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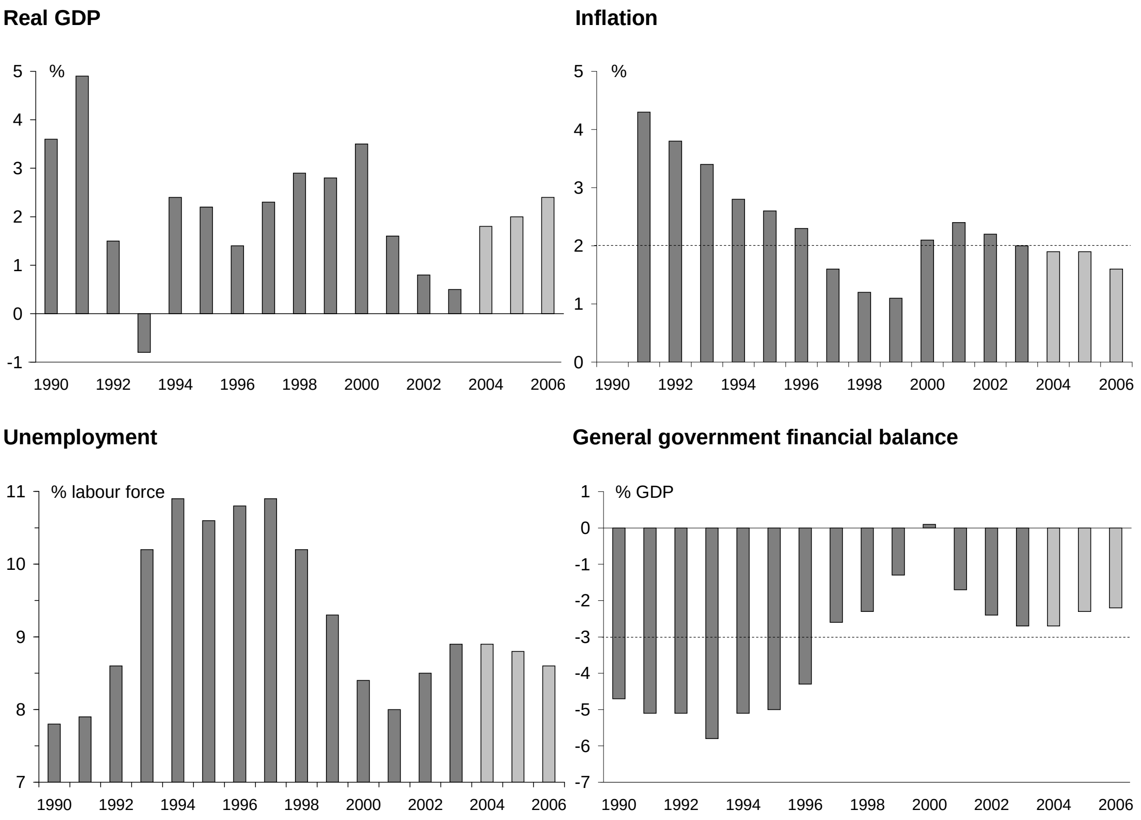
The Euroframe Outlook for the Euro Area[1]

Figure 1 **Key forecasts for the euro area**



Sources: Eurostat, Euroframe.

[1] From Spring 2005 onwards, Euroframe will publish twice a year a comprehensive report on the euro area. This work is commissioned by the European Commission to develop a 'European Forecasting Network'. The Euroframe - European Forecasting Network reports will contain detailed analysis of recent macroeconomic developments and the outlook for the euro area whilst providing an assessment of contemporaneous economic policy developments. In addition, it will explore pertinent structural economic issues for the euro area with the Spring 2005 report providing an in-depth analysis of outsourcing and offshoring issues.

1 Summary

Against the backdrop of economic growth outside the euro area accelerating to the highest levels in a quarter of a century, euro area GDP growth picked-up moderately to 2% in 2004. The softness of the current upswing reflects hesitancy on the part of enterprises and consumers to spend, the negative impact of the stronger euro on net exports and the absence of expansionary fiscal policies.

Recent economic developments have been disappointing in the euro area as GDP growth has faltered in the third quarter to a mere 0.3% from the previous period. This recent oil-price induced weakness should be seen as a pause in the current upswing and certainly not as a start of a new cyclical downturn. With the oil price declining during the coming year, a rebound can be expected in the second half of 2005. Year-on-year, real GDP growth in 2005 is projected to be broadly unchanged at around 2%, before accelerating to around 2½% in 2006. This will be accompanied by inflation falling below 2% in the course of 2005. The ECB is likely to keep its rates unchanged in the first half of 2005, unless second-round effects of the oil price hike emerge. With substantial one-off measures, the overall general government deficit within the euro area is projected to fall to around 2¼% of GDP in 2005.

Although having receded from their peak in October, oil prices remain a major downward risk to the outlook. Moreover, the recent favourable global growth performance has unfortunately been accompanied by increasing current account imbalances. Thus, although the euro area current account surplus is not the major counterpart of the deep US deficit, the euro could strengthen more in the near future, sapping euro area growth further. These imbalances should play a major role in the macroeconomic policy debate in the euro area. The starting point for euro area policy makers must be to acknowledge that within the US administration there is no sense of urgency at all to reduce their twin deficits and that at some unpredictable moment financial markets will react forcefully to a US current account deficit that is expected to remain significant in the longer run.

