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Observer

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Trust matters

When governments go shopping

Transparency's new chapter

Post-modern students

VOTE of confidence

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Strengthening trust in government: What role for government in the 21st century?

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African Pathfinder Blueprint for Schools, Namibia

Digital Village, Johannesburg, South Africa

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Microsoft shares the belief that accessible and affordable technology can break down barriers and empower people around the world. We support the goal of working together to build a truly global, inclusive and sustainable information society for all. We take this shared responsibility seriously and are playing our part in achieving these goals.

'We are committed to the use of IT tools and skills to enable and enhance education and life-long learning'

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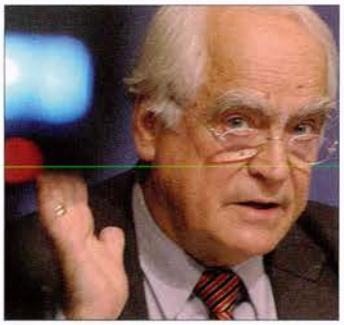

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The OECD Observer wishes its readers around the world a happy festive season and every good wish for 2006. The photo shows Korean performers dressed as Santa Claus at an amusement park in Yongin, near Seoul, December 2005.

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Happy holidays

Marital problems

Although I agree that men and women who are happily married can expect higher average incomes, I believe the idea of what a happy marriage consists of needs to be looked at more closely ("US: A Healthy Marriage" by Wade Horn, in Roundtable on social affairs, No. 248, March 2005). Yes, the US plan to push marriage and counselling seems to be a good one from the viewpoint of promoting a *happy* life, but looking at the bigger picture, isn't that trying to promote a utopian world?

Although this idea was not stated in your article, I find the often claimed idea that marriage ends poverty wrong. The idea does not relate well to women with a low socioeconomic status. We are forgetting about the reasons why one might decide *not* to get married. Single mothers do not choose or want to be poor and their belief is that being married may even bring them lower down. Many lower-class women fear that a jobless man is going to bring more labour into the household. As Kathryn Edin puts it, "even when a man's labour in the household is taken into account, he causes eight additional hours of work for his spouse" (University of Pennsylvania, 1999).

Women who have had this experience think differently about marriage, work and raising children. A woman who is trying to keep herself afloat will want to bettter herself and establish herself economically before adding someone else to the picture who could deter her from her goal.

You state in your article that "men become more economically responsible when they have a family to support." While this is a nice idea and may happen in a middle to upper-class situation, in a situation of a low status, many men do not have the skills or enthusiasm needed to keep a steady job or bring consistent earnings to the family. In these cases, the relationship can deteriorate. Nowadays, a busy woman cannot afford to keep an unproductive man around, no matter how much she may love him.

I do not want to give the impression that women think little of marriage, this is a common misconception. These women hold a positive view of marriage, but one should put much more emphasis on training men (and women) to keep jobs where they can become more financially stable before promoting the *happy* marriage idea. A marriage will not last if both sides are not working together equally.

Lori DuBois
University student
Marshfield, Massachusetts

Ref: Edin, Kathryn (1999), "Why Don't Low-Income Single Mothers Get Married (or Remarried)?"

On the cover

Vote of confidence
By *OECD Observer*
Photo:
©Robert Galbraith/Reuters

Though democracy is spreading in the 21st century, governments are under pressure from a demanding and educated electorate to lift their performance. Many governments have modernised themselves, yet it is far from certain that the relationship with their citizens is improving. What can be done?

Vote of confidence

"Good governance is the basis of all OECD activities, which is hardly surprising given that it is essential for all economic and social progress." These remarks by Secretary-General Donald J. Johnston set the tone for a ministerial meeting on Strengthening Trust in Government, hosted by the Netherlands in Rotterdam on 28 November. Improving performance and building public trust in government drove the discussions at that meeting and are the focus of this edition. Citizens may want more democracy, but are governments doing enough to return that vote of confidence?

Many governments have been modernising, but as Alexander Pechtold, the Dutch minister for government reform and chair of the ministerial meeting, points out in his introduction, it is far from certain that the relationship between citizens and government has improved. Trust is not a luxury, but a cornerstone of all healthy democracies, Mr Pechtold warns.

Despite weakening trust, Odile Sallard, who heads the OECD's Public Governance and Territorial Development Directorate, argues that citizens' expectations of their governments are rising, especially in the wake of natural disasters and terrorist attacks. Enhancing government performance may not be enough to win full confidence, but results do matter, nonetheless. That is why countries have been moving from controlling how resources are spent towards looking at what has actually been achieved, she writes.

OECD public government expert, Teresa Curristine, explains in her article how governments have modernised their accountability and control procedures, and reformed the ways in which they operate large and complex public services. Much has been accomplished, but reforms have by no means run their course, particularly as many politicians still do not commonly use performance measures in decision-making, she finds. However, Ms Curristine also warns that budget and set procedures are not everything, and good policies and judgement are also vital for garnering public trust.

The OECD, meanwhile, plans to step up its efforts to help governments with reform, notably with a new project dubbed "Management in Government: Comparative Country Data". This will bring together data and experience from across the OECD on good government and efficient public services, leading to an annual report by 2009. Details are on page 13.

Government experience in market-based reforms, from privatisation to outsourcing, is one area that will be monitored with interest. In "When governments go shopping", we look at some of the advantages and pitfalls of these approaches. For instance, market mechanisms can help governments deliver public services at low cost, but they require dedicated resources and expertise. Moreover, the gains from some public/private partnership initiatives have been limited. Again, results matter.

But can better performance earn public trust? Not unless more is done to tackle corruption, says Peter Eigen, the founder of Transparency International, in our interview on page 16. Governments may be becoming more open and accountable, with the spread of freedom of information laws, for instance. But the public is intolerant of corruption, Mr Eigen says, and even developed country governments have more to do to clean up their acts.

For Mike Waghorne, a public services expert and trade union consultant, online consultation does not replace real dialogue with properly organised accountable stakeholders. In "Selling a fast one", he argues that e-government may inform people, but it risks atomising them, too.

Improving dialogue is also a concern for Adriaan Buyserd and Lampros Kontogeorgos, two graduates studying international public administration who attended the so-called student's summit alongside the November ministerial meeting. Governments, they say, could rebuild public trust by establishing an "environment of certainty and stability" that encourages citizens to take responsibility for their own lives. However, this may mean more government, not less, though in new ways that will make it clear "that the elected government remains the vehicle for the promotion of the collective good." ■

References

- Johnston, Donald J. (2003), "Building trust" in *OECD Observer* No. 240/241, December, available at www.oecdobserver.org.
- Mr Johnston's full speech to the ministerial meeting and the Chair's statement are available at www.modernisinggovernment.org.

• News brief •

Tsunami aid
One year on


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The unprecedented humanitarian response to the Indian Ocean tsunami, which struck on 26 December 2004, leaving some 300,000 people dead or missing and wiping out whole communities, resulted in pledges of some $13.6 billion to the affected countries from governments and international organisations, as well as charities, companies and the general public. Some $5.3 billion was from OECD governments.

Two-thirds of the aid which the 22 member governments of the OECD's Development Assistance Committee (DAC) and the European Commission pledged to countries hit by the Indian Ocean tsunami has been spent or earmarked for specific projects, according to recent statistics. Donor governments and the European Commission have committed $1.7 billion to emergency aid and $1.9 billion to longer term reconstruction projects, to be spent by 2009. More than 90% of the emergency aid–nearly $1.6 billion–was spent in the nine months immediately following the disaster. For reconstruction, $473 million has been spent, leaving $1.4 billion committed and in the pipeline for spending over the coming years. The rest of the money pledged will be committed once other specific projects and programmes have been identified. Together, Indonesia and Sri Lanka have received more than 60% of the funds committed so far.

2005 has been a year of extreme humanitarian challenges. The tsunami was by far the greatest in terms of lives lost and destruction, and exacted a particularly heavy toll on women and children. While impressive, the tsunami response revealed the need for major improvements in the systems for humanitarian aid, a point underlined by slower responses to other disasters during the year, such as the Kashmir earthquake, hurricanes in North and Central America, a food crisis in Niger, and on-going emergencies in Sudan and the Democratic Republic of Congo. Getting aid to affected areas quickly; co-ordinating emergency responses to fit with long-term development policies; and being transparent and accountable with aid funds, all are areas that need improvement, OECD experts say. ■

For more, visit www.oecd.org/dac

China leads tech exports

China has overtaken the US to become the world's leading exporter of information and communications technology (ICT) goods, such as mobile phones, laptop computers and digital cameras, according to data for 2004. China exported $180 billion worth of such goods in 2004, compared with US exports in the same category valued at $149 billion. In 2003, the US led with exports of ICT goods worth $137 billion, followed by China with $123 billion.

China's share of total world trade in ICT goods, including both imports and exports, rose to $329 billion in 2004, up from $234 billion in 2003 and $35 billion in 1996. By comparison, the US share of total world trade stood at $375 billion in 2004, $301 billion in 2003 and $230 billion in 1996.

The data show a decline in ICT imports to Asia from the EU and the US. Moreover, China increasingly sources its electronic components, such as computer chips, from other Asian countries, including Japan (18% of China's ICT imports), Chinese Taipei (16%), Korea (13%) and Malaysia (8%). ■

For more information, contact Sacha.Wunsch-Vincent@oecd.org.
A copy of the report is available at www.oecd.org/sti

Plus ça change…

"It is important to remind ourselves that the ultimate goal of our policies is to promote not just economic growth but, above all, social well-being."

José Ángel Gurría, writing as minister of finance and public credit of Mexico and chair of the 1999 OECD Ministerial Council, in *OECD Observer*, No. 217/218, Summer 1999.

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• News brief •


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Ángel Gurría next SG

The OECD's 30 member countries have announced the appointment of Ángel Gurría, former foreign minister and finance minister of Mexico, as secretary-general of the OECD from 1 June 2006. Mr Gurría will succeed Donald J. Johnston, who is retiring after two terms at the top of the organisation. The announcement was made on 30 November. For more detail, please turn to page 28. ■

Quality lessons

UNESCO-OECD guidelines

The fast growth in cross-border higher education in the last two decades has prompted UNESCO and the OECD to issue guidelines in a bid to safeguard quality and standards. The new Guidelines on Quality Provision in Cross-border Higher Education will encourage governments, higher education establishments, student bodies and other competent organisations to adopt three main principles: Mutual trust and respect among countries and recognition of the importance of international collaboration in higher education; recognition of the importance of national authority and the diversity of higher education systems; and recognition of the importance of higher education as a means for expressing a country's linguistic and cultural diversity and also for nurturing its economic development and social cohesion.

The aim is to help students gain easy access to reliable information on higher education everywhere, which in turn will depend on making qualifications more transparent and internationally compatible. Higher education institutions and providers should ensure that the programmes they deliver across borders and in their home country are of comparable quality, and the guidelines also urge governments to establish comprehensive systems of quality assurance and accreditation for cross-border higher education, cultural and linguistic sensitivities notwithstanding. The guidelines also invite student bodies to become more active in the development, monitoring and maintenance of quality provision.

It is the first time that the two Paris-based bodies have collaborated in developing guidelines in this way. The guidelines may not be binding, but their endorsement by these two international organisations gives them clout, if not teeth. ■

See www.oecd.org/edu

Inflation eases

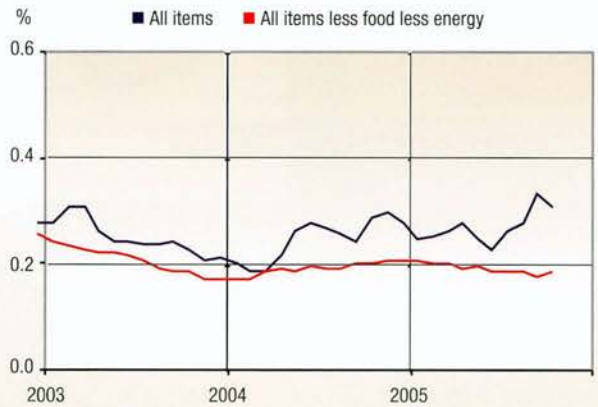
Easing energy prices helped annual inflation in the OECD area to slide back to 3% in October 2005 from 3.3% in September. Prices of energy rose by 18% year-on-year, compared with 21.1% in September. Excluding food and energy, consumer price inflation remained stable at 1.8% year-on-year in October. On a monthly basis, inflation in the OECD area was 0.2% in October.

In the euro area, the consumer price index increased by 2.4% over the twelve months ending in October 2005. Excluding food and energy, the year-on-year variation in CPI was unchanged at 1.4% in October 2005. In the US, the CPI increased by 4.3% over the same period. In Japan, consumer prices fell by 0.7% in October on a year earlier, compared with a decrease of 0.3% in September. ■

Detailed figures for "all items less food and energy" can be found at: www.oecd.org/dataoecd/40/51/34939889.pdf.

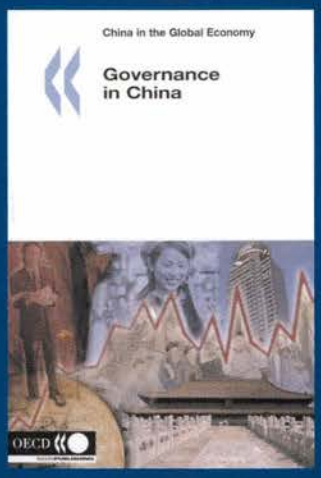
Consumer price trends

OECD area, % change on year earlier



Source: OECD

Intelligence for better government



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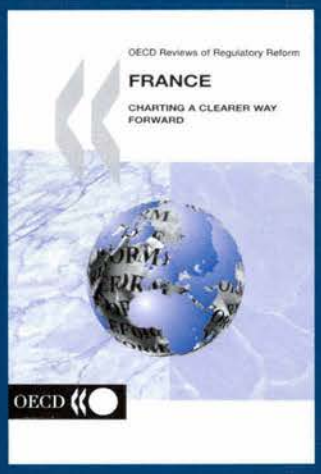

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The *Observer* would like to thank Andrea Uhrhammer for her helpful comments and advice in the preparation of this spotlight on government.

Trust is the key

Alexander Pechtold, Minister for Government Reform of the Netherlands and Chair of the 2005 OECD Ministerial Meeting on Strengthening Trust in Government

Even a few short decades ago, power and politics seemed to be played out only at election time, when politicians would consult the people, then return to government or opposition to take care of the affairs of the state. The next election was barely on their minds. Citizens, whether through trust or ignorance, generally would ask no more of them than that.

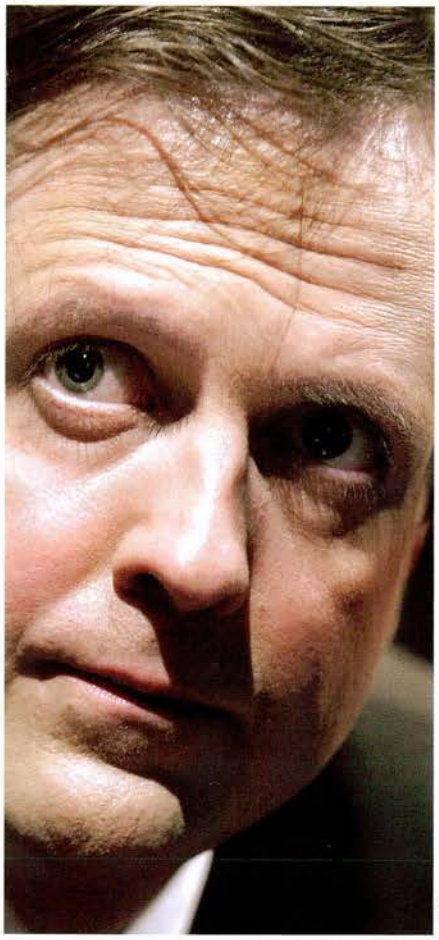
Those times are over. People are more educated and demanding of those they elect (and pay) to govern them. Governments in turn have responded by modernising themselves and becoming more prepared. In recent decades, they have adapted not only their policies to new demands and expectations, but have also changed their ways of working. They have become more open and transparent, reformed their regulatory systems and transformed their public services to become more client-oriented.

Nevertheless, despite these recent developments, it is far from certain that the relationship between citizens and government has improved. In fact, as polls, elections and referenda show, people's confidence in government seems to have weakened and their sense of dissatisfaction grown. This disenchantment spills beyond the ballot box, as is shown by demonstrations, occasionally even ending in disorder.

All democratic governments depend on public support. That means garnering trust, which people will invest as long as they are convinced that government will act in their interest and that of society as a whole. Without trust, there can be no democratic, legitimate and effective government. Trust is not a luxury. It is a cornerstone of all healthy democracies.

Ordinary people not only have a right to good government, but more than ever they also need leadership to help them cope with the major challenges of today. People feel exposed on several fronts: cost of living, unemployment, pensions, health care, threats to safety and security, globalisation and internationalisation. At the same time, government needs public trust to be able to play its roles properly, and to serve the interests of society in general. Strengthening trust of citizens has quite simply become a matter of survival for open, democratic government.

What must be done? This is the question facing OECD ministers meeting



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Minister Pechtold

Strengthening trust of citizens has quite simply become a matter of survival for open, democratic government

in Rotterdam on 28 November. But to answer it, to find a therapy that works, we will need the right diagnosis. Firstly, we must establish the cause behind this loss of public trust, and secondly, ask what can be done to win back this indispensable condition of our governmental system.

To steer the debate, allow me to offer a few pointers. For a start, the weakening of trust in government does *not* seem to be caused by mere indifference to the "public good". On the contrary, surveys in my country show that people crave for more involvement in public matters, not less. Sure enough, voters' turnout at elections has declined, but it seems that people no longer consider elections as the only effective means of expressing their opinions, demands, feelings and interests.

But if free elections, however key to democracy, are no longer a sufficient means for knowing what people think and want, then what is? How can government act in accordance with the needs and demands of their citizens? Should it adapt its structures and procedures, for example, by making more use of direct forms of decision-making, such as referenda on important issues? Should there be more "collaborative and deliberative decision-making" between interested citizens and professional government officials?

The role of the media also demands our attention. Television and newspapers have long been fundamental for freedom of expression and debate in our democracies, and that role may have intensified with the emergence of the Internet, and blogs in particular. Should the media be further harnessed as an "interface" in articulating the feelings and opinions of citizens and society and in shaping the agenda of government? Personally, I am not convinced, but the question demands close reflection nonetheless.

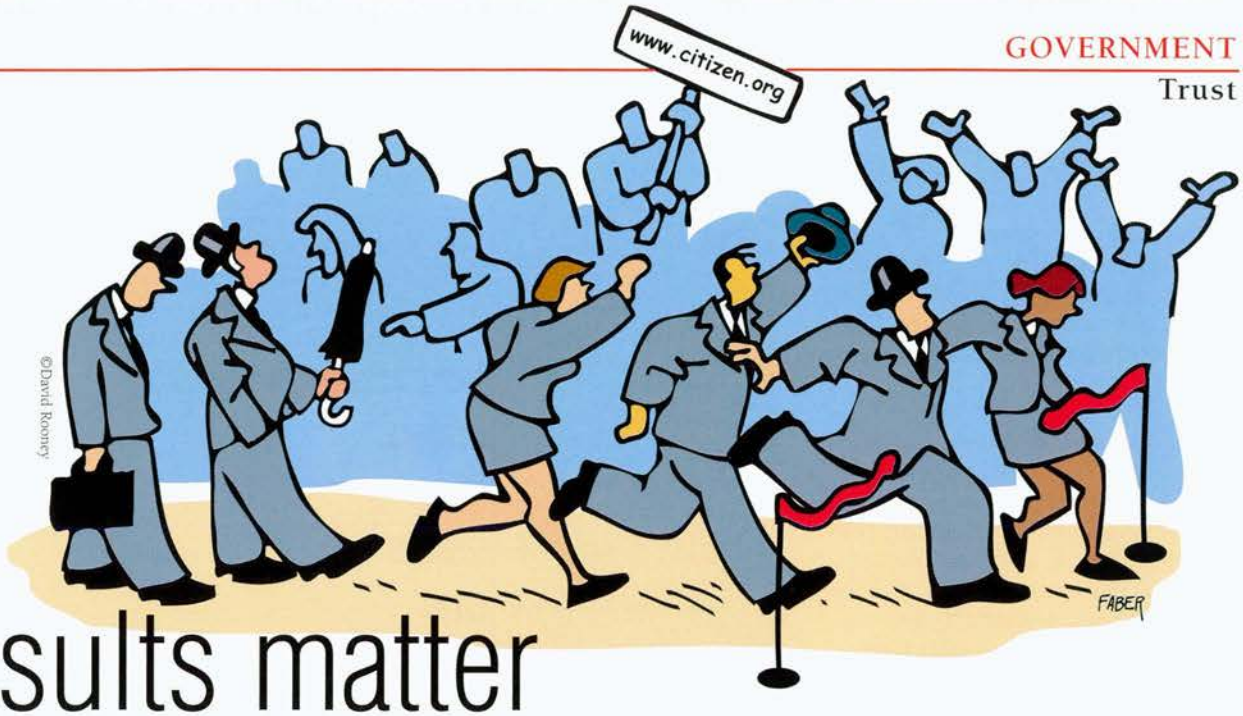
Perhaps the causes of the weakening of trust are cultural rather than procedural, or else a public reaction to behaviour and attitudes in government. Are governments still too remote and out of touch with their citizens, or on the contrary, are we seen as being too interfering?

Performance may also offer an explanation. Public management theories argue that public trust relies on the quality of government performance. By emulating private sector principles, such as effectiveness and efficiency, government can satisfy citizens' interests and demands. Certainly, there is a lot to gain in further improving service delivery, but according to this idea, if people trusted their governments more in the past, then government performance must also have been better then than it is today. Frankly, I doubt if this is the case.

Trust cannot be bought, it must be earned. People will accept occasional lapses in performance as long as they feel the government and its representatives are on their side. Perhaps thanks to higher levels of wealth and education, citizens have become more demanding. Two contradictory trends are at work: on the one hand, people increasingly want to be left alone, decide about their lives and their community themselves, with less government involvement; on the other, people demand a lot from government, particularly when things go wrong. Perhaps citizens expect too much! Politicians may be to blame for this, by raising expectations about their capacity to solve every problem. All too soon, realism sets in, followed by disillusion, then frustration and even despair. Governments cannot make people happy, but perhaps we can do more to help people build trust in themselves.

