5	2.1	3.0	3.7
Inflation	5.0	5.6	5.9	5.6	5.4
Fiscal balance (per cent of GDP)	-5.6	-6.2	-6.2	-5.8	-5.4
Current account balance ($ billion)	-13.6	-24.0	-22.8	-24.2	-23.9
Current account balance (per cent of GDP)	-3.4	-6.3	-6.4	-6.4	-5.8

Source: OECD Economic Outlook 94 database.

StatLink http://dx.doi.org/10.1787/888932950449

depreciation initially widened the current account deficit, but this will reverse as export and import volumes react.

More fiscal adjustment is needed, but monetary conditions should remain supportive

Fiscal policy is set to become more restrictive with a planned cut in the budget deficit of ½ percentage point of GDP. But this will do little to address the large budget deficit and, as the economy gathers pace, additional fiscal consolidation measures on the spending side should be introduced. If growth surprises on the upside, the additional revenues should be used to reduce public debt more than planned. The accommodative monetary stance can be maintained, as long as underlying inflation pressures are low and expectations are anchored.

Growth will gather pace, especially in 2015

The recovery is expected to gather pace gradually, driven mainly by faster world trade growth and the improvement in external competitiveness, which will eventually bolster domestic demand. By 2015, growth will be strong enough to begin reducing the sizeable excess capacity in the economy.

Risks are balanced

Global financial market turbulence could affect South Africa, causing capital outflows, raising the cost of internal and external financing, and weakening the rand, which could further add to inflation pressures. Failure to appropriately address supply-side bottlenecks will reduce the possibilities to gain export market share. Inflation has been drifting up, and if inflation expectations were to become unanchored, interest rates and financing costs could rise. On the upside, less confrontational labour market relations would boost investor confidence, accelerating investment and raising employment.

OECD Economic Outlook
Volume 2013/2

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

	2008	2009	2010	2011	2012	2013	2014	2015	Fourth quarter 2012	2013	2014	2015
Australia	2.4	1.5	2.6	2.4	3.7	2.5	2.6	3.1	3.3	2.4	2.7	3.3
Austria	0.9	-3.5	1.9	2.9	0.6	0.4	1.7	2.2	0.6	0.8	2.1	2.3
Belgium	1.0	-2.8	2.4	1.9	-0.3	0.1	1.1	1.5	-0.5	0.7	1.3	1.6
Canada	1.2	-2.7	3.4	2.5	1.7	1.7	2.3	2.6	1.0	2.2	2.4	2.7
Chile	3.2	-0.9	5.7	5.8	5.6	4.2	4.5	4.9	5.6	3.5	4.7	5.0
Czech Republic	3.1	-4.5	2.5	1.8	-1.0	-1.5	1.1	2.3	-1.5	-0.8	1.6	2.6
Denmark	-0.8	-5.7	1.4	1.1	-0.4	0.3	1.6	1.9	-0.4	1.1	1.7	2.0
Estonia	-4.2	-14.1	2.6	9.6	3.9	1.0	2.4	4.0	4.0	0.5	3.1	4.5
Finland	0.3	-8.5	3.4	2.7	-0.8	-1.0	1.3	1.9	-2.2	0.4	1.8	2.1
France	-0.2	-3.1	1.6	2.0	0.0	0.2	1.0	1.6	-0.3	0.6	1.2	1.8
Germany	0.8	-5.1	3.9	3.4	0.9	0.5	1.7	2.0	0.3	1.4	1.7	2.1
Greece	-0.2	-3.1	-4.9	-7.1	-6.4	-3.5	-0.4	1.8	-5.6	-1.3	1.4	2.3
Hungary	0.9	-6.8	1.1	1.6	-1.7	1.2	2.0	1.7	-2.4	2.8	1.5	1.9
Iceland	1.2	-6.6	-4.1	2.7	1.4	1.8	2.7	2.8	1.0	1.5	3.6	2.6
Ireland	-2.2	-6.4	-1.1	2.2	0.1	0.1	1.9	2.2	-1.0	1.8	1.1	2.9
Israel	4.5	1.2	5.7	4.6	3.4	3.7	3.4	3.5	3.2	4.2	2.6	3.9
Italy	-1.2	-5.5	1.7	0.6	-2.6	-1.9	0.6	1.4	-3.0	-0.9	1.1	1.6
Japan	-1.0	-5.5	4.7	-0.6	1.9	1.8	1.5	1.0	0.3	3.2	0.6	0.7
Korea	2.3	0.3	6.3	3.7	2.0	2.7	3.8	4.0	1.4	3.9	3.8	4.1
Luxembourg	-0.7	-5.6	3.1	1.9	-0.2	1.8	2.3	2.3	0.2	1.4	2.5	2.3
Mexico	1.2	-4.5	5.1	4.0	3.6	1.2	3.8	4.2	3.2	1.2	4.3	4.0
Netherlands	1.8	-3.7	1.5	0.9	-1.2	-1.1	-0.1	0.9	-1.3	-0.3	0.0	1.2
New Zealand	-0.6	0.3	0.9	1.3	3.2	2.3	3.3	2.9	3.5	2.0	3.6	2.4
Norway	0.1	-1.6	0.5	1.2	3.1	1.2	2.8	3.1	1.9	2.5	2.6	3.5
Poland	5.0	1.6	3.9	4.5	2.1	1.4	2.7	3.3	0.8	2.1	3.0	3.5
Portugal	0.0	-2.9	1.9	-1.3	-3.2	-1.7	0.4	1.1	-3.8	0.8	0.3	1.5
Slovak Republic	5.8	-4.9	4.4	3.0	1.8	0.8	1.9	2.9	0.8	1.0	2.6	3.0
Slovenia	3.4	-7.9	1.3	0.7	-2.5	-2.3	-0.9	0.6	-3.2	-1.6	-0.2	1.2
Spain	0.9	-3.8	-0.2	0.1	-1.6	-1.3	0.5	1.0	-2.1	-0.3	0.8	1.0
Sweden	-0.8	-5.0	6.3	3.0	1.3	0.7	2.3	3.0	1.8	1.1	2.8	3.1
Switzerland	2.2	-1.9	3.0	1.8	1.0	1.9	2.2	2.7	1.4	2.1	2.4	2.9
Turkey	0.7	-4.8	9.2	8.8	2.2	3.6	3.8	4.1	..	..	..	..
United Kingdom	-0.8	-5.2	1.7	1.1	0.1	1.4	2.4	2.5	-0.2	2.6	2.0	2.8
United States	-0.3	-2.8	2.5	1.8	2.8	1.7	2.9	3.4	2.0	2.1	3.2	3.5
Euro area	0.2	-4.4	1.9	1.6	-0.6	-0.4	1.0	1.6	-1.0	0.4	1.3	1.8
Total OECD	0.2	-3.5	3.0	1.9	1.6	1.2	2.3	2.7	0.9	1.9	2.4	2.8
Brazil	5.2	-0.3	7.5	2.7	0.9	2.5	2.2	2.5				
China	9.6	9.2	10.4	9.3	7.7	7.7	8.2	7.5	7.5	8.0	7.8	7.4
India	6.2	5.0	11.2	7.7	3.8	3.0	4.7	5.7				
Indonesia	6.0	4.6	6.2	6.5	6.2	5.2	5.6	5.7				
Russian Federation	5.2	-7.8	4.5	4.3	3.4	1.5	2.3	2.9				
South Africa	3.6	-1.5	3.1	3.5	2.5	2.1	3.0	3.7				

Note: These numbers are working-day adjusted and hence may differ from the basis used for official projections.
Source: OECD Economic Outlook 94 database.

Real private consumption expenditure

Percentage changes from previous year

	2008	2009	2010	2011	2012	2013	2014	2015	Fourth quarter 2012	2013	2014	2015
Australia	2.0	0.7	3.0	3.3	3.2	2.2	3.2	3.7	2.9	2.6	3.5	3.7
Austria	0.6	1.3	1.5	1.1	0.3	-0.2	0.5	1.1	-0.2	0.0	0.7	1.3
Belgium	2.0	0.6	2.7	0.2	-0.3	0.5	0.7	1.1	-0.4	0.9	0.7	1.2
Canada	2.9	0.4	3.4	2.3	1.9	2.3	2.3	2.7	2.1	2.4	2.3	2.9
Chile	5.3	-0.9	10.7	9.0	6.0	6.5	5.0	4.8	7.3	5.6	4.7	4.8
Czech Republic	2.8	0.2	0.9	0.5	-2.1	0.3	0.8	2.0	-3.0	1.1	1.3	2.4
Denmark	-0.3	-3.6	1.3	-0.7	-0.1	0.2	1.4	1.9	-0.4	0.3	1.8	2.0
Estonia	-5.2	-14.8	-2.6	3.8	4.9	4.5	3.2	3.7	4.1	4.3	3.1	4.1
Finland	1.9	-2.9	3.3	2.6	0.2	-0.3	0.7	1.4	0.0	-0.3	1.0	1.5
France	0.2	0.4	1.5	0.5	-0.3	0.5	0.9	1.4	0.0	0.9	0.9	1.6
Germany	0.7	0.3	1.0	2.3	0.7	1.1	1.8	1.9	0.3	1.6	1.9	2.0
Greece	4.3	-1.6	-6.2	-7.7	-9.1	-6.4	-2.6	0.5	..	..	..	..
Hungary	-0.7	-6.6	-3.0	0.4	-1.6	0.5	1.4	1.2	-1.3	1.1	1.0	1.5
Iceland	-7.8	-15.0	0.1	2.6	2.4	1.6	2.2	2.4	2.4	1.4	2.2	2.4
Ireland	-0.2	-5.4	0.5	-1.4	-0.3	-1.1	0.8	0.7	0.8	-0.9	0.2	1.1
Israel	1.6	2.2	5.0	3.8	3.2	3.4	2.7	3.6	3.2	3.4	3.1	3.7
Italy	-0.8	-1.6	1.5	-0.3	-4.1	-2.4	0.0	0.8	-4.5	-1.3	0.6	0.8
Japan	-0.9	-0.7	2.8	0.4	2.3	1.8	1.0	1.3	1.1	2.7	-0.2	1.0
Korea	1.3	0.0	4.4	2.4	1.7	2.0	3.5	3.6	2.7	2.4	3.4	3.7
Luxembourg	-0.7	-1.4	2.6	1.3	2.2	1.2	2.2	2.4	1.0	1.0	3.1	2.3
Mexico	1.7	-6.3	5.7	4.8	4.3	2.7	3.0	3.7	5.0	1.6	3.6	3.7
Netherlands	1.3	-2.1	0.3	-1.1	-1.6	-2.1	-1.6	0.0	-2.2	-1.7	-1.2	0.5
New Zealand	0.2	-1.4	2.6	2.0	2.4	3.3	3.1	3.0	2.7	2.9	3.4	2.8
Norway	1.8	0.0	3.8	2.5	3.0	2.7	3.0	3.3	2.8	3.1	2.7	3.6
Poland	5.5	2.1	3.1	2.6	1.2	0.7	2.2	3.1	0.7	1.5	2.1	3.7
Portugal	1.3	-2.3	2.5	-3.3	-5.4	-2.3	-0.6	0.3	-5.1	-0.7	-0.5	0.6
Slovak Republic	6.1	0.2	-0.7	-0.5	-0.2	0.9	1.0	1.6	-0.5	1.5	1.2	1.9
Slovenia	2.3	-0.1	1.5	0.8	-4.8	-3.6	-3.5	-1.2	-6.0	-3.6	-2.5	-0.5
Spain	-0.6	-3.7	0.2	-1.2	-2.8	-2.6	-0.4	0.2	-3.5	-0.6	-0.4	0.4
Sweden	-0.1	-0.2	3.9	1.7	1.7	1.9	2.6	3.2	2.5	2.1	3.0	3.2
Switzerland	1.2	1.8	1.7	1.1	2.4	2.6	2.4	2.7	2.6	2.5	2.5	2.7
Turkey	-0.3	-2.3	6.7	7.7	-0.6	3.4	3.3	3.9	..	..	..	..
United Kingdom	-1.0	-3.6	1.0	-0.4	1.2	1.7	1.8	2.0	1.4	1.7	1.9	2.0
United States	-0.4	-1.6	2.0	2.5	2.2	1.9	2.3	2.9	2.0	1.9	2.6	3.0
Euro area	0.4	-0.9	1.0	0.3	-1.4	-0.6	0.6	1.2	-1.6	0.2	0.8	1.3
Total OECD	0.2	-1.4	2.2	1.9	1.2	1.4	1.9	2.4	1.1	1.6	2.1	2.5

Note: These numbers are working-day adjusted and hence may differ from the basis used for official projections.
Source: OECD Economic Outlook 94 database.

