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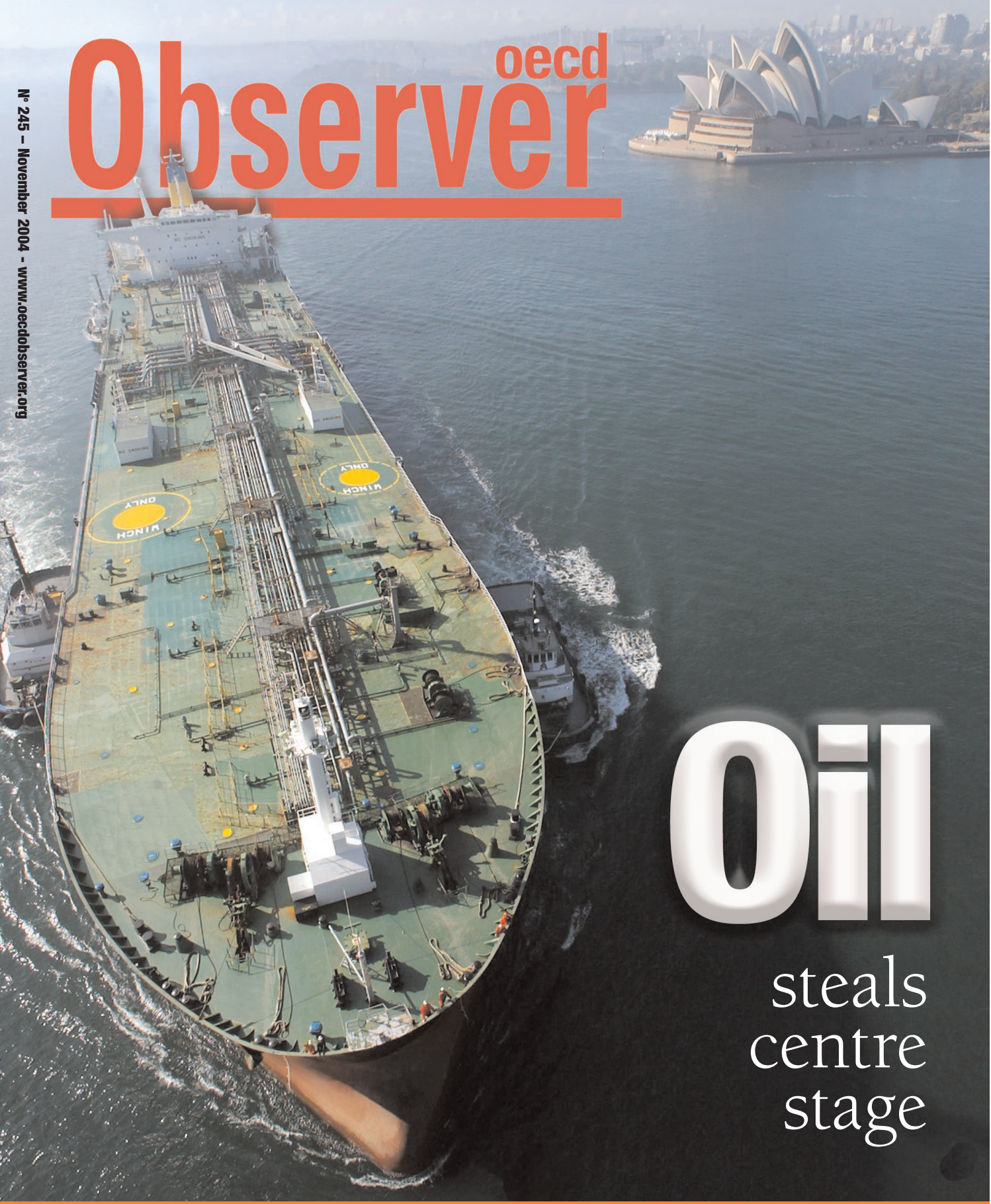

Oil steals centre stage

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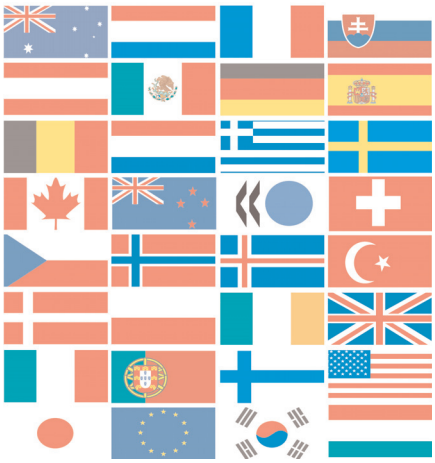

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On the cover

Oil steals centre stage

Photo: ©Tim Wimborne/Reuters

The 240-metre-long crude oil tanker, New Argosy, and Sydney Opera House in the background. With a sharp rise in prices since the start of 2004, oil has swung back to the centre of public attention.

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Giving development a chance

Donald J. Johnston, Secretary-General of the OECD

Just a few days ago, an article appeared in a major Canadian newspaper deploring the exodus of qualified doctors and nurses from African countries struggling to contain disease, especially AIDS. These highly skilled professionals are being attracted by opportunities in more developed countries, but while they may look forward to better lives, the communities they leave suffer an important loss.

This story raises a key question about development and development assistance: can governments that say they wish to foster development among poorer countries do so, when at the same time they pursue policies that impoverish the countries they are trying to help?

The general problem is a lack of coherence among policies: one set of policy objectives conflicts with or undermines another. Alas, policy incoherence in government programmes is common. As a former politician and cabinet minister in a G7 country, I enjoyed a firsthand view of that. In every instance I recall, incoherence was rooted in what were perceived by some as political imperatives.

Can governments foster development among poorer countries, when at the same time they pursue policies that impoverish the countries they are trying to help?

I have encountered two schools of thought within the OECD on what can be done. The first is the one I champion, namely our role in pointing out how some of *our* policies undermine development. Agricultural subsidies and trade barriers are notorious examples, for not only do they prevent the developing world from fully exploiting our markets, but they prevent our own citizens from accessing cheaper, often better, products.

Tied aid, which commits recipients of financial assistance to specific suppliers from donor countries, is also an incoherent policy, as it is in direct conflict with trade liberalisation and free markets. Again, it is motivated by political considerations. Some argue that without tied aid, development funding would decline! If this position is correct, it suggests that incoherence is sometimes better than nothing. I am not convinced.

But it is incoherence in the area of migration that troubles me right now, particularly if it means emptying the developing world of valuable human capital. Migration can be a positive force if, for instance, it results in substantial financial remittances back to the developing world. But the active recruitment efforts by developed countries – some call it poaching – to induce skilled doctors, nurses, scientists and engineers to settle in rich economies, without any compensation for the investment in these skills made by the taxpayers in low-income ones, is a concern. These skills are competitively priced by OECD standards, but they may be scarce and valuable back home.

Human capital is the most important driver of economic growth. Physical assets or commodities cannot migrate of their own volition. Human capital can and does. Obviously, preventing migration would be unacceptable, the movement of labour being a fundamental freedom we uphold. But there is still incoherence in terms of a development strategy when OECD governments actively solicit skills from the developing world that cannot easily be replaced. Some coherence might be restored, for instance, if public policy in destination countries required some compensating payment in return.

Some argue that it is incoherent if we do not bring the policy knowledge within the OECD to developing countries, for their direct benefit. Though I have long promoted this concept of transferring knowledge, to me, this is not an issue of policy coherence; this is an issue of development policy, pure and simple. My own view is that there has been a widespread failure of the development community over many years to identify, adapt and apply the policies and insights within their governments and within the OECD that could spur development. It is now accepted wisdom that development cannot be a matter only of roads and bridges, or schools and hospitals, but must also be built on a policy environment founded on the rule of law, and institutions that enable businesses and the economy to flourish. We must transmit our expertise in such matters if we are to make our own donor aid and development policies more effective. Moving money and goods is important, but so is moving knowledge and expertise.

Imparting this knowledge offers an enhanced role for the OECD development community. Its members are well placed to identify the policy shortcomings and needs of development strategies on the ground, as well as transmitting knowledge, in areas like technology, banking, legal reform, and so on. There is, of course, a need for governments in developing countries to ensure coherence in their own policymaking. Have they created a favourable environment for investment? Are they cutting their tariffs? Are they building the institutions that are needed for market economies and successful entrepreneurship? Just like flows of trade, skills and knowledge, policy coherence for development is a two-way street. ■

• News brief •

Aid breakthrough

Export credits bidding to open

Public bidding from firms wishing to participate in projects financed by aid will soon be possible under a two-year pilot programme aimed at providing greater transparency and efficiency in the use of untied aid credits to poorer countries, it was announced in November.

Untied aid credits are development assistance loans that can be used to pay for purchases of goods and services from any country, rather than just the country providing the loan. The agreement between countries participating in the OECD Export Credit Arrangement is designed to create more effective competition in the use of such loans and to give developing countries the power to choose their suppliers at the best price.

Beginning 1 January 2005, public notification of untied aid credits of SDR5 million (Special Drawing Rights) or more will be provided 30 days before the start of a bidding period in an effort to encourage the widest possible participation in bidding. The minimum bidding period will be 45 days. The system will be administered by the OECD. For more information, see Export Credits at www.oecd.org/trade. ■

Plus ça change…

"Next, with regard to the incidence of automation on the size of office staffs, it was found that, contrary to the fears expressed whenever the installation of a computer was announced, there was no direct reduction of staff in any of the countries studied, except Sweden, where non-manual labour was reduced by about 20% in one of the firms studied. The incidence on employment may thus be said to be slight. "

From "The social consequences of automation", *OECD Observer* No. 1, November 1962.

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Trade rises again

G7 merchandise trade rose by 3% in volume terms in the second quarter of 2004, compared to the previous quarter, according to our latest statistics released in October. G7 trade volumes continued their year-to-year upward trend: exports increased by 10.2% and imports by 9.6%.

Compared with the preceding quarter, Germany's merchandise export growth fell to 3%, while imports turned positive, with a 3% rise. Compared with the second quarter of 2003, German exports jumped up by 14.5%, once again the highest rate of growth of the G7 countries, and imports expanded by 10.1%, slightly above the G7 average.

In the US, merchandise trade volume export growth slowed further to 1.5% in the second quarter, while import volume growth stabilised at 3.1%. Year-to-year exports and imports volumes have increased by 10.3% and 10.8% respectively.

Japanese merchandise imports stagnated at 0.4% in volume terms in the second quarter 2004, compared to the previous quarter, while export volume growth decreased to 2.3%. Japan's export volume growth was a strong 13.5% year-to-year, while import growth, at 6.4%, was below the G7 average. ■

Unemployment eases

The standardised unemployment rate for the OECD area edged down to 6.8% in September 2004, from 6.9% the previous month and 7.2% a year earlier.

For the euro area as a whole, the unemployment rate remained stable, but high, at 8.9%. The US standardised unemployment rate remained at 5.4%, 0.7 percentage points lower than a year earlier. Joblessness steadily declined in Japan, where the unemployment rate was 4.6%, 0.2 percentage points lower than the previous month and 0.5 percentage points lower than a year earlier.

There was no significant change from the previous month for France and Germany, with unemployment remaining at 9.6% and 9.9% respectively in September 2004, though the Germany rate was slightly higher than a year earlier. The joblessness rate declined from the previous year in Canada, in the UK, and in Italy, respectively to 7.1% in September 2004, 4.6% in July 2004, and 8.5% in January 2004. ■

• News brief •

Insurance drive
Friendlier, less fraudulent

Claiming insurance is rarely as easy as buying it, with customers often wary about tripping over the small print. OECD governments, working with the insurance industry, believe insurers could do more to look after their customers, and have published a checklist of good practice guidelines. Moreover, the OECD's Guidelines for Good Practice for Insurance Claim Management also recommend that companies monitor customer claims more closely as a way of combating fraud.

The guidelines, which were drawn up by the OECD's Insurance Committee, are not mandatory, but it is hoped they will provide a touchstone for best practice in an area where till now there was no international guidance. The guidelines advise on the basics, like giving customers the information and assistance needed to enable them to file claims quickly and with all the details required, or updating customers regularly on the status of claims. But the guidelines also encourage companies to help combat fraud, for example, through building industry-wide databases to report and share fraudulent claims. And they recommend that staff be trained to spot potentially fraudulent claims more easily.

For more on the insurance guidelines, see www.oecd.org/insurance. ■

*Finnish*ing school

The latest OECD survey of the competence and literacy of 15-year-old students in reading, mathematics and science, due out this December, shows that the performance gap among industrialised countries has further widened since the first survey in 2000.

Finland moves further ahead in the OECD's PISA 2003 survey of 15-year-olds, thanks to its improved performance in mathematics and science compared with three years ago. This places Finland on a par in mathematics and science with the previously unmatched East Asian countries such as Hong Kong-China, Japan and Korea. The previous edition of PISA, which stands for the Programme for International Student Assessment, attracted headlines in 2000 and 2001, because of the average performances of some major OECD countries, particularly Germany, whose showing this time was a little better.

But some countries at the bottom of the PISA scale showed even lower educational performance this time round, so widening the gap between the best and poorest performing participants. Over a quarter of pupils were not proficient beyond Level 1 mathematics in Italy, Portugal and the US, for instance, and over half in Mexico and Turkey.

Nor does high expenditure guarantee success, with some big spenders performing below average, and others getting more value, like Australia, Belgium and the Netherlands. Korea's national income, for example, is below the OECD average, but its students are among the best performers in the OECD area. Overall, the survey confirms that while wealthier countries tend to do better in education than poor nations, students whose parents are well-educated with cultured homes tend to perform the best. Also, while girls outperform boys in reading in all countries, gender differences in mathematics tended to be small.

More than 275,000 students in 41 countries took part in the survey, which involved written tests lasting two hours. See www.pisa.oecd.org ■

A fifth of jobs offshoreable

The international sourcing of IT and IT-enabled services is growing rapidly, but beyond anecdotal evidence, there is not much solid information to go on. Using an approach that exploits existing data, OECD analysts have examined trade data and occupational employment data to determine how many jobs could potentially be affected by this so-called outsourcing (more formally referred to as international sourcing or offshoring). They have come up with a figure of around 20% for the EU15 as a whole, Australia, Canada and the US.

The share of these potentially offshoreable service jobs has declined in the US, Canada and Australia, particularly since 2001. This decline could reflect the possibility that these jobs are indeed being moved abroad, for instance, with IT-related and back office activities going to India. But the decline might also simply be caused by jobs disappearing, as they are being automated and digitised, or through drives to improve productivity. More analysis is being undertaken to establish the causes.

