No 197

AIECE General Report
Report submitted at the general meeting of 5-6 november 2009

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Abstract in English

The worst of the financial crisis is behind us. Nevertheless, the fall in global output in 2009 will be the largest of the post-war period. As a result, unemployment and government deficits are rising steeply this year, while inflation will be very low. Financial market support measures and expansionary macroeconomic policy have brought the steep output drop to an end and are leading to a tentative recovery of world output and world trade from the third quarter onwards. This upswing will continue next year, provided that the gradual return to normalcy now taking place in financial markets holds. The uncertainty that surrounds future international developments remains high.

Key words: economic outlook, Europe

JEL code:E66, F01.

Abstract in Dutch

Wij zijn het dieptepunt van de financiële crisis al gepasseerd. Desalniettemin zal de afname van de wereldproductie in 2009 de grootste zijn na de Tweede Wereldoorlog. Hierdoor zijn werkloosheid en overheidstekorten dit jaar sterk gestegen en is de inflatie laag. Overheidssteun aan de financiële markten en expansief macro-economisch beleid hebben de mondiale productiedaling tot staan gebracht en hebben geleid tot een herstel in wereldproductie en wereldhandel vanaf het derde kwartaal van 2009. De opwaartse conjunctuur zal in 2010 aanhouden als de normalisering op de financiële markten aanhoudt. De onzekerheid over de mondiale economische ontwikkeling blijft echter groot.

Steekwoorden: economische vooruitzichten, Europa.

Contents

Preface

This CPB document contains the half-yearly General Report of the AIECE. The AIECE is the Association d'Instituts Européens de Conjoncture Économique (Association of European Conjuncture Institutes), having 42 members and observing institutes, representing 20 countries and 4 international organisations. The membership is open to independent European institutes involved in surveying economic developments and macroeconomic forecasting. Independent is interpreted as not being directly involved in conducting economic policies and not representing specific economic interests. The main objective of the association is to intensify the exchanges between its members with a view to improve their insight into international economic developments. The CPB is a long-standing member of this organisation.

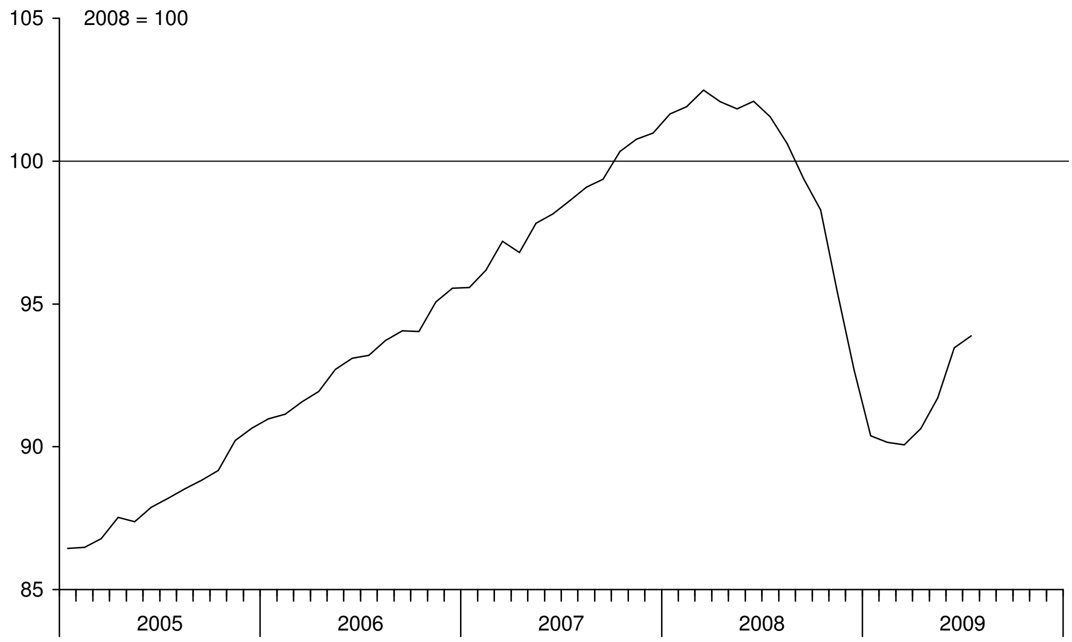
Twice a year, European economic issues are discussed in the general assembly of the AIECE. Main point on the agenda is the general report on the European outlook, prepared in turn by one of the institutes. The autumn 2009 report has been prepared by the CPB. Previously, the CPB prepared the reports of spring 1996 and autumn 1981. The current report was presented at the meeting by Wim Suyker, Jos Ebregt, Douwe Kingma and Gerard van Welzenis. They benefited from the substantial work of Mayke Kok in collecting and processing the replies to the questionnaire and in producing graphs and tables of the report.

Coen Teulings
Director

1 The world economic environment

The worst of the financial crisis is behind us. Nevertheless, the fall in global output in 2009 will be the largest of the post-war period. As a result, unemployment and government deficits are rising steeply this year, while inflation will be very low. Financial market support measures and expansionary macroeconomic policy have brought the steep output drop to an end and are leading to a tentative recovery of world output and world trade from the third quarter onwards. This upswing will continue next year, provided that the gradual return to normalcy now taking place in financial markets holds. The uncertainty that surrounds future international developments remains high.

Figure 1.1 A stunning drop in world output in the three months starting in November 2008[a]

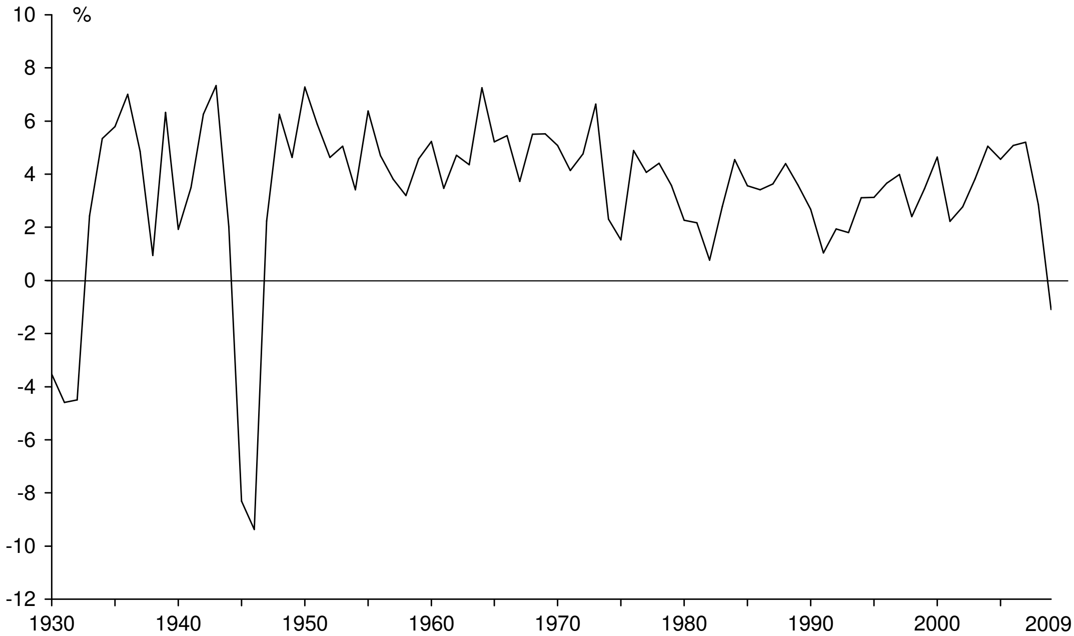


[a] World industrial production, up to and incl. August 2009. Source: CPB world trade monitor database.

1.1 The global economy

The sudden intensification of financial stress in the autumn of 2008, which had been building for over a year, unavoidably played havoc with the real economy. In the course of last year, households incurred massive loss of wealth on residential property and financial assets. Both households and firms were facing tightening credit conditions, as cautious lenders turned off the tap. In September, confidence, heavily eroded already by a ceaseless stream of bad news, finally caved in.[1] Consumers and producers started to cut spending. From last year's third quarter on, aggregate expenditure in all major economies – the United States, the euro area, and Japan – declined substantially. Due to the decline in domestic demand and lack of sufficient trade credit, imports slumped. The increased interconnectedness of national economies caused the damage to spread fast and far. Towards last year's end, exports from Asia, 'the world's factory', were hit particularly hard. World industrial output fell by a dazzling 8% between October 2008 and January 2009 (see Figure 1.1). It continued to fall, at a more modest pace, up to March 2009. In the final quarter of 2008 and the first quarter of 2009, real GDP in the OECD area dropped sharply, by 1.9% and 2.1% quarter-on-quarter, respectively. The collapse in global trade that started in November 2008 and lasted into January 2009, totalling a stunning 17%[2] in real terms, is even bigger than the slump that occurred during the first year of the Great Depression.[3]

Figure 1.2 Global GDP drops for the first time since 1946[a]



[a] World GDP; 2009 is IMF projection of October 2009. Source data shown: Maddison up to 1980, IMF from 1980 onwards.

The combination of financial market support measures, fiscal stimulus of unprecedented proportions and extremely stimulative monetary policy has prevented the world economy from continuing its free fall after the first quarter of 2009. Financial conditions have been gradually improving over the last months (see 1.4). The colossal loss of output that occurred in the first

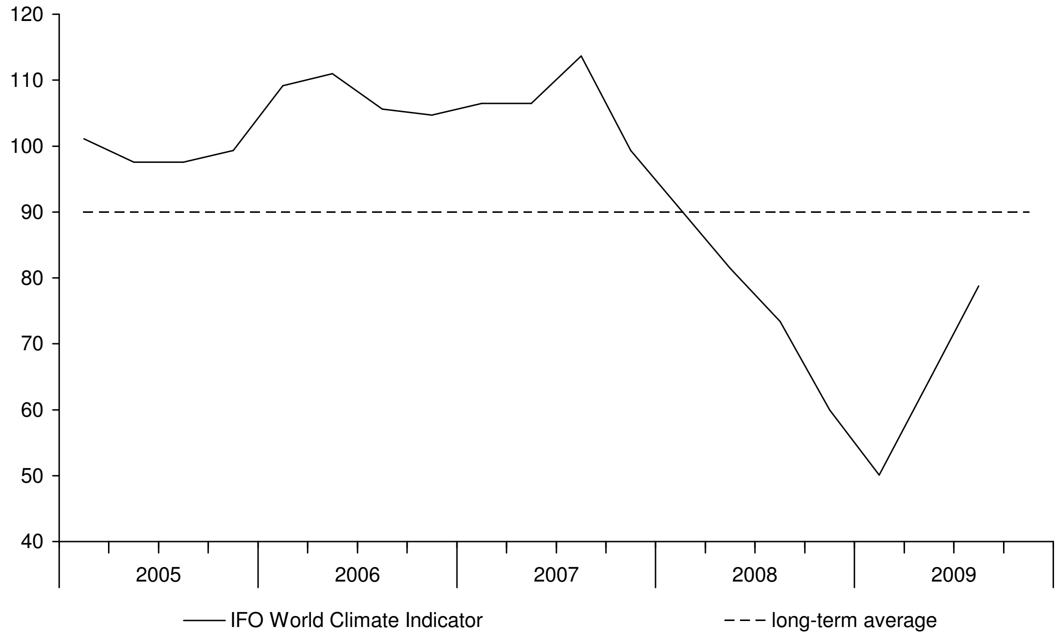
[1] Developments in September and October 2008 even had elements of a classic panic. See Ben Bernanke, Reflections on a Year of Crisis, speech of 15 September 2009.

[2] Jos Ebregt and Gerard van Welzenis, World trade monitor, October 2009. This monitor is updated each month and is available at the CPB's website: http://www.cpb.nl/eng/research/sector2/data/trademonitor.html.

[3] Miguel Almunia, Agustín S. Bénétrix, Barry Eichengreen, Kevin H. O'Rourke and Gisela Rua, From Great Depression to Great Credit Crisis, Similarities, Differences and Lessons, paper presented at the CEPR Economic Policy meeting, Tilburg, 23-24 October 2009.

quarter of 2009 was not repeated in the second. In some countries second quarter GDP was even slightly higher quarter-on-quarter, while in almost all other countries the second quarter decline was much smaller. In the second quarter, global world industrial production increased by 1.9% from the previous period, after falling 5% in the final quarter of 2008 and 5.5% in the first quarter of 2009 (all numbers given are non-annualised). The recovery has continued in the third quarter, with a rise in industrial production of around 2½%.[4] Nonetheless, world GDP is projected to fall this year by around 1¼%, the first drop since 1946 (see Figure 1.2).

Figure 1.3 World economic climate has substantially improved in the course of the year



We expect economic conditions to improve during the rest of this year and in 2010. More positive global business surveys (Figure 1.3) and leading indicators of major economies are supporting this view. The same holds for improving financial conditions and continuing expansionary fiscal and monetary policy. Both output and trade will recover slowly however, owing to the severity of last year's economic shock. Behavioural adjustments, such as households' and firms' efforts to decrease indebtedness, will weaken the pick-up in aggregate demand. Consequently, unemployment and fiscal deficits will reach record levels in the US and Europe.

World trade will grow again in 2010 year-on-year, albeit not strongly enough to make up for the collapse in trade that occurred in the beginning of this year. Global output will reach a new record high due to a strong rebound in emerging economies. Output in the advanced economies, however, will remain below previous record levels until the end of the projection period.

[4] Based on data up to August; September production assumed unchanged from the previous month.

Risk and uncertainties

Uncertainties remain high. Even though the low point of the financial crisis has passed, many financial institutions are still struggling. Another adverse financial shock would be a deathblow to many of them, with severe consequences for the global economy. Meanwhile, governments and central banks have to think hard about an exit strategy. Governments around the world have expanded outlays in order to make up for failing private sector demand. Faced with mounting debt, they must decide when to start reducing spending or raising taxes. If the policy reversal comes too soon, the tentative recovery that is only just materialising will fall apart again. If it comes too late, a public debt-overhang will stifle economic growth for years to come and bond markets will react. In addition, as a result of government's efforts to save banks from failure, many of these are now in fact public property. At some point in time, sooner rather than later, governments must sell their stakes and hand back control to the private sector. The question is: when exactly? Central banks are facing a similar dilemma. Last September, policy interest rates were lowered to zero or close to zero nearly everywhere. Since then, enormous amounts of liquidity have been pumped into the economy. Several central banks have built up large portfolios of private and public sector debt as a result of unconventional measures – generally referred to as 'quantitative easing' – they have taken to keep credit flows from running dry completely and to stimulate private sector expenditure. They also have accepted a wide range of assets as collateral for bank loans. As a result of all this, their balance sheets have expanded enormously (see Figure 1.12). The question we are facing is: when do they start to unwind these positions and when is the appropriate time to raise interest rates?

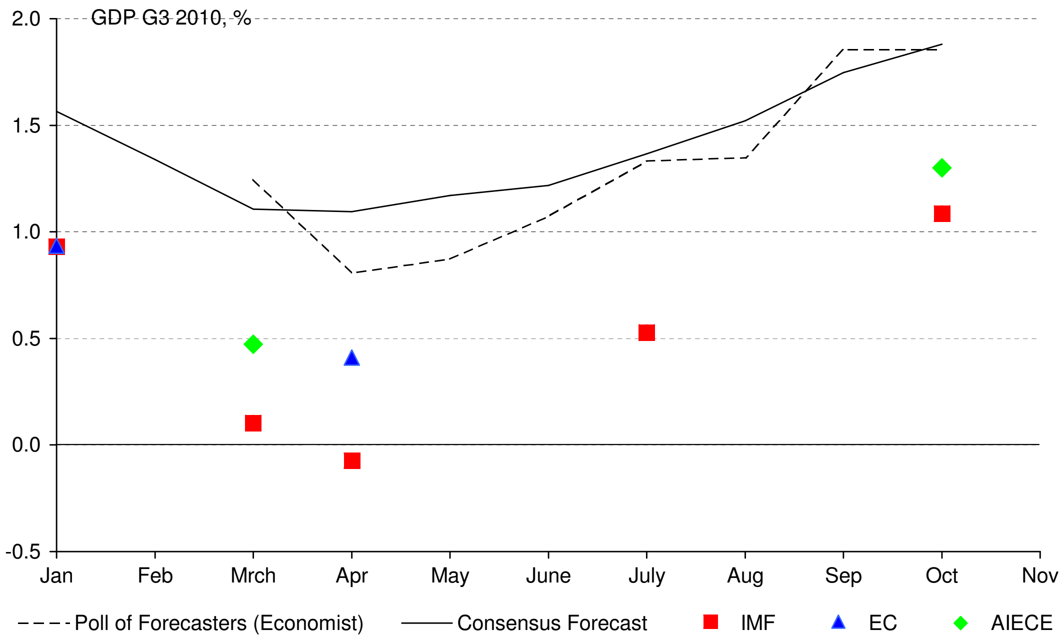
Projections and views of the AIECE institutes

All AIECE institutes project a global recovery in 2010. For the G3 (US, euro area and Japan) GDP is projected to rise by 1.3%, after a drop of 3.7% in 2009. The projection for 2010 is a substantial upward revision from the 0.5% projected on average in last Spring (Figure 1.4). However, after this upward revision, the projected upswing can still be characterised as modest. In their replies, many institutes underline the relatively moderate recovery and relate it to deleveraging in response to the financial crisis.

The projected global recovery also shows up in a rebound in world trade. On average, AIECE institutes project a world trade increase of 4.8% in 2010, after a drop of 13% in 2009 (see 5.1.7 on page 63). In Spring, a rise of 2.5% was projected for 2010.

There are substantial differences between institutes in the expected strength of the global recovery. This is probably partly due to different closing times of the projection. But there seems also to be differences in views on the lasting impact of the financial crisis.

Figure 1.4 Projections for 2010 in the lift since April



[a] G3: United States, Euro area and Japan.

Questions for Discussion on the global economic developments

- *Is the global recession over? If so, what role has policy played in ending the recession? What do you consider as the most effective policy measures taken?*
- *Can a normal recovery be expected or will the financial crisis be followed by a weak recovery?*
- *What are the main risks to the outlook? A fragile financial sector? Policies becoming too soon tight? Or too late tight? Is deflation the most underrated risk ?*

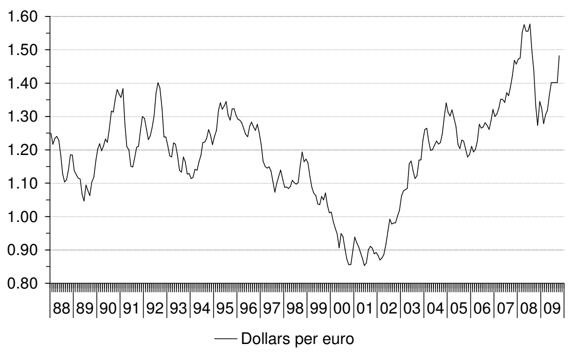
1.2 Exchange rates

The euro is on an upward trend vis-à-vis the dollar since 2001 (Figure 1.5). The intensification of financial stress in the Autumn of 2008 interrupted the gradual appreciation of the euro. The US may be the epicentre of the current crisis, but many investors still see it as a safe haven in tough times. With financial conditions improving, those investors are leaving the safe haven. As a consequence, the dollar has been depreciating since March. At the end of October, the euro rose temporarily above 1.50 dollar per euro causing renewed disquiet in many European capitals.

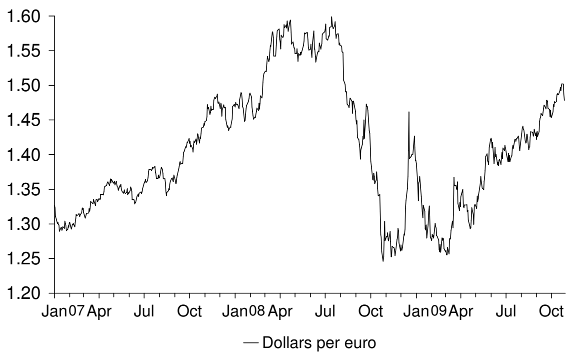
By October, the euro has risen 3% in nominal effective terms from 2008. Although the focus is on the US dollar, it had only a minor contribution to this effective appreciation of the euro (Table 1.1). As a matter of fact, this appreciation is mostly due to a steep fall of pound sterling. The fall of the Polish zloty is the second most important cause.

Figure 1.5 Downward trend of US dollar vis-a-vis euro interrupted by the financial crisis

Dollar per euro, monthly



Daily, Jan 2007 - 28 October 2009



Almost half of the **AIECE institutes** applies random walk for future exchange rates in their projection. They keep exchange rates unchanged from the recent past. Of the other institutes, most expect an appreciation of the US dollar for they expect the recovery to be stronger in the US than in the euro area. There are also some institutes expecting a further depreciation of the dollar as the global economic recovery will further limit the role of the US as safe haven.

Table 1.1 **Recent effective appreciation of euro is not due to falling US dollar but caused by a falling pound sterling**

	Weight in effective exchange rate euro	Change in %, October 2009 vis-a-vis the year 2008 [a]	Contribution to the change in the effective exchange rate of the euro [a]
US dollar	24.0	0.5	0.1
Japanese yen	10.5	− 12.9	− 1.4
Bulgarian lev	0.4	0.0	0.0
Czech koruna	3.0	3.1	0.1
Danish krone	2.7	− 0.2	0.0
Estonian kroon	0.2	0.0	0.0
Pound sterling	21.0	15.5	3.3
Hungarian forint	2.7	6.5	0.2
Lithuanian litas	0.0	0.0	0.0
Latvian lats	0.0	0.9	0.0
Polish zloty	3.4	20.0	0.7
New Romanian leu	1.0	16.3	0.2
Swedish krona	4.9	7.3	0.4
Swiss franc	6.9	− 4.6	− 0.3
Norwegian krone	1.3	1.6	0.0
Croatian kuna	0.0	0.4	0.0
Russian rouble	0.0	20.1	0.0
Turkish lira	0.0	13.7	0.0
Australian dollar	0.9	− 6.0	− 0.1
Brasilian real	0.0	− 3.6	0.0
Canadian dollar	2.0	− 0.5	0.0
Chinese yuan renminbi	7.3	− 1.3	− 0.1
Hong Kong dollar	2.2	0.0	0.0
Indonesian rupiah	0.0	− 1.4	0.0
South Korean won	3.3	7.6	0.2
Mexican peso	0.0	20.5	0.0
Malaysian ringgit	0.0	2.9	0.0
New Zealand dollar	0.0	− 3.4	0.0
Philippine peso	0.0	5.8	0.0
Singapore dollar	1.9	− 0.4	0.0
Thai baht	0.0	1.8	0.0
South African rand	0.0	− 9.0	0.0
Total			3.3

[a] Positive (negative) number: euro appreciation (depreciation) vis-à-vis currency / effectively.

1.3 Oil price

The price of oil has exhibited extremely large swings in the course of the ongoing crisis. In the first year of the crisis, the oil price rose steeply, to reach a peak of 144 dollar on July 3rd 2008. On the day before the Lehman collapse, it was already down to 67 dollar per barrel. It continued to tumble to 34 dollar at the end of December 2008. As many financial markets, the oil price recovered strongly from early March onwards. At the end of October, it has risen to 77 dollar per barrel.

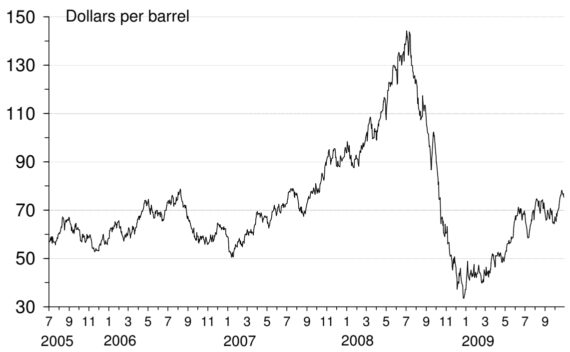
The price swings since July 2008 can to a great extent be explained by the global business cycle and by the policy of the OPEC.[5] The severe recession has led to a strong drop in global demand for oil (see Figure 1.7). Its effect on the oil price was mitigated by supply reductions by OPEC leading to a substantial rise in spare capacity. Depreciation of the dollar in the course of 2009 may also have contributed to the rise of the oil price measured in US dollars. However, the price rise in the course of 2009 is difficult to reconcile with the continuing rise in oil stocks.

Only a few **AIECE member institutes** apply random walk for the oil price in their forecasts (random walk is also applied by the OECD in their Economic Outlook). No institute applies mechanically oil futures (the IMF and the ECB make use of oil futures in their forecasts). Most AIECE member institutes use a supply demand analysis to project the oil price. Those institutes project a rise in the oil price in 2010 as the global economic recovers and OPEC does not increase its oil supply sufficiently.

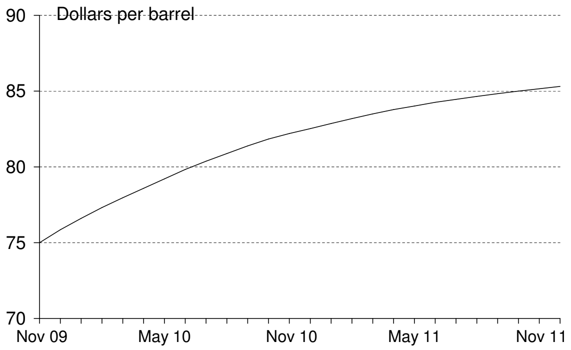
[5] The steep rise of the oil price from the start of the credit crisis in July 2007 till its peak in July 2008 is much harder to explain as the global business cycle was already softening.

Figure 1.7 The Great Recession is showing up in the oil market

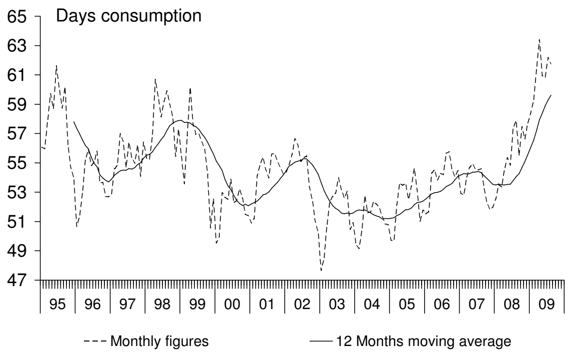
Price Brent, July 2005 - 28 October 2009



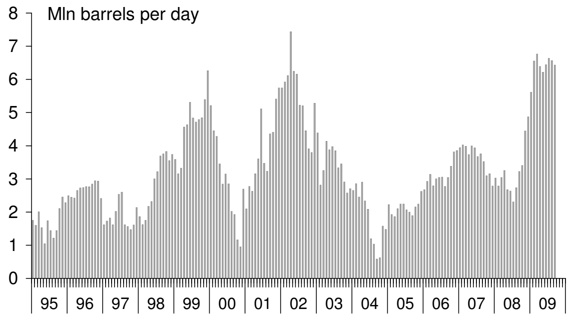
Price Brent futures 28 October 2009



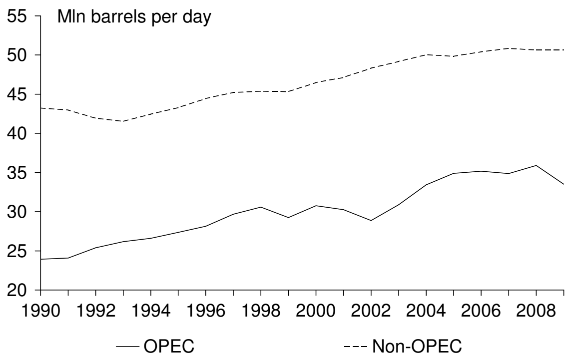
Industrial oil stocks, OECD countries, 1995-2009



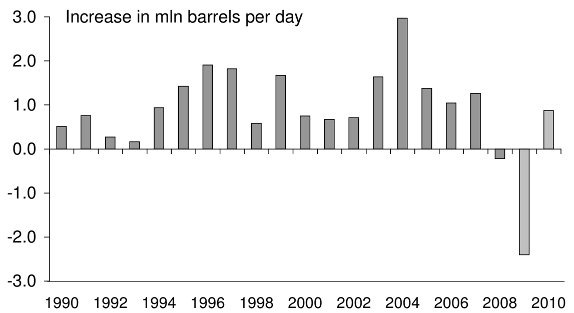
Spare capacity OPEC, 1995-2009



Global oil supply, 1990-2009



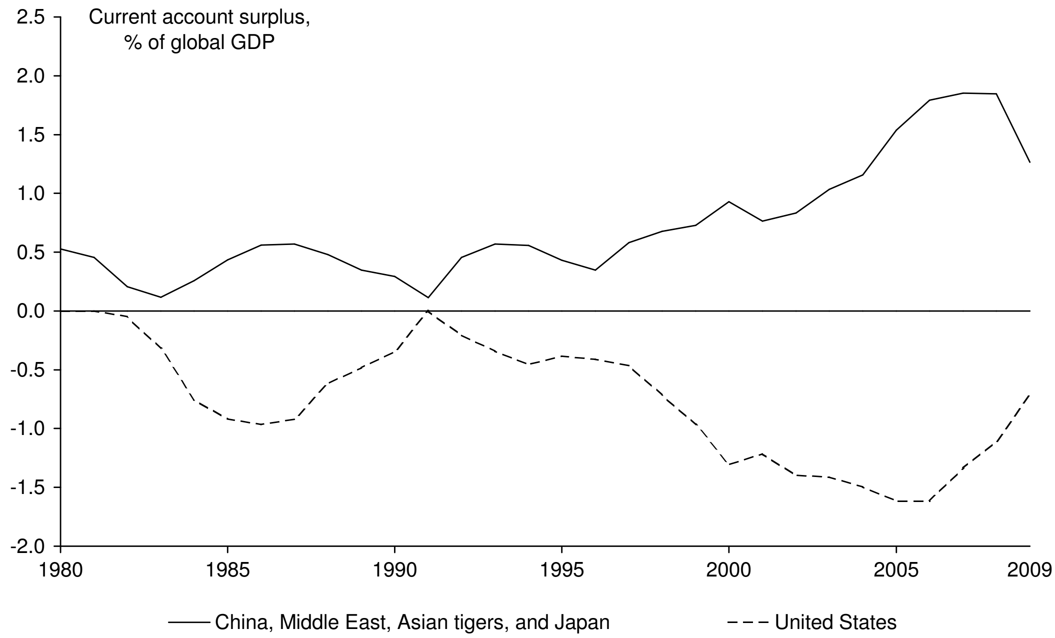
Global demand for oil, 1990-2010



1.4 Financial markets

Fourteen months after the demise of Lehman Brothers, financial markets have improved markedly. Having reached their lows around March this year, various financial indicators have reached levels last seen before the outbreak of the crisis. This rebound of the financial markets is to a large extent the result of unprecedented policy actions by governments and central banks. Notwithstanding recent improvements, possible future adverse shocks could dash hopes of a further recovery. If the improvement in financial markets and the real economy takes hold, governments and financial authorities will have to withdraw their supportive measures. The timing of such an exit-strategy is crucial. A premature withdrawal might prolong the crisis, whereas a belated exit could endanger the credibility of future monetary policy and lead to an increase in inflation and long-term interest rates..

Figure 1.8 The Chinese, Japanese and Arabs are financing the American consumer



What went wrong

In the years prior to the Lehman failure, global imbalances increased (Figure 1.8). Especially the US had a large appetite for foreign capital.[6] This capital was eagerly provided by countries with large current account surpluses like China, Germany, Japan and the oil exporting countries. This capital glut found its way into US mortgages. These mortgages were not only prime mortgages, but also alt-A and sub-prime. By way of securitisation the providers of these

[6] Rogoff, K., 2009, China's Dollar Problem, Project Syndicate (internet: http://www.project-syndicate.org/commentary/rogoff61), Obstfeld, M and K. Rogoff, 2009, Global Imbalances and the Financial Crisis: Products of Common Causes, paper prepared for the Federal Reserve Bank of San Francisco Asia Economic Policy Conference, October 18-20, 2009, (internet:: http://elsa.berkeley.edu/~obstfeld/santabarbara.pdf).

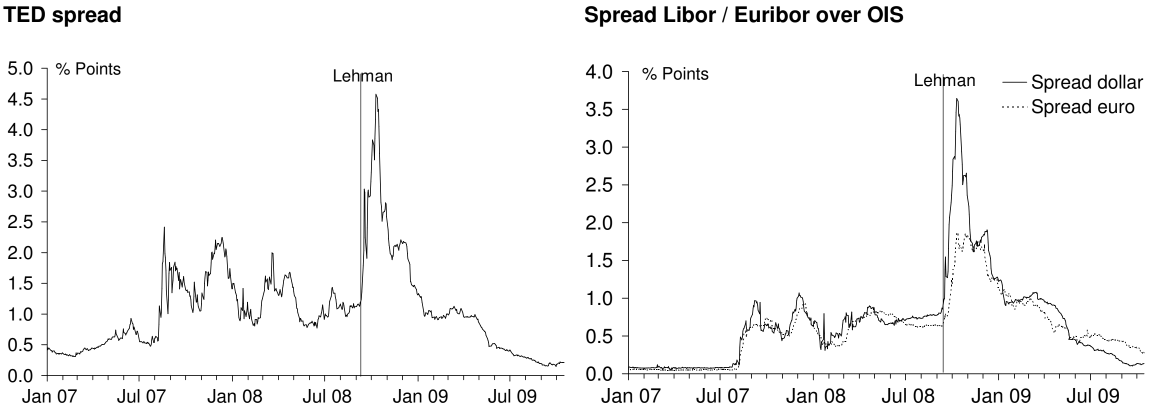
mortgages were able to repackage these mortgages and to sell them as mortgage backed securities (MBS) to investors. In this way the providers of these mortgages were able to access additional sources of funding and reallocate risks to those parties most willing to take on those risks.[7] Unfortunately, the risks contained in these mortgage packages were underestimated. As long as house prices continued to increase, there were no problems, but when the house price bubble burst, investors in MBS saw the value of their assets erode. Because of lack of transparency in the issuing process it was difficult to determine who owned what.[8] The balance sheet of Lehman Brothers turned out to contain a significant amount of repackaged sub-prime mortgages. Together with a leverage ratio of more than 30 to 1 (and its large use of short-term debt), only a small drop in the value of the assets wiped out the entire equity value and made Lehman insolvent.

The decision of the Treasury not to bail out Lehman (it had bailed out Bear Stearns in March) made the sector face the facts. The result was a sudden intensification of financial stress and a need for financial markets to reassess risks.

Consequences

With the collapse of Lehman Brothers the uncertainty in the financial markets skyrocketed. Banks realised they did not know which of their competitors would be the next one to become insolvent. As a result the overnight interbank market came to a virtual halt. The situation at the interbank market at the time of the Lehman bankruptcy is illustrated in the figure below.

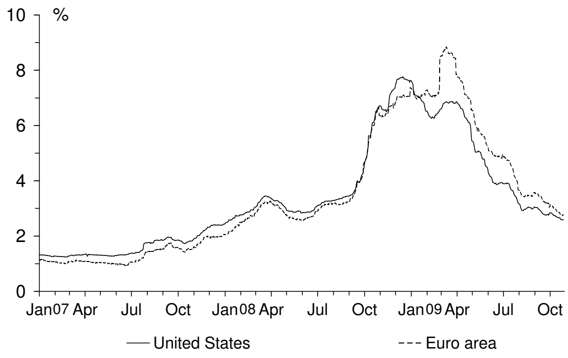
Figure 1.9 Trust between banks is back again



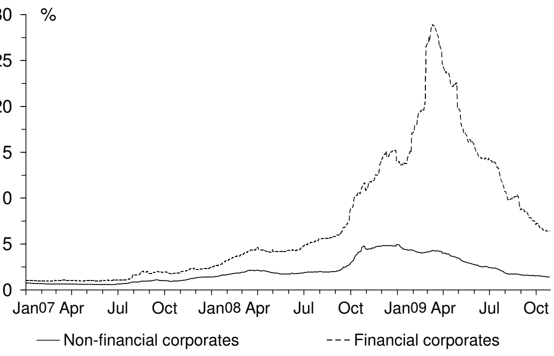
[7] BIS, September 2009, Report on Special Purpose Entities, The Joint Forum, Basel Committee on Banking Supervision.
[8] Zingales, L., 2008, Testimony before the Committee on Oversight and Government Reform on 'Causes and Effects of the Lehman Brothers Bankruptcy' (internet: http://oversight.house.gov/documents/20081006103245.pdf).

Figure 1.10 Down and up on the financial markets, 1 January 2007 - 28 October2009

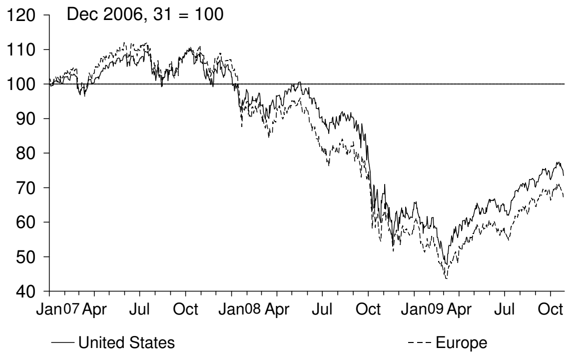
Interest rate differential, capital market [a]



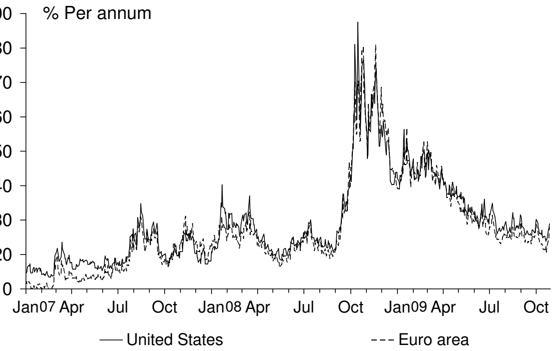
Interest rate differential, all maturities, euro area [b]



Share prices c



Implied volatility [d]



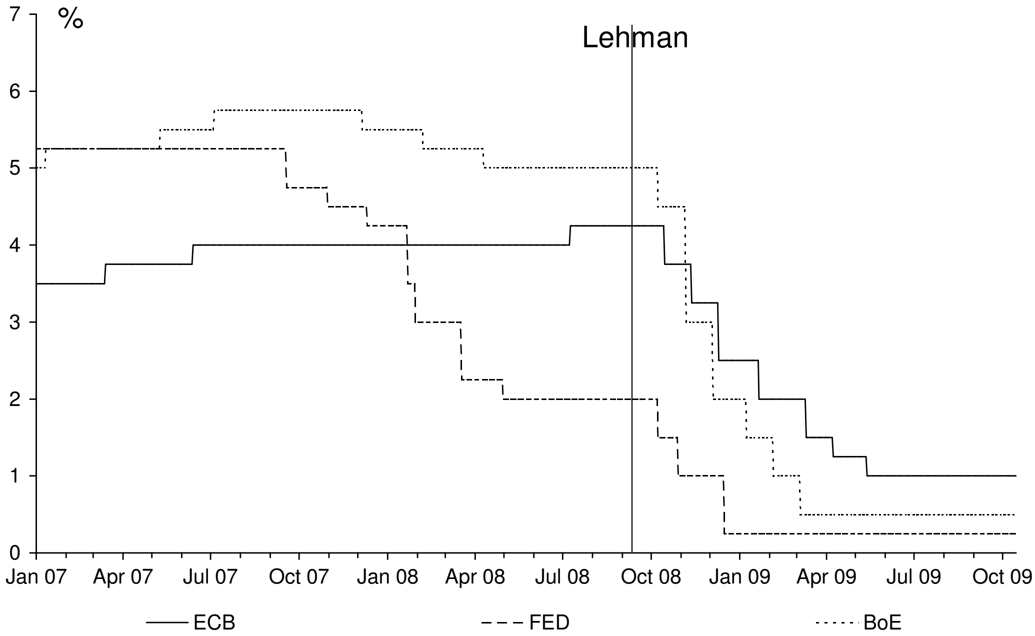
[a] Interest rate differential between 7-10 year BBB-rated corporate bonds and 10 year government bonds.
[b] Interest rate differential between BBB-rated corporate bonds and AAA-rated government bonds, all maturities.
[c] United States: S&P 500. Europe: MSCI Europe.
[d] Implied volatility reflects the expected standard deviation of percentage changes in stock prices over a period of up to three month, as implied in the prices of options on stock price indices. United States series relates to S&P 500; euro area series relates to MSCI EURO STOXX 50.

In the US, the fear of default and collapse pushed the spread between LIBOR and OIS from less than 10 basispoints before September 2007 to more than 360 basispoints in November 2008. In August of this year, the spread fell below 0.25%, a level considered normal. At the end of October 2009, the spread had fallen below 15 basispoints.

Governments and central banks to the rescue

In order to prevent a total collapse of the financial system, governments and central banks started to support financial institutions and financial markets. To limit the effects of the financial crisis on the real economy, central banks lowered policy rates to ever lower levels, eventually even to levels near zero.