Real total gross fixed capital formation

Percentage changes from previous year

	2008	2009	2010	2011	2012	2013	2014	2015	Fourth quarter 2012	2013	2014	2015
Australia	8.0	-2.1	4.2	7.1	8.9	-1.1	0.6	1.1	6.5	-1.8	0.4	2.0
Austria	-0.5	-6.9	-0.8	7.4	1.7	-2.5	2.6	4.5	-1.1	-1.2	3.8	4.8
Belgium	1.9	-8.4	-1.2	4.2	-0.6	-2.6	1.1	2.8	-1.2	-1.7	1.9	3.2
Canada	1.6	-11.5	11.5	4.2	4.3	0.7	3.0	2.2	3.9	1.1	2.9	2.0
Chile	18.0	-12.2	12.1	14.8	12.0	6.5	6.3	4.8	17.7	1.7	5.1	4.7
Czech Republic	4.1	-11.0	1.0	0.4	-4.5	-4.3	0.4	2.3	-7.8	-1.9	1.3	2.8
Denmark	-4.2	-15.9	-2.1	3.3	0.8	-0.9	4.5	4.0	-0.3	-2.5	9.0	1.0
Estonia	-13.3	-39.0	-7.3	37.6	10.9	-3.8	6.6	5.9	2.6	-2.8	5.1	6.3
Finland	-0.6	-13.2	1.7	5.7	-1.0	-1.2	-0.1	2.6	-4.2	-0.2	1.0	3.4
France	0.1	-10.4	1.2	3.0	-1.2	-2.4	0.6	2.8	-3.0	-1.8	1.8	3.2
Germany	0.6	-11.6	5.2	7.1	-1.3	-1.0	4.3	4.7	-2.8	1.5	4.4	4.8
Greece	-14.3	-13.7	-15.0	-19.6	-19.2	-9.6	-1.2	2.0	..	..	..	..
Hungary	2.9	-11.1	-8.5	-5.9	-3.7	0.0	1.1	1.4	-3.2	1.4	1.0	1.7
Iceland	-20.4	-51.4	-9.4	14.3	5.0	-2.5	6.2	7.1	-22.7	7.6	5.8	8.2
Ireland	-9.8	-26.9	-22.7	-9.6	-0.7	-7.8	5.9	5.9	0.6	-3.6	5.2	6.1
Israel	9.4	-4.5	9.6	15.7	3.5	-4.0	3.6	5.8	-4.5	0.2	5.1	5.9
Italy	-3.8	-11.8	0.5	-1.6	-8.4	-5.9	0.1	3.7	-8.2	-4.5	1.9	4.5
Japan	-4.1	-10.6	-0.2	1.1	4.4	3.5	1.4	0.2	0.1	5.7	-0.6	0.1
Korea	-1.9	-1.0	5.8	-1.0	-1.7	3.8	5.7	6.1	-3.9	10.0	4.9	6.5
Luxembourg	2.1	-16.3	-0.9	12.0	3.5	0.7	0.0	0.2	0.1	-3.2	-0.8	0.5
Mexico	4.7	-8.4	1.0	8.1	4.5	0.8	5.1	5.4	2.1	1.6	6.2	4.9
Netherlands	4.5	-12.0	-7.4	6.1	-4.0	-6.7	1.3	1.4	-4.7	-3.0	0.8	1.6
New Zealand	-3.8	-13.6	-0.3	3.3	6.5	8.9	11.3	6.9	6.9	12.3	9.6	5.7
Norway	0.2	-7.5	-8.0	7.6	8.0	6.3	4.9	4.9	9.9	4.2	5.0	4.7
Poland	9.5	-0.9	-0.4	8.1	-1.9	-1.7	4.4	5.7	-5.1	1.3	4.7	6.4
Portugal	-0.3	-8.6	-3.1	-10.5	-14.3	-8.9	0.4	3.2	-12.3	-3.6	2.0	3.4
Slovak Republic	1.0	-19.7	6.5	14.2	-10.5	-7.7	2.6	2.8	-14.1	-3.1	2.6	3.0
Slovenia	7.1	-23.8	-15.3	-5.5	-8.2	-3.9	-4.2	-3.0	-10.6	-2.4	-3.8	-1.8
Spain	-4.7	-18.0	-5.5	-5.4	-7.0	-6.2	-1.6	-0.1	-7.7	-4.1	-0.8	0.2
Sweden	1.1	-15.5	6.7	8.3	3.6	-2.6	2.8	3.8	4.0	-0.4	2.0	5.0
Switzerland	0.7	-8.0	4.8	4.5	-0.4	0.9	2.6	2.8	-1.3	2.3	2.6	2.9
Turkey	-6.2	-19.0	30.5	18.0	-2.7	3.4	5.1	8.3	..	..	..	..
United Kingdom	-6.9	-16.7	2.8	-2.4	0.9	-2.5	6.4	7.0	-3.5	4.1	6.7	7.1
United States	-4.8	-13.1	1.1	3.4	5.5	3.0	7.7	9.3	4.4	3.2	9.0	9.3
Euro area	-1.6	-12.7	-0.6	1.8	-3.8	-3.5	1.5	3.2	-4.7	-1.7	2.3	3.5
Total OECD	-2.4	-11.7	1.9	3.2	1.9	0.7	4.5	5.6	0.4	2.1	5.2	5.7

Note: These numbers are working-day adjusted and hence may differ from the basis used for official projections.
Source: OECD Economic Outlook 94 database.

Real total domestic demand

Percentage changes from previous year

	2008	2009	2010	2011	2012	2013	2014	2015	Fourth quarter 2012	2013	2014	2015
Australia	3.7	-0.6	4.0	4.6	4.7	0.6	2.1	2.5	3.4	1.0	2.1	2.8
Austria	0.3	-1.4	1.6	2.6	-0.2	-0.8	0.9	1.7	-0.7	-0.2	1.3	1.9
Belgium	2.0	-2.2	1.7	2.0	-0.5	-0.5	0.8	1.3	-1.3	0.2	1.1	1.4
Canada	2.9	-2.8	5.4	2.3	2.2	1.6	2.2	2.2	2.0	1.9	2.2	2.2
Chile	8.4	-5.7	13.6	9.3	7.3	4.4	4.0	4.8	8.3	4.2	4.7	4.8
Czech Republic	2.3	-5.1	1.9	-0.1	-2.8	-2.3	0.4	2.0	-1.7	-2.7	1.2	2.3
Denmark	-0.9	-6.9	1.5	0.2	-0.1	0.6	1.5	1.9	0.4	0.7	1.8	1.9
Estonia	-9.1	-21.7	0.1	13.3	6.0	1.4	3.7	3.7	11.2	-0.8	3.1	4.1
Finland	0.7	-6.1	2.7	4.1	-0.7	-0.9	1.1	1.5	-3.4	0.2	0.9	1.8
France	0.1	-2.6	1.7	2.0	-0.9	0.4	1.1	1.4	-0.5	1.3	1.0	1.6
Germany	1.0	-2.2	2.3	2.8	-0.2	0.8	2.2	2.4	-0.7	1.8	2.3	2.5
Greece	-0.3	-5.5	-7.1	-8.7	-9.4	-5.7	-2.8	0.0	..	..	..	..
Hungary	0.7	-10.5	-0.5	0.1	-3.7	1.6	1.2	0.9	-2.9	2.5	0.8	1.2
Iceland	-8.6	-20.4	-2.6	4.1	1.6	1.9	2.5	2.7	-2.5	4.8	2.3	2.9
Ireland	-3.2	-10.8	-4.6	-1.8	-1.6	-1.1	1.0	0.9	0.0	0.2	-0.2	1.8
Israel	2.9	0.4	5.7	5.5	3.9	1.6	3.1	4.0	2.3	2.9	2.6	4.7
Italy	-1.2	-4.5	2.0	-0.8	-5.3	-3.0	0.0	1.1	-5.3	-1.7	0.9	1.2
Japan	-1.3	-4.0	2.9	0.3	2.8	1.9	0.9	0.7	1.2	2.8	-0.1	0.5
Korea	1.3	-3.4	7.2	2.1	1.0	2.4	4.0	4.1	0.9	4.1	3.6	4.3
Luxembourg	0.7	-6.9	8.7	3.9	2.4	1.0	1.6	1.8	1.4	0.8	1.8	1.8
Mexico	2.6	-6.0	5.1	3.9	3.8	1.7	3.6	4.0	4.2	1.0	4.2	3.9
Netherlands	2.0	-2.8	-0.1	0.7	-1.5	-2.0	-0.1	0.3	-1.0	-0.8	-0.5	0.6
New Zealand	0.5	-4.8	2.5	2.5	3.0	3.5	4.3	3.3	3.4	5.1	4.0	3.0
Norway	1.4	-4.0	3.2	3.4	3.4	2.3	3.2	3.4	2.3	2.3	3.0	3.6
Poland	5.2	-0.6	4.4	3.4	-0.4	-0.2	2.6	3.4	-1.0	1.1	2.6	3.8
Portugal	0.9	-3.2	1.8	-5.2	-6.7	-3.4	-0.8	0.2	-4.4	-2.1	-0.6	0.6
Slovak Republic	5.9	-6.7	3.9	0.8	-4.2	-2.9	0.5	1.4	-3.3	-2.0	1.1	1.6
Slovenia	3.3	-10.3	-0.6	-0.3	-6.4	-4.2	-3.0	-1.4	-8.1	-2.2	-2.4	-0.7
Spain	-0.5	-6.3	-0.6	-2.0	-4.1	-3.2	-1.2	-0.4	-4.6	-1.6	-0.8	-0.3
Sweden	-0.1	-4.6	6.3	3.3	0.7	1.3	2.3	2.7	1.0	2.2	2.4	2.8
Switzerland	0.5	0.0	2.7	1.7	1.2	1.3	2.3	2.5	1.0	1.8	2.4	2.6
Turkey	-1.2	-6.7	12.0	9.0	-1.2	4.8	3.9	4.9	..	..	..	..
United Kingdom	-1.5	-5.9	2.1	-0.2	0.9	1.1	2.1	2.2	1.3	2.0	1.8	2.5
United States	-1.3	-3.8	2.9	1.7	2.6	1.6	3.0	3.6	1.6	2.2	3.4	3.7
Euro area	0.2	-3.7	1.2	0.8	-2.2	-1.0	0.8	1.3	-2.2	0.1	1.0	1.5
Total OECD	-0.2	-4.0	3.1	1.7	1.1	1.0	2.2	2.7	0.6	1.7	2.4	2.7

Note: These numbers are working-day adjusted and hence may differ from the basis used for official projections.

Source: OECD Economic Outlook 94 database.

Contributions to changes in real GDP in OECD countries

Chain link calculations

	2012	2013	2014	2015		2012	2013	2014	2015
Australia					**France**				
Final domestic demand	4.7	1.1	2.0	2.5	Final domestic demand	-0.1	0.2	0.8	1.4
Stockbuilding	0.0	-0.4	0.1	0.0	Stockbuilding	-0.8	0.2	0.3	0.0
Net exports	0.1	1.6	0.5	0.6	Net exports	1.0	-0.3	-0.1	0.1
GDP	3.7	2.5	2.6	3.1	GDP	0.0	0.2	1.0	1.6
Austria					**Germany**				
Final domestic demand	0.5	-0.5	0.9	1.6	Final domestic demand	0.4	0.7	2.1	2.3
Stockbuilding	-0.6	-0.1	0.0	0.0	Stockbuilding	-0.6	0.1	0.0	0.0
Net exports	1.0	1.2	0.9	0.6	Net exports	1.1	-0.3	-0.4	-0.3
GDP	0.6	0.4	1.7	2.2	GDP	0.9	0.5	1.7	2.0
Belgium					**Greece**				
Final domestic demand	-0.2	-0.2	0.8	1.3	Final domestic demand	-10.4	-6.8	-2.7	0.0
Stockbuilding	-0.3	-0.2	0.0	0.0	Stockbuilding	0.1	0.3	-0.2	0.0
Net exports	0.2	0.5	0.3	0.2	Net exports	4.0	3.1	2.4	1.8
GDP	-0.3	0.1	1.1	1.5	GDP	-6.4	-3.5	-0.4	1.8
Canada					**Hungary**				
Final domestic demand	2.3	1.7	2.3	2.3	Final domestic demand	-1.8	0.2	0.9	0.9
Stockbuilding	0.0	-0.1	-0.1	0.0	Stockbuilding	-1.5	1.0	0.2	0.0
Net exports	-0.5	0.1	0.1	0.3	Net exports	1.6	-0.3	1.0	0.8
GDP	1.7	1.7	2.3	2.6	GDP	-1.7	1.2	2.0	1.7
Chile					**Iceland**				
Final domestic demand	6.9	6.0	5.4	4.9	Final domestic demand	1.6	0.6	2.1	2.5
Stockbuilding	0.0	-1.7	-1.4	0.0	Stockbuilding	-0.1	0.3	-0.1	0.0
Net exports	-1.3	-0.5	-0.3	0.1	Net exports	-0.1	0.3	0.6	0.3
GDP	5.6	4.2	4.5	4.9	GDP	1.4	1.8	2.7	2.8
Czech Republic					**Ireland**				
Final domestic demand	-2.6	-0.5	0.5	1.8	Final domestic demand	-0.8	-1.7	0.6	0.7
Stockbuilding	-0.1	-1.6	-0.2	0.0	Stockbuilding	-0.4	0.5	0.0	0.0
Net exports	1.7	0.7	0.8	0.5	Net exports	1.6	0.3	1.9	1.5
GDP	-1.0	-1.5	1.1	2.3	GDP	0.1	0.1	1.9	2.2
Denmark					**Israel**				
Final domestic demand	0.2	0.0	1.6	1.8	Final domestic demand	3.3	2.2	3.1	3.9
Stockbuilding	-0.3	0.2	-0.3	0.0	Stockbuilding	0.5	-0.7	-0.1	0.0
Net exports	-0.2	-0.3	0.2	0.1	Net exports	-0.5	2.0	0.3	-0.5
GDP	-0.4	0.3	1.6	1.9	GDP	3.4	3.7	3.4	3.5
Estonia					**Italy**				
Final domestic demand	5.8	1.4	3.5	3.7	Final domestic demand	-4.7	-2.6	0.1	1.1
Stockbuilding	-0.5	-0.2	0.2	0.0	Stockbuilding	-0.7	-0.4	-0.1	0.0
Net exports	-2.6	-0.7	-0.7	0.3	Net exports	2.8	1.1	0.6	0.3
GDP	3.9	1.0	2.4	4.0	GDP	-2.6	-1.9	0.6	1.4
Finland					**Japan**				
Final domestic demand	0.1	-0.2	0.6	1.5	Final domestic demand	2.8	2.1	1.0	0.7
Stockbuilding	-0.9	-0.7	0.5	0.0	Stockbuilding	0.1	-0.2	0.0	0.0
Net exports	0.3	1.2	-0.5	0.5	Net exports	-0.9	-0.1	0.5	0.3
GDP	-0.8	-1.0	1.3	1.9	GDP	1.9	1.8	1.5	1.0

Source: OECD Economic Outlook 94 database.