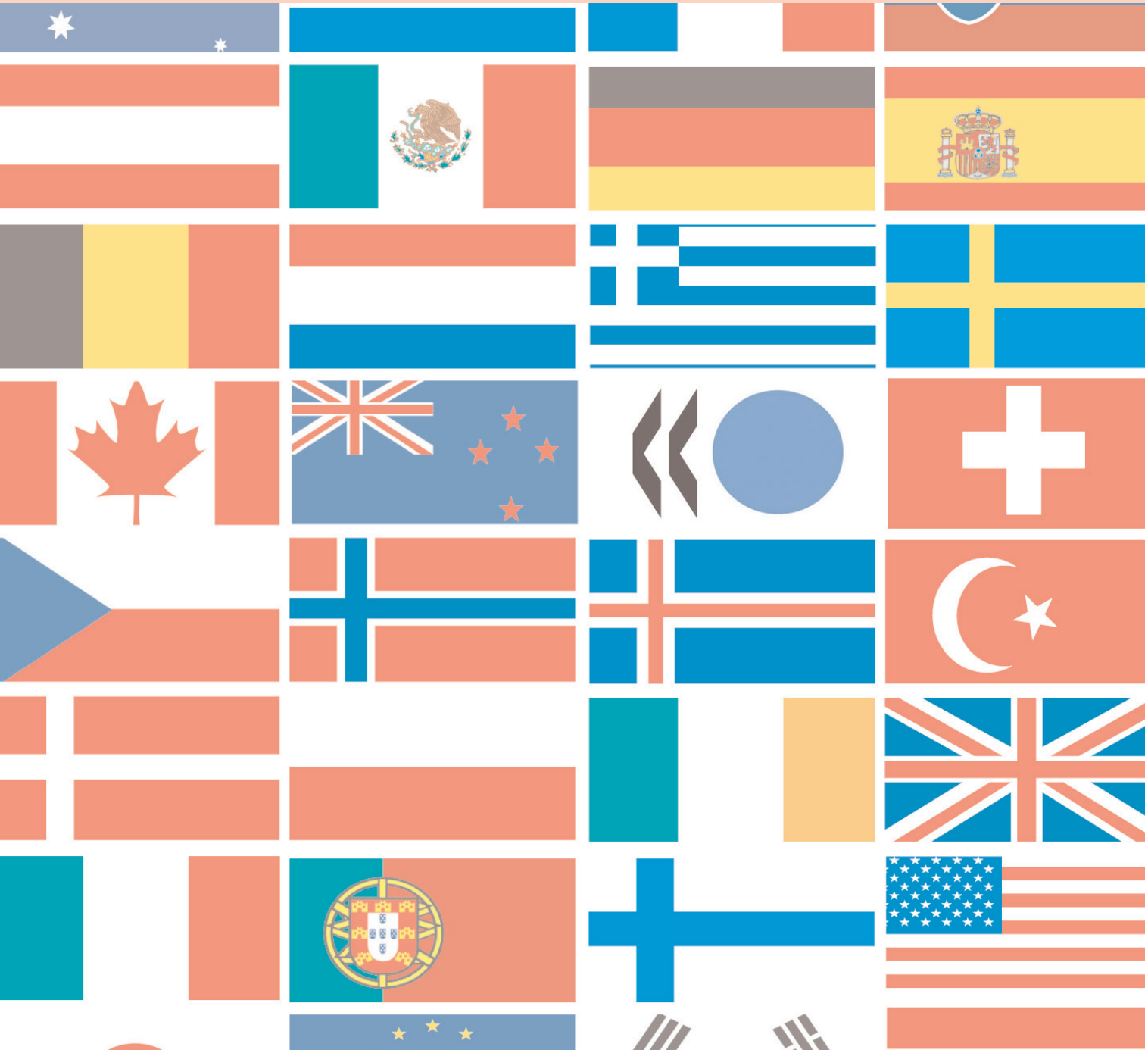
On the other hand, the share of jobs that could be outsourced is rising in the EU15, the study finds, particularly as services employment has risen. This rise backs other evidence to suggest that while European firms may well move some jobs abroad, they often do so within other EU countries. In fact, several OECD countries gain from international outsourcing, with Ireland being a notable recipient.

The jobs that are candidates for offshoring tend to come from tradeable services sectors which have grown strongly in recent years. For example, the shares in business services such as IT and consultancy services, financial services and R&D services, as well as some manufacturing areas, are well above 30%. ■

OECD

SPECIAL FOCUS

Economic outlook 2005-2006



Cautious optimism

The economy is regaining momentum, despite oil turbulence

Jean-Philippe Cotis, OECD Chief Economist

Since the 2001 slowdown, the world economy has moved in fits and starts. Economists as well as the general public are now longing for a smooth and sustained recovery, undisturbed by chronic geopolitical risks or abrupt gyrations in oil prices and financial markets.

Although there have been contrasting economic fortunes over the past few quarters, with the US forging ahead, east Asia slowing but from a rapid pace, and continental Europe plodding along, households seem to have been lacking confidence OECD-wide. This pervasive sense of uncertainty has proved somewhat contagious, since after a year of record growth in world trade, business confidence has fallen back to just above the historical average in the US and Europe, dashing hopes that GDP would keep growing above trend over the next few months.

Compared to cautiously upbeat assessments that could be made even two months ago, this turnaround has been a source of disappointment. It has been prompted in large part by a surge in oil prices that has depressed real incomes as well as confidence in the OECD countries. There are nonetheless good reasons to believe that despite recent oil price turbulence, the world economy will regain momentum in a not-too-distant future.

Jean-Philippe Cotis

Supported by strong balance sheets and high profits, the recovery of business investment should continue in North America and start in earnest in Europe, while consumer spending will benefit from the recent retreat of oil prices to less onerous levels, in a context where job creation is progressively strengthening and monetary conditions remain very accommodating. All in all, there are still some good grounds to expect OECD economies to grow above trend again in the course of 2005 and 2006.

From a geographical perspective, the momentum of this recovery will benefit from continued Asian dynamism, in China, where activity accelerated in the third quarter, following a desirable slowdown during the first half of the year, and Japan, which has staged a spectacular comeback, based on a renewed export drive, broadening into a recovery of investment, employment and finally consumption, before marking a pause over the past few months. The strength of this recovery will also be enhanced by positive developments in North America. But it remains to be seen whether continental Europe will play a strong supportive role through a marked upswing of final domestic demand.

On the latter issue, this *Outlook* takes a reasoned, but positive, bet on Europe. It tables a significant pick-up of final domestic demand in the euro area in 2005-06, while world trade and OECD output would not accelerate over the period. Continental Europe, and more specifically, Germany, would then have to find enough autonomous momentum to achieve a higher relative growth path. For this scenario to materialise, a modicum of stability in oil prices and exchange rates is required, which would allow a less resilient euro area to start catching up with the fast growing economies of the OECD.

A strong appreciation of the euro, in a context of worsening external imbalances, or further rises in oil prices, may thus bear disproportionately on continental Europe, where growth is still over-reliant on exports. However, Europe might not be at such a disadvantage, compared with the rest of the OECD, in coping with higher oil prices. Should an additional oil shock hit, the OECD countries would be less vulnerable than in the past. First, dependence on oil, expressed as a share of GDP, has been halved since the 1970s, leading to a much lower income burden for

There are good reasons to believe that despite recent oil price turbulence, the world economy will regain momentum in a not-too-distant future.

both households and businesses than in the past. Also, and more importantly, inflation expectations are now low and well anchored, so that rising oil prices have only impacted so far on headline inflation, while nominal wages and core inflation barely budged. It would thus be very surprising if OECD countries were to suffer again, as they did in the 1970s, from a nightmarish situation where wages and prices spiral out of control and central banks are forced to switch into severe "tightening mode".

Nonetheless, when it comes to the impact of oil price shifts, the perceptions of economic agents and the received wisdom of economists do not seem to coincide. Estimates derived from econometric models signal a rather modest impact on output and inflation, yet oil price fluctuations take centre stage in the public debate and have a strong influence on confidence.

In this context, it was natural to devote a special chapter of this *Outlook* to the economics of oil. To better understand why oil matters, it is necessary to go beyond the short run. In a world where people are more "forward-looking", uncertainty about future oil prospects may have more of an impact on the current economic situation than, say, month-to-month changes in market prices.

Here, OECD expertise suggests that recent oil prices were certainly well above long-term equilibrium levels, even allowing for strong market power on the part of the OPEC cartel. There are still important resources available on the supply side, especially among OPEC producers, to match increasing demand for oil, and the efficiency of existing facilities could be significantly improved. Furthermore, alternative sources of energy may already become profitable at current prices.

OUTLOOK SUMMARY*

	2004	2005	2006
Real GDP growth (% change)			
United States	4.4	3.3	3.6
Japan	4.0	2.1	2.3
Euro area	1.8	1.9	2.5
Total OECD	**3.6**	**2.9**	**3.1**
Inflation (%)			
United States	2.0	1.8	1.7
Japan	-2.3	-1.3	-0.3
Euro area	1.9	1.7	1.8
Total OECD	**1.8**	**1.7**	**1.7**
Unemployment (%)			
United States	5.5	5.3	5.1
Japan	4.8	4.5	4.2
Euro area	8.8	8.6	8.3
Total OECD	**6.6**	**6.5**	**6.3**
Current account balance (% of GDP)			
United States	-5.7	-6.2	-6.4
Japan	3.5	3.5	3.7
Euro area	0.7	0.6	0.9
Total OECD	**-1.2**	**-1.4**	**-1.3**
Short-term interest rate (%)			
United States	1.5	2.8	3.8
Japan	0.0	0.0	0.4
Euro area	2.1	2.1	2.7
World trade growth (% change)	**9.5**	**9.0**	**9.5**

* Assumptions underlying the projections include: no change in actual and announced fiscal policies; unchanged exchange rates as from 5 November 2005; in particular 1$ = 105.70 yen and 0.771 euros; the cut-off date for other information used in the compilation of the projections is 18 November 2004.

Source: OECD Economic Outlook, No. 76 (preliminary edition) November 2004

This does not mean, however, that oil prices will quickly fall back to the low levels which prevailed three or four years ago. First, the fall may not be rapid in a context where strong geopolitical uncertainty and high price volatility inhibit investment in new oil facilities. Second, looking past the current situation, oil prices will retreat somewhat but are likely to remain higher than during the 1990s.

In this world of durably more expensive oil, demand emanating from dynamic emerging economies will play a strong role in shaping future prices. The importance of emerging economies stems not only from their increasing contribution to world growth, but also (and more importantly) from the fact that, for a given increase in activity, their demand for oil is far larger than the OECD average. Indeed, future oil prices will crucially depend on further progress in energy conservation in emerging economies as well as the US.

Prudent management of non-renewable natural resources is not the only issue that matters for the long-run sustainability of OECD societies. Restoring order to public finances is also of vital importance for the well-being of future generations. In line with previous editorials, it bears repeating that, given existing budgetary plans, most of the largest OECD countries will see no substantial progress in bringing down structural deficits. This is regrettable in a context where pension and healthcare reforms are generating painful debate, and so, progressing with difficulty.

It might be hoped, of course, that prudent people would react to public profligacy by stepping up their own private saving efforts, and there certainly is evidence pointing in this direction. This is indeed the message delivered by the special chapter devoted in this *OECD Economic Outlook* to the long-term impact of fiscal policies. But, as a general rule, private saving does not fully offset public dissaving and this precautionary reaction may be contingent on national and historical circumstances. It is, for instance, hardly discernible in the case of the United States.

At the end of the day, the role of fiscal policy is not to add to the financial pressures arising from ageing populations. It is rather to relieve them, and enable us to take advantage of the ongoing recovery to finally implement gradual but far-reaching retrenchment.■

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• OECD (2004), *Economic Outlook*, No. 76, November 2004 (preliminary edition), available at www.oecd.org/economics
• Cotis, Jean-Philippe (2004), "Resilience and risks", *in OECD Observer,* No. 244, September 2004.

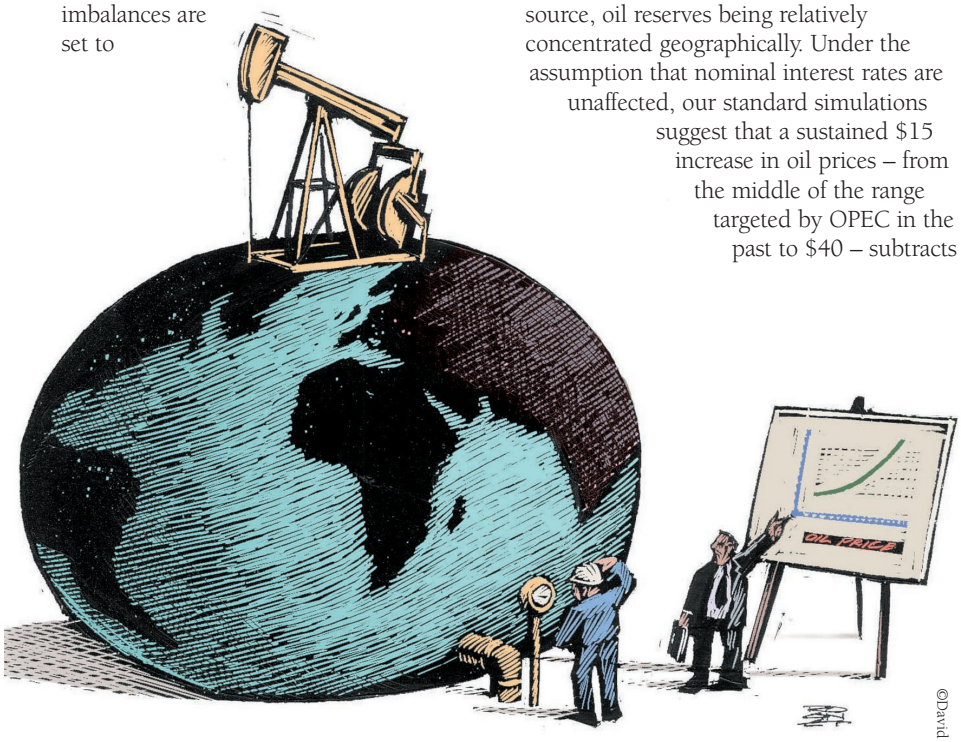
Oil price conundrum

The adverse effects of the oil price shock are currently working their way through. But will prices settle back, or are higher oil prices now a fact of life?

Provided oil prices do not rise above their assumed path, economic expansion should firm during 2005, with the OECD-wide output gap closing towards late 2006. At the same time, headline inflation should slow somewhat in the course of 2005-06, as the first-round impact of the shock fades and on the presumption that second-round effects remain limited. Unemployment will stay relatively high and international imbalances are set to worsen. Some of the near-term indicators suggest weakening momentum.

Partly reflecting the oil price shock and the related uncertainty, business confidence has softened in the United States since early 2004, albeit from high levels. In the euro area at large and Japan, it has improved, although it does not much exceed long-run averages.

The oil price could fall back significantly, consistent with the fact that, either way, spot oil prices appear to have been boosted by a number of short-run factors, but it could also turn out to be higher and more persistent than expected. Supply disruptions reducing daily output by no more than one or two million barrels could lead to substantially higher oil prices. The actual size of a possible further adverse oil price shock would, however, depend on its source, oil reserves being relatively concentrated geographically. Under the assumption that nominal interest rates are unaffected, our standard simulations suggest that a sustained $15 increase in oil prices – from the middle of the range targeted by OPEC in the past to $40 – subtracts some 0.2 percentage point from OECD-wide real GDP growth in the first full year. They also point to a concomitant rise in consumer price inflation of a slightly greater magnitude. Such simulations do not capture possible negative effects, such as the impact a large price shock would have on confidence.



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Have oil prices overshot?

A key question, of course, is whether higher oil prices will persist. Oil price volatility has increased gradually over the past decade and in this context, substantial spikes to the oil price are not particularly unusual. Over the same period, the persistence of oil price shocks has diminished, though it is difficult to predict whether an oil price shock is permanent or transitory. In this context, with oil prices in 2004 reaching levels that have not been seen since the oil price shocks in the 1970s and early 1980s, the question arises whether oil prices will remain this high or revert towards their (lower) longer-term trend.

Oil prices in short-term futures markets reflect temporary risk premia and speculation. With respect to the short-term futures price, the oil market has been in almost continuous strong *backwardation* since 1999, with the current (spot) price being significantly higher than the six-month futures price. This is an unusually long period for backwardation and suggests that current uncertainties are adding a large risk premium to the spot price.

During 2004, fears over the security of supply have surfaced with regularity. Indeed, risk premia have risen with fears of supply disruptions arising from the sabotage of Iraq's oil export infrastructure, attacks on oil workers in Saudi Arabia, the uncertainty over the future of the Russian oil company Yukos – which accounts for

As uncertainty dissipates, the oil price will fall. However, some influences appear likely to be long-lasting.

almost 2% of world production – and threats of supply disruptions in Nigeria and Venezuela. The impact of speculation on oil prices is harder to quantify, but may also account for some of the volatility.

With strong demand and supply tight, even small perturbations to the oil market can induce substantial price movements. In such a volatile market, industry participants have higher desired levels of inventories, and require a larger spot price increase, relative to the forward price, to release stocks to the market. This is the case at the time of writing. Oil industry stocks, having trended downwards over the 1990s, have been low in relation to demand and have reduced the flexibility of supply, but the demand for stocks has built up over the year, putting upward pressure on the oil price.