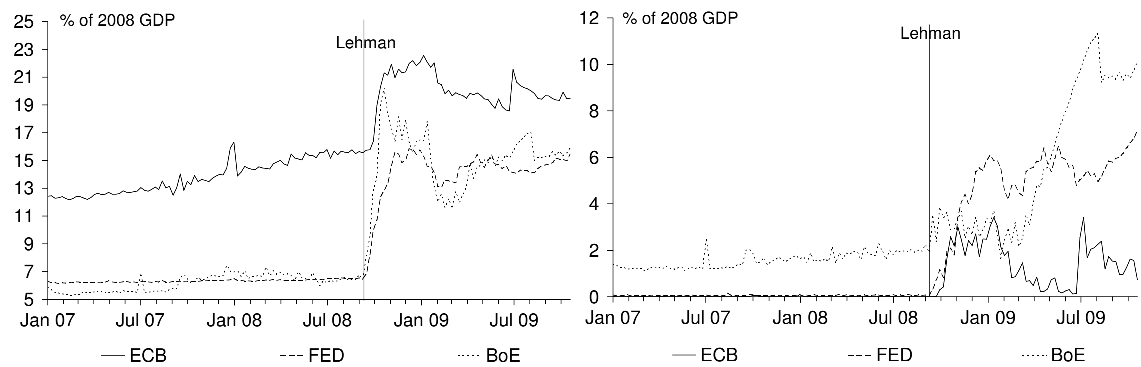
Figure 1.11 Policy rates near the bottom



To steer the policy rates to the desired level central banks initially applied conventional policy measures.[9] Eventually, with policy rates at very low levels, fears of deflation mounting and credit markets still in disarray, central banks had to take recourse to unconventional measures. Enormous amounts of liquidity were pumped into the economy. Several central banks have built up large portfolios of private and public sector debt as a result of unconventional measures – generally referred to as 'quantitative easing' – they have taken to keep credit flows from running dry completely and to stimulate private sector expenditure. They also have accepted a wide range of assets as collateral for bank loans. As a result of all this, their balance sheets have expanded enormously (see Figure 1.12, left panel).

Figure 1.12 Balance sheets of central banks explode

Total assets **Reserve balances of banks with central banks**



[9] Conventional measures include the expansion of standard operations, mere technical changes and liquidity easing. Credit easing and quantitative easing are both unconventional measures. See for instance: IMF, 2009, Gobal Financial Stability Report, April 2009, box 1.6.

It is difficult to say whether the objective of central banks to keep credit flowing to households and companies has been achieved, as a large part of the liquidity provided to the banks has shown up in deposits with the central banks (see figure Figure 1.12, right panel). Credit is falling, but it is very hard to say whether this is because a credit crunch or a drop in credit demand due to the recession.

Already before the Lehman bankruptcy, banks in the UK had significant deposits with the Bank of England. In the euro area and in the US, these deposits started to increase after the collapse of Lehman. With almost 10% in terms of GDP, UK banks still have the largest deposits compared with banks in the US and in the euro area. The development of deposits with the ECB shows a close correlation with the special longer-term refinancing operations with a maturity of one year.

Table 1.2 Policy responses to the crisis: financial sector rescue efforts (% of GDP)

Country	Capital injetion	Purchase of assets and lending by Treasury	Central bank supp. Prov. With treasury backing	Guarantees
Austria	5.3	0.0	0.0	30.0
Belgium	4.7	0.0	0.0	26.2
France	1.2	1.3	0.0	16.4
Germany	3.7	0.4	0.0	17.6
Greece	2.1	3.3	0.0	6.2
Ireland	5.3	0.0	0.0	257.0
Italy	1.3	0.0	0.0	0.0
Netherlands	3.4	2.8	0.0	33.7
Portugal	2.4	0.0	0.0	12.0
Spain	0.0	4.6	0.0	18.3
United Kingdom	3.5	13.8	12.9	17.4
United States	4.0	6.0	1.1	31.3

Source: OECD, 2009, The Financial Crisis: reform and exit strategies.

To save banks from the Lehman fate, governments have provided banks with fresh capital, practically nationalising many of them in the event. Besides providing capital governments guaranteed loans to the financial sector and in some instances took over the risk of future decreases in the value of the asset portfolio. Table 1.2 provides an overview of the rescue efforts in euro area countries and in the UK and US.

View of the AIECE institutes on policy rates of the central banks

The AIECE institutes expect the federal funds rate to average at 0.3% in 2009. Such an average implies that during the rest of 2009 the rate will remain at or near its current level. For next year an increase to an average of 0.7% is expected with answers ranging from 0.3% to 1.3%.

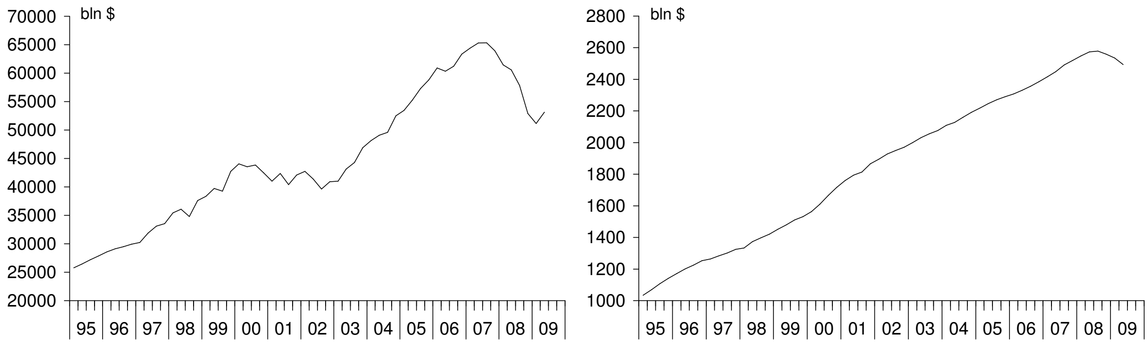
For the year 2010, the euro short term interest rate is expected to stay at the 2009 level of 1.3%. The range of answers for 2009 is almost completely confined to the interval of 0.6% to 1.6%, with one outlier of 2.5%. The same holds true for 2010. All answers except one lie in the interval 1.0% to 1.8%. The outlier is 2.6%.The institutes expect the long term interest rate to show a small increase to 4.0% in 2010 from 3.9% in 2009.

The outlook

The build-up in global imbalances in the years leading up to 2007 is widely believed to be one of the causes of the problems in world financial markets.[10] In future, these imbalances will have to be redressed to a sustainable level. During the meeting of the G20 in Pittsburg last September, heads of state agreed to work together to strive for smaller imbalances. This is, however, not the first time governments agree to redress global imbalances. Although part of the imbalances has already vanished because of the current recession (Figure 1.8), the longer term situation is uncertain.

Figure 1.13 Loss of net worth makes US consumers more thrifty

Household net worth **Consumer credit**



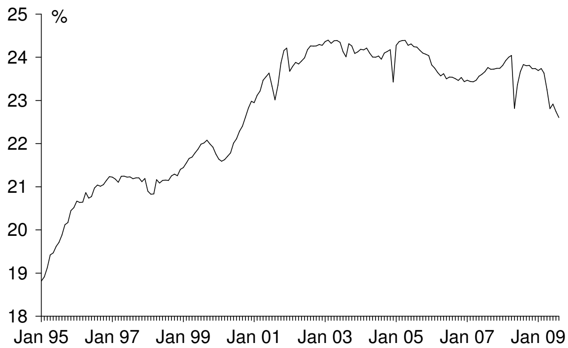
The same holds for the lasting impact on assets and liabilities of US households. A fall in house prices ignited the problems in the financial markets, but when these intensified problems spread to the real economy. Falling house prices, together with a decline of the stock market, implied a severe loss of net worth for households.

Between the high of the third quarter of 2007 and the low of the first quarter of 2009, US net worth declined with 14200 billion dollar. With house prices and asset prices bottoming out during March/April of 2009, net worth started to increase again in the second quarter. With a decrease in net worth of more than 20%, US households intensified deleveraging by decreasing the debt as part of disposable income and by increasing their savings rate.

[10] The role of global imbalances is widely accepted but not by all. For instance German policy makers do not agree. In the Financial Times, one commentator (Martin Wolf) is stressing its importance frequently, while another one (Samuel Brittan) is downplaying it.

Figure 1.14 US consumers start to save again

Consumer credit as percentage of disposable income



Savings as percentage of disposable income

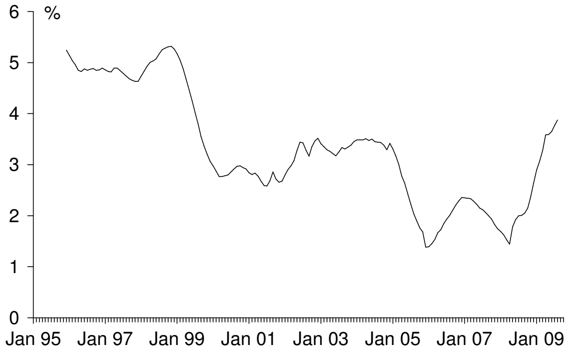
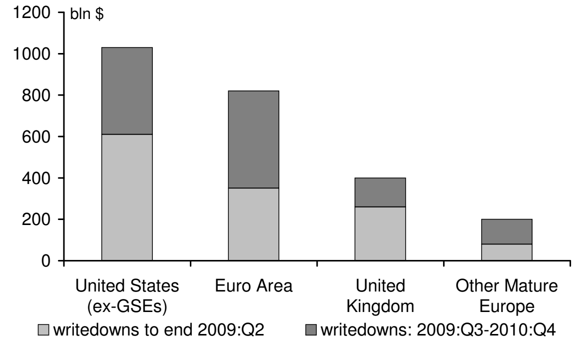


Figure 1.15 Banks not yet out of the danger zone

(Expected) writedowns



Capital needs

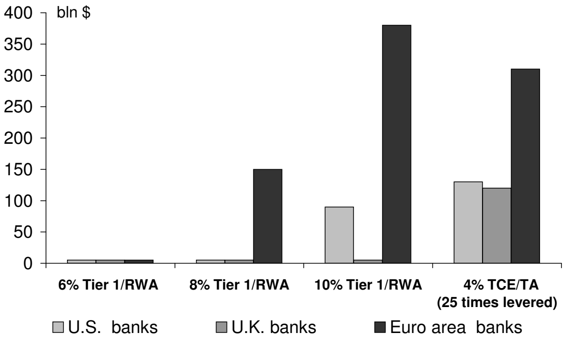
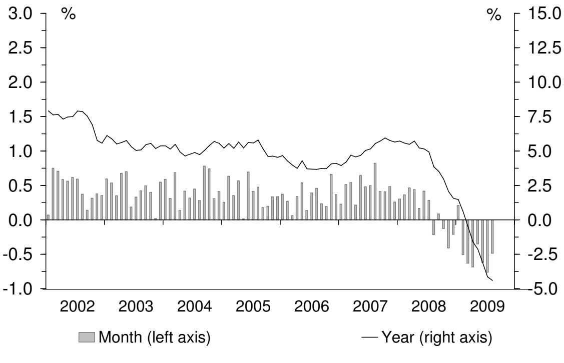
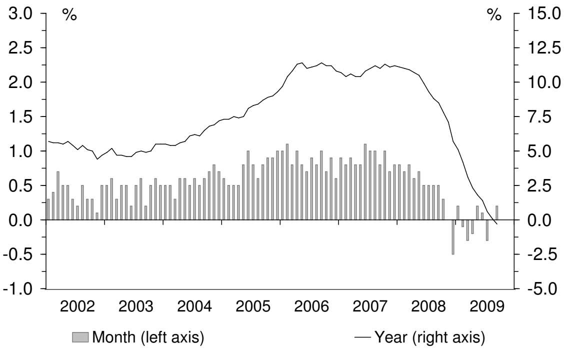


Figure 1.16 Credit down: but is it because a credit crunch or lack of demand?

United States [a]



Euro Area [b]



[a] Credit to households.
[b] Credit to business sector and households.

Declining asset prices also had a negative effect on bank balance sheets (Figure 1.15 left panel). Banks were forced to start a process of deleveraging by decreasing lending. As a precautionary measure banks might even choose to aim at a leverage level lower than before Lehman.

To date, banks only have partially addressed the impaired assets on their balance sheets. The changes in accounting rules have removed much of the incentive for banks to remove these assets. In the future, credit deterioration will put further pressure on banks' balance sheets. The IMF reckons US banks are more than half way through their loss cycle. On the other hand loss recognition by European banks is less advanced.[11]

Future capital needs depend on the regulatory capital requirements that banks will have to satisfy. In Figure 1.15 (right panel), the amount of regulatory capital is expressed as a percentage of risk weighted assets. Under current regulation, the Tier 1 capital ratio has to exceed 8%. The Tier 1 risk based capital ratio is the ratio of a bank's core (equity capital) to its total risk-weighted assets. Risk-weighted assets are the total of all assets held by the bank which are weighted for credit risk according to a formula determined by the regulatory authority. An alternative to the Tier 1 capital ratio is the leverage of a bank, measured as tangible common equity (TCE) over tangible assets (TA).[12]

Even with a required Tier 1 capital ratio of 10 percent banks in the UK are rather well capitalised. Under the stricter requirement according to the TCE/TA-ratio, banks in all regions will have to increase their capital base.

Recently, American banks have earned billions of dollars from their "toxic" portfolios as a rally in some of these distressed assets enabled them to book accounting gains or sell them.[13] These third quarter results bode well for other banks, after the sector suffered more than 1,000 billion dollar in write-downs globally on troubled assets such as mortgage-backed securities, as a result of the crisis.

The deleveraging process of households and banks is far from completed. Households' debts are still high and banks want to bolster their capital ratios. This implies that in the near future, consumer spending will be relatively low. Because banks will be reluctant to lend money, the cost of capital will be higher than before the crunch and investment activities will be lower because of these higher costs.

At some point in time, central banks will have to retreat from the market and commercial banks should be able to stand on their own feet again. The questions central banks are facing are: when do we start to unwind our positions and when is the appropriate time to raise interest rates? What happened in the US during the years shortly after the Great Depression is an

[11] IMF, 2009, Global Financial Stability Report, October 2009.

[12] TCE is calculated as total equity, less preferred shares and intangible assets, TA are total assets less intangible assets.

[13] Financial Times, 2009, US banks gain from rally in toxic assets, October 18, 2009.

example of what may go wrong if monetary authorities make a wrong assessment of the economic and monetary situation. In the period 1933-1937, economic growth averaged 9%. This growth was halted by a switch to a contractionary fiscal and monetary policy. The Fed feared an increase in inflation because of the large quantities of excess reserves banks were holding. By doubling the reserve requirements the Fed locked up these excess reserves. Banks responded with reducing lending. The resulting monetary contraction was an important cause of the 1937-38 recession.

In order to mitigate the chance of future financial crises, reform of financial markets is necesarry. First of all, responsability between national regulators should be clarified and each regulator should act according to sound regulatory rules. Furthermore, the integrity and transparacy of financial markets should be improved. And last but not least, the international dimension of large financial institutions should receive due attention in the future regulatory framework.

Questions for discussion on financial markets

- *Bad timing of the exit strategy could hurt economic recovery (see for example the experience of the US economy in 1937-38 and Japanese economy during the last decade). What is the right moment for governments and central banks to scale down their support for the banking sector? Should they have started already? What factors are crucial to this timing? Is international coordination necessary? Do you expect policy makers to take the right decisions?*
- *Is it possible for central banks to 'lean against the wind'? If so, how can we discern a(n asset) bubble?*
- *Do you expect broader policy goals for central banks (broader than the current inflation or full employment targeting)?*

2 The international economic outlook

2.1 United States

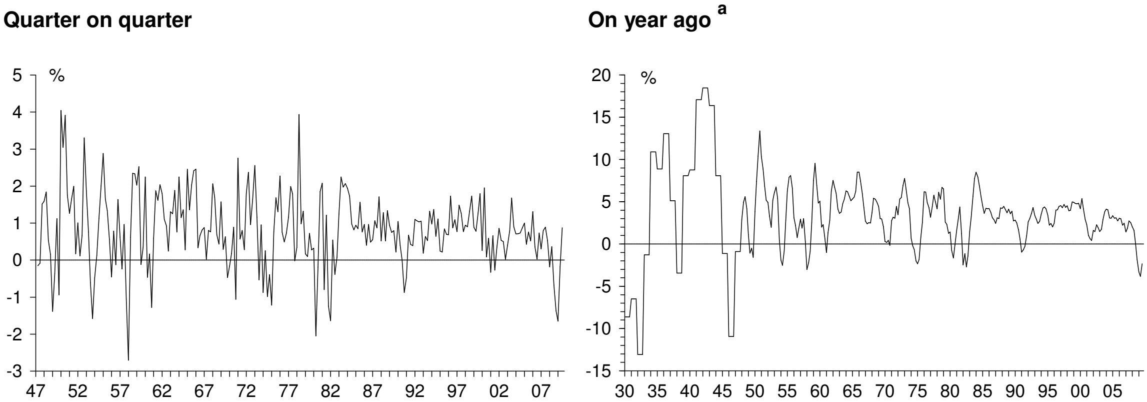
The United States are starting to recover from the deepest post-World War II recession. Growth figures for 2009 as a whole will be extremely unfavourable, but in the course of this year, quarterly declines in GDP have become smaller. In the third quarter, GDP made a remarkably strong rebound.

Table 2.1 The deepest post-World War II recession: GDP growth, United States, 2008 q3 - 2009 q2 [a]

	2008 q3	2008 q4	2009 q1	2009 q2	2009 q3	2008	2009 h1
chained 2005 dollars	quarter on quarter change, SA					change on year ago	
	% per quarter					% per year	
Gross domestic product	– 0.7	– 1.4	– 1.6	– 0.2	0.9	0.4	– 3.6
Private consumption expenditure	– 0.9	– 0.8	0.2	– 0.2	0.8	– 0.2	– 1.6
Private gross capital expenditure	– 1.8	– 6.7	– 16.1	– 6.5	2.8	– 7.3	– 26.6
Government expenditure	1.2	0.3	– 0.7	1.6	0.6	3.1	2.1
Exports	– 0.9	– 5.3	– 8.5	– 1.0	3.5	5.4	– 13.4
Imports	– 0.6	– 4.5	– 10.7	– 3.9	3.9	– 3.2	– 17.4

[a] Source: National Income and Product Accounts, Bureau of Economic Analysis.

Figure 2.1 The deepest post-World War II recession: quarterly real GDP growth, United States, 1930-2009



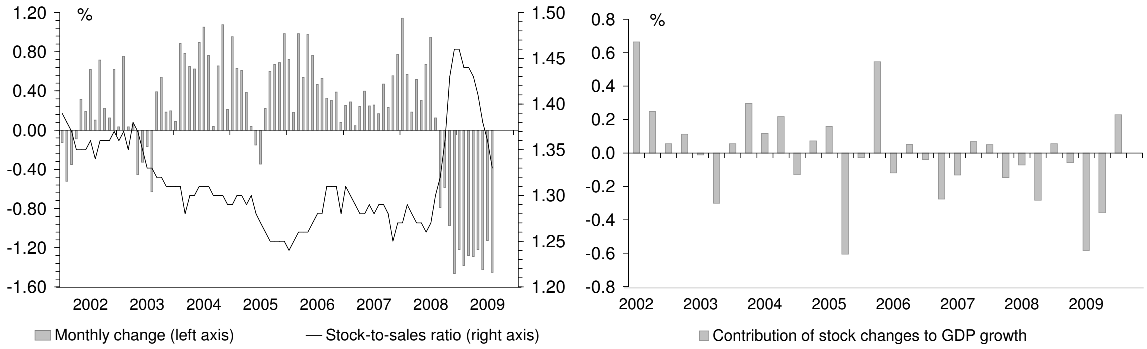
[a] Annual growth rates are shown for the period 1930-1947.

A dismal year

In the second quarter, GDP in the United States declined for the fourth time in a row and for the sixth time in one and a half years. The decline was however much smaller than in the previous two, disastrous quarters. Of all expenditure categories, capital spending decreased the most. Residential investment, which has been decreasing incessantly since early 2006, again lost 6% compared to the first quarter (non-annualised). Spending on commercial and industrial real estate, which started falling in the course of 2008, lost 5% in the second quarter of 2009 (non-annualised). Both these declines are much smaller than the ones that occurred in the first quarter. The negative effect on GDP growth of firms liquidating their inventories has also decreased. In the first quarter of this year, this phenomenon – producers' response to the unwanted build-up of inventories they were faced with towards the end of 2008 – accounted for a stunning third of the record fall in GDP. More recently, firms seem to have started to bring output more closely in line with expected sales. While private sector expenditure posted a moderate rise in the first quarter of the year, it went down again in the second, the third decline in four quarters. This contrasts with the 2001 recession (the bursting of the 'internet bubble'), when private consumption expenditure hardly suffered.

Figure 2.2 Slash production to get rid of unsold products: stock changes, United States, 2002-2009

Stocks **Contribution of stock changes to GDP growth**

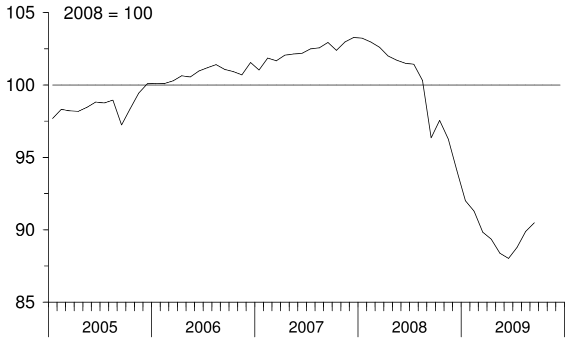


Although the second quarter decline in GDP was limited when compared to the first, it only added to the hefty loss of output that has occurred over the last one and a half years. In the second quarter, GDP was 4% lower than it was one year before. This is the largest decrease since World War II. Private consumption expenditure has lost 2%; private capital expenditure has gone down by over 25%. Unemployment is now at its highest since the early eighties and many employees are working fewer hours than they would like to. Some workers have for the time being withdrawn completely from the labour market.

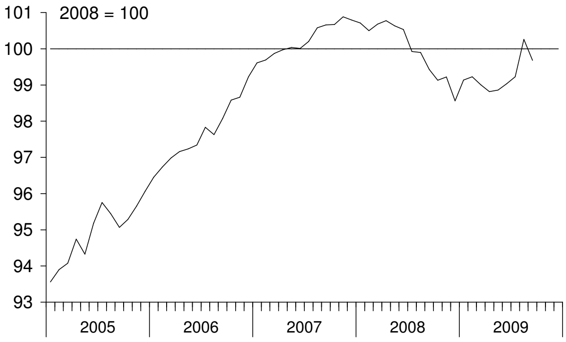
The advance estimates of third quarter GDP growth show a remarkable rebound in activity. GDP went up by 0.9% (non-annualised), the highest quarter-on-quarter growth rate since the third quarter of 2007, with all broad expenditure categories contributing positively (private consumption and capital expenditure, government expenditure, and exports; imports obviously excepted). As expected by many, the stock-cycle has turned, for the time being at least, stock changes accounting for over a fifth of overall GDP growth in the third quarter. Less expectedly, residential investment posted a positive contribution (0.5%, non-annualised) for the first time since the last quarter of 2005. Of the other components of private capital expenditure, spending on equipment and software has stopped falling, while the ongoing decline in spending on structures (commercial and residential real estate) has decelerated markedly compared to the second and third quarter. The third quarter (quarter-on-quarter) growth rate of personal consumption expenditure is the biggest since the first quarter of 2007.

Figure 2.3 Tentative recovery? Key economic variables, United states, 2005-2009

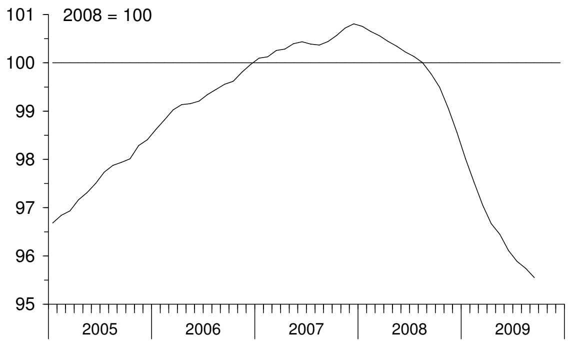
Industrial production



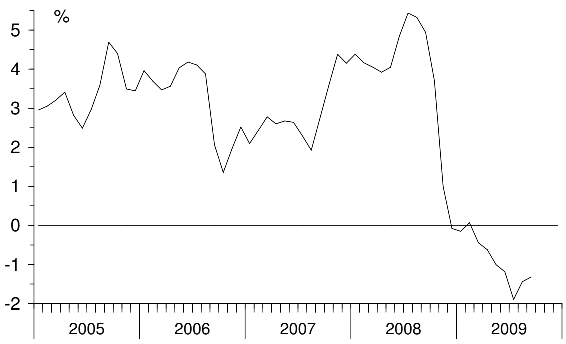
Private consumption



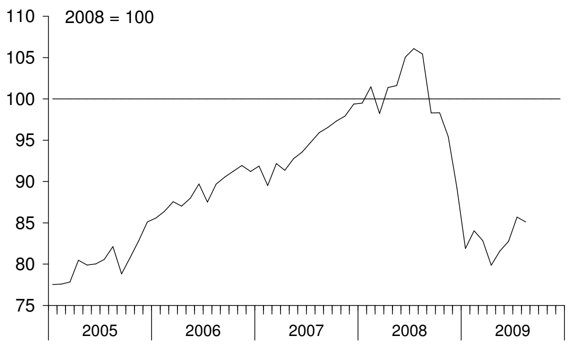
Employment



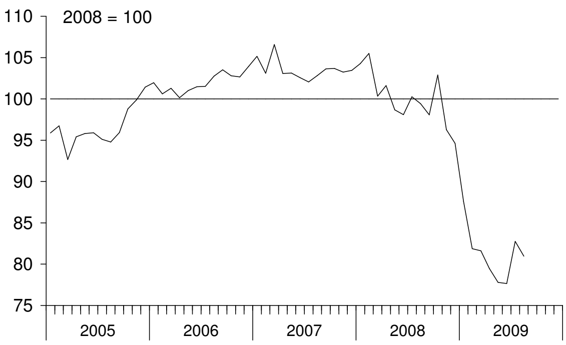
Consumer price index, change on year ago



Export volume, goods

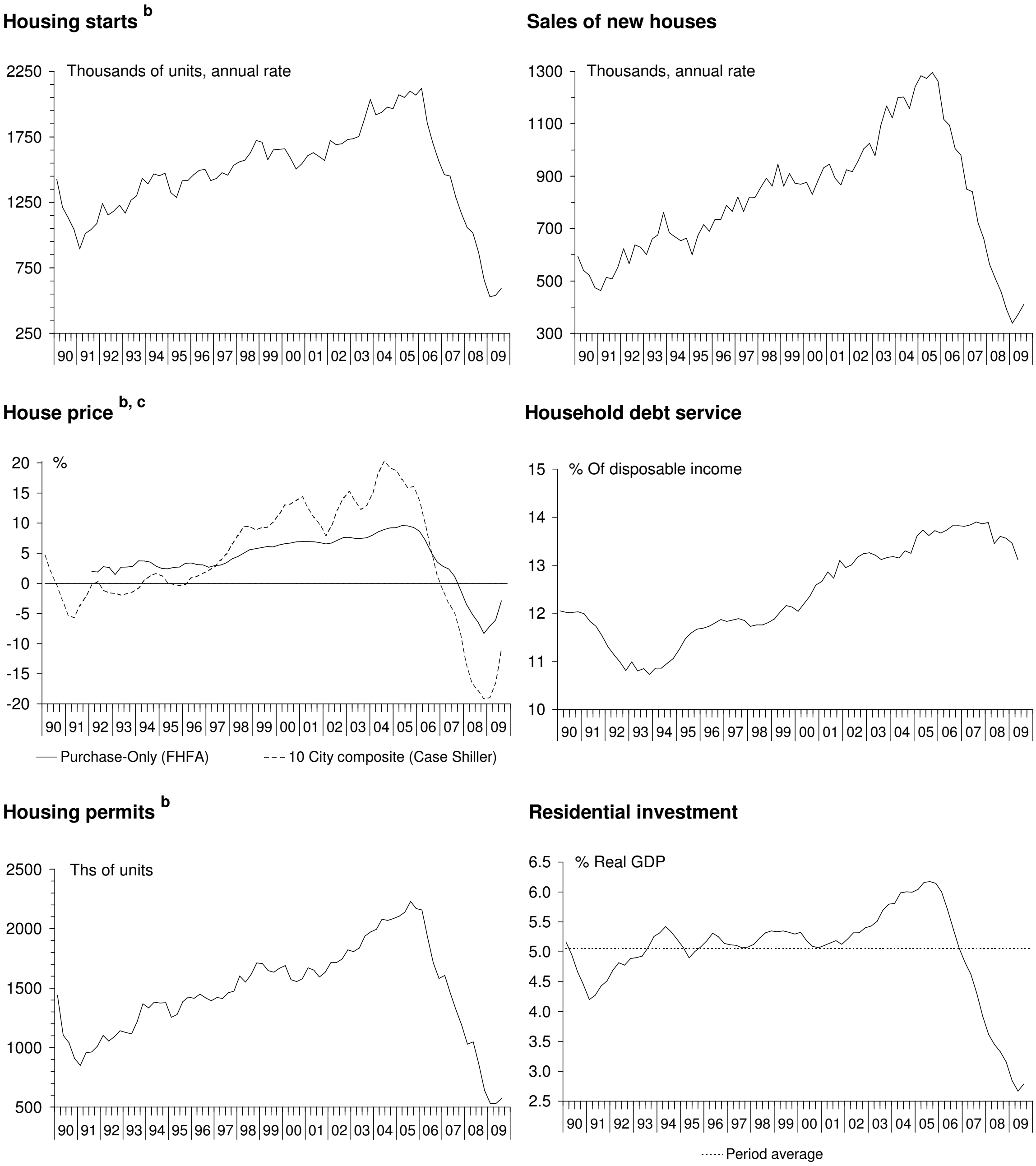


Import volume, goods



Inflation has been low for a considerable time. In September, consumer prices were 1.3% lower than they were a year ago. Of the ten monthly on year ago changes in consumer prices up to September, all but one were negative. Such a string of negative figures has not been seen since the mid-fifties. The decline in July was close to 2% on year ago, a figure last recorded in

Figure 2.4 Bottoming out: housing market, United States, 1990-2009 [a]



[a] Sources: Office of Federal Housing Enterprise Oversight, S&P/Case-Shiller, Census Bureau and Bureau of Economic Analysis.
[b] Third quarter 2009: average of July and August figures
[c] Percentage change on year ago.

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January 1950. Headline inflation is being driven down mainly by decreasing energy prices – the price of oil reached its record level just over one year ago, 144 dollar a barrel in early July 2008 – but wages and profits margins are giving in as well. Core inflation has made a very gradual descent over the last few years. The most recent peak was in September 2006, at 2.9% on year ago. By September, the figure had decreased to 1.5%.

The bottom has been reached; it's deep

Generally speaking, with prices on the decrease, unemployment high, capacity utilisation extremely low, and the number of vacant housing units high, there is now an enormous amount of slack in the United States economy. On a more positive note, the signs are that GDP has stopped contracting. The latest monthly figures and leading indicators suggest that it will increase slightly in the second half of 2009. For the year, the damage has obviously already been done. According to the latest projections of the IMF and the OECD, this years' contraction of GDP will be in the range of 2½% to 3%. The fragile recovery now underway is mainly due to the lagged, combined effects of the enormous fiscal stimulus approved early this year (amounting to 787 billion dollar, 5½% of GDP) and the zero interest policy adopted by the Fed last Fall, supplemented with various unconventional measures aimed at keeping credit flowing and boosting aggregate expenditure. The turnaround is supported by reviving exports to Asia and the reversal of the stock cycle. At least as important, the housing market seems to be finally bottoming out. In the second quarter, the relentless declines in housing starts and home sales have come to a halt. House prices rose slightly since June. Still, arrears on mortgages and foreclosures show no sign of abating.

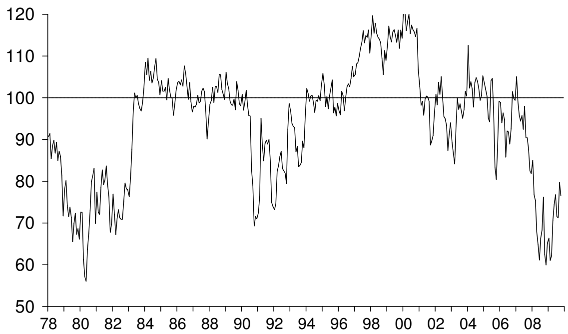
The current account deficit is decreasing, owing to both the decrease in the volume of imports and the decline in the price of oil from last year's July record level. In both the first and the second quarter of this year, the deficit amounted to 3% of GDP, just half the quite unsustainable 6% reached in 2006. On the other hand, and rather surprisingly, the external financial position has worsened. Net external debt has hit an all-time record, as US residents have suffered a much larger loss on investments abroad than non-residents have on investments in the United States. This is due to the fact that US residents have invested relatively much in shares and little in government debt compared to non-residents investing in the US.

Reaching for the surface

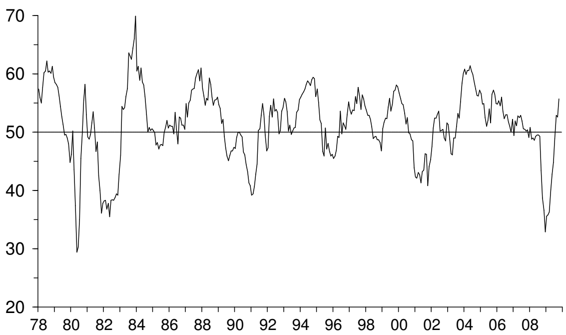
Provided that the gradual return to normalcy in financial markets continues, the recovery of the real economy will probably hold up next year. There are several factors however which threaten to retard or undermine even the upturn. Households will try to decrease indebtedness by reducing consumption. They hardly have had the opportunity yet to repair their balance sheets by paying off debt, an inevitable adjustment to the enormous loss of wealth incurred on residential property and financial assets. The large fiscal deficit and mounting government debt make continued fiscal stimulation at the present scale difficult, if not impossible. As long as there is much spare production capacity, the incentive for adding to it will be minimal. In addition, the cost of capital will be permanently higher than it was before the crisis. Consequently, capital expenditure will most likely remain subdued. All things considered, a return to full employment may well take much longer under the current conditions than it usually does after a recession.

Figure 2.5 Looking forward with increasing confidence: leading indicators, United States, 1978-2009

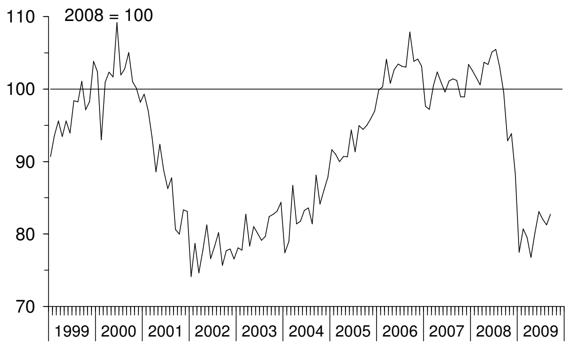
Consumer confidence



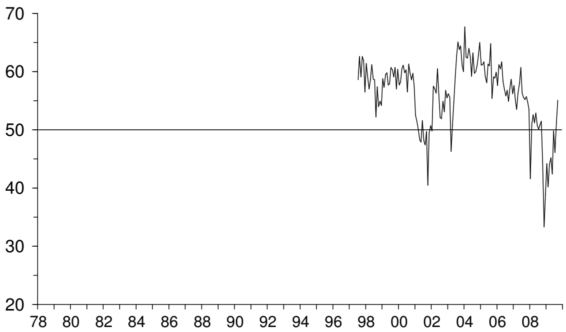
Producer confidence



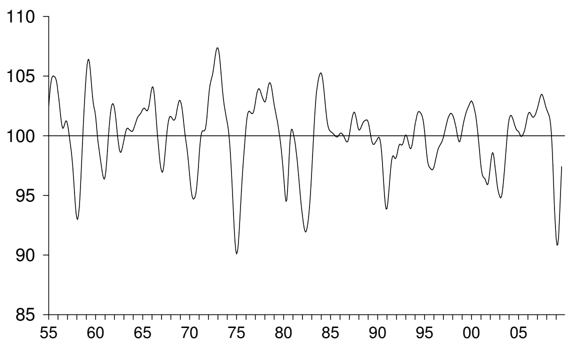
New orders for capital goods [a]



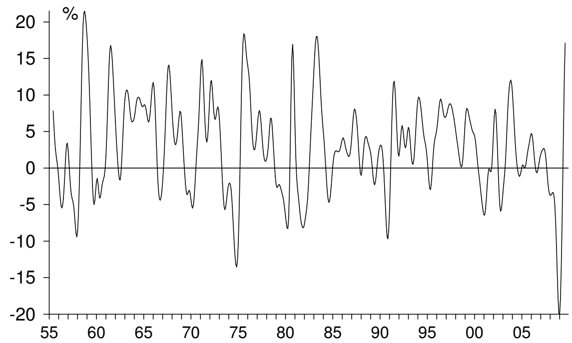
Producer confidence, services industries



OECD Composite leading indicator, index [b]



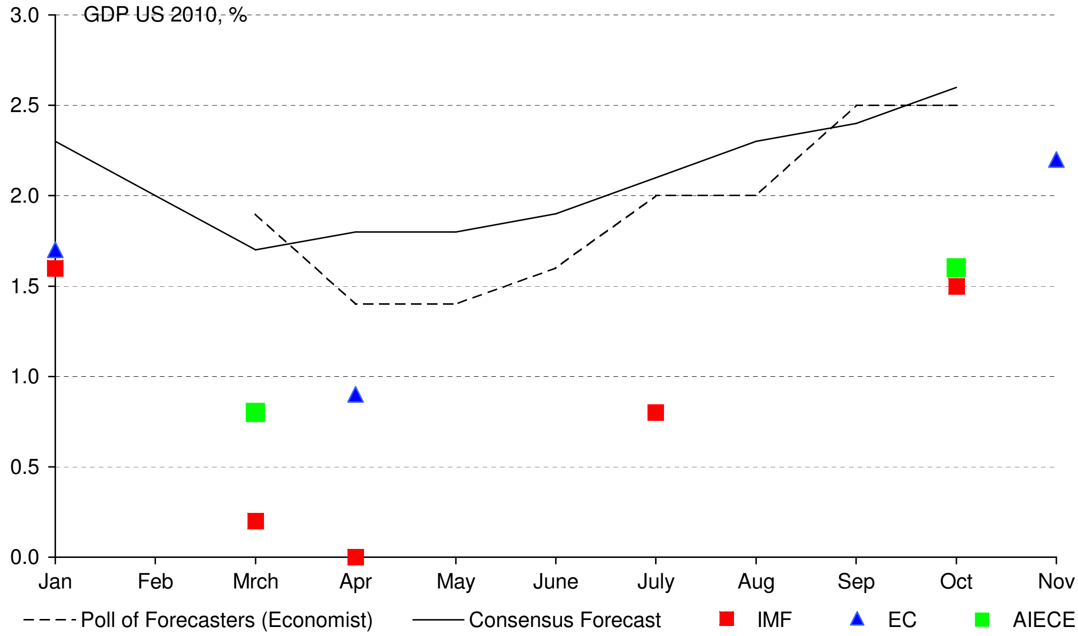
OECD Composite leading indicator, change [c]



[a] Excluding defence and aircraft.
[b] OECD composite indicator of industrial production.
[c] Last three month over previous three month, annualised.

Again according to the IMF and the OECD, GDP growth in 2010 will be less than 1%. That will not be sufficient to stabilise the labour market. Unemployment may reach 10% by the end of this year already. As a result, wages will remain suppressed and inflation will remain very low. Low GDP growth and sustained deficit spending may well cause the fiscal deficit to grow beyond 10% of GDP in 2010. Deficit spending and measures that have been taken to support the financial sector may cause the federal government's debt to rise to over 60% of GDP in 2010, which would be the highest debt ratio since the early fifties.

Figure 2.6 US GDP forecasts for 2010 are revised upwards since April



The institutes' forecasts

The forecasts of institutes participating in the AIECE network may be summarised as follows. The forecasts of this year's contraction range from 2.5% to 3.3%, the average being minus 2.8%. Not surprisingly, the range for next year is much larger. GDP forecasts for 2010 vary from 0.6% to 2.5%, with an average of 1.6%. Many institutes emphasise that so far, the recovery has been due to temporary factors such as the reversal of the stock cycle and the cash-for-clunkers scheme. In addition, many question the sustainability of the recovery, citing the factors already mentioned before: household indebtedness, rising unemployment, the presence of spare capacity, and the public sector's financial constraints. Most describe the recovery as moderate and fragile and do not see a sharp, V-shaped recovery in the making. On the other hand, one positive factor mentioned is the flexibility of the labour market, which may facilitate a surge in labour productivity.