I invite you to tackle these issues with open, self-critical, minds. We can and must learn from each other by exchanging experiences and views. The OECD, which is already examining the issues, should step up this crucial area of its work. For as we all know, trust is really at the heart of sustainable economic and social development in free democracies. ■

Visit www.modernisinggovernment.org.



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Results matter

Odile Sallard, Director, OECD Public Governance and Territorial Development Directorate

Good governance is more important than ever, but governments must also sharpen up their act when it comes to the outcomes of their work. That means reform, but how?

If there were ever any doubt, current events are making it abundantly clear: good, effective government is crucial to a well-functioning economy and society. Natural disasters such as hurricane Katrina in the US, explosions of social and racial tensions in Europe, terrorism and threats of global pandemics have put government in the spotlight. Such events also underscore the high–and rising–expectations that citizens have of their governments. People expect the state not only to ensure certain basic services and institutions, but also to respond effectively in a crisis.

This is natural: good governance is also about good leadership. Even in normal times, citizens and businesses expect government services to keep pace with technology and developments in the private sector, to become more flexible and responsive to evolving needs. Meanwhile, governments–and not just in the euro area–are coming under increasing fiscal pressure, a situation that will only become more acute as our populations age.

Can governments rise to these challenges? Public administrations have been making progress. As a recent OECD review of two decades of reform shows, they have become more efficient, more transparent, more flexible, more customer-oriented and more focused on performance. Some services widely deemed "public", from telecoms to health care, embrace market mechanisms to reduce costs and improve effectiveness. "One-stop shops" have been created, allowing citizens and businesses to complete transactions with several different government departments at a single location. More professional consultants and experts are hired for task-related contracts, in financial auditing for instance, and government leaders and officials consult more with voters directly and via the media, including the Internet. Freedom of Information laws are now in place in 28 of the 30 OECD member countries, up from only eight in 1980. The OECD, itself an intergovernmental organisation, reflects these changes, for example by placing draft documents on issues of public interest, such as corruption, on-line for public comment before being finalised.

However, these improvements are not enough, and some have raised additional, unexpected problems. For example, decentralising too much or too soon can weaken the ability of government to ensure that national policies are adequately implemented. Moreover, shifting responsibilities to other levels of government or agencies can result in confusion about who is responsible for what. And many reforms are launched with great fanfare, but without the necessary follow-through to effect a real change in behaviour or attitudes.

But while some reforms may need rethinking, there is no question of turning back the clock. If OECD governments are to become stronger, they must go on adapting their institutions to current (and anticipated) changes. Today's fast-paced world demands it, and countries are seeking ways to make their governments–both in terms of policymaking and service delivery–more able to respond to changing needs.

In some cases, given the multiple pressures placed on government, this may entail rethinking government's role in areas that can perhaps be better handled in collaboration with others in the private or voluntary sectors, or indeed at local government level. Naturally, each country will decide this for itself, but thanks in part to the OECD, they will at least be able to make judgements by referring to the experience of others, seeing what works best for them, and what is less suitable.

Whatever the arrangement, all governments must focus increasingly on performance and results. This is key to any modernising strategy. The quality of governance depends on it, and our publics expect it.

That is why, over the past two decades, countries have been moving from controlling how resources are spent towards looking at what has actually been achieved with those resources. This is a major shift in the right direction, with the potential to make government more flexible and responsive as well as more efficient. Already it has led to greater transparency and accountability, with 24 out of 30 countries reporting performance results to the public.

But in practice, the shift towards performance-based governance has not been easy, and as demands heighten, so the challenges become more complex. For example, on a purely technical level, finding ways to measure results effectively–and to link results to a particular government action–is proving to be a challenge. While countries are collecting more and better data on performance, and integrating it into the budget process, the use of this information for policy design and reallocation, as well as sharing with others, still lags. In fact, in 41% of OECD countries politicians do not generally use performance measures in decision-making. Knowing what to measure, identifying the most relevant data, understanding how to monitor progress and communicating results to the public: all of this remains a challenge for many governments, even those that are in the vanguard of change.

Of course, governments are not machines, and some aspects of their role are probably impossible to measure in, say, financial terms. Strong public service values are also essential to a high-performing state. That, in turn, depends on attracting the right calibre of personnel. A crucial challenge for countries in the coming years is building capacity by making public employment attractive, bringing in the right skills and ensuring the adaptability of staff to evolving demands. Ageing in the workforce brings with it an opportunity for renewal in public employment from the bottom up, though this poses problems other. Moreover, as reform is about change, not going back to the drawing board, preserving institutional memory and experience, and so improving effectiveness over time, will be a challenge for management.

Many reforms are launched with great fanfare, but without the necessary follow-through to effect a real change in behaviour or attitudes

The starting point for any reform is diagnosis, and for that we need some hard facts. How is our public sector performing? How does our country compare? How can we design better policies based on the results of current ones? Right now, the answers to these questions are incomplete, yet without answers governments will be unable to convince a demanding public (and, sometimes, reform-fatigued civil servants) that their proposals truly will make things better. There are many stories to report on why one project succeeded and another was more complicated. Policymakers considering reform need reliable intelligence on these experiences to be able to plot their own way forward. They also need to assess the risks involved before embarking on new policy initiatives.

Finally, there is a need for better two-way communication with the public, both listening to citizens to understand their needs and expectations (and making sure citizens feel they're being listened to), and communicating with them on the rationale for new policies as well as on the actual results achieved. And in some cases, government may just need to say "no" to certain popular demands, though explaining clearly why. Managing expectations is becoming increasingly important.

Building the data and the intelligence required to respond adequately to these needs is where the OECD comes in. It is more than about acquiring empirical evidence, but also about advising on risk assessment and implementation of best practices. These are areas we must all improve on. We all agree that good policies can have enormous beneficial impacts, but most of all they can win the public's trust and confidence in government, as well as in themselves. Public reform is not a fashion or fad. Rather, it is a condition for building better, stronger, more open government. That is what democracy is all about. ■

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- Visit www.oecd.org/gov.

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But will they deliver?

Performance and accountability

Making government work

Teresa Curristine, OECD Directorate for Public Governance and Territorial Development

Whether setting targets or timetables, governments want to become more efficient. Becoming more accountable helps too.

Governments have always been keen to achieve results, but calls to improve public sector performance in OECD countries have become particularly loud and insistent over the last couple of decades. Reasons include increasing claims on public expenditure, particularly pensions, healthcare and education, expectations of higher quality public services in line with rising living standards and, in many cases, reluctance on the part of citizens to pay ever higher taxes. Government also has to be more competitive in the face of other potential suppliers in areas like transport, communications and energy. It must show it can do the job it sets out to do.

That is why governments across the OECD have responded by setting goals and shifting the emphasis of government management and budgeting away from how much money to spend towards what is actually being achieved. New Zealand was among the first to adopt this results-oriented budgeting and management approach in the late 1980s, and was followed in the 1990s by Canada, Denmark, Finland, the Netherlands, Sweden, the UK and the US. Later, Austria, Germany and Switzerland launched similar moves, and Turkey has recently begun a pilot phase of this process.

At the same time, these developments have pushed governments to modernise their accountability and control procedures. In particular, over the last 15 years or so, OECD governments have been engaged in reviewing and reforming the ways in which they keep control over large and complex operations in public services and how those responsible are held to account. Technological innovation and changes in the size and structure of government, in part reflecting privatisation and decentralisation, are also playing an important role in fostering these developments.

But these initiatives have by no means run their course, and their widespread implementation gives rise to some fundamental questions. What is meant by performance in the public service context, and how can it best be measured? Should a service be judged by, say, its accessibility or its financial cost, and who should do the judging? How can moves to increase the managerial responsibilities and decision-making powers of public servants be reconciled with democratic control and effective auditing procedures?

It is clearly not enough to argue that a reform works because it is based on sound research, or on an accepted procedure, or indeed that the government spent billions on its implementation. The main challenge is how to make reforms achieve their goal. This is the basic idea underlying performance-oriented budgeting and management: to shift the emphasis away from controlling inputs and towards achieving results. However, OECD countries are at different stages in this process and approaches to implementation vary.

In the US, for example, government ministries have developed strategic and performance plans that include performance targets. Other countries favour agreements between ministries and subordinate agencies or other public bodies. For instance, in the UK, ministries approve agencies' annual business plans, and these establish performance goals and targets for the following year.

Methods of implementing these plans also differ considerably from one country to another. Ireland uses pilots schemes before considering wider implementation, whereas Australia, the Netherlands and the UK have

opted for a top-down, total system approach from the start. Others, like Finland, give individual agencies considerable freedom to develop their own methods to reach agreed goals.

All these approaches are results-oriented, but how effective are they? Four main broad objectives can be identified: first, managing government efficiency and effectiveness; second, improving decision-making with regard to resource allocation and budgeting; third, improving external transparency and accountability; and fourth, achieving budgetary savings. Some countries target just one or two of these objectives, while others are aiming at all four.

What seems clear is that for now, greater progress has been made in implementing performance management reforms than in performance budgeting. Already, ministers or heads of department are formally responsible for setting targets for internal organisation, as well as reporting and delivery of services, and performance against them is systematically reported in around two thirds of OECD countries. Continuous performance monitoring within ministries is also now conducted in well over half of the countries concerned.

Nonetheless, the use of performance information in the budget process is still work in progress. Though three-quarters of OECD countries may routinely include non-financial performance data in their budget documentation, many do not always link expenditure to output and outcome targets. Countries are still grappling with measurement and in particular how to attribute specific policies to actual results on the ground. Nor have governments abandoned inputs. Indeed, basing decisions on several types of information is perhaps a necessary and realistic approach, and so output performance is considered as part of a package that includes information on fiscal policy and even political factors.

Despite many years of trying–some 40% of OECD countries have been working on outputs measures for more than 10 years–countries continue to struggle with a myriad of technical and behavioural issues.

But there have been successes. Take transparency, for instance: in 24 out of the 30 OECD countries, performance information is available to the public and widely published. Inspired by positive outcomes like this, governments will likely push on with performance initiatives.

The drive towards holding ministries and agencies answerable for results has implications for the traditional accountability mechanisms. But action to change this is being taken, with interesting spin-offs. The main development has been a move away from procedures under which external supervisors have to approve payments and other decisions in advance–so-called *ex ante* control–towards systems under which internal management takes the decisions first, and these are audited afterwards–*ex post* control.

Greater progress has been made in implementing performance management reforms than in performance budgeting.

The principal motive for this change is to speed up the decision-making process and make it more efficient, and it places larger responsibility on public sector managers to ensure that the right decisions are taken and implemented correctly in the first place, not just in payment transactions, but in strategic management. In other words, better accountability can improve performance, too.

Little surprise therefore that all OECD governments are moving in this direction, though some have gone further and faster than others, particularly in Nordic countries and the UK. In France, Italy and Spain, where treasury controllers and quasi-judicial "courts" of arbitrators still approve and oversee spending, change has been more gradual.

But faster change seems inevitable, since one effect of the move towards *ex post* procedures has been more numerous and more varied controls. Indeed, performance-related audits now account for up to half of the work carried out by external auditors in some instances.

There is cause for prudence though. All of these shifts are happening at a time when many governments are delegating more service delivery functions to bodies outside direct ministerial control. This means that responsibility for programmes is moved further from those who are held to account for the funds, and control procedures therefore become more problematic. In addition, although many countries are trying to give managers more flexibility to achieve performance goals, political systems still deal poorly with mismanagement of funds. Despite the diversity of approaches in OECD countries, some common threads can still be drawn, a vital one of which is the importance of backing up performance-driven procedures with appropriate accounting and control mechanisms, and ensuring that the two develop in concert with each other.

Proper *ex post* control might not guarantee government popularity, but it will bring stakeholders on board. More use should be made of it. According to one set of findings by the OECD and the World Bank, politicians in general do not commonly use performance measures in decision-making in well over 40% of OECD countries. Even more strikingly, members of the legislature use such measures in a mere 19% of those countries.

But while performance and efficiency are important, what matters is the end result. Put another way, poor policies carried out "efficiently", according to budget and set procedures alone, may be counterproductive for the service, and will hardly inspire confidence in bureaucracy. Results-oriented management, on the other hand, requires judgement to make the right decisions, and that means an openness to collaboration, self-evaluation and a willingness to monitor and adapt along the way. As Edmund Burke once famously put it, a state without the means of change is without the means of its own conservation. ■

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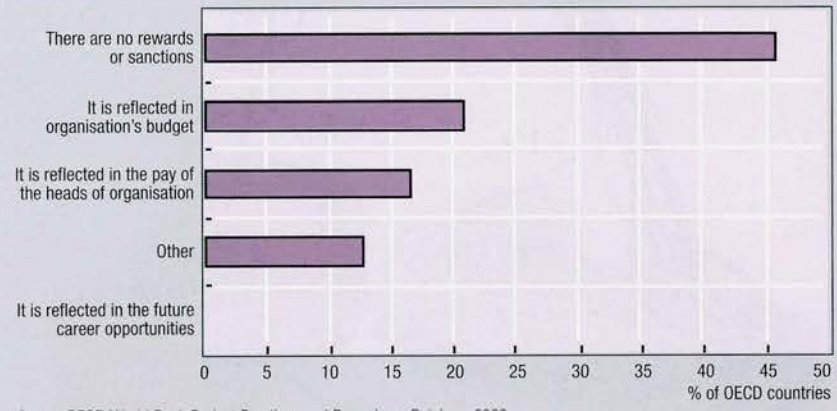
Measures of reform

OECD countries have carried out many public management reforms over the last 20 years or so. Yet there is still little comparative data to help governments plan such moves and gauge their progress. To be sure, statistical and budgetary agencies in many OECD countries have made attempts at measuring general government productivity, for instance, but these efforts have tended to be made in isolation, and often employing different methods. Also, reforms are characteristically inspired by assumptions about "best practices" that are rarely spelled out clearly, making it very difficult for officials in any given country to evaluate changes introduced either by their predecessors or governments elsewhere.

Getting the measure

Are rewards and/or sanctions applied if performance targets are met or are not met?



Source: OECD/World Bank Budget Practices and Procedures Database 2003.

OECD countries have their own individual tastes and needs when it comes to reform, but all face common challenges, such as how to introduce accountability, retain senior staff, improve efficiency and sharpen their bookkeeping. But while decision-makers may have a clear idea of what they want to achieve, the difficulty is knowing where to start, and then how to monitor and influence performance effectively.

A new project by the OECD's Public Governance and Territorial Development Directorate may help to respond to this need. Provisionally dubbed "Management in Government: Comparative Country Data", it aims to bring together information and experience from across the OECD on good government and efficient public services.

The project is still at proposal stage but, if adopted, it would help governments to bring a sharper focus to public management discussions and reform. All levels of government–central/federal, state and local–could be covered by the project, which would lead to an annual report entitled Government at a Glance, starting in 2009. The study could also examine key sectors such as education, health care, law and order, and public administration.

Assembling the data is the tricky part. An initial working paper in 2006 would relate mainly to inputs, using data which are readily available on areas such as operating costs, human resources and institutions, budget processes, nature of the civil service, structure of government, intergovernmental relations and transparency.

Another part of the work would concern so-called outputs and results, including measurements of volume–nature, number and scope of public services–and quality, for example, processing time, customer/citizen relations and accessibility. Though this is a vital aspect of the study, experts working on the project concede that information of this sort will be more difficult to obtain.

The new project will depend on collaboration with outside agencies and experts, such as national statistical offices, analysts and statistical practitioners. This will enhance its appeal to a range of audiences, from public managers and policymakers to national accountants. All of those envisaging reform or wishing to assess performance, whether in outsourcing auditing or training schemes for senior managers, will be able to see in a glance how other governments have done.

The project cannot, of course, provide simple catch-all solutions for governments considering public management reforms. After all, the dividing lines between public and private sector differ from one country to another, and the relationships are complex in nature. Health services may be publicly funded but provided by private agencies, for instance. What the study can do, however, is provide a solid fact-based starting point for action. And if the project can help governments learn from the by now rich and rapidly accumulating experience of others, then it too will be a success. ■

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When governments go shopping

It started in the 1980s with privatisation, when state-run commercial services like telecoms were transferred to private ownership. Now an extension of this idea is to hire private sector businesses to deliver public services. The services remain public, the government remains responsible for regulation and oversight, but businesses either replace public authorities in carrying out the job or share the work with them. What are the reasons for introducing this notion, how does it operate in practice, and can it achieve its goals?

There is no single snappy way to describe the complex process of harnessing market mechanisms to deliver government services, and the procedure can take several different forms. These include outsourcing or sub-contracting, public/private partnerships or private finance initiatives, and the distribution of vouchers that citizens may use to buy services.

However it is named, the idea forms part of a wider, if diffuse, movement aimed at improving public sector performance and making government more open and responsive. According to a recent OECD study, *Modernising Government: the Way Forward*, the trend has been gathering momentum over the last 20 years or so. Key motives for tackling these issues include a belief that citizens expect more and more from their governments, but that they are unwilling to pay ever higher taxes to obtain it.

The extent to which governments involve the private sector differs from one country to another. Support services are commonly outsourced across OECD countries, as are back-office operations such as IT functions. Relatively few countries have so far been prepared to contract out activities traditionally viewed as inherently governmental. Some that have done so include Australia, Canada, the UK and the US with regard to prisons, Denmark for rescue and fire services, and New Zealand, where the audit office is subcontracted.

Public/private partnerships have most commonly been applied for infrastructures, such as Portugal's €5 billion national road programme, high-speed rail links in the Netherlands and the new airport in Athens. Governments have also turned to markets for delivery to ordinary people of services like housing, education, childcare and care for the elderly, with voucher schemes in particular gaining in use in OECD countries.

Governments clearly have a duty to provide universal public services at as

low a cost as possible. In this context, hiving off service delivery to, or sharing delivery with, commercial providers can have a number of advantages. It may help to make the process more flexible and more readily able to respond in a timely fashion to changing public demands. Governments may find it easier to make adjustments in service provision when they have contractual arrangements with a range of suppliers, rather than long-term employment obligations towards their own personnel. It may also help reduce costs, so generating efficiencies for suppliers and consumers.

This is similar to the now firmly established trend in the corporate world towards subcontracting processes and operations that are not considered central to the company's core business. Printing, secretarial services, marketing, accounting: almost any service can be contracted out, leaving companies to concentrate their energies on earning profits.

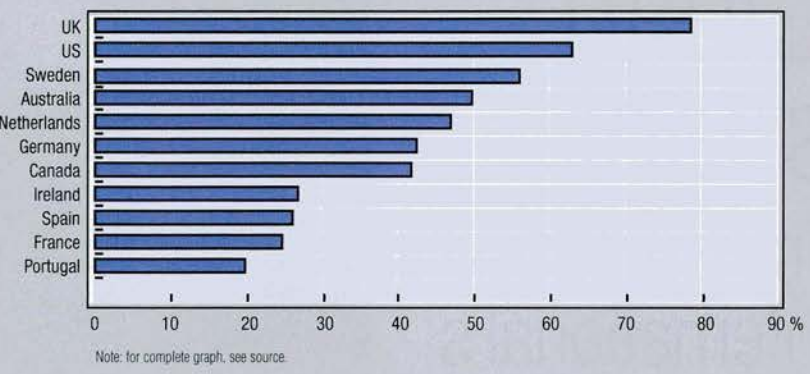
How far can these arguments be applied to public services? It is less simple to measure benefits in an activity where the core objective is not necessarily to make money. Also, governments of democratic countries who must keep a watchful eye on the ballot box may easily fall prey to the allurements of the short-term fix. For instance, when some public/private sector arrangements such as private finance initiatives allow governments to transfer capital investment to the business partner, there is a clear temptation to avoid vigorous self-questioning as to whether the immediate saving in the public borrowing requirement may be outweighed over time by the fees payable to the private sector contractor.

Also, while subcontracting can bring savings, it nonetheless demands dedicated resources both in the set-up phase and day-to-day running, which public managers must factor in from the start if the subcontract is to work smoothly and effectively.

So, what should governments do? According to *Modernising Government*, quite a lot, since experience to date shows that market-type mechanisms can be applied to a very wide range of government functions. These stretch from building cleaning and catering through highway structures to health service provision. The report points to evidence from several countries to show that outsourcing in particular can result both in satisfactory service quality and significant cost savings. For example, the report quotes a survey of 66 large cities in the US which found that 82% of the cities said they were satisfied or very satisfied with the resulting performance, and the remaining 18% were neutral. The OECD report also indicates that cost savings ranging from 5 to 33% have been recorded in respect of outsourcing operations carried out in Australia, Denmark, Iceland, the UK and the US.

Outsourcing government

Government purchase of goods and services vs. in-house provision
selected countries



Note: for complete graph, see source.

Source : OECD (2005), *Modernising Government: The Way Forward.*

Gains from initiatives such as public/private partnership operations, on the other hand, still remain limited. For instance, in the UK, which leads the field in this respect, public/private partnerships accounted for no more than 10% of total capital investments in public services in 2003-2004.

At the present stage in the game, it would be difficult to draw one simple lesson, though a number of key issues can be identified. On a technical level, one of these is the need for governments to consider involving the private sector on a case-by-case basis in order to determine whether the private sector approach produces the most effective and efficient solution. Moreover, since these procedures are relatively new, governments often lack the specialised expertise required for tasks such as assessing competing offers and setting parameters, including division of project risks. Accordingly, in many instances expert resources will have to be strengthened in these respects, while countries should seek to learn from the experiences of their peers.