As uncertainty dissipates, the oil price will fall. However, some influences appear likely to be long-lasting. Over the first half of 2004, strong demand contributed to the strengthening of oil prices. The composition of oil demand in early 2004 reflected stronger than anticipated output growth in dynamic Asian economies, and particularly China. The dynamic Asian economies and China accounted for almost one half of the additional demand, with outturns somewhat higher than industry projections made at the beginning of the year.

Pressures from the demand side are likely to continue, though if high prices persist, the higher long-term price elasticity of demand will lead to lower demand in the future.

Low investment means production capacity is tight. Spare capacity in OPEC countries – principally in Saudi Arabia – has been reduced over the course of the year. As a result, it is estimated that spare capacity in OPEC countries has narrowed to around 1 million barrels per day. (As recently as 2002, OPEC spare capacity exceeded 6 million barrels per day.) At the same time, there has been little spare capacity available outside the OPEC producers to respond to surges in demand.

More recently, in the context of expectations of rising oil prices, investment in exploration and development in non-OPEC countries has picked up relative to activity in the 1990s. But lead times in bringing additional supply to market mean that such investment does little to alleviate pressure in the short run.

In fact, without the increased development of OPEC producers' substantial reserves, supply is likely to remain tight for some time to come.

While price projections for a volatile market are very uncertain, and near-futures prices are poor predictors of the future spot price, several indicators point to expectations that as the influence of short-term factors abates, oil prices will be permanently higher. In the first place, far futures prices (six to seven years out) have risen, whereas, throughout the 1990s, prices for the longest available futures remained very stable at around $20 per barrel. Second, oil company analysts have raised their longer-term price expectations by around $5 per barrel since the beginning of the decade. Equity investors' valuations of oil company assets have also apparently risen, in line with expectations of higher oil prices.

Taken together, these factors suggest that, though prices will fall from current levels as the impact of short-term factors dissipates, some elements behind the recent rise will have a longer-lasting impact. ■

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• See "Oil Price Developments: Drivers, Economic Consequences and Policy Responses" *OECD Economic Outlook,* No 76 (preliminary edition), November 2004.


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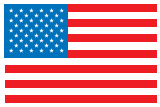
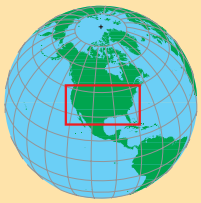


United States
Deficits remain large

The expansion has lost some momentum, in part as a consequence of the energy price increases. These have already held back real disposable income gains and, with household savings near zero, are likely to weigh on consumption. Core inflation, which rose earlier in the year, has since fallen back towards the lower end of the desirable range. Productivity has decelerated towards trend growth, but profit margins remain high, supporting future investment. The economy is expected to keep growing above potential. However, further sustained increases in energy prices, weakness in the labour market, or a sharper than projected rise in long-term interest rates pose downside risks.

Although some stimulus has been removed, monetary policy remains supportive. Future tightening can afford to be gradual, as higher energy prices are restraining activity more than boosting inflation expectations. Government finances have improved more than expected, but faster revenue growth has been partly offset by higher spending, especially on defence and homeland security. Projected deficits thus remain large, underlining the need to adjust tax and spending levels to rein in the debt accumulation and prepare for impending demographic pressures. This might also lessen the record external imbalance.

KEY ECONOMIC FORECAST & INDICATORS

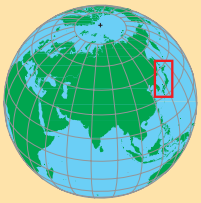


Population (000s) 2003	291 049
Area (000 sq km)	9 372
Currency	Dollar
GDP (Billion USD) - 2003	10 933.5
Life expectancy at birth (Women, Men) - 2001	79.8, 74.4
Total labour force (000s) 2003	147 701
Government type	Federal Republic

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	4.4	3.3	3.6
Household savings ratio	0.8	0.5	1.2
Consumer price index	2.6	2.4	2.1
Short-term interest rate (%)	1.5	2.8	3.8
Unemployment rate (%)	5.5	5.3	5.1
General government financial balance (% GDP)	-4.4	-4.1	-4.2
Current account balance (% GDP)	-5.7	-6.2	-6.4

Source: OECD

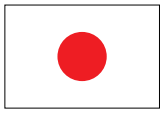
KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	127 619
Area (000 sq km)	378
Currency	Yen
GDP (Billion USD) - 2003	4 300.9
Life expectancy at birth (Women, Men) - 2002	85.2, 78.3
Total labour force (000s) 2003	66 660
Government type	Constitutional Monarchy

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	4.0	2.1	2.3
Household savings ratio	5.1	5.0	5.0
Consumer price index	-0.1	0.1	0.6
Short-term interest rate (%)	0.0	0.0	0.4
Unemployment rate (%)	4.8	4.5	4.2
General government financial balance (% GDP)	-6.5	-6.4	-6.3
Current account balance (% GDP)	3.5	3.5	3.7

Source: OECD

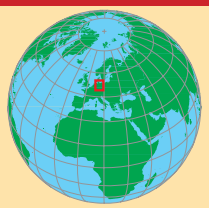


Japan
Recovery continues

The economic expansion remains on track, though at a more moderate pace as a result of a slowdown in export growth. The resilience of domestic demand, reflecting the increased profitability of the corporate sector and employment gains, should help sustain growth at an annual rate of around 2.25% through 2005 and 2006. The expansion, the strongest since the 1980s, is expected to bring an end to deflation, as measured by the consumer price index, in the course of 2005.

The Bank of Japan's policy of quantitative easing and zero interest rates should continue until inflation is sufficiently high to make the risk of renewed deflation negligible. A detailed and credible consolidation plan to achieve the government's goal of a primary budget surplus by the early 2010s is necessary for confidence in fiscal sustainability. Further progress in reforming the banking sector is important to bolster the recovery and should be accompanied by an acceleration of a broad structural reform programme to increase productivity.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	82 502
Area (000 sq km)	357
Currency	Euro
GDP (Billion USD) - 2003	2 401.9
Life expectancy at birth (Women, Men) - 2001	81.3, 75.6
Total labour force (000s) 2003	39 507
Government type	Federal Republic

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	1.2	1.4	2.3
Household savings ratio	11.1	11.1	10.8
Consumer price index	1.7	1.3	0.6
Short-term interest rate (%)	2.1	2.1	2.7
Unemployment rate (%)	9.2	9.3	8.9
General government financial balance (% GDP)	-3.9	-3.5	-2.7
Current account balance (% GDP)	3.3	3.9	4.7

Source: OECD

Germany
Stronger investment

Based on strong export growth, the German economy is recovering from three years of stagnation. Weak domestic demand is still weighing on activity although there are signs that investment is strengthening. The upswing should broaden in 2005, as consumer confidence gradually improves. In 2006 GDP is projected to grow by 2.25%, above potential. The general government deficit is likely to remain between 3.5% and 4% of GDP this year and next, not falling below 3% before 2006.

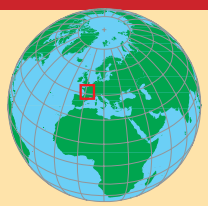
Major reforms of labour and product markets are being phased in. While the short-run impacts on confidence and growth are ambiguous, it is clear that for economic performance to be raised in a durable way these reforms need to be continued and deepened within a coherent framework. Fiscal consolidation needs to be linked to more fundamental spending reform, requiring, for instance, the untangling of responsibilities across different levels of government, more determined reductions in both subsidies and tax expenditures and continued reform of the social security system.

France
Unemployment should fall

Having slowed in the second half of 2004, the upswing should pick up again in 2005 when the effects of oil price increases begin to wane. Both foreign and private domestic demand remain robust so that employment growth is likely to pick up during 2005, and unemployment should fall. Productivity growth and continued wage moderation will allow core inflation to remain low.

Public finances are set to improve slowly, in part reflecting inclusion of a large capital transaction as revenue in the 2005 budget. But the 2005 deficit may exceed government targets. Nevertheless, an improvement in public finances should follow from reforms in central government spending control and healthcare expenditure management. These reforms will require sustained efforts to change underlying incentives if good intentions are not to be undermined. Having shown that lower employers' contributions can improve employment prospects, the government should seek to extend these and other labour market reforms.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	59 767
Area (000 sq km)	549
Currency	Euro
GDP (Billion USD) - 2003	1 757.5
Life expectancy at birth (Women, Men) - 2002	82.9, 75.6
Total labour force (000s) 2003	27 215
Government type	Republic

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	2.1	2.0	2.3
Household savings ratio	10.2	9.9	9.6
Consumer price index	2.3	1.8	1.8
Short-term interest rate (%)	2.1	2.1	2.7
Unemployment rate (%)	9.8	9.7	9.2
General government financial balance (% GDP)	-3.7	-3.1	-2.9
Current account balance (% GDP)	0.2	0.2	0.6

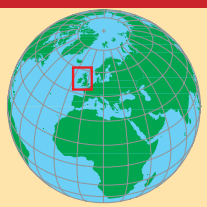
Source: OECD

United Kingdom
Housing market risk

Recent signs that growth is slowing from above-trend rates are welcome as the economy is probably operating close to capacity. Future growth is likely to be less reliant on consumption and more driven by investment, with net exports being much less of a drag. Instability stemming from the housing market remains a risk, although it may be smaller than at previous house price peaks.

The slowdown and continuing low inflation warrant a pause in monetary tightening, although further tightening may be needed during 2005, in particular due to increasing pressures from the labour market. The government deficit is likely to be above 3% of GDP in 2004 and, in the absence of a spontaneous rise in taxes, additional action may be required to achieve a decisive and sustainable reduction.

KEY ECONOMIC FORECAST & INDICATORS

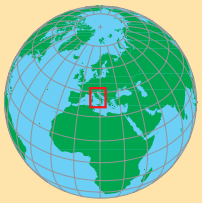


Population (000s) 2003	60 483
Area (000 sq km)	245
Currency	Pound
GDP (Billion USD) - 2003	1 795.0
Life expectancy at birth (Women, Men) - 2001	80.4, 75.7
Total labour force (000s) 2003	30 178
Government type	Constitutional Monarchy

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	3.2	2.6	2.4
Household savings ratio	6.4	7.4	7.9
Consumer price index	1.3	1.7	2.1
Short-term interest rate (%)	4.6	5.5	5.8
Unemployment rate (%)	4.7	4.7	5.0
General government financial balance (% GDP)	-3.2	-3.2	-3.3
Current account balance (% GDP)	-2.2	-2.4	-2.2

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	57 478
Area (000 sq km)	301
Currency	Euro
GDP (Billion USD) - 2003	1 468.3
Life expectancy at birth (Women, Men) - 2002	82.9, 76.8
Total labour force (000s) 2003	24 229
Government type	Republic

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	1.3	1.7	2.1
Household savings ratio	11.3	10.9	10.3
Consumer price index	2.1	2.5	2.2
Short-term interest rate (%)	2.1	2.1	2.7
Unemployment rate (%)	8.1	7.5	7.3
General government financial balance (% GDP)	-2.9	-3.1	-3.6
Current account balance (% GDP)	-0.5	-1.6	-1.9

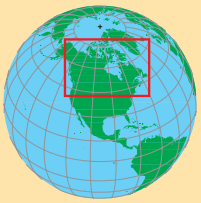
Source: OECD

Italy
Inflation could rise

Exports and investment activity rose markedly in the first half of 2004, ending their protracted slump. Domestic demand will sustain the recovery, though the pass-through of higher oil prices may restrain demand growth temporarily. GDP growth of 1.5% to 2% is projected over 2005-06, which would be above the estimated rate of potential. Inflation could start to rise again as the output gap closes.

A planned tax cut in 2005-06 and a pension reform as of 2008 could improve the conditions for growth, but a sustained public debt decline will be a *sine qua non* for building private agents' confidence, so that more and earlier public spending reforms are needed. Competition reforms in service sectors, including energy, transport, finance and education, could help to narrow the inflation gap with euro area partners, while also spurring innovation and a more competitive export structure.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	31 630
Area (000 sq km)	9 976
Currency	Dollar
GDP (Billion USD) - 2003	856.6
Life expectancy at birth (Women, Men) - 2001	82.2, 77.1
Total labour force (000s) 2003	17 102
Government type	Confederation

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	3.0	3.3	3.1
Household savings ratio	1.5	1.6	1.7
Consumer price index	1.9	2.0	1.8
Short-term interest rate (%)	2.5	3.5	4.2
Unemployment rate (%)	7.2	7.1	7.2
General government financial balance (% GDP)	1.1	1.2	1.0
Current account balance (% GDP)	3.4	3.9	4.3

Source: OECD

Canada
Interest rate pressure

Growth has been higher than expected so far this year, and the economy is now estimated to be operating close to full capacity. The pace of activity should remain buoyant up to the beginning of 2005, before cooling down to near potential rates of around 3%. With soaring oil prices and easing capacity constraints, inflation is expected to hover above the mid-point of the target range until next year.

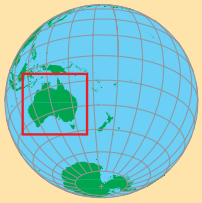
The Bank of Canada needs to continue raising interest rates toward their neutral level to ensure adherence to the inflation target. The government should avoid any easing of the fiscal stance at this juncture, despite the unexpectedly large surplus recorded for the last fiscal year. Great vigilance should be exercised over spending, in particular with regard to additional transfers from federal to lower levels of government.

Australia
Export led

Economic growth remained robust in the first half of 2004, boosted by domestic spending, and despite the ongoing drag from the foreign balance. Continued strong growth is expected in 2005 and 2006, with improving net exports offsetting the projected weakening in household consumption and residential investment. This should be accompanied by further employment gains and inflation staying within the Reserve Bank's 2%-3% target band, underpinned by moderate wage increases and solid productivity growth.

The upbeat economic outlook should allow the removal of the remaining monetary stimulus, to safeguard price stability. The projected small fiscal surpluses over coming years are appropriate, leaving room for automatic stabilisers to operate if the global recovery weakens or another drought develops in rural areas.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	19 881
Area (000 sq km)	7 687
Currency	Dollar
GDP (Billion USD) - 2003	518.7
Life expectancy at birth (Women, Men) - 2002	82.6, 77.4
Total labour force (000s) 2003	10 016
Government type	Independent Federal State, UK Monarch

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	3.6	3.8	3.6
Household savings ratio	-2.1	-1.8	-1.4
Consumer price index	2.3	2.4	2.6
Short-term interest rate (%)	5.5	5.9	6.1
Unemployment rate (%)	5.6	5.5	5.5
General government financial balance (% GDP)	0.7	0.4	0.5
Current account balance (% GDP)	-5.5	-4.9	-4.6

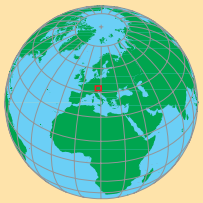
Source: OECD

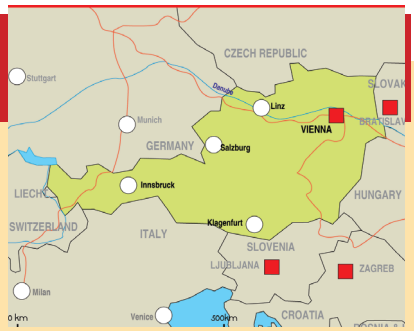
Austria
Large growth stimulus

Output growth is projected to increase gradually, in line with the recovery in the euro area, allowing unemployment to fall in 2006. Notwithstanding progress in reducing the relatively high level of government spending, tax reductions in 2005 and 2006 will be mostly deficit-financed, providing a comparatively large stimulus to growth.

While the planned pension harmonisation will dampen ageing-related spending in the future, substantial further reductions in general government outlays will be needed to ensure the long-run sustainability of government finances, while further steps to improve incentives to work among older workers and women would help offset any adverse economic impact of ongoing demographic change.