Questions for discussion on the US economy

At the current junction, uncertainties abound. Even if in the United States the recession is formally declared to be over within a few months, countless questions remain. A short selection:

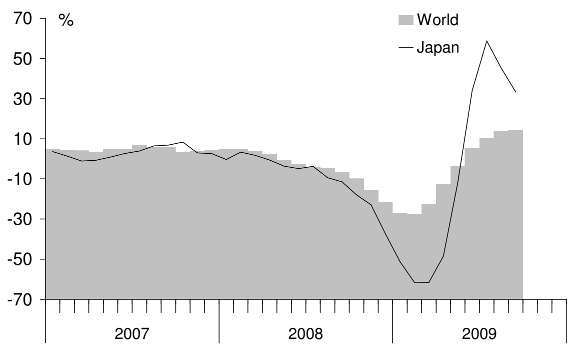
- *When analysing actual GDP growth and thinking about the near-term prospect for it, we often think in terms of expenditure categories. Taking this approach now easily leads us to think that there is hardly a way out of the ongoing recession. Still, recessions always come to an end at some point in time. Does thinking in terms of GDP components entail undue pessimism under the current circumstances?*
- *The unheard-of turmoil that has raged financial markets for many months has eased considerably. Day-to-day volatility and risk premiums have decreased gradually and substantially. Is a renewed outbreak of financial turbulence conceivable? Are new financial disasters to be expected? What about the diverging performances of wholesale and retail banking? Is the wholesale market now dominated by a few super-big companies who are glad to have seen some of their biggest rivals going out of business?*
- *How is the Fed going to deal with the enormous amount of liquidity that is around? In spite of the vast amounts of money that have been brought into circulation since September last year, is there a real danger of deflation?*
- *The dollar recently depreciated below the magic 1.50 exchange rate to the euro. Will the crisis have structural consequences for such fundamental issues as global trade imbalances? Will US consumers finally adjust and go on saving more than they used to?*
- *The United States government has to deal with a large number of important policy issues. Health care, financial sector reform, fiscal policy, trade policy are all on the agenda (or should be). Will the Obama administration pull it all off? If he fails to carry through credible and effective reform in health care finance, will he be able to be effective in other fields? What do we know this far about his stance on free trade and protectionism?*

2.2 Japan

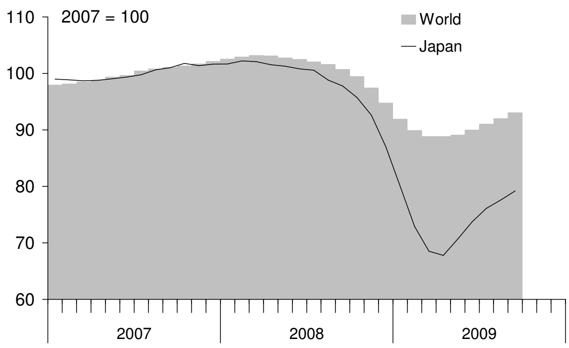
Japan was hit extremely hard by the global crisis, mainly through its high export dependency of durable goods. Final demand for these products collapsed all over the world, followed by a sharp reduction in inventories. Japanese industrial production declined at an annualised rate of 65% at the beginning of this year (figure 2.7). An early recovery in neighbouring countries, particularly China, helped to turn around this devastating development. Exports started to rise again in May and industrial production in June. Even though the recovery took on a ferocious pace, exports and production levels are still far below the highs in 2008. The second positive driving force for the Japanese economy from the second half of this year is the fiscal stimulus packages to the tune of 4.2% of GDP.

Figure 2.7 Japan the most swinging state in the world

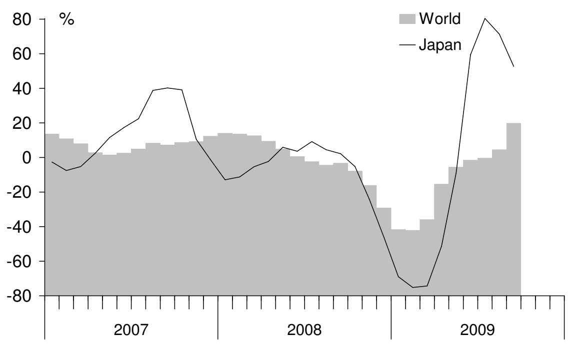
Industrial production momentum [a]



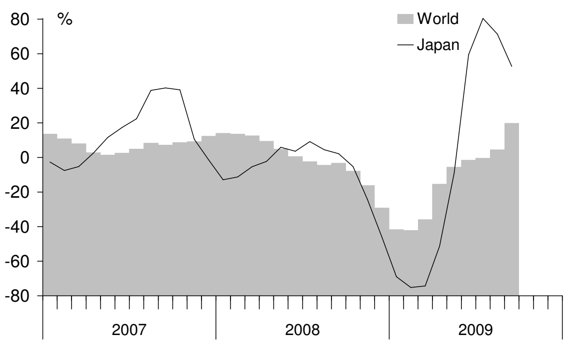
Industrial production index [b]



Exports volume momentum [a]



Imports volume momentum [a]

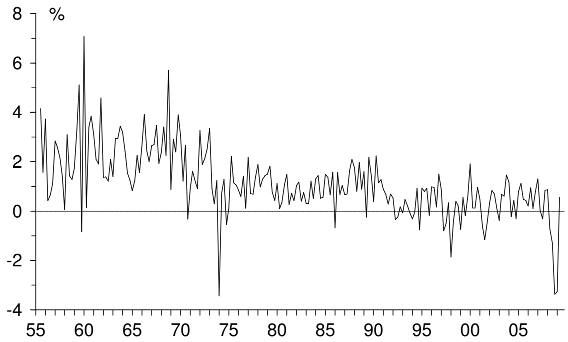


[a] Seasonal adjusted, annual rate.
[b] Seasonal adjusted, three month moving average.

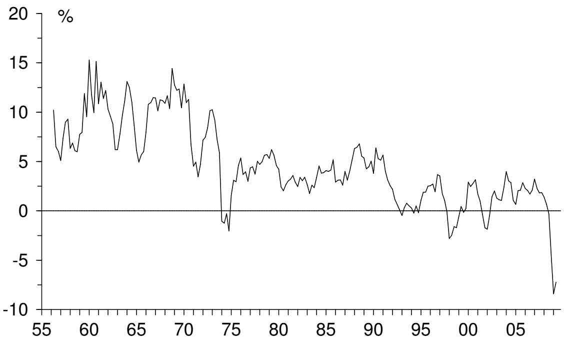
AIECE member institutes estimate Japanese GDP to fall by 5.7% this year and to recover only partially in 2010 by 1.3%. Though the contribution of net exports to growth has recently turned positive, for 2009 as a whole net exports are dragging down GDP growth by approximately 2%-points, but it will contribute positively in 2010. Private investment was scaled back in 2009 due to a sharp fall in profitability in the first half of this year. No recovery is expected for 2010 due to weak demand and very low capacity utilisation rates. Household disposable income has been falling as the decline in wages accelerated and employment shrank. With hardly any change in the household savings ratio private consumption will decline this year and recover only slightly in 2010.

Figure 2.8 After a lost decade, Japan has experienced the Great Recession

GDP quarter on quarter



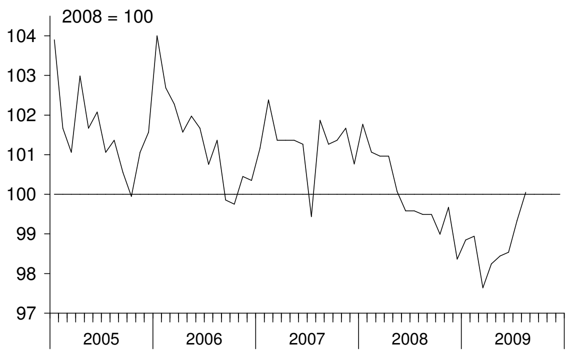
GDP, on year ago



Deteriorating conditions on the labour market have intensified deflationary pressures. Actual and core inflation will probably remain negative over the forecast horizon in spite of record low interest rates and a lot of quantitative easing by the Bank of Japan. However, these measures helped to improve corporate financing conditions. Fiscal stimulus and automatic stabilizers pumped up the government deficit to almost 10% in 2009, with no improvement in sight for 2010. Gross public debt will rise to approximately 200% of GDP, the highest ever recorded in any advanced economy. The new government has not yet announced any fiscal consolidation targets, but the Bank of Japan is planning to start withdrawing its emergency credit-easing programs in the near future.

Figure 2.9 Spending and deflation in Japan

Retail sales volume



Annual consumer price inflation

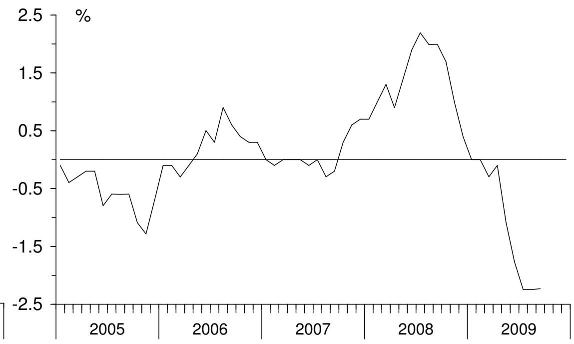
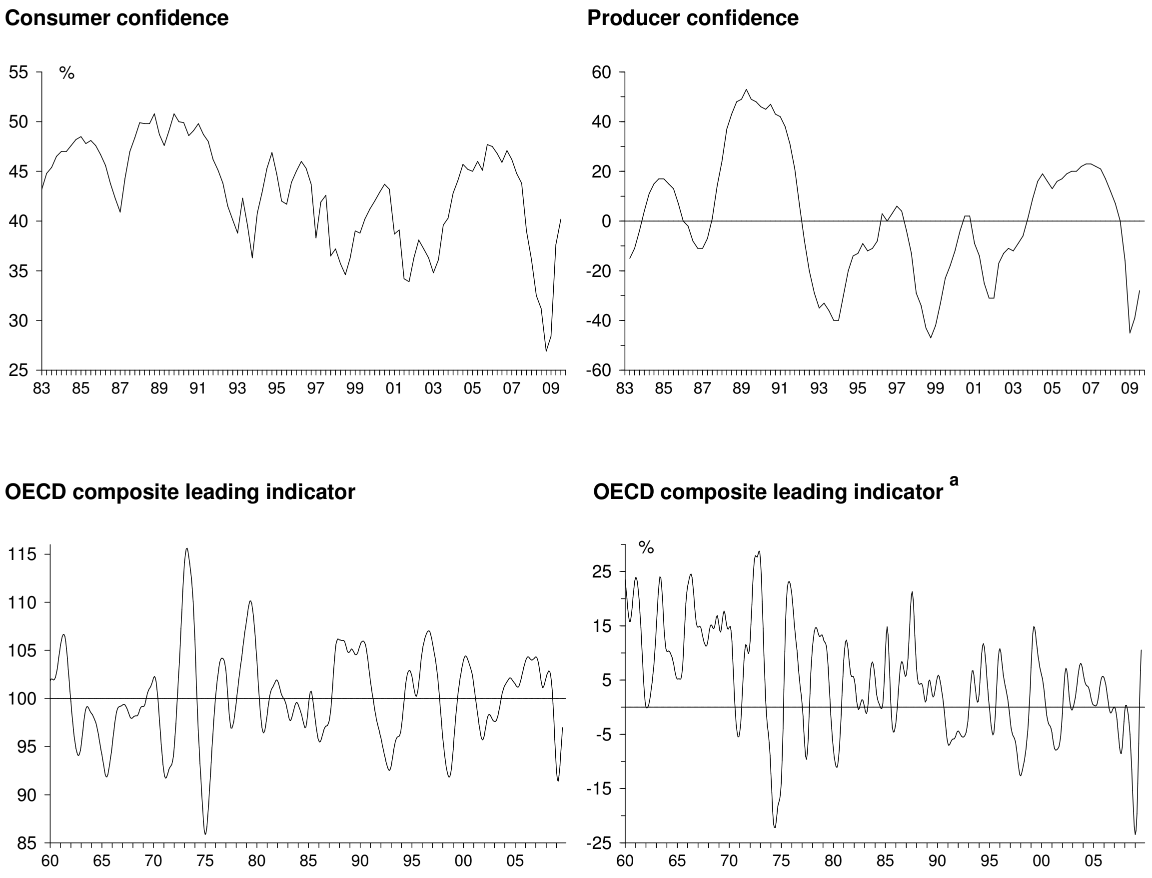


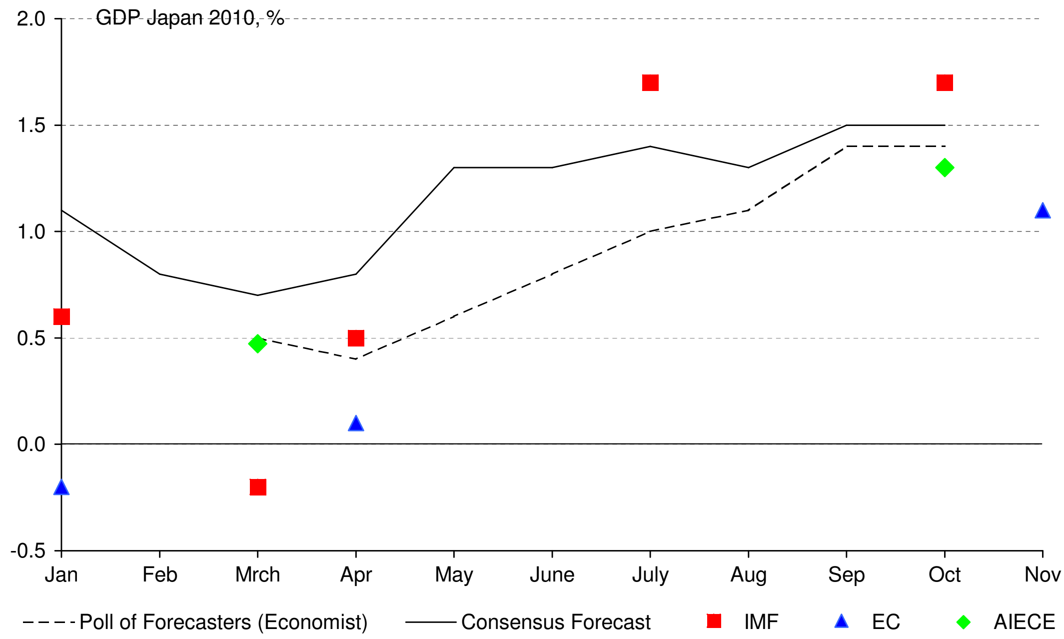
Figure 2.10 Japanese leading indicators on the rise



[a] Last three month over previous three month, annual rate.

The main downward risks for Japan seem to be a (forced) early withdrawal from expansionary policies and a further rise in the exchange rate. On the other hand, a more positive outlook for the rest of Asia should help the Japanese economy to recover more quickly.

Figure 2.11 Consensus Japan (hier sprekende titel nog)



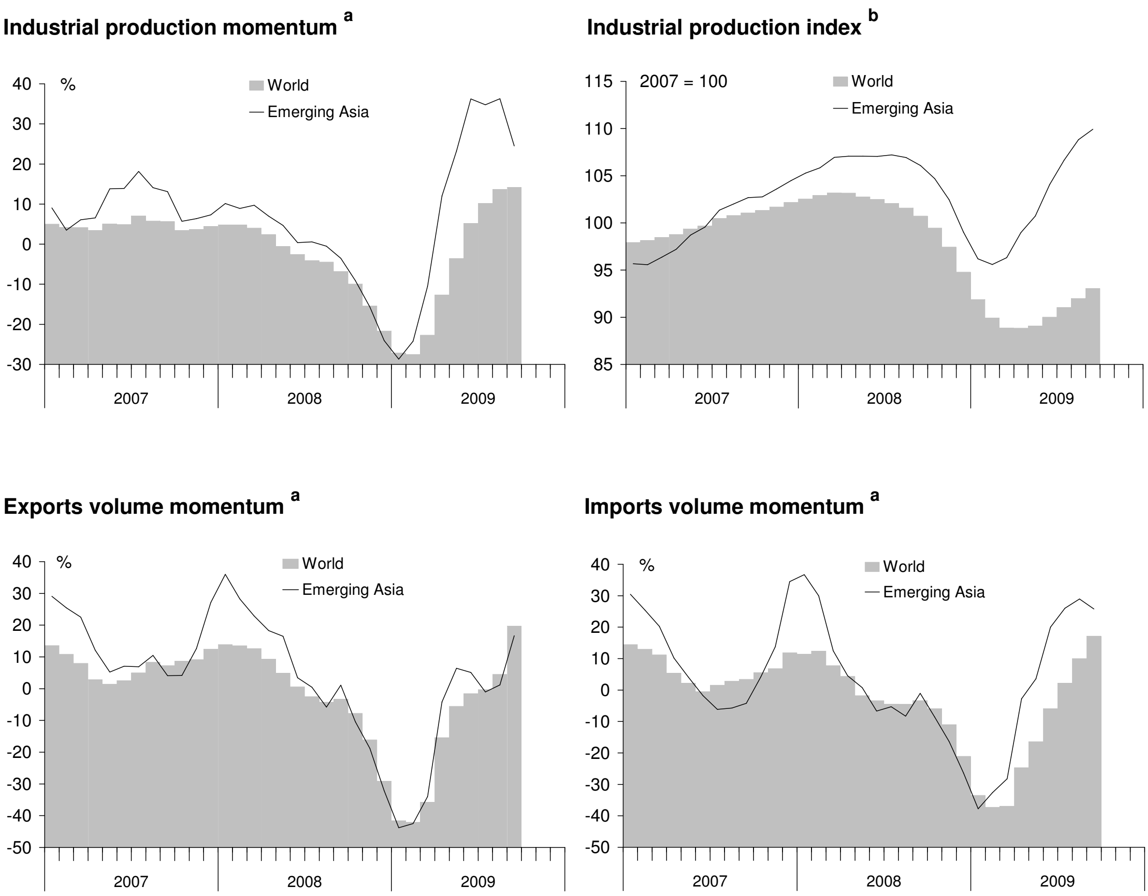
Questions for Discussion on the Japanese economy

- *How to stop deflation?*
- *Is the strong yen killing exports?*
- *To what extent will private final domestic demand be able to take over from exports, stock building and government stimuli to sustain the recovery in 2010?*

2.3 Emerging Asia

Export oriented countries in emerging Asia were hit particularly hard by the financial crisis in the second half of last year. Production growth decelerated fast, but started to pick up at the beginning of this year, preceding other parts of the world. Moreover, the pace of the recovery was incredibly strong, given the weak environment. In the third quarter, industrial production and GDP already surpassed the summits reached in the second quarter of 2008 (Figure 2.12 upper right panel) The outlook for the fourth quarter is also bright according to the OECD leading indicator for industrial production (Figure 2.13). The turnaround was mainly fabricated by huge fiscal and monetary stimuli, notably in China and Korea. Neighbouring countries profited immediately, but the region as a whole also helped to pull the rest of the world out of the recession. So far, Asian exports recovered in line with the rest of the world during the second and third quarter, but Asian import growth clearly outpaced the world average. A rebound in financial markets and capital inflows, easing financing constrains for smaller firms, contributed as well to the recovery. In the course of this year, stock building become the third

Figure 2.12 Powerhouse Asia leading the global recovery

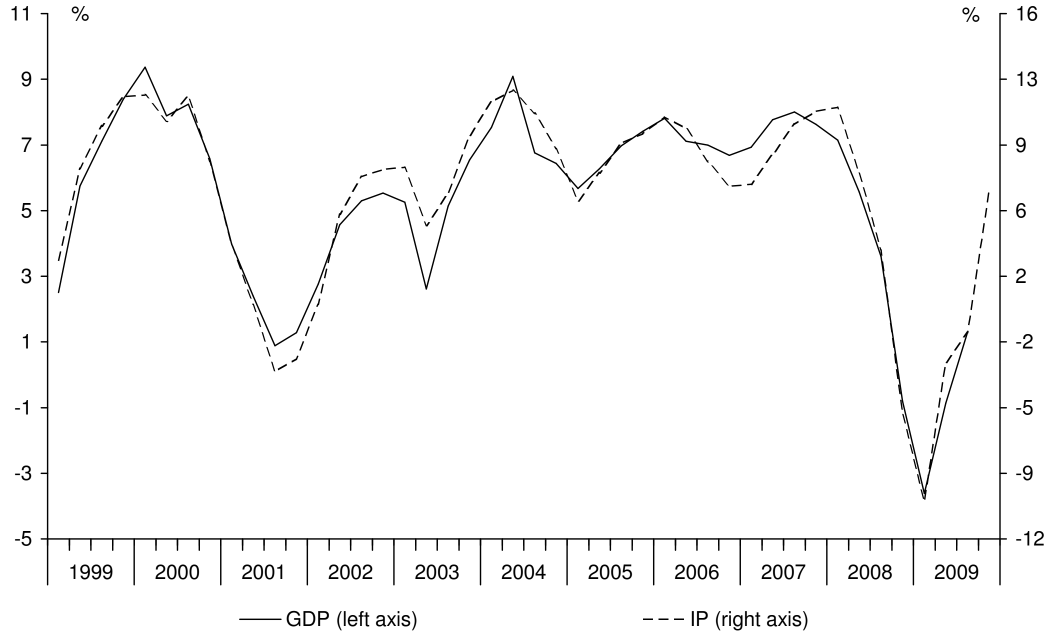


[a] Seasonal adjusted, annual rate.
[b] Seasonal adjusted, three month moving average.

major driving force for the recovery. India and Indonesia showed a more stable growth path during the recession, being less export-dependent.

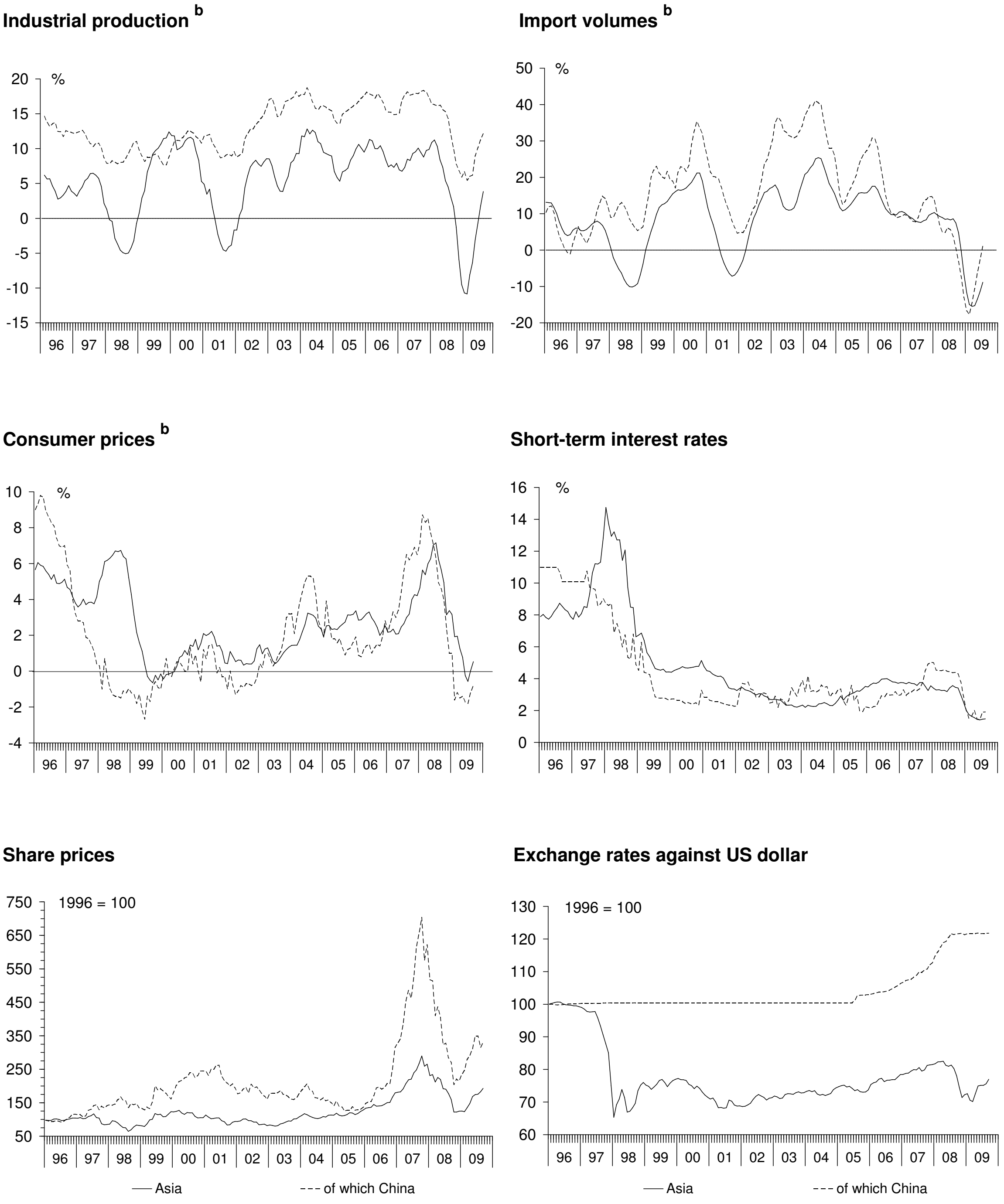
China was leading the turnaround with massive fiscal stimulus. The government balance switched from a surplus of over 3% of GDP in the first quarter of 2008 to a similar deficit in the first quarter of 2009. The current upswing is already helping to control the deficit and there is room for further stimuli in case of an unexpected slowdown. Public spending is switching from infrastructure to social services like education, health and pensions. This should contribute to higher private consumption and better control of the investment boom and lessen the export dependency. Car subsidies helped to raise car sales by some 85% in the third quarter over a year ago. Money supply rose over 20% in the first half of this year, but was reined in significantly in the third quarter to avoid overheating and speculative bubbles in asset markets. However, expectations of a stronger yuan may boost inflows of capital. So far the recovery is entirely driven by domestic demand. AIECE members estimate a GDP growth in China of 8.0% in 2009 and 8.8% in 2010. Current trends seem to point to even stronger growth in the current year, and possibly in 2010.

Figure 2.13 Changes in GDP closely related to industrial production shifts in emerging Asia[a,b]



[a] Import weighted data of the 10 most important countries.
[b] Percentage changes over 12 months in %.

Figure 2.14 Indicators Asia excluding Japan, 1996-2009 [a]



[a] Import weighted data of the 10 most important countries.
[b] Percentage changes over 12 months in %.

Other countries in Asia also pursued powerful fiscal and monetary policies to counteract the financial crisis. But the initial conditions were, in general, not as sound as in China. In some countries (India and Malaysia), fiscal sustainability is coming into question. Many of these countries also experienced a reversal in international capital flows, leading to severe credit tightening. The reversal in capital flows caused rapid exchange rate depreciation in most countries vis-à-vis the dollar, yen and yuan during 2008. This was particularly important for Korea, with the won falling by 35% in nominal effective terms. Authorities reacted with accommodating monetary and bank lending policies. Maintaining high credit growth carries the risk of creating incentives for overinvestment, unsustainable asset price inflation and a worsening of credit quality in the banking system. Regulators in South Korea, Hong Kong and Singapore already told banks to tighten lending standards. Moreover, Hong Kong recently enacted measures to curtail property speculation. India's central bank took the first step toward withdrawing its record monetary stimulus as inflation pressures started to build up, ordering lenders to keep more cash in government bonds.

Most countries outside China will still show negative growth in 2009, but a more stable development in India and Indonesia props up the average for this group of countries to some 1.5%. Growth in emerging Asia next year is forecast to equal approximately the long-term trend.

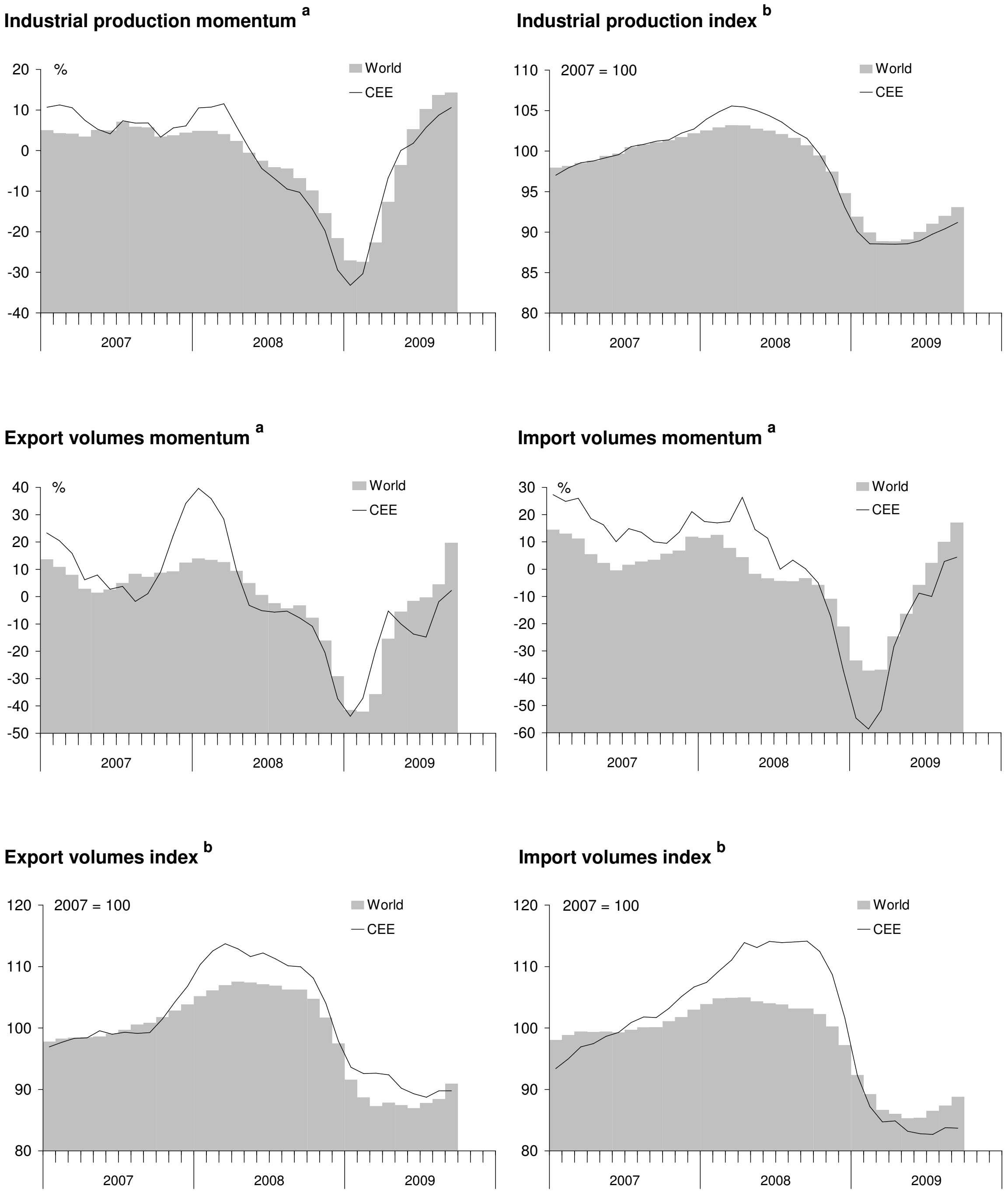
Questions for Discussion on dynamic Asia

- *Do the favourable 2009 developments show that dynamic Asia is permanently decoupled from the global business cycle?*
- *How to diminish export-dependency?*
- *Will private final domestic demand be able to take over from stock building and government stimuli to sustain the recovery in 2010?*
- *Have we entered the exit phase of fiscal and monetary support in Asia?*

2.4 Central and Eastern European countries

Production in Central and Eastern Europe as a whole declined earlier and faster than in the rest of the world (figure 2.14). Particularly Russia and most of the other CIS states were hit hard. Central European countries generally moved in line with Western Europe, with two exceptions: Poland was doing much better and the Baltic much worse. The upturn in the whole area is now well established, but is trailing the world economy somewhat . Industrial production levels are still far below the latest top (-13%). The production decline is mirrored in imports declining at record pace during 2008, culminating in a negative momentum of -60% (annual rate) at the beginning of 2009. Imports are still 28% below the top in early 2008 and are just starting to recover. Exports fell more in line with world trade and net exports thus contributed positively to growth. Investments in the region were most affected by the financial crisis as capital flows suddenly turned outward. This also led to sharp depreciations, first in Central European countries, notably Poland, and later in Russia as well. The Baltic States kept their currencies pegged to the euro, but are under increasing pressure to abolish this policy.

Figure 2.15 Central and Eastern Europe in the world economy



[a] Seasonal adjusted, annual rate.
[b] Seasonal adjusted, three month moving average.

Russia has been dealing with the consequences of an oil-boom-related surge in capital inflows up to the middle of 2008, culminating in a rapid devaluation of the ruble at the beginning of this year. Substantial foreign-currency borrowing had led to unsustainable high rates of credit growth. The sudden reversal of the capital flows and the drop in commodity prices led to a free fall of investments, causing GDP to decline by more than 10% in the first half of this year.

Recent data show that the economy may have turned the corner, helped by aggressive fiscal stimulus. GDP growth in the third relative to the preceding quarter is estimated at +0.6%. Rising commodity prices and a recovery in the rest of Europe will contribute to further growth in 2010. Fiscal policy will probably remain expansionary in spite of the enormous deterioration of the fiscal balance between 2008 (surplus 4% of GDP) to 2009 (deficit 7% of GDP). Monetary policies have been geared to safeguarding stability following the sharp depreciation. These policies could become more accommodating now. AIECE member institutes estimate Russian GDP will fall by 7.0% this year, but will return to growth by 2.3% next year. Other CIS countries are doing a bit better on average, but the Ukraine and Moldavia are worst off with GDP declines of approximately 15% this year and hardly any recovery in 2010.

Table 2.2 Key variables of major countries in Central Europe

	Poland		Czech Republic		Hungary		Slovak Republic	
	2009	2010	2009	2010	2009	2010	2009	2010
	Annual percentage changes %							
GDP volume	0.9	1.4	– 4.3	0.3	– 6.3	0.5	– 4.5	1.3
Private consumption	1.9	1.0	1.1	0.7	– 5.9	0.3	– 1.5	1.5
Investments	na	na	na	na	na	na	na	na
Exports g&s	– 10.0	4.9	– 17.6	2.4	– 14.2	5.0	– 14.0	– 0.4
Imports g&s	– 13.3	5.2	– 17.7	0.4	– 18.5	5.5	– 10.1	– 1.3
Private consumption deflator	3.5	2.1	0.6	1.2	4.6	4.4	1.9	2.3
Unemployment, % labour force	9.8	11.6	6.8	8.5	9.9	10.0	12.4	11.7
Government net lending, % GDP	– 5.8	– 7.2	– 4.3	– 4.9	– 3.9	– 3.8	– 6.3	– 5.5

On average the development of GDP volume and demand components in the four major Central European countries is compatible to Western European averages (table 2.2). This is also true for government net borrowing. Inflation and unemployment rates are somewhat higher. Poland is one of the very few countries in the world that managed to keep GDP growth positive in 2009. The extreme depreciation of the zloty curbed export losses and the high level of self-financing of private investments as well as infrastructural investments linked to EU transfers sheltered Poland to some extent from the international financial crisis. Polish banks did not get into great difficulty. Fiscal and monetary policies are judged neutral rather than expansionary, but some taxes were cut. Hungary is on the other end of the spectrum. Tight macro-economic policies under the IMF program reined in expenditures. The prominent position of foreign banks curtailing credit did not help either. But restored credibility and bouncing investor confidence opened up the way to monetary easing in the second half of this year. Exports will remain the main driving force in 2010, but the shift in tax burden from labour to consumption will contribute positively to Hungary's growth potential in the long run. Current developments in the Czech and Slovak Republic most closely resemble those in Western Europe. Fiscal and monetary stimulus played a major role in containing the fall out of the financial crisis. The

Czech Republic already approved a fiscal consolidation plan for the medium-term. Availability of credit remained ample, although lending standards were slightly tightened. The outlook for both countries remains very dependent on the growth (prospects) for Germany.

Questions for Discussion on Central and Eastern European economies

- *Is the fall of local currencies damaging for confidence of international investors?*
- *Could fiscal tightening (for instance in the Czech Republic and Poland) hamper the recovery?*
- *Or is a lack of budget discipline a greater threat (for instance downgrading zloty)?*

3 The euro area

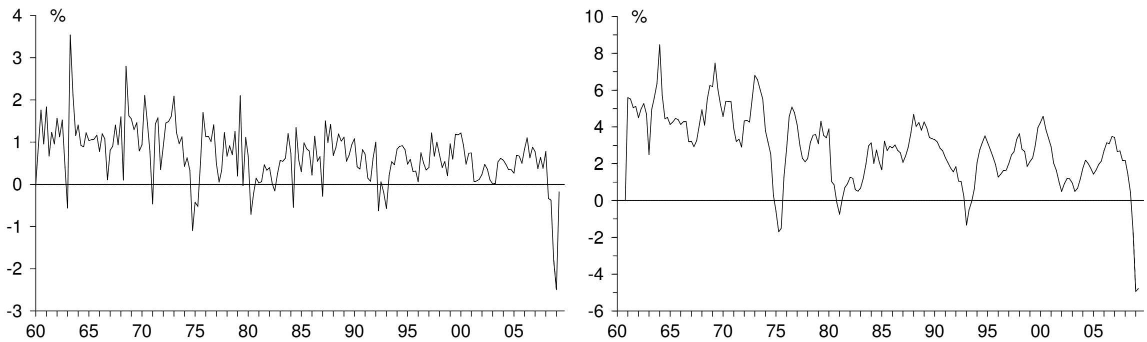
In the second quarter of 2009, quarterly GDP in the euro area decreased for the fifth time in a row. However, after the disastrous output losses that occurred in last years' final quarter and this year's first – respectively 1.8% and 2.5% quarter on quarter (non-annualised), the biggest such declines in fifty years – the second quarter decline in GDP was a relatively moderate 0.2%, while growth returned in the two major euro area countries Germany and France.

In the first months of the year, all categories of aggregate expenditure declined, resulting in a massive contraction of production. Consumption expenditure went down as the recession started to bite. Employment decreased and consumers, under the force of circumstances, started to pay down debt and increase savings. Exports suffered from failing demand worldwide. Capital expenditure decreased as capacity utilisation plunged, taking away firms' very motive for investment in productive capacity, while the necessary means were lacking anyway, with profits declining and credit conditions ever tightening. Finally, GDP growth was pushed deeper into the red by a marked deceleration of stock building, a deliberate adjustment of production to the unintended rise in the stock-to-sales ratio that took place towards the end of last year.

Figure 3.1 Euro area has its deepest post-war recession[a]

GDP quarter on quarter

GDP on year ago



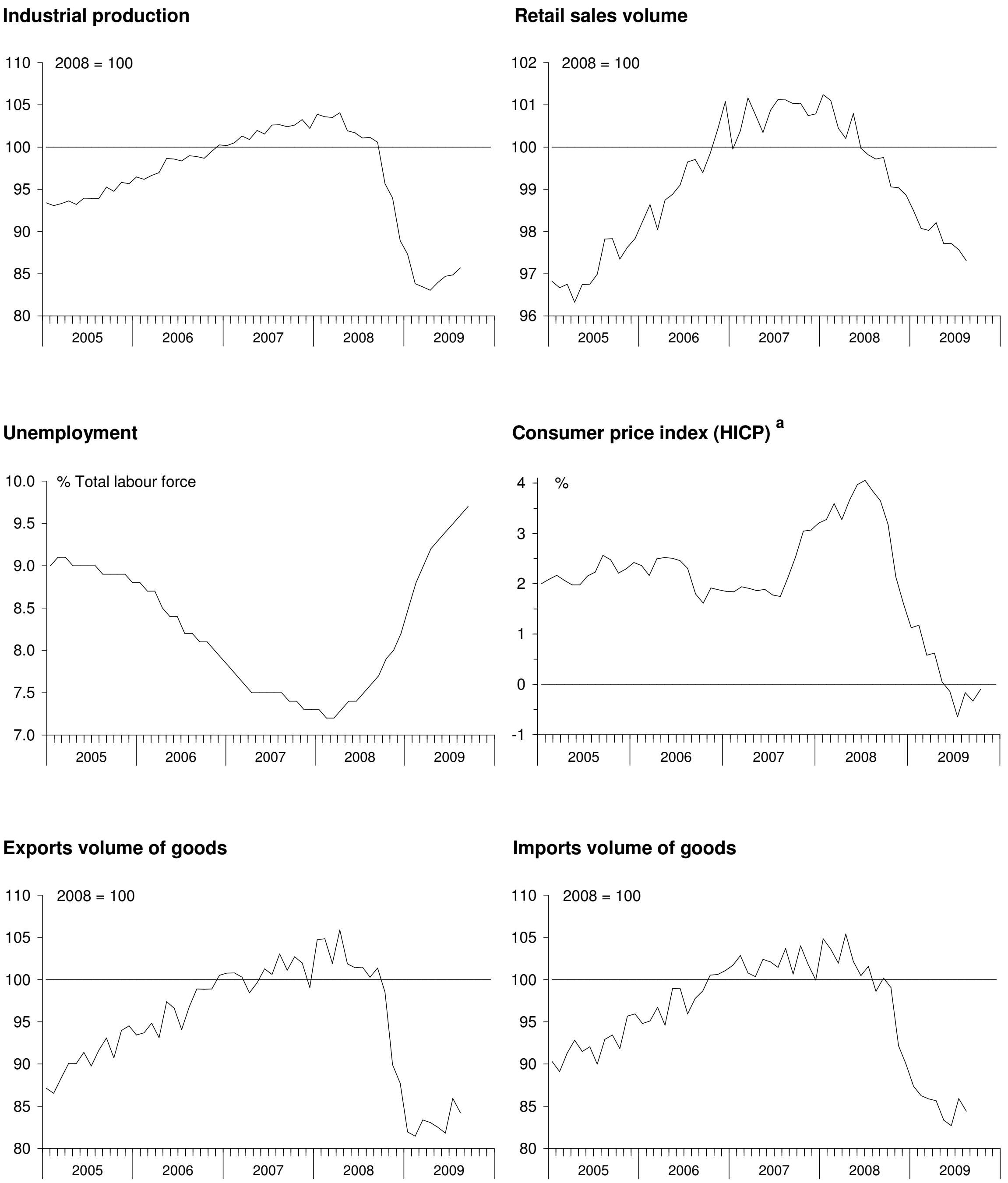
[a] 1960-1995: EU15. Source: OECD.