Contributions to changes in real GDP in other OECD countries *(cont'd)*

Chain link calculations

	2012	2013	2014	2015		2012	2013	2014	2015
Korea					**Slovenia**				
Final domestic demand	1.0	2.5	3.8	3.9	Final domestic demand	-4.5	-3.4	-3.1	-1.3
Stockbuilding	-0.1	-0.2	0.1	0.0	Stockbuilding	-1.8	-1.0	0.2	0.0
Net exports	1.0	0.4	0.0	0.1	Net exports	3.8	1.5	2.1	1.9
GDP	2.0	2.7	3.8	4.0	GDP	-2.5	-2.3	-0.9	0.6
Luxembourg					**Spain**				
Final domestic demand	2.2	1.0	1.1	1.2	Final domestic demand	-4.1	-3.2	-1.1	-0.4
Stockbuilding	-0.5	-0.3	0.0	0.0	Stockbuilding	0.0	0.0	0.0	0.0
Net exports	-1.9	1.4	1.3	1.1	Net exports	2.5	1.9	1.6	1.4
GDP	-0.2	1.8	2.3	2.3	GDP	-1.6	-1.3	0.5	1.0
Mexico					**Sweden**				
Final domestic demand	4.1	2.2	3.6	4.1	Final domestic demand	1.8	0.7	2.1	2.5
Stockbuilding	-0.3	-0.4	0.1	0.0	Stockbuilding	-1.2	0.5	0.1	0.0
Net exports	-0.3	-0.5	0.1	0.1	Net exports	0.6	-0.3	0.3	0.5
GDP	3.6	1.2	3.8	4.2	GDP	1.3	0.7	2.3	3.0
Netherlands					**Switzerland**				
Final domestic demand	-1.6	-2.4	-0.6	0.3	Final domestic demand	1.6	1.9	2.0	2.2
Stockbuilding	0.3	0.6	0.5	0.0	Stockbuilding	-0.6	-0.7	0.0	0.0
Net exports	0.2	1.4	0.1	0.6	Net exports	0.0	0.8	0.1	0.5
GDP	-1.2	-1.1	-0.1	0.9	GDP	1.0	1.9	2.2	2.7
New Zealand					**Turkey**				
Final domestic demand	2.7	3.7	4.2	3.3	Final domestic demand	-0.1	4.0	4.1	5.2
Stockbuilding	0.2	-0.2	0.1	0.0	Stockbuilding	-1.4	1.0	0.0	0.0
Net exports	0.2	-1.0	-1.0	-0.5	Net exports	4.1	-1.6	-0.6	-1.1
GDP	3.2	2.3	3.3	2.9	GDP	2.2	3.6	3.8	4.1
Norway					**United Kingdom**				
Final domestic demand	3.2	2.9	2.8	3.0	Final domestic demand	1.3	0.8	1.9	2.3
Stockbuilding	-0.2	-0.9	0.0	0.0	Stockbuilding	-0.3	0.3	0.2	0.0
Net exports	0.1	-0.9	0.0	0.1	Net exports	-0.7	0.2	0.2	0.2
GDP	3.1	1.2	2.8	3.1	GDP	0.1	1.4	2.4	2.5
Poland					**United States**				
Final domestic demand	0.4	0.5	2.3	3.1	Final domestic demand	2.5	1.6	3.0	3.7
Stockbuilding	-0.7	-0.7	0.2	0.2	Stockbuilding	0.2	0.1	0.1	0.0
Net exports	2.2	1.7	0.4	0.0	Net exports	0.1	0.1	-0.3	-0.4
GDP	2.1	1.4	2.7	3.3	GDP	2.8	1.7	2.9	3.4
Portugal					**Euro area**				
Final domestic demand	-7.1	-3.4	-0.8	0.2	Final domestic demand	-1.7	-1.0	0.7	1.3
Stockbuilding	0.2	0.0	0.0	0.0	Stockbuilding	-0.5	0.0	0.1	0.0
Net exports	3.8	1.8	1.2	0.9	Net exports	1.5	0.6	0.3	0.3
GDP	-3.2	-1.7	0.4	1.1	GDP	-0.6	-0.4	1.0	1.6
Slovak Republic					**Total OECD**				
Final domestic demand	-2.7	-1.1	0.9	1.3	Final domestic demand	1.2	1.0	2.1	2.7
Stockbuilding	-1.4	-1.7	-0.4	0.0	Stockbuilding	-0.2	0.0	0.1	0.0
Net exports	5.9	3.3	1.6	1.7	Net exports	0.5	0.2	0.1	0.0
GDP	1.8	0.8	1.9	2.9	GDP	1.6	1.2	2.3	2.7

Source: OECD Economic Outlook 94 database.

Output gaps

Deviations of actual GDP from potential GDP as a percentage of potential GDP

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Australia	1.5	0.7	2.1	1.1	-0.5	-0.9	-1.4	-0.8	-1.5	-2.0	-2.0
Austria	0.6	2.4	4.1	3.1	-2.1	-1.8	-0.7	-1.8	-3.0	-3.0	-2.5
Belgium	0.5	1.6	2.9	2.4	-1.6	-0.2	0.5	-0.9	-2.1	-2.3	-2.2
Canada	1.9	2.2	2.0	1.3	-2.9	-1.2	-0.4	-0.5	-0.8	-0.6	-0.3
Chile	2.7	3.2	3.5	1.3	-3.7	-1.5	0.2	0.9	0.2	-0.3	-0.1
Czech Republic	0.3	3.6	6.1	6.2	-0.6	0.2	0.6	-1.6	-4.3	-4.7	-4.3
Denmark	2.2	4.3	4.8	2.8	-3.6	-2.8	-2.4	-3.3	-3.8	-3.1	-2.2
Estonia	4.6	10.2	13.7	5.4	-10.7	-9.3	-2.1	-0.5	-2.3	-3.0	-2.5
Finland	0.4	2.9	6.4	5.1	-4.6	-1.8	0.1	-1.7	-3.6	-3.4	-2.9
France	1.4	2.6	3.3	1.5	-2.5	-1.9	-1.2	-2.3	-3.4	-3.8	-3.8
Germany	-2.3	0.2	2.2	1.6	-4.5	-1.9	0.2	-0.1	-0.8	-0.5	0.2
Greece	2.2	6.0	8.1	6.6	3.1	-1.5	-7.6	-12.6	-13.6	-13.1	-11.4
Hungary	3.2	5.2	3.7	3.5	-3.8	-3.2	-1.8	-3.5	-2.6	-1.2	-0.7
Iceland	7.2	7.1	9.2	7.5	-0.9	-5.6	-3.6	-3.0	-2.1	-0.4	1.4
Ireland	7.6	8.7	9.5	3.2	-5.4	-7.8	-7.0	-8.1	-8.9	-8.1	-7.2
Israel	-4.1	-2.2	0.8	1.3	-1.0	1.1	2.0	1.3	1.2	1.1	1.3
Italy	1.1	2.5	3.3	1.5	-4.3	-2.8	-2.4	-4.6	-5.9	-5.3	-4.2
Japan	0.3	1.4	3.0	1.3	-4.8	-0.9	-2.1	-0.9	0.1	0.8	0.8
Luxembourg	2.9	4.5	8.0	4.1	-3.9	-2.5	-2.5	-4.6	-4.9	-4.6	-4.3
Mexico	-0.1	2.4	3.2	2.0	-4.7	-2.1	-0.7	0.1	-1.6	-0.9	-0.1
Netherlands	-0.8	1.2	3.5	3.8	-1.1	-0.5	-0.3	-2.3	-4.2	-5.2	-5.5
New Zealand	2.6	1.9	2.8	0.1	-1.0	-1.4	-1.8	-0.6	-0.5	0.3	0.4
Norway[1]	0.4	2.0	4.4	2.9	-1.1	-1.6	-1.4	-0.4	-0.9	-0.8	-0.4
Poland	-1.6	-0.4	1.1	1.4	-0.6	0.3	1.8	0.8	-0.7	-0.8	-0.5
Portugal	-0.6	-0.3	1.1	0.1	-3.4	-2.0	-3.7	-6.7	-7.8	-7.7	-7.2
Slovak Republic	-1.3	2.0	7.6	8.9	0.0	1.6	1.2	-0.4	-2.6	-3.6	-3.6
Slovenia	0.2	3.1	7.4	8.5	-1.5	-1.0	-0.6	-3.4	-5.7	-7.2	-7.5
Spain	2.1	3.2	4.1	3.0	-1.8	-2.6	-3.2	-5.3	-7.2	-7.7	-8.0
Sweden	1.5	3.6	4.7	1.6	-5.3	-1.2	-0.4	-1.3	-2.7	-2.8	-2.3
Switzerland	-0.8	0.9	2.6	2.6	-1.2	-0.1	-0.2	-1.0	-1.0	-0.8	-0.2
Turkey	5.4	7.4	7.1	2.7	-6.3	-2.1	1.4	-1.5	-2.9	-3.9	-4.7
United Kingdom	2.0	3.0	4.9	2.6	-3.3	-2.3	-1.9	-2.7	-2.5	-1.7	-1.2
United States	3.0	3.3	2.8	0.3	-4.2	-3.5	-3.4	-2.6	-3.0	-2.4	-1.6
Euro area	0.3	2.0	3.5	2.3	-3.1	-2.1	-1.3	-2.7	-3.8	-3.8	-3.4
Total OECD	1.5	2.6	3.2	1.4	-3.7	-2.2	-1.9	-2.0	-2.6	-2.3	-1.8

Note: Potential output is estimated following the methodology outlined in Chapter 4 of *OECD Economic Outlook* no. 93. The methodology is described in more details in *Johansson et. al.* (2013), "Long-term growth scenarios", *OECD Economics Department Working Papers,* no. 1000.

1. Mainland Norway.

Source: OECD Economic Outlook 94 database.

GDP deflators

Percentage changes from previous year

	2008	2009	2010	2011	2012	2013	2014	2015	Fourth quarter 2012	2013	2014	2015
Australia	6.6	0.0	5.7	3.9	-0.6	0.9	1.5	2.4	-1.2	1.1	2.5	2.3
Austria	1.8	1.3	1.7	2.0	1.8	1.9	1.3	1.4	2.2	1.4	1.3	1.5
Belgium	2.1	1.2	2.0	2.0	2.0	1.6	1.7	1.5	2.3	1.2	1.7	1.5
Canada	3.9	-2.1	2.6	3.2	1.7	1.1	1.3	1.8	1.1	1.0	1.6	1.8
Chile	0.6	3.7	8.9	3.5	1.7	1.4	2.6	3.0	1.9	1.3	2.7	3.1
Czech Republic	1.9	2.3	-1.6	-0.9	1.6	1.6	1.1	1.6	0.9	1.4	1.5	1.6
Denmark	4.2	0.7	4.3	0.7	2.3	1.6	1.1	1.5	2.4	1.5	1.6	1.4
Estonia	5.4	0.2	0.3	3.0	3.3	4.1	2.6	3.2	2.7	3.5	3.1	3.2
Finland	2.9	1.5	0.3	2.8	2.9	1.7	1.6	1.8	3.3	1.3	1.8	1.8
France	2.5	0.7	1.0	1.3	1.5	1.5	0.8	1.0	1.4	1.3	0.8	1.1
Germany	0.8	1.2	1.0	1.2	1.5	2.1	1.3	1.6	1.8	1.9	1.5	1.7
Greece	4.7	2.3	1.1	1.0	-0.8	-2.2	-1.9	-1.7	..	..	..	..
Hungary	5.3	3.6	2.4	2.6	3.2	3.3	2.4	3.2	2.8	2.6	2.9	3.2
Iceland	11.8	8.3	6.9	3.3	2.8	3.4	4.9	3.3	1.4	5.7	3.7	3.0
Ireland	-2.8	-3.8	-1.5	0.7	0.7	0.3	0.6	1.1	1.4	0.7	0.2	1.6
Israel	1.9	4.5	1.3	2.0	4.0	2.4	2.3	2.5	3.9	1.9	2.2	2.7
Italy	2.5	2.1	0.4	1.4	1.7	1.5	1.1	0.7	1.5	1.6	0.8	0.7
Japan	-1.3	-0.5	-2.2	-1.9	-0.9	-0.5	1.2	1.3	-0.6	-0.3	1.8	1.8
Korea	2.9	3.4	3.6	1.5	1.0	1.3	1.1	1.6	0.0	1.9	1.0	1.2
Luxembourg	0.4	0.8	7.1	4.2	3.0	3.2	0.7	-0.2	3.9	1.3	0.8	-0.1
Mexico	6.2	3.4	4.1	4.8	3.8	1.8	3.8	3.8	0.9	2.7	4.2	3.5
Netherlands	2.1	0.1	0.8	1.1	1.3	1.6	1.0	0.8	1.4	1.0	1.0	0.8
New Zealand	3.9	0.3	4.2	2.5	-0.8	2.6	2.2	1.7	-2.8	5.2	1.5	1.9
Norway	10.9	-5.4	6.3	6.8	2.5	1.9	2.5	2.6	0.7	3.1	2.3	2.8
Poland	3.2	3.5	1.5	3.1	2.5	0.8	1.4	2.1	1.6	0.7	1.7	2.2
Portugal	1.6	0.9	0.6	0.3	-0.3	1.4	0.9	0.6	0.4	1.3	0.7	0.5
Slovak Republic	2.9	-1.2	0.5	1.6	1.3	1.3	1.8	1.9	0.9	1.6	1.8	1.9
Slovenia	4.1	3.3	-1.1	1.2	0.2	0.4	0.7	0.1	-0.1	0.0	1.2	-0.3
Spain	2.4	0.1	0.1	0.0	0.0	0.8	0.5	0.7	0.0	0.9	0.6	0.8
Sweden	3.2	2.1	0.9	1.3	0.9	0.8	1.5	1.7	0.8	1.1	1.6	1.7
Switzerland	2.8	-0.4	0.3	0.4	0.1	0.0	0.6	0.8	0.2	0.1	0.8	0.8
Turkey	12.0	5.3	5.7	8.6	6.8	6.1	6.0	5.5	..	..	..	..
United Kingdom	3.2	2.2	3.1	2.3	1.7	2.1	1.6	1.9	2.1	1.7	1.6	2.0
United States	2.0	0.8	1.2	2.0	1.7	1.5	1.8	2.0	1.8	1.4	2.0	2.1
Euro area	1.9	1.0	0.8	1.2	1.3	1.5	1.0	1.1	1.4	1.3	1.0	1.1
Total OECD	2.4	1.0	1.4	1.8	1.5	1.4	1.7	1.9	1.4	1.4	1.8	2.0

Source: OECD Economic Outlook 94 database.