Table 1.1 Euro area forecast of key indicators

	2001	2002	2003	2004	2005	2006
	Annual percentage changes					
GDP	1.6	0.8	0.5	1.8	2.0	2.4
Harmonised consumer prices	2.4	2.3	2.1	2.1	1.9	1.6
	Levels					
Standardised unemployment[a]	8.0	8.5	8.9	8.9	8.8	8.6
Government financial balance[b]	– 1.7	– 2.4	– 2.7	– 2.7	– 2.3	– 2.2

[a] As percentage of total labour force.
[b] As a percentage of GDP.

2 The short-term economic outlook

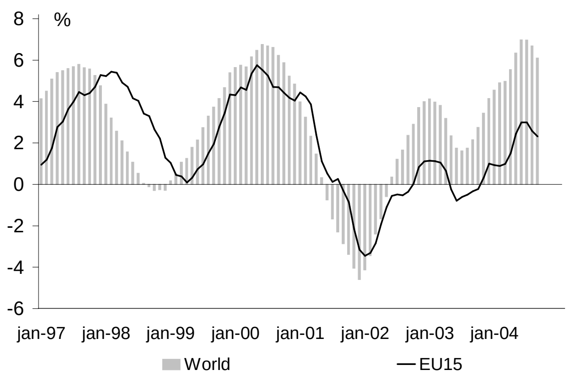
2.1 Developments and outlook outside the euro area

Economic growth outside the euro area will this year be the highest in a quarter of a century. Real GDP growth (world excluding euro area) is projected to rise somewhat more than 5% in 2004, approximately half a percentage point more than in the previous year. Supply, demand and policy all play a role in this favourable outcome. The most beneficial supply development concerns the integration of China in the world economy. Regarding demand, the upswing in US private consumption and investment is key, supplemented by a recovery of domestic demand in Japan. Expansionary fiscal and monetary policies were conducive to the

Figure 2.1 World output and world trade[a], January 1997- September 2004

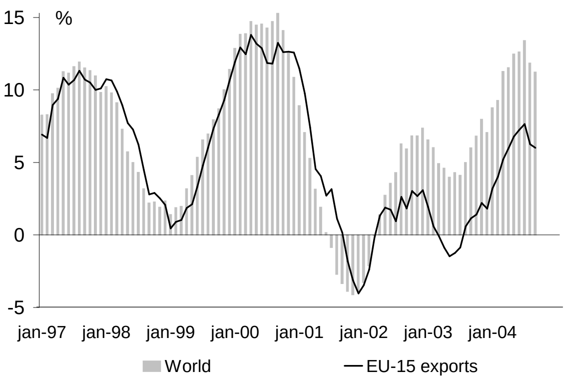
Industrial production

12-Month rise

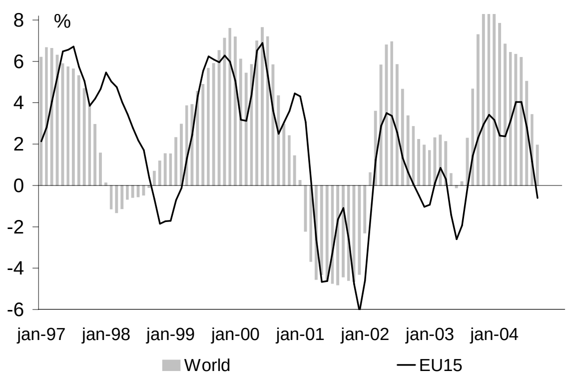


World trade

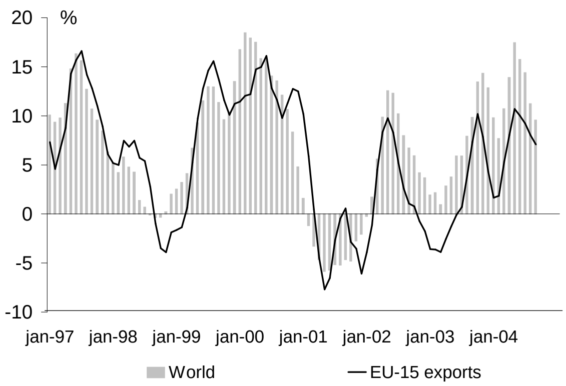
12-Month rise



Momentum[b]



Momentum[b]



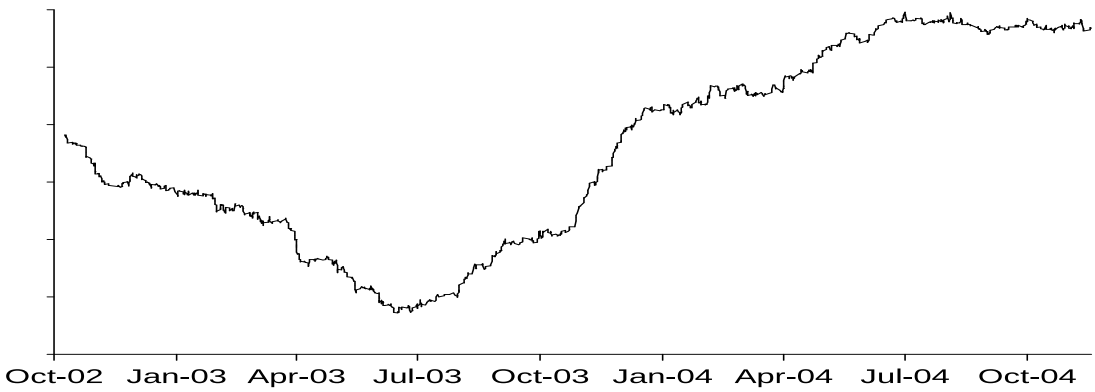
[a] World trade concerns goods and is based on international trade statistics and therefore different from the world trade numbers in Annex table 3 based on national accounts and concerning goods and services.