The near-stabilisation of output in the second quarter was due to external demand ceasing to fall as fast as it did in previous quarters and to the waning of adverse stock adjustments. Nevertheless, unemployment, which generally lags production considerably, continued to rise. One out of five young labour market entrants is now unable to find employment. Since the end of 2007, the unemployment rate has risen by 2.2 percentage points, not even half the 4.5 percentage points increase in the United States. But from the final quarter of 2007 to the second quarter of 2009, GDP in the euro area has contracted by 4.8%, while the figure for the United States is 3.8% (see Table 3.1). As a result, labour productivity in the United States continues to rise, whereas in the euro area it is falling. In many European countries, labour law makes shedding workers hard for employers. In addition, existing schemes for working time reduction as well as recent extensions to such schemes enable firms to employ workers part-time at low cost. Labour market conditions vary considerably across euro area countries. Conditions are harshest in Spain and Ireland. In June, unemployment in these countries had risen by 9¼ and 7½ percentage points respectively from late 2007 levels. In the Netherlands by contrast, the increase during that period was ½ percentage point only (harmonised statistic). Not surprisingly, the Netherlands now have the lowest unemployment rate of all euro area countries. Just as in the United States, fresh statistics indicate that GDP in the euro area has stopped contracting. Producers' and consumers' confidence have recently been rising from historically low levels. The same applies to the OECD's leading indicator. GDP is now projected to contract by 4½% in the whole of 2009. The end of the contraction is due to stimulative policy measures taken in the euro area and elsewhere. A total breakdown of the financial system has been prevented. Aggregate demand is being supported by governments engaging in deficit spending at an unheard-of scale and extremely loose monetary conditions. Additional government spending in the euro area amounts to over 1% of GDP this year. The ECB's main policy interest rate, which stood at 2.5% at the beginning of this year, has been lowered to 1%, a record low in the bank's history. Its most influential predecessor at the national level, the Bundesbank, never set its policy rate this low. The ECB continues to inject liquidity into the financial system, one of the new methods being cheap bank loans with a maturity of one year. Another, less conventional measure is the purchase of so-called covered bonds (asset-backed bonds held by commercial banks).

Table 3.1 GDP is not telling the whole story about the recent relative economic performance of the euro area

	Euro area	US
	Second quarter of 2009, percentage changes from the corresponding quarter in previous performance	
GDP	– 4.8	– 3.8
Domestic demand	– 3.2	– 4.7
Net exports (contribution to GDP growth)	– 1.6	0.9
Domestic demand	– 3.2	– 4.7
Private consumption	– 0.9	– 1.7
Government consumption	2.5	2.5
Gross fixed capital formation	– 11.4	– 16.9
Net exports (contribution to GDP growth)	– 1.6	0.9
Exports of goods and services	– 17.7	– 15.0
Imports of goods and services	– 14.4	– 18.5
Employment	– 1.6	– 3.9
Productivity per person employed	– 3.2	0.1
Unemployment rate (rise in % points)	0.5	3.9

Figure 3.2 Euro area: production and exports have bottomed out, but unemployment still rising



[a] Percentage change on year ago.

Table 3.2	**Wide differences between EU countries in depth of the Great Recession**		
Volume of	GDP	Domestic demand	Net exports [a]
Second quarter of 2009	% Changes from corresponding period in previous year		
European Union	– 4.9	– 4.3	– 0.6
Euro area	– 4.8	– 3.2	– 1.6
Belgium	– 3.7	– 2.2	– 1.5
Bulgaria	– 4.9	-13.4	8.5
Czech Republic	– 5.5	– 6.0	0.5
Denmark	– 7.0	– 8.1	1.1
Germany	– 5.9	– 1.6	– 4.3
Estonia	– 15.8	– 31.8	16.0
Ireland	– 7.3	– 11.8	4.5
Greece	– 0.3	– 4.5	4.2
Spain	– 4.2	– 6.7	2.5
France	– 2.8	– 2.3	– 0.5
Italy	– 6.0	– 4.3	– 1.7
Cyprus	– 0.7	– 4.9	4.2
Latvia	– 17.4		
Lithuania	– 21.1	– 30.7	9.6
Luxembourg	– 5.3	– 0.9	– 4.4
Hungary	– 7.3	– 14.0	6.7
Malta	– 3.0	– 12.4	9.4
Netherlands	– 5.2	– 4.6	– 0.6
Austria	– 4.5	– 1.6	– 2.9
Poland	1.4	– 0.9	2.3
Portugal	– 3.7	– 4.6	0.9
Romania	– 8.3	– 11.4	3.1
Slovenia	– 9.0	– 12.5	3.5
Slovakia	– 5.4	– 5.8	0.4
Finland	– 8.9	– 6.3	– 2.6
Sweden	– 7.0	-8.3	1.3
United Kingdom	– 5.5	– 6.3	0.8

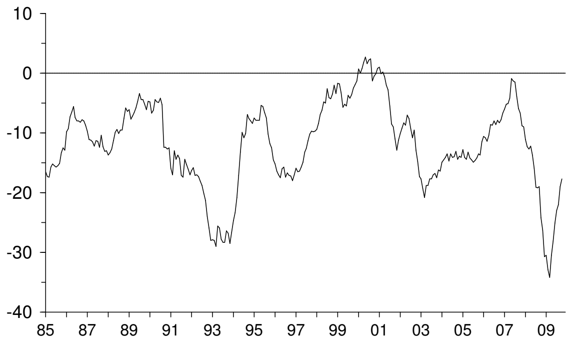
[a] Net exports in percentage points of GDP.

We expect economic conditions to go on improving into next year. For the whole of next year, GDP is projected to be same as this year, when it contracts severely. In other words, annual GDP stays at this year's suppressed level. This tentative recovery is driven by expansionary macro-economic policy. It seems unlikely that policy makers will scale back by next year already expansionary measures they have taken this year. Additional fiscal measures that have been publicly announced for 2010 now amount to ½% of projected GDP. The ECB's policy stance will probably remain exceptionally stimulative far into 2010.

Several forces at work retard a return to more robust economic growth. External demand is not expected to bounce back strongly. As is already happening in the United States, consumers will be under the necessity to pay down debt. They will do so partly of their own accord and partly because banks are reducing credit supply. Temporary measures that are boosting demand

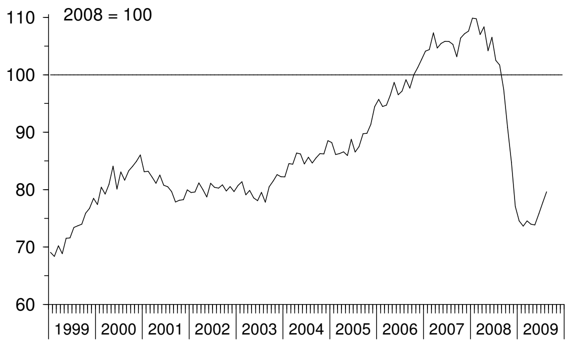
Figure 3.3 Business surveys and leading indicators are now promising for the near future of the euro area

Consumer confidence

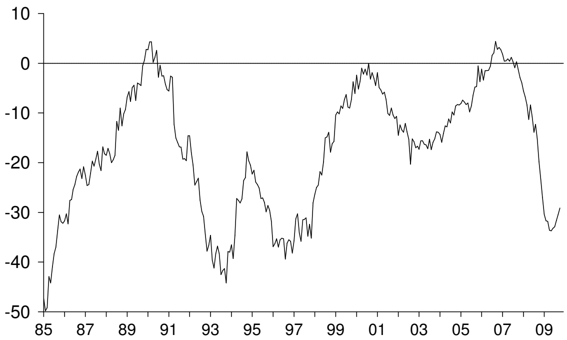


Producer confidence

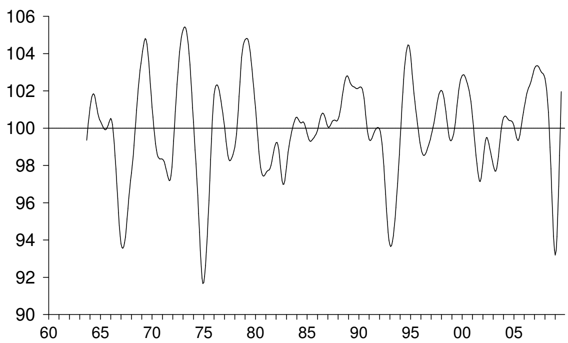
New orders manufacturing industry [a]



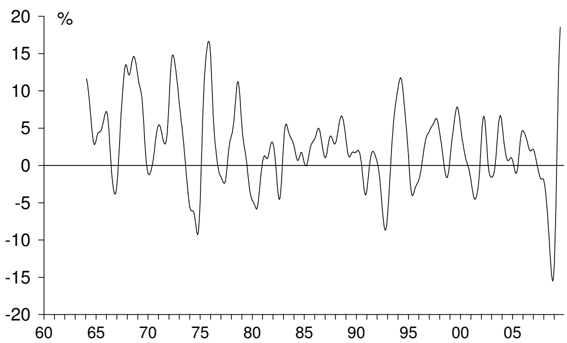
Producer confidence construction



OECD composite leading indicator



OECD composite leading indicator [b]



[a] Three-month moving average; exclusive airplanes and ships.
[b] Last three month over previous three month, annual rate.

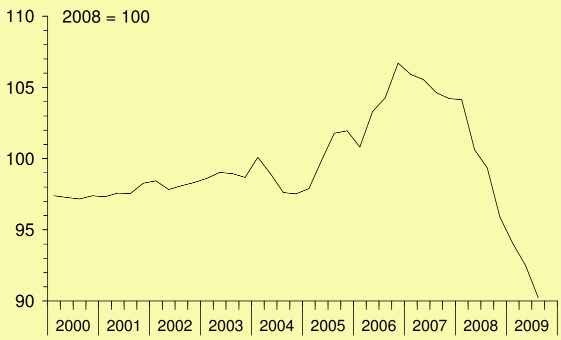
Construction in Europe takes a heavy blow

Like most everywhere, manufacturing is the industry suffering most from the recession in the euro area. Construction is a close second, however. In the second quarter of 2009, construction output was 7% lower than it was a year ago and 13% lower than the peak reached in the last quarter of 2006. Construction activity is generally sensitive to cyclical fluctuations. But specific problems afflicting housing markets in Europe are adding to the adverse macro-economic conditions. Easy access to cheap mortgage loans has pushed up house prices in recent years. With the ECB targeting price stability for the euro area as a whole, monetary policy could not be used to prevent housing market bubbles in individual euro area economies such as Ireland or Spain.[a] Households and real estate developers alike assumed too easily that prices would go on rising forever. Houses became clearly overvalued in several countries. The credit crisis has burst the bubbles. House prices now are declining in all euro area countries for which data are available, while housing starts are at a minimum. In Ireland, Spain, and the United Kingdom many homeowners are technically insolvent, as their mortgage debt exceeds the market value of their property.

A change for the better is not to be expected any time soon. Contrary to what is happening among manufacturers, there are no clear signs that producers' confidence is improving in the construction industry. In the first quarter of this year, housing permits, a forward indicator of construction activity, were lower by a third on a year ago. In addition, households and banks have become cautious about taking out and providing new mortgage loans. The tentative recovery of economic growth that is projected to continue throughout 2010 will not be supported by a revival of residential investment.

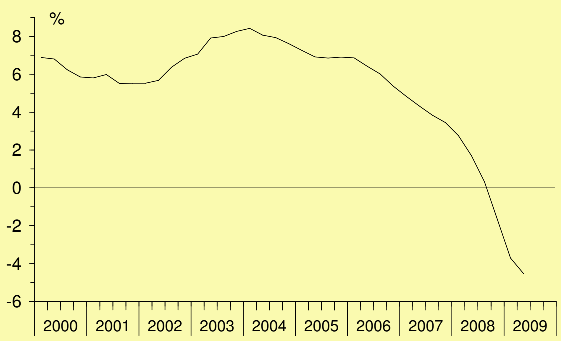
Indicators for construction activity and house prices, euro area

Output volume

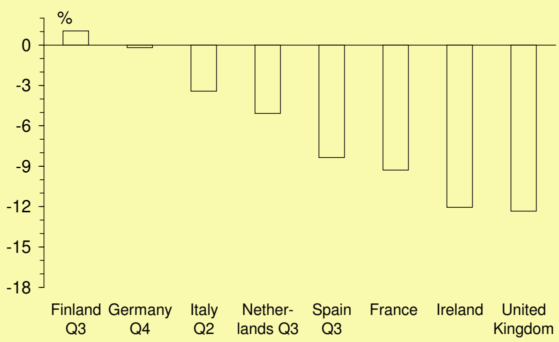


Producers' confidence

House Price [b]



House prices, eight countries, third quarter of 2009 [b, c]



[a] T. Conefrey and J. Fitz Gerald, Managing Housing Bubbles in Regional Economies under EMU: Ireland and Spain, ESRI working paper 315, October 2009.

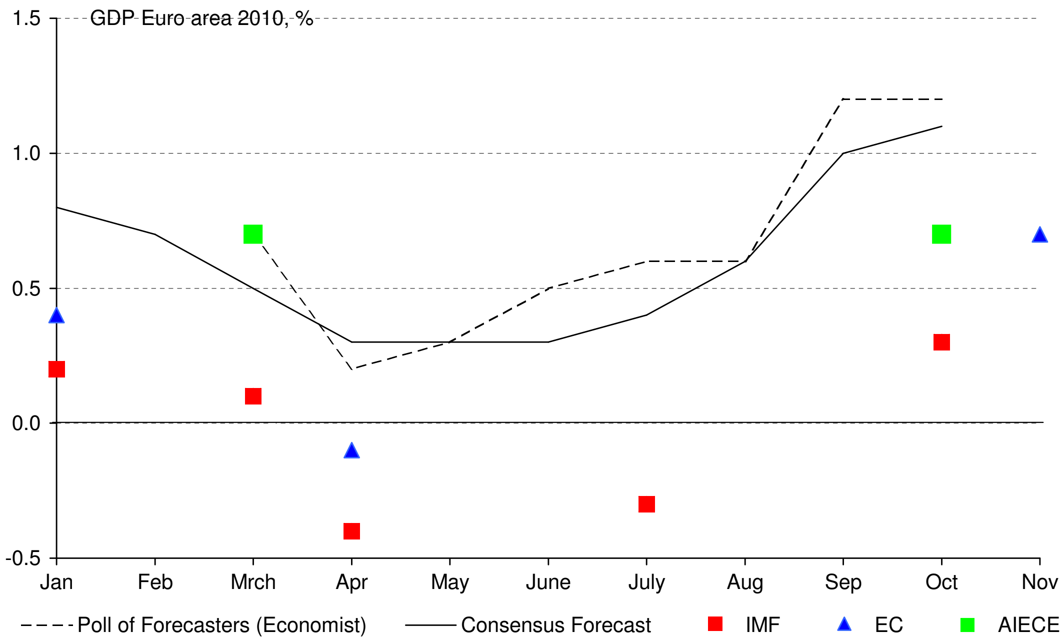
[b] Percentage change from corresponding quarter a year earlier.

[c] Third quarter of 2009, unless specified differently.

now, such as schemes to exchange old cars for subsidised new ones, will have a negative impact once they end. Housing markets in many European countries remain very weak.

GDP being flat next year causes the labour market to weaken further. Unemployment is expected to reach 11½% of the labour force, higher than ever since World War II. Just as in the Unites States, wage growth and inflation will be minimal. Inflation in 2010 is projected to be ½% only, far lower than the ECB's medium-term objective of slightly below 2% annually. The combination of zero growth, the increase in spending and fall in revenue caused by the recession itself, and significant amounts of discretionary spending, leads to a dramatic increase in deficit-to-GDP ratios. In 2010, fiscal deficits will rise by 1¼ percentage points to 6½% of GDP in the euro area as a whole, leaving further behind the limit of 3% of GDP agreed on (for normal times) in the Maastricht treaty.

Figure 3.4 Consensus Euro area (hier sprekende titel nog)



Questions for discussion

- *Can we ignore unemployment as a lagging variable or could it substantially weaken the rebound? Will Kurzarbeit be ended? If so, what will be the impact? Some fear a jobless recovery. Is this fear to be taken serious?*
- *Is the current divergence in the euro area (EU) worrying?*
- *Is the recent appreciation of the euro a threat to the European recovery?*
- *Will the recovery in the euro area be more moderate than in Asia and the US? If so, why?*
- *When can/will economic stimulus be withdrawn?*

4 Special topic: The current economic crisis and economic forecasting

Table 4.1 The AIECE institutes on the impact of the crisis on their work and tools

	Less	Same	More	Number of replies
Time spent on forecasting in general	0	56	44	25
Time spent on forecasting international outlook	0	44	56	25
Time spent on analysing financial markets	4	16	80	25
Time spent on monitoring recent economic developments	0	36	64	25
Frequency of forecast	0	80	20	25
Attention paid by media and policy makers to your forecasts and analysis	0	32	68	25
	Yes	No		
Has the crisis led (or will it lead) to major changes in your analytical and forecasting tools?	14	86		22
Has the crisis led to major shifts in your policy assessments?	41	59		22
Is 'Keynes' back?	65	35		17

Questions for discussion

- *Macro-economics is heavily debated at the moment. Does this debate have any importance for macro-economic forecasting? Or for economic modelling?*
- *Could we have forecasted the Great Recession earlier and better (with the benefit of hindsight)?*
- *Is more fiscal activism increasing the importance of short-term forecasts?*

5 Part II

5.1 Part II.1 International forecasts

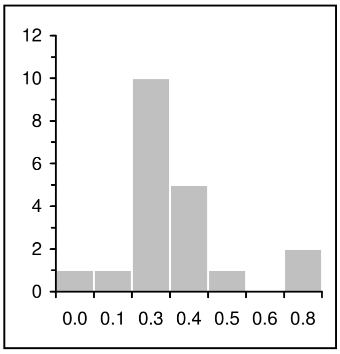
5.1.1 US FED fund rate

	2009	2010
Austria		
WIFO	na	na
Belgium		
FPB	0.1	0.6
DULBEA	na	na
IRES	0.0	1.0
Czech Rep		
CCSF	na	na
Denmark		
DEC	0.3	0.5
Finland		
ETLA	0.3	1.3
France		
BIPE	0.3	0.4
COE	0.2	0.6
INSEE	na	na
OFCE	0.3	0.3
Germany		
DIW	0.2	0.5
HWWI	na	na
IFO	na	na
IFW (Kiel)	0.0	0.4
RWI	na	na
Greece		
KEPE	na	na
Hungary		
GKI	0.5	0.8
KOPINT	0.3	0.5
Ireland		
ESRI	na	na
Italy		
CONFINDUSTRIA	0.3	0.4
ISAE	na	na
PROMETEIA		
REF	0.3	0.7
Netherlands		
CPB	0.3	0.5
Norway		
SN	na	na
Poland		
IBRKK	0.3	0.3
Serbia		
FTRI	na	na
Slovak Republic		
SAS	na	na
Slovenia		
SKEP	na	na
Spain		
CEPREDE	0.8	1.0
SGEI	na	na
Sweden		
CSE	0.3	0.8
NIER	0.3	0.8
Switzerland		
KOF	0.7	0.7
United Kingdom		
NIESR	0.3	1.2

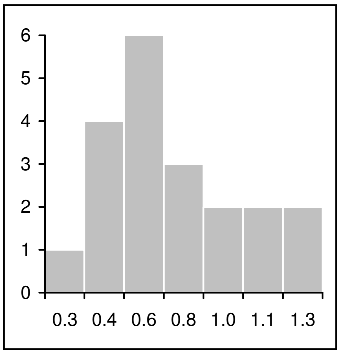
	2009	2010
Number	20	20
Average	0.3	0.7
Std.dev	0.2	0.3
Max	0.8	1.3
Min	0.0	0.3
Std.dev/avg	0.64	0.44

Frequency distribution of the answers

2009



2010



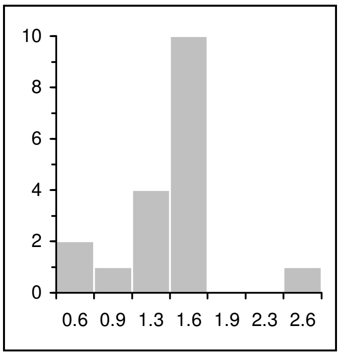
5.1.2 Euro Area short-term interest rates

	2009	2010
Austria		
WIFO	1.3	1.5
Belgium		
FPB	0.6	1.0
DULBEA	na	na
IRES	0.6	1.0
Czech Rep		
CCSF	na	na
Denmark		
DEC	na	na
Finland		
ETLA	1.3	1.6
France		
BIPE	1.3	1.3
COE	1.3	1.0
INSEE	na	na
OFCE	1.2	1.0
Germany		
DIW	0.8	1.0
HWWI	na	na
IFO	na	na
IFW (Kiel)	1.0	1.0
RWI	1.5	1.5
Greece		
KEPE	2.6	2.5
Hungary		
GKI	na	na
KOPINT	na	na
Ireland		
ESRI	na	na
Italy		
CONFINDUSTRIA	1.3	1.2
ISAE	na	na
PROMETEIA	1.2	1.1
REF	1.4	1.5
Netherlands		
CPB	1.4	1.5
Norway		
SN	na	na
Poland		
IBRKK	na	na
Serbia		
FTRI	na	na
Slovak Republic		
SAS	na	na
Slovenia		
SKEP	1.2	1.3
Spain		
CEPREDE	1.3	1.6
SGEI	1.5	1.2
Sweden		
CSE	na	na
NIER	na	na
Switzerland		
KOF	na	na
United Kingdom		
NIESR	na	na

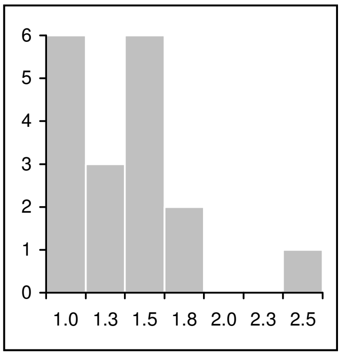
	2009	2010
Number	18	18
Average	1.3	1.3
Std.dev	0.4	0.4
Max	2.6	2.5
Min	0.6	1.0
Std.dev/avg	0.34	0.28

Frequency distribution of the answers

2009



2010



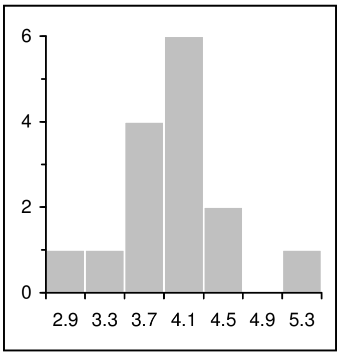
5.1.3 Euro Area long-term interest rates

	2009	2010
Austria		
WIFO	3.8	3.8
Belgium		
FPB	4.0	4.1
DULBEA	na	na
IRES	3.3	4.0
Czech Rep		
CCSF	na	na
Denmark		
DEC	na	na
Finland		
ETLA	na	na
France		
BIPE	3.6	3.9
COE	3.6	3.7
INSEE	na	na
OFCE	4.0	3.6
Germany		
DIW	3.2	3.4
HWWI	na	na
IFO	na	na
IFW (Kiel)	2.9	3.3
RWI	3.9	3.7
Greece		
KEPE	5.3	5.1
Hungary		
GKI	na	na
KOPINT	na	na
Ireland		
ESRI	na	na
Italy		
CONFINDUSTRIA	na	na
ISAE	na	na
PROMETEIA	4.3	4.4
REF	na	na
Netherlands		
CPB	3.8	4.1
Norway		
SN	na	na
Poland		
IBRKK	na	na
Serbia		
FTRI	na	na
Slovak Republic		
SAS	na	na
Slovenia		
SKEP	4.5	4.7
Spain		
CEPREDE	4.0	3.8
SGEI	3.6	4.0
Sweden		
CSE	na	na
NIER	na	na
Switzerland		
KOF	na	na
United Kingdom		
NIESR	na	na

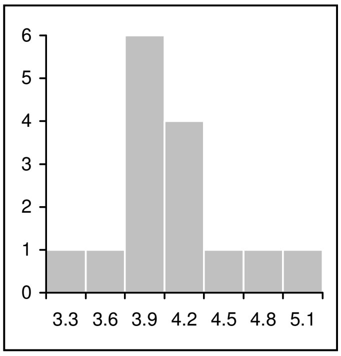
	2009	2010
Number	15	15
Average	3.9	4.0
Std.dev	0.6	0.5
Max	5.3	5.1
Min	2.9	3.3
Std.dev/avg	0.15	0.12

Frequency distribution of the answers

2009



2010



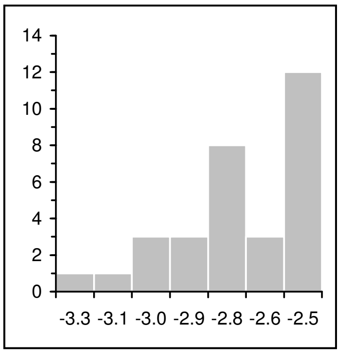
5.1.4 GDP United States

	2009	2010
Austria		
WIFO	-2.7	1.0
Belgium		
FPB	-2.8	1.5
DULBEA	na	na
IRES	-2.8	1.7
Czech Rep		
CCSF	-2.5	2.3
Denmark		
DEC	-2.9	2.0
Finland		
ETLA	-2.5	1.5
France		
BIPE	-2.9	1.7
COE	-2.5	2.5
INSEE	-2.6	na
OFCE	-2.5	1.9
Germany		
DIW	-2.5	2.0
HWWI	na	na
IFO	na	na
IFW (Kiel)	-2.5	2.0
RWI	-3.0	1.2
Greece		
KEPE	-2.8	1.6
Hungary		
GKI	-2.6	0.8
KOPINT	-2.7	2.0
Ireland		
ESRI	-2.7	1.5
Italy		
CONFINDUSTRIA	-2.6	2.0
ISAE	-2.6	1.8
PROMETEIA	-2.8	0.8
REF	-3.1	0.9
Netherlands		
CPB	-3.3	1.3
Norway		
SN	-2.9	1.0
Poland		
IBRKK	-2.6	1.5
Serbia		
FTRI	na	na
Slovak Republic		
SAS	na	na
Slovenia		
SKEP	-3.0	1.2
Spain		
CEPREDE	-2.9	2.2
SGEI	-2.5	2.5
Sweden		
CSE	-2.8	1.8
NIER	-2.8	1.7
Switzerland		
KOF	-2.8	1.4
United Kingdom		
NIESR	-3.2	0.6

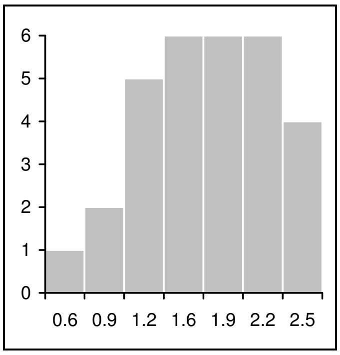
	2009	2010
Number	31	30
Average	-2.8	1.6
Std.dev	0.2	0.5
Max	-2.5	2.5
Min	-3.3	0.6
Std.dev/avg	-0.08	0.32

Frequency distribution of the answers

2009



2010



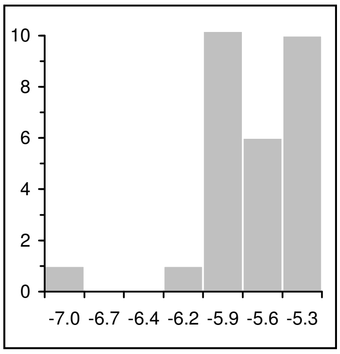
5.1.5 GDP Japan

	2009	2010
Austria		
WIFO	-5.5	0.5
Belgium		
FPB	-5.6	0.7
DULBEA	na	na
IRES	-5.9	1.1
Czech Rep		
CCSF	-5.5	2.6
Denmark		
DEC	-5.9	1.2
Finland		
ETLA	-6.0	1.5
France		
BIPE	-5.3	2.6
COE	-5.6	2.4
INSEE	-5.9	na
OFCE	-5.9	2.2
Germany		
DIW	-6.1	1.0
HWWI	na	na
IFO	na	na
IFW (Kiel)	-5.4	1.2
RWI	-5.9	2.0
Greece		
KEPE	-5.5	2.0
Hungary		
GKI	-6.0	1.7
KOPINT	-5.9	1.1
Ireland		
ESRI	-5.4	1.7
Italy		
CONFINDUSTRIA	na	na
ISAE	-5.8	1.0
PROMETEIA	-5.9	1.1
REF	-5.5	1.3
Netherlands		
CPB	-6.0	1.0
Norway		
SN	na	na
Poland		
IBRKK	-5.4	1.7
Serbia		
FTRI	na	na
Slovak Republic		
SAS	na	na
Slovenia		
SKEP	-5.5	1.0
Spain		
CEPREDE	-5.6	1.3
SGEI	-5.5	1.7
Sweden		
CSE	-5.7	0.7
NIER	-6.3	1.3
Switzerland		
KOF	-5.6	0.8
United Kingdom		
NIESR	-7.0	0.7

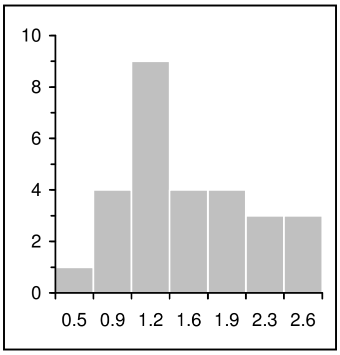
	2009	2010
Number	29	28
Average	-5.8	1.4
Std.dev	0.3	0.6
Max	-5.3	2.6
Min	-7.0	0.5
Std.dev/avg	-0.06	0.42

Frequency distribution of the answers

2009



2010



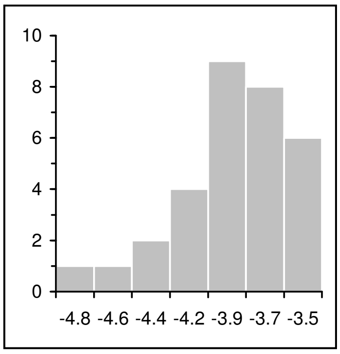
5.1.6 GDP Euro Area

	2009	2010
Austria		
WIFO	-4.0	0.8
Belgium		
FPB	-3.9	0.8
DULBEA	na	na
IRES	-4.3	0.7
Czech Rep		
CCSF	-3.6	2.1
Denmark		
DEC	-4.1	1.1
Finland		
ETLA	-4.5	0.5
France		
BIPE	-4.1	1.1
COE	-3.6	2.1
INSEE	-3.9	na
OFCE	-3.8	0.8
Germany		
DIW	-3.9	0.8
HWWI	na	na
IFO	na	na
IFW (Kiel)	-3.7	0.8
RWI	-3.7	1.0
Greece		
KEPE	-4.2	1.0
Hungary		
GKI	-4.8	-0.3
KOPINT	-3.9	0.9
Ireland		
ESRI	-4.2	0.3
Italy		
CONFINDUSTRIA	-3.9	1.3
ISAE	-3.9	0.7
PROMETEIA	-4.0	0.7
REF	-4.0	1.0
Netherlands		
CPB	-4.5	0.0
Norway		
SN	-4.1	0.3
Poland		
IBRKK	-4.1	0.5
Serbia		
FTRI	na	na
Slovak Republic		
SAS	na	na
Slovenia		
SKEP	-4.1	0.5
Spain		
CEPREDE	-3.5	0.6
SGEI	-4.0	1.0
Sweden		
CSE	-3.9	0.9
NIER	-4.2	0.5
Switzerland		
KOF	-3.6	0.5
United Kingdom		
NIESR	-4.7	0.3

	2009	2010
Number	31	30
Average	-4.0	0.8
Std.dev	0.3	0.5
Max	-3.5	2.1
Min	-4.8	-0.3
Std.dev/avg	-0.08	0.64

Frequency distribution of the answers

2009



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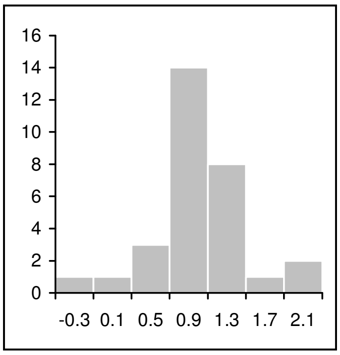


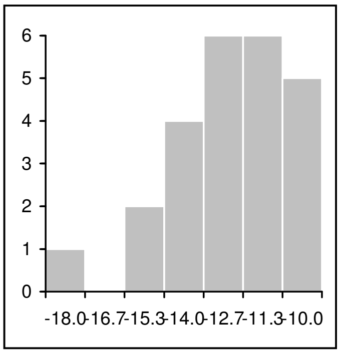
5.1.7 World Trade Growth

	2009	2010
Austria		
WIFO	-12.0	2.0
Belgium		
FPB	-10.6	2.3
DULBEA	na	na
IRES	-12.8	4.6
Czech Rep		
CCSF	-13.0	6.6
Denmark		
DEC	na	na
Finland		
ETLA	na	na
France		
BIPE	na	na
COE	-13.0	6.4
INSEE	-15.4	na
OFCE	-14.3	7.0
Germany		
DIW	-11.0	4.6
HWWI	na	na
IFO	na	na
IFW (Kiel)	-12.0	5.0
RWI	-13.5	6.0
Greece		
KEPE	-18.0	3.1
Hungary		
GKI	na	na
KOPINT	-11.0	3.0
Ireland		
ESRI	–11.9	2.5
Italy		
CONFINDUSTRIA	-14.4	9.1
ISAE	-14.5	4.9
PROMETEIA	-12.5	5.4
REF	-11.8	5.6
Netherlands		
CPB	-15.8	3.5
Norway		
SN	-10.0	1.6
Poland		
IBRKK	-13.5	7.3
Serbia		
FTRI	na	na
Slovak Republic		
SAS	na	na
Slovenia		
SKEP	-15.0	5.0
Spain		
CEPREDE	-13.0	2.5
SGEI	-12.0	2.5
Sweden		
CSE	na	na
NIER	na	na
Switzerland		
KOF	-11.9	4.8
United Kingdom		
NIESR	-10.1	9.6

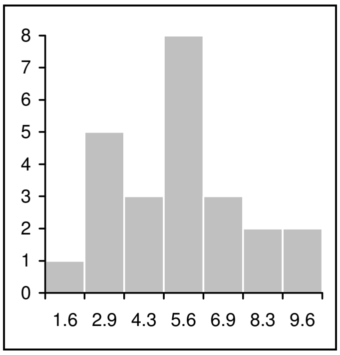
	2009	2010
Number	24	24
Average	-13.0	4.8
Std.dev	1.9	2.2
Max	-10.0	9.6
Min	-18.0	1.6
Std.dev/avg	-0.15	0.45

Frequency distribution of the answers

2009



2010



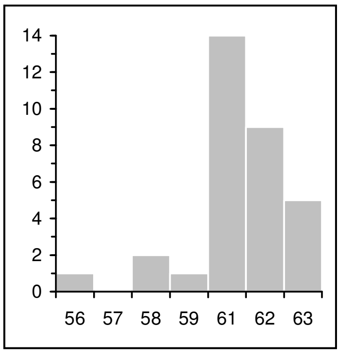
5.1.8 Oil price, dollar per barrel

	2009	2010
Austria		
WIFO	60.0	75.0
Belgium		
FPB	61.2	76.5
DULBEA	na	na
IRES	62.3	80.0
Czech Rep		
CCSF	62.0	82.0
Denmark		
DEC	61.0	74.0
Finland		
ETLA	60.8	73.5
France		
BIPE	62.9	81.1
COE	62.7	84.0
INSEE	60.5	na
OFCE	61.6	80.0
Germany		
DIW	60.0	68.0
HWWI	na	na
IFO	61.5	75.0
IFW (Kiel)	61.9	75.0
RWI	60.0	70.0
Greece		
KEPE	60.8	73.0
Hungary		
GKI	60.0	75.0
KOPINT	60.0	72.0
Ireland		
ESRI	61.5	76.5
Italy		
CONFINDUSTRIA	60.5	70.0
ISAE	60.6	75.0
PROMETEIA	60.5	67.6
REF	61.4	74.6
Netherlands		
CPB	58.0	65.0
Norway		
SN	59.9	64.5
Poland		
IBRKK	60.5	75.0
Serbia		
FTRI	na	na
Slovak Republic		
SAS	na	na
Slovenia		
SKEP	60.0	72.0
Spain		
CEPREDE	57.9	86.9
SGEI	56.0	67.2
Sweden		
CSE	60.0	80.0
NIER	60.0	71.0
Switzerland		
KOF	59.8	67.5
United Kingdom		
NIESR	59.3	67.7

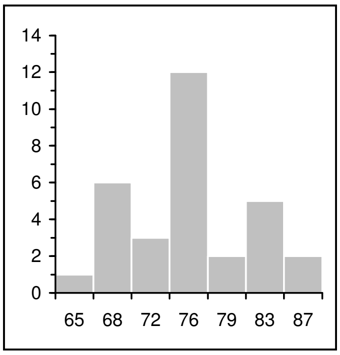
	2009	2010
Number	32	31
Average	60.5	74.0
Std.dev	1.4	5.6
Max	62.9	86.9
Min	56.0	64.5
Std.dev/avg	0.02	0.08

Frequency distribution of the answers

2009



2010



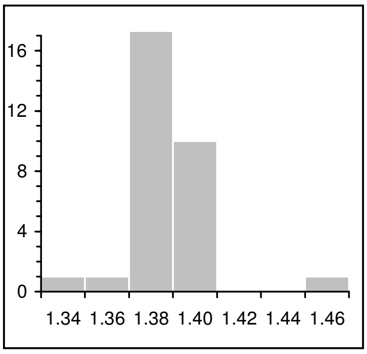
5.1.9 Exchange rate dollar per euro

	2009	2010
Austria		
WIFO	1.40	1.50
Belgium		
FPB	1.38	1.42
DULBEA	na	na
IRES	1.46	1.46
Czech Rep		
CCSF	na	na
Denmark		
DEC	1.39	1.46
Finland		
ETLA	1.38	1.43
France		
BIPE	1.38	1.45
COE	1.37	1.37
INSEE	1.39	na
OFCE	1.37	1.32
Germany		
DIW	1.38	1.45
HWWI	na	na
IFO	1.39	1.45
IFW (Kiel)	1.40	1.42
RWI	1.38	1.45
Greece		
KEPE	1.38	1.43
Hungary		
GKI	1.38	1.45
KOPINT	1.38	1.40
Ireland		
ESRI	1.37	1.40
Italy		
CONFINDUSTRIA	1.38	1.42
ISAE	1.40	1.49
PROMETEIA	1.39	1.42
REF	1.39	1.49
Netherlands		
CPB	1.37	1.40
Norway		
SN	1.37	1.37
Poland		
IBRKK	1.39	1.47
Serbia		
FTRI	na	na
Slovak Republic		
SAS	na	na
Slovenia		
SKEP	1.39	1.42
Spain		
CEPREDE	1.36	1.29
SGEI	1.34	1.37
Sweden		
CSE	1.38	1.38
NIER	1.37	1.41
Switzerland		
KOF	1.38	1.41
United Kingdom		
NIESR	1.37	1.40

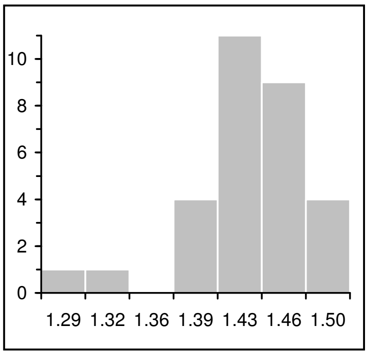
	2009	2010
Number	31	30
Average	1.38	1.42
Std.dev	0.02	0.05
Max	1.46	1.50
Min	1.34	1.29
Std.dev/avg	0.01	0.03

Frequency distribution of the answers

2009



2010



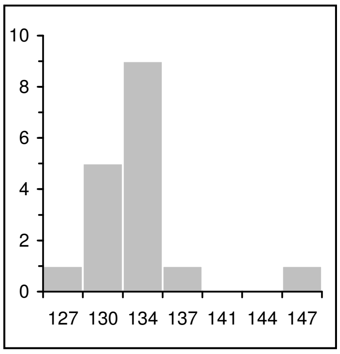
5.1.10 Exchange rate yen per euro

	2009	2010
Austria		
WIFO	na	na
Belgium		
FPB	130.8	133.6
DULBEA	na	na
IRES	na	na
Czech Rep		
CCSF	na	na
Denmark		
DEC	na	na
Finland		
ETLA	133.0	133.0
France		
BIPE	129.4	121.8
COE	131.0	135.0
INSEE	131.0	na
OFCE	130.0	132.0
Germany		
DIW	na	na
HWWI	na	na
IFO	na	na
IFW (Kiel)	134.4	134.9
RWI	na	na
Greece		
KEPE	na	na
Hungary		
GKI	127.0	125.0
KOPINT	na	na
Ireland		
ESRI	na	na
Italy		
CONFINDUSTRIA	na	na
ISAE	na	na
PROMETEIA	130.4	131.9
REF	131.1	138.3
Netherlands		
CPB	130.7	134.4
Norway		
SN	130.5	130.4
Poland		
IBRKK	na	na
Serbia		
FTRI	na	na
Slovak Republic		
SAS	na	na
Slovenia		
SKEP	130.0	130.0
Spain		
CEPREDE	147.4	143.6
SGEI	na	na
Sweden		
CSE	na	na
NIER	131.1	137.0
Switzerland		
KOF	130.0	132.6
United Kingdom		
NIESR	130.9	135.1

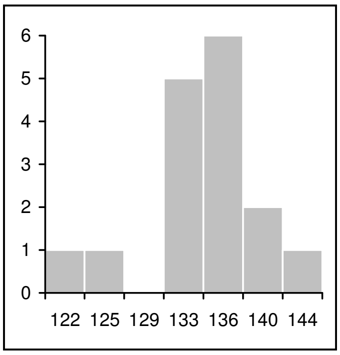
	2009	2010
Number	17	16
Average	131.7	133.0
Std.dev	4.3	5.0
Max	147.4	143.6
Min	127.0	121.8
Std.dev/avg	0.03	0.04