Consumer prices

Percentage changes from previous year

	2008	2009	2010	2011	2012	2013	2014	2015	Fourth quarter 2012	2013	2014	2015
Australia	4.4	1.8	2.9	3.4	1.7	2.1	2.1	1.9	2.2	1.9	2.0	1.9
Austria	3.2	0.4	1.7	3.6	2.6	2.0	1.6	1.7	2.9	1.3	1.6	1.8
Belgium	4.5	0.0	2.3	3.4	2.6	1.1	1.1	1.3	2.3	0.7	1.2	1.3
Canada	2.4	0.3	1.8	2.9	1.5	1.0	1.6	2.0	0.9	1.2	1.8	2.1
Chile	8.7	0.4	1.4	3.3	3.0	2.0	2.9	3.0	2.2	2.5	2.7	3.0
Czech Republic	6.3	1.0	1.5	1.9	3.3	1.4	1.0	1.3	2.8	1.0	1.1	1.4
Denmark	3.4	1.3	2.3	2.8	2.4	0.7	1.2	1.6	2.2	0.4	1.4	1.6
Estonia	10.6	0.2	2.7	5.1	4.2	3.6	3.2	3.3	3.9	3.5	3.2	3.4
Finland	3.9	1.6	1.7	3.3	3.2	2.3	2.2	1.8	3.4	2.0	2.0	1.8
France	3.2	0.1	1.7	2.3	2.2	1.0	1.2	1.2	1.7	1.0	1.1	1.3
Germany	2.8	0.2	1.2	2.5	2.1	1.7	1.8	2.0	2.0	1.6	1.8	2.1
Greece	4.2	1.3	4.7	3.1	1.0	-0.7	-1.6	-1.4	0.5	-1.7	-1.6	-1.4
Hungary	6.0	4.2	4.9	3.9	5.7	1.9	2.1	3.5	5.4	1.2	2.6	3.6
Iceland	12.7	12.0	5.4	4.0	5.2	4.0	3.8	3.1	4.4	4.2	3.6	2.8
Ireland	3.1	-1.7	-1.6	1.2	1.9	0.6	0.8	1.0	1.8	0.4	0.8	1.1
Israel	4.6	3.3	2.7	3.5	1.7	1.5	2.0	2.4	1.7	1.8	2.1	2.6
Italy	3.5	0.8	1.6	2.9	3.3	1.4	1.3	1.0	2.6	1.2	1.0	1.0
Japan	1.4	-1.3	-0.7	-0.3	0.0	0.2	2.3	1.8	-0.2	0.9	2.7	2.4
Korea	4.7	2.8	2.9	4.0	2.2	1.2	2.1	3.0	1.7	1.0	2.6	3.1
Luxembourg	4.1	0.0	2.8	3.7	2.9	1.7	1.6	2.0	2.8	1.2	1.7	2.0
Mexico	5.1	5.3	4.2	3.4	4.1	3.8	3.0	3.1	4.1	3.5	3.0	3.1
Netherlands	2.2	1.0	0.9	2.5	2.8	2.8	1.6	0.9	3.3	2.2	1.3	0.7
New Zealand	4.0	2.1	2.3	4.0	1.1	0.9	1.7	2.1	1.0	1.2	2.0	2.0
Norway	3.8	2.2	2.4	1.3	0.7	2.2	2.3	2.1	1.2	2.7	1.9	2.1
Poland	4.2	3.8	2.6	4.2	3.6	1.1	1.9	2.2	2.7	1.2	1.8	2.4
Portugal	2.7	-0.9	1.4	3.6	2.8	0.5	0.6	0.4	2.0	0.3	0.4	0.4
Slovak Republic	3.9	0.9	0.7	4.1	3.7	1.6	2.0	2.1	3.6	1.2	2.1	2.2
Slovenia	5.5	0.9	2.1	2.1	2.8	2.2	1.7	1.3	3.0	1.8	1.3	1.3
Spain	4.1	-0.2	2.0	3.1	2.4	1.6	0.5	0.6	3.2	0.4	0.5	0.6
Sweden	3.4	-0.5	1.2	3.0	0.9	0.1	1.0	1.2	0.1	0.5	1.1	1.3
Switzerland	2.4	-0.5	0.7	0.2	-0.7	-0.4	0.2	0.6	-0.3	-0.2	0.3	0.8
Turkey	10.4	6.3	8.6	6.5	8.9	7.5	6.1	5.8	..	..	..	..
United Kingdom	3.6	2.2	3.3	4.5	2.8	2.6	2.4	2.3	2.7	2.3	2.4	2.3
United States	3.8	-0.3	1.6	3.1	2.1	1.5	1.8	1.9	1.9	1.4	1.9	2.0
Euro area	3.3	0.3	1.6	2.7	2.5	1.4	1.2	1.2	2.3	1.1	1.2	1.3
Brazil	5.7	4.9	5.0	6.6	5.4	5.9	5.0	5.1				
China	5.9	-0.7	3.2	5.5	2.6	2.5	2.4	2.4	2.0	2.6	2.4	2.4
India	8.3	10.9	12.0	8.9	9.3	11.5	9.6	7.7				
Indonesia	10.2	4.4	5.1	5.4	4.3	7.2	6.5	4.9				
Russian Federation	14.1	11.7	6.9	8.4	5.1	6.6	5.7	4.5				
South Africa	11.0	7.1	4.3	5.0	5.6	5.9	5.6	5.4				

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 94 database.

Private consumption deflators

Percentage changes from previous year

	2008	2009	2010	2011	2012	2013	2014	2015	Fourth quarter 2012	Fourth quarter 2013	Fourth quarter 2014	Fourth quarter 2015
Australia	3.5	2.6	2.5	2.4	2.2	2.1	2.1	1.9	2.6	1.8	2.1	1.9
Austria	2.2	0.4	1.9	3.4	2.6	2.2	1.6	1.6	2.7	1.8	1.5	1.6
Belgium	3.3	-0.7	2.0	3.1	2.6	1.3	1.3	1.3	2.2	1.2	1.3	1.3
Canada	1.6	0.2	1.3	2.1	1.4	0.9	1.1	1.4	0.7	1.0	1.3	1.5
Chile	7.4	1.4	3.2	4.2	3.5	2.4	3.3	3.3	2.3	3.2	3.0	3.3
Czech Republic	4.8	0.8	-0.2	0.5	2.7	1.2	1.1	1.3	2.2	1.4	1.1	1.4
Denmark	2.7	1.5	2.7	2.7	2.8	1.3	1.3	1.5	2.8	1.3	1.5	1.6
Estonia	7.8	-0.4	2.4	4.9	3.6	3.8	2.6	2.8	4.2	3.1	2.7	2.8
Finland	3.5	1.4	1.9	3.5	3.0	2.3	2.3	1.7	2.4	2.8	1.8	1.7
France	2.9	-0.6	1.1	2.1	1.8	0.7	0.9	1.0	1.3	0.7	0.9	1.1
Germany	1.6	0.0	2.0	2.1	1.6	1.7	1.4	1.7	1.7	1.5	1.5	1.8
Greece	4.2	0.7	4.0	3.4	0.9	-1.4	-1.6	-1.4	..	..	..	..
Hungary	5.3	3.9	3.9	4.2	6.1	2.5	2.1	3.5	5.3	1.7	2.6	3.6
Iceland	14.1	13.7	3.4	4.1	5.6	3.4	3.9	3.3	4.8	3.3	3.8	2.9
Ireland	1.6	-6.7	-2.0	2.1	0.5	1.5	0.6	0.9	0.2	1.1	0.6	1.1
Israel	5.2	2.1	3.1	3.5	2.3	2.2	2.0	2.4	2.7	2.0	2.1	2.6
Italy	3.1	-0.1	1.5	2.8	2.8	1.4	1.3	1.0	2.3	1.2	1.0	1.0
Japan	0.2	-2.5	-1.7	-0.8	-0.6	-0.3	2.0	1.8	-0.6	0.1	2.7	2.4
Korea	4.5	2.6	2.6	3.7	2.1	1.1	1.9	2.7	1.5	0.8	2.4	2.9
Luxembourg	3.4	1.1	1.4	2.6	1.6	1.7	1.1	1.5	1.4	1.4	1.2	1.4
Mexico	6.2	5.6	4.3	3.6	4.7	3.2	3.7	3.8	2.7	3.9	3.7	3.8
Netherlands	1.1	-0.5	1.5	2.4	2.2	2.7	1.4	0.8	2.6	2.2	1.2	0.6
New Zealand	3.6	3.0	1.6	3.0	0.8	0.3	1.4	1.7	0.6	0.7	1.7	1.6
Norway	3.4	2.5	2.2	1.3	0.8	2.0	2.3	2.2	1.1	2.5	2.1	2.2
Poland	4.3	2.5	2.6	4.8	3.7	0.9	1.9	2.2	2.3	1.3	1.8	2.3
Portugal	2.6	-2.2	1.3	2.5	1.5	0.3	0.6	0.6	1.1	0.4	0.7	0.5
Slovak Republic	4.5	0.1	1.0	3.8	3.4	1.3	1.9	2.1	3.0	1.0	2.1	2.2
Slovenia	5.5	0.6	1.5	1.7	1.6	1.5	1.3	0.7	1.3	2.0	0.7	0.7
Spain	3.6	-1.1	1.9	2.5	2.5	1.3	0.5	0.6	3.0	0.6	0.5	0.6
Sweden	3.0	2.1	1.5	1.7	1.3	0.6	1.0	1.2	1.0	0.7	1.1	1.3
Switzerland	3.1	-0.7	0.7	0.0	-1.1	-0.5	0.1	0.3	-1.1	0.0	0.2	0.5
Turkey	10.8	4.9	8.5	8.9	8.2	7.8	6.3	5.6	..	..	..	..
United Kingdom	3.2	1.9	4.0	3.9	2.6	2.6	2.5	2.3	2.6	2.5	2.4	2.3
United States	3.1	-0.1	1.7	2.4	1.8	1.2	1.6	1.8	1.7	1.1	1.8	1.9
Euro area	2.6	-0.4	1.6	2.4	2.1	1.3	1.1	1.1	1.9	1.1	1.1	1.2
Total OECD	3.1	0.4	1.8	2.5	2.1	1.5	1.9	2.0	1.8	1.5	2.0	2.1

Source: OECD Economic Outlook 94 database.

Unemployment rates

	2008	2009	2010	2011	2012	2013	2014	2015	Fourth quarter 2012	Fourth quarter 2013	Fourth quarter 2014	Fourth quarter 2015
Australia	4.2	5.6	5.2	5.1	5.2	5.7	6.1	6.3	5.3	5.8	6.2	6.3
Austria	3.9	4.8	4.5	4.2	4.4	4.8	4.7	4.3	4.5	4.8	4.6	4.1
Belgium	7.1	7.8	8.2	7.2	7.6	8.6	9.1	9.0	8.0	8.8	9.1	8.9
Canada	6.1	8.3	8.0	7.5	7.3	7.1	7.0	6.9	7.2	7.0	7.0	6.8
Chile	7.8	10.8	8.1	7.1	6.4	6.1	6.3	6.4	6.5	6.2	6.4	6.5
Czech Republic	4.4	6.7	7.3	6.7	7.0	7.0	6.9	6.8	7.3	6.9	6.9	6.7
Denmark	3.5	6.0	7.5	7.6	7.5	7.0	6.7	6.5	7.3	6.7	6.6	6.5
Estonia	5.6	13.9	16.8	12.4	10.1	8.4	8.1	7.7	9.6	8.1	8.0	7.5
Finland	6.4	8.3	8.4	7.8	7.7	8.3	8.3	8.0	7.8	8.5	8.1	8.0
France	7.4	9.2	9.3	9.2	9.8	10.6	10.8	10.7	10.1	10.7	10.8	10.6
Germany	7.5	7.8	7.1	6.0	5.5	5.4	5.4	5.2	5.4	5.4	5.4	5.0
Greece	7.7	9.5	12.5	17.7	24.2	27.2	27.1	26.6	..	..	..	..
Hungary	7.8	10.0	11.1	10.9	10.9	10.4	10.1	10.3	10.9	10.0	10.2	10.3
Iceland	3.1	7.3	7.7	6.9	5.9	5.4	4.9	4.6	5.4	5.2	4.6	4.6
Ireland	6.0	12.0	13.9	14.6	14.7	13.6	13.2	12.3	14.1	13.4	13.1	11.7
Israel	7.7	9.5	8.3	7.1	6.9	6.7	6.9	6.6	6.9	6.7	6.9	6.5
Italy	6.8	7.8	8.4	8.4	10.7	12.1	12.4	12.1	11.4	12.3	12.5	11.8
Japan	4.0	5.0	5.0	4.6	4.3	4.0	3.9	3.8	4.2	3.9	3.8	3.8
Korea	3.2	3.6	3.7	3.4	3.2	3.2	3.1	3.0	3.0	3.1	3.1	3.0
Luxembourg	4.2	5.5	5.8	5.7	6.1	6.9	7.1	7.2	6.3	7.0	7.1	7.2
Mexico	3.9	5.4	5.4	5.2	5.0	5.2	5.0	4.8	5.2	5.3	4.8	4.8
Netherlands	3.0	3.7	4.4	4.3	5.2	6.7	7.8	8.1	5.6	7.2	8.0	8.2
New Zealand	4.2	6.1	6.5	6.5	6.9	6.3	6.1	5.9	6.8	6.3	6.0	5.9
Norway	2.6	3.1	3.5	3.2	3.1	3.4	3.5	3.5	3.4	3.4	3.5	3.5
Poland	7.1	8.2	9.6	9.6	10.1	10.5	10.6	10.3	10.3	10.4	10.5	10.1
Portugal	7.6	9.5	10.8	12.7	15.6	16.7	16.1	15.8	16.8	16.3	16.0	15.7
Slovak Republic	9.5	12.0	14.4	13.6	14.0	14.4	14.2	13.7	14.4	14.6	14.0	13.4
Slovenia	4.4	5.9	7.2	8.2	8.8	10.7	11.2	11.4	9.4	10.8	11.4	11.4
Spain	11.3	18.0	20.1	21.6	25.0	26.4	26.3	25.6	26.1	26.5	26.0	25.4
Sweden	6.2	8.3	8.6	7.8	8.0	8.0	7.8	7.5	8.1	7.9	7.7	7.4
Switzerland	3.3	4.3	4.4	3.9	4.1	4.4	4.4	4.1	4.3	4.5	4.3	4.0
Turkey	10.7	13.7	11.7	9.6	9.0	9.4	9.6	9.8	..	..	..	..
United Kingdom	5.7	7.6	7.9	8.1	7.9	7.8	7.5	7.2	7.8	7.7	7.4	7.0
United States	5.8	9.3	9.6	8.9	8.1	7.5	6.9	6.3	7.8	7.2	6.7	6.1
Euro area	7.5	9.5	10.0	10.1	11.3	12.0	12.1	11.8	11.7	12.1	12.1	11.7
Total OECD	6.0	8.2	8.3	8.0	8.0	8.0	7.8	7.5	8.0	8.0	7.7	7.4

Source: OECD Economic Outlook 94 database.