[b] Momentum: past three months compared with previous three months, at annual rate.

Sources: OECD, IMF, national statistical agencies, CPB calculations rapid demand expansion in the US. Structural reforms carried out in China over a great number of years, culminating in the entry to the World Trade Organisation, were behind the astounding investment-led GDP growth of China, with its spill-over effects especially to the rest of Asia but also elsewhere through commodity markets. Moreover, policy lessons learned from recent crises had favourable effects on economic policy and economic performance of the rest of emerging Asia and of Latin America. In the United Kingdom, economic growth has accelerated to around 3¼% in 2004, bolstered by expansionary fiscal policy and wealth gains due to rising house prices. The growth performance in 2004 of the new EU member countries is impressive, with average GDP growth projected to accelerate to slightly above 4%.

Prompted by strong economic growth, inflation is up from its record low but remains moderate in a historical perspective. Non-energy commodity prices measured in US dollars have risen by around 50% from the trough at the end of 2001 due to strong global demand. In the US, the deflation risk has faded away. Moreover, the oil price exploded. The Brent crude oil price temporarily exceeded 50 US dollar per barrel and the average crude oil price has risen by about 35% in 2004.[2] The oil price hike was also mainly demand driven as OPEC oil production rose in 2004 to its highest level in 25 years despite disruptions in Iraq and elsewhere. However, with excess OPEC capacity low, fear of serious supply problems in the near future also played a role in the oil price hike. Although labour cost increases have remained moderate, headline inflation is up due to the higher commodity prices including energy. For instance, in the United States consumer price inflation has increased from a trough of 1.1% in June 2001 to 3.2% in

Figure 2.2 World release assessment indicator[a]



[a] The indicator provides on a daily basis an assessment of macroeconomic data released by statistical agencies. A release can be assessed from -3 (very negative news on output growth) to +3 (very positive). It is taken into account that not all indicators released are of the same importance: indicators are weighted from 1 (moderately important) to 4 (very important). Number of releases per year taken into account are around thousand. Individual assessments are cumulated. An upward trend in the indicator means incoming data are favourable; stable and downward indicates an unfavourable development.

Source: CPB

[2] Based on the unweighted average of the Brent, WTI (West Texas Intermediate) and Dubai oil prices. The price rise of light sweet (low-sulfur) Brent and WTI oils has recently been substantially stronger than for the heavier sour Dubai oil.

October 2004. Average inflation outside the euro area has also picked up as deflation has gradually abated in Japan.

The substantial rise in the oil price has inevitably some dampening impact on growth. This dampening impact was noticeable in Japan in the third quarter of 2004 and elsewhere in Asia (see also Figure 2.2). US economic growth already slowed in the second quarter and manufacturing activity has moderated in more recent months. Even without the oil price rise, economic growth outside the euro area would have decelerated as the output gap in the US was closing and the Chinese authorities took action to cool the economy and prevent overinvestment. The negative impact of the high oil price is projected to remain important in the first half of 2005. Despite the expected rebound later in the year, real GDP growth outside the euro area is projected to moderate to around 4½% in 2005, from slightly above 5% in 2004.

2.2 Developments and outlook of the euro area

Recent economic developments have been disappointing in the euro area. Economic growth has faltered in the third quarter, after an already tepid performance in the first half of 2004. In the third quarter, real GDP increased by just 0.3% quarter on quarter, compared with 0.6% on average in the two preceding quarters. Leading indicators are mixed, with some showing a rather bleak picture for the current quarter and the first quarter of 2005 (see also Figure 2.3). Indicator-based GDP forecasts, including the one published by Euroframe[3], make a clear growth pick-up in the very near term less likely.

For 2004 as a whole, real GDP is projected to increase by almost 2%, following a meagre 0.5% in 2003 (Table 2.1). This modest recovery is still not broadly based and is mainly due to strong export demand. Export growth (including intra-euro area trade) is projected at slightly more than 6%, up from only 0.3% in 2003. Private investment growth is likely to be slightly positive, after a drop in the three previous years, while private consumption growth should be up marginally. With the recovery weak, the unemployment rate has stabilised at a relatively high level of almost 9% in 2004. Recent working time adjustments received much publicity but were only for a limited number of enterprises and had, therefore, no visible impact at all on the overall employment and unemployment numbers.