It is early days, but the effects of such questions on public perceptions of government, including trust, will be crucial. Markets will probably continue playing a role in government, but adopting market principles to deliver public services, whatever the potential, is far more than a technical matter for officials. Indeed, because it raises a much larger set of issues concerning governance, citizens, civil society and even international market forces, clear political leadership will be needed as well. ■ *RJC/MR*

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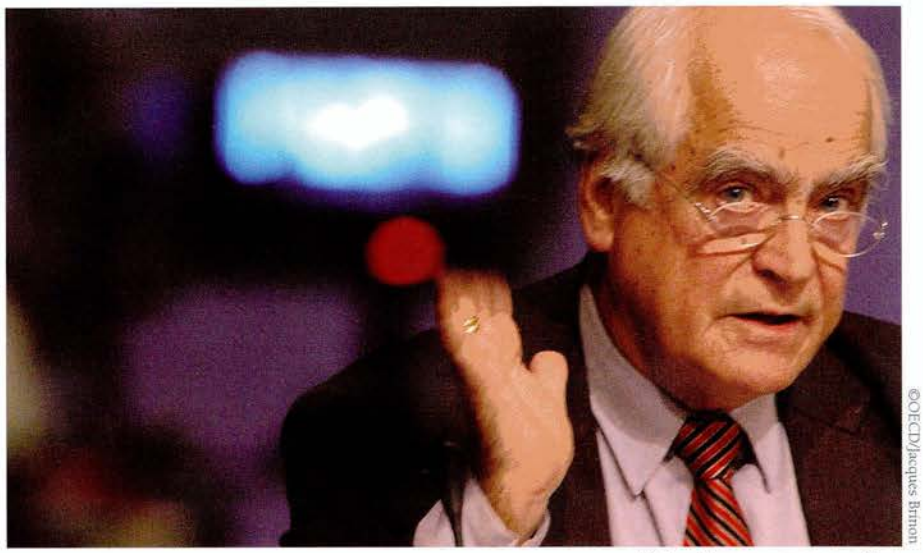
Clean sheet

Transparency International's new chapter



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Peter Eigen waves goodbye

Critics say that power corrupts and attracts the corruptible, while some businesses argue that paying bribes to public officials, for instance, is simply the way affairs are run in some countries. Little wonder that corruption is one area where government performance is closely watched–and harshly assessed–by the public.

Even sceptics would agree that corruption, quite apart from being anti-democratic, distorts markets and chokes development. That is why the OECD leads the fight against corruption in international business, notably through its renowned Anti-Bribery Convention. Stepping up vigilance is all the more important nowadays as more governments begin to outsource or adopt commercial-like approaches to provide public services. Non-government organisations have played a vital role in casting a light on corrupt behaviour and building public as well as political awareness of the problem. Chief among them is Transparency International, whose Corruption Perceptions Index is now a reference. The 2005 version released in October shows that while OECD countries generally perform well, there is much work to do. We caught up with Transparency International's founder, Peter Eigen, just before the organisation's elections in November, at which he would be stepping down as chair.

OECD Observer: **As founder of Transparency International, how would you judge progress towards cleaner government since TI began in 1993?**

Peter Eigen: Thankfully, there has been progress, and this can be seen primarily in the way that people have become less patient with corruption. Consumers, civil society, but also the media: all have become much more critical and intolerant towards it. The fact that one reads much more about corruption, whether in government or business, than 13 years ago by no means indicates that there is more corruption than before. Rather, it shows the enormous anger that corruption elicits. It can no longer be brushed under the carpet! It is discouraging, though, to see the list of hundreds of companies implicated in the oil-for-food scandal, for instance. It's a clear sign that too many people still find it hard to kick old habits. And it serves as a reminder that corrupt behaviour is still prevalent in OECD countries, particularly in business. Accepting this fact opens the door to tackling corruption through joint efforts, instead of pointing the finger solely at poorer countries.

Yet OECD governments would probably consider themselves as leaders in transparency and accountability, generally setting the high standards in government for others to follow (see table). But TI's latest widely respected corruption index also points out that wealth is not a prerequisite for controlling corruption. How do you explain this?

This message is so important because it challenges the wisdom that countries need to grow richer before they can really deal with governance issues. TI has always said that corruption is a major cause of poverty, more so than the other way around. Improve governance and the quality of life will improve as well.

The long-term data provided by a decade of annual Corruption Perceptions Indices show that some wealthy countries' scores have in fact worsened in 2005. That is the flip-side. Poverty is no excuse for tolerating corruption, but neither can wealth protect a country against suffering from it in the future. Constant vigilance is essential everywhere.

Beyond this, it is most important for wealthy countries, with or without a colonial legacy, whose companies have been active in poorer

True democracy is like a delicate flower. We should never sacrifice transparency, liberty and accountability for so-called greater security.

countries, to recognise their role in driving the phenomenon of corruption there. They may score well on our index, but a double standard where you behave yourself at home and bribe ruthlessly abroad is no cause for self-congratulation. Having said that, OECD countries, as reflected in their implementation of the OECD Anti-Bribery Convention, and their companies, reflected by the growth of voluntary transparency initiatives, are now taking this issue seriously. But much damage has been done.

Some people argue that times are harder now, that new challenges–globalisation, security issues, social conflict, etc–demand a new kind of tougher government, and that people are prepared to accept changes in exchange for greater security, for instance. What is your view on this?

To be able to fight corruption we need modern, open, visible institutions. Transparency is a key factor in this. Even though times may be harder, we must keep strengthening democratic institutions and developing an independent civil society. Therefore, Transparency International works with the National Integrity System model, which dictates that open co-operation between governments, institutions and the private sector promises more success than a return to a closed society.

True democracy, particularly in its early stages, is like a delicate flower. And only in an open and democratic society is it possible to detect and root out corruption. Non-democratic systems don't allow this. We need to keep moving towards greater democracy and a system that allows for the full involvement of civil society. The role of NGOs in controlling public officials cannot be overestimated. Active organisations like Transparency International have made a real contribution to highlighting and stopping corruption.

Corruption Perceptions Index 2005

Country rank	Country	CPI score*
1	Iceland	9,7
2	Finland	9,6
2	New Zealand	9,6
4	Denmark	9,5
6	Sweden	9,2
7	Switzerland	9,1
8	Norway	8,9
9	Australia	8,8
10	Austria	8,7
11	Netherlands	8,6
11	UK	8,6
13	Luxembourg	8,5
14	Canada	8,4
16	Germany	8,2
17	US	7,6
18	France	7,5
19	Belgium	7,4
19	Ireland	7,4
21	Japan	7,3
23	Spain	7,0
26	Portugal	6,5
40	Hungary	5,0
40	Italy	5,0
40	Korea	5,0
47	Czech Republic	4,3
47	Greece	4,3
47	Slovak Republic	4,3
65	Mexico	3,5
65	Turkey	3,5
70	Poland	3,4
158	Bangladesh, Chad	1,7

* CPI Score relates to perceptions of the degree of corruption as seen by business people and country analysts and ranges between 10 (highly clean) and 0 (highly corrupt).

Source: Transparency International www.transparency.org.

We should never sacrifice transparency, liberty and accountability for so-called greater security. That would be a slippery slope. It certainly runs counter to what TI stands for.

Can there be such a thing as a perfectly clean government?

Perfection is not of this world, so we do not expect governments to be perfect, or to be trusted blindly. But this does not mean perfection is the wrong direction to move in. In our work at Transparency International we certainly try to make it harder for government officials to be *im*perfect, or to abuse their positions. We try to raise the costs of being corrupt and increase the incentives for resisting temptation. We encourage systems that reduce the scope for corruption through targeted, practical legislation and we call for an independent monitoring function of every regime.

You are now stepping down as chair of the organisation you founded over a decade ago. Where can TI go from here?

Let me say first of all that I will stay connected with TI after stepping down as chairman and I will continue to do my bit. Fortunately, TI shows many signs of a maturing institution and a new generation of leaders was elected during this year's annual membership meeting on 12-14 November in Berlin.* With its strong management and staff, and a very dynamic group of national chapters, I feel confident that TI will continue successfully along its current track.

I have always seen it as my most important task to build awareness within the global community of how damaging corruption is to society and economic development, and to persuade people that there actually are ways to solve the problem. Recently, civil society groups and influential organisations have woken up to their responsibilities. I'm thinking, for example, of the World Bank, which just a few days ago cancelled three development projects in Bangladesh worth US$1 million after discovering that corrupt procurement practices had been used. ■ *RJC*

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* Huguette Labelle, a prominent public servant from Canada, was elected chair of Transparency International at that meeting. Akere Muna, from Cameroon, was elected vice-chair. For more information, visit www.transparency.org

● Visit www.oecd.org/corruption.

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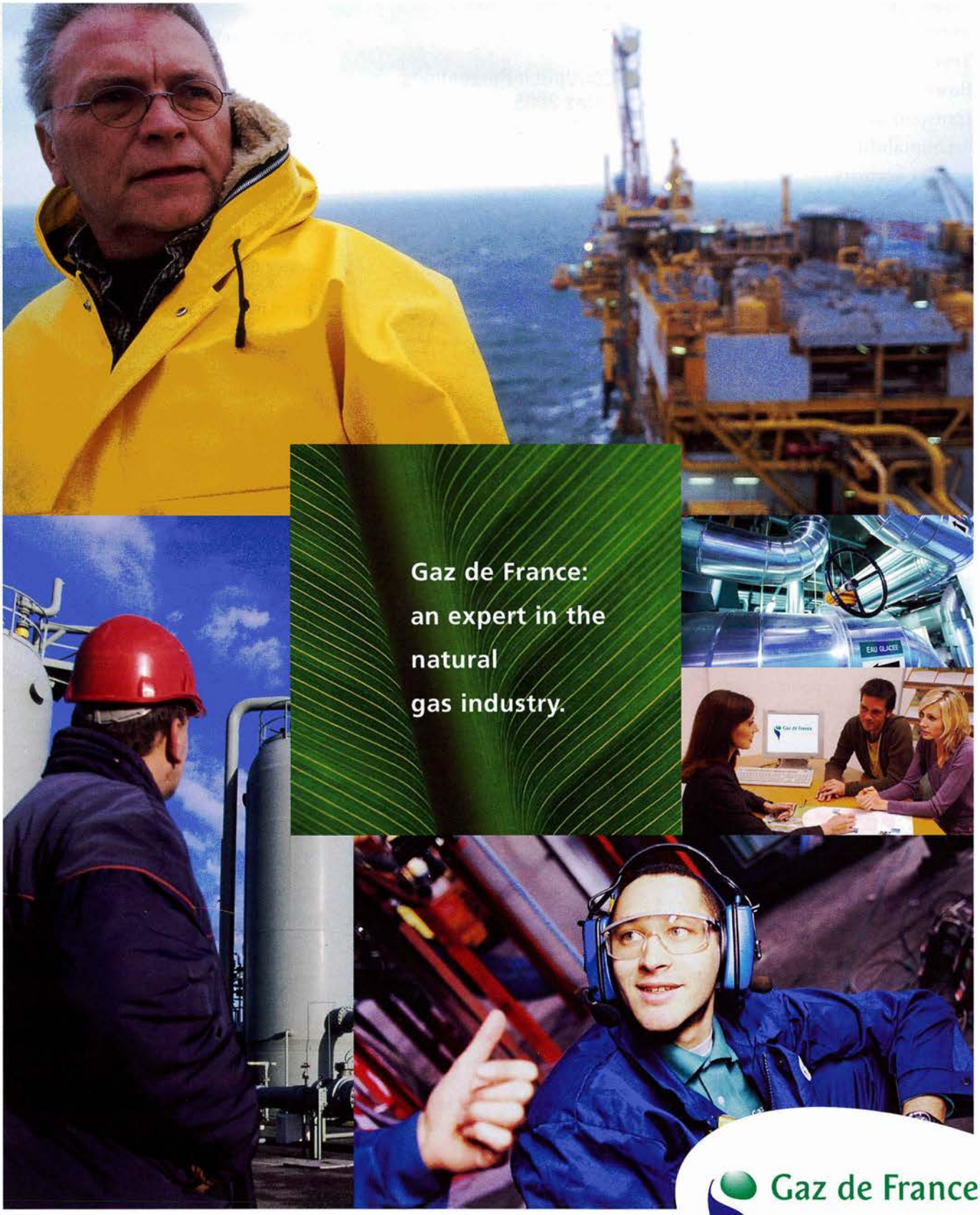

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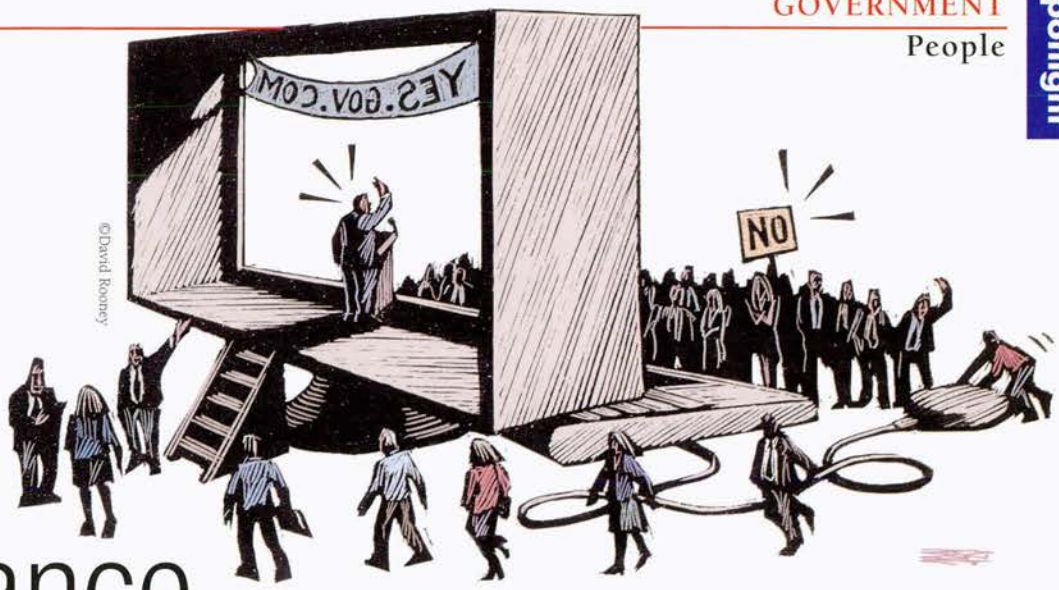

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Public governance and public trust

Selling a fast one

Mike Waghorne, Public Services International
and Consultant to the Trade Union Advisory Committee of the OECD (TUAC)

There are lots of jokes about car salesmen. Many play on the idea of fraudulence and untrustworthiness. If governments place excessive faith in the invisible hand of markets and craft social policies and public service programmes that rely on commercial promise, they run the risk of being seen in the same manner: as policy sales people selling products, and certainly not practising good governance.

Over a year ago the World Bank's *World Development Report: "Making services work for poor people"*, suggested that there was no difference between selling public services to "customers" and selling sandwiches and samosas at a street stall. How can this be? Is business performance a sound basis of trust in public services? Is winning trust about getting the message, any message, across right or having the right message in the first place?

The rejection by the French and Dutch of the EU constitution referenda may be evidence that more (simple) messaging will not necessarily get the people to buy into what governments are doing. No, people are far better informed and smarter than that. That is not to say that the people are right: as playwright Ibsen pointed out, majorities can turn out to be very wrong. Still, in democracies, broad public trust must be sought, won and maintained.

Not that governments should simply please public opinion; rather, in providing leadership, governments must hold genuine and visible social dialogue. For workers and their unions, this social dialogue has a special meaning, especially in OECD countries where governments accept the legitimacy of trade unions and the need to involve them in decisions that will affect working life or social and economic realities.

But there is a tension between the need for transparency and consultation with relevant stakeholders, and the fear that well-organised stakeholders will capture and slow down the process. Some governments have identified both the problem and the solution: consultation is about getting these messages understood by everyone else.

The OECD has occasionally posted draft guidelines on their website for public consultation, and has recently become much more open in its discussions with civil society but, overall, too many organisations, including the OECD, have a fascination with speed, and communicating post-decision messages. As one Workers' Group delegate noted at a recent ILO meeting on public services: "From our side it's as if you have, in our absence, charged us; in our absence heard the 'evidence'; in our absence found us guilty; and then, in a magnanimous show of dialogue, have invited us to be part of the decision as to whether we should be hung, drawn or quartered. Where does this approach leave us?"

So, transparency and consultation, yes. Governments cannot insist that the groups

it consults agree with its solution, but it is reasonable to want evidence that the group does represent the constituency it claims to; and that, when a group agrees a solution, it will go back to its constituency to seek endorsement. That level of trust between partners takes time to build, so that a history of conflictual relationships becomes a constructive one. Today, though, not only do workers see governments consulting civil society groups that have no real constituency to endorse them, but they see the government approaching their union only if there is bad news–job/wage cuts, outsourcing, privatisation–with the union being invited to help the government work out the precise conditions under which these decisions will be carried out. This is hardly a way to build long-term trust.

The problem for policymakers is unorganised interests, whether groups or individuals. How does one consult with them and gain their trust? How can coherent and inclusive policymaking be assured? E-government is part of the solution perhaps, but, apart from online access to public agencies, the risk is that e-government atomises people, with surveys replacing real consultation and endorsement. People may be in touch, but that does not make them informed. And it certainly does not make them organised, which puts ordinary people at a disadvantage. The OECD and several other institutions talk about the need for structures and infrastructures to build an enterprise economy, but governments must encourage and resource the infrastructure that builds associational life. And it must get out there and engage with those organised interests. Engagement–where all sides develop, not where one side "informs"–is the true lifeblood of democracy.

If governments treat people as mere voting fodder, it is no wonder people stop voting and resort to self-protective ways of living: tax evasion, petty crime, cheating and ghettoisation become inevitable, rather than community-building, co-operation and contributing.

Government leaders may decry the breakdown of society, but why then push reforms that favour atomisation, only to spend tax dollars patching up the consequences? Take a recent OECD regulatory review of Russia, which took a close look at railways. This huge transport system is so crucial to many of Russia's vast and outlying regions. Almost all proposals in the report focused on rail as a commercial enterprise, period. Certainly, it must become efficient and effective, and markets should play a role. But governments have to achieve much more. In many countries, railways play multiple roles: commercial freight and passenger transport; providing universal services to outlying areas; reducing commuter traffic and pollution; centres of apprenticeship training; employers of last resort for less skilled or disabled people, and so on. It is unreasonable to expect such a system to be competitive against, say, private truckers. The same could be said for many public services whose social value is pervasive and yet which are under pressure to behave according to narrow, market-defined criteria. Either we have to ensure that these non-market functions are carried out in some other socially collective way or we pay the subsidies needed for these roles to be fulfilled.

What makes people lose faith is when the government uses words like "modernisation" or "choice" to justify reform of public services. Such spin is widely seen as a smokescreen for other motives. People know what they have lost. Without association, they are too weak or too busy to do anything about it. Yet, history shows that while people may be prepared to lose or pay dearly to keep those functions for a time, they don't like being treated as fools for long. ■

References

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- World Bank (2004), *World Development Report: Making services work for poor people*, Washington, DC.
- Visit also www.tuac.org.
- See more TUAC articles at www.oecdobserver.org.

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Do students trust governments?

Students are traditionally active members of civil society as well as critics of government action. Whether as intellectuals or as frontline activists of non-government organisations, they play a lead role in the unfolding story of globalisation. And because they are also the future, their voices must be heard.

Adriaan Buyserd is Dutch and Lampros Kontogeorgos is Greek. Both are graduate students studying international public administration at the Erasmus University Rotterdam, and both will be taking part in the parallel summit for students that is being staged this month in Rotterdam alongside the OECD ministerial meeting on trust in government.

Messrs Buyserd and Kontogeorgos come from countries that could hardly be more different within the confines of one cramped continent. Yet both are global-minded citizens of the EU, and each is pursuing an international career path. And they are doing this at a moment when the ubiquitious "Blackberry" and similar devices have abolished the concept of distance for virtual communications, and cheap quick flights around Europe have replaced the creaking night trains and stale sandwiches of yesterday's Interrailing students.

We asked them if today's students feel that democratic governments can be trusted. Do they think that politicians do too little or attempt too much for their own citizens and the wider community? What are their expectations for society and public affairs in a world where corporate and political scandal, civil disturbance, disaster and violence routinely grab the headlines?

If Messrs Buyserd and Kontogeorgos are anything to go by, there is a relatively high level of trust in government among students, albeit hedged with caveats. Adriaan Buyserd suggests that politicians and administrators are as competent in their field of expertise as are other professionals.

"The nub of the problem lies in the substance of their societal role; they are assigned to make the most difficult of choices, aren't they? And when the essence of your job is to favour some interests –or people– over others, you are bound to arouse a lot of dissatisfaction," he reckons.

At the same time, people are likely to trust their governments more if they feel certain about their own situation and future. For example, Mr Kontogeorgos points to statistics showing that levels of trust are

higher in the Nordic countries and the Netherlands than they are in countries like France and Italy. He believes that a major reason for this is that in places such as Sweden and Norway "the welfare state is strong enough to make sure that nobody in need is excluded. People feel that their government is there for them."

Perceptions about levels of honesty and corruption also have an influence. Mr Kontogeorgos makes the traditional North/South distinction, saying that people in the Nordic area see their governments as basically honest. "Conversely, in the Mediterranean countries, corruption is on the daily agenda," he adds. Scandals involving politicians are more than frequent, and "in many of the transactions between citizens and the public sector, bribery is necessary."

"For a complex set of reasons states are partially surrendering their capacity to act." – Buyserd

Beyond these local differences there is a much more general malaise among the public everywhere, arising from a feeling that their own governments are no longer fully in control, and that they fail to secure their own national interests in the world. Typically, the government "is held responsible for a myriad of global changes that produce detrimental effects in everyday life," says Mr Buyserd. Yet individual governments cannot control these circumstances, and "for a complex set of reasons states are partially surrendering their capacity to act."

Also, incidents such as the recent political murders in the Netherlands and unrest in French suburbs are seen as symptoms of the increasing alienation of parts of the population from government and the rest of society. "You cannot segregate entire classes of citizens or fail to make any effort to integrate them in society, and get away with it," Mr Buyserd comments.

Governments are not entirely at fault. Individuals need to make more effort and be more open towards migrants. "Simple things make a huge difference," Mr Buyserd suggests. "I, for example, am about the only white person on my block, so I buy my groceries from a Moroccan, have a Chinese hairdresser, and order Turkish pizza as junk food."

What should governments do in light of these views and experiences? According to Mr Kontogeorgos, we may even need more government, not less, though he weighs his words. "Maybe not in the old sense of constant intervention, but in a new way that will make it clear to all citizens that the elected government remains the vehicle for the promotion of the collective good."

Mr Buyserd reckons that governments need to establish an "environment of certainty and stability" that will help citizens to take responsibility for arranging their own lives. Nonetheless, he also believes that there has to be a safety net "for those who do not manage".

On a regional level, Mr Buyserd is convinced that Europe needs to create something resembling a "post-modern" state in order to secure the survival of the European way of life. He is proud to say that he voted in favour of the EU constitutional treaty in 2005, which most of his compatriots rejected. On the other hand, he thought that the Netherlands government campaign to persuade people to vote "yes" was negative–he calls it "shameful"–and actually backfired by repelling voters that might otherwise be pro-European.