Short-term interest rates

					2013	2014				2015			
	2012	2013	2014	2015	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia	3.7	2.7	2.4	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.5	2.6
Canada	1.2	1.2	1.2	2.1	1.2	1.1	1.1	1.2	1.4	1.6	1.9	2.1	2.6
Chile	5.1	4.9	4.8	5.0	4.8	4.8	4.8	4.8	5.0	5.0	5.0	5.0	5.0
Czech Republic	1.0	0.4	0.2	0.6	0.2	0.2	0.2	0.2	0.3	0.4	0.6	0.6	0.7
Denmark	0.6	0.2	0.1	0.3	0.1	0.0	0.0	0.0	0.1	0.2	0.3	0.4	0.5
Hungary	6.9	4.2	3.4	3.9	3.4	3.4	3.4	3.4	3.4	3.6	3.8	4.0	4.2
Iceland	5.5	6.2	6.6	6.8	6.2	6.4	6.6	6.8	6.8	6.8	6.8	6.8	6.8
Israel	2.3	1.3	1.2	2.3	1.0	1.0	1.0	1.2	1.5	1.8	2.1	2.4	2.8
Japan	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3
Korea	3.3	2.8	3.4	4.6	2.9	3.0	3.2	3.5	3.8	4.1	4.4	4.7	5.0
Mexico	4.4	3.9	3.8	4.1	3.8	3.8	3.8	3.8	3.8	4.0	4.0	4.3	4.3
New Zealand	2.7	2.6	3.4	4.5	2.6	2.7	3.1	3.7	4.1	4.4	4.4	4.6	4.6
Norway	2.2	1.8	1.9	2.3	1.8	1.8	1.9	2.1	2.1	2.1	2.3	2.3	2.3
Poland	4.9	3.0	2.9	3.8	2.6	2.6	2.8	3.1	3.3	3.6	3.8	4.0	4.0
Sweden	2.0	1.2	1.0	1.6	1.0	1.0	1.0	1.0	1.0	1.2	1.5	1.7	2.0
Switzerland	0.1	0.0	0.1	0.6	0.0	0.0	0.0	0.1	0.2	0.3	0.5	0.7	0.9
Turkey	8.4	6.6	7.6	8.4	7.2	7.2	7.5	7.7	7.9	8.1	8.3	8.5	8.7
United Kingdom	0.8	0.5	0.5	0.7	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	1.0
United States	0.4	0.3	0.3	1.0	0.2	0.2	0.3	0.3	0.3	0.5	0.8	1.2	1.7
Euro area	0.6	0.2	0.1	0.3	0.1	0.0	0.0	0.0	0.1	0.2	0.3	0.4	0.5

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 94 database.

Long-term interest rates

					2013	2014				2015			
	2012	2013	2014	2015	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia	3.4	3.6	3.9	4.0	3.9	3.9	3.9	3.9	3.9	4.0	4.1	4.1	4.1
Austria	2.4	2.0	2.5	2.9	2.2	2.3	2.4	2.5	2.6	2.7	2.8	3.0	3.1
Belgium	3.0	2.4	2.9	3.2	2.7	2.7	2.8	2.9	3.0	3.1	3.2	3.3	3.3
Canada	1.9	2.2	3.0	3.6	2.5	2.7	2.9	3.0	3.2	3.4	3.6	3.7	3.9
Chile	5.5	5.4	5.3	5.5	5.2	5.2	5.2	5.2	5.5	5.5	5.5	5.5	5.5
Czech Republic	2.8	2.1	2.5	2.9	2.3	2.4	2.5	2.6	2.8	2.9	2.9	3.0	3.0
Denmark	1.4	1.8	2.3	2.8	2.0	2.1	2.2	2.3	2.5	2.6	2.7	2.8	2.9
Finland	1.9	1.9	2.3	2.8	2.0	2.1	2.2	2.4	2.5	2.6	2.7	2.8	2.9
France	2.5	2.2	2.7	3.1	2.4	2.5	2.6	2.7	2.8	3.0	3.1	3.2	3.2
Germany	1.5	1.6	2.1	2.6	1.8	1.9	2.1	2.2	2.3	2.4	2.6	2.7	2.8
Greece	22.5	9.8	8.4	7.8	8.8	8.6	8.5	8.3	8.2	8.0	7.9	7.7	7.6
Hungary	7.9	5.8	5.0	4.9	5.4	5.2	5.1	4.9	4.8	4.8	4.9	4.9	5.0
Iceland	6.2	5.7	6.4	6.7	5.9	6.1	6.3	6.5	6.7	6.7	6.7	6.7	6.7
Ireland	6.0	3.9	4.0	4.2	3.9	3.9	3.9	4.0	4.0	4.1	4.1	4.2	4.3
Israel	4.4	3.9	4.1	4.7	3.9	3.9	4.0	4.2	4.4	4.5	4.6	4.7	4.8
Italy	5.5	4.4	4.5	4.6	4.5	4.5	4.5	4.5	4.6	4.6	4.6	4.6	4.7
Japan	0.8	0.7	1.2	2.0	0.7	0.9	1.1	1.3	1.5	1.7	1.9	2.1	2.3
Korea	3.4	3.1	3.9	5.3	3.2	3.4	3.7	4.1	4.4	4.8	5.1	5.5	5.8
Luxembourg	1.8	1.8	2.2	2.7	2.0	2.0	2.2	2.3	2.4	2.5	2.7	2.8	2.9
Mexico	5.8	5.6	5.9	5.9	6.0	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Netherlands	1.9	2.0	2.5	3.0	2.3	2.4	2.5	2.6	2.7	2.8	2.9	3.1	3.2
New Zealand	3.7	4.0	5.1	5.9	4.5	4.7	5.0	5.3	5.5	5.7	5.9	6.0	6.0
Norway	2.1	2.6	3.0	3.3	2.9	2.9	2.9	3.1	3.1	3.2	3.4	3.4	3.4
Portugal	10.5	6.4	6.3	6.0	6.5	6.4	6.4	6.3	6.2	6.2	6.1	6.0	5.9
Slovak Republic	4.6	3.1	2.7	3.1	2.5	2.6	2.7	2.8	2.9	3.0	3.1	3.2	3.3
Slovenia	5.8	6.0	6.3	6.1	6.5	6.4	6.3	6.3	6.2	6.2	6.1	6.1	6.0
Spain	5.8	4.7	4.6	4.7	4.5	4.5	4.6	4.6	4.6	4.7	4.7	4.7	4.8
Sweden	1.6	2.1	2.8	3.3	2.5	2.6	2.7	2.9	3.0	3.1	3.2	3.3	3.4
Switzerland	0.6	0.8	1.1	1.4	0.9	1.0	1.1	1.1	1.2	1.2	1.3	1.4	1.5
Turkey	8.4	7.2	8.5	9.2	8.2	8.2	8.4	8.7	8.9	9.0	9.1	9.3	9.5
United Kingdom	1.9	2.4	3.1	3.8	2.7	2.9	3.0	3.2	3.4	3.6	3.7	3.9	4.1
United States	1.8	2.3	3.1	3.8	2.6	2.8	3.0	3.2	3.4	3.6	3.7	3.9	4.1
Euro area	3.7	2.9	3.2	3.5	3.0	3.1	3.2	3.2	3.3	3.4	3.5	3.6	3.6

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 94 database.

General government financial balance

Surplus (+) or deficit (-) as a percentage of GDP

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Australia	2.0	2.3	1.8	-0.6	-5.0	-5.2	-3.6	-3.5	-2.4	-2.5	-2.2
Austria	-1.8	-1.7	-1.0	-1.0	-4.1	-4.5	-2.4	-2.5	-2.3	-1.9	-1.2
Belgium	-2.6	0.3	-0.1	-1.1	-5.6	-3.9	-3.9	-4.1	-2.7	-2.4	-1.1
Canada	1.7	1.8	1.5	-0.3	-4.5	-4.9	-3.7	-3.4	-3.0	-2.2	-1.3
Czech Republic	-3.2	-2.4	-0.7	-2.2	-5.8	-4.7	-3.2	-4.4	-2.9	-2.9	-2.9
Denmark	5.0	5.0	4.8	3.3	-2.8	-2.7	-2.0	-3.9	-1.5	-1.5	-1.9
Estonia	1.6	2.5	2.4	-2.9	-2.0	0.2	1.1	-0.2	-0.1	-0.1	0.0
Finland	2.7	4.1	5.3	4.3	-2.7	-2.8	-1.0	-2.2	-2.5	-2.3	-1.8
France	-3.0	-2.4	-2.7	-3.3	-7.6	-7.1	-5.3	-4.8	-4.2	-3.7	-3.0
Germany	-3.3	-1.7	0.2	-0.1	-3.1	-4.2	-0.8	0.1	0.1	0.2	0.6
Greece	-5.6	-6.0	-6.8	-9.9	-15.6	-10.8	-9.6	-9.0	-2.4	-2.2	-1.4
Hungary	-7.9	-9.5	-5.1	-3.7	-4.6	-4.4	4.2	-2.1	-2.7	-2.9	-2.9
Iceland	4.9	6.3	5.4	-13.5	-9.9	-10.1	-5.6	-3.8	-2.7	-1.3	-1.1
Ireland	1.6	2.9	0.2	-7.4	-13.7	-30.6	-13.1	-8.1	-7.4	-5.0	-3.1
Israel	-4.9	-2.6	-1.5	-3.7	-6.3	-4.6	-4.2	-4.9	-5.0	-3.9	-3.5
Italy	-4.5	-3.4	-1.6	-2.7	-5.4	-4.3	-3.7	-2.9	-3.0	-2.8	-2.0
Japan	-4.8	-1.3	-2.1	-1.9	-8.8	-8.3	-8.9	-9.5	-10.0	-8.5	-6.8
Korea	3.4	3.9	4.7	3.0	-1.1	1.3	2.0	1.7	1.3	1.3	1.7
Luxembourg	0.0	1.4	3.7	3.2	-0.7	-0.8	0.1	-0.6	-0.3	-0.3	-1.1
Netherlands	-0.3	0.5	0.2	0.5	-5.6	-5.0	-4.3	-4.0	-3.0	-3.0	-2.3
New Zealand	4.7	5.3	4.5	0.4	-2.7	-7.5	-5.3	-3.9	-2.6	-1.4	0.1
Norway	15.0	18.3	17.3	18.8	10.5	11.1	13.4	13.8	11.3	11.0	10.6
Poland	-4.1	-3.6	-1.9	-3.7	-7.5	-7.9	-5.0	-3.9	-4.8	4.6	-3.1
Portugal	-6.5	-4.6	-3.2	-3.7	-10.2	-9.9	-4.3	-6.5	-5.7	-4.6	-3.6
Slovak Republic	-2.8	-3.2	-1.8	-2.1	-8.0	-7.7	-5.1	-4.5	-3.0	-2.8	-2.6
Slovenia	-1.5	-1.4	0.0	-1.9	-6.3	-5.9	-6.3	-3.8	-7.1	-5.9	-2.9
Spain	1.3	2.4	2.0	-4.5	-11.1	-9.6	-9.6	-10.6	-6.7	-6.1	-5.1
Sweden	1.9	2.2	3.6	2.2	-1.0	0.0	0.0	-0.4	-1.4	-1.7	-1.1
Switzerland	-1.1	0.5	1.0	2.0	0.8	0.3	0.7	-0.2	0.1	0.0	0.0
United Kingdom	-3.4	-2.9	-3.0	-5.1	-11.2	-10.0	-7.9	-6.2	-6.9	-5.9	-4.7
United States	-4.2	-3.1	-3.7	-7.2	-12.8	-12.2	-10.7	-9.3	-6.5	-5.8	-4.6
Euro area	-2.5	-1.4	-0.7	-2.1	-6.4	-6.2	-4.1	-3.7	-2.9	-2.5	-1.8
Total OECD	-2.8	-1.5	-1.6	-3.7	-8.5	-8.0	-6.6	-5.9	-4.8	-4.0	-3.2
Brazil	-3.6	-3.6	-2.8	-2.0	-3.3	-2.5	-2.6	-2.5	-2.6	-2.7	-2.7
China	-0.2	0.5	2.0	0.9	-1.1	-0.7	0.1	-0.3	-0.9	-0.6	-0.6
India	-6.7	-5.7	-4.0	-7.1	-9.6	-7.3	-7.8	-7.6	-7.2	-6.7	-6.2
Indonesia	-0.5	-0.9	-1.3	-0.1	-1.6	-0.7	-1.1	-2.0	-2.0	-1.9	-1.8
Russian Federation	6.0	8.3	5.6	7.3	-4.0	-1.2	4.2	0.4	-0.7	-1.0	-0.9
South Africa	-2.0	-1.4	-0.6	-1.4	-5.2	-6.0	-5.6	-6.2	-6.2	-5.8	-5.4

Note: Financial balances include one-off factors such as those resulting from the sale of mobile telephone licenses. As data are on a national account's basis (SNA93/ESA95) for the OECD countries, 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-*
For non-OECD countries, fiscal balances are not comparable across countries as different concepts are applied.