The softness of the current upswing reflects hesitancy on the part of enterprises and consumers to spend and the negative impact of the stronger euro on net exports. The hesitancy is probably due to strong geopolitical tensions, while in some countries, especially Germany, recent structural reform measures and corporate restructuring may have a negative short-term impact on consumer confidence. In the past three years, the euro has appreciated by around 25% vis-à-vis its main competitors (see Annex table 6.b). An appreciation of such a

[3] The Euroframe indicator is updated every month as is, among others, available at www.euro-frame.org/indicator/index.php

Table 2.1 Euro area forecast

	2001	2002	2003	2004	2005	2006
	Annual percentage changes					
Volumes						
Consumption	1.9	0.6	1.0	1.5	2.0	2.2
Private investment	– 0.6	– 3.2	– 0.6	1.6	3.5	3.6
Government expenditure	2.4	2.9	1.6	1.4	1.0	1.5
Stockbuilding[a]	– 0.5	– 0.1	0.4	0.2	– 0.1	0.0
Total domestic demand	1.0	0.3	1.2	1.6	2.0	2.3
Export volumes	3.3	1.8	0.3	6.2	6.2	6.2
Import volumes	1.6	0.4	2.2	5.8	6.4	6.2
GDP	1.6	0.8	0.5	1.8	2.0	2.4
Average earnings	4.3	3.3	2.7	2.7	2.5	3.0
Harmonised consumer prices	2.4	2.3	2.1	2.1	1.9	1.6
Private consumption deflator	2.4	2.2	2.0	1.9	1.9	1.6
Real personal disposable income	2.6	1.2	1.0	2.1	2.0	1.9
	Levels					
Standardised unemployment[b]	8.0	8.5	8.9	8.9	8.8	8.6
Government financial balance[c]	– 1.7	– 2.4	– 2.7	– 2.7	– 2.3	– 2.2
Government debt[c]	69.5	69.4	70.7	71.7	70.8	70.0
Current account[c]	– 0.2	0.8	0.3	0.8	0.8	0.7

[a] Change as percentage of GDP.
[b] As percentage of total labour force.
[c] As a percentage of GDP.

magnitude certainly has negative consequences for the export performance and GDP growth. Moreover, the absence of a significant positive fiscal policy impulse, in contrast to the United States, has contributed to the softness of the upswing (at the same time, the euro area avoided a sharper build-up of government deficits)**.** Finally, from mid-year onwards, the high oil price and decelerating growth outside the euro area have become detrimental.

Despite weak growth, inflation has remained slightly above 2% and thus above the ECB definition of price stability in the medium term (inflation less than, but close to 2%). This is mainly the result of the oil price increase, partly offset by a declining food price rise thanks to favourable harvests. Quite positive is the absence up to now of second-round effects of the oil price hike. Wages increases have remained moderate, while core inflation continues to be around 2%.

The modest recovery and budget retrenchments in some countries were just sufficient to stabilise the government deficit. The deficit is projected at 2.7% of GDP, unchanged from the previous year. Four member states are projected to have a deficit above the 3% of GDP threshold. Irrelevant for the overall fiscal policy stance in the euro area, but significant for the

Some specificities behind the forecasts

The forecast is based on the following assumptions:

The oil price is projected to fall in the course of next year. Average prices is forecasted to be around 38 $ per barrel in 2005 and to be to be around 34 $/barrel in 2006 .

The exchange rate between the US-Dollar and the Euro is assumed to remain stable over the forecast horizon at 1.27 US dollar / euro.

In line with its stated objectives, the ECB will increase its interest rate only slightly from the second half of 2005 onwards. The short-term interest rate is projected at 2.3 per cent at the end of 2004 and 2.6 at the end of 2005.

The cut-off data of the information used in the projection is 12 November 2004.

ongoing fiscal policy debate, were the substantial upward revisions to the Greek government deficit. After revisions, the Greek deficit has been permanently above the 3% ceiling since its 2001 entry in the euro area. The Greek deficit was, it seems, also above the 3% in the years on which the green entry light by the euro area countries was based.

The current account surplus has remained small and by no means the main counterpart of the deep US deficit. The surplus is projected to rise slightly in 2004 to 0.8% of GDP, from 0.3% in 2003. This rise was caused by strong export demand and relatively moderate import growth and occurred despite the oil-induced terms of trade loss.

Output growth differences between euro area countries have diminished in 2004.[4] But differences were persistent: all countries with a growth rate above (below) average in 2003 have also projected growth in 2004 above (below) average. Although growth differences diminished, they have remained distinct, with at the extremes Irish growth around three percentage points above average and Dutch and Italian growth around half a percentage point below average. Clear differences also hold for the sources of growth. Especially the difference between Germany and France is striking. While German growth was almost solely based on net exports, domestic demand has contributed substantially to output growth in France.

The recent oil-price induced weakness should be seen as a pause in the current upswing and certainly not as a start of a new cyclical downturn. With the oil price declining during the year, a rebound can be expected in the second half of 2005. Year-on-year, real GDP growth in 2005 is projected to be broadly unchanged at around 2%, before accelerating to around 2½% in 2006.[5] With the positive impact of lower oil prices on real disposable income and, in 2006 an