Frequency distribution of the answers

2009



2010



5.2 Part II.2 Cross country forecast

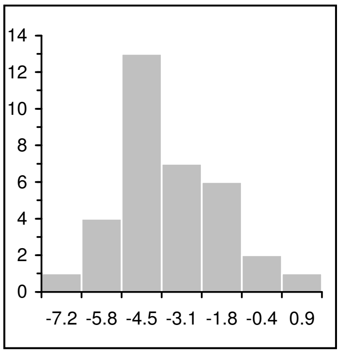
5.2.1 GDP

	2009	2010
Austria		
WIFO	-3.4	1.0
Belgium		
FPB	-3.1	0.4
DULBEA	na	na
IRES	-3.0	0.7
Czech Rep		
CCSF	-4.3	0.3
Denmark		
DEC	-4.8	1.1
Finland		
ETLA	-7.0	1.5
France		
BIPE	-2.4	1.2
COE	-2.0	2.2
INSEE	-2.2	na
OFCE	-2.1	0.8
Germany		
DIW	-5.1	1.3
HWWI	na	na
IFO	-5.0	1.3
IFW (Kiel)	-4.9	1.0
RWI	-5.0	1.2
Greece		
KEPE	-1.4	0.0
Hungary		
GKI	-6.5	0.0
KOPINT	-6.0	1.0
Ireland		
ESRI	-7.2	-1.1
Italy		
CONFINDUSTRIA	-4.8	0.8
ISAE	-4.8	0.4
PROMETEIA	-4.9	0.5
REF	-4.9	0.6
Netherlands		
CPB	-4.7	0.1
Norway		
SN	-1.2	2.1
Poland		
IBRKK	0.9	1.4
Serbia		
FTRI	-3.2	3.6
Slovak Republic		
SAS	-4.5	1.3
Slovenia		
SKEP	-7.0	0.7
Spain		
CEPREDE	-3.6	-0.3
SGEI	-3.6	-0.3
Sweden		
CSE	-5.0	1.0
NIER	-5.0	1.5
Switzerland		
KOF	-3.4	0.1
United Kingdom		
NIESR	-4.3	1.0

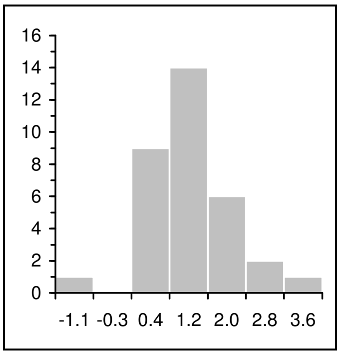
	2009	2010
Number	34	33
Average	-4.1	0.9
Std.dev	1.8	0.9
Max	0.9	3.6
Min	-7.2	-1.1
Std.dev/avg	-0.43	0.99

Frequency distribution of the answers

2009



2010



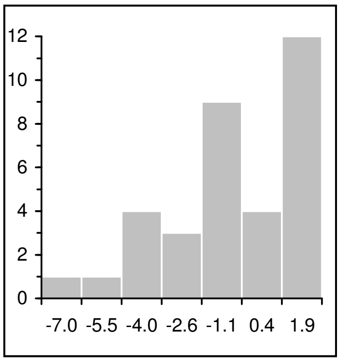
5.2.2 Private consumption

	2009	2010
Austria		
WIFO	0.2	0.5
Belgium		
FPB	-0.9	0.6
DULBEA	na	na
IRES	-1.1	0.5
Czech Rep		
CCSF	1.1	0.7
Denmark		
DEC	-5.0	1.8
Finland		
ETLA	-3.5	1.0
France		
BIPE	0.6	0.6
COE	0.6	0.8
INSEE	0.7	na
OFCE	0.5	0.6
Germany		
DIW	0.8	1.0
HWWI	na	na
IFO	0.9	0.4
IFW (Kiel)	0.5	0.8
RWI	0.5	-0.5
Greece		
KEPE	-1.2	0.2
Hungary		
GKI	-6.7	0.0
KOPINT	-5.0	0.5
Ireland		
ESRI	-7.0	-2.0
Italy		
CONFINDUSTRIA	-1.7	0.7
ISAE	-1.8	0.4
PROMETEIA	-1.8	0.3
REF	-1.8	0.3
Netherlands		
CPB	-2.7	-0.8
Norway		
SN	0.4	5.4
Poland		
IBRKK	1.9	1.0
Serbia		
FTRI	1.7	1.1
Slovak Republic		
SAS	-1.5	1.5
Slovenia		
SKEP	-0.5	0.0
Spain		
CEPREDE	-5.3	-1.4
SGEI	-4.1	-0.4
Sweden		
CSE	-1.8	1.7
NIER	-1.5	2.2
Switzerland		
KOF	0.7	0.3
United Kingdom		
NIESR	-3.5	-1.1

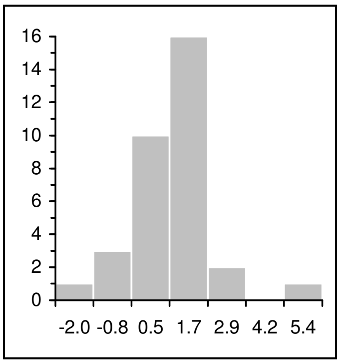
	2009	2010
Number	34	33
Average	-1.4	0.6
Std.dev	2.4	1.2
Max	1.9	5.4
Min	-7.0	-2.0
Std.dev/avg	-1.73	2.19

Frequency distribution of the answers

2009



2010



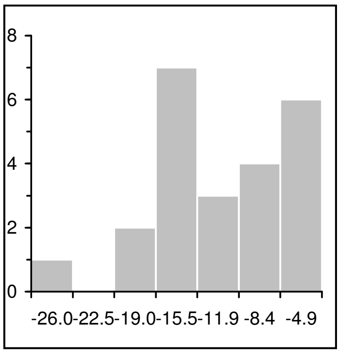
5.2.3 Private investment excl. dwellings

	2009	2010
Austria		
WIFO	-11.0	0.5
Belgium		
FPB	-4.9	-1.2
DULBEA	na	na
IRES	-5.0	-2.5
Czech Rep		
CCSF	na	na
Denmark		
DEC	-11.1	-0.9
Finland		
ETLA	-17.0	-8.5
France		
BIPE	-8.2	-3.1
COE	-7.9	-0.8
INSEE	-7.7	na
OFCE	-7.6	-4.5
Germany		
DIW	-18.8	1.7
HWWI	na	na
IFO	-16.5	1.9
IFW (Kiel)	-14.3	1.6
RWI	na	na
Greece		
KEPE	-16.2	-1.4
Hungary		
GKI	na	na
KOPINT	na	na
Ireland		
ESRI	-26.0	-18.4
Italy		
CONFINDUSTRIA	na	na
ISAE	-17.3	0.9
PROMETEIA	-18.5	1.8
REF	-19.2	2.4
Netherlands		
CPB	-13.3	-8.9
Norway		
SN	na	na
Poland		
IBRKK	na	na
Serbia		
FTRI	na	na
Slovak Republic		
SAS	na	na
Slovenia		
SKEP	-20.0	1.0
Spain		
CEPREDE	-8.9	-2.2
SGEI	na	na
Sweden		
CSE	-16.0	-6.1
NIER	na	na
Switzerland		
KOF	-10.1	-6.8
United Kingdom		
NIESR	-12.0	-2.5

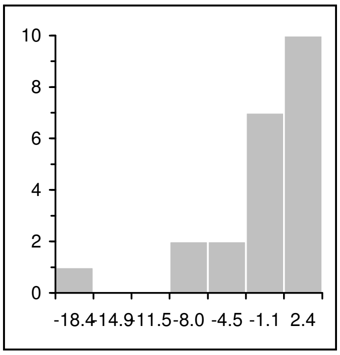
	2009	2010
Number	23	22
Average	-13.4	-2.5
Std.dev	5.5	4.9
Max	-4.9	2.4
Min	-26.0	-18.4
Std.dev/avg	-0.41	-1.92

Frequency distribution of the answers

2009



2010



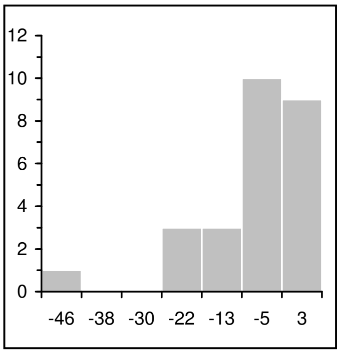
5.2.4 Private investment in dwellings

	2009	2010
Austria		
WIFO	-2.0	-1.0
Belgium		
FPB	-3.2	-4.6
DULBEA	na	na
IRES	-2.2	-3.8
Czech Rep		
CCSF	na	na
Denmark		
DEC	-17.6	-0.3
Finland		
ETLA	-9.0	0.5
France		
BIPE	-7.6	-2.2
COE	-7.1	-0.7
INSEE	-5.3	na
OFCE	-7.9	-4.5
Germany		
DIW	0.1	4.3
HWWI	na	na
IFO	-1.8	1.1
IFW (Kiel)	-1.1	4.0
RWI	-1.5	-1.1
Greece		
KEPE	-14.5	-1.5
Hungary		
GKI	na	na
KOPINT	na	na
Ireland		
ESRI	-45.7	-18.8
Italy		
CONFINDUSTRIA	na	na
ISAE	-6.7	0.7
PROMETEIA	-7.0	-1.1
REF	-7.1	-2.6
Netherlands		
CPB	-12.2	-8.1
Norway		
SN	-13.6	2.3
Poland		
IBRKK	na	na
Serbia		
FTRI	na	na
Slovak Republic		
SAS	na	na
Slovenia		
SKEP	-8.0	-8.0
Spain		
CEPREDE	-23.3	-3.5
SGEI	-12.5	-7.5
Sweden		
CSE	-27.4	-10.6
NIER	na	na
Switzerland		
KOF	2.7	0.6
United Kingdom		
NIESR	-28.8	-8.5

	2009	2010
Number	26	25
Average	-10.4	-3.0
Std.dev	10.8	5.1
Max	2.7	4.3
Min	-45.7	-18.8
Std.dev/avg	-1.04	-1.70

Frequency distribution of the answers

2009



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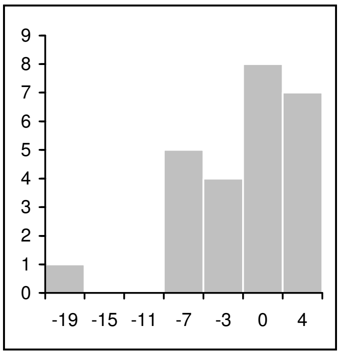


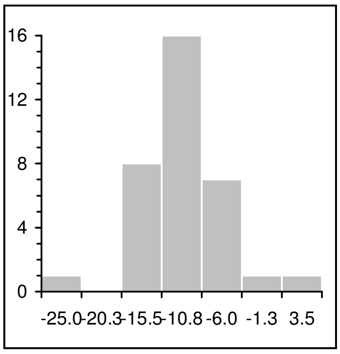
5.2.5 Exports of goods and services

	2009	2010
Austria		
WIFO	-12.0	2.2
Belgium		
FPB	-15.1	1.5
DULBEA	na	na
IRES	-15.7	6.3
Czech Rep		
CCSF	-17.6	2.4
Denmark		
DEC	-10.4	0.3
Finland		
ETLA	-25.0	5.5
France		
BIPE	-11.8	1.9
COE	-10.4	5.6
INSEE	-11.0	na
OFCE	-10.3	5.3
Germany		
DIW	-15.1	4.1
HWWI	na	na
IFO	-13.0	7.9
IFW (Kiel)	-14.5	7.2
RWI	-7.5	2.8
Greece		
KEPE	-13.2	0.8
Hungary		
GKI	-15.0	4.0
KOPINT	-13.5	6.0
Ireland		
ESRI	-1.7	1.1
Italy		
CONFINDUSTRIA	-17.3	4.1
ISAE	-20.2	1.7
PROMETEIA	-19.8	3.5
REF	-18.6	1.9
Netherlands		
CPB	-10.9	2.5
Norway		
SN	-10.6	2.7
Poland		
IBRKK	-10.0	4.9
Serbia		
FTRI	3.5	4.8
Slovak Republic		
SAS	-14.0	-0.4
Slovenia		
SKEP	-19.0	2.6
Spain		
CEPREDE	-12.1	1.6
SGEI	-16.2	2.1
Sweden		
CSE	-12.8	3.0
NIER	-14.7	3.1
Switzerland		
KOF	-11.6	0.1
United Kingdom		
NIESR	-8.7	7.4

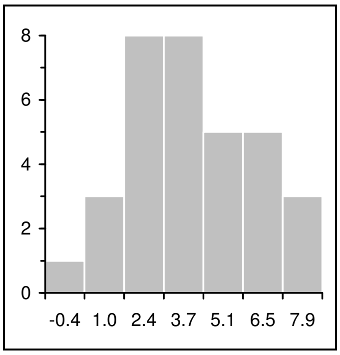
	2009	2010
Number	34	33
Average	-13.1	3.3
Std.dev	5.2	2.2
Max	3.5	7.9
Min	-25.0	-0.4
Std.dev/avg	-0.39	0.65

Frequency distribution of the answers

2009



2010



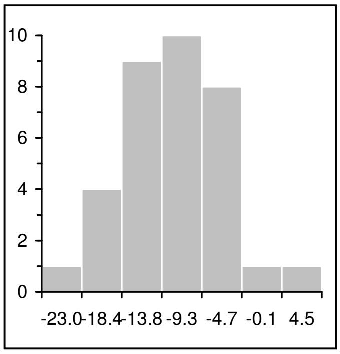
5.2.6 Imports of goods and services

	2009	2010
Austria		
WIFO	-10.1	1.6
Belgium		
FPB	-13.7	1.4
DULBEA	na	na
IRES	-14.3	6.1
Czech Rep		
CCSF	-17.7	0.4
Denmark		
DEC	-12.4	1.7
Finland		
ETLA	-23.0	2.0
France		
BIPE	-10.4	0.7
COE	-9.1	-4.0
INSEE	-9.6	na
OFCE	-8.5	4.9
Germany		
DIW	-8.5	4.7
HWWI	na	na
IFO	-7.7	5.6
IFW (Kiel)	-8.4	9.4
RWI	-4.2	1.4
Greece		
KEPE	-19.1	1.0
Hungary		
GKI	-20.0	5.0
KOPINT	-17.0	6.0
Ireland		
ESRI	-7.7	-1.2
Italy		
CONFINDUSTRIA	-14.5	3.6
ISAE	-15.3	1.6
PROMETEIA	-15.4	2.8
REF	-15.5	1.3
Netherlands		
CPB	-10.3	0.5
Norway		
SN	-8.8	6.6
Poland		
IBRKK	-13.3	5.2
Serbia		
FTRI	4.5	5.4
Slovak Republic		
SAS	-10.1	-1.3
Slovenia		
SKEP	-18.0	2.4
Spain		
CEPREDE	-18.8	-0.3
SGEI	-20.5	-0.6
Sweden		
CSE	-12.7	2.5
NIER	-15.7	2.7
Switzerland		
KOF	-7.8	0.9
United Kingdom		
NIESR	-9.9	3.5

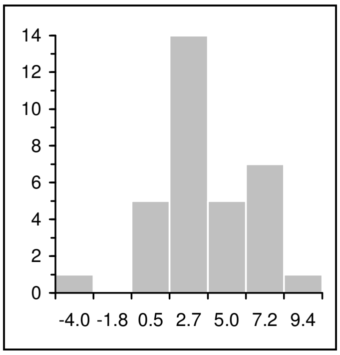
	2009	2010
Number	34	33
Average	-12.5	2.5
Std.dev	5.4	2.8
Max	4.5	9.4
Min	-23.0	-4.0
Std.dev/avg	-0.44	1.09

Frequency distribution of the answers

2009



2010



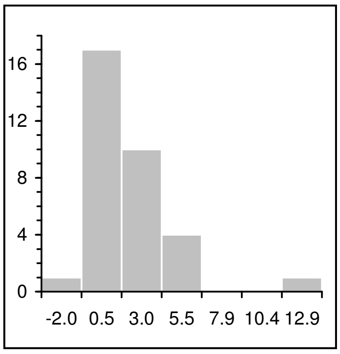
5.2.7 Inflation rate

	2009	2010
Austria		
WIFO	0.5	1.3
Belgium		
FPB	-0.1	1.5
DULBEA	na	na
IRES	0.0	1.5
Czech Rep		
CCSF	0.6	1.2
Denmark		
DEC	1.5	2.0
Finland		
ETLA	3.0	2.5
France		
BIPE	0.0	1.9
COE	-0.2	1.3
INSEE	-0.2	na
OFCE	0.0	1.6
Germany		
DIW	0.1	0.9
HWWI	na	na
IFO	-0.3	0.4
IFW (Kiel)	-0.1	0.6
RWI	-0.3	1.1
Greece		
KEPE	0.3	1.2
Hungary		
GKI	4.7	4.3
KOPINT	4.5	4.5
Ireland		
ESRI	-2.0	-0.5
Italy		
CONFINDUSTRIA	0.7	1.5
ISAE	0.8	1.7
PROMETEIA	0.4	1.3
REF	0.0	1.8
Netherlands		
CPB	0.5	1.2
Norway		
SN	2.3	0.5
Poland		
IBRKK	3.5	2.1
Serbia		
FTRI	12.9	8.9
Slovak Republic		
SAS	1.9	2.3
Slovenia		
SKEP	0.8	1.3
Spain		
CEPREDE	0.0	2.1
SGEI	na	na
Sweden		
CSE	2.1	0.5
NIER	1.9	0.8
Switzerland		
KOF	-0.8	0.3
United Kingdom		
NIESR	-0.3	0.7

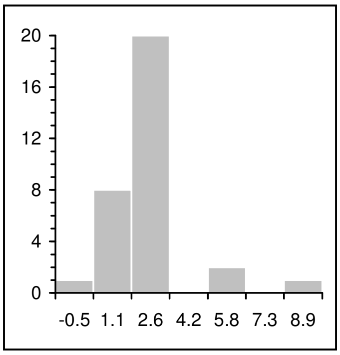
	2009	2010
Number	33	32
Average	1.2	1.7
Std.dev	2.6	1.7
Max	12.9	8.9
Min	-2.0	-0.5
Std.dev/avg	2.19	0.98

Frequency distribution of the answers

2009



2010



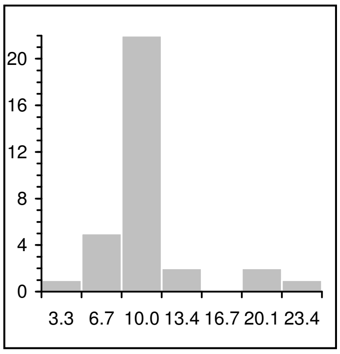
5.2.8 Unemployment rate

	2009	2010
Austria		
WIFO	5.3	5.8
Belgium		
FPB	8.2	9.4
DULBEA	na	na
IRES	8.0	9.1
Czech Rep		
CCSF	6.8	8.5
Denmark		
DEC	3.5	5.4
Finland		
ETLA	8.9	11.0
France		
BIPE	9.4	10.5
COE	9.2	9.9
INSEE	9.6	na
OFCE	9.1	10.1
Germany		
DIW	7.7	9.2
HWWI	na	na
IFO	8.0	9.1
IFW (Kiel)	7.6	9.1
RWI	7.7	9.5
Greece		
KEPE	9.5	10.2
Hungary		
GKI	9.8	9.8
KOPINT	10.0	10.3
Ireland		
ESRI	12.2	14.8
Italy		
CONFINDUSTRIA	8.3	9.5
ISAE	na	na
PROMETEIA	7.5	8.7
REF	7.9	8.6
Netherlands		
CPB	5.2	7.9
Norway		
SN	3.3	3.9
Poland		
IBRKK	9.8	11.6
Serbia		
FTRI	23.4	26.8
Slovak Republic		
SAS	12.4	11.7
Slovenia		
SKEP	5.8	7.0
Spain		
CEPREDE	18.2	20.3
SGEI	17.9	18.9
Sweden		
CSE	8.1	9.7
NIER	8.8	11.4
Switzerland		
KOF	3.8	5.1
United Kingdom		
NIESR	7.6	8.8

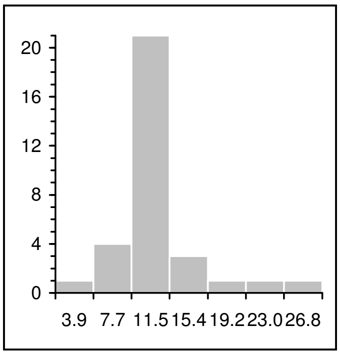
	2009	2010
Number	33	32
Average	9.0	10.4
Std.dev	4.1	4.5
Max	23.4	26.8
Min	3.3	3.9
Std.dev/avg	0.46	0.43

Frequency distribution of the answers

2009



2010



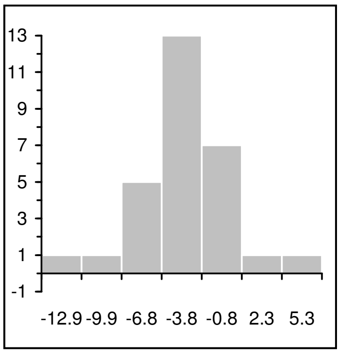
5.2.9 Government financial balance

	2009	2010
Austria		
WIFO	-4.5	-5.7
Belgium		
FPB	na	na
DULBEA	na	na
IRES	-5.6	-6.1
Czech Rep		
CCSF	-4.3	-4.9
Denmark		
DEC	-2.4	-5.4
Finland		
ETLA	-2.0	-3.7
France		
BIPE	-7.3	-8.6
COE	-7.5	-7.0
INSEE	na	na
OFCE	-8.3	-8.7
Germany		
DIW	-3.1	-4.9
HWWI	na	na
IFO	-2.7	-4.9
IFW (Kiel)	-3.0	-5.1
RWI	-3.0	-5.0
Greece		
KEPE	-9.5	-4.9
Hungary		
GKI	-3.8	-3.8
KOPINT	-3.9	-3.8
Ireland		
ESRI	-12.9	-12.8
Italy		
CONFINDUSTRIA	-5.2	-5.0
ISAE	5.3	5.1
PROMETEIA	-5.3	-5.7
REF	-5.6	-5.5
Netherlands		
CPB	-4.6	-6.2
Norway		
SN	na	na
Poland		
IBRKK	-5.8	-7.2
Serbia		
FTRI	na	na
Slovak Republic		
SAS	-6.3	-5.5
Slovenia		
SKEP	-5.5	-6.5
Spain		
CEPREDE	-6.4	-8.0
SGEI	-9.5	-8.1
Sweden		
CSE	na	na
NIER	-2.3	-3.5
Switzerland		
KOF	0.2	-2.1
United Kingdom		
NIESR	-11.2	-11.5

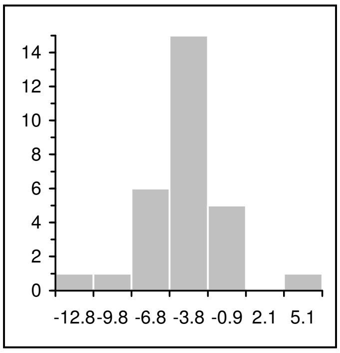
	2009	2010
Number	29	29
Average	-5.0	-5.7
Std.dev	3.5	3.1
Max	5.3	5.1
Min	-12.9	-12.8
Std.dev/avg	-0.70	-0.54

Frequency distribution of the answers

2009



2010



5.3 Part II.3 Country forecasts

5.3.1 Austria WIFO

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	281.9	– 3.4	1.0
Private consumption	148.8	0.2	0.5
Public consumption	52.6	0.8	1.5
Gross fixed capital formation	61.5	– 6.1	– 0.4
Private excl. dwellings	27.8	– 11.0	0.5
Dwellings	33.7	– 2.0	– 1.0
Change in stocks [a]	2.5		
Total domestic demand	265.6	– 1.8	0.6
Exports of goods and services	167.3	– 12.0	2.2
Imports of goods and services	151.1	– 10.1	1.6
Net exports [a]	16.2	– 1.8	0.4
GDP deflator		1.9	0.9
Consumer prices		0.5	1.3
Private consumption deflator		0.5	1.3
Output gap [b]			
Unit labour costs [c]		5.1	– 0.3
Nominal hourly gross wage rate			
Employment (thousands)		4209.0	4187.1
Unemployment rate [d]		5.3	5.8
Real household disposable income		1.0	0.2
Net saving ratio (households) [e]		12.7	12.5
Public sector fiscal balance [f,g]		– 4.5	– 5.7
Gross public debt [f,g]		70.7	75.7
Current account balance [f]		1.9	1.9
Central bank policy rate (non-EMU countries)			
Short-term interest rate (3 months) [h]		1.3	1.5
Long-term interest rate (10 years) [h]		3.8	3.8
United States Federal funds rate			
GDP			
USA		– 2.7	1.0
Japan		– 5.5	0.5
Euro Area		– 4.0	0.8
World trade volume (goods)		– 12.0	2.0
Oil price [i]		60.0	75.0
Exchange rate			
Dollar/Euro		1.400	1.500
Yen/Euro			
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Austria WIFO

The current situation

By the 2nd quarter 2009, the extent of the year-on-year decline in Austrian GDP is close to the one of the euro area (-4,6%). Generally, there are hardly any important features of the current situation that would markedly differ from the euro as a whole. The external shock was perhaps somewhat larger compared to other euro area countries given Austria's exposure to the CEEC and as a supplier to German car manufacturers. However, private consumption has held up well, showing slightly positive growth. Private consumption has been supported by an income tax reform and strong real wage growth in 2009.

Employment losses remained contained so far due to policy measures such as subsidising temporary part-time employment schemes. Inflation is slightly above euro area average.

With -0.5%, the growth rate in 2009 Q2 was surprisngly low compared to Germany and the euro area. We attribute this to some delayed response of Austria to the external stimulus, mirroring the delayed response, when the crisis emerged in Autumn 2008.

As elsewhere, surveys and other leading indicators point to a recovery in the remainder of 2009.

Economic policy and country's key features relevant for the outlook

At the moment no significant further fiscal measures are foreseen to support the economy. However, the fiscal package that has been set up in early 2009 should support growth into 2010. The income tax reform, which became effective in April is likely to have some delayed effects in the second half of the year, while public investment schemes should become effective in 2010.

The risks to Austrian banks stemming from business in the CEEC so far have not materialised. Overall, banks appear to be in a fairly safe position. With one exception, banks have accepted recapitalization loans from the government.

We expect active labour market policy measures to be somewhat widened in 2010.

The outlook

Our forecast reflects the expected recovery of our main trading partners in the euro area and in the CEEC. The path of recovery is similar to those of forecast for the euro area as a whole.

We expect clearly positive growth in the second half of 2009, but some setback in early 2010 as the inventory cycle will no longer contribute and certain fiscal stimuli will disappear, notably the cash for clunker programmes. Only later in 2010 a return to sustained growth may emerge. On average for 2010, the institute predicts GDP growth of 1.0%. Consumption growth is predicted to remain slightly positive, while investment will stagnate.

The situation on the labour market will continue to worsen in 2010. Employment is predicted to decline further as firms aim at restoring productivity. Inflation is predicted to increase slightly with a moderate decline in vore inflation being more than offset by the rebound of energy prices.

5.3.2 Belgium FPB

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	344.2	– 3.1	0.4
Private consumption	184.2	– 0.9	0.6
Public consumption	79.6	1.9	1.4
Gross fixed capital formation	78.3	– 3.9	– 1.5
Private excl. dwellings	52.3	– 4.9	– 1.2
Dwellings	20.1	– 3.2	– 4.6
Change in stocks [a]		– 0.9	0.0
Total domestic demand	345.9	– 1.8	0.3
Exports of goods and services	316.9	– 15.1	1.5
Imports of goods and services	318.6	– 13.7	1.4
Net exports [a]		– 1.2	0.1
GDP deflator		0.9	1.4
Consumer prices		0.0	1.5
Private consumption deflator		– 0.1	1.5
Output gap [b]		– 2.5	– 3.4
Unit labour costs [c]		2.6	– 1.1
Nominal hourly gross wage rate		2.4	0.9
Employment (thousands)		– 34.6	– 58.9
Unemployment rate [d]		8.2	9.4
Real household disposable income		1.5	0.4
Net saving ratio (households) [e]		15.1	14.8
Public sector fiscal balance [f,g]		na	na
Gross public debt [f,g]		na	na
Current account balance [f]		– 2.5	– 2.7
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]		0.6	1.0
Long-term interest rate (10 years) [h]		4.0	4.1
United States Federal funds rate		0.1	0.6
GDP			
USA		– 2.8	1.5
Japan		– 5.6	0.7
Euro Area	9151.5	– 3.9	0.8
World trade volume (goods)		– 10.6	2.3
Oil price [i]		61.2	76.5
Exchange rate			
Dollar/Euro		1.380	1.420
Yen/Euro		130.8	133.6
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Belgium FPB

The current situation

Belgian economic activity was severely hit during 2008Q4 and 2009Q1 (-1.7% per quarter). This was mainly due to plummeting exports, although domestic demand also declined. Households cut back their spending due to the gloomy economic climate leading to a worsening of consumer confidence and negative wealth effects. Business investment also decreased, but less than could be expected taking the low capacity utilisation rates and the economic downturn into account. Housing investment has declined since 2008Q4 after several years of rather strong growth, significantly increasing their share in GDP.

The decline in the number of employed persons during the past few quarters was relatively limited due to the important decrease of average hours worked per employed person (using the temporary unemployment scheme, for example). In view of the registered drop in employment, unemployment increased at a rather slow pace, leading to a quasi-stabilisation of the labour force during the first half of 2009 (compared to a historical average increase of around 10 000 persons per quarter).

Inflation continued its slowdown that started in 2008Q4 in line with the decline of yoy growth rates of oil and food prices and has been negative since May 2009. Underlying inflation remained clearly positive and initiated only recently a decline.

Economic policy and country's key features relevant for the outlook

The international hypotheses behind our forecasts are based on the latest OECD forecasts and future market quotations for oil prices, interest rates and exchange rates.

Our forecasts are made under the hypotheses of no budgetary policy changes (i.e. no measures to reduce the projected deficit, for example). This also implies that measures taken in the framework of the Belgian recovery plan are expected to fade out by the end of 2009.

The labour force is expected to return gradually to an increase that is consistent with Belgian population forecasts.

The outlook

In the second half of 2009, economic growth, driven by exports, should become slightly positive. Economic growth is expected to remain subdued until mid-2010 as it is currently almost exclusively supported by the recovery plans. In the course of 2010, economic growth should also be supported by domestic demand.

Despite the slight recovery in 2009H2, exports should register an unprecedented decrease in 2009 as a whole. In 2010, their yearly average growth rate should gradually recover and reach 1.5%. Despite a robust increase in disposable income in 2009 (mainly linked to the lagged reaction of wage indexation to inflation), private consumption growth should be negative, leading to an important increase in the saving rate. In 2010, the saving rate is expected to remain around its level of 2009 as the rise in the unemployment rate should weigh on consumer confidence. Investment should recover somewhat during 2010H2 as economic growth gains strength.

As economic growth remains rather weak throughout 2010 and due to an increase in hours worked per person, a net increase in employment is not expected before the end of 2010. Consequently, the (Eurostat) unemployment rate should increase to more than 9.5% by the end of 2010.

Inflation should become positive by the end of 2009 as the yoy growth rate of oil prices becomes positive again. Despite the cooling down of underlying inflation, headline inflation should accelerate from 0% in 2009 to 1.5% in 2010.

5.3.3 Belgium IRES

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP		– 3.0	0.7
Private consumption		– 1.1	0.5
Public consumption		2.1	1.6
Gross fixed capital formation		– 3.6	– 2.4
Private excl. dwellings		– 5.0	– 2.5
Dwellings		– 2.2	– 3.8
Change in stocks [a]		– 0.6	0.5
Total domestic demand		– 1.6	0.6
Exports of goods and services		– 15.7	6.3
Imports of goods and services		– 14.3	6.1
Net exports [a]		– 1.6	0.6
GDP deflator		1.4	1.2
Consumer prices		0.0	1.5
Private consumption deflator		0.0	1.5
Output gap [b]		na	na
Unit labour costs [c]		4.8	– 2.2
Nominal hourly gross wage rate		na	na
Employment (thousands)	4493.5	– 39.9	– 58.8
Unemployment rate [d]	0.1	8.0	9.1
Real household disposable income		1.4	0.0
Net saving ratio (households) [e]	0.1	15.2	14.8
Public sector fiscal balance [f,g]		– 5.6	– 6.1
Gross public debt [f,g]		96.5	100.9
Current account balance [f]		0.3	0.3
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]		0.6	1.0
Long-term interest rate (10 years) [h]		3.3	4.0
United States Federal funds rate		0.0	1.0
GDP			
USA		– 2.8	1.7
Japan		– 5.9	1.1
Euro Area		– 4.3	0.7
World trade volume (goods)		– 12.8	4.6
Oil price [i]		62.3	80.0
Exchange rate			
Dollar/Euro		1.460	1.460
Yen/Euro		na	na
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Belgium IRES

The current situation

S'inscrivant dans ce contexte économique international moins défavorable, la contraction de l'activité s'est nettement tassée en Belgique au 2ème trimestre 2009, la croissance du PIB s'établissant à -0,3% qoq après avoir été de -1,7% qoq au 4ème trimestre 2008 et au 1er trimestre 2009. Hormis la consommation et l'investissement publics, tous les postes de la demande ont reculé au 2ème trimestre 2009 mais dans une ampleur nettement moindre que précédemment. En réalité, la majeure partie du recul du PIB est imputable au déstockage des entreprises.

Outre le fait que le rythme de décroissance du PIB s'est atténué au 2ème trimestre, d'autres éléments tendent à indiquer qu'un mouvement de reprise s'est amorcé au cours des derniers mois. La reprise étant surtout supportée par la demande mondiale, la confiance des entreprises industrielles, qui sont fortement exportatrices, s'est ainsi relevée au cours des derniers mois. Le redressement de la confiance concerne également les autres secteurs d'activité, de même que les consommateurs.

The outlook

La demande étrangère adressée aux entreprises belges devrait se raffermir dans les trimestres prochains. En effet, la production industrielle s'est déjà nettement redressée dans les pays émergents et la conjoncture industrielle s'est améliorée récemment dans la zone euro, principal marché d'exportation des produits industriels belges. L'amélioration de l'environnement commercial international se lit d'ailleurs à travers les enquêtes réalisées dans le secteur industriel, l'opinion des entreprises concernant le niveau de leurs carnets de commandes étrangères ayant commencé à se redresser depuis plusieurs mois. Nous prévoyons dès lors que les exportations recommenceront à progresser dès le 3ème trimestre de 2009, à un rythme modéré mais qui devrait s'intensifier par la suite. Face aux améliorations des perspectives de débouchés, la production industrielle devrait également être alimentée par un mouvement de reconstitution des stocks de produits finis, les entreprises ayant fortement réduit ceux-ci durant la crise.

La demande intérieure continuerait de souffrir de la poursuite de l'ajustement des capacités de production des entreprises, modérant de ce fait le rythme de progression de l'activité économique.

D'une part, les surcapacités de production conséquentes pèseraient sur l'évolution des dépenses d'investissement productif. La modération des dépenses d'investissement sera renforcée par la dégradation de la rentabilité des entreprises et les conditions du crédit toujours tendues.

D'autre part, l'emploi continuera à se contracter sensiblement dans les trimestres à venir, en dépit de l'évolution plus positive de l'activité économique. Les destructions nettes d'emplois ont été importantes suite à la chute de l'activité rencontrée durant l'hiver 2008-2009, et les dernières statistiques du chômage indiquent clairement que la situation sur le marché du travail continue de se dégrader. Plusieurs éléments permettent d'anticiper des pertes nettes d'emplois encore conséquentes dans les tous prochains trimestres. En effet, il est établi que l'emploi en Belgique réagit à l'évolution de l'activité économique avec plusieurs trimestres de retard. Les coûts d'embauche et de licenciement élevés incitent fortement les entreprises à conserver leurs effectifs en cas de ralentissement passager de l'activité, au prix d'une diminution parfois notable du temps de travail ou de la productivité horaire. Ce n'est que lorsque le ralentissement de l'activité tend à se prolonger que les entreprises se décident finalement à licencier une partie de leur personnel. Ce mécanisme de rétention de l'emploi est renforcé par les mesures de type chômage temporaire mises en place en vue de décharger temporairement les entreprises d'une partie de leurs coûts salariaux en cas de ralentissement sévère mais temporaire de leur production. Ces processus à l'œuvre pour expliquer la rétention de l'emploi en période de crise vont également avoir toute leur importance dans l'épisode de reprise économique. Etant donné l'ampleur de la contraction économique passée et le recours intensif aux mesures transitoires qui a suivi, il est logique d'anticiper que dans un scénario de reprise lente de l'activité, il n'y aura qu'une partie de la force de travail qui pourra reprendre effectivement du service, amenant de nombreuses pertes d'emplois. L'effet sur l'emploi sera d'autant plus néfaste que les entreprises désireront certainement dans un premier temps redresser leur productivité horaire avant de recommencer à engager, celle-ci s'étant fortement dégradée pendant la récession.

Ces évolutions attendues sur le marché du travail seront préjudiciables pour la consommation des ménages. En effet, en plus de grever le revenu disponible des particuliers, les destructions d'emplois et le taux de chômage élevé minent le moral des ménages qui réagissent en gonflant leur épargne de précaution. Cette réaction explique qu'en 2009, en dépit d'une inflation nulle en moyenne et d'une croissance modérée du revenu disponible brut des particuliers, la consommation privée se contracterait de 1% sur l'ensemble de l'année, le taux d'épargne augmentant brusquement. En 2010, en raison de la stabilisation des prix de l'énergie, l'inflation générale remonterait mécaniquement, impliquant une croissance quasiment nulle du pouvoir d'achat. Pourtant, nous anticipons une croissance annuelle moyenne de 0,5% de la consommation privée, les ménages diminuant légèrement leur épargne de précaution étant donné l'amélioration progressive de la situation conjoncturelle et le ralentissement du rythme de destruction d'emploi prévus dans le courant de l'année 2010.

L'investissement des ménages sera également mis à mal dans les prochains trimestres, en raison non seulement des évolutions négatives sur le marché du travail, mais également des conditions d'octroi de crédits qui paraissent toujours restrictives, en particulier au niveau des garanties exigées pour avoir accès à un financement. Le niveau faible des différents indicateurs dans le secteur est tel que nous n'entrevoyons pas de reprise de l'activité d'ici la fin de l'année 2010.

5.3.4 Czech Republic Kepe CCS&F, Prague

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	148.6	– 4.3	0.3
Private consumption	72.7	1.1	0.7
Public consumption	31.3	1.3	0.5
Gross fixed capital formation	35.6	– 5.1	– 0.2
Private excl. dwellings		na	na
Dwellings		na	na
Change in stocks [a]	1.1	– 0.8	– 0.8
Total domestic demand	139.5	– 2.5	0.1
Exports of goods and services	114.2	– 17.6	2.4
Imports of goods and services	106.7	– 17.7	0.4
Net exports [a]	1.9	– 1.8	0.2
GDP deflator	120.6	2.8	1.0
Consumer prices	112.1	1.1	1.6
Private consumption deflator	5.5	0.6	1.2
Output gap [b]	1.2	4.0	– 2.9
Unit labour costs [c]		4.7	0.6
Nominal hourly gross wage rate		2.1	1.8
Employment (thousands)	5.206	– 1.8	– 2.1
Unemployment rate [d]	5.3	6.8	8.5
Real household disposable income		3.5	2.4
Net saving ratio (households) [e]		5.5	5.9
Public sector fiscal balance [f,g]	– 1.5	– 4.3	– 4.9
Gross public debt [f,g]	29.9	33.7	37.9
Current account balance [f]	– 3.1	– 2.0	– 3.3
Central bank policy rate (non-EMU countries)	2.3	2.3	2.5
Short-term interest rate (3 months) [h]	4	4.6	4.8
Long-term interest rate (10 years) [h]	4.6	4.5	4.4
United States Federal funds rate		na	na
GDP			
USA		– 2.5	2.3
Japan		– 5.5	2.6
Euro Area		– 3.6	2.1
World trade volume (goods)		– 13.0	6.6
Oil price [i]	98.0	62.0	82.0
Exchange rate			
Dollar/Euro		na	na
Yen/Euro		na	na
Local currency/Euro for non-EMU countries	24.90	26.80	25.50

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Czech Republic Kepe CCS&F, Prague

The current situation

In the course of 2009 the conjunctural situation in the Czech Republic was deteriorating rapidly. Most pronounced was the deceleration of its exports and the sharp decline of output of its manufacturing industry, which was mirroring the slackening of import demand in neighbouring countries to whose markets the bulk of Czechia´s exports is usually targeted. Already in mid-2009 every fifth industrial company was recorded to have undertaken substantial lay-offs and numerous small and medium-sized enterprises, operating not only in industry but also in services, have closed down. Even big companies based in its service sector - some of which are even at present highly profitable - have been reducing their staff, contributing thus to the unprecedented increase of Czechia´s unemployment rate. In the second half of 2009 these tendencies have become even more pronounced. Employee's apprehensions of loosing their jobs have caused residential construction and private consumption to shrink, though the income of households decreased as yet only marginally. But the main reason for the decrease of total domestic demand was the lack of incoming orders in industry and negative expectations among its management, which resulted in a sharp curtailing of fixed investments.

As an important aspect of the current situation may be regarded the good health of the Czech banking sector (sufficient primary resources to provide loans, low share of loans in foreign currencies and of unpaid loans, liquidity surpluses, high capital adequacy and profitability) for this represents favourable preconditions for a rapid recovery of the Czech economy as soon as external conditions will improve.