Source: OECD Economic Outlook 94 database.

General government cyclically-adjusted financial balance

Surplus (+) or deficit (-) as a percentage of potential GDP

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Australia	1.5	2.0	1.1	-1.2	-4.8	-4.9	-3.3	-3.2	-1.9	-1.8	-1.4
Austria	-1.8	-2.4	-2.5	-2.6	-3.7	-3.6	-2.0	-1.9	-1.0	-0.4	-0.1
Belgium	-2.8	-0.3	-1.5	-2.4	-4.9	-3.7	-4.3	-3.7	-1.5	-1.0	0.3
Canada	1.1	1.0	0.7	-0.9	-3.6	-4.3	-3.5	-3.2	-2.8	-2.0	-1.2
Czech Republic	-3.3	-3.7	-3.0	-4.5	-5.5	-4.7	-3.4	-3.8	-1.2	-1.1	-1.3
Denmark	4.0	3.0	2.3	1.1	-1.7	-0.7	-0.3	-1.9	0.7	0.5	-0.4
Estonia	0.3	-0.3	-1.5	-4.8	1.8	3.3	1.8	-0.1	0.6	0.8	0.8
Finland	2.5	3.0	3.1	2.3	-0.9	-1.9	-1.0	-1.4	-0.8	-0.6	-0.4
France	-3.5	-3.4	-4.3	-4.5	-6.7	-6.0	-4.6	-3.7	-2.4	-1.6	-0.8
Germany	-1.9	-1.2	-0.4	-0.7	-1.4	-3.2	-1.0	-0.2	0.1	0.2	0.3
Greece	-6.6	-8.6	-10.4	-13.2	-17.4	-10.1	-5.8	-2.4	3.6	3.6	3.5
Hungary	-9.3	-11.8	-7.0	-5.3	-3.4	-2.9	4.9	-0.8	-1.6	-2.4	-2.6
Iceland	2.6	3.7	2.2	-17.5	-10.3	-7.9	-3.8	-2.5	-1.8	-0.9	-1.4
Ireland	-1.2	-0.4	-3.6	-9.3	-11.4	-25.5	-9.5	-4.5	-3.5	-1.5	-0.1
Israel	-3.2	-1.7	-1.7	-4.3	-6.0	-4.9	-4.9	-5.5	-5.5	-4.3	-3.9
Italy	-5.0	-4.6	-3.3	-3.8	-3.7	-2.5	-2.3	-0.5	0.3	0.4	0.7
Japan	-4.9	-1.6	-3.0	-2.4	-7.4	-7.7	-8.2	-9.1	-10.1	-8.8	-7.2
Korea	3.3	3.6	4.1	2.7	-0.6	1.4	2.0	2.1	1.9	2.0	2.3
Luxembourg	-1.1	-0.3	1.0	1.1	0.3	0.6	1.2	1.4	2.0	2.0	1.1
Netherlands	0.5	0.5	-0.9	-1.2	-6.0	-4.5	-3.9	-2.9	-0.9	-0.1	0.8
New Zealand	3.8	4.6	3.4	0.2	-2.2	-6.9	-4.5	-3.5	-2.4	-1.6	-0.1
Norway[1]	-0.4	0.9	2.1	1.0	-0.7	-0.1	0.3	0.3	-0.1	-0.3	-0.6
Poland	-3.5	-3.5	-2.3	-4.3	-7.3	-8.0	-5.6	-4.2	-4.6	4.8	-2.9
Portugal	-6.2	-4.5	-3.7	-3.8	-8.6	-8.8	-2.6	-3.3	-2.3	-1.3	-0.6
Slovenia	-1.5	-2.6	-3.0	-5.4	-5.8	-5.4	-5.9	-2.3	-4.4	-2.5	0.5
Spain	0.0	0.6	-0.3	-6.3	-10.6	-8.3	-8.0	-8.0	-3.4	-2.5	-1.5
Sweden	1.3	0.6	1.4	1.3	1.6	0.7	0.2	0.3	0.0	-0.4	0.0
Switzerland	-0.7	0.4	0.3	1.1	1.1	0.4	0.8	0.1	0.5	0.3	0.1
United Kingdom	-4.3	-4.1	-5.0	-6.5	-10.1	-8.6	-6.9	-5.0	-5.7	-5.0	-4.1
United States	-5.1	-4.3	-4.8	-7.4	-11.2	-10.5	-9.2	-8.1	-5.4	-4.9	-4.0
Euro area	-2.5	-2.1	-2.2	-3.4	-5.3	-5.0	-3.4	-2.4	-1.0	-0.5	0.0
Total OECD	-3.5	-2.6	-2.9	-4.6	-7.7	-7.3	-6.0	-5.4	-4.0	-3.3	-2.7

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 94 database.

General government underlying financial balance

Surplus (+) or deficit (-) as a percentage of potential GDP

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Australia	1.6	2.0	1.1	-1.2	-4.7	-4.8	-3.2	-3.2	-2.2	-1.9	-1.8
Austria	-1.8	-2.5	-2.2	-2.6	-3.5	-2.8	-1.8	-1.1	-0.9	-0.4	-0.1
Belgium	-0.6	-0.6	-1.5	-2.4	-4.3	-3.6	-4.0	-3.0	-1.8	-1.0	0.3
Canada	1.2	1.1	0.7	-0.9	-3.5	-4.3	-3.5	-3.2	-2.8	-2.0	-1.2
Czech Republic	-4.5	-4.2	-3.3	-4.4	-6.5	-5.5	-4.5	-2.6	-1.6	-1.6	-1.7
Denmark	3.6	2.5	1.8	1.3	-1.8	-0.7	-0.2	-0.4	-0.1	-0.3	-0.3
Estonia	0.2	-0.5	-0.9	-3.6	-1.2	-0.2	-0.3	1.0	0.6	0.8	0.8
Finland	2.6	3.0	3.1	2.2	-0.8	-1.9	-0.9	-1.4	-0.8	-0.6	-0.4
France	-4.1	-3.5	-4.3	-4.4	-6.6	-6.0	-4.6	-3.7	-2.5	-1.7	-0.9
Germany	-1.8	-1.3	-0.5	-0.7	-1.3	-2.2	-1.1	-0.4	0.1	0.2	0.3
Greece	-7.0	-9.3	-10.9	-13.0	-16.4	-10.4	-6.8	-0.5	1.4	1.6	1.5
Hungary	-9.5	-11.6	-6.3	-4.8	-3.3	-3.9	-4.1	-1.6	-2.0	-2.8	-2.6
Iceland	2.4	3.4	1.8	-3.9	-10.1	-4.7	-3.1	-2.2	-1.7	-1.2	-2.0
Ireland	-1.2	-0.6	-3.9	-8.4	-9.0	-7.4	-6.0	-4.7	-3.9	-2.1	-0.9
Israel	-3.1	-1.6	-1.6	-4.0	-5.5	-4.9	-5.1	-5.5	-5.5	-4.3	-3.9
Italy	-4.8	-3.3	-3.0	-3.5	-3.8	-2.7	-2.8	-0.5	0.6	0.6	0.9
Japan	-5.0	-3.4	-3.2	-3.4	-7.5	-7.9	-7.8	-8.6	-9.4	-8.2	-6.5
Korea	3.1	3.5	3.9	2.7	-0.2	1.2	1.8	1.9	1.7	1.8	2.1
Luxembourg	-1.0	0.0	0.8	0.9	0.5	0.7	1.2	1.4	2.0	2.0	1.1
Netherlands	0.3	0.2	-1.0	-1.1	-5.1	-3.8	-3.8	-2.9	-1.3	-0.1	0.8
New Zealand	3.6	4.7	3.3	0.4	-2.1	-2.1	-1.6	-1.5	-0.8	-0.4	-0.1
Norway[1]	-0.5	0.8	2.1	1.1	-0.7	-0.1	0.4	0.3	-0.1	-0.3	-0.6
Poland	-3.5	-3.4	-2.5	-4.1	-6.9	-8.4	-6.6	-4.7	-5.0	-4.1	-3.9
Portugal	-5.5	-3.7	-2.8	-3.4	-7.4	-7.2	-4.7	-3.4	-2.1	-1.4	-0.7
Slovenia	-2.0	-3.4	-3.7	-5.7	-6.3	-6.2	-5.6	-3.3	-3.3	-0.4	-0.2
Spain	0.0	0.5	-0.4	-6.2	-10.4	-8.4	-8.0	-5.4	-3.3	-2.4	-1.4
Sweden	1.5	0.7	1.5	1.4	1.6	0.8	0.4	0.1	0.0	-0.4	0.0
Switzerland	-0.8	0.1	0.1	1.5	1.0	0.4	0.7	0.2	0.5	0.4	0.2
United Kingdom[2]	-3.3	-4.1	-5.1	-6.2	-9.1	-8.6	-7.1	-7.4	-6.4	-5.6	-4.6
United States	-5.0	-4.4	-4.7	-7.1	-10.4	-10.2	-9.0	-8.1	-5.5	-5.0	-4.1
Euro area	-2.5	-2.0	-2.2	-3.3	-5.0	-4.4	-3.5	-2.1	-1.1	-0.6	-0.1
Total OECD	-3.4	-2.8	-3.0	-4.5	-7.2	-7.0	-6.0	-5.3	-4.0	-3.5	-2.7

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 94 database.

General government gross financial liabilities

As a percentage of GDP

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Australia	16.4	15.7	14.6	13.9	19.5	23.6	27.1	32.4	34.4	36.4	37.8
Austria	70.6	66.3	63.4	68.7	74.3	78.6	80.3	85.6	87.3	87.6	87.1
Belgium	95.8	91.6	87.9	92.7	99.8	99.5	101.9	104.0	104.5	104.7	102.8
Canada	75.8	74.9	70.4	74.7	87.4	89.5	93.6	96.1	97.0	97.1	96.6
Czech Republic	32.8	32.6	31.0	34.4	41.2	45.2	48.2	55.7	58.6	61.2	63.5
Denmark	45.9	41.2	34.3	41.4	49.3	53.1	59.9	59.3	58.8	60.0	61.5
Estonia	8.2	8.0	7.3	8.5	12.9	12.8	10.1	13.6	13.3	13.1	12.7
Finland	48.4	45.6	41.4	40.3	51.8	57.9	58.2	64.0	66.7	70.4	73.1
France	76.1	71.2	73.0	79.3	91.4	95.7	99.3	109.3	113.0	115.8	116.9
Germany	71.8	69.8	65.6	69.9	77.5	86.3	85.8	88.3	86.1	83.4	80.9
Greece	115.5	121.5	119.3	122.4	138.3	157.3	179.9	167.3	186.9	191.6	193.3
Hungary	68.9	72.6	73.7	77.2	86.8	88.0	87.1	90.1	88.8	88.7	88.1
Iceland	52.6	57.4	53.3	102.2	119.8	125.1	132.3	129.6	129.5	126.8	124.9
Ireland	32.7	28.7	28.6	49.3	69.9	87.2	102.8	127.5	132.3	130.8	128.6
Israel	90.3	81.6	74.6	72.9	75.3	71.5	69.7	68.2	68.4	67.6	66.4
Italy	119.4	121.2	116.5	118.9	132.4	131.1	124.0	142.2	145.7	146.7	146.1
Japan	169.5	166.8	162.4	171.1	188.7	193.3	210.6	218.8	227.2	231.9	235.4
Korea	25.6	28.6	28.8	30.4	33.5	34.3	36.2	35.5	35.6	36.0	36.3
Luxembourg	12.2	11.6	11.3	19.3	19.2	26.2	26.3	30.2	32.9	34.6	36.7
Netherlands	60.7	54.5	51.5	64.8	67.6	71.9	76.1	82.7	86.9	88.5	89.0
New Zealand	26.8	26.4	25.5	28.7	34.2	37.9	41.6	42.6	41.8	42.0	41.4
Norway	47.6	58.7	56.6	55.2	49.0	49.3	33.9	34.4	34.2	35.5	37.9
Poland	54.7	55.2	51.8	54.4	58.4	62.4	63.1	62.4	66.0	58.7	58.9
Portugal	77.7	77.5	75.5	80.8	94.0	104.0	118.4	134.5	135.4	137.9	140.0
Slovak Republic	37.4	35.0	33.5	32.2	40.4	45.9	48.3	56.9	59.0	61.4	60.9
Slovenia	34.0	33.8	29.4	28.9	43.3	47.6	51.2	61.6	70.3	77.7	81.9
Spain	50.9	46.3	42.5	48.0	63.3	68.4	78.9	92.8	99.6	104.8	108.7
Sweden	61.3	54.3	49.7	49.9	52.1	49.4	49.7	48.8	52.0	53.5	53.4
Switzerland	56.2	50.0	50.0	45.5	44.5	43.2	42.3	42.4	42.3	42.1	41.9
United Kingdom	45.5	45.3	46.4	56.7	71.3	84.5	99.0	102.4	107.0	110.0	111.6
United States	64.6	63.4	63.8	72.6	85.8	94.6	98.8	102.1	104.1	106.3	106.5
Euro area	78.2	75.6	72.7	77.9	88.8	93.9	95.8	104.3	106.4	107.1	106.8
Total OECD	76.9	75.1	73.5	80.0	91.3	97.8	102.5	107.4	110.3	111.8	112.0

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 94 database.