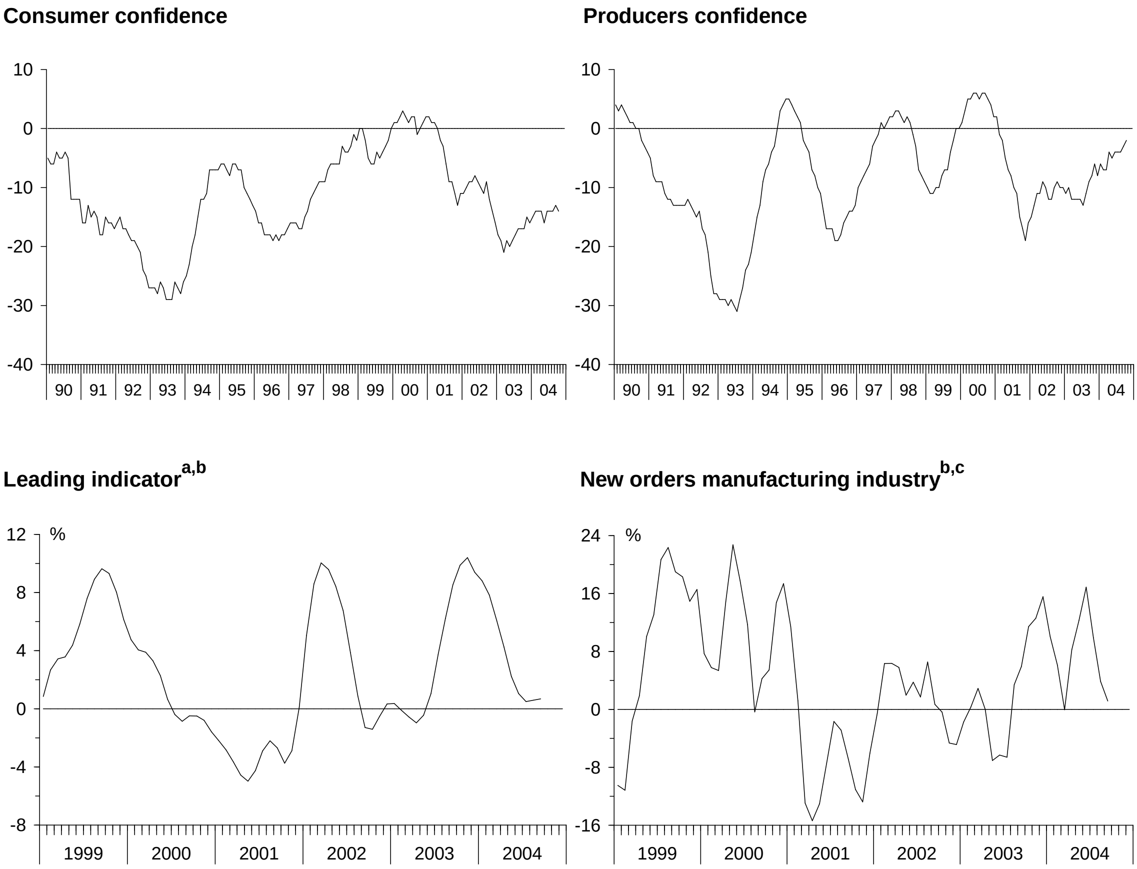
[4] Based on the standard deviation of unweighted growth rates of the euro area countries excluding Luxembourg.

[5] GDP data shown in the tables are adjusted for working-day variation. Extra working days in 2004 add around a quarter percentage point to GDP growth in 2004, while it reduces growth marginally in 2005. Thus, while adjusted for working days, GDP growth is projected to accelerate marginally in 2005, it is projected to slow down marginally without this adjustment.

improving labour market, private consumption growth is likely to accelerate somewhat. Exports will benefit from the rebound in intra-euro area trade, only partly offset by global market losses due to the stronger euro. Investment will be supported by accelerating demand, improving profit margins and still relatively low interest rates. The negative output gap is projected to narrow into 2006. The same holds for unemployment, which is projected to be broadly unchanged in 2005 and to fall in the following year.

Inflation is projected to decrease slightly in 2005 but will remain close to 2%. The year-on-year inflation numbers hide the expected clear drop in the course of the year, with inflation likely to fall below 2% later in the coming year and dropping somewhat further in 2006. The limited fall in inflation is triggered by weak output growth in early 2005, some drop in the oil price, the feed-through of the stronger euro and continuing moderate wage increases as the labour market situation will remain problematic. The reduction in inflation of the euro area is

Figure 2.3 Euro area, forward-looking indicators



[a] OECD composite leading indicator for the euro area.
[b] Momentum: past three months compared with previous three months, at annual rate.
[c] Corrected for very steep rise in May 2004 due to orders of airplanes.

Sources: European Commission, Eurostat, OECD projected to come with a fall to record low in the inflation divergence between the member countries.

The ECB is likely to keep its rates unchanged in the first half 2005, unless second-round effects of the oil price hike emerge. Given the dampening effect on inflation of the growth pause early in 2005 and the tighter monetary conditions due to the stronger euro, there seems to be no reason for the ECB to raise rates in the first half of 2005. Although later in the year inflation is projected to drop further, a limited withdrawing of monetary stimulus is projected given the medium-term orientation of the ECB. With the upswing gaining strength, official interest rates are projected to rise by 2006. Capital market rates, currently surprisingly low, should increase both in 2005 and 2006.

With substantial one-off measures (or should they be called gimmicks?), the government deficit is projected to fall to around 2¼% of GDP in 2005. These measures are most relevant for Germany and France. As these measures have only a temporary effect, a further reduction is not projected for 2006, despite economic growth picking up. Three countries (Italy, Greece and Portugal) are projected to have in 2005 a deficit above the 3% of GDP threshold. Two other countries (Germany and France) have a projected deficit just below this Maastricht ceiling that still plays some role in the fiscal policy deliberations in the Ecofin-council and in the national fiscal policy debates.