Economic policy and the countries key features relevant to the outlook

At the beginning of 2009 a „stimulation package“ had been approved in parliament, but the insistence of the newly elected interim government on not permitting the deficit of the state budget to surmount 162 mld.. CSK in 2010 (i.e. about 5,5% of its potential GDP), will lead to the cancelling of some of the intended measures. Public expenditures will be curtailed substantially. Numerous infrastructural investments will have to be postponed and often it will not be possible fully to cover proposals of the funding of public services, presented by ministries and municipalities. This will cause hardships even in the social sphere, in spite of the fact, that the curtailing of mandatory budgetary expenditures is not envisioned. Salaries of people working in the public sector will be reduced only slightly, even so this will not facilitate the fulfilment of promises given to teachers, health-care employees and other specialists to improve their incomes. And the envisioned increase of VAT on some everyday purchases will touch the family budget of most citizens.

The implementation of these and other austerity measures is regarded to be necessary in order to stem the increase of Czechia´s public debt and to bring its budgetary deficit nearer to Maastricht criteria, but they will certainly weaken the contribution of total domestic demand to the forthcoming recovery.

The outlook

The extremely high share of foreign trade and foreign direct investment in Czechia´s GDP makes its economic perspectives strongly dependent on developments of the conjunctural situation in its main partner countries and on corporate strategies adopted by foreign-owned firms operating in its economy. Therefore first signals of the termination of the recession perceived in some EU-member states let us assume, that already in the first half of 2010 the export performance of Czechia will improve somewhat and in the course of this year a slight resumption of economic growth may be expected. (Other forecasters assume, that GDP might contract further, in the range between - -0,5% and -1,0 %,, but we donot identify with this assumption because of anecdotal evidence we perceived in the real economy). But a full recovery of the Czech economy we anticipate only in subsequent years - possible even in the medium-term, - first because the mitigation of damages it had incurred during the present recession will last some time, second, because - similarly as in other EU member states - its full recovery is conditional on its economy becoming predominantly knowledge-based, which requires not only the strengthening of the R&D potential of the country and of the high-tech. related part of its service sector, but also the restructuring of its manufacturing industry.

5.3.5 Denmark DEC

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	231.5	– 4.8	1.1
Private consumption	113.7	– 5.0	1.8
Public consumption	61.8	2.0	0.7
Gross fixed capital formation	48.9	– 12.9	– 0.8
Private excl. dwellings	30.4	– 11.1	– 0.9
Dwellings	14.4	– 17.6	– 0.3
Change in stocks [a]	1.7	1.0	– 0.7
Total domestic demand	226.2	– 5.8	1.7
Exports of goods and services	127	– 10.4	0.3
Imports of goods and services	121.7	– 12.4	1.7
Net exports [a]	5.3	0.8	– 0.6
GDP deflator		1.3	2.7
Consumer prices		na	na
Private consumption deflator		1.5	2.0
Output gap [b]		– 4.9	– 4.9
Unit labour costs [c]		5.6	– 0.8
Nominal hourly gross wage rate		3.2	2.7
Employment (thousands)	2875.0	2800.0	2733.0
Unemployment rate [d]	1.8	3.5	5.4
Real household disposable income		4.7	3.4
Net saving ratio (households) [e]		na	na
Public sector fiscal balance [f,g]	3.4	– 2.4	– 5.4
Gross public debt [f,g]	32.9	36.5	40.2
Current account balance [f]	2.2	1.8	1.6
Central bank policy rate (non-EMU countries)		1.9	1.3
Short-term interest rate (3 months) [h]		2.3	1.6
Long-term interest rate (10 years) [h]		3.6	3.6
United States Federal funds rate		0.3	0.5
GDP			
USA		– 2.9	2.0
Japan		– 5.9	1.2
Euro Area		– 4.1	1.1
World trade volume (goods)		na	na
Oil price [i]		61.0	74.0
Exchange rate			
Dollar/Euro		1.390	1.460
Yen/Euro		na	na
Local currency/Euro for non-EMU countries		7.45	7.44

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Denmark DEC

The current situation

Danish GDP fell by 7 per cent in the second quarter of 2009 compared to the same quarter last year. This is the greatest drop in the history of the quarterly national accounts (unofficial, but reliable data starts in 1971). There is no hard evidence on the recovery having started, but consumer and business confidence has been on its way up for some time. The drop in industrial production has stopped, and the fall in retail sales has slow down. The drop in house prices continued in the second quarter, but monthly indicators point to a possible levelling out. Employment has fallen and unemployment has risen from a historical low level last summer. However, unemployment has only reached the level believed to be "structural" (around 3½ per cent of the labour force).

Economic policy and country's key features relevant for the outlook

Fiscal policy has been eased significantly. Income taxes have been reduced and public investments have been advance. Public employment has increased as well. The fiscal easing will increase economic activity (GDP) in 2009 by approximately 1 per cent compared to a neutral stance. Fiscal policy will be eased next year as well. The additional positive effect of the extra easing in 2010 on activity is around ½ per cent. Over the period 2008-10 fiscal policy is eased discretionally by around 45 billion D.kr. (2½ per cent of GDP). On top of these measures, temporarily is has become possible to redraw money from a special pensions savings fund (which is not formal part of the public sector). The redrawn amount of money is around 40 billion D.kr.

The outlook

GDP is forecasted to fall by 4¾ per cent in 2009 compared to 2008, and the output gap is projected to be around -5 per cent. Employment has fallen, but not nearly as much as production. Thus, even though GDP is forecasted to start to increase slowly, employment will continue to fall and unemployment will increase for one to one and a half year to come. GDP is believed to grow just in line with growth of potential output, leaving the output gap more or less constant in 2010 (and 2011). Thus, growth significantly above trend is not predicted to take place until 2012. Unemployment will rise to 5½ per cent of the labour force in 2010 (and to 6 per cent in 2011). Public finances have been hurt significantly by the crisis. In 2008 the surplus was around 3½ per cent, and in 2010 a deficit of more the 5 per cent is forecasted. This significant turn around is primarily due to the relative large Danish automatic stabilizers, but discretionary fiscal policy measures and temporary factors (such as a significant decline in tax revenue from the extraction of natural resources from the North Sea) is also playing a role. House prices, that were significantly overvalued in 2007-2008, have already fallen by some by 20 per cent in real terms, and an additional drop of some 10 per cent is predicted. Wage increases have traditionally (at least for 10 years) been higher than abroad. This has not been justified by higher growth in productivity (actually pretty much to the contrary), so competitiveness has deteriorated significantly. Even though wage increases have come down (to around 3¼ per cent this year) they are predicted to be too high to improve competitiveness in the next couple of years.

5.3.6 Finland ETLA

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	184.7	– 7.0	1.5
Private consumption	95.6	– 3.5	1.0
Public consumption	41.3	1.5	1.0
Gross fixed capital formation	38.1	– 12.0	– 4.5
Private excl. dwellings	23.1	– 17.0	– 8.5
Dwellings	9.9	– 9.0	0.5
Change in stocks [a]	2.6	0.0	0.0
Total domestic demand	177.5	– 4.0	0.0
Exports of goods and services	86.8	– 25.0	5.5
Imports of goods and services	79.6	– 23.0	2.0
Net exports [a]	1.3	– 4.5	2.0
GDP deflator	1.8	3.0	0.5
Consumer prices	4.1	0.3	1.8
Private consumption deflator	5.3	3.0	2.5
Output gap [b]		na	na
Unit labour costs [c]	5.3	– 1.5	– 1.0
Nominal hourly gross wage rate	4.3	1.8	2.5
Employment (thousands)	2531.0	2445.0	2366.0
Unemployment rate [d]	6.3	8.9	11.0
Real household disposable income	2.0	– 0.5	0.5
Net saving ratio (households) [e]	– 1.0	2.5	2.0
Public sector fiscal balance [f,g]	4.2	– 2.0	– 3.7
Gross public debt [f,g]	34.2	42.5	48.9
Current account balance [f]	2.6	1.4	2.0
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]	4.6	1.3	1.6
Long-term interest rate (10 years) [h]		na	na
United States Federal funds rate		0.3	1.3
GDP			
USA		– 2.5	1.5
Japan		– 6.0	1.5
Euro Area		– 4.5	0.5
World trade volume (goods)		na	na
Oil price [i]		60.8	73.5
Exchange rate			
Dollar/Euro		1.380	1.430
Yen/Euro		133	133
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Finland ETLA

The current situation

According to preliminary data by Statistics Finland, GDP was down 8.5 per cent year-on-year in the first half of 2009. GDP has now decreased for four consecutive quarters. On the other hand, the latest monthly statistics are rather encouraging. In some sectors of the economy, the low end has probably been passed and the situation is improving. For example according to Customs, the seasonally adjusted value of exports was up in June-July. Also new orders in industry have risen slightly, and the volume of output seems to have stabilised.

Economic policy and country's key features relevant for the outlook

The Finnish Consumer price inflation has been clearly faster than in the other Euro Area. Main reason is the price of food, which has not decreased in line with the other Euro Area development. Food prices start decreasing in Finland as well supported by the 5 percentage point decrease in value added on food to 12 per cent in September.

Public sector finances are suffering from the global recession more than in most other countries. The largest surplus (4.4 per cent of GDP) in the EU will turn into almost as large a deficit in 2010. Roughly half of the deteriorating is due to automatic stabilizers while the remaining deficit origins from economic stimulus and aging of the population. The central government deficit will be over 5 per cent of GDP, and the central-government-debt-to-GDP ratio will rise by 17 percentage points to 46 per cent. Without additional measures, indebtedness will continue to rise.

The outlook

In our September forecast, ETLA lowered our estimate for the 2009 GDP growth figure by half a percentage point to -7 per cent, because the beginning of the year was weaker than previously expected. The economy will continue to shrink in the third quarter but by less than before. The recovery will be slow, because investment will continue to shrink far into 2010 and rising unemployment will further weaken household purchasing power.

The volume of exports will decline considerably this year in all sectors due to the collapse in export demand. In 2010, exports will increase the most in vehicles and the processing of metals whose products will be needed as intermediary goods in other sectors that will recover later. A recovery in export demand will help the economy grow slowly towards the end of the year. In 2010, we expect GDP to rise by 1.5 per cent.

5.3.7 France BIPE

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	1948.0	– 2.4	1.2
Private consumption	1086.6	0.6	0.6
Public consumption	478.6	0.8	– 0.4
Gross fixed capital formation	426.9	– 7.1	– 2.5
Private excl. dwellings	224.3	– 8.2	– 3.1
Dwellings	120.9	– 7.6	– 2.2
Change in stocks [a]		– 1.3	1.1
Total domestic demand	1997.4	– 2.2	0.8
Exports of goods and services	514.1	– 11.8	1.9
Imports of goods and services	563.5	– 10.4	0.7
Net exports [a]		– 0.1	0.3
GDP deflator		0.9	1.0
Consumer prices		0.2	1.7
Private consumption deflator		0.0	1.9
Output gap [b]		na	na
Unit labour costs [c]		na	na
Nominal hourly gross wage rate		2.4	1.5
Employment (thousands)		25420.0	25204.0
Unemployment rate [d]		9.4	10.5
Real household disposable income		0.7	– 0.1
Net saving ratio (households) [e]		15.4	14.8
Public sector fiscal balance [f,g]		– 7.3	– 8.6
Gross public debt [f,g]		78.0	86.0
Current account balance [f]		– 1.9	– 1.8
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]		1.3	1.3
Long-term interest rate (10 years) [h]		3.6	3.9
United States Federal funds rate		0.3	0.4
GDP			
USA		– 2.9	1.7
Japan		– 5.3	2.6
Euro Area		– 4.1	1.1
World trade volume (goods)		na	na
Oil price [i]		62.9	81.1
Exchange rate			
Dollar/Euro		1.380	1.450
Yen/Euro		129.4	121.8
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

France BIPE

The current situation

In its business cycle note which appeared during the second fortnight of June, INSEE anticipated a new decline -0.6% in GDP in the second quarter of 2009. There was consequently a major surprise when the second quarter turned out to be positive with an advance in GDP of 0.3% when the quarterly accounts were published in mid-August. Beyond the uncertainties which may relate to this first estimate by INSEE, one important element remains: independently of the profile of the exit from recession and its scale, the lowest point is very probably over. Admittedly, some information argues in favour of caution in expressing a date for the exit from recession. Thus, the survey at the end of August relating to industrial orders, excluding transport materials apart from cars, shows a new fall in these in June (-1.2%), following a rise in May (+1.5%).

Household demand is resisting thanks to the favourable trend in consumer prices. The consumer price index has reached a very low level on a sliding basis. In July, the price index was down by 0.7% compared with last year. Admittedly, the discount sales in clothing/shoes amplified the phenomenon. But the sharp contraction in oil products and fresh products since mid-2008 is the essential cause of the fall in consumer prices. Thanks to this, household demand remained positive during the first half of 2009, notably due to the added purchasing power that it induced. However, the substantial increase in unemployment limited the potential of demand to resist.

But a new rise in unemployment and the rally in prices will hinder an acceleration in household consumption in 2010. The expected consolidation of activity in the second quarter will be inadequate to prevent a new rise in unemployment during the next two to three quarters. In parallel, the positive impact of the fall in consumer prices will fade. The latter will begin to pick up gradually from July-August until they return to upward mode during the last quarter of 2009. This trend originates from the rise in underlying inflation. In this context, household consumption should stabilise at best, with the rise in prices and unemployment offsetting the improvement in household morale.

Economic policy and country's key features relevant for the outlook

See **the current situation**.

The outlook

A probably moderate rally in activity. Without an acceleration in household consumption, only an improvement in the foreign balance or a rally in investment can support a substantial, lasting recovery in GDP. As regards the external contribution to French growth, our economy's inadequate competitiveness limits the possibilities of seeing our growth improved strongly by global demand. As far as investment is concerned, there is a fear that the housing component will only rally slowly. As such, pressure on purchasing power will prevent some households from purchasing homes despite the return of property prices to more reasonable levels despite low current interest rates. In terms of productive investment, the moderate prospects for global demand and the continuing delicate financial situation of many companies encourage the adoption of a hypothesis of stabilisation at the current level until the second half of 2010, but not of a lively recovery. Finally, the more than difficult situation experienced by the State and local communities will lead to a new shrinkage in APU (public administration) investments.

The rebuilding of inventories will boost growth, but only for two or three quarters. The violent contraction in inventories was an important factor in the fall in activity at the end of 2008 and during the first half of 2009. Their restoration to the former level should therefore have quite a strong but limited impact on GDP growth. An acceleration for two or three quarters can therefore be expected before returning to a more moderate level during the second half of 2010, creating a 'double dip' effect. Moreover, the possibility cannot be excluded that stock-rebuilding will be fast and we shall record strong growth during one quarter (0.7%, or even 0.8%), followed by a fall-back to a much weaker level.

5.3.8 France COE-Rexecode

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	1950.0	− 2.0	2.2
Private consumption	1087.0	0.6	0.8
Public consumption	452.0	1.4	2.1
Gross fixed capital formation	428.0	− 6.7	0.2
Private excl. dwellings (Productive)	241.0	− 7.9	− 0.8
Dwellings (Households)	121.0	− 7.1	− 0.7
Change in stocks [a]	4.2	0.0	0.8
Total domestic demand	1998.0	− 1.8	1.8
Exports of goods and services	516.0	− 10.4	5.6
Imports of goods and services	564.0	− 9.1	− 4.0
Net exports [a]		− 0.3	0.3
GDP deflator		1.0	0.3
Consumer prices		0.2	1.5
Private consumption deflator		− 0.2	1.3
Output gap [b]		na	na
Unit labour costs [c]		2.3	− 0.5
Nominal hourly gross wage rate		2.3	1.9
Employment (thousands)		− 1.2	− 0.4
Unemployment rate [d]		9.2	9.9
Real household disposable income		1.7	0.3
Net saving ratio (households) [e] (Gross saving)		16.5	16.0
Public sector fiscal balance [f,g]		− 7.5	− 7.0
Gross public debt [f,g]		77.5	82.6
Current account balance [f]		− 2.1	− 2.6
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]		1.3	1.0
Long-term interest rate (10 years) [h]		3.6	3.7
United States Federal funds rate		0.2	0.6
GDP			
USA		− 2.5	2.5
Japan		− 5.6	2.4
Euro Area		− 3.6	2.1
World trade volume (goods)		− 13.0	6.4
Oil price [i]		62.7	84.0
Exchange rate			
Dollar/Euro		1.370	1.370
Yen/Euro		131	135
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Gross saving, percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

France COE-Rexecode

La récession qu'a subie l'économie française à partir du deuxième trimestre 2008 s'est interrompue au printemps 2009. Le volume du PIB a progressé au rythme de 1,4 % en rythme annualisé par rapport au trimestre précédent. Le redressement des exportations a soutenu l'activité. Il a été accompagné par une nouvelle chute des importations en volume et une progression des dépenses de consommation des ménages. L'activité a en revanche été à nouveau freinée par le recul des dépenses en capital fixe (investissement) et circulant (accentuation du déstockage) réalisées par les entreprises.

Les immatriculations de véhicules particulières et commerciales sont un peu retombées en juillet et août après leur envolée du printemps permise notamment par la « prime à la casse » incluse dans le plan de relance. Elles se sont redressées en septembre. Du côté des indicateurs « qualitatifs », les enquêtes de conjoncture ont confirmé et même amplifié leur rebond amorcé en avril dernier. En particulier, l'indice synthétique de l'enquête auprès des directeurs d'achat du secteur industriel a franchi à la hausse en août la ligne de 50 qui trace une démarcation entre l'expansion et la contraction de l'activité. Il en est très proche dans les activités de services et pourrait rapidement dépasser cette ligne au regard de la franche amélioration des anticipations d'activité à un an que retiennent les chefs d'entreprise. Dans le cas du secteur de la construction, l'indice du climat des affaires a cessé de se dégrader depuis plusieurs mois sans parvenir à se redresser. Ce constat s'applique également aux intentions de commandes des chefs d'entreprise du secteur du commerce de détail.

L'amélioration globale des enquêtes de conjoncture suggère ainsi que la première étape de la sortie de crise que constitue la fin de la récession a bel et bien été franchie. A court terme, des forces de rebond vont continuer à s'exercer.

Ces forces de rebond tiennent dans un premier lieu à l'arrêt du déstockage. Celui-ci est désormais très avancé et probablement proche de son terme. Au cours du seul deuxième trimestre, il a porté sur un montant équivalent à 3 % de la valeur ajoutée des sociétés non financières, une proportion qui n'avait jamais été observée par le passé. Cette coupe dans le niveau des stocks a permis aux entreprises de ramener leurs besoins de financement à hauteur d'environ un point de leur valeur ajoutée. Ce ratio se situait à plus de huit points début 2008. Le niveau des stocks est désormais jugé plutôt plus bas que la normale par les industriels. A court terme, la demande sera ainsi de moins en moins satisfaite par un prélèvement sur le niveau des stocks, désormais très bas, mais plutôt par une nouvelle production ce qui viendra soutenir l'activité et aussi par une hausse des importations.

La deuxième force de rebond tient à la montée en puissance du volet « dépenses » du plan de relance. A la fin du mois d'août, 18,2 milliards d'euros ont été dépensés par l'Etat dans le cadre des mesures incluses dans le plan de relance de décembre 2008 et du sommet social de février dernier. Le montant annoncé était au total d'un peu moins de 29 milliards d'euros. Sur ce montant de 18,2 milliards, environ la moitié s'explique par la mise en œuvre des mesures de soutien de la trésorerie des entreprises et 3,7 milliards par un versement aux collectivités locales dans le cadre du fonds de compensation de la TVA. Le montant restant s'explique par les versements de prestations aux personnes éligibles au RSA, par les exonérations de charge pour les TPE ou encore par la prime à la casse… Jusqu'à présent, les montants dépensés dans l'objectif de soutien de l'investissement public d'Etat ont été plutôt modestes : sur les 4,1 milliards d'euros d'investissement de l'Etat prévus, seuls 610 millions d'euros ont été payés, de sorte qu'environ 2,2 milliards d'euros de crédits de paiement prévus pour 2009 n'ont pas encore été utilisés. 1,3 milliard d'euros pourraient encore être dépensés en 2010. Les entreprises publiques auraient dépensé pour leur part environ un quart du montant de l'enveloppe attendue (4 milliards d'euros). Aucune estimation précise de l'impact de la mesure FCTVA sur l'investissement des collectivités locales n'est disponible. Sous l'hypothèse où les montants annoncés et votés seraient effectivement utilisés pour une relance de l'investissement, environ cinq milliards d'euros de dépenses additionnelles pourrait intervenir durant le second semestre, soit 0,3 point de PIB. L'effet de soutien de l'activité exercé par la dépense publique viendrait à se modérer dans la seconde partie de l'année prochaine.

Enfin, une troisième force de rebond à court terme tient à la réanimation du commerce mondial. Les exportations de marchandises se sont réorientées à la hausse à partir du printemps. L'indice des opinions des directeurs d'achat du secteur industriel sur les commandes à l'exportation est également repassé au-dessus de la ligne de 50.

L'exercice concomitant de ces forces de soutien pourrait déboucher sur un rythme de croissance plutôt élevé au cours des deux à trois prochains trimestres. Au-delà, ce rebond peinerait à embrayer sur une phase de vraie reprise marquée par une nouvelle phase d'accumulation.

Les dépenses d'investissement productif peineraient à redémarrer. Le faible niveau de l'utilisation des capacités de production limite l'incitation physique à investir. Surtout, le rétablissement de la situation financière des entreprises sera un préalable à un redémarrage de l'investissement. Or, le redressement des marges d'exploitation n'est qu'à peine amorcé et les besoins de trésorerie risquent de se tendre à mesure que le rebond de l'activité se propagera. Les conditions de financement auprès des banques restent tendues comme en témoigne le niveau record (supérieur à cent points de base) atteint par l'écart entre le taux des crédits aux sociétés non financières et celui de l'Euribor 3 mois.

La principale inconnue réside dans l'évolution attendue de la consommation. Celle-ci a continué de progresser jusqu'à présent. Elle a avancé de 1,3 % en rythme annuel au deuxième trimestre. Cette progression s'est opérée en dépit d'un recul des effectifs salariés marchands supérieur à 410 000 postes depuis le point haut du premier trimestre 2008, d'une part, de la modération salariale, d'autre part. Elle n'a pas empêché une remontée du taux d'épargne des ménages. Celui-ci ressortirait à 16,6 % selon nos estimations au deuxième trimestre contre 15,1 % un an plus tôt.

La désinflation permise par le recul des cours du baril de pétrole a contribué à soutenir les dépenses de consommation des ménages en début d'année. Leur revenu a également bénéficié

d’une accélération des transferts sociaux au cours du premier semestre. Environ un milliard d’euros devrait encore être redistribué aux ménages au troisième trimestre sous forme de remises d’impôt sur le revenu. Ces éléments de soutien vont s’atténuer, voire s’inverser.
L’inflation s’est à nouveau orientée à la hausse. Elle resterait toutefois modérée. L’introduction d’une taxe carbone viendrait exercer un prélèvement sur les revenus des ménages.
En l’absence d’une véritable reprise soutenue, les effectifs peineront à s’orienter à la hausse. La poursuite de la montée du chômage pourrait exercer pour sa part un effet de discipline des salaires. Les revenus salariaux des ménages accéléreraient ainsi à peine en 2010 (à 1,6 % en termes nominaux après une progression de seulement 0,2 % en 2009). Les gains de pouvoir d’achat du revenu disponible brut des ménages ralentiraient ainsi à 0,3 % en 2010 après une progression de 1,7 % en 2009.
En dépit de cette modération des revenus, nous ne privilégions pas une hypothèse de recul des dépenses de consommation. Celles-ci progresseraient en 2010 à un rythme proche de celui attendu pour 2009, inférieur à 1 % en volume. Tout d’abord, la prorogation de la « prime à la casse » empêcherait que se manifeste un contrecoup à la baisse sur les immatriculations de véhicules. Ensuite, nous retenons qu’en l’absence de remontée des taux d’intérêt et sous l’hypothèse que la baisse des prix de l’immobilier ne s’amplifie pas, l’incitation au gonflement de l’épargne financière s’atténuera progressivement. Le taux d’épargne financière a déjà brutalement remonté. En s’inscrivant à 7,1 % au deuxième trimestre 2009, selon nos estimations, il dépasse de près d’un point sa moyenne de longue période.
Au total, malgré le vif rebond du PIB que nous retenons pour la fin 2009 et le début 2010, le niveau du PIB resterait encore inférieur à celui qui avait été inscrit avant l’entrée en récession.
Le scénario que nous retenons décrit ainsi plus une phase de récupération après une chute exagérée qu’une véritable reprise.

5.3.9 France INSEE

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	1948.0	− 2.2	na
Private consumption	1087.0	0.7	na
Public consumption	479.0	1.4	na
Gross fixed capital formation	427.0	− 6.2	na
Private excl. dwellings	199.0	− 7.7	na
Dwellings	213.0	− 5.3	na
Change in stocks [a]	− 0.3	− 1.4	na
Total domestic demand	1997.0	− 2.0	na
Exports of goods and services	514.0	− 11.0	na
Imports of goods and services	563.0	− 9.6	na
Net exports [a]	− 0.3	− 0.1	na
GDP deflator	118.6	1.1	na
Consumer prices	119.2	0.1	na
Private consumption deflator	116.2	− 0.2	na
Output gap [b]		na	na
Unit labour costs [c]	0.5	na	na
Nominal hourly gross wage rate		na	na
Employment (thousands)	26224.0	− 1.6	na
Unemployment rate [d]	7.8	9.6	na
Real household disposable income	1283.0	2.1	na
Net saving ratio (households) [e]	15.3	16.5	na
Public sector fiscal balance [f,g]	− 3.4	na	na
Gross public debt [f,g]	67.4	na	na
Current account balance [f]	− 2.3	na	na
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]		na	na
Long-term interest rate (10 years) [h]		na	na
United States Federal funds rate		na	na
GDP			
USA		− 2.6	na
Japan		− 5.9	na
Euro Area		− 3.9	na
World trade volume (goods)		− 15.4	na
Oil price [i]	97.2	60.5	na
Exchange rate			
Dollar/Euro	1.471	1.39	na
Yen/Euro	151.6	131.0	na
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

France INSEE

The current situation

While French real GDP had strongly declined since the second quarter of 2008, GDP growth surprised on the upside in the second quarter (+0,3 %, q/q). Production in manufacturing industry has rebounded, particularly in the car industry. In third quarter of 2009, economic indicators such as industrial production index suggest that the improvement would continue. However, employment is still decreasing. The unemployment rate is 9,5 % in the second quarter of 2009, two points more than its lowest level in the first quarter of 2008 (7,5 %).

Economic policy and country's key features relevant for the outlook

The stimulus package is partly composed of an important cash injection for modest households in the second and third quarters of 2009. These strong supporting measures could sustain the private consumption in the second part of the year. Moreover, as in many countries, scrapping subsidies increased the demand for cars. It represents 1000 € per scrapped vehicle, with conditions on car's energy efficiency, and will carry on until the end of the year. In 2010, this subsidy should be reduced gradually. In addition, the French government launched a multi annual investment plan of 8 billions € encompassing central government and main public-owned companies spending.

The outlook

After the recovery in the second quarter of 2009, GDP should still be growing at a moderate pace in the second half of the year. The French economy should benefit from the rebound of global trade. We expect a positive contribution of net foreign trade in the third quarter and exports should be dynamic until the end of 2009. Private consumption should continue to grow at a moderate pace. Private investment should continue to decline but at a slower pace. However, unemployment rate reached its highest level since 2000.

5.3.10 France OFCE

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP		– 2.1	0.8
Private consumption		0.5	0.6
Public consumption		1.4	2.0
Gross fixed capital formation		– 6.6	– 3.4
Private excl. dwellings		– 7.6	– 4.5
Dwellings		– 7.9	– 4.5
Change in stocks [a]		– 1.1	0.8
Total domestic demand		– 1.9	0.8
Exports of goods and services		– 10.3	5.3
Imports of goods and services		– 8.5	4.9
Net exports [a]		– 0.2	0.0
GDP deflator		0.1	1.6
Consumer prices		0.2	1.5
Private consumption deflator		0.0	1.6
Output gap [b]		– 5.0	– 5.7
Unit labour costs [c]		3.5	– 1.2
Nominal hourly gross wage rate		2.4	0.7
Employment (thousands)		350.0	260.0
Unemployment rate [d]		9.1	10.1
Real household disposable income		2.0	0.9
Net saving ratio (households) [e]		16.5	16.8
Public sector fiscal balance [f,g]		– 8.3	– 8.7
Gross public debt [f,g]		78.2	84.4
Current account balance [f]		– 2.3	– 2.4
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]		1.2	1.0
Long-term interest rate (10 years) [h]		4.0	3.6
United States Federal funds rate		0.3	0.3
GDP			
USA		– 2.5	1.9
Japan		– 5.9	2.2
Euro Area		– 3.8	0.8
World trade volume (goods)		– 14.3	7.0
Oil price [i]		61.6	80.0
Exchange rate			
Dollar/Euro		1.370	1.320
Yen/Euro		130	132
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

France OFCE

The current situation

French GDP declined four quarters in a row from the second quarter of 2008 but rose by 0.3% in the second quarter of 2009. This is not the only positive signal for the French economy since last Spring. World trade has started to recover. Credit conditions have improved. Consumer and companies' economic sentiment have improved too although they still remain at low levels. Last, stockbuilding seems about to resume. OFCE's quarterly GDP indicator suggests a 0.6% output growth in the third quarter of this year.

The French economy seems to have resisted the crisis better than its main euro area trading partners, with GDP expected to fall by 2.1% in 2009, as compared to close to 5% in Germany and Italy. Industrial production fell sharply although some sectors benefited from the support of fiscal measures. This was especially the case for the automobile industry which benefited from the car scrapping schemes introduced in France and neighbour countries.

The output fall has led a deterioration of the labour market conditions and we expect the unemployment rate to come close to 9.5% at the end of this year, i.e. 2.4 percentage higher than in the first quarter of 2008.

Economic policy and country's key features relevant for the outlook

Fiscal deficits have been rising under the combined effects of the recession and of the fiscal stimulus package. We expect the general government deficit to rise from 3.4% of GDP to 8.3% year and 8.7% of GDP in 2010. The fiscal stimulus package implemented in 2009 amounts to 1.3% of GDP, embedding mainly measures on government investment and support to companies' cashflow, while measures directly addressing the unemployment situation have so far been limited. Under current fiscal plans, fiscal policy will be contractionary in 2010, with a fiscal effort of around 0.4% of GDP.

With the euro area expected to grow by 0.8% only next year and inflation expected to settle at around 1.2%, the ECB's interest rates would remain unchanged at 1.0%. We have assumed that the euro real exchange rate would remain roughly stable in the coming months, but there is a risk of a further appreciation.

The outlook

The rebound of the French economy could be short-lived. We expect French GDP will rise by 0.8% only in 2010, which cannot be seen as a real recovery. A number of factors will lead GDP growth to remain moderate. French households' consumption growth will be constrained by decelerating purchasing power resulting both from the stabilisation of inflation at around 1.5% in 2010 instead of 0.2% in 2009 and from rising unemployment. Companies will reduce their indebtedness levels and will not increase their investment before their balance sheets and profits are improved. Fiscal policy will become contractionary. The unemployment rate will continue to rise and reach 10.6% at the end of 2010.

A major issue will be the exit strategy implemented in the G-20. If fiscal policies were to be tightened sooner and by a larger extent than we currently expect, the anticipated fragile recovery would be at risk.

5.3.11 Germany DIW

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	2495.8	– 5.1	1.3
Private consumption	1409.7	0.8	1.0
Public consumption	451.8	2.7	1.5
Gross fixed capital formation	474.7	– 9.1	3.2
Private excl. dwellings	229.7	– 18.8	1.7
Dwellings	245.0	0.1	4.3
Change in stocks [a]	3.9	0.0	– 0.1
Total domestic demand	2340.1	– 1.5	1.4
Exports of goods and services	1179.4	– 15.1	4.1
Imports of goods and services	1023.7	– 8.5	4.7
Net exports [a]	155.7	– 3.7	– 0.1
GDP deflator	109.8	1.1	0.6
Consumer prices	115.0	0.3	1.0
Private consumption deflator	112.8	0.1	0.9
Output gap [b]	1.3	– 4.5	– 4.3
Unit labour costs [c]	64.2	4.9	– 0.9
Nominal hourly gross wage rate	20.5	2.8	0.6
Employment (thousands)	40277.5	– 0.3	1.6
Unemployment rate [d]	7.2	7.7	9.2
Real household disposable income	1381.4	0.9	0.9
Net saving ratio (households) [e]	11.2	11.4	11.4
Public sector fiscal balance [f,g]	0.0	– 3.1	– 4.9
Gross public debt [f,g]	65.8	71.7	75.2
Current account balance [f]	6.7	4.0	3.4
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]	3.47	0.8	1.0
Long-term interest rate (10 years) [h]	3.98	3.2	3.4
United States Federal funds rate	1.8	0.2	0.5
GDP			
USA	9823.8	– 2.5	2.0
Japan	3338.7	– 6.1	1.0
Euro Area	9214.3	– 3.9	0.8
World trade volume (goods)	13406.8	– 11.0	4.6
Oil price [i]	93.0	60.0	68.0
Exchange rate			
Dollar/Euro	1.470	1.380	1.450
Yen/Euro		na	na
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

5.3.12 Germany IFO

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	2495.8	– 5.0	1.3
Private consumption	1409.7	0.9	0.4
Public consumption	451.8	2.4	1.7
Gross fixed capital formation	474.7	– 8.9	1.4
Private excl. dwellings	229.7	– 16.5	1.9
Dwellings	245.0	– 1.8	1.1
Change in stocks [a]	3.9	– 1.2	– 0.8
Total domestic demand	2340.1	– 2.1	0.1
Exports of goods and services	1179.4	– 13.0	7.9
Imports of goods and services	1023.7	– 7.7	5.6
Net exports [a]	155.7	– 3.0	1.2
GDP deflator		1.1	0.5
Consumer prices		0.3	0.6
Private consumption deflator		– 0.3	0.4
Output gap [b]		na	na
Unit labour costs [c]		4.4	– 2.0
Nominal hourly gross wage rate		2.4	1.8
Employment (thousands)		40174.9	39748.5
Unemployment rate [d]		8.0	9.1
Real household disposable income		0.5	0.7
Net saving ratio (households) [e]		11.0	11.4
Public sector fiscal balance [f,g]		– 2.7	– 4.9
Gross public debt [f,g]		na	na
Current account balance [f]		na	na
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]		na	na
Long-term interest rate (10 years) [h]		na	na
United States Federal funds rate		na	na
GDP			
USA		na	na
Japan		na	na
Euro Area		na	na
World trade volume (goods)		na	na
Oil price [i]		61.5	75.0
Exchange rate			
Dollar/Euro		1.390	1.450
Yen/Euro		na	na
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

5.3.13 Germany Ifw KIEL

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	2495.8	– 4.9	1.0
Private consumption	1409.7	0.5	0.8
Public consumption	451.8	2.3	1.6
Gross fixed capital formation	474.7	– 9.6	3.1
Private excl. dwellings	307.0	– 14.3	1.6
Dwellings	137.3	– 1.1	4.0
Change in stocks [a]	0.5	– 0.4	0.2
Total domestic demand	2192.6	– 1.6	1.6
Exports of goods and services	1054.9	– 14.5	7.2
Imports of goods and services	922.5	– 8.4	9.4
Net exports [a]	132.5	– 3.4	– 0.5
GDP deflator		0.5	– 0.5
Consumer prices		– 0.1	0.6
Private consumption deflator		– 0.1	0.6
Output gap [b]		– 2.9	– 2.9
Unit labour costs [c]		4.4	– 0.8
Nominal hourly gross wage rate		3.0	1.3
Employment (thousands)		– 0.3	– 1.8
Unemployment rate [d]		7.6	9.1
Real household disposable income		– 0.2	1.6
Net saving ratio (households) [e]		11.0	11.5
Public sector fiscal balance [f,g]		– 3.0	– 5.1
Gross public debt [f,g]		73.1	77.5
Current account balance [f]		4.9	4.5
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]		1.0	1.0
Long-term interest rate (10 years) [h]		2.9	3.3
United States Federal funds rate	2.5	0.0	0.4
GDP			
USA	0.4	– 2.5	2.0
Japan	– 0.7	– 5.4	1.2
Euro Area	0.6	– 3.7	0.8
World trade volume (goods)	2.8	– 12.0	5.0
Oil price [i]	97.7	61.9	75.0
Exchange rate			
Dollar/Euro	1.460	1.400	1.420
Yen/Euro	150.7	134.4	134.9
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Germany   Ifw KIEL

The German economy is stabilizing. In the second quarter of 2009 production increased slightly and leading indicators point to somewhat stronger growth over the next two quarters. Nonetheless, we do not expect a cyclical recovery of the usual type over the next months with strong and sustained increases in capacity utilization. Empirical evidence shows that recessions that are associated with a banking crises tend to be deeper and more prolonged than "normal" recessions.

While the situation has substantially improved in recent months,the international financial crisis is not yet over. Consolidation in the banking sector in many industrialized countries and the process of reducing high indebtedness of private households, particularly in those countries that have to deal with the legacy of a house price bubble, will dampen growth of the world economy that will be lower than in the years before the crisis for some time to come. In addition, Germany is likely to lose international price competitiveness against those countries that are hit most severely by the crisis and which as a consequence are expected to have especially large output gaps, high unemployment and, as a result, stagnating or falling wage and price levels. On the domestic side, German banks have lost a lot of capital during the crisis and are likely to lose more going forward as insolvencies are likely to rise drastically over the next months. We expect that banks will tighten credit standards further and reduce bank lending in order to cope with the lower capital base impairing business investment. While we do not expect an outright credit crunch at this point, there is a risk that the recovery will be substantially impaired by financial constraints.

However, there are also some benign signals. The labour market has been surprisingly resilient so far, and while the situation on the labour market is likely to deteriorate over the coming months, it will do so less severely than could have been expected given the fall in production and less so than in a number of other countries. The fact that different sectors have been hit most severely in different countries can only account for a modest share of the differences in labour market behaviour as can institutional differences including differing rules on part-time unemployment (short-time working schemes). An important aspect seems to be that the wage moderation that had been induced by labor market reforms some years ago is still stimulating labor demand in Germany. Despite stronger wage increases last year and in the first half of this year, the relation between real labor costs and productivity is still more favourable than before the reforms were initiated. This implies that growth should be particularly labour intensive, and without the global recession we would have expected employment to rise significantly in 2009 and 2010. The situation is, thus, markedly different from previous recessions in Germany that typically occured when wage pressure was already high. As a result, while there will be some further increase in unemployment, a massive setback on the labor market is unlikely, in our view.

The outlook: Recovery but a modest one

The German economy will pick up in the second half of 2009. Growth will be stimulated by rising demand from abroad as is documented by the latest increases in foreign orders and rising export expectations in manufacturing. Domestic demand will also grow, not least because of positive effects of the inventory cycle. In addition, public investment will accelerate. Business investment, in contrast, will remain sluggish as a result of the low capacity utilisation and higher costs of finance.

Next year, the recovery will continue. Exports will continue to grow, but less forcefully than in previous cyclical recoveries. The larger contribution to growth is expected to come from domestic demand. Private consumption will continue to expand significantly despite some negative impact from the fact that the "scrappage premium" for old cars no longer applies and from the fall in employment as private consumption is stimulated by tax reductions. Business investment will start growing again, although rather moderately. Residential investment will be stimulated by low mortgage rates.

Overall, we expect real GDP to grow by 1 percent in 2010, after a fall by 4.9 percent in 2009. Unemployment will average nearly 3.5 million persons in 2009 and climb to 3.9 million in 2010. Consumer prices will be almost stable in both years.

5.3.14 Germany RWI

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	2495.8	– 5.0	1.2
Private consumption	1409.7	0.5	– 0.5
Public consumption	451.8	0.4	0.3
Gross fixed capital formation	474.7	– 1.8	0.1
Private excl. dwellings		na	na
Dwellings	137.3	– 1.5	– 1.1
Change in stocks [a]	3.9	– 0.8	– 0.2
Total domestic demand	2340.1	– 1.7	– 0.3
Exports of goods and services	1179.4	– 7.5	2.8
Imports of goods and services	1023.7	– 4.2	1.4
Net exports [a]	155.7	– 3.3	1.5
GDP deflator	1.5	1.4	1.9
Consumer prices	2.6	0.4	1.3
Private consumption deflator	2.1	– 0.3	1.1
Output gap [b]			
Unit labour costs [c]	60.5	63.6	62.4
Nominal hourly gross wage rate	2.8	2.2	1.8
Employment (thousands)	40277.5	40154.0	39298.5
Unemployment rate [d]	7.2	7.7	9.5
Real household disposable income	0.6	0.7	– 0.7
Net saving ratio (households) [e]	12.7	12.6	12.9
Public sector fiscal balance [f,g]	0.0	– 3.0	– 5.0
Gross public debt [f,g]	62.2	67.6	70.5
Current account balance [f]	6.6	4.6	5.8
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]	4.6	1.5	1.5
Long-term interest rate (10 years) [h]	4.3	3.9	3.7
United States Federal funds rate		na	na
GDP			
USA	0.4	– 3.0	1.2
Japan	– 0.5	– 5.9	2.0
Euro Area	0.6	– 3.7	1.0
World trade volume (goods)	3.9	– 13.5	6.0
Oil price [i]	97.0	60.0	70.0
Exchange rate			
Dollar/Euro	1.470	1.380	1.450
Yen/Euro		na	na
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Germany RWI

The German economy is recovering only gradually. After having declined for four quarters in succession, GDP did, in fact, increase by 0.3% during the second quarter of 2009 relative to the previous quarter. Nevertheless, aggregate production is 7.1% lower than one year ago, so that the economy can only be seen to have stabilized at a low level. Private and public consumption have risen in particular. Indicators suggest a moderate revival during the second half of 2009. The main impetus will be provided by the global economy and the civic investment program, while private consumption is likely to decline. Inflation meanwhile is expected to increase, with consumer prices rising by 0.4% this year and 1.3% next year.