Balance on current account
Percentage of GDP

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Australia	-5.7	-5.3	-6.2	-4.4	-4.3	-3.0	-2.3	-3.7	-2.9	-3.5	-2.8
Austria	2.2	2.8	3.5	4.9	2.7	3.4	1.6	1.6	3.1	3.4	3.8
Belgium	3.0	2.3	1.9	-1.3	-0.6	1.9	-1.1	-2.0	-1.9	-0.6	-0.3
Canada	1.9	1.4	0.8	0.1	-2.9	-3.5	-2.8	-3.4	-3.1	-2.9	-2.5
Chile	1.5	4.6	4.2	-3.5	2.0	1.5	-1.3	-3.5	-3.3	-3.8	-3.6
Czech Republic	-1.0	-2.0	-4.3	-2.1	-2.3	-3.8	-2.7	-2.4	-2.1	-2.3	-1.9
Denmark	4.3	3.0	1.4	2.9	3.4	5.9	5.6	5.9	6.1	6.1	6.0
Estonia	-10.0	-15.3	-16.0	-9.2	2.8	2.8	1.9	-1.8	-1.7	-2.5	-1.8
Finland	3.4	4.0	4.1	2.6	1.8	1.4	-1.6	-1.9	-0.7	-1.0	-0.5
France	-0.5	-0.6	-1.0	-1.8	-1.3	-1.4	-1.8	-2.2	-2.2	-2.4	-2.3
Germany	5.0	6.2	7.5	6.2	6.0	6.1	6.2	7.1	7.0	6.1	5.6
Greece	-7.6	-11.4	-14.6	-14.9	-11.2	-10.1	-9.9	-3.4	-0.4	1.3	2.3
Hungary	-7.5	-7.4	-7.3	-7.3	-0.2	0.2	0.4	0.9	1.8	2.1	2.4
Iceland	-16.2	-23.8	-15.7	-24.6	-11.7	-8.1	-6.5	-5.5	-0.1	-0.2	0.3
Ireland	-3.5	-3.5	-5.3	-5.6	-2.3	1.1	1.2	4.4	4.3	3.9	3.4
Israel	3.1	4.2	3.4	1.3	3.4	3.3	1.0	0.1	2.6	2.6	1.9
Italy	-1.6	-2.6	-2.4	-2.9	-2.0	-3.5	-3.1	-0.6	1.2	1.8	2.0
Japan	3.7	3.9	4.8	3.3	2.9	3.7	2.0	1.1	0.9	1.2	1.5
Korea	2.2	1.4	2.1	0.6	3.7	2.7	2.3	3.8	5.5	4.5	3.7
Luxembourg	11.5	10.4	10.1	5.4	7.3	7.7	6.6	6.6	1.0	-3.6	-3.3
Mexico	-1.0	-0.8	-1.4	-1.8	-0.9	-0.3	-1.0	-1.2	-1.8	-1.1	-0.7
Netherlands	7.4	9.3	6.7	4.3	5.2	7.4	9.5	9.4	10.3	10.1	10.9
New Zealand	-7.8	-8.0	-7.9	-8.7	-3.1	-3.1	-3.7	-4.7	-3.6	-3.6	-3.7
Norway	16.5	16.4	12.5	15.9	11.7	11.9	12.8	14.2	11.3	11.6	12.0
Poland	-2.4	-3.8	-6.2	-6.5	-4.0	-5.1	-5.0	-3.7	-2.6	-2.7	-2.7
Portugal	-10.3	-10.7	-10.1	-12.6	-10.9	-10.6	-7.0	-1.5	0.5	1.2	2.1
Slovak Republic	-8.5	-7.8	-5.3	-6.0	-2.6	-3.7	-2.1	2.3	3.9	4.5	5.5
Slovenia	-1.7	-1.8	-4.2	-5.4	-0.5	-0.1	0.4	3.3	6.0	6.2	7.1
Spain	-7.4	-9.0	-10.0	-9.6	-4.8	-4.5	-3.8	-1.1	0.6	1.6	3.1
Sweden	6.8	8.7	9.3	9.0	6.3	6.3	6.4	6.0	5.2	5.2	5.5
Switzerland	13.6	14.4	8.6	1.7	10.6	15.0	8.9	11.1	12.8	12.4	12.6
Turkey	-4.4	-6.0	-5.8	-5.4	-1.9	-6.2	-9.6	-6.0	-7.1	-7.2	-7.6
United Kingdom	-1.8	-2.8	-2.2	-0.9	-1.4	-2.7	-1.5	-3.8	-3.4	-2.5	-2.3
United States	-5.6	-5.8	-4.9	-4.6	-2.6	-3.0	-2.9	-2.7	-2.5	-2.9	-3.1
Euro area	0.4	0.3	0.2	-0.7	0.3	0.5	0.7	1.9	2.6	2.6	2.7
Total OECD	-1.3	-1.5	-1.2	-1.5	-0.4	-0.5	-0.6	-0.5	-0.2	-0.2	-0.2
Brazil	1.6	1.3	0.1	-1.7	-1.4	-2.2	-2.1	-2.4	-3.6	-3.3	-3.2
China	5.9	8.5	10.1	9.3	4.9	4.0	1.9	2.4	2.3	1.5	1.5
India	-1.2	-1.0	-0.7	-2.5	-2.0	-3.2	-3.4	-5.0	-4.3	-3.6	-3.4
Indonesia	0.1	3.0	2.4	0.0	1.9	0.7	0.2	-2.8	-3.9	-3.8	-3.8
Russian Federation	11.0	9.3	5.5	6.2	4.0	4.4	5.1	3.6	2.5	2.4	2.2
South Africa	-3.5	-5.3	-7.0	-7.2	-4.0	-2.8	-3.4	-6.3	-6.4	-6.4	-5.8

Source: OECD Economic Outlook 94 database.

Balance on current account

$ billion

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Australia	-41.4	-58.8	-47.8	-44.9	-37.0	-33.8	-56.9	-42.8	-54.6	-46.0
Austria	9.2	13.2	20.4	10.4	12.9	6.8	6.3	13.0	15.4	17.7
Belgium	9.8	8.6	-6.0	-2.6	8.8	-5.7	-9.7	-9.5	-3.1	-1.6
Canada	17.9	11.2	3.6	-40.3	-56.6	-49.1	-62.3	-55.6	-54.3	-47.8
Chile	7.0	7.1	-5.8	3.5	3.4	-3.3	-9.4	-9.3	-11.1	-11.5
Czech Republic	-3.1	-7.7	-4.6	-4.5	-7.6	-5.9	-4.8	-4.1	-4.7	-4.1
Denmark	8.2	4.4	9.9	10.6	18.5	18.9	18.5	20.1	21.5	21.8
Estonia	-2.6	-3.5	-2.2	0.6	0.5	0.4	-0.4	-0.4	-0.7	-0.5
Finland	8.4	10.0	7.3	4.4	3.4	-4.1	-4.7	-1.8	-2.9	-1.5
France	-12.4	-25.5	-50.4	-35.1	-35.3	-49.0	-57.9	-60.8	-70.3	-68.7
Germany	180.9	249.9	226.7	199.1	202.8	224.2	243.4	253.8	238.6	224.8
Greece	-29.8	-44.9	-51.2	-36.0	-30.0	-28.7	-8.5	-0.9	3.1	5.6
Hungary	-8.3	-9.9	-11.3	-0.1	0.3	0.6	1.1	2.4	3.0	3.7
Iceland	-4.0	-3.2	-4.4	-1.4	-1.0	-0.9	-0.7	0.0	0.0	0.1
Ireland	-7.9	-13.9	-15.2	-5.2	2.4	2.8	9.3	9.4	9.1	8.2
Israel	6.4	6.0	2.8	6.9	7.7	2.7	0.3	7.5	8.2	6.4
Italy	-48.1	-51.8	-65.3	-41.5	-72.6	-67.3	-11.3	24.2	39.8	43.8
Japan	171.4	211.1	160.0	145.6	203.8	118.4	65.5	42.5	60.2	78.0
Korea	13.5	22.1	4.7	31.2	27.5	25.1	43.5	67.0	59.2	51.2
Luxembourg	4.4	5.2	3.0	3.5	4.1	3.9	3.6	0.6	-2.3	-2.1
Mexico	-7.4	-14.3	-19.6	-7.7	-3.2	-11.8	-14.2	-22.6	-15.0	-10.6
Netherlands	63.3	52.7	38.1	41.9	57.4	79.1	72.6	82.7	84.8	92.9
New Zealand	-8.8	-10.5	-11.6	-3.7	-4.5	-5.9	-8.0	-6.5	-6.9	-7.5
Norway	55.9	49.5	73.4	45.1	50.3	62.8	70.9	58.1	62.1	68.0
Poland	-13.1	-26.5	-35.0	-17.2	-24.0	-25.8	-18.2	-13.6	-15.3	-15.7
Portugal	-21.5	-23.5	-31.9	-25.6	-24.2	-16.7	-3.3	1.0	2.8	4.8
Slovak Republic	-4.4	-4.0	-5.7	-2.2	-3.3	-2.0	2.1	3.8	4.6	6.0
Slovenia	-0.7	-2.0	-3.0	-0.2	-0.1	0.2	1.5	2.8	3.0	3.4
Spain	-111.1	-144.6	-154.5	-70.0	-62.1	-55.3	-14.9	8.6	22.5	45.5
Sweden	34.8	43.4	44.4	25.3	29.5	34.2	31.4	29.2	30.8	34.2
Switzerland	58.4	38.8	8.5	54.6	82.5	58.9	70.2	83.3	86.4	91.0
Turkey	-31.8	-37.8	-40.4	-12.2	-45.4	-75.1	-47.5	-58.0	-62.2	-72.2
United Kingdom	-71.0	-62.2	-24.6	-30.9	-62.0	-36.0	-94.9	-85.6	-67.9	-65.9
United States	-798.5	-713.4	-681.3	-381.6	-449.5	-457.7	-440.4	-422.0	-501.2	-577.7
Euro area	37.5	25.8	-89.9	41.3	64.7	88.5	228.1	326.4	344.4	378.3
Total OECD	-576.3	-524.9	-668.9	-180.3	-202.8	-295.2	-227.7	-83.6	-117.3	-126.5
Memorandum items										
China	231.8	353.2	420.6	243.3	237.8	136.1	193.1	208.2	152.0	169.3
Other industrialised Asia[1]	122.4	158.5	92.8	138.8	113.2	106.1	25.9	25.7	45.0	44.9
Russia	92.3	72.2	103.9	50.4	67.5	97.3	72.0	54.1	55.2	54.1
Brazil	13.6	1.6	-28.2	-24.3	-47.3	-52.5	-54.2	-81.7	-78.4	-82.7
Other oil producers	509.4	524.7	685.7	250.7	420.9	732.6	774.5	780.7	806.8	846.4
Rest of the world	-67.8	-123.3	-189.9	-83.5	-105.6	-149.1	-191.6	-200.2	-225.7	-263.0
Total of non-OECD countries	901.8	986.9	1084.9	575.3	686.4	870.5	819.6	786.8	754.9	769.1
World (discrepancy)	325.5	462.0	416.0	395.0	483.6	575.3	591.9	703.2	637.5	642.6

1. Chinese Taipei; Hong Kong, China; Malaysia; Philippines; Singapore; Vietnam; Thailand; India and Indonesia.

Source: OECD Economic Outlook 94 database.

Quarterly demand and output projections

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2013	2014	2015	2013	2014				2015				Fourth quarter[1]		
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2013	2014	2015
Private consumption															
Canada	2.3	2.3	2.7	2.2	2.1	2.1	2.5	2.7	2.8	2.9	2.9	2.9	2.4	2.3	2.9
France	0.5	0.9	1.4	1.2	0.2	0.8	1.1	1.3	1.4	1.4	1.6	1.8	0.9	0.9	1.6
Germany	1.1	1.8	1.9	1.8	1.9	1.9	1.9	1.9	1.9	2.0	2.0	2.0	1.6	1.9	2.0
Italy	-2.4	0.0	0.8	-0.5	0.3	0.7	0.7	0.7	0.8	0.9	0.9	0.8	-1.3	0.6	0.8
Japan	1.8	1.0	1.3	4.6	7.9	-11.2	1.8	1.6	2.4	3.7	5.6	-7.4	2.7	-0.2	1.0
United Kingdom	1.7	1.8	2.0	1.8	1.8	1.8	1.9	2.0	2.0	2.0	2.1	2.1	1.7	1.9	2.0
United States	1.9	2.3	2.9	2.0	2.5	2.5	2.7	2.7	3.0	3.0	3.0	3.0	1.9	2.6	3.0
Euro area	-0.6	0.6	1.2	0.1	0.5	0.7	0.9	1.1	1.2	1.3	1.4	1.4	0.2	0.8	1.3
Total OECD	1.4	1.9	2.4	1.9	2.7	0.8	2.4	2.4	2.6	2.7	2.9	1.6	1.6	2.1	2.5
Public consumption															
Canada	1.3	1.1	1.0	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.4	1.0	1.0
France	1.6	0.9	0.5	0.8	0.8	0.8	0.7	0.6	0.4	0.4	0.4	0.4	1.4	0.7	0.4
Germany	1.0	1.7	1.8	1.6	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.4	1.8	1.8
Italy	-0.2	0.1	-0.1	-1.0	0.4	1.0	1.0	0.6	-0.5	-0.9	-0.8	-0.4	-0.3	0.7	-0.6
Japan	1.4	0.2	-0.9	-0.2	-0.4	0.9	-0.8	-1.4	-1.3	-1.1	-1.2	2.1	1.0	-0.4	-0.4
United Kingdom	0.4	-0.7	-0.3	1.4	-2.1	-2.1	-2.0	-1.4	0.1	0.7	1.2	1.4	1.0	-1.9	0.8
United States	-1.7	-0.5	-0.6	-1.2	-0.1	-0.1	-0.1	-0.7	-0.7	-0.7	-0.7	-0.7	-1.4	-0.2	-0.7
Euro area	0.2	0.3	0.3	-0.1	0.4	0.5	0.5	0.5	0.2	0.2	0.2	0.3	0.4	0.5	0.2
Total OECD	0.2	0.4	0.2	0.2	0.3	0.5	0.3	0.1	0.2	0.2	0.3	0.7	0.4	0.3	0.3
Business investment															
Canada	0.9	3.4	4.5	3.0	4.0	4.5	4.5	4.5	4.5	4.5	4.5	4.5	0.6	4.4	4.5
France	-2.1	1.3	3.7	1.6	1.6	2.0	2.6	3.2	4.1	4.3	4.5	4.5	-1.0	2.4	4.3
Germany	-1.7	3.9	5.3	3.6	4.3	4.8	5.0	5.1	5.3	5.5	5.6	5.7	0.0	4.8	5.5
Japan	-1.3	5.9	5.2	7.0	7.2	6.5	6.2	6.2	4.6	4.6	4.6	4.6	3.0	6.5	4.6
United Kingdom	-5.1	6.8	8.6	8.0	8.0	8.0	8.0	8.4	8.5	9.0	9.1	9.2	2.8	8.1	8.9
United States	2.4	8.2	10.3	7.3	9.8	10.4	10.3	10.3	10.3	10.3	10.3	10.2	2.2	10.2	10.3
Total investment															
Canada	0.7	3.0	2.2	3.5	3.5	3.2	2.6	2.2	1.9	2.0	2.0	2.0	1.1	2.9	2.0
France	-2.4	0.6	2.8	0.4	0.8	1.6	2.2	2.5	3.0	3.1	3.2	3.4	-1.8	1.8	3.2
Germany	-1.0	4.3	4.7	3.6	4.1	4.4	4.5	4.6	4.7	4.8	4.8	4.9	1.5	4.4	4.8
Italy	-5.9	0.1	3.7	-2.0	0.8	1.5	2.5	3.0	4.0	4.0	5.0	5.0	-4.5	1.9	4.5
Japan	3.5	1.4	0.2	2.3	-1.2	-0.6	-1.1	0.3	0.0	2.1	0.3	-2.1	5.7	-0.6	0.1
United Kingdom	-2.5	6.4	7.0	6.5	6.6	6.6	6.7	6.9	6.8	7.2	7.2	7.3	4.1	6.7	7.1
United States	3.0	7.7	9.3	6.7	8.6	9.0	9.2	9.3	9.3	9.3	9.3	9.4	3.2	9.0	9.3
Euro area	-3.5	1.5	3.2	0.5	1.5	2.1	2.6	2.9	3.3	3.4	3.7	3.8	-1.7	2.3	3.5
Total OECD	0.7	4.5	5.6	4.1	4.6	5.2	5.3	5.5	5.5	5.8	5.8	5.6	2.1	5.2	5.7