KEY ECONOMIC FORECAST & INDICATORS





Population (000s) 2003	8 067
Area (000 sq km)	84
Currency	Euro
GDP (Billion USD) - 2003	253.1
Life expectancy at birth (Women, Men) - 2002	81.7, 75.8
Total labour force (000s) 2003	3 967
Government type	Federal Republic

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	1.8	2.3	2.6
Household savings ratio	8.3	8.8	8.8
Consumer price index	1.9	1.9	1.4
Short-term interest rate (%)	2.1	2.1	2.7
Unemployment rate (%)	5.8	5.8	5.5
General government financial balance (% GDP)	-1.5	-2.1	-2.1
Current account balance (% GDP)	-0.1	0.0	0.1

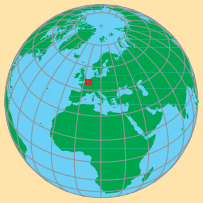
Source: OECD

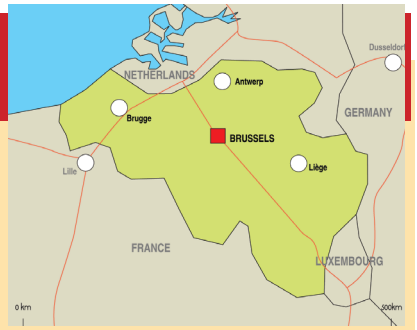
Belgium
Raise labour participation

Economic growth is expected to ease somewhat in 2005 but strengthen to 2.75% in 2006 as export markets remain buoyant and business investment picks up. The unemployment rate should fall to 7.25% by 2006, with the underlying inflation rate remaining at around 1.75% as the unfavourable effects of the increase in energy prices fade, but the economy moves from below to above-potential growth. If the euro proved to be stronger than assumed, growth and inflation would be lower.

Further efforts are needed to ensure that the budget remains balanced. Measures should focus on expenditure restraint, as planned, since the high tax burden on labour discourages work effort. Further reforms are also needed to reduce incentives for early retirement and raise the participation rate.

KEY ECONOMIC FORECAST & INDICATORS



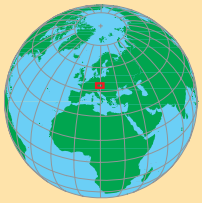


Population (000s) 2003	10 372
Area (000 sq km)	31
Currency	Euro
GDP (Billion USD) - 2003	301.9
Life expectancy at birth (Women, Men) - 2002	81.1, 75.1
Total labour force (000s) 2003	4 531
Government type	Constitutional Monarchy

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	2.7	2.4	2.7
Household savings ratio	13.8	13.4	13.9
Consumer price index	1.9	2.2	1.9
Short-term interest rate (%)	2.1	2.1	2.7
Unemployment rate (%)	7.7	7.6	7.3
General government financial balance (% GDP)	-0.1	-0.4	-0.5
Current account balance (% GDP)	3.7	3.1	4.0

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	10 202
Area (000 sq km)	79
Currency	Koruna
GDP (Billion USD) - 2003	85.4
Life expectancy at birth (Women, Men) - 2002	78.7, 72.1
Total labour force (000s) 2003	5 132
Government	Parliamentary Democracy

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	3.9	4.2	4.1
Consumer price index	2.9	3.1	3.0
Short-term interest rate (%)	2.4	3.0	3.2
Unemployment rate (%)	8.4	8.3	8.2
General government financial balance (% GDP)	-4.3	-4.6	-3.9
Current account balance (% GDP)	-6.5	-6.6	-6.5

Source: OECD

Czech Republic
Inflation risk

Driven by buoyant exports and strong private investment, output growth has gained momentum and should reach about 4% this year, and in 2005 and 2006. Employment growth is likely to be muted, though nevertheless allowing for a slight decline in unemployment. Inflation will remain close to 3%.

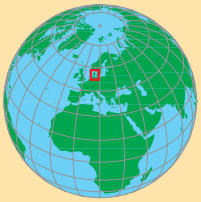
The momentum of fiscal reform needs to be boosted. A new budgeting framework has been introduced and needs to be effectively implemented. Also, concrete progress is needed on pension and healthcare reform. Monetary policy looks set to remain neutral in the near term, although there are upside risks to inflation. Structural reforms to improve the business environment are needed to enable rapid real convergence.

Denmark
Bright prospects

The economy has continued to recover in 2004 due to a strong pick-up in private consumption and exports. Prospects look bright for 2005 and 2006, as business investment should add to activity on top of continued solid household spending and fast-growing export demand. The labour market is gradually improving, but inflationary pressures are likely to remain contained until 2006 when slack in labour and product markets is expected to disappear.

The outlook is very much shaped by the 2004 fiscal easing, which provided a large boost to household disposable income. Monetary policy settings are currently supportive of growth, but will become less so by 2006, as the European Central Bank gradually raises interest rates and Denmark (which is not in the euro area) follows suit. Further initiatives to increase labour force participation would help to sustain the upturn and bring employment closer to the government's medium-term target.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	5 387
Area (000 sq km)	43
Currency	Krone
GDP (Billion USD) - 2003	212.3
Life expectancy at birth (Women, Men) - 2002	79.5, 74.8
Total labour force (000s) 2003	2 850
Government type	Constitutional Monarchy

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	2.4	2.7	2.6
Household savings ratio	-0.3	-1.6	-1.3
Consumer price index	1.2	1.7	2.0
Short-term interest rate (%)	2.1	2.2	2.7
Unemployment rate (%)	5.8	5.3	4.9
General government financial balance (% GDP)	0.9	1.4	1.5
Current account balance (% GDP)	3.1	3.1	3.4

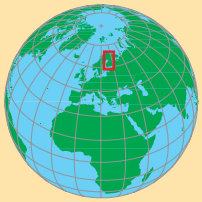
Source: OECD

Finland
Investment revival

With output close to its potential, Finland is in a more favourable cyclical position than the rest of the euro area on average. The pick-up in world trade and a revival in business investment are expected to become increasingly important as drivers of growth, which should average about 3% a year to 2006.

A moderate wage settlement would allow cuts in labour taxation without compromising aggregate fiscal objectives. However, efficiency gains in the public sector and greater private service provision are required to create room for further tax cuts. Additional reforms, particularly a tightening of conditions applying to early retirement schemes, are needed to achieve the government's employment target.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	5 213
Area (000 sq km)	338
Currency	Euro
GDP (Billion USD) - 2003	160.8
Life expectancy at birth (Women, Men) - 2002	81.5, 74.9
Total labour force (000s) 2003	2 620
Government type	Republic

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	3.1	2.8	3.1
Consumer price index	0.2	1.7	1.9
Short-term interest rate (%)	2.1	2.1	2.7
Unemployment rate (%)	8.9	8.7	8.2
General government financial balance (% GDP)	2.3	2.1	2.3
Current account balance (% GDP)	4.9	4.9	5.0

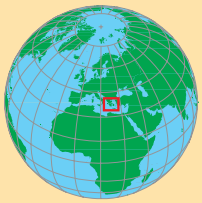
Source: OECD

Greece
Post-Olympic easing

Buoyant domestic demand enabled Greece to maintain brisk growth in the first three quarters of 2004. GDP growth is set to ease to 3.25% in 2005, as strong Olympics-related investment comes to an end and fiscal policy tightens, but it should pick up again in 2006. Inflation is expected to increase, reflecting strong demand and higher oil prices, averaging around 3.25% over the next two years.

The recently-revealed sharp deterioration in the fiscal position underlines the need for substantial retrenchment in public expenditure to put public finances on a sustainable path. This should be complemented by improved administrative efficiency and decisive reforms of the pension and health systems. Measures to enhance labour market flexibility and increase product market competition are also required to reduce the inflation differential with the euro area.

KEY ECONOMIC FORECAST & INDICATORS

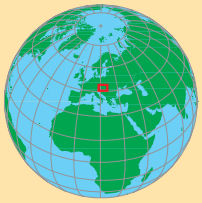


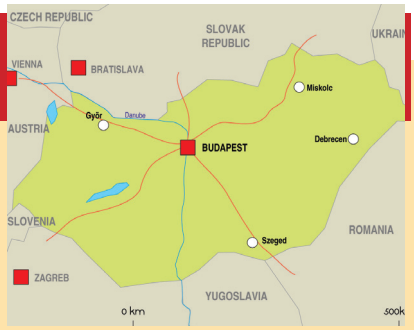
Population (000s) 2003	11 036
Area (000 sq km)	132
Currency	Euro
GDP (Billion USD) - 2003	172.7
Life expectancy at birth (Women, Men) - 2002	80.7, 75.4
Total labour force (000s) 2003	4 507
Government type	Republic

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	3.8	3.2	3.5
Consumer price index	3.1	3.4	3.2
Short-term interest rate (%)	2.1	2.1	2.7
Unemployment rate (%)	9.1	8.9	8.7
General government financial balance (% GDP)	-5.3	-3.5	-3.2
Current account balance (% GDP)	-6.0	-5.8	-5.6

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS





Population (000s) 2003	10 124
Area (000 sq km)	93
Currency	Forint
GDP (Billion USD) - 2003	82.8
Life expectancy at birth (Women, Men) - 2002	76.7, 68.4
Total labour force (000s) 2003	4 166
Government type	Parliamentary Democracy

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	3.9	3.6	3.5
Consumer price index	6.9	4.7	4.5
Short-term interest rate (%)	11.5	10.0	8.7
Unemployment rate (%)	5.9	5.7	5.6
General government financial balance (% GDP)	-5.4	-4.9	-4.5
Current account balance (% GDP)	-9.1	-8.5	-8.2

Source: OECD

Hungary
Improve fiscal credibility

Output growth of close to 4% is expected in 2004, easing to around 3.5% in 2005 and 2006, with some reduction in the exceptionally rapid pace of export growth and a further slowdown in consumption growth. Inflation is expected to come down rapidly in the near term, as the impact from one-off increases in indirect taxes fades; it is expected to continue to fall, though at a slower pace, in 2005 and 2006, despite higher oil prices.

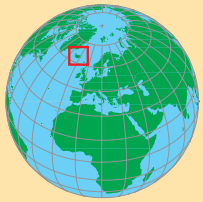
Although a reduction in the government's budget deficit is expected this year, a large gap remains between ambitions and outcomes in fiscal policy, making co-ordination of macroeconomic policy more difficult and raising risk premiums. The new government should switch to a more credible fiscal strategy that sets more realistic targets and backs them up with a stronger commitment to sustainable spending cuts.

Iceland
Avoid overheating

The economic expansion has continued to gather momentum, broadening from buoyant domestic demand to exports. Even though the economy has not yet entered the most intensive phase of the large-scale aluminium-related investment projects and the labour market is still relatively weak, a sizeable external deficit and inflation pressures have re-emerged.

Further substantial interest-rate increases will be needed to prevent a recurrence of the overheating that took place at the turn of the century. A tight fiscal stance during the investment boom is essential, as it would alleviate the burden on monetary policy to safeguard price stability without the need for excessively high interest rates, upward pressure on the exchange rate and a squeeze on the exposed sector of the economy. Planned tax cuts should therefore be postponed.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	289
Area (000 sq km)	103
Currency	Krona
GDP (Billion USD) - 2003	10.6
Life expectancy at birth (Women, Men) - 2002	82.3, 78.5
Total labour force (000s) 2003	162
Government type	Constitutional Republic

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	5.9	5.2	4.8
Consumer price index	3.1	3.9	3.9
Short-term interest rate (%)	6.2	8.7	8.8
Unemployment rate (%)	3.1	2.9	2.6
General government financial balance (% GDP)	0.1	1.2	1.0
Current account balance (% GDP)	-8.5	-11.0	-11.6

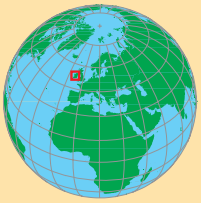
Source: OECD

Ireland
Some vulnerability

The economy has bounced back. Output is estimated to rise by 5% in 2004 and is set to expand roughly at that pace in 2005 and 2006, driven by buoyant net exports and consumption. The Irish economy continues to experience an impressive performance in terms of employment and labour productivity growth, but the "Celtic tiger" era of double digit growth rates belongs to the past. With excess demand persisting, inflationary pressures are expected to rebuild gradually. The economy is vulnerable to a rise in the euro exchange rate or in interest rates.

Curbing inflation pressures in the medium term should rely on unleashing market forces in services, including in network industries and the liberal professions, and easing regulations in retail trade. Wage moderation should also be encouraged. The *OECD Economic Outlook* projections are based on the assumption of a soft landing in the housing market.

KEY ECONOMIC FORECAST & INDICATORS

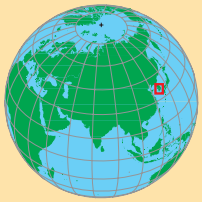


Population (000s) 2003	3 953
Area (000 sq km)	70
Currency	Euro
GDP (Billion USD) - 2003	152.1
Life expectancy at birth (Women, Men) - 2002	80.3, 75.2
Total labour force (000s) 2003	1 860
Government type	Republic

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	4.9	5.5	4.9
Consumer price index	2.4	2.8	2.9
Short-term interest rate (%)	2.1	2.1	2.7
Unemployment rate (%)	4.4	4.1	4.0
General government financial balance (% GDP)	0.2	-0.1	-0.4
Current account balance (% GDP)	-0.6	-0.1	0.1

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	47 925
Area (000 sq km)	100
Currency	Won
GDP (Billion USD) - 2003	605.4
Life expectancy at birth (Women, Men) - 2001	80.0, 72.8
Total labour force (000s) 2003	22 916
Government type	Republic

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	5.0	4.5	5.0
Household savings ratio	3.4	3.7	5.1
Consumer price index	3.7	3.5	3.0
Short-term interest rate (%)	3.8	3.7	3.9
Unemployment rate (%)	3.5	3.5	3.4
General government financial balance (% GDP)	3.4	3.4	3.4
Current account balance (% GDP)	3.7	2.7	2.7

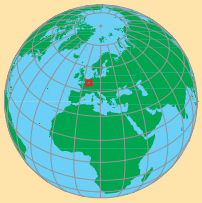
Source: OECD

Korea
Reform a top priority

Exports, driven in large part by China, are sustaining the expansion during a period of weak private consumption in the wake of the household credit bubble. Although export growth is now moderating, a pick-up in domestic demand, led initially by investment, is expected to maintain economic growth in the 4-5% range in 2005 and 2006. A slowdown in world trade growth before domestic demand revives would pose a threat to a continued expansion.

Given the structural causes of weak domestic demand, further progress in the reform agenda, notably by increasing flexibility in the labour market and addressing the problems of the credit card companies, should be the top priority. Monetary policy should maintain its expansionary stance until domestic demand recovers, while automatic fiscal stabilisers should be allowed to function.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	452
Area (000 sq km)	3
Currency	Euro
GDP (Billion USD) - 2003	27.0
Life expectancy at birth (Women, Men) - 2002	81.5, 74.9
Total labour force (000s) 2003	302
Government type	Constitutional Monarchy

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	4.2	4.5	4.3
Consumer price index	3.5	2.3	2.0
Short-term interest rate (%)	2.1	2.1	2.7
Unemployment rate (%)	4.2	4.2	4.2
General government financial balance (% GDP)	-0.4	-0.8	-1.2
Current account balance (% GDP)	8.8	10.6	11.1

Source: OECD

Luxembourg
Confidence rises

Export-led growth has resulted in a brisk economic upswing with GDP growth rates expected to exceed 4% in 2004 and the following two years. The trend rise in unemployment is likely to come to an end as of early 2005. The confidence indicator for industry has gone up sharply since the middle of this year in response to a more favourable economic outlook. Consumer confidence is following the same upward trend. There is a risk that a stronger than expected appreciation of the euro exchange rate would temper export growth and inflation. But conversely, a stronger-than-projected recovery of world financial markets would boost financial service exports and overall growth.