If students in the 1960s marched on the left, their children in the 1980s put on business suits and took briefcases to college.The situation nowadays is less clear. The globalisation issue provides a prominent example, revealing divisions of opinion among the young.

For instance, according to Mr Kontogeorgos, "many people in Greece–students especially–tend to blame globalisation for everything that goes wrong". This includes jobs moving to other countries and rising unemployment. "As long as no solutions are given to counter-balance the negative effects of globalisation, it will remain a source of uncertainty–and sometimes of riots," he declares.

By way of contrast, Mr Buyserd paints a sunnier–and maybe more personal–picture. He says that, at least so far as Dutch students are concerned, "this generation of youngsters is more conformist than in the demonstration-prone 1960s or beyond," and that few seem angry or uncertain over globalisation. He adds that his peers are inclined to address the problems connected with globalisation by working through the system rather than by protest, and that overall "they view the globalisation story more as a window of opportunities–from exotic food to cheap foreign holidays".

"We may even need more government, not less." – Kontogeorgos

If governments can work openly to provide stability and an environment in which responsible individuals can carry on reaping such fruits, while at the same time investing in social institutions and in particular protecting citizens against any possible negative consequences of globalisation, then they will probably get high marks from many students, and probably greater trust from other citizens as well. And by listening closely to the students' views expressed at the parallel forum in Rotterdam, governments would show that they are serious about winning that confidence. ■ *RJC/MR*

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- Adriaan Buyserd also recommends Prof. Garton Ash's "groundbreaking" website www.freeworldweb.net and the New Europe-wide policy magazine http://www.europesworld.org.
- Visit www.modernisinggovernment.org, click "Parallel summit".

Capitals of democracy


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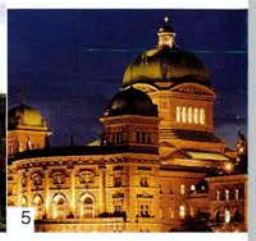
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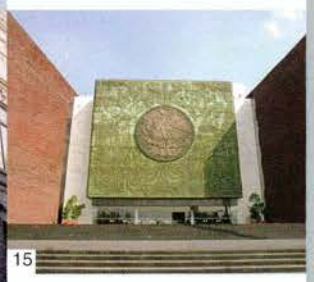
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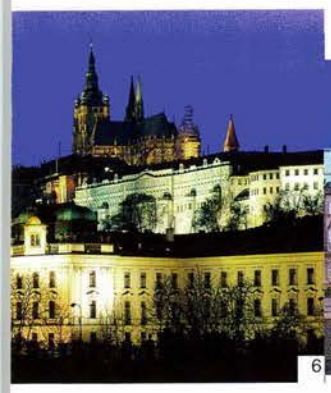
Parliaments in the OECD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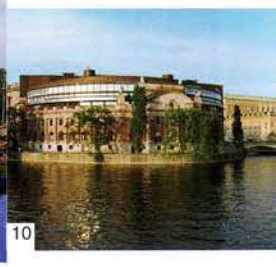
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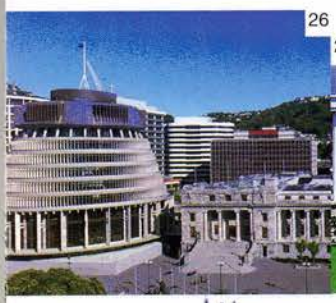
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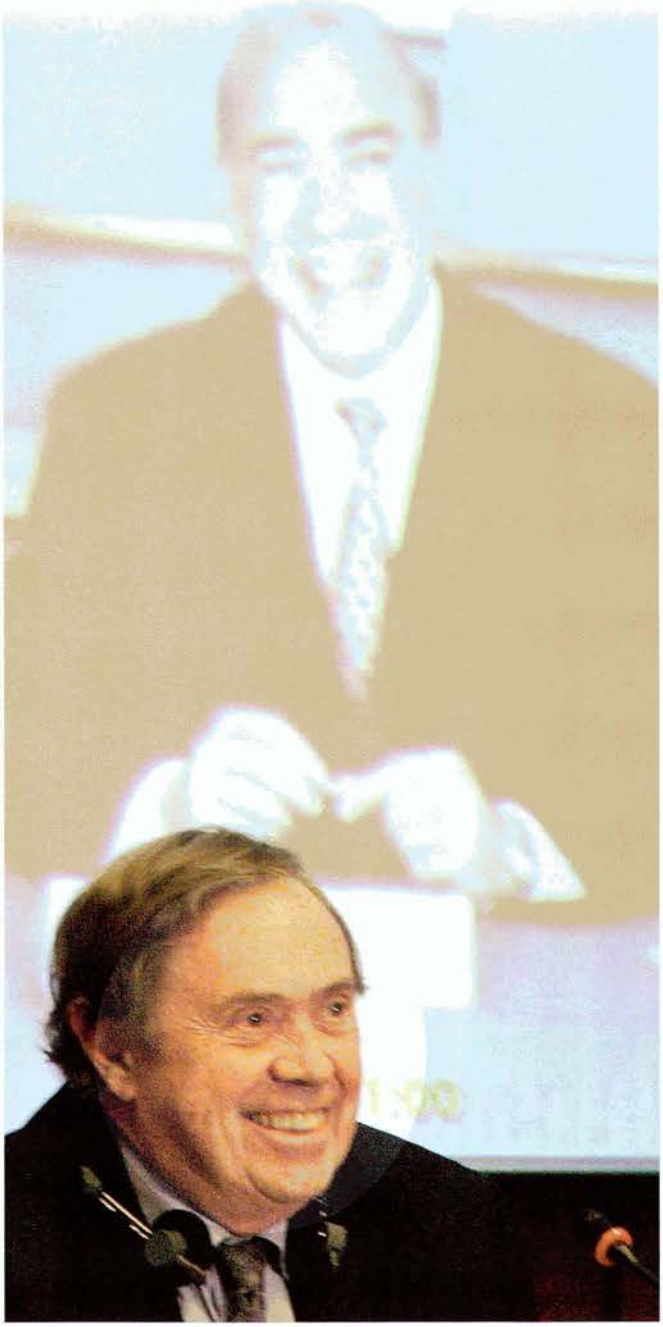
Ángel Gurría



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Beaming smiles: Secretary-General Donald J. Johnston (below) shares a joke with his successor, Mr Gurría, at a media briefing by video link on 30 November.

The OECD's 30 member countries have announced the appointment of Ángel Gurría, former foreign minister and finance minister of Mexico, as next secretary-general of the organisation from 1 June 2006. He will succeed Donald J. Johnston, who is retiring after two terms in office.

Mr Gurría, who is 55, will become the fifth secretary-general since the OECD was founded in 1961. An economist with a distinguished career in public service, he served as Mexico's minister of foreign affairs from December 1994 to January 1998 and as minister of finance and public credit from January 1998 to December 2000. He currently acts as adviser or board member for a number of private companies, multilateral institutions and non-profit associations focusing on development, international finance and globalisation.

As part of the team that negotiated Mexico's entrance to the OECD in 1994 and subsequently as a government minister, Mr Gurría developed close relations with the organisation, overseeing the initial years of Mexico's membership. In 1999, he chaired the OECD's annual Ministerial Council Meeting; at his initiative, a number of emerging and developing countries were invited for the first time to participate at this meeting in a dialogue with OECD countries on relevant policy issues. Mr Gurría later wrote a piece summarising the outcome of that event for the *OECD Observer*, aptly entitled "Facing forward together" (see www.oecdobserver.org).

Outgoing **Secretary-General Johnston**, a former Canadian government minister, announced at the start of 2005 that he would retire in May 2006, after 10 years in the top OECD post. During his tenure, the organisation expanded its

membership and stepped up co-operation with some 70 countries. Non-OECD economies are now regular participants at the annual OECD ministerial meeting. Mr Johnston also set about a programme of reform, streamlining the organisation's management systems and extending the scope of its work in important areas including education, health policy, e-commerce, taxation and communications.

One of the principal tasks facing his successor will be to strengthen the OECD's role against a background of increased interdependence both among OECD countries and between OECD and non-OECD countries. As secretary-general, Mr Gurría will oversee the work of the OECD's secretariat, whose mainly Paris-based staff of 2,000 economists, lawyers, administrators and other professionals assist governments in tackling the challenges of the global economy. The secretary-general also chairs the OECD Council, as well as working with national delegations and capitals. And he will take forward the strong dialogue built up with business, labour organisations and civil society, notably through the annual OECD Forum. The OECD is more than an intergovernmental process of course, and as secretary-general, Mr Gurría will be heading one of the world's leading publishers of intelligence and data on the economy, society and the environment, which businesses, research and the media also value highly.

A transparent contest

Mr Gurría's appointment stands out for several reasons. For a start, the announcement was made just ahead of a deadline that was originally set (according to some, with excessive optimism) for 1 December 2005. The search for Mr Johnston's successor started on 30 March 2005 with an invitation to OECD countries to nominate candidates according to strict criteria, such as broad international experience and proven leadership qualities, and an ability to enhance the competence and global influence of the organisation. Also among the requirements were experience of the OECD's core economic areas and broad range of its work, proven management skills and an ability to represent the OECD at the highest level with governments, other stakeholders and academic institutions. First rate communication skills, preferably in the two official languages of English and French, completed the list.

The professional nature of the entire head hunt has also won applause, with the final selection based on merit.

Another key point is that Mexico, despite an exemplary first decade in the organisation, remains one of the OECD's least wealthy member countries. As Mr Gurría pointed out in a press conference just after his appointment, this fact should help him to enhance the OECD's work in helping to promote development and shape globalisation.

Finally, the head hunt set an example for top public appointments by making a virtue of transparency and keeping people informed about progress via the Internet from beginning to end. An announcement was posted in July 2005 that six high calibre candidates were shortlisted–from Australia, France, Korea, Japan, Mexico and Poland (see *OECD Observer*, No 251, September 2005, page 40). The field was gradually narrowed to two by November 2005, with Mr Gurría's appointment announced on 30 November.

As Swiss ambassador to the OECD, Wilhelm Jaggi, who led the search, put it, "the guidance and procedures…for the conduct of a fair and transparent selection process stood the test and can serve as a model for future appointments." Apart from testifying to the organisation's professionalism, the procedure's success will no doubt further enhance the new secretary-general's credibility as he sets about his new tasks. ■ *RJC*

For more detail, please visit: www.oecd.org/secretarygeneral/gurria.

New ambassadors

3 October 2005–Xavier Darcos is the new ambassador for **France** to the OECD. He succeeds Dominique Perreau. From 2002 to 2004, Mr Darcos held the post of vice minister for teaching, and from 2004 to 2005, vice minister for francophone co-operation and development. He was elected mayor of Périgueux in 1997 and re-elected in 2001 and 2005.

7 December 2005–Jan Woroniecki is the new ambassador for **Poland**, succeeding Jan Bielawski. Mr Woroniecki was previously the Polish ambassador to the OECD from 1997 to 2001.

For more information, see www.oecd.org/ambassadors.

Calendar of forthcoming events

Please note that many of the OECD 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 a more comprehensive list, see the OECD website at www.oecd.org/media/upcoming, which is updated weekly.

NOVEMBER

16-17 **Women and Scientific Careers**, workshop organised by the Directorate for Science, Technology and Industry (DSTI).

21-22 **Standards and Conformity Assessment: Minimising Barriers and Maximising Benefits**, conference organised by the Trade Directorate. Berlin, Germany.

28 **Ministerial meeting of the Public Governance Committee**: Strengthening Trust in Government: What Role for Government in the 21st Century? Rotterdam, the Netherlands.

28-9/12 **United Nations Climate Change Conference** (COP 11). Montreal, Canada.

29 **OECD Economic Outlook No. 78**, preliminary version published.

30-1/12 **Global Forum on Agriculture: Policy Coherence for Development**, organised by the Directorate for Food, Agriculture and Fisheries.

DECEMBER

1-2 **Managing the Transition to a Bio-based Economy**, workshop organised by the DSTI. Ghent, Belgium.

6-7 **Development Assistance Committee**, senior level meeting.

7-9 **OECD Continuous Reporting System on Migration**, annual meeting organised by the Directorate for Employment, Labour and Social Affairs.

12 **Making the Most of International Investment Agreements: a Common Agenda**, symposium organised jointly by the Directorate for Financial and Enterprise Affairs, the International Centre for Settlement of Investment Disputes, and UNCTAD.

13-18 **WTO ministerial conference**. Hong Kong, China.

15 **From Immigration to Integration: Lessons Drawn from Local Responses**, conference organised by the Federal Reserve Bank of New York and the OECD Centre for Entrepreneurship, SMEs and Local Development. New York City, US.

JANUARY

25-29 **World Economic Forum** Davos, Switzerland.

30-31 **Digital Content: Opportunities and Challenges**, conference organised by the DSTI. Rome, Italy.

FEBRUARY

8-9 **Global Forum on Competition** organised by the Directorate for Financial and Enterprise Affairs.

13-14 **Investment for Development: Making Reforms Work, MENA Investment ministerial meeting**, organised by the MENA-OECD Investment Programme. Dead Sea, Jordan.

13-15 **International Partnership Fair**, organised by the Austrian Centre for Social Innovation, with participation of the OECD LEED programme. Vienna, Austria.

13-17 **Financial Action Task Force on Money Laundering** meets. Cape Town, South Africa.

MARCH - MAY

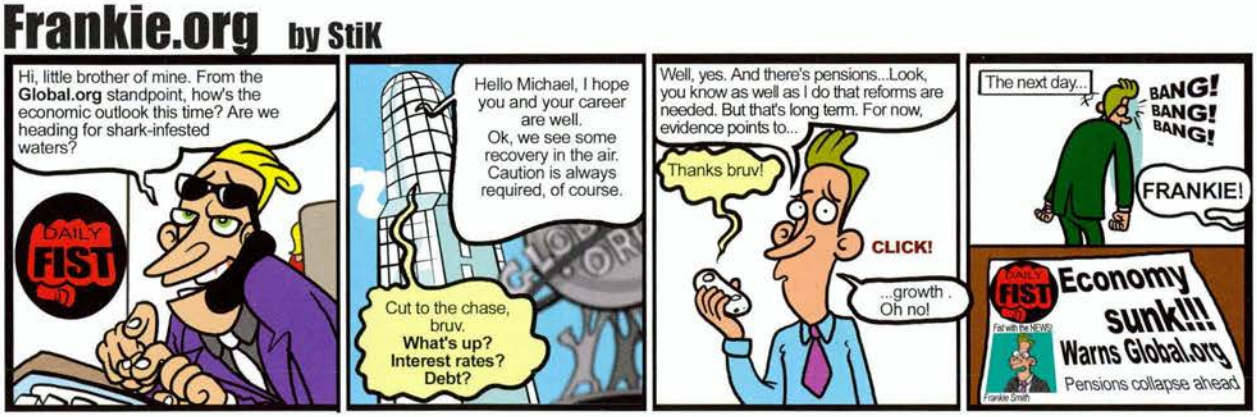
16-22 Mar. **World Water Forum**. Mexico City, Mexico.

19-21 Mar. **China Development Forum**. Beijing, China.

3-4 April **The Development Assistance Committee** and the **Environmental Policy Committee meet at ministerial level.**

22-23 May **OECD Forum 2006**.

23-24 May **OECD Council meets at ministerial level**.



New horizons

Redevelopment work continues apace at the OECD headquarters in Paris. In the distance is the office district of La Défense, where many of the organisation's staff are temporarily located. The new OECD complex is expected to be fully open for business by 2009. For more information on the redevelopment project, visit www.oecd.org/about.

Juicy fruit

International Standardisation of Fruit and Vegetables: Cultivated Mushrooms, Strawberries and Beans

Free trade for agriculture is all very well, but what if the produce you are importing is not up to scratch? Who decides whether a mushroom is sold as Extra, Class I or Class II? How can farmers be sure their produce is priced in the right category, and consumers be protected from buying kilos of overripe gariguette strawberries?

The OECD Agricultural Codes and Schemes programme can help. Although rating the acceptable curves of a string bean, the plump firmness of a tomato or the ungainly shape of an avocado might sound like a long way from OECD forecasting, for forty years the organisation has given its stamp of approval to standards for 42 different fruits and vegetables. The programme provides an internationally agreed baseline for classification of goods, adding to standards also created for tractors, seeds and forest reproductive material, including over 250 species of trees.

The aim is to simplify import and export procedures, and increase transparency when opening markets. Farmers and exporters can aim for particular standards, and importers and consumers will know what they are paying for. OECD references exist for the likes of lettuces, plums, asparagus, broccoli and eggplant (aubergine), including colour gauges and detailed photographs. Its most recent publications, three guides on cultivated mushrooms, strawberries and beans, interpret clearly what is and what is not permissible for produce sold between the 22 countries who have signed on to the programme.

The certification and standardisation of products does not mean judging flavour, nor does it mean eliminating non-graded fruits and vegetables, but they can increase market confidence and consumer protection. Take beans (haricots). Not only must bean pods be undamaged, and free from pests, their inner seeds must meet a standard size and texture. An Extra rating is only awarded to impeccable beans, while a Class II bean may have slight rust spots or shape defects. The rest is a matter of taste. ■

Strawberries: ISBN 9264013229; Mushrooms: ISBN 9264013245; Beans: ISBN 926401327X. See the New Publications pages or www.oecdbookshop.org for ordering details.
For more on OECD's work on international production standards, see: www.oecd.org/agr/code/. See also "Tractor birthday", *OECD Observer* No. 236, March 2003, on international standards for tractors.

Good service

Trade that Benefits the Environment and Development: Opening Markets for Environmental Goods and Services

Waste processing is nothing new. In ancient Greek legend, Hercules is said to have charged a fee to clean out the Augean stables by diverting water from two rivers through a hole he created in the cattle yard, flushing the waste out the other end. Nowadays, processing waste is a major enterprise, but does it qualify as a good or as a service?

This distinction is important in international trade, and is one issue raised in *Opening Markets for Environmental Goods and Services*, a collection of reports that aim to clarify the difference. The proposition is that the potential benefits of liberalising trade in environmental services and in environmental goods at the same time may be greater than those generated by liberalising trade in just one of them.

When most people think of consulting services, they imagine people sitting in offices pushing paper and hammering out reports on computers. However, as the report shows, some services are not easily distinguishable from certain goods. This is true of environmental services where trash compactors, for instance, designed specifically for solid-waste management, are operated by refuse disposal services. Pumps, filters, valves and compressors are vital to any environmental service requiring the conveyance of fluids. In wastewater treatment, pumps move water, as well as any chemicals in solution used in the treatment process, from one section of the treatment plant to another. Pumps are vital for those firms cleaning up oil spills or even washing streets.

In short, if the market opens up for a service, it should open up for the related goods too, particularly if these are not available locally. Liberalising trade simultaneously in both environmental services and goods would make it easier to improve the environmental performance of local industries and thereby attract foreign investment, reduce costs and spur innovation, the report argues. It could also spur local producers who could in turn take advantage of export opportunities. How Hercules might have benefited from that. ■

ISBN 926403577X. See the New Publications pages or www.oecdbookshop.org for ordering details.

HNEW01A

New OECD publications, October to November 2005

HIGHLIGHTS

Education at a Glance: OECD Indicators 2005
A rich, comparable and up-to-date array of indicators on the performance of education systems. This edition examines learning outcomes, the policy levers and contextual factors that shape these outcomes, and the broader private and social returns that accrue to investments in education.
www.SourceOECD.org/9264011900

ISBN 92-64-01190-0
13-Sep-2005, 462p
€58 $73 £40 ¥7 900

Pensions at a Glance: Public Policies across OECD Countries
The first comprehensive book of its kind, this comparison of key features of pension systems of OECD countries provides coverage of retirement ages, benefit accrual rates, ceilings and indexation. Thirty country chapters explain pension systems and replacement rates in detail.
www.SourceOECD.org/9264018719

ISBN 92-64-01-87-19
1-Jun-2005, 204p
€24 $29 £17 ¥3 200

GENERAL ECONOMICS

OECD Economic Outlook No. 78
Looks at the major trends and the economic policies required to foster high and sustainable growth in member countries. This edition also addresses OECD housing prices.
ISBN 9264036431
15-Dec-2005, 205p
€78, $97, £52, ¥10 400
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OECD Economic Surveys: China
OECD's first economic survey of China.
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16-Sep-2005, 270p
€42, $52, £28, ¥5 600
www.SourceOECD.org/926401182X

OECD Economic Surveys: Slovak Republic
ISBN 92-64-01267-2
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National Accounts of OECD Countries, Detailed Tables, 1992-2003
Detailed national accounts tables for all OECD countries from 1970 onwards, including provisional data for 2004.
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Statistics, Knowledge and Policy: Proceedings from the OECD World Forum on Key Indicators
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AGRICULTURE

OECD Review of Agricultural Policies in China
Examines China's agricultural policy context and trends and measures the extent of support provided to its agriculture.
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10-Oct-2005, 303p
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DEVELOPMENT

Policy Coherence for Development: Promoting Institutional Good Practice
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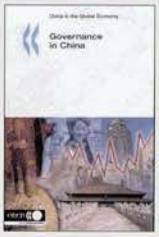

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Making the link

E-Government for Better Government

Can technology bring better government? Anyone who has filled a tax return online would probably answer yes. But is that enough? The answer is, probably not. A new report, *E-Government for Better Government*, the second phase of an OECD project launched in 2001, suggests that while in principle, e-government instruments can improve efficiency, increase citizen awareness and help promote new initiatives, it is not enough just to open a website. The basic key challenges remain the same in the real world as in the virtual one: how to be more agile, responsive and accountable.

Information technology offers an array of tools for e-government, but the report finds that government websites are too often driven by IT solutions and technical imperatives, not to mention political visibility, rather than user needs. True, filing tax returns has been a plus, but depending on the country, citizens looking for other information, for instance, how to apply for a passport or simply understanding the implications of a healthcare reform, can be led through a confusing "web" of portals, pages and links that take time to read. What to do with information once retrieved, who to contact, and waiting for a reply can be a headache.

One reason for this muddle is that responsibility for government websites is too often designated to different people: some countries have a department for information technology, others run it through the ministry of finance, or public administration, or through a special board. Few offer a single channel or blueprint that everyone follows. Should they try?