The outlook is broadly the same for all euro area countries and growth rates may converge further in 2005 and 2006. The expansionary impact of tax cuts is projected to bring Austrian growth slightly above the euro area average in 2005, while for Greece the post-Olympic year is likely to bring lower growth as budget cuts will be made to comply with the Maastricht deficit limits. The Netherlands may remain a bit more behind its euro area partners in 2005 than in the previous year. [6] Real disposable income of Dutch wage earners and social security recipients is projected to fall, reflecting budgetary policy and wage moderation, leading to flat private consumption in 2005.

2.3 Risks and uncertainties

Oil prices remain a major downward risk to the outlook, although oil prices have receded from their peak in October. Geopolitical tensions could trigger a renewed oil price rise, while the projected softening of demand may be insufficient to allow the oil price to drop. A renewed rise in oil prices would have a clear negative impact on output growth in 2005 (Table 2.2).

[6] The projection presented here for the Netherlands is broadly consistent with the rest of the Euroframe forecast. Thus, the world outlook it is based on is less favourable than that of the CPB projection of September.

Table 2.1 Impact of a permanent 25% oil price rise, first-year effects (NiGEM simulation)

	World	USA	Euro area	UK
GDP	–0.3	–0.3	–0.3	–0.2
Inflation		0.3	0.2	0.1

The euro could strengthen more in the near future, sapping euro area growth further. The recent favourable global growth performance has unfortunately been accompanied by increasing current account imbalances. The US current account deficit has risen to more than 5% of GDP, an all-time record high, and may increase further in the two coming years with detrimental consequence on euro area growth. These imbalances should play a major role in the macroeconomic policy debate in the euro area. The starting point for euro area policy-makers must be to acknowledge that within the US administration there is no sense of urgency at all to reduce their twin deficits and that at some unpredictable moment financial markets will react forcefully to a US current account deficit that is expected to remain significant in the longer run.

Annex Table 1 Real GDP in major economies[a]

	World	OECD	NAFTA	EU-25	Euro area	USA	Japan	Germany	France	Italy	UK
	Annual percentage changes										
2002	3.0	1.7	1.9	1.1	0.8	1.9	– 0.3	0.1	1.1	0.4	1.8
2003	3.9	2.2	2.8	0.9	0.5	3.0	2.5	– 0.1	0.5	0.4	2.2
2004	4.6	3.3	4.0	2.1	1.8	4.2	4.2	1.3	2.3	1.2	3.2
2005	4.1	2.7	2.9	2.2	2.0	3.1	2.2	1.7	2.4	1.7	2.6
2006	3.9	2.6	2.7	2.5	2.4	2.7	1.9	2.1	2.5	2.1	2.8
1995-2001	3.6	2.9	3.4	2.6	2.4	3.4	1.3	1.7	2.6	2.0	3.0

[a] GDP data shown in the tables are adjusted for working-day variation. Extra working days in 2004 add around a quarter percentage point to GDP growth in 2004 for the euro area, while it reduces growth marginally in 2005. The impact of working-day variation is most pronounced for Germany.

Annex Table 2 Private consumption deflator in major economies

	OECD	NAFTA	EU-15	Euro area	USA	Japan	Germany	France	Italy	UK
	Annual percentage changes									
2002	1.7	2.0	2.1	2.2	1.4	– 1.3	1.2	1.7	3.1	1.6
2003	1.8	2.3	1.9	2.0	1.9	– 1.4	1.0	1.8	2.5	1.8
2004	2.0	2.5	1.8	1.9	2.1	– 1.0	1.7	1.7	2.3	1.4
2005	2.1	2.8	1.9	1.9	2.2	0.2	1.7	1.9	2.4	2.1
2006	1.6	2.0	1.7	1.6	2.1	0.1	1.3	1.5	1.9	2.1
1995-2001	3.0	3.3	2.1	2.2	1.9	– 0.4	1.4	1.2	3.2	2.4

Annex Table 3 World trade volume and prices

	World trade volume	World export prices in $	Oil price ($ per barrel)[a]
	Annual percentage changes		
2002	3.4	1.2	24.4
2003	4.3	10.4	27.8
2004	8.9	8.4	37.4
2005	8.2	4.2	38.0
2006	6.8	0.7	34.1
1995-2001	7.3	– 1.4	19.3

[a] Based on the unweighted average of the Brent, WTI (West Texas Intermediate) and Dubai oil prices.

Annex Table 4 Euro area, main features of forecast[a]

	2001	2002	2003	2004	2005	2006
	Annual percentage changes					
Volumes						
Consumption	1.9	0.6	1.0	1.5	2.0	2.2
Private investment	– 0.6	– 3.2	– 0.6	1.6	3.5	3.6
Government expenditure	2.4	2.9	1.6	1.4	1.0	1.5
Stockbuilding[b]	– 0.5	– 0.1	0.4	0.2	– 0.1	0.0
Total domestic demand	1.0	0.3	1.2	1.6	2.0	2.3
Export volumes	3.3	1.8	0.3	6.2	6.2	6.2
Import volumes	1.6	0.4	2.2	5.8	6.4	6.2
GDP	1.6	0.8	0.5	1.8	2.0	2.4
Average earnings	4.3	3.3	2.7	2.7	2.5	3.0
Harmonised consumer prices	2.4	2.3	2.1	2.1	1.9	1.6
Private consumption deflator	2.4	2.2	2.0	1.9	1.9	1.6
Real personal disposable income	2.6	1.2	1.0	2.1	2.0	1.9
	Levels					
Standardised unemployment[c]	8.0	8.5	8.9	8.9	8.8	8.6
Government financial balance[d]	– 1.7	– 2.4	– 2.7	– 2.7	– 2.3	– 2.2
Government debt[d]	69.5	69.4	70.7	71.7	70.8	70.0
Current account[d]	– 0.2	0.8	0.3	0.8	0.8	0.7

[a] See footnote a of Annex table 1.
[b] Change as percentage of GDP.
[c] As percentage of total labour force.
[d] As a percentage of GDP.