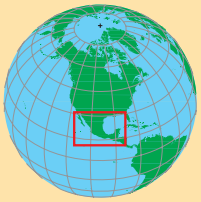
The government should take advantage of the economic upturn both to revise its spending programmes in line with more moderate medium-term growth prospects and to tackle structural unemployment.

Mexico
Oil and US-driven recovery

A strong recovery is finally under way, fuelled by the upturn in the US manufacturing sector and high oil prices. Growth prospects are expected to remain bright as domestic demand offsets the projected slowdown of foreign demand. Headline inflation has risen, mostly reflecting erratic factors, but core inflation has also turned up.

Faced with rising inflation expectations, the successive moves to tighten the monetary policy stance during 2004 have been appropriate. On the fiscal front, the 2004 budget target will be easily met, thanks to higher-than-projected oil revenues. The supportive revenue environment should continue to be used to consolidate public finances. A revenue-enhancing tax reform is required to reduce the vulnerability of public finances to oil price changes.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	102 708
Area (000 sq km)	1 996
Currency	Peso
GDP (Billion USD) - 2003	625.6
Life expectancy at birth (Women, Men) - 2002	77.1, 72.1
Total labour force (000s) 2003	40 745
Government type	Federal Republic

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	4.2	3.9	4.2
Consumer price index	4.6	4.5	3.4
Short-term interest rate (%)	6.8	7.8	8.1
Unemployment rate (%)	2.4	2.3	2.3
Current account balance (% GDP)	-1.4	-1.5	-1.9

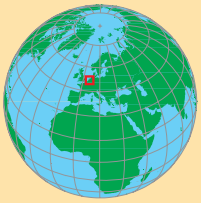
Source: OECD

Netherlands
Ending a long and severe recession

The economy is gradually recovering from a long and severe recession. Real GDP is likely to grow by 1.25% in 2004 and 2005, accelerating to 2.25% in 2006, which would still leave a large negative output gap. Modest wage growth, needed to restore international competitiveness, and only gradually accelerating employment account for the delayed return of private consumption to trend growth. The unemployment rate will increase temporarily as a consequence of supply-side reforms, helping core inflation to edge down further.

There is a risk that the additional labour supply resulting from the current social benefit reforms may not be fully absorbed at current wage rates. Hence, the government should complement these reforms with measures increasing wage flexibility, aimed at enhancing employment prospects for low-skilled workers. The general government budget deficit reached 3.2% of GDP in 2003 and needs to come down to 3% or less by no later than in 2005. It is likely that this goal will be achieved in 2004.

KEY ECONOMIC FORECAST & INDICATORS

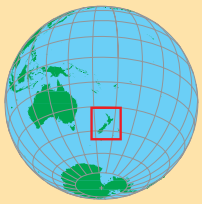


Population (000s) 2003	16 224
Area (000 sq km)	41
Currency	Euro
GDP (Billion USD) - 2003	512.7
Life expectancy at birth (Women, Men) - 2002	80.7, 76.0
Total labour force (000s) 2003	8 287
Government type	Constitutional Monarchy

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	1.2	1.2	2.4
Household savings ratio	10.7	10.7	9.9
Consumer price index	1.3	2.1	1.6
Short-term interest rate (%)	2.1	2.1	2.7
Unemployment rate (%)	4.9	5.2	5.0
General government financial balance (% GDP)	-2.9	-2.7	-1.9
Current account balance (% GDP)	4.2	4.2	4.4

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	4 009
Area (000 sq km)	269
Currency	Dollar
GDP (Billion USD) - 2003	79.0
Life expectancy at birth (Women, Men) - 2001	80.9, 76.0
Total labour force (000s) 2003	2 024
Government type	Parliamentary Democracy

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	4.8	2.1	2.6
Consumer price index	2.3	3.0	2.8
Short-term interest rate (%)	6.1	6.7	6.7
Unemployment rate (%)	4.1	4.2	4.2
General government financial balance (% GDP)	2.9	2.1	1.9
Current account balance (% GDP)	-5.1	-5.3	-5.0

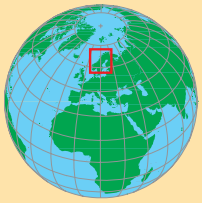
Source: OECD

New Zealand
On track for a soft landing

The economy grew very rapidly in the first half of the year, adding to an already positive output gap and inflation pressures. However, the pace of activity is now starting to slow, as higher interest rates dampen domestic demand and the effects of exchange rate appreciation continue to spread through the economy. Labour shortages persist and real wage growth may accelerate, although capacity constraints will be eased through high rates of investment.

The economy is on track for a soft landing, and successive moves taken to tighten monetary policy during 2004 should prove to be sufficient. Additional fiscal stimulus at this point in the cycle would be unhelpful and would anyway need to be offset by higher interest rates in order to bring the economy back onto a sustainable growth path.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	4 564
Area (000 sq km)	324
Currency	Krone
GDP (Billion USD) - 2002	220.9
Life expectancy at birth (Women, Men) - 2002	81.5, 76.4
Total labour force (000s) 2003	2 375
Government type	Constitutional Monarchy

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	3.2	3.2	2.9
Household savings ratio	7.5	7.7	7.8
Consumer price index	0.5	1.9	2.1
Short-term interest rate (%)	2.0	2.0	2.6
Unemployment rate (%)	4.4	4.2	4.1
General government financial balance (% GDP)	8.2	10.5	11.4
Current account balance (% GDP)	14.2	16.3	16.4

Source: OECD

Norway
Excess demand pressures

A domestic-demand-led recovery is gaining momentum, based on strengthened oil investments, low interest rates and an expansionary fiscal policy. The negative output gap is expected to reverse in 2005. The external sector should start contributing positively to growth. Core inflation is projected to rise as a result of excess demand, but is expected to reach the middle of the range targeted by the Central Bank only by end-2006.

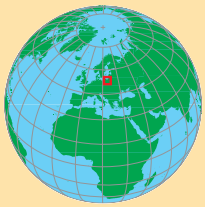
Monetary policy should be geared towards reaching the inflation target by maintaining low interest rates throughout the projection period. Fiscal policy should return rapidly to the fiscal rule (structural non-oil deficit equal to the expected real return on the petroleum fund over time) to help avoid overheating and appreciation of the krone, and to contribute to a more equitable use of oil resources over time.

Poland
Monitor spending closely

GDP increased markedly in the first half of 2004, driven by strong increases in inventories and exports. Activity should continue to be robust in 2005, although less so than in the beginning of 2004. Export growth should decrease slightly, in part due to recent appreciation of the zloty. An investment recovery is under way, but is likely to gain force only in 2006. Employment is expected to expand moderately in 2005, and more robustly in 2006, as investment picks up.

The effect on the budget deficit of a relaxation of government spending in 2004 has been partly offset by robust growth; with the moderation of GDP growth projected by the OECD, public expenditure targets will need to be monitored closely and even reinforced if medium-term fiscal sustainability is to be preserved. Although the upturn in headline inflation may be only temporary, increases in central bank interest rates have been appropriate in the light of wage growth and the budgetary position. Further increases may be necessary if inflationary pressures continue.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	38 195
Area (000 sq km)	313
Currency	Zloty
GDP (Billion USD) - 2003	209.5
Life expectancy at birth (Women, Men) - 2002	78.7, 70.4
Total labour force (000s) 2002	17 009
Government type	Republic

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	5.4	4.3	4.5
Consumer price index	3.3	3.0	3.4
Short-term interest rate (%)	6.4	7.5	7.5
Unemployment rate (%)	19.1	18.4	17.6
General government financial balance (% GDP)	-5.4	-4.7	-4.3
Current account balance (% GDP)	-1.5	-2.1	-2.2

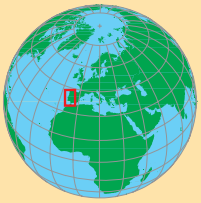
Source: OECD

Portugal
Below potential

The Portuguese economy emerged from recession in 2004, driven by exports and private domestic demand. Real GDP growth is expected to pick up further and reach 2.75% in 2006. By any measure, the economy would still not be operating at its potential at the end of the projection period. As a result the inflation differential vis-à-vis the euro area should remain small.

Fiscal consolidation remains a challenge for policymakers. Reliance on large one-off measures to keep the deficit below 3% of GDP has become the norm since 2002. These should be replaced by strict controls on spending and the implementation of already-approved reforms should be accelerated. A radical reform of the pension system is also needed to ensure the long-term sustainability of public finances.

KEY ECONOMIC FORECAST & INDICATORS

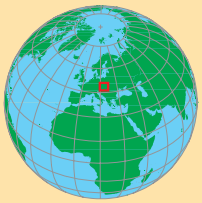


Population (000s) 2003	10 449
Area (000 sq km)	92
Currency	Euro
GDP (Billion USD) - 2003	146.8
Life expectancy at birth (Women, Men) - 2002	80.5, 73.8
Total labour force (000s) 2003	5 419
Government type	Parliamentary Democracy

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	1.5	2.2	2.8
Household savings ratio	12.8	12.8	12.4
Consumer price index	2.5	2.0	1.8
Short-term interest rate (%)	2.1	2.1	2.7
Unemployment rate (%)	6.5	6.6	6.1
General government financial balance (% GDP)	-2.9	-3.0	-3.8
Current account balance (% GDP)	-6.3	-6.3	-6.3

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	5 380
Area (000 sq km)	49
Currency	Koruna
GDP (Billion USD) - 2003	32.5
Life expectancy at birth (Women, Men) - 2002	77.8, 69.9
Total labour force (000s) 2003	2 634
Government type	Parliamentary Democracy

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	4.9	4.8	5.0
Consumer price index	7.7	3.6	3.1
Short-term interest rate (%)	4.6	4.4	4.1
Unemployment rate (%)	18.2	17.5	16.5
General government financial balance (% GDP)	-3.9	-3.8	-3.9
Current account balance (% GDP)	-2.6	-3.0	-1.9

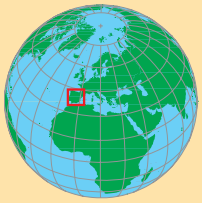
Source: OECD

Slovak Republic
Euro target 2009

Activity is broadening and growth close to 5% over the projection horizon exceeds previous expectations. Headline inflation will drop significantly from currently high levels once the effects of administered price adjustments, tax reform and food price increases related to EU accession start to fade in 2005. Unemployment will also begin to fall to a rate of 16% by the end of 2006.

For fiscal policy to remain credibly committed to the adoption of the euro in 2009, the substantial government spending cuts already budgeted should be implemented as planned. The monetary authorities should specify and communicate their strategy for euro-area entry as soon as one-off effects on inflation dissipate.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	41 874
Area (000 sq km)	505
Currency	Euro
GDP (Billion USD) - 2003	838.6
Life expectancy at birth (Women, Men) - 2002	83.1, 75.7
Total labour force (000s) 2003	18 822
Government type	Parliamentary Monarchy

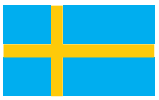
	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	2.6	2.7	3.0
Household savings ratio	10.7	11.0	11.0
Consumer price index	3.0	3.2	2.7
Short-term interest rate (%)	2.1	2.1	2.7
Unemployment rate (%)	10.9	10.7	10.4
General government financial balance (% GDP)	-1.1	-0.1	-0.1
Current account balance (% GDP)	-4.2	-4.7	-4.8

Source: OECD

Spain
More competition needed

Domestic demand sustained activity during the first half of 2004, but net foreign demand weakened. Inflation has risen due to the oil price shock leaving the positive differential with the euro area at around one percentage point. Although some weakness can be expected in the short term because of the oil price hike, investment indicators have been recovering rapidly and point to a strong surge in demand. Economic activity should accelerate again to close to 3% over the projection period.

Monetary conditions remain relaxed, while the budget for 2005 implies a broadly neutral fiscal stance. Reforms to raise competition in some sectors and to improve the wage bargaining system should be adopted with the aim of raising productivity growth and reducing the inflation differential with other countries.

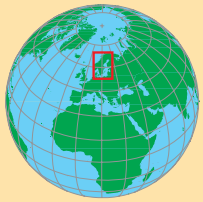


Sweden
Tax cuts boost consumption

The economic expansion is gathering pace, with output growing faster than its potential rate, driven by strong exports and a rebound in investment. Export growth is projected to remain robust, and household consumption will be boosted by tax cuts and rising house prices. Those factors should drive the long-awaited improvement in employment, which will also support domestic demand.

Inflation is likely to pick up, as spare capacity will be absorbed by the end of 2004. The central bank will therefore need to begin raising interest rates soon. In September, the government added a substantial fiscal stimulus to an already-buoyant economy. This will make the job of monetary policy more difficult and risks jeopardising the medium-term fiscal target for the general government surplus of 2% of GDP.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	8 958
Area (000 sq km)	450
Currency	Krona
GDP (Billion USD) - 2003	301.6
Life expectancy at birth (Women, Men) - 2002	82.1, 77.7
Total labour force (000s) 2003	4 497
Government type	Constitutional Monarchy

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	3.3	3.3	3.2
Household savings ratio	8.3	7.8	7.1
Consumer price index	0.4	1.8	2.5
Short-term interest rate (%)	2.1	3.2	4.6
Unemployment rate (%)	5.6	4.9	4.3
General government financial balance (% GDP)	0.5	0.7	1.2
Current account balance (% GDP)	7.4	6.4	6.5

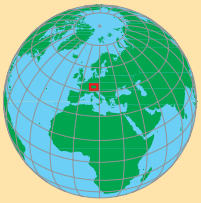
Source: OECD

Switzerland
Steady expansion

Underpinned by relaxed monetary and fiscal policies, the economy picked up in 2004, with GDP growth set to be close to 2%. The expansion should continue through 2005 and 2006 at much the same pace, slightly above potential, thanks to the more dynamic external environment. These developments, which should contribute to an improvement in the labour market as of 2005, are likely to be accompanied by continuing moderate inflation. Because of the rise in oil prices, inflation reached 1.3% (year-on-year) in October 2004, but the underlying rate was still only 0.5%.

Continuing gradual monetary tightening is projected, with financial conditions becoming more neutral as spare production capacity is reduced. The consolidation of federal finances as of 2005 remains necessary, even if budget outturns in 2004 prove better than expected. The improved cyclical situation must not lead to a weakening of the efforts made to stimulate domestic competition and increase potential growth.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	7 343
Area (000 sq km)	41
Currency	Franc
GDP (Billion USD) - 2003	321.8
Life expectancy at birth (Women, Men) - 2002	83.0, 77.8
Total labour force (000s) 2003	4 349
Government type	Federal Republic

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	1.9	1.9	2.0
Consumer price index	0.8	1.2	0.9
Short-term interest rate (%)	0.5	1.6	2.4
Unemployment rate (%)	4.0	3.6	2.8
Current account balance (% GDP)	12.8	12.4	12.6

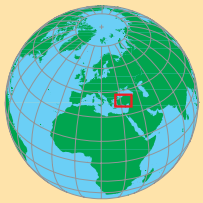
Source: OECD

Turkey
Heady growth will ease

Driven by buoyant private business investment and household consumption, GDP growth reached nearly 12% at an annual rate in the first half of 2004 and should approach 10% for the year. Sentiment was fuelled further by positive signals on the possible opening of accession negotiations with the EU. All in all, there has been a 25% cumulative increase in GDP since 2001. Growth is likely to slow to a more sustainable rate of around 6% in 2005 and 2006, with exports and domestic demand remaining robust.

The authorities should adhere to their strict monetary and fiscal policies and fully implement their ambitious structural reform agenda, continuing to improve domestic and international confidence. Fiscal gains from strong growth should be devoted to public debt reduction in order to improve fiscal sustainability and rein in the growing current account deficit. Another weak spot is very slow job creation despite double-digit growth, though this has meant extremely strong labour productivity growth.