In view of these developments, the RWI expects real GDP to drop by 5.0% in 2009. A halting recovery is to be expected for the entire forecast period. Economic growth will probably amount to an annual average of 1.2% in 2010.

The situation in the German labor market should continue to worsen for some time to come. Up to now, by introducing shortened working hours and other adjustments at the company level, a reduction of employment levels in response to lower production levels has been surprisingly small. The measures have resulted in strong decreases in productivity and in employees' working hours, while unit labor costs have risen. Yet businesses are expected to seek ways of curbing costs, so that unemployment will probably increase, affecting 3.7 million people by the end of this year and 4.4 million by the end of next year. The unemployment rate is consequently expected to increase from 8.3% to 9.8% on a yearly average.

Public budgets are already facing a considerably worsened situation as a result of falling revenues, due to the economic slump, and of increased expenditures as well as on account of the steps taken to stabilize the economy. We expect this trend to continue, driving the total federal budget deficit up 3.0% of the GDP in this year and 5% in 2010. The debt/GDP ratio, i.e. the level of public debt relative to the nominal GDP, should therefore rise to more than 75% by the end of next year.

Government economic policy faces tremendous challenges in view of the current situation. With the aim of ensuring a functioning money market, the ECB has drastically expanded the supply of liquidity and should now carefully tighten the reins on the money market. Financial policy faces the task of indicating ways to reduce the increased debt. A credible strategy would, in our judgment, limit the increase of expenditures and weight the budget in favor of growth-stimulating expenditures that encourage growth.

5.3.15 Greece KEPE

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	239.1	– 1.4	0.0
Private consumption	173.3	– 1.2	0.2
Public consumption	40.3	3.9	0.5
Gross fixed capital formation	46.3	– 12.8	– 0.8
Private excl. dwellings	26.4	– 16.2	– 1.4
Dwellings	12.7	– 14.5	– 1.5
Change in stocks [a]	1.4	– 0.2	– 0.1
Total domestic demand	263.6	– 4.5	0.1
Exports of goods and services	55.5	– 13.2	0.8
Imports of goods and services	80.0	– 19.1	1.0
Net exports [a]	0.9	3.6	– 0.1
GDP deflator	3.5	0.9	1.6
Consumer prices	4.2	1.1	1.8
Private consumption deflator	4.1	0.3	1.2
Output gap [b]		na	na
Unit labour costs [c]		na	na
Nominal hourly gross wage rate		na	na
Employment (thousands)	4707.0	– 1.9	– 0.6
Unemployment rate [d]	7.4	9.5	10.2
Real household disposable income		na	na
Net saving ratio (households) [e]		na	na
Public sector fiscal balance [f,g]	– 5.0	– 9.5	– 4.9
Gross public debt [f,g]	97.4	102.7	107.2
Current account balance [f]	– 13.8	– 10.6	– 10.5
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months), end year [h]	4.87	2.6	2.5
Long-term interest rate (10 years), end year [h]	4.8	5.3	5.1
United States Federal funds rate, end year		na	na
GDP			
USA		– 2.8	1.6
Japan		– 5.5	2.0
Euro Area		– 4.2	1.0
World trade volume (goods)		– 18.0	3.1
Oil price [i]		60.8	73.0
Exchange rate			
Dollar/Euro	1.470	1.380	1.430
Yen/Euro	na	na	na
Local currency/Euro for non-EMU countries	na	na	na

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Greece KEPE

In the second quarter of 2009 the Greek economy entered a phase of output decline. Greek GDP fell by 0.3 per cent compared to the same quarter last year. Recent evidence from monthly indicators points towards deepening of the recession in the remainder of the current year. Industrial production for the period January to August has dropped by 9.7% in comparison to the same period last year. The decline in private consumption has accelerated in the second quarter of 2009 to -1.9 per cent compared to the same quarter last year. Data on retail sales index volume show a continuation of the negative trend but at a slower pace. While private consumption is declining public consumption has risen to 3.6 per cent in the second quarter of 2009 and is expected to rise by 4 per cent for the year providing, along with public investment, the main impetus for total spending. Meanwhile housing investment has been declining for a third consecutive year and is estimated to drop by more than 14 per cent in 2009. The decline of non housing private investment is expected to be higher. Consumer prices are expected to increase by somewhat less than 1% this year.

In view of these developments, we expect real GDP to drop by 1.4% in 2009. A recovery is not expected before the second half of next year. Economic growth will probably remain very close to zero in 2010.

The situation in the Greek labor market is worsening rapidly and it should continue to worsen for some time to come. The reduction of employment, in response to lower production levels, is expected to approach 2% on an annual basis. The unemployment rate is consequently expected to increase from 7.4% to 9.5% on a yearly average and exceed 10% in 2010.

Greece's exports are suffering due to the international economic situation. We expect export volumes to decline by over 13 per cent this year. At the same time imports of goods and services are declining by even higher rates (-19%). As a result net exports have a significant positive contribution to GDP growth, while the current account deficit is exhibiting a noticeable reduction.

The economic downturn has had severe repercussions on public finances. Tax revenues have collapsed and expenditures have increased substantially. The budgetary measures, designed to bring the deficit below the 3% threshold, have failed. The general government deficit is estimated close at 10% while the debt/GDP ratio, should increase to more than 102% of GDP.

The new government faces tremendous challenges in view of the current situation. A credible economic strategy would, in our judgment, limit the increase of government consumption and weight the budget in favor of growth-stimulating investment expenditures.

5.3.16 Hungary GKI

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	106.0	– 6.5	0.0
Private consumption	69.5	– 6.7	0.0
Public consumption	10.0	0.0	0.0
Gross fixed capital formation	21.3	– 6.0	6.0
Private excl. dwellings		na	na
Dwellings		na	na
Change in stocks [a]	2.0	– 1.2	– 1.4
Total domestic demand	104.7	– 10.4	0.8
Exports of goods and services	86.3	– 15.0	4.0
Imports of goods and services	85.0	– 20.0	5.0
Net exports [a]	1.3	5.4	4.6
GDP deflator	5.2	4.0	3.0
Consumer prices	6.1	4.7	4.3
Private consumption deflator		na	na
Output gap [b]		na	na
Unit labour costs [c]		na	na
Nominal hourly gross wage rate	7.5	2.0	1.0
Employment (thousands)	3879.4	– 2.5	– 0.5
Unemployment rate [d]	477.0	9.8	9.8
Real household disposable income	6.8	– 4.5	0.0
Net saving ratio (households) [e]	0.8	4.8	4.8
Public sector fiscal balance [f,g]	– 3.4	– 3.8	– 3.8
Gross public debt [f,g]	73.0	80.0	80.0
Current account balance [f]	– 8.4	– 2.7	– 3.4
Central bank policy rate (non-EMU countries)	9.5	7.5	6.0
Short-term interest rate (3 months) [h]	7.4	6.5	5.8
Long-term interest rate (10 years) [h]	7.9	6.4	5.5
United States Federal funds rate	0.5	0.5	0.8
GDP			
USA	1.1	– 2.6	0.8
Japan	– 0.7	– 6.0	1.7
Euro Area	0.8	– 4.8	– 0.3
World trade volume (goods)		na	na
Oil price [i]	97.5	60.0	75.0
Exchange rate			
Dollar/Euro	1.470	1.380	1.450
Yen/Euro	152.26	127.0	125.0
Local currency/Euro for non-EMU countries	251.20	280.0	265.0

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Hungary GKI

The current situation

Recession in Hungary was greater than the average: in the first half of 2009, compared to the same period of the previous year; the contraction of GDP was 4.8 per cent in the EU and 6.4 per cent in Hungary. In Autumn 2009 the Hungarian economy must have hit bottom (according to the national statistics GDP was down by 7.2 per cent in the first half of 2009). In the fourth quarter slight growth is forecast quarter-on-quarter, which still means a large, 4 per cent drop compared with the fourth quarter last year. The annual contraction is expected to total 6-7 per cent (6.5 per cent is the precise numerical forecast of GKI). Services alleviate the reduction of GDP and play a stabilising role.

Employment, wages and consumption are gradually adjusting to recessionary times. The annual average rate of unemployment is expected to be at around 9.8 per cent, the year-end figure 10.3 per cent. Real earnings of households are projected to drop by 2-3 per cent, real incomes more, by 4-5 per cent, because of an increase in unemployment, rigor in welfare transfers, and accelerating inflation due to the lift of some tax rates. With the decrease of credits, household consumption is likely to drop by 6.7 per cent, whereas households' propensity to save increases markedly to almost 5 per cent of GDP. Consumption is anticipated to diminish even more sharply in the second half year than in the first one. The volume of investments decreases by about 5 per cent this year. The general decrease is neutralised to some extent by – mostly infrastructural – investments co-financed by the EU. In foreign trade an EUR 4.5 billion surplus is expected. This year Hungary will not need net external financing, because browning will be used either to lift foreign exchange reserves or to repay loans borrowed earlier!

The rate of inflation is forecast to reach 4.4 per cent in the average of 2009 and about 6 per cent at the end of the year. The HUF is 7-8 per cent weaker than last year, which has an inflationary pressure on the yearly average, however, in the second half of 2009 a much stronger and less volatile HUF/EUR exchange rate is forecast with an annual average of HUF270 (compared with the first half year when it was HUF290). The reference rate of the central bank remained high (9.5 per cent) when unfavourable money market conditions prevailed. Only when the risk appetite improved in money markets sharply and the tax law for 2010 was passed the National Bank of Hungary could cut its official rate in two steps, by a total of 150 base points. Rate cuts can continue to 6.5-7 per cent by the end of the year.

The outlook

The development of the Hungarian economy in 2010 depends mostly on the evolution of the global crisis and the global consolidation and recovery trends. Certainly, the economy is and will be influenced by the (equilibrium-enforcing and credibility-building) economic policy of the current government as well as by the so far unknown economic policy of the new one to be inaugurated after the parliamentary elections of spring 2010. As money markets clearly signalled, foreign investors expect declining public foreign debt ratios and thus they are willing to finance limited deficits, there will not be much room for a different sustainable economic policy as far as the main macroeconomic trends are concerned, whereby the new government will have endless opportunities to change the details.

In 2010 the tax centralisation (tax revenues relative to GDP) will be lower by about 1 percentage point. Government revenues from taxes and contributions will be close to the level of last year. Government expenditures will also decline in nominal terms, mainly because taxes on employment were reduced and the 13th month compensation schemes were withdrawn. Although after the elections the new government can alter the internal structure of the 2010 budget significantly– even by passing a supplementary budget – this will probably not affect the planned 3.8 per cent deficit target relative to GDP, which was agreed with the IMF. The gross public debt will rise to about 80 per cent of GDP by the end of 2009 from 73 per cent at the end of 2008; the 2010 year-end figure will be similar. The deterioration this year is related mostly to the contraction of GDP. If the debt is adjusted for the unused part of the IMF loan deposited with the National Bank of Hungary, the gross indebtedness figure was 67.4 per cent at the end of 2008 and it will climb to about 75 per cent in 2009, then by the end of 2010 the gap between the two figures may narrow. This will not be an outstanding indebtedness figure in Europe at all!

The external balance remains favourable in 2010, similar to 2009. The foreign trade surplus decreases to EUR3 billion. Even if the domestic use of GDP grows only slightly since much of the inventories were sold off in 2009, import growth is expected to be at least one percentage point higher than export growth (4 and 5 per cent respectively). In addition there will be some deterioration in the terms of trade. However, not much change is expected in other lines of the current account, because declining profits also limit the room for profit repatriation. Notwithstanding, net EU-transfers rise to EUR3.4 billion in 2010 from EUR2.5 billion in 2009. The overall external financing need will be similar to that of this year: rather small or around zero. Foreign investments too, gain momentum slowly, whereas capital outflows will stay limited. Overall, the net foreign debt of Hungary will substantially decrease in 2010.

Similarly to the EU, the Hungarian economy will stagnate in 2010. However, there is higher probability for a “negative stagnation” in the case of Hungary. As compared with the corresponding period of 2008, some slight growth is possible from the second half of the year. After the peak in 2008 and the decline that followed in 2009, the growth index for agriculture is expected to stay at around 100 – provided that weather conditions are average. The construction industry will be the fastest expanding sector – with around 6 per cent output growth – as a result of infrastructure projects co-financed by the EU. Industry is expected to grow by 2-3 per cent because export markets slowly improve and domestic demand slightly expands. Services also stay flat – with the exception of financial services and real estates, which still foresee some decline.

The 6 per cent expansion of investments means that approximately the 2008 level will be reached again. Corporate investments are likely to increase moderately, investments co-financed by the EU will surge. Household consumption will not change much. Gross earnings are expected to increase by 1 per cent – taking also into account the cut in personal income taxes. However, because of changes in personal income taxes, net earnings will grow by 7-7.5 per cent resulting in an approximately 3 per cent increase of real earnings. Real incomes will stay flat more or less, because unemployment benefits decline as time passes by, family subsidies do not increase in nominal terms – a portion of it is to be reported on the tax return sheets as non-taxable income – and the real value of pensions contracts since the 13th month pension was abolished. Households will have easier access to credit but its behaviour will be more cautious. Net savings relative to GDP will stay at around 5 per cent. The rate of unemployment will be equal to the figure of this year: 9.8 per cent. The bottom of employment is expected in the first quarter of 2010.

In 2009 Hungarian inflation trends differed from international ones. In the EU inflation virtually came to a halt, moreover, there is deflation in many countries. By contrast, inflation accelerates in Hungary partly because the delayed impact of earlier energy price increases and partly because of the rise of consumption tax rates. Towards the end of 2010, however, a global inflationary wave is to come due to the fiscal stimuli applied. The additional liquidity pumped into the world economy may induce demand-pull inflation and many countries can decide to raise VAT-rates to fill the gaps in their budgets. Hence, Hungarian inflation trends may again differ from the international ones, because the impact of tax rate increases will fade away in this period. In the first half of 2010 inflation will be around 5 per cent, then it drops to 3 per cent by the year-end, the annual average will be 4 per cent.

In 2010 the indicators of economic equilibria will further improve in Hungary. The external financing need will be confined to the renewal of the existing debt, the deficit of the general government will not increase, the debt ratio will drop. As investor confidence gradually returns, the demand for Hungarian bonds increases, although in the first half of 2010 the political (election) risk premiums will be incorporated in the yields. In the second half of the year government bond yields will probably drop, the forint will strengthen. With an eye on keeping stability, the central bank will be able to decrease gradually the base rate from 6.5-7 per cent (at the end of 2009) to about 6 per cent by the end of 2010. Because of the uncertainties related to the elections, in the first half of 2010 the HUF/EUR exchange rate will stay at around HUF270 (the level predicted in the second half of 2009), then – if the economic policy mix is supported by the financial markets and the international institutions – it will strengthen to HUF260 in the second half of the year, resulting in an annual average of HUF265. Hungarian inflation trends may differ from the international ones, because the impact of tax rate increases will fade away in this period. In the first half of 2010 inflation will be around 5 per cent, then it drops to 3 per cent by the year-end, the annual average will be 4 per cent. After recent years' position towards the end of indicator-based rankings, Hungary will move up to the medium range of European countries in 2010 in terms of the improvement of economic imbalances. If this is maintained and further structural reforms are implemented, the country can be in a relatively favourable competitiveness and growth position after the crisis. Moreover, in Central Europe Hungary can be the only country which real options of joining the eurozone early – in 2013-2014.

5.3.17 Hungary KOPINT

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	106.0	– 6.0	1.0
Private consumption	69.5	– 5.0	0.5
Public consumption	10.0	0.0	0.5
Gross fixed capital formation	21.3	– 5.0	2.0
Private excl. dwellings	na	na	na
Dwellings	na	na	na
Change in stocks [a]	1.9	na	na
Total domestic demand	104.7	– 8.4	0.5
Exports of goods and services	86.3	– 13.5	6.0
Imports of goods and services	85.0	– 17.0	6.0
Net exports [a]	1.8	na	na
GDP deflator		3.8	3.8
Consumer prices		4.5	4.5
Private consumption deflator		na	na
Output gap [b]		na	na
Unit labour costs [c]		– 4.0	2.9
Nominal hourly gross wage rate	792.0	2.2	2.0
Employment (thousands)	3849.0	– 2.2	0.8
Unemployment rate [d]		10.0	10.3
Real household disposable income		– 3.5	0.7
Net saving ratio (households) [e]		4.0	4.0
Public sector fiscal balance [f,g]		– 3.9	– 3.8
Gross public debt [f,g]		79.0	79.0
Current account balance [f]		– 1.9	– 2.7
Central bank policy rate (non-EMU countries)		6.5	5.5
Short-term interest rate (3 months) [h]		6.8	5.5
Long-term interest rate (10 years) [h]		7.5	6.0
United States Federal funds rate		0.3	0.5
GDP			
USA		– 2.7	2.0
Japan		– 5.9	1.1
Euro Area		– 3.9	0.9
World trade volume (goods)		– 11.0	3.0
Oil price [i]		60.0	72.0
Exchange rate			
Dollar/Euro		1.380	1.400
Yen/Euro		na	na
Local currency/Euro for non-EMU countries		280.0	270.0

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Hungary KOPINT

The current situation

After the financial and economic turbulences in the period between October 2008 and April 2009, the Hungarian economy started to consolidate. In summer, the foreign investors returned to the security market, the exchange rate of the domestic currency started to strengthen. The economic performance remained weak (minus 7.2 per cent in the first half of the year) but in the second and third quarter it seems to have reached the bottom. For the last quarter a slight recovery can be expected.

The inflation rate is relatively high (3.9 per cent in January-September), mainly due to the raise of VAT rate from 20 to 25 per cent in July 2009.

The export, the engine of the Hungarian economy before the crisis, has fallen dramatically since the autumn 2008, by almost 20 percent in the first 7 months of 2009. But, at the same time, import decreased more, by 25 per cent, so the trade balance improved significantly.

Due to the falling exports and industrial production, unemployment rate increased to 10 per cent in August of 2009.

Economic policy and country's key features relevant for the outlook

The major steps made by the government in order to stimulate the economy:

- To capitalize some domestic banks in order to make incentives to the credit market,
- To accelerate the development projects supported by the EU;
- Because of the very limited and fragile trust in the Hungarian economic and fiscal policy of the Hungarian government by the international investor's community, the fiscal policy can not give any substantial financial stimulus to economic recovery. The fiscal policy focuses, also under the circumstances of the crisis, on keeping the fiscal deficit under 4 per cent of the GDP.

The outlook

The GDP will fall in 2009 by about 6-6.5 per cent. From the end of the year a slow recovery may start and in 2010 economic growth might be positive (plus 0.5-1 per cent). Nevertheless, economic outlook is very uncertain. It is strongly depending on the economic situation on the main foreign markets of the Hungarian exports in Western Europe and on the economic policy of the new government, expected after the election in spring 2010.

Unemployment rate, however, remains over 10 per cent.

Domestic demand remains weak but slightly growing in 2010. Both, household's consumption and investments might be positive but significant impetus from these demand items can not be expected in medium term.

Inflation rate will be similar to this year's rate (about 4.3 per cent).

5.3.18 Ireland ESRI

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	181.8	– 7.2	– 1.1
Private consumption	93.9	– 7.0	– 2.0
Public consumption	28.9	– 2.0	– 2.0
Gross fixed capital formation	39.5	– 30.5	– 15.5
Private excl. dwellings	24.4	– 26.0	– 18.4
Dwellings	15.1	– 45.7	– 18.8
Change in stocks [a]	0.2	– 0.8	0.2
Total domestic demand	162.6	– 12.5	– 2.3
Exports of goods and services	151.9	– 1.7	1.1
Imports of goods and services	133.0	– 7.7	– 1.2
Net exports [a]	10.0	14.9	19.3
GDP deflator	– 1.2	– 2.9	– 0.5
Consumer prices	4.1	– 4.3	0.0
Private consumption deflator	3.1	– 2.0	– 0.5
Output gap [b]		na	na
Unit labour costs [c]		na	na
Nominal hourly gross wage rate		– 1.0	– 2.5
Employment (thousands)	2099.7	1934.0	1853.9
Unemployment rate [d]	6.3	12.2	14.8
Real household disposable income	102.5	– 5.2	– 2.8
Net saving ratio (households) [e]	8.4	11.9	11.6
Public sector fiscal balance [f,g]	– 7.3	– 12.9	– 12.8
Gross public debt [f,g]	44.2	61.9	75.7
Current account balance [f]	– 6.1	– 1.2	1.8
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]		na	na
Long-term interest rate (10 years) [h]		na	na
United States Federal funds rate		na	na
GDP			
USA		– 2.7	1.5
Japan		– 5.4	1.7
Euro Area		– 4.2	0.3
World trade volume (goods)		– 11.9	2.5
Oil price [i]	97.0	61.5	76.5
Exchange rate			
Dollar/Euro	1.471	1.37	1.40
Yen/Euro		na	na
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Ireland ESRI

The current situation

We now expect GNP to fall by 8.7 percent in 2009 and by 1.7 percent in 2010. In GDP terms the corresponding figures are -7.2 percent for 2009 and -1.1 percent in 2010. Underlying these annual forecasts is a quarterly profile in which we expect growth to return in the latter part of 2010, although at a very modest pace. The international context in which the forecasts were prepared is beginning to look somewhat more optimistic, relative to the earlier part of the year. Both Germany and France returned to growth in the second quarter, as did Japan. The IMF is now forecasting that the US will also return to growth in 2009. Given these trends and forecasts, we now expect to see exports growing next year at a rate of 1.1 percent.

Economic policy and country's key features relevant for the outlook

Over the medium-term, assuming appropriate policies are put in place to ensure a rapid fiscal consolidation of the public finances, the single biggest challenge facing the economy will be tackling the level of unemployment. The key challenge is to prevent short-term unemployment from turning into long-term unemployment. The single best manner to achieve this is a rapid return to growth. We would argue that to facilitate this there is a need more generally for pay cuts in the Irish economy. In the paper Recovery Scenarios for Ireland analysis it was argued that if the 2009-2010 fiscal consolidation is successful, and assuming that there is a full world recovery by 2011, then Ireland will be well placed to participate in such a recovery and that the additional fiscal austerity measures planned for 2011 and 2012 may not need to be fully implemented. However this scenario is critically dependent on an adjustment in the average wage level of the economy of the order of 7 per cent. As members of a fixed currency regime such an adjustment can only come through adjustments in the domestic nominal wage. This is all the more imperative given the recent weakening of sterling which is putting further competitive pressures on the Irish exporting sector. As yet there is little evidence that such an adjustment is taking place in the official statistics.

The outlook

We expect the Irish economy to begin to recover by the second half of 2010 together with a levelling off of the unemployment rate. If anything, the relatively resilient performance of the external sector in Ireland, together with some tentative signs of an earlier than expected recovery in the international economy, are to be welcomed. To ensure Ireland is well placed to participate in a global recovery a number of factors must operate in Ireland's favour. These include the successful implementation of the planned fiscal programme for 2010, the achievement of an improvement in competitiveness through downward adjustment of wage rates and a resolution of the problems in the banking sector. Successful implementation of these measures could result in a return to more robust rates of growth in the medium term.

5.3.19 Italy CONFINDUSTRIA

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	1572.2	– 4.8	0.8
Private consumption	922.6	– 1.7	0.7
Public consumption	324.2	0.4	0.3
Gross fixed capital formation	328.4	– 13.1	1.5
Private excl. dwellings		na	na
Dwellings		na	na
Change in stocks [a]	– 0.3	– 0.4	0.0
Total domestic demand	1580.0	– 4.0	0.8
Exports of goods and services	453.4	– 17.3	4.1
Imports of goods and services	461.2	– 14.5	3.6
Net exports [a]	0.2	– 0.7	0.1
GDP deflator	2.8	2.3	1.4
Consumer prices	3.3	0.7	1.3
Private consumption deflator	3.2	0.7	1.5
Output gap [b]		na	na
Unit labour costs [c]	4.2	3.4	– 0.5
Nominal hourly gross wage rate		na	na
Employment (thousands)	24996.0	24297.0	23954.0
Unemployment rate [d]	6.7	8.3	9.5
Real household disposable income		na	na
Net saving ratio (households) [e]		na	na
Public sector fiscal balance [f,g]	– 2.7	– 5.2	– 5.0
Gross public debt [f,g]	105.7	114.8	117.8
Current account balance [f]	– 3.4	– 3.1	– 2.9
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]	4.6	1.3	1.2
Long-term interest rate (10 years) [h]		na	na
United States Federal funds rate	2.1	0.3	0.4
GDP			
USA	0.4	– 2.6	2.0
Japan		na	na
Euro Area	0.7	– 3.9	1.3
World trade volume (goods)	4.1	– 14.4	9.1
Oil price [i]	97.3	60.5	70.0
Exchange rate			
Dollar/Euro	1.470	1.380	1.420
Yen/Euro		na	na
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Italy CONFINDUSTRIA

The current situation

The Italian economy is about to recover: we expect GDP to moderately pick up in this second half of the current year (+0.4%), after the -4% QoQ growth recorded during the first half. Exports will lead the way, pulled along by a fast-improving world demand. According to ours and other surveys on industrial output and new orders, we expect production to have increased by 3.9% QoQ in the third quarter. Other qualitative indicators are consistent with our growth expectations. Though remaining in recession territory, the activity PMI indices continue to rise and are now close to 50, the threshold that separates recession from expansion. ISAE business and consumer surveys are also showing clear signs of improvements in business and household confidence.

Economic policy and country's key features relevant for the outlook

In 2009 the deficit is going to be around 5.2% of GDP while the debt will reach 114.8%. The government's projections are very similar (the deficit at 5.3% and the debt at 115.1%). The primary balance is expected to settle at -0.2% of GDP, the same figure expected by the government.

The estimates for 2009 are the result of revenues contracting due to the crisis (-1.3%) and an increase in total expenditures (+3.5%). Social and health spending and capital expenditures (due, for the most part, to transfers to State Railroads and disbursements for unsold public buildings' buyback. Interest payments will be lower as yields on government securities decrease.

The main challenge in coming years will be the reduction of public debt. In the medium term, the debt reduction mostly depends on the level of growth. While, in fact, it's simply not feasible to raise an already high tax burden, it's also extremely difficult to cut expenditures, as the last 10-year experience tells us. The government's hope to reduce expenditures with the introduction of fiscal federalism may prove disappointing at least in the short run. These kind of fiscal reforms need time to become effective while may even lead to an increase in expenditures in the medium term. In the short and medium term, it would be more appropriate to adopt some important reforms regarding the pension system, market liberalizations, education, research and tax evasion.

The outlook

Italian GDP is expected to moderately rise during the second half of 2009 (+0.4% with respect to the first). On average, it will fall by 4.8% this year, a loss which is, indeed, already entirely accounted for by past developments.

In 2010, GDP is expected to increase by 0.8%. Exports will pull the Italian economy out of recession (+4.1%, -17.3% this year), thanks to a partial rebound in world trade volumes (+9.1%, after the 14.4% collapse recorded this year). Buoyancy in emerging countries will be accompanied by a recovery in advanced economies.

Compared with the 15.7% cumulative decline recorded in the previous two years, there will be only a modest pick up in investment (+1.5%) and it will be partially achieved through government incentives. Consumption will increase by 0.7% (-1.7% this year). Sustained by greater confidence it will be, however, held down by shrinking household income: further progress in real per-capita wages (+0.4%) will be, in fact, more than offset by a new decrease in employment (-1.4% in terms of full-time equivalent workers, which follows a -2.8% expected in 2009). The unemployment rate is bound to increase from 8.3% in 2009 to 9.5% in 2010, the highest level since 2000. Consumer inflation will remain rather subdued: 1.3% (0.7% this year). The public deficit will settle at 5% of GDP while the public debt will rise to 117.8% from 114.8% in 2009.

5.3.20 Italy ISAE

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP		– 4.8	0.4
Private consumption		– 1.8	0.4
Public consumption		1.5	0.6
Gross fixed capital formation		– 12.1	0.5
Private excl. dwellings		– 17.3	0.9
Dwellings		– 6.7	0.7
Change in stocks [a]		– 0.1	0.0
Total domestic demand		na	na
Exports of goods and services		– 20.2	1.7
Imports of goods and services		– 15.3	1.6
Net exports [a]		na	na
GDP deflator		2.4	1.3
Consumer prices		0.8	1.7
Private consumption deflator		na	na
Output gap [b]		na	na
Unit labour costs [c]		4.0	0.4
Nominal hourly gross wage rate		1.6	1.8
Employment (thousands)		na	na
Unemployment rate [d]		na	na
Real household disposable income		0.1	0.2
Net saving ratio (households) [e]		na	na
Public sector fiscal balance [f,g]		5.3	5.1
Gross public debt [f,g]		114.9	117.3
Current account balance [f]		na	na
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]		na	na
Long-term interest rate (10 years) [h]		na	na
United States Federal funds rate		na	na
GDP			
USA		– 2.6	1.8
Japan		– 5.8	1.0
Euro Area		– 3.9	0.7
World trade volume (goods)		– 14.5	4.9
Oil price [i]		60.6	75.0
Exchange rate			
Dollar/Euro		1.395	1.494
Yen/Euro		na	na
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Italy ISAE

The current situation

2nd-quarter GDP decrease (-0,5%) was less severe than the fall registered in previous quarters (-0,8% in q4-08 and -2,7% in q1-09). Exports (-3,7%) and investment (-2,9%) kept declining, although at lower rate than in former quarters; consumption, thanks to expenditure-hike in durable goods, was marginally positive; changes in stock contributed negatively to GDP formation for the second quarter in a row.

Indications for the third quarter point to a likely return of the Italian economy on a positive growth path. Industrial production should have rebounded during summer; restocking and positive stimulus coming from some fiscal incentives (bonus for scrapping cars) would sustain the manufacturing pick-up. However, absent substantial increases of autonomous components of demand, the production acceleration could be short-lived; according to Isae forecast, industrial production would stabilize in Q4 at the levels of the former quarter.

As for surveys indications, consumers' confidence has been improving quite surprisingly, probably driven by strong reduction of inflation. Industrial firms confidence indicator has been on the rise since the through touched in March, setting however at still historically low levels (with a partial setback in the September reading).

Economic policy and country's key features relevant for the outlook

Labour market conditions keep deteriorating, although (up to now) less than expected. Fall of employment was refrained by massive recourse to schemes that allow firms to reduce per-capita working-hours (so called "wage supplementation fund") rather than reducing number of employees. These schemes were reinforced and extended to cover more workers in the wake of the strong recession; however they are temporary. If a sufficiently strong recovery wouldn't materialize in due time, negative repercussions on the number jobs would become more likely

The outlook

The outlook is for a weak recovery of the Italian economy (about +0.4% in 2010) along with the euro area (+0,7%). Recovery would be driven by world trade acceleration, particularly in the East-Asian region, and some improvement in domestic demand. Inflation would accelerate, in response to higher oil price and the some more sustained domestic cycle. Employment, in the full-time-equivalent measure, would still contract (about -1%, after the fall of -2,7% of 2009).

5.3.21 Italy PROMETEIA

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP		– 4.9	0.5
Private consumption		– 1.8	0.3
Public consumption		1.1	0.3
Gross fixed capital formation		– 12.4	0.2
Private excl. dwellings		– 18.5	1.8
Dwellings		– 7.0	– 1.1
Change in stocks [a]		– 0.2	0.1
Total domestic demand		– 3.6	0.4
Exports of goods and services		– 19.8	3.5
Imports of goods and services		– 15.4	2.8
Net exports [a]		– 1.2	0.1
GDP deflator		3.0	1.4
Consumer prices		0.8	1.4
Private consumption deflator		0.4	1.3
Output gap [b]		– 5.9	– 5.6
Unit labour costs [c]		3.6	0.2
Nominal hourly gross wage rate		0.8	0.9
Employment (thousands)	23392	23134.0	22904.0
Unemployment rate [d]		7.5	8.7
Real household disposable income		– 0.4	0.0
Net saving ratio (households) [e]	12.4	13.5	13.2
Public sector fiscal balance [f,g]	– 2.7	– 5.3	– 5.7
Gross public debt [f,g]	105.8	115.8	119.8
Current account balance [f]	– 3.4	– 3.0	– 3.3
Central bank policy rate (non-EMU countries)			
Short-term interest rate (3 months) [h]		1.2	1.1
Long-term interest rate (10 years) [h]	4.7	4.3	4.4
United States Federal funds rate			
GDP			
USA		– 2.8	0.8
Japan		– 5.9	1.1
Euro Area		– 4.0	0.7
World trade volume (goods)		– 12.5	5.4
Oil price [i]		60.5	67.6
Exchange rate			
Dollar/Euro		1.39	1.42
Yen/Euro		130.4	131.9
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Italy PROMETEIA

The current situation

The decline in industrial production came to an end in the summer, even if the strong rebound in August (partly due to statistical reasons) is expected to be reversed in September. Business and household opinion surveys are also improving, as Italy is benefiting from a recovery in exports and the need to rebuild stocks is providing an initial spur to production. By our estimates, the third quarter will register an increase on a quarterly basis of both industrial production and GDP. By contrast, figures on the labour force and on the number of hours of wage supplementation authorized (Cassa Integrazione Guadagni) show a deterioration in the labour market.

Reflecting above all the fall in raw material prices in the second half of 2008, consumer price inflation reached 0 per cent in July and was 0.2 per cent in September. It is likely to rise gradually from autumn onwards, as base effects, resulting from the movements in global commodity prices a year ago, are waning.

As regards fiscal policies, the latest data confirm a substantial deterioration of fiscal position in 2009 mainly due to cyclical reasons.

Economic policy and country's key features relevant for the outlook

During the summer, three documents were approved by the Government: the DPEF (Economic and Financial Planning Document), the Financial Bill and the Update of the DPEF. Because of the already high public debt, the Italian Government choose to let the automatic stabilisers work and not to implement crisis-related discretionary measures. The exceptions being the "Against-crisis Law" with some measures for firms (the temporary possibility for SMS firms not to reimburse bank loans, tax benefits to new investment) and for the labour market (the recourse to the Wage Supplementation Fund has been widen), but without any effect on the balance because they act through changes in the composition of the budget.

These Government's recent measures should support the recovery, but just lowering the contractionary effects of the budget law for 2009: we estimate the fiscal stimulus to be 0.3 percent of GDP in both 2009 and 2010 (0.7 percent the Government estimate).

The outlook

As long as the world economic upturn is getting slowly under way within the next quarters, economic activity in Italy should continue growing in 2010. Nevertheless, a sustained recovery in domestic demand is still far off, as capacity utilisation rates are still near rock-bottom and unemployment set to rise further. Taking this into account, gross domestic product is expected to grow slowly on average next year.

Consumer price inflation is forecast to rise to 1.4 per cent in 2010, reflecting the improvement of the cyclical situation in a less favourable context for international row material prices.

The risk remains that the adverse effects of the recession on the labour market could still have significant repercussions for household expenditure and that the supply of credit, still conditioned by programs to recapitalize banks, could keep the recovery of final domestic demand subdued. The risk of a double-dip at the turn of next year has not completely disappeared.

5.3.22 Italy REF

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP		− 4.9	0.6
Private consumption		− 1.8	0.3
Public consumption		1.0	0.9
Gross fixed capital formation		− 13.3	− 0.2
Private excl. dwellings		− 19.2	2.4
Dwellings		− 7.1	− 2.6
Change in stocks [a]		− 0.4	0.1
Total domestic demand		− 4.1	0.5
Exports of goods and services		− 18.6	1.9
Imports of goods and services		− 15.5	1.3
Net exports [a]		− 0.6	0.1
GDP deflator		2.2	1.3
Consumer prices		0.7	1.4
Private consumption deflator		0.0	1.8
Output gap [b]		na	na
Unit labour costs [c]		1.8	− 0.1
Nominal hourly gross wage rate		1.2	1.7
Employment (thousands)	23404.7	22987.3	22803.3
Unemployment rate [d]	6.7	7.9	8.6
Real household disposable income		− 0.3	− 0.2
Net saving ratio (households) [e]		13.8	13.5
Public sector fiscal balance [f,g]		− 5.6	− 5.5
Gross public debt [f,g]		115.3	118.8
Current account balance [f]		− 2.9	− 2.8
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]	4.0	1.4	1.5
Long-term interest rate (10 years) [h]		na	na
United States Federal funds rate	2.2	0.3	0.7
GDP			
USA		− 3.1	0.9
Japan		− 5.5	1.3
Euro Area		− 4.0	1.0
World trade volume (goods)		− 11.8	5.6
Oil price [i]	98.3	61.4	74.6
Exchange rate			
Dollar/Euro	1.471	1.387	1.493
Yen/Euro	152.0	131.1	138.3
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Italy   REF

The Italian business cycle has followed the recent evolutions observed for the euro area economy. The minimum of the cycle was reached last spring; the fall of GDP became less severe in the second quarter of 2009. Private expenditure has reduced only slightly (if compared with the contraction of GDP), thanks to some factors that have softened the impact of crisis on households, i.e. automatic stabilisers, fall of inflation. Even the reduced deterioration of labour market has helped: employment has decreased in a reduced measure, thanks to the reduction in the worked hours and the use of Cassa Integrazione, a fund that pays the wages of workers laid off temporarily, or whose working hours have been reduced, while unemployment has risen to 7.4% (from 6.7% recorded in the 2Q 2008).

The contraction was severe for investments; firms have corrected their investment decisions given the deterioration of cycle, the growing uncertainty, and the fear of credit constraints. There is also some evidence that the credit supply has been reduced, in particular for SMEs.

The indicators have shown an improvement since last spring; but even if the fall has finished, we are far from a rebound. The pace of the recovery is modest. Industrial activity has been moving not so over the minimum and in the period May-July the cumulate contraction (by respect to the maximum recorded in the first quarter of 2008) has been still large (-24%). Even if more recent indicators signal some improvement at the end of the summer, one could wonder if the recovery will be only partial.

If the correction in the level of activity is permanent, that means that some productions have disappeared and there will be an excess of productive capacity, with negative effects on the investment decisions and the labour market.

The outlook for the next year(s) is also affected by the need of a fiscal consolidation, in Italy as in other countries. After a cumulate loss of 6 p.p. in two years, the growth of GDP in 2010 will be only modest, given the lack of a strong recovery in GFCF and the weakness of private consumption: households will be affected by the deterioration of labour market (employment will continue to decrease, due to the delayed effects of cycle), and by the return of inflation, that will depress real wages.

5.3.23 Netherlands CPB

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	595.9	– 4.7	0.1
Private consumption	272.5	– 2.7	– 0.8
Public consumption	151.8	2.2	0.3
Gross fixed capital formation	121.7	– 10.6	– 6.6
Private excl. dwellings	65.3	– 13.3	– 8.9
Dwellings	37.9	– 12.2	– 8.1
Change in stocks [a]	0.2	– 0.5	0.3
Total domestic demand	546.131	– 3.6	– 1.4
Exports of goods and services	457.4	– 10.9	2.5
Imports of goods and services	407.6	– 10.3	0.5
Net exports [a]	49.8	– 1.3	1.4
GDP deflator		1.3	0.8
Consumer prices		1.1	1.1
Private consumption deflator		0.5	1.2
Output gap [b]		na	na
Unit labour costs [c]		9.4	– 3.7
Nominal hourly gross wage rate		na	na
Employment (thousands)	7668.4	– 0.8	– 2.9
Unemployment rate [d]	303.6	5.2	7.9
Real household disposable income		0.4	– 1.0
Net saving ratio (households) [e]		10.6	10.6
Public sector fiscal balance [f,g]		– 4.6	– 6.2
Gross public debt [f,g]		59.9	65.8
Current account balance [f]		3.7	5.7
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]		1.4	1.5
Long-term interest rate (10 years) [h]		3.8	4.1
United States Federal funds rate		0.3	0.5
GDP			
USA		– 3.25	1.25
Japan		– 6.00	1.00
Euro Area		– 4.50	0.00
World trade volume (goods)		– 15.75	3.50
Oil price [i]		58.0	65.0
Exchange rate			
Dollar/Euro		1.365	1.400
Yen/Euro		130.7	134.4
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Netherlands CPB

The credit crisis has thrown the world economy into a deep recession. The Dutch economy cannot escape from this and is expected to contract by 4¾% next year. For 2010, zero growth is foreseen. The country expressly experiences the consequences of the worldwide drop in demand. Re-exports are expected to decrease by 12½% this year. Domestically produced exports will also show a large fall, of 14¾%. According to today's forecasts, Dutch re-exports will expand by 4½% next year, while the rise in 'made in Holland' exports will then be limited to 1½%.

Households are expected to consume 2¾% less this year than last year, despite the forecast 3% increase in real disposable wage- and benefit income. Next to the decline in profit income of over 40% in 2009 (almost 7 billion euro), households see their housing wealth diminish as a result of slightly descending home prices. This moderate drop in home prices will probably last for some time, which harms consumer confidence. Next year, household consumption could drop by another ¾% compared to the already low level of 2009.

Because of the plummeting demand, from both abroad and home, private enterprise is not in top gear this year. Capacity utilization is relatively low. As a result, firms have little reason to invest right now. What's more, profitability is under pressure. That makes it more difficult to finance investments — all the more so in a period in which banks are sharpening credit conditions. The result is an expected decrease in private non-residential gross fixed investment of 14% in 2009 and another 9½% in 2010.