Annex Table 5 Interest rates

	Short-term interest rates				Long-term interest rates			
	USA	Japan	Euro area	UK	USA	Japan	Euro area	UK
2002	1.7	0.1	3.3	4.0	4.6	1.2	4.9	4.9
2003	1.2	0.0	2.3	3.7	4.0	1.1	4.2	4.5
2004	1.5	0.0	2.1	4.6	4.3	1.6	4.3	4.9
2005	2.6	0.2	2.2	5.1	4.5	1.5	4.3	4.9
2006	3.3	0.5	2.5	5.3	4.8	1.7	4.6	5.1
2004Q1	1.0	0.0	2.1	4.1	4.0	1.4	4.2	4.8
2004Q2	1.3	0.0	2.1	4.5	4.6	1.8	4.4	5.1
2004Q3	1.7	0.0	2.1	4.9	4.3	1.6	4.3	5.0
2004Q4	2.0	0.1	2.1	4.8	4.2	1.6	4.1	4.7
2005Q1	2.3	0.1	2.2	5.0	4.2	1.4	4.2	4.7
2005Q2	2.5	0.2	2.2	5.1	4.4	1.4	4.3	4.9
2005Q3	2.8	0.2	2.3	5.1	4.5	1.5	4.3	4.9
2005Q4	3.0	0.2	2.3	5.2	4.7	1.6	4.5	5.0
2006Q1	3.1	0.3	2.4	5.2	4.7	1.6	4.5	5.1
2006Q2	3.3	0.4	2.5	5.2	4.8	1.7	4.6	5.1
2006Q3	3.4	0.6	2.5	5.3	4.8	1.8	4.7	5.2
2006Q4	3.5	0.7	2.6	5.3	4.9	1.8	4.7	5.2

Annex Table 6a	**Nominal exchange rates**					
	Yen	Euro	Sterling	Yen	Dollar	Sterling
	Bilateral rate per US Dollar			Bilateral rate per euro		
2002	125.2	1.063	0.667	117.8	0.941	0.627
2003	115.9	0.886	0.612	130.8	1.129	0.691
2004	108.4	0.810	0.550	133.8	1.235	0.679
2005	106.1	0.790	0.548	134.3	1.266	0.694
2006	105.3	0.790	0.559	133.3	1.266	0.708
2004Q1	107.2	0.800	0.544	134.0	1.250	0.680
2004Q2	109.8	0.831	0.554	132.1	1.203	0.667
2004Q3	109.9	0.818	0.550	134.4	1.222	0.672
2004Q4	106.6	0.790	0.553	134.9	1.266	0.700
2005Q1	106.4	0.790	0.545	134.7	1.266	0.690
2005Q2	106.2	0.790	0.545	134.4	1.266	0.690
2005Q3	106.0	0.790	0.549	134.2	1.266	0.695
2005Q4	105.8	0.790	0.552	133.9	1.266	0.699
2006Q1	105.6	0.790	0.555	133.7	1.266	0.703
2006Q2	105.4	0.790	0.558	133.4	1.266	0.706
2006Q3	105.2	0.790	0.560	133.2	1.266	0.709
2006Q4	105.0	0.790	0.563	132.9	1.266	0.713

Annex Table 6b	**Effective exchange rates**						
	USA	Japan	Euro area	Germany	France	Italy	UK
	Annual percentage changes						
2002	3.0	– 0.4	6.6	2.9	3.4	4.8	2.5
2003	– 6.0	3.9	12.8	6.6	6.4	7.1	– 2.7
2004	– 4.3	4.3	4.4	2.3	2.3	2.7	5.0
2005	– 1.9	1.5	1.1	0.4	0.6	0.7	– 1.4
2006	0.9	1.1	0.8	0.5	0.4	0.4	– 1.8
2004Q1	– 1.9	0.4	2.7	1.5	1.3	1.7	4.6
2004Q2	2.2	– 1.7	– 2.6	– 1.4	– 1.3	– 1.4	0.4
2004Q3	– 0.8	0.0	0.9	0.4	0.5	0.5	– 0.2
2004Q4	– 2.2	2.3	2.6	1.3	1.3	1.4	– 2.8
2005Q1	– 0.5	– 0.2	– 0.8	– 0.5	– 0.4	– 0.3	1.1
2005Q2	0.0	0.2	0.0	0.0	0.0	0.0	0.0
2005Q3	0.2	0.3	0.2	0.1	0.1	0.1	– 0.6
2005Q4	0.2	0.3	0.2	0.1	0.1	0.1	– 0.5
2006Q1	0.2	0.3	0.2	0.1	0.1	0.1	– 0.5
2006Q2	0.2	0.3	0.2	0.1	0.1	0.1	– 0.5
2006Q3	0.2	0.3	0.2	0.1	0.1	0.1	– 0.4
2006Q4	0.2	0.3	0.2	0.1	0.1	0.1	– 0.4