KEY ECONOMIC FORECAST & INDICATORS

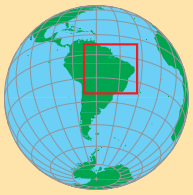


Population (000s) 2003	70 712
Area (000 sq km)	781
Currency	Lira
GDP (Billion USD) - 2003	239.7
Life expectancy at birth (Women, Men) - 2002	70.9, 66.2
Total labour force (000s) 2003	24 141
Government type	Republican Parliamentary Democracy

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	9.8	6.4	5.8
Consumer price index	10.7	8.6	6.3
Short-term interest rate (%)	22.5	14.7	12.5
Unemployment rate (%)	9.5	10.0	10.5
Current account balance (% GDP)	-5.2	-4.5	-3.8

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	178 985
Area (000 Sq km)	8 515
Currency	Real
GDP (Billion USD) 2003	505
Life expectancy at birth (Women, Men) - 2003	75.2, 67.6
Total labour force (000s) 2003	87 788
Government type	Federal Republic

	2004	2005	2006
	% change unless otherwise indicated		
Real GDP growth	4.5	3.6	3.5
Inflation (end-year)	7.3	6.0	5.0
Fiscal balance (% of GDP)	-3.0	-2.8	-2.3
Primary fiscal balance (% of GDP)	4.5	4.3	4.3
Current account balance (% of GDP)	1.5	0.4	-0.2

Source: OECD

Brazil
Positive outlook to continue

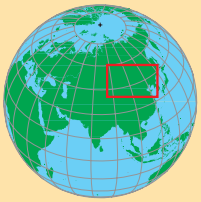
Following the strong performance in 2004, economic growth is likely to moderate in 2005-06, with domestic demand expected to continue to be the main engine of growth. A further decline in unemployment and rising real wages will sustain the recovery in private consumption, and the positive outlook is set to continue to encourage private investment. The external adjustment is also expected to continue, facilitated by the recovery in the world economy, but the trade surplus is set to taper off, owing predominantly to rising imports fuelled by the recovery in domestic demand. As a result, the external current account surplus is expected to shrink during 2005-06. The outlook is contingent on the maintenance of sound policies.

Fiscal policy remains stronger than expected, despite pressure for higher investment in infrastructure, and the monetary authorities must remain vigilant about price developments. After all, this outlook is not without risks, particularly from high oil prices and inflationary pressures associated with emerging bottlenecks in manufacturing.

China
Rapid expansion continues

The economy is likely to turn in another year of rapid growth, after a temporary slowdown in the middle of 2004 when businesses were uncertain about the impact of new government polices to control investment. Next year, some slowdown may occur as the result of higher oil prices and tight monetary and fiscal policies. The impact of the latter may be offset partially by growth in investment in the state-dominated power generation sector and by demand for real estate that is being boosted by negative real interest rates. Consumption should also remain strong, especially in rural areas which have seen the strongest growth incomes for seven years. Finally, export demand is expected to be buoyant as quotas on textile exports will no longer be in force in 2005. Overall, growth is likely to be below potential in 2005, before recovering in 2006. The projected slowdown in domestic food prices should dampen inflation, but continued intervention to stabilise the value of the renminbi brings a risk of higher than expected inflation.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	1 292 270
Area (000 Sq km)	9 597
Currency	Renminbi
GDP (Billion USD) 2003	1 468
Life expectancy at birth (Women, Men) - 2002	73.9, 70.0
Total labour force (000s) 2003	752 320
Government type	Communist state

	2004	2005	2006
	% change unless otherwise indicated		
Real GDP growth	9.2	8.0	8.5
Inflation (mid-year)	4.2	4.0	4.0
Fiscal balance (% of GDP)	-2.0	-1.7	-1.7
Current account balance (% of GDP)	1.1	1.8	2.2

Source: OECD

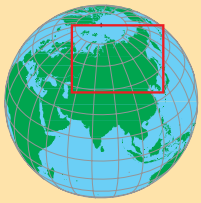
Russia
Consumer boom

Real GDP growth is projected to moderate in 2005-2006. The consumption boom will continue, thanks to fiscal loosening in 2005. With export growth slowing and consumption driving import growth, the negative contribution of net exports will grow. Nevertheless, the current account surplus is expected to remain fairly large, thanks mainly to high oil prices.

The central bank continues to try bringing inflation down while preventing an overly rapid appreciation of the real exchange rate. Inflation has accelerated somewhat and will most likely stay above the authorities' 8-10% target range for 2005.

The budget remains in surplus despite fiscal easing, thanks chiefly to revenues from high oil prices. Structural reforms appear to have stalled in 2004. The central bank has continued work on implementing reforms in the banking sector, but progress is proving difficult. Electricity reform has slowed markedly, and there is no sign of progress in gas-sector reform. The long-awaited liberalisation of the market in Gazprom shares is now in prospect, but the implications of Gazprom's acquisition of the state-owned oil company Rosneft are mixed at best.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2003	143 600
Area (000 sq km)	17 075
Currency	Rouble
GDP (Billion USD) - 2003	433.5
Life expectancy at birth (Women, Men) - 2002	72.9 , 62.3
Total labour force (000s) 2004	73 800
Government type	Federation

	2004	2005	2006
	% change unless otherwise indicated		
GDP growth	6.4	5.5	5.5
Inflation (end-year)	11.0	10.5	9.5
Fiscal balance (% of GDP)	3.5	2.0	1.5
Primary fiscal balance (% of GDP)	6.0	5.0	4.5
Current account balance (% of GDP)	10.2	11.1	6.8

Source: OECD

Note about the *OECD Observer* snapshots: All GDP values in the tables are at current market prices. Data in the lower tables come from the *OECD Economic Outlook* preliminary edition. For the upper tables, sources include *OECD in Figures*, *OECD Main Economic Indicators* and other sources.

Development climate

©Aaron Favila/REUTERS

It may seem obvious that development influences climate change and vice versa, but do experts on climate change and development really have any influence on each other? If not, they should, as was demonstrated at a recent **OECD Global Forum on Sustainable Development: Development and Climate Change**, held at the OECD on 11-12 November 2004.

In fact, interaction between the climate and development experts has been all too limited, preventing some common issues from being addressed more quickly. This Forum, which is part of the OECD Global Forum series, provided a platform for representatives from the likes of the World Meteorological Organisation, the World Bank and the OECD Development Assistance Committee to meet and discuss common ways forward, just a few weeks ahead of the UN conference on climate change in Buenos Aires in December.

As OECD Deputy Secretary-General, Kiyo Akasaka, who chaired the Forum, pointed out: "Climate change requires all our efforts, across the globe, across society, from all disciplines and walks of life. Bringing environment and development experts and decision-makers closer together at the Forum was a first, and psychologically important, step."

Climate change is not new, so the Forum's 150 participants – from government, business, international organisations, NGOs and research from around the world – focused on ways to "mainstream" responses to climate change by building them into routine development planning and assistance.

Several presenters at the Forum pointed to cases where the impacts of climate change are already being felt, in the Andes and the Himalayas, for instance, where melting glaciers are leading to a risk of floods, affecting energy and water supply, farming and tourism. In islands and coastal regions, salt water intrusion may affect drinking water supply and agriculture.

Infrastructure is set to become a major challenge, with the building of highways, dams, railroads and electricity grids needing to take future climate change into account. Failure to do so would greatly increase maintenance costs, experts said.

Agriculture and forestry were another key issue for debate, since they are highly sensitive to changing climatic conditions, like rainfall patterns and temperature. But these changes can bring new opportunities as well, with farmers being able to sow crops normally associated with warmer climes, for instance. Though the challenges are daunting, people have already been coping with climatic shifts for years, and as the Forum heard, much can be learned from traditional coping strategies.

Keynote speeches at the Forum were delivered by Rajendra Pachauri, Chair, Intergovernmental Panel on Climate Change (IPCC); Joke Waller-Hunter, Executive Secretary, United Nations Framework Convention on Climate Change (UNFCCC); and Warren Evans, Sector Director, Environment Department, World Bank. ■

For more information on the OECD Global Forum on Sustainable Development, Development and Climate Change, contact: www.oecd.org/sustainabledevelopment

Visit also http://unfccc.int/ for more on climate change and the UN conference.

Scientific Universe

Astronomers have made enormous progress in the past few decades, developing a convincing model of the origin, evolution and distribution of the visible matter in the Universe, from asteroids and planets to the large-scale structure of clusters of galaxies. But the model fails to explain the composition of some 96% of the contents of the Universe (the enigmatic "dark matter" and "dark energy") and does not explain the origin or distribution of life.

In short, we need to know more about our Universe, but solving these mysteries will require costly new projects, such as giant optical and radio telescopes which must be organised and financed on a multi-national basis.

It also demands a globally co-ordinated scientific vision of the most important big projects for the next 20 years, greater co-operation in the development of key technologies and closer links between planning processes.

These are the key conclusions of a new report from the OECD Global Science Forum, based on discussions at the OECD by policymakers and leading scientists, and now available at www.oecd.org/sti/gsf. Some of the recommendations are directed towards the international scientific community, others press the case to government funding agencies. The field of astronomy is entering a new scientific and organisational era, and the OECD report lays out the challenges for the decades ahead. ■

To obtain a CD-Rom and colour brochure on the Global Science Forum, contact stefan.michalowski@oecd.org.

Entrepreneurship centre takes off

Governments are always keen to do their utmost to help businesses thrive, not least in local economies, and to encourage initiative and entrepreneurial attitudes to become more widespread. But the stakes are high. Some two-thirds of new firms survive at least two years, and only about half survive at least four. OECD figures show that firms that remain in business after the first two years have a 60-70% chance of surviving for at least five more years.

Nevertheless, despite the risks, encouraging business creation remains a key part of the drive to create jobs and spread development beyond major cities, since entrepreneurship and local development are key for creating jobs, fostering initiative and fuelling innovation. They also encourage social cohesion and community. Take small and medium-sized enterprises (SMEs), for instance. These are the dominant form of business in every country of the world. In the OECD area alone, small firms account for over 95% of all enterprises and employ between 60%-70% of all workers. And women-owned businesses account for up to a third of all SMEs.

The interface between entrepreneurship, SMEs and local enterprise should be tapped further, as well as strengthened, since many of the traditional problems facing entrepreneurs and local communities — lack of financing, difficulties in exploiting technology, constrained managerial capabilities and regulatory burdens — become more acute in a globalised environment.

To help achieve this, the OECD has taken a lead by investing in a new initiative of its own: the Centre for Entrepreneurship, SMEs and Local Development (CFE). By forging the Organisation's considerable expertise in SME work and local development, notably drawing on the OECD Bologna Process for SME Policies and the organisation's Local Economic and Employment Development programme (LEED), the new Centre will address not only the needs of new and existing businesses, but will seek to foster the development of an entrepreneurial society. The Centre's aims, like promoting competitiveness, sustainable growth and cohesion, as well as innovation, jobs and opportunity in this age of globalisation, are laudable, but challenging.

In its favour, the Centre will be able to draw on the OECD's already rich resource of intelligence, contacts and experience in all areas of public policy, from economics and finance, to education, governance and the environment. The Centre will act as a "one-stop shop" for OECD policymakers. It will concentrate on getting some basic messages across. For instance, entrepreneurship is not just about risk, but to be effective, local development strategies must incorporate the core factors of skills, social capital and innovation, as well as aim to inspire a culture of constant evaluation. Strategists must encourage synergies and partnerships, as well as improved local governance. In short, they must aim to create what the Centre calls an Entrepreneurial Business Environment. ■

For more information on OECD's Centre for Entrepreneurship, SMEs and Local Development, see: www.oecd.org/cfe.

Brainy classrooms

How much do emotions influence learning? Could adults learn to learn? Which teaching methods could help children to reduce dyslexia and dyscalculia?

A new interactive teacher forum, set up by the OECD/CERI Learning Sciences and Brain Research project, invites teachers of all levels to join discussion with scientists on the new challenges of teaching and learning in the 21st century.

Teachers across the OECD area receive no basic training on how the brain works. When teachers hear the words "brain disorder" they naturally see it as being a problem outside their field of expertise. Hardly surprising therefore to find them often at a loss as to how to cope with students who have specific "brain-related" disorders, such as dyslexia or dyscalculia, but who cannot and should not be excluded from the mainstream.

On the other hand, teachers are very enthusiastic and ready to hear about how the brain works, how it "learns", and they are open and ready to incorporate new ideas emerging from recent scientific findings into their methods of teaching, like discoveries in neuroscience that can help to improve teaching methods.
But there is a danger in this because, as teachers are not well informed about recent scientific research – and hard-core research can be extremely difficult to understand – they might too readily believe misleading opinion, dramatic press headlines, and so on.

The OECD/CERI Learning Sciences and Brain Research project website has been a success with teachers, and in response, CERI has launched this new online forum in order to encourage debate, inform opinion and provide extensive resources for teachers, such as scientific articles and other pedagogic tools. ■

See: www.teach-the-brain.org

CORRIGENDA

OECD Observer, No 244, September 2004

■ The authors of the article, "The 35-hour week: Portrait of a French exception" (p10) were Martine Durand, John Martin and Anne Saint-Martin, and not just Martine Durand and John Martin, as mistakenly indicated in the English print edition. We apologise for this omission.

■ James Tobin, a Nobel Prize-winning economist referred to in Helmut Reisen's article, "Funding the fight against global poverty" (pp 18-19,) launched his idea to tax international currency transactions in 1972, and not 1927 as indicated in the English print edition.

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Prime Minister of the Republic of Turkey, Recep Tayyip Erdogan, gives a press conference on his visit to the OECD on 21 October 2004.

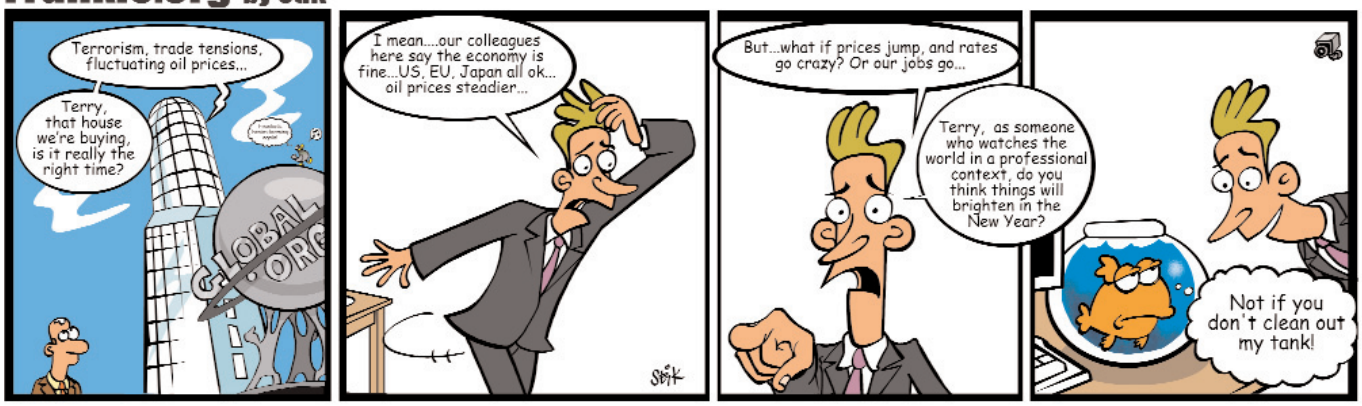
New ambassadors

1 September – O-Kyu Kwon is the new ambassador for Korea to the OECD, succeeding Kyung Tae Lee. Before taking up his post as ambassador to the OECD, Mr Kwon was Senior Secretary to the President for National Policy.

8 November – Tómas Ingi Olrich took up his post as ambassador for Iceland to the OECD, succeeding Sigridur Snaevarr. Before taking up his post as ambassador to the OECD, Mr Olrich was Minister of Education, Culture and Science. ■

See: www.oecd.org/ambassadors

Frankie.org by StiK



Calendar of forthcoming events

Please note that many of the meetings mentioned are not open to the public or the media and are listed as a guide only. All meetings are in Paris unless otherwise stated. For further information, consult the OECD website at www.oecd.org/media/upcoming, which is updated weekly.

NOVEMBER- highlights

10-13 **Statistics, Knowledge and Policy, OECD World Forum on Key Indicators**, organised by the Statistics Directorate. Palermo, Italy.