Not necessarily. As the report points out, e-government reflects the eclectic nature of IT, and while delivering every service through one seamless delivery channel might sound tidy to suppliers, users might want custom-made delivery. Improvements may be needed; as the report notes, e-government should not be confused with e-democracy. But governments may think of other solutions, such as putting their services online in "networked" ways that grab attention and take advantage of the Internet. For instance, they could link to other sites, even blogs, that contain links on finding work placements or training programmes, or how to apply for residency papers, etc. In short, better use of networks is smart e-government. ■

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SPECIAL FOCUS

Economic outlook 2006/2007

Introduction

Member countries

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Jean-Philippe Cotis

Economic outlook

How robust is the recovery?

Jean-Philippe Cotis, OECD Chief Economist

The case for a prolonged world expansion looks plausible, though there are risks. A challenge is to sustain the recovery, while dealing with imbalances and persevering with vital reforms along the way.

World growth has been broadening over the past few months. Already strong in North America and most of Asia, economic momentum now looks well established in Japan, and continental Europe is progressively recovering from its latest bout of weakness. The fledging European expansion has been facilitated by low long-term interest rates, euro depreciation and buoyant export markets, although domestic demand is still growing below trend.

All in all, global growth has been exceptionally vigorous, fuelling large price increases in oil and commodities markets. These higher prices have acted as an impediment to recovery in those European economies that did not fully participate in the global expansion, but as a moderating influence where aggregate demand was already buoyant. In a dynamic but turbulent environment, economic performance has been strongly correlated with resilience. This connection was vividly illustrated in the US, where the economy has sailed through devastating hurricanes and disruptions in energy supplies.

Virtually all countries have maintained price stability in the face of the oil price shock.

One important and reassuring feature of the present situation is that virtually all countries have maintained price stability in the face of the oil price shock, without compromising activity. Higher oil prices have not spilled over into higher wage demands and long-term inflation expectations seem well anchored. As a result, although headline inflation has surged, contagion to non-oil prices has remained minimal.

In the US, despite the recent spike in petrol prices, core inflation (i.e. excluding food and energy) has remained stable at around 2%, in a context where there is little slack left in the economy. In contrast, in the euro area core inflation has been trending down over the past four years towards fairly low levels, against the backdrop of persistent slack. As a consequence, headline inflation has only moderately overshot the European Central Bank's long-term objective. In Japan, where the challenges are quite different, core inflation may reach into positive territory, as the recovery broadens to household demand.

Looking further ahead and assuming oil prices do not shoot up again, inflationary pressures should progressively recede. Indeed, core inflation is expected to drift only modestly upwards in the US, as activity expands beyond capacity, and to remain low in the euro area, where persistent economic slack would keep bearing down on prices.

With price stability being maintained, a powerful impetus arising from the Asian and US economies and the spending of oil exporters' higher revenues, the case for a

prolonged world expansion, finally extending to convalescent European economies, looks plausible. This is the baseline presented in the current *OECD Economic Outlook*.

But the risks surrounding such a forecast are substantial. They include a renewed surge in oil prices, ever-worsening current account imbalances and abrupt exchange rate realignments, as well as long-term interest rate back-ups and asset price reversals. Because they involve financial variables and asset prices, which often behave erratically in the short run, the potential impact and timing of these risks is hard to pin down. As a result, they only feature in forecasting exercises in the form of risk assessments surrounding a central scenario. If they materialise, their consequences for growth and inflation may depend a lot on economic resilience.

It is worrying in this context that current account imbalances seem set to widen substantially over the next two years, with the US external deficit exceeding 7% of GDP in 2007, while China and Japan move into extremely large surpluses. These imbalances largely reflect inadequate macroeconomic policies, notably large fiscal deficits and tax incentives biased against savings in the US and "mercantilist" exchange rate management geared towards market-share maximisation in several emerging Asian economies. As stressed in previous *Outlooks*, such a policy configuration contributes to increasing the probability of a disorderly unwinding of current account imbalances, coupled with an evaporating appetite for dollar-denominated assets.

The economic consequences of such a shift in market preferences seem clear: long-term interest rate back-up and falling asset prices, including house prices, in the US; steep currency appreciation and strong deflationary risks in those areas outside the US (Japan, euro area) where core inflation is already low and sometimes falling; and, finally, weakening world growth. Given the relentless drift in imbalances, adjusting policies becomes increasingly pressing. It would help ensure that world growth is sustainable and does not overly rely on borrowed momentum.

OUTLOOK SUMMARY*

	2005	2006	2007
Real GDP growth (% change)			
United States	3.6	3.5	3.3
Japan	2.4	2.0	2.0
Euro area	1.4	2.1	2.2
Total OECD	**2.7**	**2.9**	**2.9**
Inflation (%)			
United States	2.7	2.5	2.3
Japan	-1.1	-0.1	0.6
Euro area	1.8	1.7	1.9
Total OECD	**2.1**	**1.9**	**1.9**
Unemployment (%)			
United States	5.1	4.8	4.7
Japan	4.4	3.9	3.5
Euro area	8.7	8.4	8.1
Total OECD	**6.5**	**6.3**	**6.0**
Current account balance (% of GDP)			
United States	-6.5	-6.7	-7.0
Japan	3.4	3.9	4.7
Euro area	-0.2	-0.2	-0.1
Total OECD	**-1.2**	**-2.0**	**-2.0**
Short-term interest rate (%)			
United States	3.5	4.8	4.9
Japan	0.0	0.0	0.7
Euro area	2.2	2.2	2.9
World trade growth (% change)	**7.3**	**9.1**	**9.2**

* Assumptions underlying the projections include: no change in actual and announced fiscal policies; unchanged exchange rates as from 11 November 2005; in particular 1$ = 118 yen and 0.85 euros; the cut-off date for other information used in the compilation of the projections is 22 November 2005.

Source: *OECD Economic Outlook* preliminary edition, No. 78, November 2005

The risks surrounding energy prices are less easy to gauge. On the one hand, oil prices could still be on an upward mid-term path, but on the other hand, they may well have overshot in the short-run. On a less speculative note, it seems likely that the full impact of higher oil prices on economic activity and inflation may take time to materialise. It cannot be excluded, for instance, that following an extended period of real income losses, wages finally accelerate. Also, the negative consequences for investment of higher and more volatile oil prices may set in only gradually.

Worsening fiscal and current account imbalances present policymakers with clear challenges. In the US, where aggregate demand is buoyant, there is a need for early fiscal retrenchment and tax reform to redress the saving/investment balance in conjunction with the current tightening of monetary policy. In Japan, mounting public spending pressures associated with ageing call for faster fiscal tightening, while monetary policy should keep a very easy stance until the output gap moves squarely into positive territory and deflation is definitively uprooted.

In the euro area, where underlying inflation has been steadily declining and economic slack remains entrenched, monetary tightening should wait until the recovery gathers enough momentum and becomes more resilient, which may take a few more quarters. At the same time, euro area governments should take advantage of buoyant foreign demand and accommodative monetary conditions to push ahead with economic reforms and start restructuring public finances in earnest, at a pace commensurate with the momentum of the recovery. Achieving fiscal consolidation, while preserving the recovery, means in particular giving priority to spending cuts over tax increases, so that deficit reduction is both growth-friendly and long-lasting.

Strong and sustained world growth should not be taken for granted. Efforts are needed to nurture this "global public good" through a more open trading system and continued economic reforms. In this respect, a successful completion of the Doha Round and further progress in agricultural reforms would greatly contribute to making world growth more sustainable. ■

References

This article is from the introductory chapter to *OECD Economic Outlook*, No. 78, preliminary edition, November 2005, appearing under the title "Less robust than meets the eye?", and has a cut-off date of 25 November 2005. Visit www.oecd.org/economics.

United States

Inherent momentum

Output has grown at a solid pace, underpinned by robust productivity growth, buoyant house prices, and fiscal and monetary stimulus. The continuation of several of these factors, together with the economy's inherent momentum, suggests that the recovery will maintain a relatively smooth trajectory, despite damaging hurricanes and large increases in oil prices. There has been little sign so far of increases in energy prices feeding into the general level of wages or non-energy consumer prices. Nevertheless, a moderate acceleration in core prices is expected during the next few quarters.

As the last signs of slack in the economy disappear, the large monetary stimulus delivered in recent years is no longer desirable and is being removed. Short-term interest rates are approaching a neutral position and will need to turn restrictive should increases in energy prices start being built into underlying inflation. The federal government's financial position has improved, thanks to an unexpected increase in revenues. But much of this windfall is being spent on large hurricane and military related expenditures. This highlights the importance of fiscal discipline in the face of longer term spending pressures and the risks posed by the large external deficit.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	293 655
Area (000 sq km)	9 376
Currency	Dollar
GDP (Billion USD) - 2004	11 678.7
Life expectancy at birth (Women, Men) - 2002	79.9, 74.5
Total labour force (000s) 2004	148 644
Government type	Federal Republic

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	3.6	3.5	3.3
Household savings ratio	-0.2	0.4	0.7
Consumer price index	3.4	2.8	2.5
Short-term interest rate (%)	3.5	4.8	4.9
Unemployment rate (%)	5.1	4.8	4.7
General government financial balance (% GDP)	-3.7	-4.2	-3.9
Current account balance (% GDP)	-6.5	-6.7	-7.0

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	127 687
Area (000 sq km)	378
Currency	Yen
GDP (Billion USD) - 2004	4 666.4
Life expectancy at birth (Women, Men) - 2003	85.3, 78.4
Total labour force (000s) 2004	66 420
Government type	Constitutional Monarchy

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	2.4	2.0	2.0
Household savings ratio	6.7	6.5	6.5
Consumer price index	-0.4	0.1	0.8
Short-term interest rate (%)	0.0	0.0	0.7
Unemployment rate (%)	4.4	3.9	3.5
General government financial balance (% GDP)	-6.5	-6.0	-6.0
Current account balance (% GDP)	3.4	3.9	4.7

Source: OECD

Japan

Faster than expected growth

The economy recovered from a pause in the latter half of 2004 with strong growth in the first half of 2005, despite a number of headwinds. The expansion is led by private domestic demand, underpinned by strong corporate profits and a reversal of the declining trend in employment and wages. A number of indicators suggest that the economy has finally completed the post-bubble adjustment, allowing output to grow at a rate of around 2% in 2006-07.

The Bank of Japan's policy of quantitative easing should continue until inflation is high enough to make the risk of renewed deflation negligible. The government should accelerate the pace of fiscal consolidation given the faster than expected GDP growth. A broad structural reform programme is needed to boost potential growth in the context of rapid population ageing. While the enactment of the Japan Post privatisation bills is a welcome step, effective and rapid implementation of the bills is needed to realise the economic benefits of this reform.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	82 491
Area (000 sq km)	357
Currency	Euro
GDP (Billion USD) - 2004	2 740.7
Life expectancy at birth (Women, Men) - 2003	81.3, 75.5
Total labour force (000s) 2004	40 033
Government type	Federal Republic

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	1.1	1.8	1.7
Household savings ratio	10.6	10.6	10.5
Consumer price index	2.0	1.7	1.3
Short-term interest rate (%)	2.2	2.2	2.9
Unemployment rate (%)	9.3	9.1	8.7
General government financial balance (% GDP)	-3.9	-3.6	-2.6
Current account balance (% GDP)	4.1	4.6	5.2

Source: OECD

Germany

Brighter outlook

Based on strong export growth, output is projected to improve. While weak consumption and construction investment are still weighing on activity, equipment investment has strengthened. As the upswing broadens, real GDP is projected to grow slightly above potential, 1.75% (adjusted for working days) in both 2006 and 2007. The general government deficit is likely to total 3.9% of GDP in 2005, and remain high in 2006, but then fall to 2.6% in 2007, largely on account of an increase in the value added tax rate.

For economic performance to be raised in a durable way, the new government has to go further in reforming labour and product markets within a coherent framework. Fiscal consolidation needs to be linked to more fundamental spending reform, requiring, *inter alia*, 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.

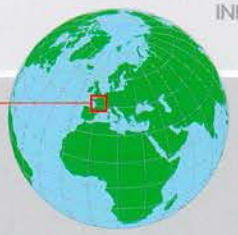
France

Recovery should continue

The recovery that appears to have gained hold in the second half of the year should continue into 2006. Domestic demand is expected to pick up slightly and exports should recover. Modest employment gains will permit only a small drop in unemployment. Inflation is likely to fall back somewhat as the secondary effects of higher energy prices appear to be small. The general government deficit is likely to remain above 3% of GDP.

While the shortfall on the target for reducing the budget deficit may be largely due to low growth, firm measures to reduce it significantly over the next few years remain necessary. Moves to simplify parts of the tax system are welcome; introducing more tax breaks for certain activities unfortunately offsets this, adding to the system's complexity. Social unrest calls for policies to improve prospects for the excluded. Fundamental labour market reforms, including liberalising regulations that restrict job opportunities for the low-skilled, should be a key component.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2004	60 200
Area (000 sq km)	549
Currency	Euro
GDP (Billion USD) - 2004	2 046.7
Life expectancy at birth (Women, Men) - 2003	82.9, 75.8
Total labour force (000s) 2004	27 351
Government type	Republic

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	1.6	2.1	2.2
Household savings ratio	11.6	11.4	11.5
Consumer price index	1.9	1.7	1.1
Short-term interest rate (%)	2.2	2.2	2.9
Unemployment rate (%)	10.0	9.6	9.0
General government financial balance (% GDP)	-3.2	-3.2	-3.0
Current account balance (% GDP)	-1.6	-1.4	-1.1

Source: OECD

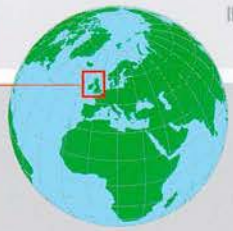
United Kingdom

Improve workforce skills

Growth has slowed sharply, largely due to weaker consumption related to the ending of the house price boom. But strengthening investment and exports should lift growth from below 2% this year to around 2.4% in 2006 and 2.7% in 2007.

The government deficit exceeded 3% of GDP in 2004. If fiscal developments prove to be disappointing relative to the 2005 budget projections, beyond what can be explained by weaker than expected growth, then the government will need to take further measures to achieve a decisive reduction in the deficit. With inflation having surprised on the upside and the prospect of a gradual return towards trend growth early next year, there is currently no compelling case for a further cut in interest rates. To raise potential growth a priority is to roll out the reform of the disability scheme nationally, while taking measures over the longer term to improve workforce skills.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2004	59 778
Area (000 sq km)	245
Currency	Pound
GDP (Billion USD) - 2004	2 124.5
Life expectancy at birth (Women, Men) - 2003	80.7, 76.2
Total labour force (000s) 2004	29 369
Government type	Constitutional Monarchy

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	1.7	2.4	2.7
Household savings ratio	5.1	5.6	6.0
Consumer price index	2.1	2.1	1.6
Short-term interest rate (%)	4.7	4.5	4.5
Unemployment rate (%)	4.8	5.1	5.6
General government financial balance (% GDP)	-3.1	-3.0	-3.2
Current account balance (% GDP)	-1.8	-2.3	-2.7

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	57 553
Area (000 sq km)	301
Currency	Euro
GDP (Billion USD) - 2004	1 677.9
Life expectancy at birth (Women, Men) - 2003	82.9, 76.9
Total labour force (000s) 2004	24 365
Government type	Republic

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	0.2	1.1	1.5
Household savings ratio	12.1	11.8	11.8
Consumer price index	2.1	2.7	2.2
Short-term interest rate (%)	2.2	2.2	2.9
Unemployment rate (%)	7.7	7.5	7.4
General government financial balance (% GDP)	-4.3	-4.2	-4.8
Current account balance (% GDP)	-1.5	-1.9	-2.3

Source: OECD

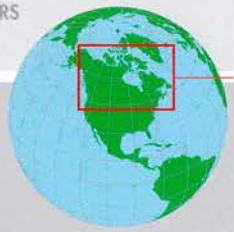
Italy

Sustaining the recovery

The recession ended in the spring of 2005. Domestic demand has been stimulated by labour deepening, disinflation, fiscal ease and supportive monetary conditions. Exports have benefited from euro depreciation and recovery elsewhere in the euro area, but imports are also rising markedly. The pass through of higher oil prices will limit the strength of the recovery in 2006, but as these effects dissipate, household consumption should support an acceleration of GDP in 2007.

The sustainability of the recovery depends on reversing highly unfavourable trends in international competitiveness and public debt. In particular, real wage growth needs to be better aligned with productivity, while public spending must be restrained sufficiently to lower the tax wedge and restore the primary surplus. Service sectors should be opened to competition to boost productivity.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2004	31 946
Area (000 sq km)	9 976
Currency	Dollar
GDP (Billion USD) - 2004	978.5
Life expectancy at birth (Women, Men) - 2002	82.1, 77.2
Total labour force (000s) 2004	17 239
Government type	Confederation

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	3.0	3.2	3.1
Household savings ratio	-0.4	-0.1	0.4
Consumer price index	2.4	2.4	1.7
Short-term interest rate (%)	2.8	4.1	4.3
Unemployment rate (%)	6.8	6.6	6.6
General government financial balance (% GDP)	1.3	0.9	0.6
Current account balance (% GDP)	1.8	2.5	3.0

Source: OECD

Canada

Fillip from global markets

Despite the marked appreciation of the Canadian dollar, the economy has been extremely resilient and is operating near full capacity. Economic activity is expected to grow at rates close to potential in the next two years, with the foreseen slowdown in domestic demand being offset by improving global market prospects. The surge in energy prices has boosted headline inflation temporarily in 2005 above the upper end of the monetary policy target range.

With such inflationary pressures emerging, the Bank of Canada started increasing its policy rate in September and will need to continue to bring interest rates to around their neutral level. Given the buoyant macroeconomic outlook, any additional fiscal stimulus should be avoided. By contrast, more attention should be given to preparing the economy to cope with the rising long-term spending pressures from an ageing population.

Australia

Output likely to accelerate

Economic activity strengthened in the first half of 2005, primarily driven by business investment. With non-residential investment expected to remain buoyant, the ending of the housing boom to be orderly and gradual, and the drag from net exports diminishing, output is likely to accelerate in 2006 and 2007. This should help to sustain the good labour market performance. Inflation may edge up somewhat in response to surging energy prices.

To preserve price stability, monetary policy needs to remain on guard to prevent higher energy prices from feeding into core inflation. The stabilisation task should be facilitated by the projected steady fiscal surpluses over coming years. Rapid implementation of the planned industrial relations reform would also help as it would promote productivity gains and restrain growth in unit labour costs.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	20 111
Area (000 sq km)	7 687
Currency	Dollar
GDP (Billion USD) - 2004	617.2
Life expectancy at birth (Women, Men) - 2003	82.8, 77.8
Total labour force (000s) 2004	10 180
Government type	Independent Federal State; UK Monarch

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	2.6	3.2	3.6
Household savings ratio	-2.2	-1.3	-1.0
Consumer price index	2.7	3.1	2.9
Short-term interest rate (%)	5.7	5.7	5.7
Unemployment rate (%)	5.1	5.0	5.0
General government financial balance (% GDP)	1.0	0.9	0.9
Current account balance (% GDP)	-5.8	-5.2	-5.2

Source: OECD

Austria

Unemployment high

Growth of GDP is expected to fall to 1.8% in 2005, as the impact of increased oil prices and the slowdown of demand in major export markets more than offset the positive stimulus from deficit financed tax reductions. With growth gathering pace slowly, reaching 2.25% in 2007, unemployment will remain high by historic standards. The impact of oil prices on inflation will fade by 2007.

The government deficit is projected to decline only modestly by 2007. However, further substantial reductions in government spending will be necessary to lower the relatively high level of government debt in relation to GDP significantly, and make more room for future increases in ageing-related spending.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	8 175
Area (000 sq km)	84
Currency	Euro
GDP (Billion USD) - 2004	292.3
Life expectancy at birth (Women, Men) - 2003	81.6, 75.6
Total labour force (000s) 2004	3 939
Government type	Federal Republic

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	1.8	2.1	2.3
Household savings ratio	8.7	8.8	8.3
Consumer price index	2.2	1.8	1.4
Short-term interest rate (%)	2.2	2.2	2.9
Unemployment rate (%)	5.8	5.8	5.7
General government financial balance (% GDP)	-2.0	- 2.0	-1.5
Current account balance (% GDP)	-0.4	-0.1	0.3

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	10 399
Area (000 sq km)	31
Currency	Euro
GDP (Billion USD) - 2004	352.3
Life expectancy at birth (Women, Men) - 2002	81.1, 75.1
Total labour force (000s) 2004	4 561
Government type	Constitutional Monarchy

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	1.4	2.0	2.2
Household savings ratio	10.8	10.3	10.4
Consumer price index	2.6	2.4	1.7
Short-term interest rate (%)	2.2	2.2	2.9
Unemployment rate (%)	8.4	8.5	8.4
General government financial balance (% GDP)	0.0	-0.4	-0.7
Current account balance (% GDP)	1.4	0.8	1.0

Source: OECD

Belgium

Reforms needed

Developments in oil prices and in export markets have weighed on Belgium's activity but, with these factors becoming more favourable, growth is projected to pick up progressively. Employment growth is, however, unlikely to be strong enough to reduce the unemployment rate much from the current 8.4%. Headline inflation should fall back almost to the underlying rate of 1.6% by 2007.

Further fiscal consolidation measures, focusing on expenditure restraint, should be implemented to build on progress made in moving public finances towards a sustainable path. The government aims to maintain the budget in balance in 2006 and to achieve a small surplus in 2007. Reforms to lower benefit dependence and increase employment rates, especially for older and younger workers, are vital as they reduce the amount of consolidation required for the sustainability of public finances.

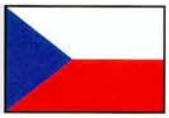
KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	10 211
Area (000 sq km)	79
Currency	Koruna
GDP (Billion USD) - 2004	107.0
Life expectancy at birth (Women, Men) - 2003	78.5, 72.0
Total labour force (000s) 2004	5 133
Government type	Parliamentary Democracy

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	4.8	4.5	4.5
Consumer price index	1.9	2.8	3.0
Short-term interest rate (%)	1.9	2.3	3.3
Unemployment rate (%)	8.0	7.8	7.6
General government financial balance (% GDP)	-4.0	-3.6	-3.2
Current account balance (% GDP)	-4.0	-2.8	-2.1

Source: OECD

Czech Republic



Large boost from exports

Growth is expected to be 4.75% in 2005, with an exceptionally large contribution from net exports. For 2006 and 2007 the trade component will fall while domestic demand is expected to strengthen and GDP growth is projected to be 4.5%. This will bring inflationary pressure and a slight tightening of monetary policy.