1. Year-on-year growth rates in per cent.

Source: OECD Economic Outlook 94 database.

Quarterly demand and output projections *(cont'd)*

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2013	2014	2015	2013	2014				2015				Fourth quarter[1]		
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2013	2014	2015
Total domestic demand															
Canada	1.6	2.2	2.2	2.3	2.2	2.1	2.2	2.2	2.2	2.3	2.3	2.3	1.9	2.2	2.2
France	0.4	1.1	1.4	1.0	0.4	0.9	1.2	1.3	1.4	1.5	1.6	1.7	1.3	1.0	1.6
Germany	0.8	2.2	2.4	2.1	2.3	2.3	2.4	2.4	2.4	2.5	2.5	2.5	1.8	2.3	2.5
Italy	-3.0	0.0	1.1	-0.5	0.4	0.9	1.1	1.1	1.1	1.1	1.3	1.3	-1.7	0.9	1.2
Japan	1.9	0.9	0.7	1.8	1.9	-3.5	0.7	0.8	1.2	1.5	1.6	-2.3	2.8	-0.1	0.5
United Kingdom	1.1	2.1	2.2	2.8	1.6	1.7	1.8	2.0	2.3	2.5	2.6	2.7	2.0	1.8	2.5
United States	1.6	3.0	3.6	2.4	3.2	3.3	3.5	3.5	3.7	3.7	3.7	3.8	2.2	3.4	3.7
Euro area	-1.0	0.8	1.3	0.2	0.7	0.9	1.1	1.3	1.4	1.4	1.5	1.6	0.1	1.0	1.5
Total OECD	1.0	2.2	2.7	2.0	2.4	2.0	2.6	2.6	2.8	2.8	2.9	2.5	1.7	2.4	2.7
Exports of goods and services															
Canada	1.9	4.6	5.7	4.0	4.7	5.2	5.5	5.5	5.7	5.9	5.9	5.9	3.8	5.2	5.9
France	0.3	3.1	5.3	3.6	4.1	4.3	4.5	4.9	5.3	5.7	5.9	6.3	0.9	4.4	5.8
Germany	0.6	3.6	4.6	2.8	3.3	3.8	4.2	4.5	4.7	4.8	4.9	4.9	2.4	3.9	4.8
Italy	0.0	3.6	4.9	3.0	3.9	4.1	4.4	4.7	4.9	5.0	5.1	5.4	0.6	4.3	5.1
Japan	1.9	7.8	7.2	9.0	9.6	9.5	8.4	8.2	6.9	6.4	5.9	5.9	8.6	8.9	6.3
United Kingdom	2.6	4.4	4.3	3.7	3.8	3.9	4.0	4.2	4.3	4.4	4.6	4.6	5.0	4.0	4.5
United States	2.4	4.7	5.0	4.0	4.5	4.5	4.7	5.0	5.0	5.2	5.3	5.2	3.7	4.7	5.2
Total OECD[2]	2.0	4.5	5.4	4.0	4.7	5.0	5.1	5.3	5.5	5.6	5.6	5.7	3.4	5.0	5.6
Imports of goods and services															
Canada	1.6	4.1	4.4	4.2	4.3	4.3	4.3	4.3	4.3	4.4	4.5	4.6	3.0	4.3	4.4
France	1.1	3.3	4.4	2.0	2.4	3.2	4.1	4.3	4.5	4.7	4.9	4.9	3.2	3.5	4.7
Germany	1.3	5.0	5.8	4.4	5.0	5.4	5.7	5.8	5.9	5.9	6.0	6.0	3.4	5.5	5.9
Italy	-3.9	1.8	4.2	-0.4	3.2	3.6	4.0	4.2	4.2	4.2	4.3	4.4	-2.1	3.8	4.3
Japan	2.4	4.1	4.9	1.6	2.2	4.2	4.8	5.1	5.0	4.9	4.8	4.7	5.4	4.1	4.8
United Kingdom	1.9	3.5	3.5	2.9	3.0	3.0	3.1	3.4	3.5	3.6	3.7	3.8	3.5	3.1	3.7
United States	1.6	5.3	6.3	5.5	5.7	5.7	6.0	6.0	6.5	6.5	6.5	6.5	3.7	5.9	6.5
Total OECD[2]	1.3	4.2	5.4	3.3	4.3	4.9	5.2	5.3	5.4	5.5	5.6	5.6	2.9	4.9	5.5
GDP															
Canada	1.7	2.3	2.6	2.2	2.3	2.4	2.5	2.5	2.6	2.7	2.7	2.7	2.2	2.4	2.7
France	0.2	1.0	1.6	1.4	0.8	1.2	1.2	1.4	1.6	1.7	1.8	2.1	0.6	1.2	1.8
Germany	0.5	1.7	2.0	1.4	1.6	1.7	1.8	1.9	2.0	2.1	2.1	2.1	1.4	1.7	2.1
Italy	-1.9	0.6	1.4	0.5	0.7	1.1	1.3	1.4	1.4	1.4	1.6	1.7	-0.9	1.1	1.6
Japan	1.8	1.5	1.0	3.0	3.1	-2.9	1.2	1.2	1.5	1.7	1.8	-2.2	3.2	0.6	0.7
United Kingdom	1.4	2.4	2.5	3.1	1.9	1.9	2.1	2.2	2.5	2.7	2.9	2.9	2.6	2.0	2.8
United States	1.7	2.9	3.4	2.1	3.0	3.1	3.3	3.3	3.4	3.5	3.5	3.5	2.1	3.2	3.5
Euro area	-0.4	1.0	1.6	0.8	1.0	1.2	1.3	1.5	1.6	1.7	1.8	1.9	0.4	1.3	1.8
Total OECD	1.2	2.3	2.7	2.2	2.5	2.0	2.5	2.6	2.8	2.8	2.9	2.5	1.9	2.4	2.8

1. Year-on-year growth rates in per cent.
2. Includes intra-regional trade.

Source: OECD Economic Outlook 94 database.

Quarterly price, cost and unemployment projections

Percentage changes from previous period, seasonally adjusted at annual rates

	2013	2014	2015	2013	2014				2015				Fourth quarter[1]		
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2013	2014	2015
Consumer price index[2]															
Canada	1.0	1.6	2.0	1.6	1.7	1.8	1.9	2.0	2.0	2.1	2.1	2.2	1.2	1.8	2.1
France	1.0	1.2	1.2	0.8	1.3	1.1	0.9	1.0	1.2	1.3	1.3	1.3	1.0	1.1	1.3
Germany	1.7	1.8	2.0	1.5	1.7	1.7	1.8	1.9	2.0	2.1	2.1	2.2	1.6	1.8	2.1
Italy	1.4	1.3	1.0	2.8	1.0	1.0	1.1	1.0	1.0	1.0	1.0	1.0	1.2	1.0	1.0
Japan	0.2	2.3	1.8	0.1	0.2	9.1	0.9	0.9	0.9	1.0	1.1	6.7	0.9	2.7	2.4
United Kingdom	2.6	2.4	2.3	2.5	2.5	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.3	2.4	2.3
United States	1.5	1.8	1.9	1.7	1.8	1.8	1.9	1.9	1.9	1.9	2.0	2.1	1.4	1.9	2.0
Euro area	1.4	1.2	1.2	1.3	1.1	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.1	1.2	1.3
GDP deflator															
Canada	1.1	1.3	1.8	1.3	1.4	1.6	1.7	1.7	1.8	1.8	1.8	1.9	1.0	1.6	1.8
France	1.5	0.8	1.0	0.8	1.0	0.8	0.7	0.8	1.0	1.1	1.1	1.1	1.3	0.8	1.1
Germany	2.1	1.3	1.6	0.7	1.2	1.5	1.6	1.6	1.6	1.7	1.7	1.8	1.9	1.5	1.7
Italy	1.5	1.1	0.7	2.3	0.7	0.8	0.9	0.7	0.6	0.8	0.7	0.8	1.6	0.8	0.7
Japan	-0.5	1.2	1.3	0.0	0.1	5.7	0.7	0.7	0.8	0.9	0.9	4.4	-0.3	1.8	1.8
United Kingdom	2.1	1.6	1.9	1.8	1.8	0.2	2.6	1.7	1.9	1.4	2.5	2.0	1.7	1.6	2.0
United States	1.5	1.8	2.0	1.5	1.9	1.9	2.0	2.0	2.0	2.0	2.1	2.2	1.4	2.0	2.1
Euro area	1.5	1.0	1.1	1.0	1.0	1.0	1.0	1.0	1.1	1.2	1.1	1.2	1.3	1.0	1.1
Total OECD	1.4	1.7	1.9	1.5	1.5	2.2	1.8	1.8	1.9	1.8	1.9	2.2	1.4	1.8	2.0
Unit labour costs (total economy)															
Canada	1.8	1.7	2.3	0.8	2.0	2.4	2.6	2.6	2.2	2.0	2.1	2.2	1.0	2.4	2.1
France	1.5	1.2	0.9	0.8	1.7	0.8	0.6	0.7	1.1	1.0	1.0	0.8	1.3	1.0	1.0
Germany	2.2	1.7	1.8	1.9	1.9	1.7	1.6	1.4	1.9	2.0	2.1	2.2	1.4	1.7	2.1
Italy	1.7	0.1	1.2	-0.5	0.6	0.5	-0.2	0.1	1.7	2.2	1.9	1.4	0.5	0.2	1.8
Japan	-0.8	0.3	1.7	-2.4	-1.5	5.4	1.4	1.5	1.2	0.9	0.9	4.9	-1.6	1.7	2.0
United Kingdom	1.6	1.2	1.5	0.2	1.6	1.6	1.5	1.4	1.5	1.6	1.7	1.7	1.5	1.5	1.6
United States	0.9	0.5	0.7	1.3	0.4	0.7	0.5	0.5	0.9	0.8	0.8	0.8	-0.5	0.5	0.8
Euro area	0.9	0.5	0.8	0.4	0.5	0.5	0.4	0.5	1.0	1.1	1.1	1.0	0.7	0.5	1.1
Total OECD	1.2	0.8	1.1	0.4	0.6	1.4	0.8	0.7	1.2	1.3	1.3	1.6	0.6	0.9	1.3
				Per cent of labour force											
Unemployment															
Canada	7.1	7.0	6.9	7.0	7.0	7.0	7.0	7.0	6.9	6.9	6.9	6.8			
France	10.6	10.8	10.7	10.7	10.7	10.8	10.8	10.8	10.8	10.7	10.7	10.6			
Germany	5.4	5.4	5.2	5.4	5.5	5.4	5.4	5.4	5.3	5.3	5.2	5.0			
Italy	12.1	12.4	12.1	12.3	12.3	12.4	12.5	12.5	12.4	12.2	12.0	11.8			
Japan	4.0	3.9	3.8	3.9	3.9	3.9	3.8	3.8	3.8	3.8	3.8	3.8			
United Kingdom	7.8	7.5	7.2	7.7	7.6	7.6	7.5	7.4	7.3	7.2	7.1	7.0			
United States	7.5	6.9	6.3	7.2	7.1	7.0	6.8	6.7	6.5	6.4	6.2	6.1			
Euro area	12.0	12.1	11.8	12.1	12.2	12.2	12.1	12.1	12.0	11.9	11.8	11.7			
Total OECD	8.0	7.8	7.5	8.0	7.9	7.9	7.8	7.7	7.7	7.6	7.5	7.4			

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 94 database.

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