11-12 **Global Forum on Sustainable Development**, organised by the Environment and the Development Cooperation Directorates.

29-30 **Fighting Corruption and Promoting Integrity in Public Procurement**, global forum on governance organised by the Directorate for Financial and Enterprise Affairs in co-operation with the French government.

DECEMBER

1 **World AIDS Day.**

2-3 **Environmental Enforcement and Compliance**, high-level conference of the Global Forum on Sustainable Development, organised by the Environment Directorate.

3 **Global Forum on Agriculture**, organised by the Directorate for Food, Agriculture and Fisheries.

6-8 **Evaluating Agri-Environmental Policies in OECD Countries**, workshop organised by the Directorate for Food, Agriculture and Fisheries.

6-8 **The Typologies of Money Laundering and Terrorist Financing**, meeting organised by the Financial Action Task Force. Moscow, Russia.

6-17 **Climate Change Summit**, 10th Session of the Conference of the Parties (COP 10), organised by the UN Framework Convention on Climate Change. Buenos Aires, Argentina.

7 **"Learning for Tomorrow's World"**, first results from PISA 2003 published.

7-8 **Public Debt Management and Emerging Government Securities Markets**, global forum organised by the Directorate for Financial and Enterprise Affairs. Budapest, Hungary.

9-10 **Senior-level meeting of the Development Assistance Committee.**

9-10 **Improving Donor Effectiveness in Combating Corruption**, Development Partnership Forum organised jointly by the Development Assistance Committee and Transparency International.

13-14 **Financing University Technology Transfer**, workshop organised by the Education Directorate. St. Petersburg, Russia.

14 **Tourism, Economics and Labour**, seminar organised by the Directorate for Science, Technology and Industry. Vienna, Austria.

14-15 **Workshop on Housing Finance in Transition Economies**, organised by the Directorate for Financial and Enterprise Affairs.

16-17 **Public-Private Partnership for Innovation**, conference co-organised with OECD and the Russian Ministry of Education and Science. Moscow, Russia.

20 **International Road Transport**, high-level expert group meeting organised by the European Conference of Ministers of Transport.

JANUARY 2005

10-11 **Advancing Knowledge and the Knowledge Economy, conference organised by the OECD**, the US National Science Foundation, the European Commission and the University of Michigan. Washington, D.C., US.

12-13 **High-level workshop on steel**, organised by the Directorate for Science, Technology and Industry, and the International Iron and Steel Institute.

13-14 **Development Effectiveness in Fragile States:** The Road to Implementation, senior level forum organised by the Development Assistance Committee, the European Commission, UNDP and the World Bank. London, UK.

18-22 **World Conference on Disaster Reduction.** Kobe, Hyogo, Japan.

26 **Business Restructuring** roundtable, organised by the OECD Centre for Tax Policy and Administration.

26-30 **World Economic Forum**, annual meeting. Davos, Switzerland.

26-31 **World Social Forum.** Porto Alegre, Brazil

FEBRUARY

4 **Improving Learning through Formative Assessment**, conference organised by the OECD Centre for Educational Research and Innovation.

6-7 **Ministers meet to launch the OECD/UNDP MENA** Middle East and North Africa Public Governance Programme, hosted by the King of Jordan. Dead Sea, Jordan.

9-11 **Plenary meeting of the Financial Action Task Force.**

Childcare counts

Babies and Bosses - Reconciling Work and Family Life, Volume 3: New Zealand, Portugal and Switzerland

Choosing the career track versus the family track is a personal choice that has become a global concern. Family-friendly policies are essential, says *Babies and Bosses - Reconciling Work and Family Life*, not only to promote child development and family well-being, but to reduce poverty, underpin productivity and bolster employment in our ageing societies.

Policies that may contribute to balancing home and office include, for instance, low tax rates to ensure that working parents are not penalised, or public investment in childcare to make it easier for mothers to take paid jobs. The third in a four-part series that addresses family-work issues, this edition of *Babies and Bosses* examines the policies of New Zealand, Portugal and Switzerland. (See also the policies of Austria, Ireland and Japan in *OECD Observer* No. 239, and Australia, Denmark and the Netherlands in *Observer* No. 235.)

In all three countries, as in many industrialised countries, people are simply not reproducing enough. Families are getting smaller, from the low levels of 1.5 children per family in Portugal and Switzerland, to barely replacement level in New Zealand. And these countries employ more women than in most other OECD countries. In 2002, female employment rates in Switzerland (72%), New Zealand (65%) and Portugal (61%) compared favourably to the OECD average of 55%. Many of these may be working part-time, especially mothers with dependent children. More might work full-time and would have better career prospects if childcare facilities were more widely available.

That includes affordability; in Portugal, the vast majority of employed women (85%) have a full-time job, albeit at low salaries. Investment in childcare would be helpful in boosting employment in all countries, though it is costly.

Tax engineering could also encourage more job seeking. New Zealand's new "Working for families" package, for instance, may increase incentives to work for those on income support, but, argues *Babies and Bosses*, the reform could encourage more women to join the labour force by cutting the high tax rates faced by the second earner in couples and squeezing some generous benefits, including to single mothers. ■

ISBN 9264108343 See the New Publications pages or www.oecd.org/bookshop for ordering details
See: www.oecd.org/els/social/familyfriendly

Here's to the next 10

Mexico: Progress in Implementing Regulatory Reform

Mexico celebrates its tenth anniversary at the OECD this year, and an eventful 10 years it has been. Apart from the creation of NAFTA in 1994, there were the currency runs on the peso and, of course, recent debates about international investment, labour and outsourcing. Since joining the OECD, many of the achievements of Mexico's regulatory programme have dealt with strengthening political transition and economic resilience and growth. *Mexico – Progress in Implementing Regulatory Reform* reports that the country has made progress in improving its regulatory framework and institutions, putting in place a consistent and transparent trade policy, with clear rules and greater openness to investors from abroad.

Yet *Mexico: Progress in Implementing Regulatory Reform* recommends that the government needs to push further forward, particularly in key infrastructure sectors, such as telecommunications, water and financial services. The electricity sector especially needs attention; a stronger regulator is needed, while the introduction of competition principles and a transparent system for tariffs and subsidies are recommended.

Mexico's Regulatory Improvement Programme has been updated, and the government has created a national regulatory authority, COFEMER, which has already accelerated procedures for business start-ups. By eliminating or simplifying formalities such as land-use permits and licenses, and streamlining dealings between federal, state and municipal agencies, entrepreneurs are now able to register their firms and open for business in a day or so, instead of a previous average of nearly 60 days. Nevertheless, the report recommends that Mexico simplify its tax system and make changes in the labour market to improve the climate for small business.

But reform is only half the battle. *Mexico – Progress in Implementing Regulatory Reform* finds that while there are plenty of rules and regulations, there is not enough compliance and too little enforcement, and the country still has a substantial underground economy. Indeed, in May, President Fox announced a one-year moratorium on creating new industrial regulations, from May 2004 to April 2005, so that the government can better order and prioritise existing policies. By taking the time to make regulation more transparent and strengthen the rule of law, the government hopes to thereby stimulate investment, generate more employment and enhance competitiveness, and so further build on the progress of its first 10 years at the OECD. ■

ISBN 9264-01750X. See the New Publications pages or www.oecd.org/bookshop for ordering details.

HNEW01A

New publications, September to November 2004

All publications are available in paper and electronic book format. This is a selected list. For more titles and overviews in different languages, please consult www.oecd.org/bookshop.

OECD Forum 2004: Highlights ❑
ISBN 9264108467
24 p, free publication

AGRICULTURE AND FOOD

Biomass and Agriculture: Sustainability, Markets and Policies ❑
ISBN 9264105549
568p, €52 $60 £37 ¥7,100
What is the contribution of agricultural biomass to sustainable development? What issues should be addressed by policies? What are governments actually doing and how effective are they?

Achieving Ukraine's Agricultural Potential: Stimulating Agricultural Growth and Improving Rural Life ❑
OECD Code 512004081E1
Co-edited with The World Bank
Free, available at www.worldbank.org/

DEVELOPMENT AND AID

Governance Culture and Development: A Different Perspective on Corporate Governance ❑
ISBN 9264017291
142p, €19 $24 £13 ¥2,500
See review.

Regional Integration, FDI and Competitiveness in Southern Africa ❑
ISBN 9264006524
146p, 21 tables
€40 $50 £28 ¥5,100
Southern Africa, with its vast natural resources and relatively skilled workforce, should be a magnet for foreign direct investment. However, even domestic investment is low. This book analyses investment flows within the region and examines the role of FDI in key industries.

ECONOMICS

OECD Economic Outlook: No. 76 ❑
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A look at the outlook to the end of 2005, with three analytical chapters on fiscal policy. To what extent has fiscal policy been a stabilising or destabilising influence on economic activity in the OECD area over the past two decades? What are the economic advantages and disadvantages of decentralisation? What reforms are needed to curb the growth in public spending while raising its cost effectiveness?

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Turkey ❑
ISBN 9264006826
177p, 22 tables, 58 graphics
The business environment has improved and exhibits many strengths. However, a major problem is the significant extent of unregistered activities, which account for more than 50% of total employment and lead to a narrowing of the tax base. For Turkey to truly establish a new "economic regime" for growth based on macroeconomic and structural policy renewal, confidence in government policies must remain intact.

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Special feature: Product market competition and economic performance.

Portugal ❑
ISBN 9264017658
144p, 46 tables, 17 graphics
Special features: Structural policies to lift Portugal's living standards; The fiscal challenge; Ongoing reform of the healthcare system.

EDUCATION

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Are students well prepared to meet the challenges of the future? Are they able to analyse, reason and communicate their ideas effectively? Do they have the capacity to continue learning throughout life? The OECD Programme for International Student Assessment (PISA) survey in 2000 provided some answers.

Denmark: Lessons from PISA 2000 ❑
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192p, €37 $46 £26 ¥4,700

Creating 21st Century Learning Environments ❑
Creating 21st Century Learning Environments
ISBN 9264006508
100p, prices forthcoming.

Co-financing Lifelong Learning: Towards a Systemic Approach ❑
ISBN 9264018107
80p, €24 $29 £17 ¥3,100

University Research Management: Meeting the Institutional Challenge ❑
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€55 $69 £38 ¥7,000

Watch for these forthcoming OECD publications

- ❑ **Ageing and Employment: Australia** (December 2004)
- ❑ **Economic Survey of Brazil** (December 2004)
- ❑ **Economic Survey of Australia** (December 2004)
- ❑ **Learning for Tomorrow's World: First Results From PISA 2003** (December 2004)
- ❑ **Private Health Insurance in OECD Countries** (December 2004)
- ❑ **Economic Survey of Japan** (January 2005)

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See Review.

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Rule model

Governance Culture and Development: A Different Perspective on Corporate Governance

Many experts argue that OECD's Principles of Corporate Governance are not relevant to the issues faced by developing and emerging market economies. Cases such as Parmalat or Enron belong to the rich world, and their affairs to those of wealthy OECD countries. But if poor governance of corporations can ruinously affect a nation's economic growth – in addition to the lives of millions of individuals – shouldn't developing countries take notice?

Yes, says *Governance Culture and Development,* though with some caveats. After all, as this report from the OECD Development Centre points out, the strong growth sustained both in continental Europe after the war, and in certain countries during the "Asian Miracle" from the 1960s to the 1990s, was achieved despite corporate governance structures which would be deemed very poor by today's standards. Indeed, the Golden Age from 1945-1973 in France (known as the *Trente Glorieuses*), when the country experienced the highest sustained growth in its history, also bears witness to this, and the book examines the French experience in some depth.

The trouble is, most developing and emerging market economies have to deal with the demanding governance challenges of today's global market, whether they are trying to catch up, or make a transition to more innovation-based growth. So, while up-to-date structures satisfy lawmakers and stakeholders in the OECD area, do they help or hinder growth elsewhere?

There is no easy answer to this question, says *Governance Culture and Development*, but it acknowledges that good corporate and public governance lifts a country's long-term development. Those countries, like Korea and Singapore, that succeeded in spectacularly catching up with advanced economies like Japan and the US, had put in place systems that focused on public governance and general interest, rather than giving priority to a corporate focus, with potentially conflicting private interests. Developing countries could look more at these new examples, rather than focusing on the orthodox school of governance from the US and Britain, argues *Governance Culture and Development.* By shedding new light on different governance cultures, their logic, their dynamics and their potential traps, the report demonstrates that while fostering good governance counts, we must change the way we judge the quality of a country's institutions of governance. ■

ISBN 9264-017291. See the New Publications pages or www.oecd.org/bookshop for ordering details.

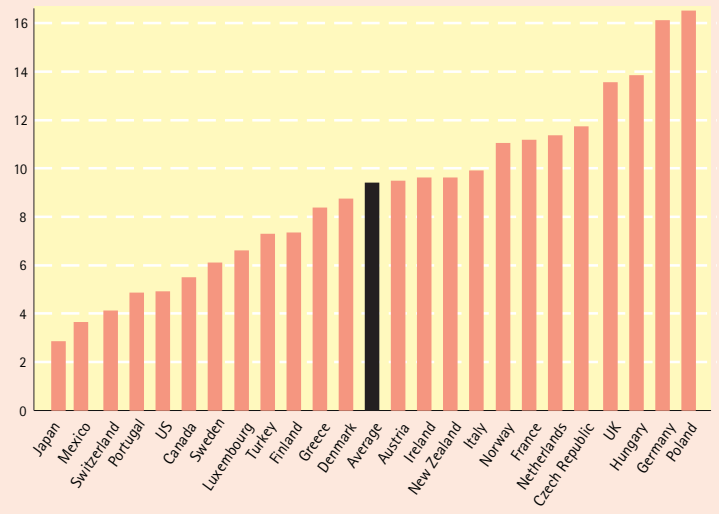
Jobless households

Unemployment is historically low in many OECD countries, and is below 10% in all but a few of them. But the picture for households, rather than just individuals, is less positive. According to *Society at a Glance 2005,* even in the UK, where unemployment is in low single figures, in 2000 as many as 13% of people lived in households headed by a person of working age where no one had a job. In Germany, 16% of people live in such jobless households, the second highest of the countries covered. In France jobless households came to 11%, despite increases in employment rates. In the US, just 5% of people lived in jobless households.

While the share of the population living in jobless households has edged down since the mid-1990s in the OECD, the fact that higher employment did not lead to more significant declines in household joblessness reflects the growth in the proportion of two-earner households. High joblessness can lead to higher social distress and dependence on welfare services. Children growing up in jobless households are particularly vulnerable to poverty, and their educational and future employment prospects are affected.

Also, joblessness is more likely in single-parent households (32% on average compared to 5% in two-parent households). The trouble is, the proportion of lone-parent households is increasing, so employment may have to rise more significantly in the future to reduce both household joblessness and poverty. ■

Persons living in households with a working-age head where no one works, as % of the total population



Data refer to 2000 in all countries except 1999 for Austria and Greece; 2001 for Germany, Luxembourg, New Zealand and Switzerland; and 2002 for the Czech Republic, Mexico and Turkey.
Source: OECD, *Society at a Glance*, forthcoming.

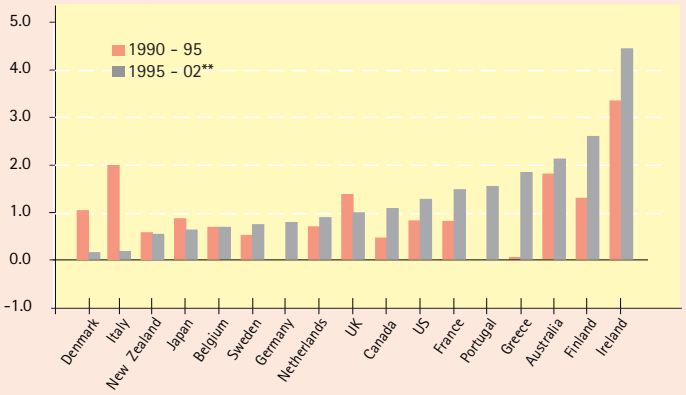
Business productivity

Firms everywhere know that to lift earnings and stay competitive they should produce more, and more efficiently. So they try to raise the productivity of their labour and their capital. But it is the combination of these two factors together that policy interest is turning to. This is multi-factor productivity (MFP), also sometimes called total factor productivity, and it is becoming a valuable yardstick of performance. MFP differs from the more commonly cited labour productivity because it reflects the combined efficiency of both labour and capital. It embodies inputs, like knowledge and management. Unlike labour productivity growth, it cannot be boosted simply by using more capital or dismissing unproductive workers. MFP is more difficult to measure, though.