Though the country's growth performance has strengthened since the early years of the decade, more progress in improving the business environment and labour-market efficiency would help reduce downside risks. In fiscal policy, even though there are good prospects of fulfilling the Maastricht criterion of 3% of GDP, further reform to the financing and provision of public services is needed to reduce the danger of unsustainable public finances in the longer term.

Denmark

Favourable monetary conditions

GDP is projected to grow almost 3% a year before abating somewhat in 2007. Recent house price increases are likely to sustain consumption growth into 2006. Starting with a slightly negative output gap (or spare capacity), economy-wide wage and price inflation is expected to gather pace towards 2007, with the construction sector already now beginning to show signs of overheating.

Monetary conditions, reinforced by new loan types on the mortgage market, are providing stimulus for the economy and this is likely to continue with short-term interest rates remaining stable in line with those of the European Central Bank. In this context, the sizeable extra revenues from North Sea oil exploration must be used to reduce public debt, with fiscal policy helping to contain aggregate demand. Measures to raise labour supply should also be considered.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	5 401
Area (000 sq km)	43
Currency	Krone
GDP (Billion USD) - 2004	241.4
Life expectancy at birth (Women, Men) - 2003	79.5, 74.9
Total labour force (000s) 2004	2 883
Government type	Constitutional Monarchy

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	3.0	2.7	2.4
Household savings ratio	0.8	0.5	0.4
Consumer price index	1.8	1.7	2.4
Short-term interest rate (%)	2.1	2.1	2.9
Unemployment rate (%)	4.9	4.6	4.4
General government financial balance (% GDP)	2.8	2.4	1.9
Current account balance (% GDP)	3.0	2.2	2.7

Source: OECD

Finland

Exports will drive growth

Growth is expected to recover from 1.3% in 2005 to average 3% over the next two years, in part reflecting a bounce back from the effects of a labour dispute in the paper industry. Net exports, rather than consumption, will become increasingly important for driving growth.

With output and exports from the electronics industry picking up, GDP growth will recover strongly into 2006. However, outsourcing of production and increased competition could mean continuing losses in export market share. Unemployment will fall towards 7% in 2007, though job creation will likely be below government targets. Measures to reduce early retirement and motivate job search as well as to contain public spending pressures will be important.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	5 228
Area (000 sq km)	338
Currency	Euro
GDP (Billion USD) - 2004	185.9
Life expectancy at birth (Women, Men) - 2003	81.8, 75.1
Total labour force (000s) 2004	2 615
Government type	Republic

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	1.3	3.3	2.8
Consumer price index	0.8	1.3	1.7
Short-term interest rate (%)	2.2	2.2	2.9
Unemployment rate (%)	8.6	7.9	7.3
General government financial balance (% GDP)	2.1	1.8	1.5
Current account balance (% GDP)	3.5	3.2	3.6

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	11 060
Area (000 sq km)	132
Currency	Euro
GDP (Billion USD) - 2004	205.2
Life expectancy at birth (Women, Men) - 2002	80.7, 75.4
Total labour force (000s) 2004	4 823
Government type	Republic

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	3.5	3.3	3.5
Consumer price index	3.6	3.4	3.0
Short-term interest rate (%)	2.2	2.2	2.9
Unemployment rate (%)	10.6	10.5	10.3
General government financial balance (% GDP)	4.5	-3.2	-3.6
Current account balance (% GDP)	-7.0	-6.7	-6.5

Source: OECD

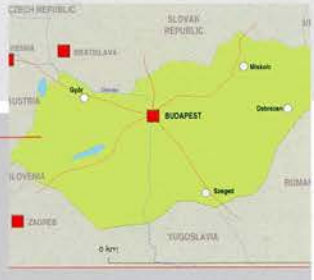
Greece

Post-Olympic effects persist

The economy has slowed during 2005, mainly as the result of a post-Olympic slump in investment activity, though it continued to outpace the euro area's average. Output growth is set to weaken further going into 2006, before rebounding to 3.5% in 2007 as domestic demand strengthens. Inflation should decelerate over the next two years, but a large inflation differential *vis-à-vis* the average for the euro area will remain. The current account deficit is expected to stay high.

Sustained fiscal consolidation requires a better control of primary spending and decisive reforms in key areas of social spending and public administration. Reducing tax evasion and tax avoidance is likewise critical. Plans for improving the operation of public enterprises are welcome. Further progress in the structural reform agenda would provide a sounder environment for long-term growth.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2004	10 107
Area (000 sq km)	93
Currency	Forint
GDP (Billion USD) - 2004	100.3
Life expectancy at birth (Women, Men) - 2003	76.5, 68.3
Total labour force (000s) 2004	4 153
Government type	Parliamentary Democracy

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	4.2	4.5	4.3
Consumer price index	3.7	2.0	2.7
Short-term interest rate (%)	6.8	5.8	5.5
Unemployment rate (%)	7.1	7.0	6.7
General government financial balance (% GDP)	-6.1	-5.9	-5.9
Current account balance (% GDP)	-8.4	-8.7	-8.5

Source: OECD

Hungary

Fiscal sustainability a priority

Output growth of close to 4.25% is expected in 2005, rising to 4.5% in 2006 before edging down a little in 2007. While some reduction in the contribution from the external sector is likely, domestic demand is expected to pick up. Inflation is set to fall sharply in the near term, reflecting reductions in indirect taxes, but will rise again in 2007, though it will remain on track to meet medium-term targets.

Ensuring fiscal sustainability must be a priority. For 2006 the government aims for a substantial cut in the headline budget deficit but one-off factors, notably plans to take expenditure on motorway construction off budget, suggest that the underlying deficit will increase by about 1 percentage point of GDP. A fiscal strategy that backs realistic targets with stronger spending discipline is needed to recover credibility and avoid an increase in the risk premium.

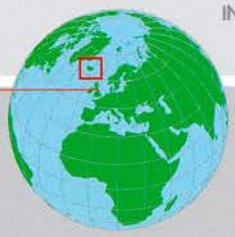
Iceland

Overheating

The economy continues to show signs of overheating, as the large scale aluminium-related investment projects are in full swing and household demand is booming. The external deficit is soaring and inflation exceeds the authorities' upper tolerance limit. The major challenge for policymakers is to ensure an orderly unwinding of the present imbalances and to prevent their recurrence in the future.

Prices and wage pressures have mounted. Further interest rate increases are probably required to put inflation on a downward track towards the 2.5% official target. Avoiding a premature loosening of the fiscal stance would reduce upward pressure on interest rates and help avoid excessive exchange rate fluctuations, thereby facilitating the stabilisation task of monetary policy.

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2004	293
Area (000 sq km)	103
Currency	Krona
GDP (Billion USD) - 2004	12.2
Life expectancy at birth (Women, Men) - 2003	82.5, 78.7
Total labour force (000s) 2004	161
Government type	Constitutional Republic

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	6.6	4.6	2.6
Consumer price index	3.9	4.0	3.4
Short-term interest rate (%)	9.2	11.0	9.8
Unemployment rate (%)	2.5	1.9	2.2
General government financial balance (% GDP)	2.0	1.2	-0.5
Current account balance (% GDP)	-12.1	-12.9	-10.5

Source: OECD

Ireland

Steady growth ahead

Output is projected to grow at a steady 5% rate over the entire projection period. Robust household income gains and government spending will be the engines of growth. Net exports are projected to taper off as rising unit labour costs hold back exports. With strong activity exerting inflationary pressures, core inflation is projected to creep up over the projection period.

More intense competition is needed to provide a countervailing force to inflationary pressures in the short term and boost growth prospects in the long term. The proposal to repeal the Groceries Order (a regulation hampering competition in retail trade) is welcome in this regard, and deregulatory efforts should be broadened to other sheltered sectors, starting with the professions and network industries. A tighter fiscal stance would help to contain inflationary pressures and provide a buffer against adverse shocks from the housing market or the exchange rate.

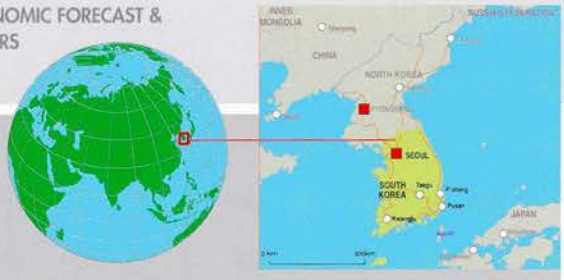
KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	4 044
Area (000 sq km)	70
Currency	Euro
GDP (Billion USD) - 2004	181.6
Life expectancy at birth (Women, Men) - 2002	80.3, 75.2
Total labour force (000s) 2004	1 920
Government type	Republic

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	5.1	5.0	5.0
Consumer price index	2.3	2.5	2.6
Short-term interest rate (%)	2.2	2.2	2.9
Unemployment rate (%)	4.3	4.2	4.2
General government financial balance (% GDP)	-0.9	-0.6	-0.6
Current account balance (% GDP)	-1.5	-1.7	-1.0

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2004	48 082
Area (000 sq km)	100
Currency	Won
GDP (Billion USD) - 2004	679.7
Life expectancy at birth (Women, Men) - 2002	80.4, 73.4
Total labour force (000s) 2004	23 370
Government type	Republic

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	3.9	5.1	5.2
Housenhold savings ratio	5.3	5.3	5.4
Consumer price index	2.8	3.3	3.4
Short-term interest rate (%)	3.6	4.4	5.4
Unemployment rate (%)	3.8	3.7	3.6
General government financial balance (% GDP)	-0.2	0.0	0.2
Current account balance (% GDP)	2.1	1.6	1.5

Source: OECD

Korea

Consumer spending picking up

Private consumption is now recovering from the protracted adjustment following the collapse of the household credit bubble in 2002 and exports have begun to pick up. These factors are projected to boost economic growth from 4% in 2005 to around 5% in 2006- 07. Underlying inflation is expected to increase to the mid point of the central bank's 2.5% to 3.5% per cent target zone in the context of stronger growth and higher energy prices.

Monetary policy should focus on the medium-term inflation target, accompanied by a flexible exchange rate policy. Concerns about rising housing prices in some parts of the country should be addressed through tax measures and policies to increase supply. Further reforms are needed to address the structural causes of weak domestic demand, notably household debt delinquency.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	452
Area (000 sq km)	3
Currency	Euro
GDP (Billion USD) - 2004	31.9
Life expectancy at birth (Women, Men) - 2002	81.5, 74.9
Total labour force (000s) 2004	310
Government type	Constitutional Monarchy

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	3.5	3.7	4.5
Consumer price index	3.9	3.2	2.0
Short-term interest rate (%)	2.2	2.2	2.9
Unemployment rate (%)	4.6	5.1	5.6
General government financial balance (% GDP)	-2.3	-2.1	-1.9
Current account balance (% GDP)	5.0	6.0	6.0

Source: OECD

Luxembourg

Considerable momentum

Output growth slowed sharply during the first half of the year, as high energy prices weighed on private consumption and weaker foreign markets on exports. The economy nonetheless retains considerable momentum, notably in the services sector, and should soon return to a faster pace. The rebound of confidence in manufacturing industries in recent months bodes well for a recovery, as does the increase in order books. The increase in headline inflation has triggered an indexation of salaries, which could have subsequent effects.

Fiscal automatic stabilisers have been allowed to operate freely during the slowdown and the public deficit has therefore exceeded 2% of GDP. The government should do more to rein in public spending, which has been growing at nearly two-digit rates.

Mexico

Strong employment growth

Following a slowdown in the first half of 2005 due to weaker foreign demand, growth is expected to pick up, underpinned by the strengthening of export markets and increased public investment, fuelled by high oil revenues. Headline and core inflation rates have come down to the central bank's target of around 3% and are expected to continue a gradual decline. Employment is growing at a relatively strong pace.

The central bank eased its stance in the second half of 2005. On the fiscal front, the deficit target of 0.2% of GDP in 2005 will be easily met, thanks to higher than projected oil revenues. The draft budget for 2006 targets only a moderate consolidation, as lower oil revenues are assumed. A revenue enhancing tax reform is needed to address spending needs, while reducing the vulnerability of public finances to oil price volatility.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	104 000
Area (000 sq km)	1 996
Currency	Peso
GDP (Billion USD) - 2004	676.1
Life expectancy at birth (Women, Men) - 2003	77.4, 72.4
Total labour force (000s) 2004	42 566
Government type	Federal Republic

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	3.0	3.9	3.5
Consumer price index	4.0	3.5	3.3
Short-term interest rate (%)	9.5	8.9	7.4
Unemployment rate (%)	3.6	3.4	3.4
Current account balance (% GDP)	-0.9	-1.1	-1.4

Source: OECD

Netherlands

Recovery under way

The Dutch economy has gone through a long period of below-trend growth in the past five years. With improving cost competitiveness, stronger export market growth and repaired balance sheets, a recovery is now under way; it is projected to broaden in 2006-07. Headline inflation has increased due to rising energy prices, but core inflation is likely to remain moderate.

After having been subject to the EU's excessive budget deficit procedure, the government has taken consolidation measures both on the expenditure and the revenue sides. In view of the expected expansion, the government should allow automatic fiscal stabilisers to fully operate on the upside. Moreover, measures to further relax strict employment protection legislation on regular contracts would increase resilience, while reforms aimed at increasing working time over the lifespan would help to strengthen labour supply.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	16 275
Area (000 sq km)	41
Currency	Euro
GDP (Billion USD) - 2004	579.0
Life expectancy at birth (Women, Men) - 2003	80.9, 76.2
Total labour force (000s) 2004	8 420
Government type	Constitutional Monarchy

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	0.7	2.2	2.5
Household savings ratio	6.0	7.0	7.1
Consumer price index	1.5	1.7	0.8
Short-term interest rate (%)	2.2	2.2	2.9
Unemployment rate (%)	6.2	5.9	5.0
General government financial balance (% GDP)	-1.6	-1.8	-1.5
Current account balance (% GDP)	5.8	6.8	8.0

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	4 061
Area (000 sq km)	269
Currency	Dollar
GDP (Billion USD) - 2004	96.6
Life expectancy at birth (Women, Men) - 2002	81.1, 76.3
Total labour force (000s) 2004	2 108
Government type	Parliamentary Democracy

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	2.7	2.6	2.4
Consumer price index	3.1	3.7	3.1
Short-term interest rate (%)	7.1	7.6	7.6
Unemployment rate (%)	3.6	3.9	4.1
General government financial balance (% GDP)	5.3	4.6	4.3
Current account balance (% GDP)	-8.7	-9.1	-9.0

Source: OECD

New Zealand

Risk of a sharp correction

Economic activity is projected to slow and capacity constraints to ease, but some imbalances will persist. While rapidly expanding household incomes are likely to temper the effects of higher interest rates on consumer spending, rising wages and other input costs will squeeze business profitability further and curtail investment. Exports should recover as the effects of the exchange rate appreciation wear off and external markets improve. Inflationary pressures will remain important.

Significant monetary tightening has not yet produced a material slowdown in domestic demand growth, and risks of a sharp correction are increasing. The task of bringing the economy back onto a sustainable growth path would be made easier if the government delayed the planned easing in its fiscal stance, thereby allowing a more balanced policy mix for managing current macroeconomic challenges.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	4 592
Area (000 sq km)	324
Currency	Krone
GDP (Billion USD) - 2004	250.1
Life expectancy at birth (Women, Men) - 2003	81.9, 77.0
Total labour force (000s) 2004	2 382
Government type	Constitutional Monarchy

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	2.4	2.2	1.8
Mainland	3.7	2.8	2.5
Consumer price index	1.6	2.2	2.4
Short-term interest rate (%)	2.2	3.5	4.7
Unemployment rate (%)	4.6	4.1	3.8
General government financial balance (% GDP)	15.3	17.0	17.0
Current account balance (% GDP)	16.1	16.3	16.6

Source: OECD

Norway

Budgetary discipline vital

Since mid-2003, mainland Norway (i.e., not counting the oil and shipping sectors) has experienced a robust cyclical upswing, booming at nearly 4% in 2005 thanks to strong domestic demand. (Overall GDP grew by 2.4%.) Growth is projected to slow towards potential in 2006 and ease further in 2007 in response to the withdrawal of monetary stimulus.

With oil revenues surging and pressures for higher public spending rising in 2006, it will become increasingly important to adhere to strict budgetary discipline. The revised 2006 budget from the newly elected government implies a stabilisation of the non-oil structural deficit as a share of mainland GDP. Gathering inflationary pressures call for a return to a neutral monetary stance.

Poland

A gradual revival

The first half of 2005 saw lower than expected economic growth as domestic demand weakened. With electoral uncertainty removed, the future should bring a gradual revival of private consumption and investment activity, while net exports may provide less support to growth. Slow but steady improvement in the labour market should help sustain consumer confidence. However, growth may remain below its potential rate of over 4% until 2007.

Despite slower economic growth, budget revenues came out above expectations and the general government deficit will be lower than planned. However, reform of public expenditure is still needed in order to ensure medium-term fiscal sustainability. A firm commitment to such reform by the new government might allow earlier relaxation of monetary policy, which has been quite tight recently, reflecting the burst of price inflation after accession to the EU.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	38 180
Area (000 sq km)	313
Currency	Zloty
GDP (Billion USD) - 2004	241.6
Life expectancy at birth (Women, Men) - 2003	78.9, 70.5
Total labour force (000s) 2004	17 094
Government type	Republic

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	3.2	3.7	4.3
Consumer price index	2.2	1.9	2.1
Short-term interest rate (%)	5.2	4.1	4.1
Unemployment rate (%)	17.8	16.9	15.6
General government financial balance (% GDP)	-3.4	-3.6	-3.3
Current account balance (% GDP)	-1.5	-0.9	-0.3

Source: OECD

Portugal

Below potential

After experiencing its second technical recession in less than three years, the Portuguese economy started to recover in the first half of 2005, driven by exports and private consumption. Real GDP growth is expected to gain momentum in 2006 and 2007, but is likely to lag the average growth in the euro area, with the economy still operating well below its potential. Unemployment may not start decreasing until late in 2007.

Fiscal consolidation remains the key policy challenge. After a major slippage in 2005 due to strong social expenditure and the cancellation of all one-off measures, the deficit is expected to narrow somewhat over the projection period as a result of higher tax rates, spending freezes and more in-depth reforms on the expenditure side.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	10 509
Area (000 sq km)	92
Currency	Euro
GDP (Billion USD) - 2004	167.7
Life expectancy at birth (Women, Men) - 2003	80.6, 74.0
Total labour force (000s) 2004	5 488
Government type	Parliamentary Democracy

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	0.8	1.0	1.8
Household savings ratio	11.7	11.7	11.7
Consumer price index	2.1	2.4	1.4
Short-term interest rate (%)	2.2	2.2	2.9
Unemployment rate (%)	7.5	7.8	7.7
General government financial balance (% GDP)	-6.0	-4.9	-4.6
Current account balance (% GDP)	-9.3	-9.4	-9.1

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	5 382
Area (000 sq km)	49
Currency	Koruna
GDP (Billion USD) - 2004	41.1
Life expectancy at birth (Women, Men) - 2002	77.8, 69.9
Total labour force (000s) 2004	2 659
Government type	Parliamentary Democracy

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	5.3	5.6	6.2
Consumer price index	2.8	4.3	2.8
Short-term interest rate (%)	2.6	2.9	3.7
Unemployment rate (%)	16.4	15.8	15.2
General government financial balance (% GDP)	-4.1	-4.2	-3.5
Current account balance (% GDP)	-6.7	-6.6	-2.9

Source: OECD

Slovak Republic

Policy should tighten

GDP growth is expected to continue in the 5.5% to 6.5% range and employment growth is picking up. However, inflation risks are re-emerging and structural unemployment remains very high. Investment in new automotive plants and high oil prices suggest that the current account deficit will remain wide in the short term, though thanks to strong FDI flows, this high temporary deficit is not expected to pose any risks.

Both fiscal policy and monetary conditions have recently been stimulatory, given the impact of transfers from the EU, continued low policy interest rates, and a stable exchange rate. Both will need to tighten over the projection period, in order to damp inflation risks, further reduce the fiscal deficit, and ensure that the plan to adopt the euro in January 2009 remains credible.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	42 692
Area (000 sq km)	505
Currency	Euro
GDP (Billion USD) - 2004	1 040.0
Life expectancy at birth (Women, Men) - 2003	83.7, 77.2
Total labour force (000s) 2004	20 172
Government type	Parliamentary Monarchy

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	3.4	3.2	3.3
Household savings ratio	6.7	6.8	6.8
Consumer price index	3.4	3.0	2.8
Short-term interest rate (%)	2.2	2.2	2.9
Unemployment rate (%)	9.1	8.7	8.7
General government financial balance (% GDP)	0.3	0.3	0.2
Current account balance (% GDP)	-7.7	-8.9	-9.8

Source: OECD

Spain

Prepare for ageing

Growth should remain strong in 2006 and 2007, close to potential rates (slightly above 3%), driven by buoyant domestic demand and some pick-up in exports following recovery in Europe. Headline inflation is expected to abate somewhat after its recent hike, and core inflation should remain broadly stable, but the differential with the euro area average is likely to persist, further eroding competitiveness. Though slower growth in consumption and construction investment is expected to mid-2006, investment in machinery and equipment should keep expanding.

Moving to a tighter fiscal stance would be desirable to reduce domestic demand pressures and to prepare for the fiscal consequences of ageing. Halting the deterioration in competitiveness will also require making the automatic wage indexation system more flexible. The priority given by the authorities to redirecting government spending to enhance productivity growth is welcome.

Sweden

Investment to grow rapidly

Despite a slowdown in exports, economic growth remains robust at 3% to 3.5% in 2006-07 and is being increasingly driven by domestic demand. The expansion should continue with household consumption projected to benefit from an improvement in employment. Investment, and in particular construction, should continue to grow rapidly in response to low interest rates.