Usually there is some delay in the reaction of unemployment to changes in production. This year, employment (measured in persons) is expected to decrease by ¾%; for 2010, a further decline of 2¾% is forecast. Under the influence of unfavourable circumstances at the labour market, the so-called cyclical labour supply diminishes: women postpone their return to the labour market, young people decide to study longer, and some of the elderly retire earlier. This exerts a restraining influence on unemployment. The introduction of a part-time unemployment scheme also lowers official unemployment figures: statistics do not count people in this scheme as unemployed, because they still have a job. Nevertheless, unemployment will rise to (on average) 5¼% this year and 8% next year — a twofold increase compared to 2008.

As a consequence of the worldwide fall in demand and the lower oil price (and related to that, the lower prices for natural gas and electricity), inflation will go down from 2.5% in 2008 to an expected 1% in 2009. All the same, the rise in contractual wages will be 3% on average this year. This rise is relatively large, compared to inflation, because many collective labour agreements for this year were settled in 2008, when inflation was still high and unemployment low. As it is forecast now, inflation will also be 1% next year. The rise in contractual wages will drop to 1½% on average, as a result of quickly increasing unemployment and low inflation.

Forecast uncertainties mainly concern the timing and strength of the economic recovery. The most recent figures of the economic indicators show some signs of improvement in the economic situation. It is hard to assess whether the economy will grow substantially from this point, will stay at the current lower level or even further decrease after a temporary recovery. In addition, swine flu increases uncertainty. In the projection, a mild world wide pandemic is assumed.

5.3.24 Norway SN

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP (mainland)	223.2	− 1.2	2.1
Private consumption	120.9	0.4	5.4
Public consumption	59.8	5.7	3.5
Gross fixed capital formation	64.6	− 5.9	− 0.2
Private excl. dwellings		na	na
Dwellings	12.1	− 13.6	2.3
Change in stocks [a]		− 0.9	0.0
Total domestic demand (mainland)	227.0	0.1	4.1
Exports of goods and services, traditional goods	39.5	− 10.6	2.7
Imports of goods and services	89.4	− 8.8	6.6
Net exports, mainland, traditional goods [a]		0.2	− 2.2
GDP deflator (mainland)		3.2	2.5
Consumer prices		1.9	0.9
Private consumption deflator		2.3	0.5
Output gap [b]		na	na
Unit labour costs [c]		− 0.3	0.7
Nominal hourly gross wage rate		4.0	3.7
Employment (thousands)	2616.0	− 0.5	− 0.6
Unemployment rate [d]	2.6	3.3	3.9
Real household disposable income		2.8	5.6
Net saving ratio (households) [e]	2.0	4.6	4.5
Public sector fiscal balance [f,g]	18.8	na	na
Gross public debt [f,g]		na	na
Current account balance [f]	19.5	13.4	11.1
Central bank policy rate (non-EMU countries)	5.3	na	na
Short-term interest rate (3 months) [h]	6.2	2.5	2.7
Long-term interest rate (10 years) [h]		na	na
United States Federal funds rate		na	na
GDP			
USA		− 2.9	1.0
Japan		na	na
Euro Area		− 4.1	0.3
World trade volume (goods), Norways partners		− 10.0	1.6
Oil price [i]		59.9	64.5
Exchange rate			
Dollar/Euro		1.370	1.370
Yen/Euro		130.5	130.4
Local currency/Euro for non-EMU countries	8.20	8.75	8.24

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Norway SN

The current situation

The current slowdown in Norway began as far back as early 2008, but worsened dramatically when the financial crisis hit the economy with full force at the end of the third quarter last year. According to the most recent seasonally-adjusted figures from the quarterly national accounts, the GDP for mainland Norway fell by 2.7 per cent from the third quarter last year to the first quarter this year. The GDP for mainland Norway increased by 0.3 per cent in the second quarter and growth is expected to gradually recover in the next few years.
Despite the sharp cyclical downturn through the winter, unemployment has not increased much in Norway. Norway's counter-cyclical policy is stronger than that in the euro area. Norwegian households probably do not expect a fiscal policy reversal in the form of tax increases in the near future. This may make fiscal policy more effective as a counter-cyclical measure in Norway. The petroleum sector now appears to having a stabilising effect on the Norwegian economy in the short term. Finally, the financial crisis caused a rapid weakening of the krone against the euro. This has eased the pressure on the internationally exposed business sector compared with euro area countries. The last upturn saw a sharp rise in labour migration into Norway. Many immigrants have been working on short-term contracts, and return to their home countries when the downturn comes. Unemployment therefore increases less than if they had been living permanently in Norway. The increased numbers opting for higher education, which is typical of a Norwegian downturn, also reduces the labour supply and hence unemployment in the short term.

Economic policy and country's key features relevant for the outlook

The economic slump is easing off after extensive policy interventions aimed both directly at the problems in the financial markets and in the form of more traditional demand stimulation. Interest rates are at record low levels and the fiscal policy is extremely expansive.

With prospects of continued weak economic growth in Norway, an expansionary fiscal policy will be maintained in 2010, but far less fiscal stimulus is expected than in 2009. We assume that there will be a certain shift in the composition of public sector spending towards greater emphasis on investment and somewhat less on consumption. Interest rates will increase slowly, to prevent the krone from appreciating too much

The outlook

The strengthening of the NOK is expected to continue. Because the Norwegian economy as a whole is fairing much better than our trading partners, we should also expect a higher growth in wage costs in Norway than in our competitors' countries. Impaired cost-related competitive power will therefore counteract the improvement in the international markets. Despite progressive growth in traditional exports of goods, the export volume in 2012 is expected to only just surpass the level of 2008.

Economic policy is promoting consumption growth, and growth in the mainland economy will pick up somewhat through 2010. When the fall in housing investment comes to a halt next year, the slowdown in the building industry will level off . Mainland GDP growth is projected to rise gradually to trend or higher in 2011. Our projections therefore show the business cycle in Norway bottoming out at the end of 2010/beginning of 2011, but that GDP will remain below trend through 2012. The significance of fi scal policy for developments is analysed separately.

5.3.25 Poland IBRKK

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	362.0	0.9	1.4
Private consumption	223.3	1.9	1.0
Public consumption	67.2	2.1	2.2
Gross fixed capital formation	79.9	− 3.1	− 1.2
Private excl. dwellings		na	na
Dwellings		na	na
Change in stocks [a]	6.0	− 1.8	0.8
Total domestic demand	376.3	− 0.9	1.5
Exports of goods and services	142.8	− 10.0	4.9
Imports of goods and services	157.2	− 13.3	5.2
Net exports [a]	− 14.4	1.8	− 0.2
GDP deflator		3.4	2.0
Consumer prices		3.5	2.1
Private consumption deflator		3.5	2.1
Output gap [b]		− 0.4	− 1.1
Unit labour costs [c]		3.0	1.2
Nominal hourly gross wage rate		4.7	2.1
Employment (thousands)		− 0.7	− 0.9
Unemployment rate [d]		9.8	11.6
Real household disposable income		0.5	− 0.9
Net saving ratio (households) [e]		5.5	3.7
Public sector fiscal balance [f,g]		− 5.8	− 7.2
Gross public debt [f,g]		49.0	53.5
Current account balance [f]		− 3.9	− 3.4
Central bank policy rate (non-EMU countries)		3.5	3.5
Short-term interest rate (3 months) [h]		4.4	5.0
Long-term interest rate (10 years) [h]		4.7	5.5
United States Federal funds rate		0.3	0.3
GDP			
USA		− 2.6	1.5
Japan		− 5.4	1.7
Euro Area		− 4.1	0.5
World trade volume (goods)		− 13.5	7.3
Oil price [i]	97.7	60.5	75.0
Exchange rate			
Dollar/Euro	1.460	1.390	1.470
Yen/Euro		na	na
Local currency/Euro for non-EMU countries	3.52	4.31	4.05

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Poland IBRKK

The current situation

For 2009 as a whole, Poland's GDP growth is expected to remain positive mainly due to a highly positive contribution of net exports (albeit in a declining trend) and still relatively vigorous consumption, both private and public. The latter and public investments are strongly supported by the EU structural funds. In result of the sustained depreciation of the Polish currency and a continued foreign goods de-stocking the import demand has collapsed more than exports. However, a deterioration of business climate and a growing unemployment have a negative impact on the investment demand and prospects for consumer demand.

With a moderate positive growth accompanied by a mitigating inflation and improving current account balance, Poland's economic performance looks quite well in the world-wide crisis environment. Fiscal position has however worsened more than expected due to shrinking tax revenues.

Economic policy and country's key features relevant for the outlook

Both monetary and fiscal policies are neutral. As disinflation is rather sluggish, interest rates have been cut only moderately though continuously. The central bank has also reduced obligatory reserve ratio by 0.5 p.p. to stimulate credit supply. At beginning of the crisis fiscal policy reaction was pro-cyclical as exemplified by the last February action to cut current expenditures. As it was not enough, the parliament had to revise the 2009 budget allowing for the 6% of GDP deficit motivated mainly by cyclical factors. Discretionary anti-crisis fiscal measures are of a very moderate size and are implemented quite slowly. The room for a more expansionary fiscal policy is limited with a high structural deficit and difficulties in budget deficit financing.

The outlook

De-stocking should terminate in the nearest future. With a sustained positive consumption growth, backed by decelerating inflation, pension indexation, lowering households savings and the EU funds, domestic demand should recover in 2010. The recovery will be followed by a growing import demand. Improving external environment will support Polish exports but net export contribution to the GDP will become slightly negative. On the risk side there is the slower recovery or stagnation of the GDP growth in Western Europe, higher than expected unemployment growth and a deeper deterioration of households financial position.

5.3.26 Serbia FTRI

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	33.7	– 3.2	3.6
Private consumption	14.5	1.7	1.1
Public consumption	12.8	1.4	1.2
Gross fixed capital formation	4.7	1.7	2.3
Private excl. dwellings		na	na
Dwellings		na	na
Change in stocks [a]		na	na
Total domestic demand	31.8	1.7	2.2
Exports of goods and services	10.6	3.5	4.8
Imports of goods and services	18.2	4.5	5.4
Net exports [a]	– 23.6	– 22.4	– 21.5
GDP deflator		na	na
Consumer prices	10.1	12.9	8.9
Private consumption deflator		na	na
Output gap [b]		na	na
Unit labour costs [c]		na	na
Nominal hourly gross wage rate		na	na
Employment (thousands)	2001	– 3.8	– 3.1
Unemployment rate [d]	22.4	23.4	26.8
Real household disposable income		na	na
Net saving ratio (households) [e]		na	na
Public sector fiscal balance [f,g]		na	na
Gross public debt [f,g]	25.4	na	na
Current account balance [f]	– 17.2	– 11.8	– 13.4
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]		na	na
Long-term interest rate (10 years) [h]		na	na
United States Federal funds rate		na	na
GDP			
USA		na	na
Japan		na	na
Euro Area		na	na
World trade volume (goods)		na	na
Oil price [i]		na	na
Exchange rate			
Dollar/Euro		na	na
Yen/Euro		na	na
Local currency/Euro for non-EMU countries	96.00	97.00	105.00

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Serbia FTRI

The current situation

Weak global and domestic demand and almost discontinued lending induced a further slump in Serbia's economic activity– a fall in real GDP in Q2 2009 is estimated at 4.4% y-o-y. Recession was reflected mainly in employment cuts, a drop in wages and tighter credit terms for households. A sharp contraction in investment, both by the government and enterprises, continued into Q2. Despite increased dinar liquidity in Q2, banks did not step up their lending. The activity in the non-subsidized segment of the credit market was particularly slow and enterprises continued repaying their external debt. Demand for investment loans was weak even on the subsidized market. International economic flows contracted sharply on account of a drastic slump in economic activity both at home and in Serbia's major trading partners. A record low current account deficit in Q2, coupled with a substantial surplus on the financial account (owing to the first tranche of the IMF loan proceeds) resulted in positive balance of payments and an increase in foreign exchange reserves, which largely contributed to stabilization of trends in the foreign exchange market.

Economic policy and country's key features relevant for the outlook

A fiscal expansion in 2009 would be carried over into 2010, which is what happened this year and the one before. In spite of the fact that the current account deficit reduced remarkably in Q2 2009, it is possible to grow up in 2010, which would raise the probability of a balance of payments problems. Also, high public spending would continue pushing up inflation. If current spending cannot be curtailed sufficiently to reach the balanced budget target, the capital budget may need to be scaled back, or, as a last resort, indirect taxes be raised. General monetary condition was restrictive in the first part of the year. A more restrictive monetary policy has its impact on the real side of the economy. Anti-crisis packages started with support measures to increase the working capital of enterprises. Based on the latest projection and the underlying risk factors, the NBS Monetary Policy Committee judges that the key policy rate is more likely to be lowered in the next period than kept on hold (12%). Given the risks to the 2010 inflation target, the Monetary Policy Committee will decide on further cuts in the key policy rate once the key economic policy elements are defined.

The outlook

FTRI outlook predicts a week cycle in the second half of the year because of prolonged effects of credit restriction from the first part of year, and week external demand. The GDP decreases this year would be near 3.5%; the second half of the 2009 deceleration would give a negative stimulus to 2010 when expected growth would be about 3.6%.

Due to general condition of the economy, a year inflation rate with about 10% will still be high, going down to below 10 percent next year. If FDI inflow in second half of the year would accelerate, investment in 2010 would reinforce following better prospects.

Economic crisis is increasingly weighing down on the labor market as reflected in a sharp fall in employment both in legal entities and by natural persons. The economic downturn impacted on the rising number of unemployed persons and the jobless rate. Growing indebtedness of the household has stimulated private consumption last year, but current recession impulse decreasing household expenditure. Notwithstanding high unemployment, wage settlements are excessive relative to targeted inflation and labour productivity growth, undermining firms' external cost competitiveness.

Private external debt has soared, increasing the risk of a disorderly external adjustment, particularly in an environment of worsening global financial conditions.

In the course of 2010 production is likely to rise. Momentum will, however, remain low. Investment will pick up as a result of expected growing export demand, primary in EU, and falling tensions on international financial markets.

5.3.27 Slovak Republic SAS

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	67.3	– 4.5	1.3
Private consumption	37.4	– 1.5	1.5
Public consumption	11.6	3.0	5.5
Gross fixed capital formation	17.5	– 7.1	3.0
Private excl. dwellings		na	na
Dwellings		na	na
Change in stocks [a]		na	na
Total domestic demand	69	na	na
Exports of goods and services	55.6	– 14.0	– 0.4
Imports of goods and services	57.2	– 10.1	– 1.3
Net exports [a]		na	na
GDP deflator	2.9	na	na
Consumer prices	3.9	1.9	2.3
Private consumption deflator	4.4	na	na
Output gap [b]	3.9	na	na
Unit labour costs [c]		na	na
Nominal hourly gross wage rate		na	na
Employment (thousands)	2434.0	– 2.6	1.0
Unemployment rate [d]	9.6	12.4	11.7
Real household disposable income	40.1	na	na
Net saving ratio (households) [e]			
Public sector fiscal balance [f,g]	– 2.2	– 6.3	– 5.5
Gross public debt [f,g]	27.6	36.0	41.0
Current account balance [f]	– 6.5	na	na
Central bank policy rate (non-EMU countries)			
Short-term interest rate (3 months) [h]		na	na
Long-term interest rate (10 years) [h]		na	na
United States Federal funds rate		na	na
GDP			
USA		na	na
Japan		na	na
Euro Area		na	na
World trade volume (goods)		na	na
Oil price [i]		na	na
Exchange rate			
Dollar/Euro		na	na
Yen/Euro		na	na
Local currency/Euro for non-EMU countries	31.29	na	na

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

5.3.28 Slovenia SKEP

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	37135.0	− 7.0	0.7
Private consumption	19580.0	− 0.5	0.0
Public consumption	6735.0	3.2	1.0
Gross fixed capital formation	10742.0	− 20.0	1.8
Private excl. dwellings	8977.0	− 20.0	1.0
Dwellings	1723.0	− 8.0	− 8.0
Change in stocks [a]	1201.0	0.5	0.0
Total domestic demand	38258.0	− 4.0	0.7
Exports of goods and services	25134.0	− 19.0	2.6
Imports of goods and services	26258.0	− 18.0	2.4
Net exports [a]	− 3.0	− 0.1	0.0
GDP deflator		na	na
Consumer prices		0.8	1.3
Private consumption deflator		na	na
Output gap [b]		na	na
Unit labour costs [c]		na	na
Nominal hourly gross wage rate		4.3	2.0
Employment (thousands)	879.0	− 3.0	− 1.0
Unemployment rate [d]		5.8	7.0
Real household disposable income		na	na
Net saving ratio (households) [e]		na	na
Public sector fiscal balance [f,g]		− 5.5	− 6.5
Gross public debt [f,g]		30.0	35.0
Current account balance [f]		− 0.5	0.0
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]		1.2	1.3
Long-term interest rate (10 years) [h]		4.5	4.7
United States Federal funds rate		na	na
GDP			
USA	1.1	− 3.0	1.2
Japan	− 0.7	− 5.5	1.0
Euro Area	0.8	− 4.1	0.5
World trade volume (goods)	3.3	− 15.0	5.0
Oil price [i]	98.0	60.0	72.0
Exchange rate			
Dollar/Euro	1.47	1.39	1.42
Yen/Euro	152.0	130.0	130.0
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Slovenia SKEP

The current situation

Slovenia is experiencing the deepest crisis since the country's independency. Pointed economic decline have resulted in negative GDP growth in the last quarter 2008 and in the first quarter 2009 - after two negative quarters GDP increased by 0.7% in the second quarter this year. Nevertheless, due to the negative effects of the economic and financial crisis still the year on year drop in activity remained high, -9.3%. The international crisis had a great negative effect on exports and also domestic demand, particularly on investments. In the first half 2009 exports were down by one fifth, even more declined imports. The contribution of net exports to GDP growth was positive. Industrial production slowed down during 2009, in manufacturing even by 22%, second key factor in the GDP decline is lower fixed capital formation (-25%), as a result of lower capacity utilisation because of decline in orders and partly of tighter financing conditions and a slowing cycle in infrastructure investments. Public consumption increased by 4% in the fist half of the year, private consumption fall by 1.2%. Labour market indicators deteriorated - the number of persons in employment diminished, the number of registered unemployed persons in first seven months grew by even 28% compared to 2008. It is expected to grow further in the months to come. Inflation melted in 2009, mainly due to low economic activity and lower oil and food prices. After deflation in July, inflation rate stood at zero in August and after a drop of consumer prices in September again minor deflation was observed.

Economic policy and country's key features relevant for the outlook

Despite measures to stimulate financial sector by injecting liquidity, in anti-crisis packages credit activities remain moderate in majority of banks, interest rates and risk premium are relatively high in 2009. Wage subsidies, given manufacturing companies to keep jobs and subsiding full working time were effective and around 20.000 jobs were preserved. Along with sharp decline of GDP and decline in tax revenues, general government deficit deteriorated close to 6 percent of GDP in 2009. Budget expenditures are rising, particularly for transfers and public sector wages. Due to the process of eliminating wage disparities wage increases in the public sector are among the main risks for general government deficit. In autumn 2009 discussions for medium- and long-term reforms are undergoing, such as modernisation of pension system, social expenditures, parts in health care system. Public deficit should narrow again in years after 2010.

The outlook

The prospects for the rest of this year and 2010 are still uncertain. Despite slight improvement reflected in business climate indicator, nevertheless industrial production, exports and some related services (transport, retail trade) are still on a low level. Investments are slowing down substantially. After sharp decline of GDP estimated on -7 percent, modest economic prospects are foreseen also for the first half of 2010. Slow recovery is to expect in the second part of the year 2010 and economic growth will be only slightly positive in 2010 (0.7%). Some improvement could arise from external markets (exports are foreseen to rise by 2.6% in real terms), and also domestic demand – public sector investments coupled with more efficient drawing on EU funds could give some impetus to investments and public consumption. Wages are foreseen to grow moderate, with an inflation rate of 1 percent in 2010. Unemployment is foreseen to enlarge in next year and unemployment ILO rate will increase to around 7%.

5.3.29 Spain CEPREDE

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	1088.5	– 3.6	– 0.3
Private consumption	622.8	– 5.3	– 1.4
Public consumption	211.1	5.2	4.0
Gross fixed capital formation	314.0	– 15.4	– 3.2
Private excl. dwellings	226.2	– 8.9	– 2.2
Dwellings	87.8	– 23.3	– 3.5
Change in stocks [a]	1.1	– 15.8	– 8.4
Total domestic demand	1152.5	– 6.2	– 0.7
Exports of goods and services	289.0	– 12.1	1.6
Imports of goods and services	353.0	– 18.8	– 0.3
Net exports [a]	– 5.9	– 71.3	– 28.7
GDP deflator	135.4	0.8	1.5
Consumer prices	130.3	0.0	2.1
Private consumption deflator	130.3	0.0	2.1
Output gap [b]		na	na
Unit labour costs [c]	32.2	4.2	2.5
Nominal hourly gross wage rate	32.2	4.2	2.5
Employment (thousands)	18971.4	– 6.5	– 1.9
Unemployment rate [d]	11.3	18.2	20.3
Real household disposable income	24.7	4.3	0.4
Net saving ratio (households) [e]	14.3	28.1	5.8
Public sector fiscal balance [f,g]	– 4.0	– 6.4	– 8.0
Gross public debt [f,g]	39.5	48.2	52.4
Current account balance [f]	– 0.2	– 60.4	– 4.2
Central bank policy rate (non-EMU countries)	3.0	0.8	1.0
Short-term interest rate (3 months) [h]	4.6	1.3	1.6
Long-term interest rate (10 years) [h]	4.4	4.0	3.8
United States Federal funds rate	2.97	0.8	1.0
GDP			
USA	0.5	– 2.9	2.2
Japan	– 0.7	– 5.6	1.3
Euro Area	0.6	– 3.5	0.6
World trade volume (goods)		– 13.0	2.5
Oil price [i]	97.2	57.9	86.9
Exchange rate			
Dollar/Euro	1.463	1.36	1.29
Yen/Euro	152.45	147.4	143.6
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Spain CEPREDE

The current situation

Spain is living the current crisis in a harder way than the rest of the countries of the same area. The problems in the labour market are the result of the lack of capacity to create jobs in sectors different to the construction, which is producing the most of the unemployment.

If we look at the recent developments in short term indicators we could advance than they have already passed the tough and someone have even showed some positive growth compared to previous period.

It means that GDP growth rate would be very close to cero in the third quarter and slightly positive in last one. At the end GDP annual growth rate would be around 3,6% in 2009, half point over the Euro zone average.

On the positive side we should remark the significant correction achieved in the current account deficit, which could be reduced form nearly 10% of GDP in 2008, to almost the half in current year.

Unfortunately much of this disequilibrium has been passed trough the public sector that could increase its deficit in more than five GDP points.

Although the most troubling news have come from labour markets where more than one and a half millions of jobs have been destroyed in one year and the unemployment rate has raising almost seven points in four quarters.

Economic policy and country's key features relevant for the outlook

Having in mind the weakness of the Spanish domestic demand some supportive policies will be still needed in coming year, both from monetary as well as fiscal sides.

As it is not clear the ECB planned timing to normalize monetary policies, the Spanish authorities should keep some expansionary measures, at least in a short run, but preventing additional deterioration of the fiscal deficit. As this equilibrium will be very difficult to achieve additional efforts should be needed, not only in quantitative dimension of expenditures but also in the qualitative one, trying to be very careful in the choice of spending policies.

The outlook

As we have mention above, we are forecasting a quarterly recovery path starting between the third and fourth quarter this year and showing year on year positive figures in the second half of 2010. This quarterly profile still yields a slightly negative GDP growth rate in 2010.

For coming years we are forecasting a GDP growth rates well below the potential because high employment rates will drag households incomes and consumption, while private investment will keep very moderated in a framework of low GDP growth expectations.

Accumulated disequilibrium in fiscal balance and labour markets will be, therefore, very difficult to correct in the short term and only the external balance will show some improvement in the future with higher savings and lower investment rates.

5.3.30 Spain SGEI

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	1088.5	– 3.6	– 0.3
Private consumption	622.8	– 4.1	– 0.4
Public consumption	211.1	2.9	1.8
Gross fixed capital formation	314.0	– 14.2	– 4.7
Private excl. dwellings	226.3	na	na
Dwellings	87.7	– 12.5	– 7.5
Change in stocks [a]		na	na
Total domestic demand	1152.5	– 5.6	– 1.0
Exports of goods and services	288.9	– 16.2	2.1
Imports of goods and services	353.0	– 20.5	– 0.6
Net exports [a]		2.3	0.7
GDP deflator		0.4	0.1
Consumer prices		na	na
Private consumption deflator		na	na
Output gap [b]		na	na
Unit labour costs [c]		0.4	0.0
Nominal hourly gross wage rate		na	na
Employment (thousands)		– 1119.3	303.5
Unemployment rate [d]		17.9	18.9
Real household disposable income		na	na
Net saving ratio (households) [e]		na	na
Public sector fiscal balance [f,g]		– 9.5	– 8.1
Gross public debt [f,g]		39.7	53.4
Current account balance [f]		– 5.2	– 5.2
Central bank policy rate (non-EMU countries)		na	na
Short-term interest rate (3 months) [h]		1.5	1.2
Long-term interest rate (10 years) [h]		3.6	4.0
United States Federal funds rate		na	na
GDP			
USA		– 2.5	2.5
Japan		– 5.5	1.7
Euro Area		– 4.0	1.0
World trade volume (goods)		– 12.0	2.5
Oil price [i]		56.0	67.2
Exchange rate			
Dollar/Euro		1.340	1.370
Yen/Euro		na	na
Local currency/Euro for non-EMU countries			

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

5.3.31 Sweden CSE

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	328.3	− 5.0	1.0
Private consumption	147.4	− 1.8	1.7
Public consumption	86.8	1.5	0.9
Gross fixed capital formation	64.0	− 14.0	− 5.0
Private excl. dwellings	43.9	− 16.0	− 6.1
Dwellings	10.2	− 27.4	− 10.6
Change in stocks [a]	48.0	− 0.9	0.4
Total domestic demand	303.9	− 3.4	0.2
Exports of goods and services	178	− 12.8	3.0
Imports of goods and services	153.6	− 12.7	2.5
Net exports [a]	24.4	− 1.0	0.4
GDP deflator		na	na
Consumer prices	3.4	− 0.3	1.3
Private consumption deflator	2.8	2.1	0.5
Output gap [b]		na	na
Unit labour costs [c]		na	na
Nominal hourly gross wage rate	3.9	2.4	1.8
Employment (thousands)	4594.0	− 2.4	− 2.3
Unemployment rate [d]	6.2	8.1	9.7
Real household disposable income	162.0	1.6	− 0.5
Net saving ratio (households) [e]	12.1	14.5	12.3
Public sector fiscal balance [f,g]	2.5	na	na
Gross public debt [f,g]	38.0	na	na
Current account balance [f]	7.8	7.2	7.3
Central bank policy rate (non-EMU countries)	4.1	0.7	0.4
Short-term interest rate (3 months) [h]	3.9	0.4	0.6
Long-term interest rate (10 years) [h]	3.9	3.2	3.9
United States Federal funds rate	2.1	0.3	0.8
GDP			
USA	10331.5	− 2.8	1.8
Japan		− 5.7	0.7
Euro Area	9211.3	− 3.9	0.9
World trade volume (goods)		na	na
Oil price [i]	97.3	60.0	80.0
Exchange rate			
Dollar/Euro	1.47	1.38	1.38
Yen/Euro		na	na
Local currency/Euro for non-EMU countries	9.6	10.5	9.5

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Sweden CSE

The current situation

A fall in GDP by 6.8 percent (y/y) in the first quarter was followed by a fall by 6 percent in the second quarter. Although, the second quarter was the first quarter since Q1 2008 displaying growth in GDP (q/q). This indicates that the downturn has ended. During the second half of 2009 the economy is expected to begin a gradual recovery. It is likely that there will be some negative surprises along the way.

There may be a tendency to overestimate the pace of the recovery. One reason for that is that there will be some technical effects on GDP when stocks are running out. Companies have to start to produce to be able to manage the same level of delivery.

One important sign of recovery is that household consumption seems to increase again. During the end of 2008, and up to now, households have sharply increased their savings. Since disposable income has increased rapidly and costs for loans have fallen, there is potential for strong growth in household consumption the upcoming years. Therefore, it is of great importance that household confidence returns.

The Swedish export has gained from a weak exchange rate for the Swedish krona up to the third quarter of 2009. Since then, the krona has appreciated and reached levels last seen before the financial crisis occurred.

A strong budget surplus prior to the crisis has been helpful during the past year. Fiscal stimulus has been implemented without, at the same time, jeopardizing the long-run outlook for the Swedish economy.

Economic policy and country's key features relevant for the outlook

A reestablishment of households confidence is fundamental for the recovery in the Swedish economy. One reason for this is that when global demand starts to increase again the Swedish industry will face tough competition and it will take some time before the increased demand will lead to an increased employment.

Another factor of importance is that the government continues to implement reforms to increase competitiveness.

The outlook

In 2009, the growth rate will be -5 percent. Exports, investments and household consumption are all contributing negatively to growth. There will also be a significant reduction in stocks. In

2010, both private consumption and exports will contribute positively to GDP growth. Investments will continue to fall as companies still are uncertain about future demand and have enough spare capacity to meet the relatively small increase in demand.

In 2011, GDP growth will be close to, or reach, long term growth. Exports and consumption will be normalized, although, investments will continue to be weak.

The labour market will be weak during the forecast period (2009 to 2011). Unemployment will reach over 10 percent and employment will fall with 5 to 6 percent. The labour market is not expected to improve before late 2011.

5.3.32 Sweden NIER

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP		– 5.0	1.5
Private consumption		– 1.5	2.2
Public consumption		1.0	1.0
Gross fixed capital formation		– 16.2	– 4.0
Private excl. dwellings		na	na
Dwellings		na	na
Change in stocks [a]		– 0.8	0.4
Total domestic demand		– 4.8	1.1
Exports of goods and services		– 14.7	3.1
Imports of goods and services		– 15.7	2.7
Net exports [a]		– 0.6	0.4
GDP deflator		2.6	0.5
Consumer prices		1.9	0.8
Private consumption deflator		na	na
Output gap [b]		– 7.6	– 7.5
Unit labour costs [c]		4.0	– 1.9
Nominal hourly gross wage rate		3.3	2.1
Employment (thousands)	4484.0	– 2.6	– 3.1
Unemployment rate [d]	6.1	8.8	11.4
Real household disposable income		0.2	0.1
Net saving ratio (households) [e]		13.6	12.0
Public sector fiscal balance [f,g]		– 2.3	– 3.5
Gross public debt [f,g]		44.9	47.1
Current account balance [f]		6.7	6.4
Central bank policy rate (non-EMU countries)	4.1	0.7	0.3
Short-term interest rate (3 months) [h]	3.9	0.6	0.5
Long-term interest rate (10 years) [h]	3.9	3.4	3.9
United States Federal funds rate, end year	0.25	0.25	0.75
GDP			
USA		– 2.8	1.7
Japan		– 6.3	1.3
Euro Area		– 4.2	0.5
World trade volume (goods)		na	na
Oil price [i]	97.0	60.0	71.0
Exchange rate			
Dollar/Euro	1.460	1.370	1.410
Yen/Euro	151.1	131.1	137.0
Local currency/Euro for non-EMU countries	9.61	10.60	9.92

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Sweden NIER

The current situation

The decline in Sweden's GDP has come to a halt as seasonally adjusted GDP was more or less unchanged between the first and second quarters of this year. Household consumption rose. Moreover, consumers have become noticeably less pessimistic and in August, consumer sentiment about the economy improved for the fourth month in a row. Another positive signal is that the sharp drop in Sweden's exports has ceased. Various business tendency surveys have also increased. The increases, however, are from extremely depressed levels. All factors considered, the assessment is that GDP growth will be zero in the third quarter 2009. In the fourth quarter 2009 there will be a temporary drop in GDP. After three quarters of positive growth, household consumption will decrease because of the new influenza. Another factor, which impacts trade in services, will be a decrease in tourism by Swedes abroad and by foreigners in Sweden. In a full-year overview of 2009 and 2010, however, the new influenza is expected to affect GDP only marginally. The overall assessment is that GDP will be down by 5.0 percent in 2009.

The outlook

Early in 2010, output and demand will begin to pick up. The tendency in other countries will strengthen slightly, and demand for Swedish exports will rise. With an assumed expansionary fiscal policy and low interest rates, household consumption will continue increasing. The increase will be slow, however, as consumption will be curtailed by rising unemployment.

At the outset of next year, capacity utilization will be very low. Consequently, investment in the business sector will not pick up until the fourth quarter of 2010. All factors taken into account, GDP growth will be 1.5 percent in 2010.

In 2011 the international recovery will continue, and the demand for Swedish exports will increase further. Growth in demand, however, will still be modest, as Swedish industry produces and exports a relatively high proportion of investment goods, for which demand will come late in the recovery.

Unemployment will stabilize during 2011. Consumer confidence is increasing, and saving to build a buffer is decreasing. As incomes will be rising relatively fast and interest rates will still be low, the pace of growth in household consumption will increase.

In 2011 capacity utilization will have risen sufficiently for business sector investment to pick up. At the same time, inventories will be approaching desired levels, and firms can slow down on inventory depletion. All factors considered, GDP will increase by 2.9 percent in 2011, and resource utilization will then start rising.

5.3.33 Switzerland KOF

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP	341.5	– 3.4	0.1
Private consumption	194.5	0.7	0.3
Public consumption	36.5	2.5	1.2
Gross fixed capital formation	72.6	– 4.6	– 3.4
Private excl. dwellings	41.4	– 10.1	– 6.8
Dwellings	31.2	2.7	0.6
Change in stocks [a]	– 1.0	0.0	0.4
Total domestic demand	302.7	– 0.5	0.4
Exports of goods and services	186.5	– 11.6	0.1
Imports of goods and services	147.7	– 7.8	0.9
Net exports [a]	38.8	– 3.0	– 0.3
GDP deflator	104.7	0.8	– 0.1
Consumer prices	108.8	– 0.4	0.5
Private consumption deflator	103.6	– 0.8	0.3
Output gap [b]	– 1.8	3.1	3.3
Unit labour costs [c]	3.4	4.9	– 1.8
Nominal hourly gross wage rate	2.4	1.6	0.1
Employment (thousands)	3325.1	– 0.2	– 1.8
Unemployment rate [d]	2.6	3.8	5.1
Real household disposable income	324.5	3.2	0.8
Net saving ratio (households) [e]	8.2	10.3	10.8
Public sector fiscal balance [f,g]	0.9	0.2	– 2.1
Gross public debt [f,g]	40.0	39.9	41.4
Current account balance [f]	1.9	8.3	7.8
Central bank policy rate (non-EMU countries)	2.52	0.3	0.4
Short-term interest rate (3 months) [h]	2.6	0.4	0.5
Long-term interest rate (10 years) [h]	2.9	2.3	2.4
United States Federal funds rate	2.9	0.7	0.7
GDP			
USA	118.6	– 2.8	1.4
Japan	110.6	– 5.6	0.8
Euro Area	114.5	– 3.6	0.5
World trade volume (goods)	162.2	– 11.9	4.8
Oil price [i]	97.7	59.8	67.5
Exchange rate			
Dollar/Euro	1.470	1.380	1.410
Yen/Euro	152.26	129.96	132.56
Local currency/Euro for non-EMU countries	1.59	1.51	1.53

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

Switzerland KOF

The current situation

The negative trade balance for 2009 and the sharp economic decline at the turn of 2008/2009 will lead to a growth rate of -3.4 per cent in comparison with the previous year. In spite of the deteriorating situation on the labour market, private consumption will still show a weak increase this year. The oil price collapse in the second half of 2008 will result in a negative inflation rate for this year. Without the sharp decline in the price of oil, 2009 would have seen a rise in prices. The low inflation, combined with the massive stimulus measures abroad, which are having a positive effect on the demand for Swiss exports, should improve economic conditions somewhat in the second half of this year. Nevertheless, the situation on the labour market will not be easing up.

Economic policy and country's key features relevant for the outlook

The Swiss National Bank is expected to maintain low interest rates for a fairly long period. The expected low inflation rate is giving enough leeway here. Interest rates will only rise toward the middle of the forecast period. Growth in spending from the public budgets should be declining next year owing to the expiring stimulus packages. As growth in revenues is expected to decline even more there will nevertheless be a positive fiscal impulse.

The outlook

The current stagnation will begin giving way to a slow recovery in mid-2010. The result is that economic growth for 2010 will be a mere 0.1 per cent. Inflation in the coming year will hit 0.5 per cent. Private consumption will only begin to recover during the second half of 2010. GDP is expected to grow by about 1.4 per cent in 2011. Unemployment will reach its zenith in 2011 at 5.5 per cent.

Salaries will stay stuck at the current level for the time being. Hence, consumer demand will only start to perk up around the middle of the coming year, with an inflation rate of 0.5 per cent. Construction investments will be developing moderately (0.6 per cent). Investments in machinery and equipment will continue declining sharply (- 6.8 per cent). The current phase of inventory reduction will come to an end in the coming year.

Thus, considering all the influencing factors, Switzerland will face a sustained economic recovery only as of mid-2010. Compared with the previous year, output in 2010 will be practically at a standstill (0.1 per cent). In 2011, GDP growth will reach 1.4 per cent compared to the previous year, and the annualised growth rates will rise to nearly 2 per cent towards the end of the forecast period.

5.3.34 United Kingdom NIESR

Variables	Level, Euro bn, current prices	Volume, % change from previous year [j]	
	2008	2009	2010
GDP		– 4.3	1.0
Private consumption		– 3.5	– 1.1
Public consumption		4.7	1.1
Gross fixed capital formation		– 13.9	– 2.9
Private excl. dwellings		– 12.0	– 2.5
Dwellings		– 28.8	– 8.5
Change in stocks [a]		1.2	1.0
Total domestic demand		– 4.8	0.1
Exports of goods and services		– 8.7	7.4
Imports of goods and services		– 9.9	3.5
Net exports [a]		0.6	0.9
GDP deflator		– 0.2	0.3
Consumer prices		1.3	1.3
Private consumption deflator		– 0.3	0.7
Output gap [b]		na	na
Unit labour costs [c]		2.6	0.8
Nominal hourly gross wage rate		na	na
Employment (thousands)		– 1.8	– 1.0
Unemployment rate [d]		7.6	8.8
Real household disposable income		2.3	2.0
Net saving ratio (households) [e]		6.1	8.9
Public sector fiscal balance [f,g]		– 11.2	– 11.5
Gross public debt [f,g]		66.0	77.2
Current account balance [f]		– 1.7	– 1.5
Central bank policy rate (non-EMU countries)		0.6	1.2
Short-term interest rate (3 months) [h]		1.5	1.8
Long-term interest rate (10 years) [h]		3.6	4.0
United States Federal funds rate		0.3	1.2
GDP			
USA		– 3.2	0.6
Japan		– 7.0	0.7
Euro Area		– 4.7	0.3
World trade volume (goods)		– 10.1	9.6
Oil price [i]		59.3	67.7
Exchange rate			
Dollar/Euro		1.370	1.400
Yen/Euro		130.9	135.1
Local currency/Euro for non-EMU countries		0.80	0.87

[a] Percent of GDP of previous period (contribution to growth).
[b] Percent of potential GDP.
[c] Compensation of employees per head divided by labour productivity per head. defined as GDP in volume divided by total employees.
[d] Percent of total labour force (according to Eurostat).
[e] Percent of net disposable income.
[f] Percent of GDP.
[g] EMU definition.
[h] Percent, the benchmark yield of corresponding government securities.
[i] Brent.,USD/barrel, annual average.
[j] If otherwise not specified.

United Kingdom NIESR

The current situation

Following the huge 2.4 per cent quarterly decline in the first three months of the year, the biggest for 50 years, the economy will shrink a further 0.4 per cent in the second and stagnate in the third. A recovery will begin in the final quarter of 2009, helped by consumers bringing forward purchases to beat the reversion of VAT from 15 to 17.5 per cent in January. The upswing will be sluggish as GDP expands by 1 per cent in 2010 and 1.8 per cent in 2011. Slack demand will bear down on prices, with consumer-price inflation expected to average 1.3 per cent in 2009 and 2010 while home costs, measured by the GDP deflator, will fall by 0.2 per cent this year and rise by just 0.3 per cent in 2010.

The recovery will be weak because consumer spending, housing investment and business capital spending will carry on falling in 2010, though by much less than this year. Private consumption will decline by 1.1 per cent despite rising disposable income as households save more; the saving ratio will rise from 1.7 per cent in 2008 to 6.1 this year and 8.9 in 2010. The further rise in saving next year occurs partly for precautionary reasons as unemployment continues to rise but it also reflects continued falls in housing wealth as house prices resume their decline. This in turn will also bear down on housing investment, which will fall by 8.5 per cent in 2010. Business investment will decline by 2.5 per cent in 2010.

Despite these counter-forces, they will be overcome by a turnaround in the inventory cycle and greater support from net trade. A rundown in stocks has intensified the recession, contributing 1.2 percentage points out of the total 4.3 per cent decline in GDP this year. But in 2010 the change in inventories will add 1 per cent to GDP. Net trade, which has already been bolstering the economy during the recession, will underpin the recovery, boosting GDP by 0.9 per cent next year and by 1.2 per cent in 2011. Domestic producers of tradable goods will be able to exploit the competitive advantage from the lower pound as world trade recovers.

A feeble recovery will do little to improve the public sector finances. The general government financial balance is expected to breach 11 per cent of GDP this year, before only gradually falling back to 7½ per cent of GDP in 2013. Gross debt is expected to have reached 95 per cent of GDP by then (from 44.2 per cent of GDP in 2007). Making matters worse in the longer term, trend growth is now estimated to be 2.3–2.4 per cent a year. That makes all the more essential a plan for sterner fiscal retrenchment than the one currently envisaged by the UK's finance ministry.