Yet, it seems clear that the acceleration in MFP accounts for some of the pick-up in growth in the 1990s in some OECD countries. MFP growth accelerated in Australia, Canada, Finland, France, Greece, Ireland and the US. But in countries such as Germany, Italy, Japan, the UK, Denmark and Spain, MFP growth slowed. The improvements may reflect better skills and technology, while organisation and innovation may also have enabled given labour/capital combinations to produce more efficiently. MFP may be a tricky concept, but in a way, it captures the diverse factors that fuel productivity in the firm. And governments can make a difference by investing in the conditions needed for business to thrive. ■

A full description of MFP work is available on the new *OECD Productivity Database:* www.oecd.org/statistics/productivity

MFP growth based on "harmonised" price indices for IT capital goods, % annual average*



*The OECD estimates differ from national estimates for countries where these are available. This is because the OECD work aims at developing comparable estimates for as wide a range of countries as possible.
** Or latest available year, i.e. 1995-2001 for Belgium, Denmark, Finland, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and the UK.
Source: OECD

			% change from: previous period	% change from: previous year			level: current period	level: same period last year
Australia	Gross domestic product	Q2 04	0.60	4.10	Current balance	Q2 04	-8.55	-7.77
	Leading indicator	Sep. 04	-0.20	1.70	Unemployment rate	Sep. 04	5.60	5.90
	Consumer price index	Q3 04	0.40	2.30	Interest rate	Oct. 04	5.41	4.97
Austria	Gross domestic product	Q2 04	0.90	1.80	Current balance	Q2 04	-0.30	-0.30
	Leading indicator	Sep. 04	0.30	6.40	Unemployment rate	Sep. 04	4.50	4.40
	Consumer price index	Sep. 04	0.00	2.10	Interest rate		*	*
Belgium	Gross domestic product	Q3 04	0.80	3.00	Current balance	Q2 04	2.80	3.70
	Leading indicator	Sep. 04	0.20	5.50	Unemployment rate	Sep. 04	7.70	8.00
	Consumer price index	Oct. 04	0.50	2.90	Interest rate		*	*
Canada	Gross domestic product	Q2 04	1.10	3.00	Current balance	Q2 04	7.66	3.79
	Leading indicator	Sep. 04	-0.40	1.60	Unemployment rate	Sep. 04	7.10	7.90
	Consumer price index	Sep. 04	0.10	1.80	Interest rate	Oct. 04	2.57	2.68
Czech Republic	Gross domestic product	Q2 04	1.20	4.10	Current balance	Q2 04	-1.72	-1.51
	Leading indicator		..	..	Unemployment rate	Sep. 04	8.40	8.00
	Consumer price index	Sept. 04	-0.80	3.00	Interest rate	Oct. 04	2.67	2.06
Denmark	Gross domestic product	Q2 04	0.20	2.60	Current balance	Q2 04	1.93	1.58
	Leading indicator	Sep. 04	0.00	8.20	Unemployment rate	Sep. 04	5.30	5.70
	Consumer price index	Sep. 04	0.60	1.10	Interest rate	Oct. 04	2.16	2.15
Finland	Gross domestic product	Q2 04	0.70	2.70	Current balance	Aug. 04	0.78	0.42
	Leading indicator	Sep. 04	-0.20	2.80	Unemployment rate	Sep. 04	8.40	9.00
	Consumer price index	Sep. 04	0.40	0.40	Interest rate		*	*
France	Gross domestic product	Q2 04	0.70	2.80	Current balance	Aug. 04	-1.81	0.90
	Leading indicator	Sep. 04	0.70	5.80	Unemployment rate	Sep. 04	9.60	9.60
	Consumer price index	Sep. 04	0.10	2.10	Interest rate		*	*
Germany	Gross domestic product	Q2 04	0.50	1.50	Current balance	Q2 04	28.12	6.77
	Leading indicator	Sep. 04	0.10	4.70	Unemployment rate	Sep. 04	9.90	9.70
	Consumer price index	Sep. 04	-0.30	1.80	Interest rate		*	*
Greece	Gross domestic product	Q2 04	-0.60	3.90	Current balance	Aug. 04	1.50	0.95
	Leading indicator	Aug. 04	-1.00	-0.90	Unemployment rate	Dec. 03	9.30	9.50
	Consumer price index	Sep. 04	2.00	2.80	Interest rate		*	*
Hungary	Gross domestic product	Q2 04	6.20	4.00	Current balance	Apr. 04	-0.99	-0.60
	Leading indicator		..	..	Unemployment rate	Sep. 04	5.90	5.70
	Consumer price index	Sep. 04	0.10	6.60	Interest rate	Sep. 04	11.00	9.43
Iceland	Gross domestic product	Q2 04	3.20	6.40	Current balance	Q2 04	-0.16	-0.18
	Leading indicator		..	..	Unemployment rate	Sep. 04	3.40	3.60
	Consumer price index	Oct. 04	0.80	3.70	Interest rate	Sep. 04	6.77	4.49
Ireland	Gross domestic product	Q2 04	0.30	4.10	Current balance	Q2 04	-0.13	-0.47
	Leading indicator	Sep. 04	0.70	14.10	Unemployment rate	Sep. 04	4.40	4.70
	Consumer price index	Sep. 04	0.10	2.50	Interest rate		*	*
Italy	Gross domestic product	Q2 04	0.30	1.20	Current balance	May 04	-0.86	-1.73
	Leading indicator	Sep. 04	0.60	-0.60	Unemployment rate	Jan. 04	8.50	8.90
	Consumer price index	Oct. 04	0.00	2.00	Interest rate		*	*
Japan	Gross domestic product	Q2 04	0.30	4.30	Current balance	Aug. 04	15.73	12.07
	Leading indicator	Sep. 04	0.20	0.90	Unemployment rate	Sep. 04	4.60	5.10
	Consumer price index	Sep. 04	0.30	0.00	Interest rate	Sep. 04	0.04	0.04
Korea	Gross domestic product	Q2 04	0.60	5.80	Current balance	Jul. 04	4.45	1.17
	Leading indicator		..	..	Unemployment rate	Sep. 04	3.50	3.50
	Consumer price index	Oct. 04	0.00	3.80	Interest rate	Sep. 04	3.50	3.80

			% change from: previous period	% change from: previous year			level: current period	level: same period last year
Luxembourg	Gross domestic product	2003	..	2.10	Current balance	Q2 04	0.90	0.54
	Leading indicator	Sep. 04	0.30	10.00	Unemployment rate	Sep. 04	4.30	3.80
	Consumer price index	Oct. 04	0.40	2.50	Interest rate		*	*
Mexico	Gross domestic product	Q2 04	1.20	3.90	Current balance	Q2 04	-1.82	-2.58
	Leading indicator	Sep. 04	1.20	5.50	Unemployment rate	Sep. 04	3.90	3.60
	Consumer price index	Sep. 04	0.80	5.10	Interest rate	Oct. 04	8.11	5.38
Netherlands	Gross domestic product	Q2 04	-0.10	1.40	Current balance	Q2 04	7.26	4.43
	Leading indicator	Sep. 04	-0.10	4.20	Unemployment rate	Aug. 04	4.70	3.80
	Consumer price index	Oct. 04	0.10	1.40	Interest rate		*	*
New Zealand	Gross domestic product	Q2 04	1.10	6.00	Current balance	Q2 04	-1.30	-0.90
	Leading indicator		..	..	Unemployment rate	Q2 04	4.00	4.70
	Consumer price index	Q3 04	0.60	2.50	Interest rate	Oct. 04	6.75	5.19
Norway	Gross domestic product	Q2 04	1.20	4.10	Current balance	Q2 04	7.85	6.48
	Leading indicator	Sep. 04	1.10	7.10	Unemployment rate	Aug. 04	4.50	4.60
	Consumer price index	Sep. 04	0.60	1.10	Interest rate	Oct. 04	2.00	2.86
Poland	Gross domestic product	Q2 04	5.60	6.30	Current balance	Aug. 04	0.20	-0.42
	Leading indicator		..	..	Unemployment rate	Sep. 04	18.70	19.20
	Consumer price index	Sep. 04	0.30	4.30	Interest rate	Jul. 04	5.85	5.02
Portugal	Gross domestic product	Q2 04	1.20	1.50	Current balance	Aug. 04	-1.18	-0.95
	Leading indicator	Sep. 04	-0.30	-0.20	Unemployment rate	Sep. 04	6.50	6.30
	Consumer price index	Sep. 04	0.00	2.10	Interest rate		*	*
Slovak Republic	Gross domestic product	Q2 04	9.60	5.40	Current balance	Q2 04	-0.62	-0.02
	Leading indicator		..	..	Unemployment rate	Sep. 04	18.00	17.50
	Consumer price index	Sep. 04	0.00	6.60	Interest rate	Sep. 04	8.12	7.36
Spain	Gross domestic product	Q2 04	0.50	2.60	Current balance	Jul. 04	-4.07	-1.78
	Leading indicator	Sep. 04	0.50	1.60	Unemployment rate	Sep. 04	10.06	11.30
	Consumer price index	Sep. 04	0.20	3.20	Interest rate		*	*
Sweden	Gross domestic product	Q2 04	1.00	3.50	Current balance	Q2 04	6.44	4.25
	Leading indicator	Sep. 04	0.30	8.60	Unemployment rate	Sep. 04	6.80	5.60
	Consumer price index	Sep. 04	0.70	0.50	Interest rate	Oct. 04	1.99	2.73
Switzerland	Gross domestic product	Q2 04	0.40	2.00	Current balance	Q2 04	10.54	9.94
	Leading indicator	Sep. 04	0.60	4.10	Unemployment rate	Q2 04	4.30	4.30
	Consumer price index	Oct. 04	0.90	1.30	Interest rate	Sep. 04	0.70	0.25
Turkey	Gross domestic product	Q2 04	17.90	13.40	Current balance	Q2 04	-3.89	-2.08
	Leading indicator	Sep. 04	0.00	3.10	Unemployment rate	Q2 04	9.30	10.00
	Consumer price index	Oct. 04	2.20	9.90	Interest rate	Oct. 04	19.59	23.80
United Kingdom	Gross domestic product	Q2 04	0.90	3.60	Current balance	Q2 04	-11.62	-9.40
	Leading indicator	Sep. 04	0.50	1.60	Unemployment rate	Jul. 04	4.60	5.00
	Consumer price index	Sep. 04	0.40	3.10	Interest rate	Sep. 04	4.87	3.63
United States	Gross domestic product	Q3 04	0.90	3.90	Current balance	Q2 04	-166.18	-133.88
	Leading indicator	Sep. 04	-0.50	4.60	Unemployment rate	Sep. 04	5.40	6.10
	Consumer price index	Sep. 04	0.20	2.50	Interest rate	Oct. 04	2.04	1.10
Euro area	Gross domestic product	Q2 04	0.50	2.00	Current balance	Aug. 04	-0.49	3.12
	Leading indicator	Sep. 04	0.40	3.60	Unemployment rate	Sep. 04	8.90	8.90
	Consumer price index	Sep. 04	0.10	2.10	Interest rate	Oct. 04	2.15	2.14

Definitions and notes

Gross Domestic Product: Volume series; seasonally adjusted except for Hungary, Iceland, Poland, Slovak Republic and Turkey; ***Leading Indicators:*** A composite indicator based on other indicators of economic activity (qualitative opinions on production or employment, housing permits, financial or monetary series, etc.), which signals cyclical movements in industrial production from six to nine months in advance; ***Consumer Price Index:*** Measures changes in average retail prices of a fixed basket of goods and services; ***Current Balance:*** US$ billion; seasonally adjusted except for Greece, Ireland and the Netherlands; ***Unemployment Rate:*** % of civilian labour force – standardised unemployment rate; national definitions for Iceland, Korea, Mexico and Turkey; seasonally adjusted, except for Turkey; ***Interest Rate:*** Three months. * refer to Euro zone. ..=not available.

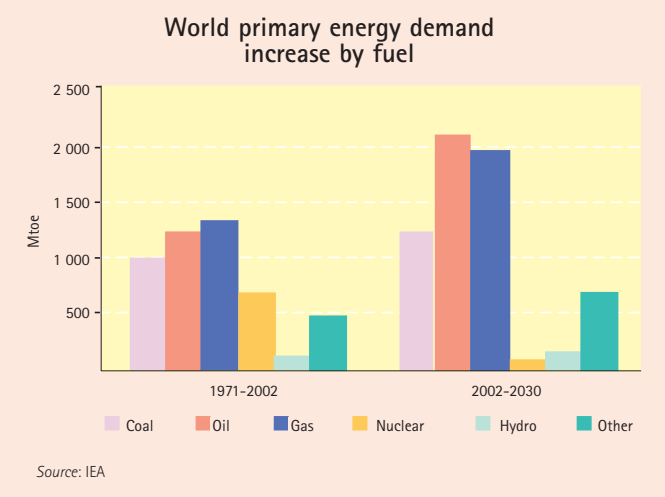
Source: Main Economic Indicators, November 2004

High energy

If governments stick with the policies in force as of mid-2004, the world's energy needs will be almost 60% higher in 2030 than they are now, requiring a cumulative global investment of over $500 billion. This is the sobering message of the latest *World Energy Outlook 2004*, published by the International Energy Agency (IEA), a sister organisation of the OECD. However, the projected rate of demand growth, at 1.7%, is slower than the average of the past three decades of 2%.

Two-thirds of this increase in demand will come from the developing countries. While developing access to modern energy sources in the poorest areas of the world is essential for global poverty reduction, little progress will be made in reducing the total number of people who lack access to electricity.

Fossil fuels will continue to dominate global energy use, accounting for 85% of the increase in world primary energy demand. And while the Earth's energy resources are far from being exhausted, less certain is how much it will cost to extract and deliver them to consumers, calling into question the sustainability of the current energy system.



The *World Energy Outlook* presents an alternative policy scenario to demonstrate that by using policies to address environmental and energy-security concerns already being considered, together with faster deployment of clean technology, it may be possible to reduce pressures from energy demand and emissions, and so create a more environmentally-friendly future. ■

Jobs online

Jobseekers and employers are putting the internet to work, with recruitment agencies such as Jobsite.co.uk in Britain, Cadremploi.fr in France, and Pasonet.ne.jp in Japan offering not only listings, but tips on filling out resumes and conducting a successful interview. These are on top of popular search engine listings, like Yahoo!'s Hotjobs.

According to the latest *OECD Information Technology Outlook 2004*, cost-savings are often cited as the main driver of online recruitment. One source estimates that Internet recruitment costs a firm around a fifth of print advertising.

Local job searches are only part of the picture. Monster.com, a recruitment agency, started its site 10 years ago in the US, and today provides sites for 25 countries, with over 30 million CVs and a searchable database of over 300,000 job offerings. As of September 2003, over 4.6 million jobseekers dipped into its database from Europe alone.

Governments and government agencies are also using the Internet for recruitment. In September 2003, when the EU launched a free public employment site advertising vacancies across Europe (http://europa.eu.int/eures/index.jsp), it started up with 11,000 vacancies, translated into 20 languages. The site also provides a database of living and working conditions, with practical information on housing, schools, taxes, and so on.

Some online agencies : Japan: www.pasonet.ne.jp/; France: www.cadremploi.fr; UK: www.jobcentreplus.gov.uk. ■