Annex Table 7 **Real GDP in the European Union[a]**

	2002	2003	2004	2005	2006
	Annual percentage changes				
Austria	1.4	0.7	1.8	2.2	2.6
Belgium	0.7	1.1	2.4	2.1	2.5
Denmark	1.0	0.5	2.2	2.5	2.4
Finland	2.3	2.1	3.1	3.2	2.5
France	1.1	0.5	2.3	2.4	2.5
Germany	0.1	– 0.1	1.3	1.7	2.1
Greece	3.9	4.3	3.8	2.8	3.3
Ireland	6.1	3.6	5.0	4.5	4.9
Italy	0.4	0.4	1.2	1.7	2.1
Netherlands	0.6	– 0.9	1.2	0.9	2.0
Portugal	0.4	– 1.2	1.4	2.1	2.8
Spain	2.2	2.5	2.7	2.8	2.6
Sweden	2.1	1.6	3.1	2.9	2.8
United Kingdom	1.8	2.2	3.2	2.6	2.8
Euro area	0.8	0.5	1.8	2.0	2.4
EU-15	1.0	0.8	2.0	2.1	2.4
Accession-10	2.4	3.6	4.1	5.5	4.2
EU-25	1.1	0.9	2.1	2.2	2.5

[a] GDP data shown in the tables are adjusted for working-day variation. Extra working days in 2004 add around a quarter percentage point to GDP growth in 2004 for the euro area, while it reduces growth marginally in 2005. The impact of working-day variation is most pronounced for Germany.

Annex Table 8 **Harmonised consumer price index**

	2002	2003	2004	2005	2006
	Annual percentage changes				
Austria	1.7	1.3	1.9	1.8	1.9
Belgium	1.6	1.5	1.8	1.9	1.7
Denmark	2.4	2.0	1.0	1.7	2.0
Finland	2.0	1.3	0.3	1.5	1.3
France	1.9	2.2	2.4	1.8	1.5
Germany	1.3	1.1	1.9	1.8	1.3
Greece	3.9	3.4	2.9	2.9	1.9
Ireland	4.7	4.0	2.3	2.1	1.7
Italy	2.6	2.8	2.2	2.2	1.9
Netherlands	3.8	2.2	1.5	1.0	1.3
Portugal	3.7	3.3	2.6	2.0	1.8
Spain	3.6	3.1	2.8	2.5	2.0
Sweden	2.0	2.3	1.0	1.4	1.4
United Kingdom	1.3	1.4	1.3	1.7	1.8
Euro area	2.3	2.1	2.1	1.9	1.6
EU-15	2.1	2.0	2.0	1.9	1.6
Accession-10	2.7	1.9	4.3	3.4	3.8
EU-25	2.2	2.0	2.2	2.1	1.9

Annex Table 9	**Government financial balances in the EU-15**				
	2002	2003	2004	2005	2006
	% GDP				
Austria	– 0.2	– 1.1	– 1.3	– 1.9	– 1.9
Belgium	0.1	0.4	0.7	1.1	0.5
Denmark	0.7	0.3	0.0	– 0.3	0.3
Finland	4.3	2.3	2.3	2.1	2.0
France	– 3.3	– 4.1	– 3.8	– 2.7	– 2.7
Germany	– 3.7	– 3.8	– 3.7	– 3.0	– 3.0
Greece	– 3.7	– 4.6	– 5.2	– 3.9	– 3.3
Ireland	– 0.2	0.1	0.2	0.4	0.0
Italy	– 2.3	– 2.4	– 2.9	– 3.1	– 3.0
Netherlands	– 1.9	– 3.2	– 3.0	– 2.5	– 2.2
Portugal	– 2.7	– 2.8	– 2.8	– 3.3	– 2.3
Spain	– 0.1	0.4	0.2	0.1	0.0
Sweden	0.0	0.3	0.7	0.8	0.5
United Kingdom	– 1.6	– 3.4	– 3.1	– 2.7	– 3.2
Euro area	– 2.4	– 2.7	– 2.7	– 2.3	– 2.2

Annex Table 10	**Standardised unemployment rate in the EU-15**				
	2002	2003	2004	2005	2006
	% total labour force				
Austria	4.2	4.1	4.2	4.2	4.2
Belgium	7.3	8.0	7.7	7.6	7.6
Denmark	4.6	5.6	5.9	5.5	5.5
Finland	9.1	9.0	8.8	8.5	8.6
France	8.9	9.4	9.5	9.2	8.6
Germany	8.7	9.6	9.8	9.9	9.4
Greece	9.9	9.3	8.9	8.7	8.5
Ireland	4.4	4.6	4.5	4.4	4.3
Italy	9.0	8.6	8.0	7.8	7.7
Netherlands	2.7	3.8	4.8	5.7	5.7
Portugal	5.0	6.2	6.3	6.6	6.5
Spain	11.3	11.3	11.0	11.0	10.9
Sweden	4.9	5.6	6.4	6.1	6.2
United Kingdom	5.2	5.0	4.8	4.8	4.8
Euro area	8.5	8.9	8.9	8.8	8.6