The government's plan to improve the labour market situation includes increased public spending for 2006. The two-year employment package is designed to create up to 55,000 new jobs. Inflation remains well below target and the central bank has lowered short-term interest rates to historically low levels. Hence, both fiscal and monetary policies are currently expansionary and will have to become more restrictive over the projection period to avoid overheating.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	8 994
Area (000 sq km)	450
Currency	Krona
GDP (Billion USD) - 2004	346.4
Life expectancy at birth (Women, Men) - 2003	82.4, 77.9
Total labour force (000s) 2004	4 512
Government type	Constitutional Monarchy

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	2.4	3.5	3.0
Household savings ratio	10.1	9.5	9.5
Consumer price index	0.4	1.6	2.0
Short-term interest rate (%)	1.7	2.4	3.4
Unemployment rate (%)	5.6	4.5	4.2
General government financial balance (% GDP)	1.2	0.9	1.3
Current account balance (% GDP)	7.1	6.8	6.5

Source: OECD

Switzerland

Bolstering competition

Despite the slowdown in foreign demand in late 2004 and the rise in oil prices in the second half of 2005, the Swiss economy is expected to grow by 1.25% in 2005, which is close to potential. Activity should accelerate in 2006, as the recovery in Europe gathers strength, prompting an improvement on the employment front without generating inflationary pressures.

In the absence of tension on prices, maintaining accommodating monetary conditions in the short term will be appropriate until the recovery is firmly established. Control over public expenditure needs to be reinforced, however, particularly in the area of social spending, if fiscal consolidation is to be ensured on a sustainable basis. The recent series of measures directed to bolstering competition needs to be pursued in order to stimulate productivity growth.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	7 391
Area (000 sq km)	41
Currency	Franc
GDP (Billion USD) - 2004	357.4
Life expectancy at birth (Women, Men) - 2002	83.0, 77.8
Total labour force (000s) 2004	4 368
Government type	Federal Republic

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	1.2	1.7	1.8
Consumer price index	1.2	1.2	0.8
Short-term interest rate (%)	0.7	1.4	2.0
Unemployment rate (%)	4.1	3.9	3.4
General government financial balance (% GDP)	-1.6	-1.2	-0.8
Current account balance (% GDP)	13.2	13.5	13.6

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	71 789
Area (000 sq km)	781
Currency	Lira
GDP (Billion USD) - 2004	302.0
Life expectancy at birth (Women, Men) - 2003	71.0, 66.4
Total labour force (000s) 2004	24 790
Government type	Republican Parliamentary Democracy

	2005	2006	2007
	% change unless otherwise indicated		
GDP growth	5.8	6.0	6.4
Consumer price index	8.0	6.2	4.5
Short-term interest rate (%)	15.9	12.5	10.5
Unemployment rate (%)	10.0	9.7	9.3
Current account balance (% GDP)	-6.2	-6.6	-6.7

Source: OECD

Turkey

Positive outlook

On the back of further improvements in domestic and international confidence following the opening of accession negotiations with the EU, GDP growth is expected to remain strong at around 6% in 2006 and 2007.

The rigorous macroeconomic policy framework should be maintained. A long-awaited acceleration of the privatisation programme, which included large sales to foreign investors, has improved investor sentiment, although the related "loss" of dividend revenues from privatised firms could put some pressure on the fiscal outlook. Growing capital inflows are putting upward pressure on the currency, emphasising the need for an acceleration of the reforms needed to improve the flexibility and competitiveness of the economy. The positive central scenario is surrounded by risks associated with the extremely rapid growth of private credit, the exchange rate and movements in international interest rates.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	181 586
Area (000 sq km)	8 515
Currency	Réal
GDP (Billion USD) - 2004	605
Life expectancy at birth (Women, Men) - 2003	75.2, 67.6
Total labour force (000s) 2004	92 187
Government type	Federal Republic

	2005	2006	2007
	% change unless otherwise indicated		
Real GDP growth	3.2	3.7	3.9
Inflation (end-year)	5.5	4.7	4.5
Fiscal balance (% of GDP)	-3.7	-2.7	-1.5
Primary fiscal balance (% of GDP)	4.3	4.3	4.3
Current account balance (% GDP)	1.6	0.7	0.3

Source: OECD

Brazil

Demand shows resilience

Output growth has gained momentum since the second quarter and should pick up further over the near term. Private consumption has been resilient, and investment is on the rise. Both the trade and the external current accounts remain in healthy surpluses, despite the rising demand for imports as a result of the strengthening of the réal.

Prudent macroeconomic management needs to continue to anchor expectations. Rapid disinflation has paved the way for on-going monetary easing, and the end-year inflation target is now within reach. Fiscal performance remains strong, benefiting from buoyant revenue, and a further fall in the public debt-to-GDP ratio in 2005-07 would be desirable. New legislation on bankruptcy and public-private partnerships has been a significant step forward in structural reform, though on-going political turbulence is disrupting the legislative calendar.

China

Current account surplus may rise

Economic growth in China has remained rapid in 2005, buoyed by a strong contribution from the external sector. During the projection period, output growth may stay above 9% and seems likely to be driven by domestic demand, as fiscal and monetary policies have been eased, moving to a more neutral stance, while the effective exchange rate has appreciated slightly. Nonetheless, the current account surplus, after increasing markedly in 2005, is unlikely to fall relative to GDP and may continue to increase in nominal terms. Inflation is projected to decline to under 4%, when measured by the GDP deflator.

Increasing stress is likely to emerge in the interaction between the authorities' exchange rate and monetary policies, given the continued size of the current account surplus and capital inflows. A further appreciation of the exchange rate would help to resolve these problems and guard against resurgence in inflation. It would also help move economic policy towards the use of market instruments, reducing the need for administrative control of credit and thereby reinforcing the progress that has been made in reforming the banking sector in the past year.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2004	1 300 000
Area (000 sq km)	9 597
Currency	Renminbi
GDP (Billion USD) - 2004	1 654
Life expectancy at birth (Women, Men) - 2003	73.5, 69.9
Total labour force (000s) 2004	763 000
Government type	Communist state

	2005	2006	2007
	% change unless otherwise indicated		
Real GDP growth	9.3	9.4	9.5
Inflation (end-year)	4.2	3.5	3.7
Fiscal balance (% of GDP)	-0.7	-0.9	-1.1
Current account balance (% GDP)	7.8	8.9	8.3

Source: OECD

Russia

Deteriorating investment climate

Despite extremely favourable shifts in the terms of trade, real GDP growth has slowed in 2005 and is set to decelerate gradually over the projection period. This is largely the result of a policy-induced deterioration in the investment climate at a time when capacity constraints were already starting to affect performance.

In these circumstances, mounting pressure for further fiscal easing should be resisted. The cut in the value-added tax now being considered by the authorities would be particularly ill-advised, as it would needlessly stimulate already booming consumption, fuelling inflation and undermining competitiveness. The central bank will probably have to tighten monetary policy and accept a faster rate of rouble appreciation if it is to get inflation back on a downward path. A renewed structural reform effort, underpinned by fiscal discipline, could boost investor confidence and contribute to increasing potential output.

KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2005	143 500
Area (000 sq km)	17 075
Currency	Rouble
GDP (Billion USD) - 2004	581.4
Life expectancy at birth (Women, Men) - 2003	72.0, 58.8
Total labour force (000s) 2004	72 909
Government type	Federation

	2005	2006	2007
	% change unless otherwise indicated		
Real GDP growth	6.1	5.7	5.3
Inflation (end-year)	11.3	10.7	10.0
Fiscal balance (% of GDP)	7.3	4.0	2.5
Primary fiscal balance (% of GDP)	8.3	4.8	3.2
Current account balance (% GDP)	12.3	9.2	5.5

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.

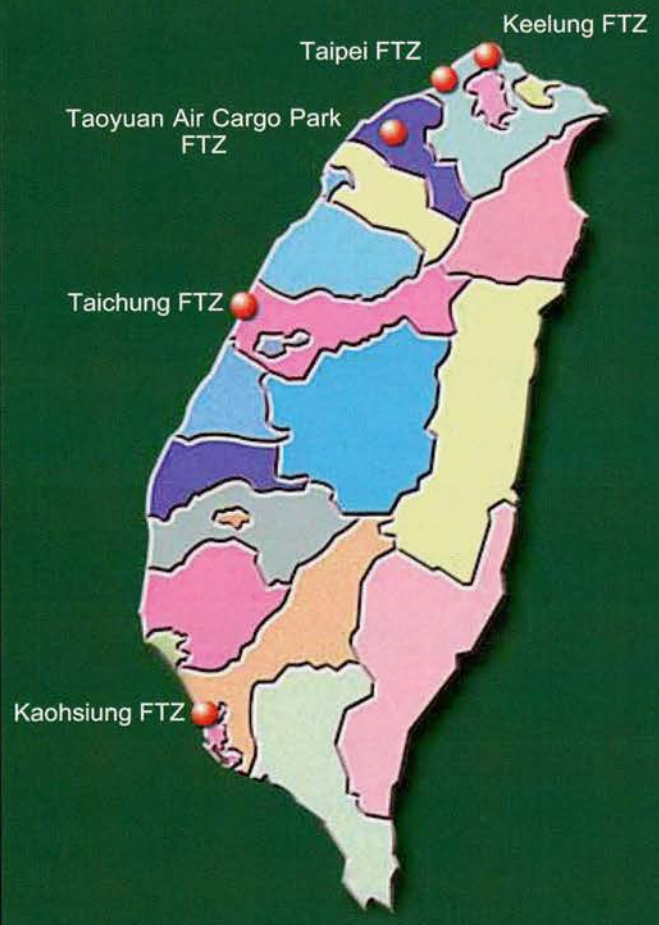
Advancing Logistics Services

Free Trade Zones in Chinese Taipei

Just for a moment, imagine a new form of logistics in Chinese Taipei. Cargo (including cargo from mainland China) arrives in Chinese Taipei early in the morning and with no complicated procedures at all – no customs clearance, no bonding, no sealing, no escorting and with no need to pay customs duties, commodity tax, or business tax – it is combined with other goods on the spot and subjected to in-depth value-added processing and then, in the afternoon of the same day, transshipped to points all over the world, providing customers with 98/3 (98% of the cargo delivered within three days) or 100/2 (100% of the cargo delivered within two days) six-star logistics service.

Too good to be true? Not at all. Thanks to the establishment of free trade zones (FTZs), this brand-new form of logistics will quickly become the norm in Chinese Taipei, with major international harbors throughout the island humming 24 hours a day in a ceaseless stream of activities to save enterprises two-thirds or more of shipping and customs-clearance time while creating substantial added value at the same time. The value added from the transshipment of whole containers by sea, for example, will soar from US$1,625 per container now to US$18,500 - 10 times the profit available from the simple transshipment of whole containers. Citing another example, the cost for air-shipping one notebook computer from Chinese Taipei to Europe or the United States is only US$9, far lower than the UD$12 cost of air-shipping it from mainland China. This will obviously bring great reductions in operating costs.

Currently, 5 FTZs have been established in Chinese Taipei: Keelung Harbor, Kaohsiung Harbor, Taichung Harbor, Port of Taipei, and Taoyuan Air Cargo Park. We cordially invite you to take the great advantage of those superb gateways for connecting your business to the world. The opportunity for advancing your global logistics services is now.



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Advantages in Global Competition

Why Chinese Taipei

The strategic point for your investment in the Asia-Pacific region.

Chinese Taipei is situated at a focal point between North East Asia and South Asia and possesses strong economic and trade power, abundant capital, high-quality manpower and industries that are constantly upgrading. These advantages assure that Chinese Taipei as a base allows the easy extension of markets to South East Asia, mainland China and other Asia-Pacific areas.

Small Yet Big

The more than 50 years of effort that the people of Chinese Taipei have devoted to the development of the island have borne rich results.

Chinese Taipei gross national product was US$316.7 billion in 2004. Its trade volume of US$341.9 billion that year ranked it as the 15th largest global trading power and its foreign-exchange reserves of more than US$241.7 billion ranked third in the world.

The history ...

... of Chinese Taipei is one of endless change, and the continuous arrival of new cultures bringing new traditions, ideas and philosophies.

Chinese Taipei lies on the western edge of the Pacific "rim of fire," where continuous tectonic movements have created an island of majestic peaks, rolling hills and plains, basins, coastlines, and other wonders. Chinese Taipei sees climates of many types: tropical, sub-tropical, and temperate, providing clear differentiation between the different seasons.

The blending of Hakka, Taiwanese, and mainland Chinese cultures has produced a plethora of cultural and social colour.

In addition to opening twelve national scenic areas, the government has also mapped out its medium and long term tourism development programs aimed at doubling tourist arrivals by 2008.

MOEA

Industrial Development & Investment Center
Ministry of Economic Affairs
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Tourism Bureau
Ministry of Transportation
and Communications

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Facing the challenge

CHILE Still a Latin tiger?

Luiz de Mello and **Nanno Mulder**, OECD Economics Department

The Chilean economy is booming again. Not that it ever really declined. True, a small dip in GDP of 0.8% in 1999 spelt the end of a long period of growth that had lasted since the mid-1980s. In that 15-year period, Chile became known as "Latin America's Tiger", with an economy whose growth performance showed more in common with dynamic countries in southeast Asia than its neighbours. Indeed, though not a member of the OECD, Chile outperforms some OECD countries, in labour productivity, for instance.

Since 1999 growth remained relatively sluggish by Chile's standards, before rebounding in 2004 with a rise of 6% in GDP. Opinions are divided on the main causes of that slowdown, some blaming cyclical and external developments, others emphasising internal structural weaknesses. Both camps are right. But the strength of the recovery leaves little doubt that the Chilean economy can notch up fast growth, especially when external conditions are favourable. Copper prices are at a 15-year peak, and copper accounts for about 40% of exports. Overall fixed investment leapt by nearly 13% last year, while private consumption also rose by nearly 6%, the fastest expansion in years. Chile's GDP per capita has risen faster than, say, in Mexico or Turkey.

However, as a recent OECD survey argues, Chile needs to sustain robust growth over the longer term if it is to close the gap in living standards with the OECD area as a whole. Income per capita measured in purchasing power terms is only about 40% of the OECD area average.

There can be no sustained growth without a sound economic foundation and Chile has done a great deal to create one. Monetary policy is working well, delivering low, stable inflation, at 2.4% in 2004. Fiscal management has also been exemplary. Those high copper prices have helped, of course, but the government has nonetheless managed to resist pressures to spend the revenue windfalls. This is because the authorities introduced a fiscal rule in 2000 requiring copper-related revenue windfalls to be saved in good times and to retire debt and finance spending in lean years. Compliance with this rule is paying dividends.

The public debt is coming down, too. The net debt of the central government and central bank combined accounted for less than 6% of GDP in 2004, down from about a third of GDP in 1990. This has allowed the government to begin to spend more on social programmes and reduce its dependency on foreign financing–the Achilles' heel of many economies in the region. In fact, Chile is now the only

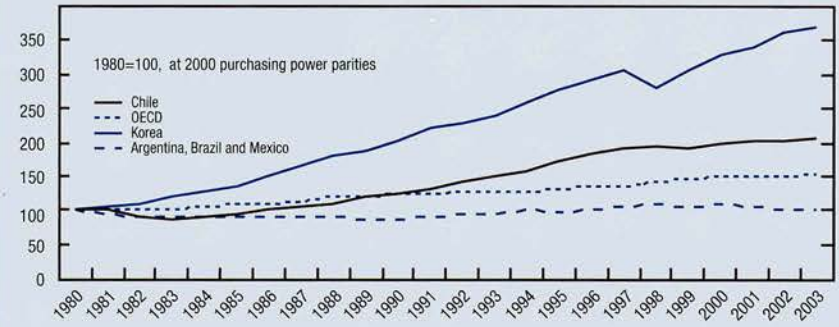
country in Latin America, other than Mexico, to have an investment-grade sovereign credit rating.

At the time of writing, Chile was in the throes of an election campaign and whatever new administration takes office in March 2006 should build on these achievements. It should maintain the fiscal rule for a start, while preparing the budget for contingencies, particularly those associated with ageing and retirement in the years to come. Chile pioneered pension reform in the early 1980s, replacing a pay-as-you-go, government-funded pension regime by a system in which workers save for retirement through contributions to a personal pension fund. While the system is working well, it has not fulfilled all of its promises. Individual workers' contribution records are patchy, and many of those who contribute regularly do so at a level that is not sufficient to ensure a satisfactory income after retirement.

Resolving such challenges is important for the country's future public finances and will help Chile lift its growth potential. Other actions would help, too, beyond the essential condition of delivering economic stability. One is to boost innovation, and several conditions are already in its favour. Real interest rates are low, the international trade and foreign investment regimes are fairly liberal, and regulation in product and labour markets is reasonably pro-competition. While Chile's research and development spending in GDP terms may seem comparable with some poorer OECD countries, it is still too low, at 0.7% of GDP in 2002, and financed predominantly by the government in a rather fragmented institutional set-up. The authorities intend to provide more support by using the proceeds of a new mining tax. They also plan to create a council linked to the president's office to advise the government on innovation policy. But for these initiatives to bear fruit, public funds will have to be spent wisely in a transparent, cost-effective and competitive manner, and on R&D projects that exploit Chile's comparative advantages. This may include developing technology for agribusinesses and mining, for instance.

Tigerish growth

Growth in GDP per capita, 1980-2003



Source: OECD

Chile is now the only country in Latin America, other than Mexico, to have an investment-grade sovereign credit rating.

Time will be the ultimate judge of the appropriateness of policies in this area.

A second challenge is to continue to strengthen the investment climate in network industries. Current regulation works reasonably well, but there is still scope for improvement. In electricity, for example, a new law was approved to ensure the security of supply against a backdrop of repeated cuts in natural gas shipments from neighbouring Argentina. The option of unbundling retailing from distribution should also be considered. This would encourage more efficiency by allowing retailers to design price schedules adapted to consumer preferences. Public-private partnerships have helped to reduce Chile's "infrastructure deficit" over the years, in areas like roads and ports. But, as this deficit narrows, governance within those partnerships will need to be enhanced. That means strengthening independent checks and balances and taking steps to safeguard the budget from contingencies.

Chile's growth potential also requires making better use of the labour force. This is the third challenge: to find ways to encourage people to work and to upgrade their skills. Labour-force participation is fairly low in Chile, especially for females and youths. There may be cultural reasons for this low participation, though a lack of affordable options for day care and pre-school education also makes it difficult for women to work. Major long-term gains can be expected from making more progress in accumulating so-called human capital, especially in today's knowledge-based economy.

This is the area in which Chile lags the most in relation to the OECD. In this sense, improving the quality and results achieved at all levels of the education system is probably the single most important challenge for the years ahead. Meeting it would not just boost Chile's long-term growth potential, but help reduce income inequality, too. Although social indicators have improved over the years, including a fall in poverty, Chile remains a highly unequal society. ■

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Mexico 2006
4th World Water Forum

Contigo es posible

March 16–22, 2006

Our commitment is to make water reach everyone's mouth before it's too late.

Why a World Water Forum?

Most of the world's population is not aware sufficiently of the magnitude of the water crisis. Water is a minimum requirement for life and for the social and economical development of human beings. It is also one of the factors that can contribute most to poverty alleviation. This Forum is the most important international event concerning water. There are thematic sessions, a Ministerial Conference, a technological and commercial Expo, the Water Fair with artistic and cultural activities and a Film Festival.

The World Water Fora are organized every three years and they aim to address water problems worldwide. To date three Fora have been held: Morocco (1997), Holland (2000), and Japan (2003).

What will be the central theme of the 4th World Water Forum?

Local Actions for a Global Challenge, that is, finding the best local options in order to share them and reproduce them globally.

Who organizes the World Water Forum?

The World Water Council jointly with the authorities of each host country. In the case of Mexico, the selected host for the 4th World Water Forum, this is managed through the 4th Forum Secretariat, and endorsed by the National Steering Committee.

For Mexico working to find solutions to water problems is fundamental to fight against poverty and to foster economical development. *In Mexico, water is an issue of strategic and "national security" (President Vicente Fox).*

How can you take part in the 4th World Water Forum?

You can take part during the Preparatory Process as of today and until the 4th Forum. Throughout the Preparatory Process there will be activities and sessions among participants including Local Workshops, Virtual Fora or Regional Meetings.

Local workshops.- Spaces where best practices are shared for local actions. They will be conducted throughout 2005 and until March 2006.

Virtual Fora.- Deliberation spaces on the Internet that have the tools and information required to connect people around the world and to share knowledge amongst them.

Regional Meetings.- Numerous representatives of sectors from various countries will meet to deliberate on the local problems of water.

You can also take part, water is everybody's business.

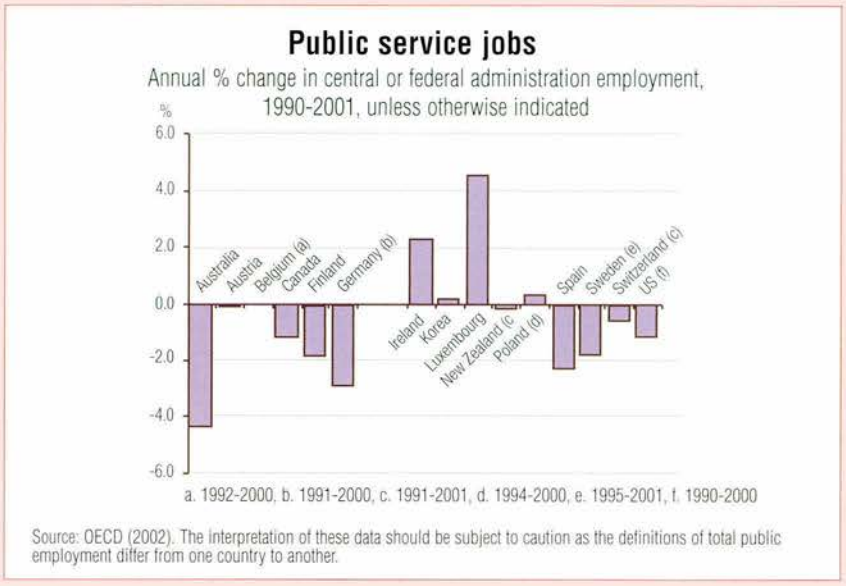
Local actions for a global challenge

www.worldwaterforum4.org.mx

Fewer jobs for life

Many governments have made deliberate efforts to cut back on their civil service employment in recent years, both to contain public expenditure and also as part of wider regulatory reforms. Public servant jobs in central, regional and local administrations have decreased, sometimes sharply, in several countries, but have risen markedly in a few others, including Ireland, the Netherlands and Spain. Staffing has risen at regional or local levels in some countries, such as Japan and the US.

Overall, the ratio of public employees to the total labour force has declined in the past decade, with a few exceptions. The relative rise in importance of private sector jobs helps explain some of this trend. Actual downsizing policies have also played a role, whether through hiring freezes and natural attrition (retirements, etc) or active cutbacks of the kind introduced in transition countries like Poland and Hungary, though also in Australia, Canada and Finland, among others. Staff reductions have also resulted from privatisation of some government functions. In Finland, six major public enterprises changed status in 1989-90, resulting in a 10% fall in total public employment. Though the Dutch average is not in the source, increases of 1.6%, 3.3%, 1.3% and 2.5% are recorded for each year from 1996/1997 to 1999/2000. ■



Suicide battle

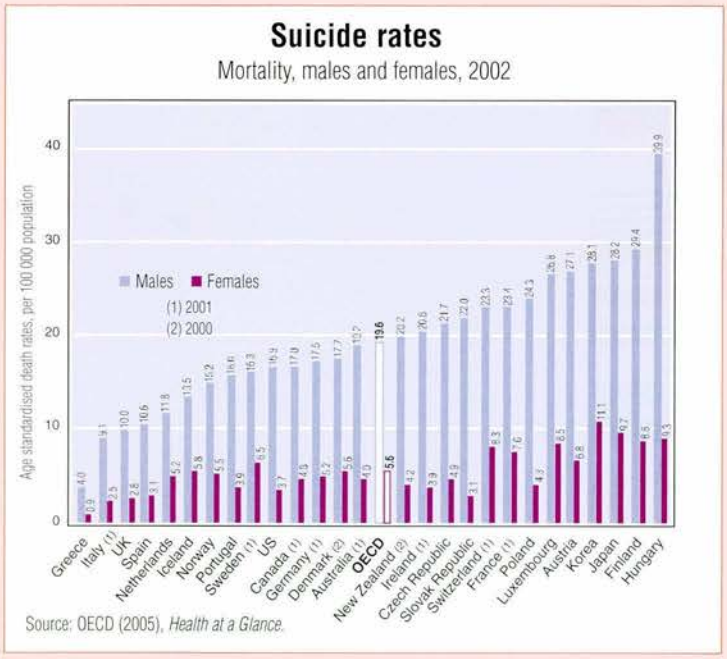
Suicide rates have fallen in most OECD countries, but have risen sharply in others. The highest rates occur in Hungary, Finland, Japan and Korea, with the lowest in Spain, UK, Italy and Greece. Some 130,000 deaths occurred in OECD countries in 2002. Suicides are up to four times greater among men than women.

Why does suicide happen? Work and school pressures, as well as personal and family stress, even bullying, are often cited. A lack of daylight has been blamed, too; in 2002 suicides were fewer in Mediterranean countries than in Nordic ones. Understanding suicide is complicated by factors like "suicide pacts" and the role of honour.

Suicide, though a serious health concern, can be taboo. Historically in Ireland the actual cause of death was reported, but the suicide aspect overlooked. This practice has changed, and Ireland has recorded a steep rise in suicides in the last decade or so.

Countries are working to tackle suicide, though no simple solution exists. In Hungary, a prevention project based on training professionals has had some success. And in a bid to stop a wave of Internet-assisted suicide pacts in 2004, police in Korea targeted "suicide websites" and search engine results. Learning to detect behavioural change in friends is encouraged in many countries. As the International Association for Suicide Prevention puts it, suicide prevention is everybody's business. ■

IASP: World Suicide Prevention Day
www.med.uio.no/iasp/wspd/pressrelease2005.html.



			% change from: previous period	% change from: previous year			level: current period	level: same period last year
Australia	Gross domestic product	Q2 05	1.30	2.60	Current balance	Q2 05	-9.71	-8.63
	Leading indicator	Sep. 05	-0.50	0.60	Unemployment rate	Sep. 05	5.10	5.50
	Consumer price index	Q3 05	0.90	3.00	Interest rate	Oct. 05	5.63	5.41
Austria	Gross domestic product	Q2 05	0.40	1.80	Current balance	Q2 05	1.05	0.59
	Leading indicator	Sep. 05	0.70	4.00	Unemployment rate	Sep. 05	5.20	4.90
	Consumer price index	Sep. 05	0.40	2.40	Interest rate		*	*
Belgium	Gross domestic product	Q2 05	0.30	1.40	Current balance	Q2 05	0.30	2.58
	Leading indicator	Sep. 05	1.20	-0.50	Unemployment rate	Sep. 05	8.40	7.90
	Consumer price index	Oct. 05	-0.20	2.50	Interest rate		*	*
Canada	Gross domestic product	Q2 05	0.80	2.70	Current balance	Q2 05	3.75	7.10
	Leading indicator	Sep. 05	-0.50	-1.50	Unemployment rate	Oct. 05	6.60	7.10
	Consumer price index	Sep. 05	0.90	3.40	Interest rate	Oct. 05	3.10	2.57
Czech Republic	Gross domestic product	Q2 05	1.30	5.00	Current balance	Q2 05	-1.73	-1.77
	Leading indicator		..	..	Unemployment rate	Sep. 05	7.90	8.30
	Consumer price index	Oct. 05	0.80	2.50	Interest rate	Oct. 05	1.91	2.67
Denmark	Gross domestic product	Q2 05	1.60	3.00	Current balance	Q2 05	2.50	1.76
	Leading indicator	Sep. 05	0.70	6.90	Unemployment rate	Sep. 05	4.70	5.30
	Consumer price index	Sep. 05	0.80	2.40	Interest rate	Oct. 05	2.17	2.16
Finland	Gross domestic product	Q2 05	-1.60	-0.30	Current balance	Aug. 05	0.64	0.86
	Leading indicator	Sep. 05	-0.10	-1.40	Unemployment rate	Sep. 05	8.30	8.90
	Consumer price index	Sep. 05	0.60	1.20	Interest rate		*	*
France	Gross domestic product	Q2 05	0.10	1.30	Current balance	Aug. 05	-2.85	-1.67
	Leading indicator	Sep. 05	0.50	-0.30	Unemployment rate	Sep. 05	9.40	9.60
	Consumer price index	Sep. 05	0.40	2.20	Interest rate		*	*
Germany	Gross domestic product	Q2 05	0.00	0.60	Current balance	Q2 05	32.43	33.25
	Leading indicator	Sep. 05	0.50	1.60	Unemployment rate	Sep. 05	8.70	9.60
	Consumer price index	Sep. 05	0.40	2.50	Interest rate		*	*
Greece	Gross domestic product	Q2 05	-0.30	3.70	Current balance	Aug. 05	0.81	1.26
	Leading indicator	Sep. 05	0.10	-0.10	Unemployment rate	Jun. 05	9.90	10.50
	Consumer price index	Sep. 05	2.20	3.90	Interest rate		*	*
Hungary	Gross domestic product	Q2 05	1.20	4.00	Current balance	Q2. 05	-1.99	-2.49
	Leading indicator		..	..	Unemployment rate	Sep. 05	7.20	6.10
	Consumer price index	Sep. 05	0.20	3.60	Interest rate	Oct. 05	5.98	10.72
Iceland	Gross domestic product	Q2 05	4.30	6.80	Current balance	Q2 05	-0.45	-0.22
	Leading indicator		..	..	Unemployment rate	Sep. 05	1.80	3.20
	Consumer price index	Oct. 05	0.70	4.70	Interest rate	Sep. 05	9.40	6.77
Ireland	Gross domestic product	Q2 05	1.60	3.90	Current balance	Q2 05	-1.47	-0.73
	Leading indicator	Sep. 05	-0.90	11.60	Unemployment rate	Sep. 05	4.30	4.50
	Consumer price index	Sep. 05	0.80	3.00	Interest rate		*	*
Italy	Gross domestic product	Q2 05	0.70	0.10	Current balance	May 05	-2.96	-1.50
	Leading indicator	Sep. 05	0.80	0.60	Unemployment rate	Jun. 05	7.70	8.10
	Consumer price index	Oct. 05	0.20	2.20	Interest rate		*	*
Japan	Gross domestic product	Q2 05	0.80	2.20	Current balance	Aug. 05	11.72	15.06
	Leading indicator	Sep. 05	1.00	1.10	Unemployment rate	Sep. 05	4.20	4.60
	Consumer price index	Sep. 05	0.30	-0.30	Interest rate	Sep. 05	0.03	0.04
Korea	Gross domestic product	Q3 05	1.80	4.40	Current balance	Sep. 05	1.82	3.30
	Leading indicator		..	..	Unemployment rate	Sep. 05	4.10	3.80
	Consumer price index	Oct. 05	-0.20	2.50	Interest rate	Oct. 05	3.90	3.50

			% 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 05	0.49	0.66
	Leading indicator	Sep. 05	1.60	0.70	Unemployment rate	Sept. 05	5.60	4.90
	Consumer price index	Oct. 05	0.60	3.10	Interest rate		*	*
Mexico	Gross domestic product	Q2 05	-0.40	1.90	Current balance	Q2 05	-0.86	-1.07
	Leading indicator	Sep. 05	1.20	5.80	Unemployment rate	Sept. 05	3.50	3.90
	Consumer price index	Sep. 05	0.40	3.50	Interest rate	Oct. 05	8.95	8.11
Netherlands	Gross domestic product	Q2 05	1.20	1.00	Current balance	Q2 05	8.66	3.73
	Leading indicator	Sep. 05	1.20	2.80	Unemployment rate	Sept. 05	4.60	4.60
	Consumer price index	Oct. 05	-0.10	1.60	Interest rate		*	*
New Zealand	Gross domestic product	Q2 05	1.30	2.50	Current balance	Q2 05	-2.16	-1.28
	Leading indicator		..	..	Unemployment rate	Q2 05	3.60	4.00
	Consumer price index	Q3 05	1.10	3.40	Interest rate	Oct. 05	7.28	6.75
Norway	Gross domestic product	Q2 05	1.30	2.00	Current balance	Q2 05	11.28	8.24
	Leading indicator	Sep. 05	0.80	11.30	Unemployment rate	Jul. 05	4.80	4.50
	Consumer price index	Sep. 05	0.80	2.00	Interest rate	Oct. 05	2.45	2.00
Poland	Gross domestic product	Q2 05	2.80	1.00	Current balance	Aug. 05	-0.84	-0.79
	Leading indicator		..	..	Unemployment rate	Sept. 05	17.70	18.70
	Consumer price index	Sep. 05	0.40	1.80	Interest rate	Sept. 05	4.50	6.91
Portugal	Gross domestic product	Q2 05	1.00	0.50	Current balance	Aug. 05	-1.46	-1.30
	Leading indicator	Sep. 05	0.80	1.10	Unemployment rate	Sept. 05	7.30	7.00
	Consumer price index	Sep. 05	0.20	2.80	Interest rate		*	*
Slovak Republic	Gross domestic product	Q2 05	1.30	5.20	Current balance	Q2 05	-0.90	-0.53
	Leading indicator		..	..	Unemployment rate	Sept. 05	16.40	18.00
	Consumer price index	Sep. 05	0.20	2.30	Interest rate	Sept. 05	6.12	8.12
Spain	Gross domestic product	Q2 05	0.90	3.40	Current balance	Jul. 05	-5.15	-4.37
	Leading indicator	Sep. 05	0.00	2.60	Unemployment rate	Sept. 05	9.30	10.80
	Consumer price index	Sep. 05	0.60	3.70	Interest rate		*	*
Sweden	Gross domestic product	Q2 05	0.60	2.10	Current balance	Q2 05	6.78	7.27
	Leading indicator	Sep. 05	1.00	7.10	Unemployment rate	Mar. 05	6.30	6.30
	Consumer price index	Sep. 05	0.70	0.60	Interest rate	Oct. 05	1.49	1.99
Switzerland	Gross domestic product	Q2 05	0.30	1.00	Current balance	Q2 05	13.74	12.72
	Leading indicator	Sep. 05	0.70	5.00	Unemployment rate	Q1 05	4.30	4.40
	Consumer price index	Oct. 05	0.90	1.30	Interest rate	Sept. 05	0.79	0.70
Turkey	Gross domestic product	Q2 05	16.40	4.20	Current balance	Q2 05	-7.00	-4.18
	Leading indicator	Sep. 05	0.30	3.50	Unemployment rate	Q2 05	9.40	9.30
	Consumer price index	Oct. 05	1.90	10.90	Interest rate	Sept. 05	13.50	19.18
United Kingdom	Gross domestic product	Q2 05	0.50	1.50	Current balance	Q2 05	-5.66	-9.84
	Leading indicator	Sep. 05	0.10	-0.30	Unemployment rate	Jul. 05	4.60	4.60
	Consumer price index	Sep. 05	0.30	2.70	Interest rate	Sept. 05	4.54	4.87
United States	Gross domestic product	Q3 05	0.90	3.60	Current balance	Q2 05	-195.66	-166.64
	Leading indicator	Sep. 05	-0.30	0.50	Unemployment rate	Oct. 05	5.00	5.50
	Consumer price index	Sep. 05	1.20	4.70	Interest rate	Sept. 05	3.87	1.86
Euro area	Gross domestic product	Q2 05	0.40	1.20	Current balance	Aug. 05	-8.11	1.45
	Leading indicator	Sep. 05	0.50	1.40	Unemployment rate	Sept. 05	8.40	8.80
	Consumer price index	Sep. 05	0.50	2.60	Interest rate	Oct. 05	2.20	2.15

Definitions and notes

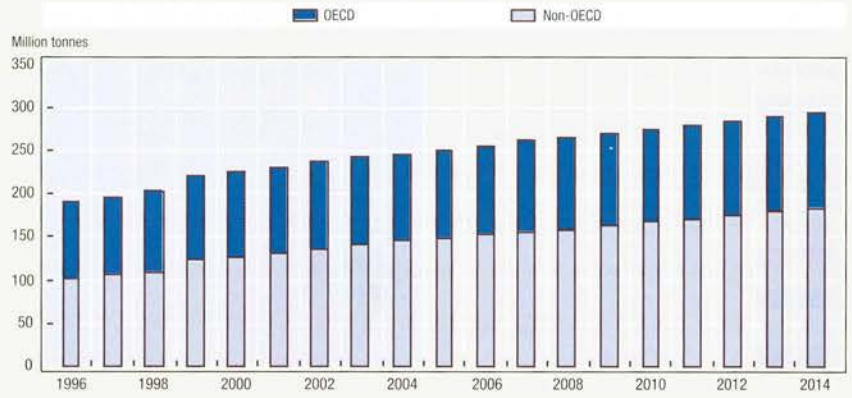
Gross Domestic Product: Volume series; seasonally adjusted except for Iceland, Poland and Turkey; ***Leading Indicators:*** A composite indicator based on other indicators of economic activity (qualitative opinions on production or employment, housing permits, financial or monetary series,etc.), which 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, Mexico and Turkey; seasonally adjusted, except for Turkey; ***Interest Rate:*** Three months.
* refer to Euro zone. ..=not available.
Source: *Main Economic Indicators*, November 2005

Where's the meat?

The global meat sector has suffered from bad press in recent years, with sales affected by trade bans and consumer caution in light of scares from the likes of mad-cow disease (BSE) and avian flu. Demographics and income growth, as well as dietary changes towards grain-based food, also influence meat output and consumption. According to the latest *OECD-FAO Agricultural Outlook 2005-2014*, overall OECD output of beef and veal, for instance, will rise only slightly from its 1999-2003 average of 26,770 kt cwe (thousand tonnes at carcass weight equivalent) over the next decade to just over 27,000 kt cwe. Output from non-OECD countries will rise much more sharply, however, from 32,733 kt cwe to around 45,000 kt cwe by 2014. Similar pictures can be painted for pig meat and sheep meats, and the OECD share in global meat production will continue its decline in the years ahead. However, poultry output will continue to expand even in OECD countries, and will shake off scares from avian flu, though a shift in trade towards cooked and processed poultry is likely. In fact, according to the report, poultry is expected to become the most consumed meat in OECD countries, accounting for 37% of all meat consumed by 2014. *OECD-FAO Agricultural Outlook 2005-2014* can be ordered at www.oecdbookshop.org. ■

Non-OECD gains

Global meat output



Source: OECD and FAO

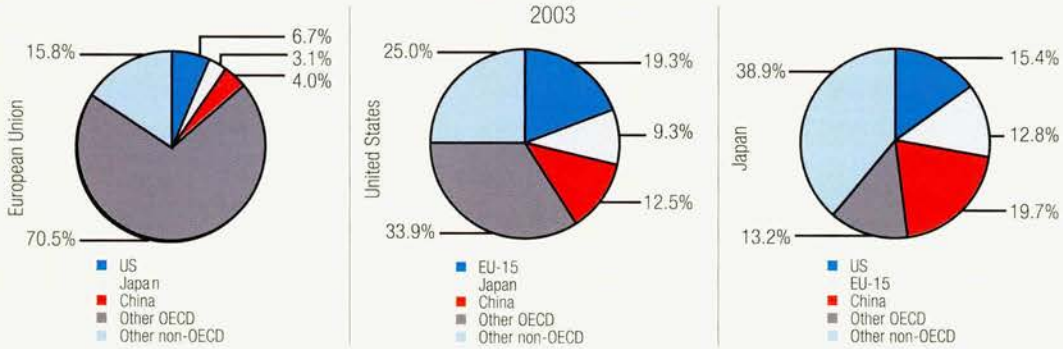
Stalink: http://dx.doi.org/10.1787/242253272107

Trade interdependency

One characteristic of globalisation is the growing interdependency of countries and regions in all areas of international transactions. Take imports. According to the latest *OECD Economic Globalisation Indicators*, between 1995 and 2003 the share of demand met by imports in the OECD area increased from 34% to 41% for goods, and from 35% to 48% for services. Imports to the EU from other OECD countries remained very high, albeit easing slightly to 71% between 1995 and 2003. Other OECD countries remained the most important source of imports in the US, too, though far less so than in the EU, at about a third of imports. Meanwhile, the importance of imports from China in the OECD has grown almost twofold, with the US seeing its share rising from 6.3% in 1995 to 12.5% in 2003. The EU is the area least dependent on imports from China. About 20% of Japan's imports come from China, which is not an OECD member. In fact, most of Japan's imports come from outside the OECD area. *Measuring Globalisation: OECD Economic Globalisation Indicators 2005* can be ordered at www.oecdbookshop.org. ■

Total imports

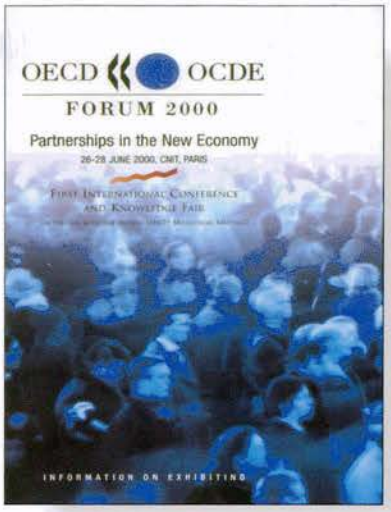
2003

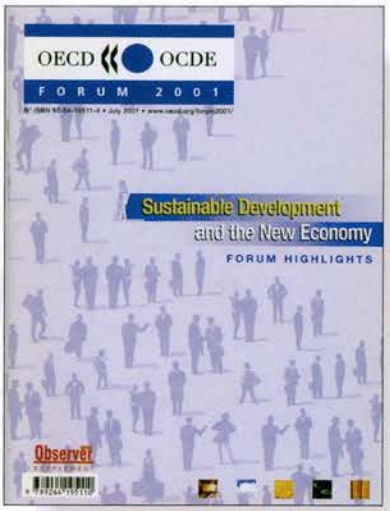


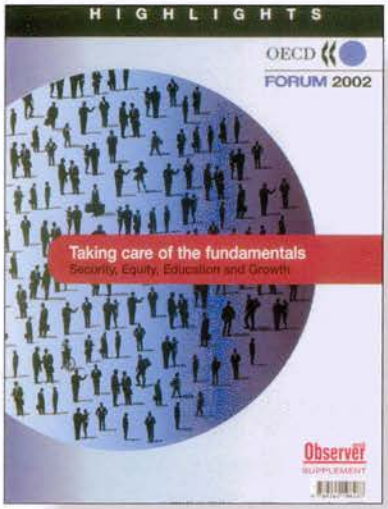
Source: OECD

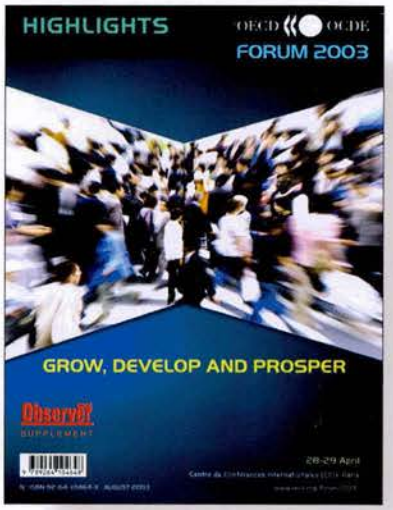
Stalink: http://dx.doi.org/10.1787/036670364331

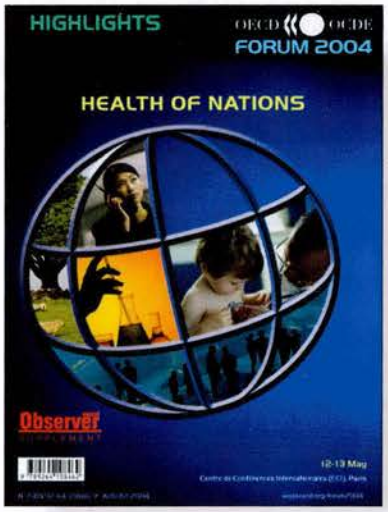
SIX OECD FORUMS...
DON'T MISS THE NEXT ONE

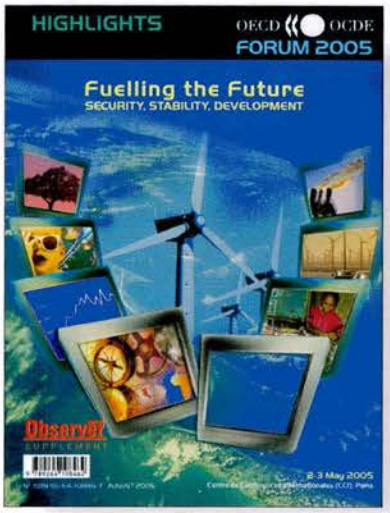












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