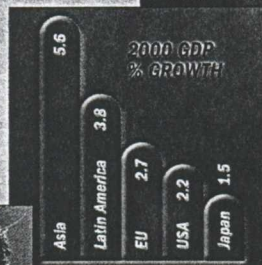
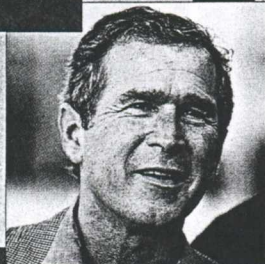
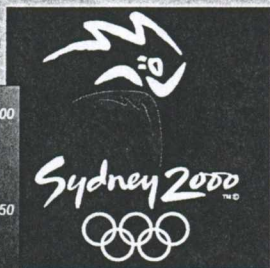
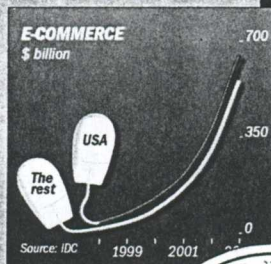


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confidence grows. But the implementation of tough spending cuts will do little for the government's popularity at home.

- Germany will build on the high profile it gained during the Kosovo conflict by being more assertive in its foreign policy. Germany will play a leading role in guiding EU enlargement negotiations and Balkan reconstruction plans.

- October sees the tenth anniversary of unification. The celebrations will be marked by ambivalence on the part of ordinary Germans, east and west.

To watch

Wage negotiations. In 1999, the trade unions walked away with big pay increases. Things will be different in 2000. Industrial unrest could result.

GREECE

GDP: \$125.7bn
 GDP per head: \$11,860
 Population: 10.6m
 GDP growth: 3.7%
 Inflation: 2.0%

- Elections are due in October, but Costas Simitis, the Pasok prime minister, will be forced to go to the country in March to resolve an expected stalemate over the re-election of the current head of state, Kostas Stefanopolous. Pasok will achieve a narrow victory.

- Greece will lodge a formal application in the spring to join EMU. Greece's inflation rate may be too high to meet all the Maastricht criteria, but its EU partners will nonetheless give Greece the green light to join on January 1st 2001. Interest rates will gradually converge with those in the euro area.

To watch

Rapprochement, of sorts, with Turkey. Dialogue on closer co-operation will continue, although the thorniest subjects—such as Cyprus—will remain intractable.

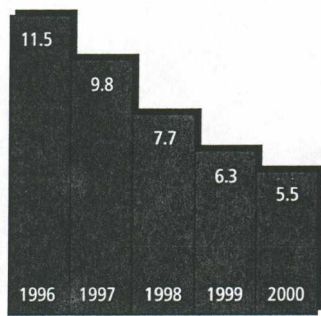
IRELAND

GDP: \$98.1bn
 GDP per head: \$26,510
 Population: 3.7m
 GDP growth: 6.8%
 Inflation: 2.6%

- Labour shortages, rising wages and infrastructural bottlenecks may take their toll but growth will still be extremely pacy, and a tightening of monetary policy by the ECB will not stop the inflation rate rising.

- The Northern Irish peace process will dominate politics north and south of the

Unemployment rate %



border. It is unlikely to break down irretrievably but will be at greatest risk around the May 22nd deadline for the completion of the decommissioning of paramilitary weapons. The Irish and British governments will remain broadly in harmony over their approach.

To watch

Wage inflation, the main threat to sustainable Irish growth. It is up to the government to trim unrealistic pay expectations on the part of trade unions.

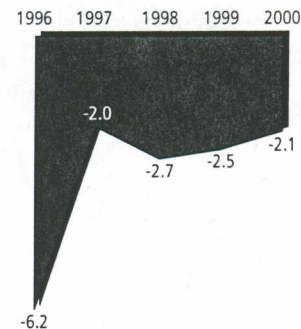
ITALY

GDP: \$1,236.9bn
 GDP per head: \$21,393
 Population: 57.8m
 GDP growth: 2.1%
 Inflation: 2.0%

- A bad performance by the government in regional elections in the spring could lead to an early election, in which case the centre-right would emerge narrowly victorious. Silvio Berlusconi, a part-time media magnate, would then succeed Massimo D'Alema to become prime minister again.

- Tough spending cuts will narrow the budget deficit and reassure Italy's EMU partners about the state of its public finances. But attempts to bring about even tougher pension and labour-market reforms will make slow headway in the face of dogged resistance.

Budget balance % of GDP



- Book that hotel. An estimated 30m tourists—five times the normal number—will descend on Rome in 2000 for the Holy Year celebrations.

To watch

Emma Bonino, a former European Commissioner whose party did well in European elections in June 1999. Ms Bonino may emerge as a leading power-broker in the event of inconclusive elections.

THE NETHERLANDS

GDP: \$431.6bn
 GDP per head: \$27,200
 Population: 15.9m
 GDP growth: 2.7%
 Inflation: 2.0%

- Expect a decent rate of economic growth and another fall in joblessness—only Luxembourg has a lower unemployment rate in the EU. But consensus on the need for wage restraint will become more fragile.

- The Euro 2000 football championships will be co-hosted by the Netherlands and Belgium in June. Hooliganism will be a major concern.

To watch

International justice. The trial under Scottish law of the two Libyans accused of the 1988 Lockerbie bombing is due to begin in the Netherlands in February. In The Hague, meanwhile, the International War Crimes Tribunal will continue to flex its muscles.

NORWAY

GDP: \$160.1bn
 GDP per head: \$35,853
 Population: 4.5m
 GDP growth: 2.2%
 Inflation: 2.1%

- Despite initial scepticism about its likely longevity, the minority centrist coalition now has a good chance of staying in power until the 2001 general election and perhaps beyond. But failure to obtain a majority on important legislation, such as the annual budget, would lead to its fall.

- The recovery in oil prices, and a surge in oil-production volumes, will help growth to accelerate. This will deliver another year of surpluses on the budget and external balances. But risks to the global economy could send oil prices downwards again, and with them the pace of Norway's recovery.

- Moves to construct a defence capability within the EU will fuel a debate on Norway's defence strategy,

and on its relations with the EU. Norway is currently a member of NATO, but not of the EU.

PORTUGAL

GDP: \$116.7bn
 GDP per head: \$11,621
 Population: 10.04m
 GDP growth: 2.6%
 Inflation: 2.7%

- Portugal takes up the EU presidency in January 2000. Negotiations on enlargement and internal reform will provide the meat of the agenda; a jobs summit will provide the frills. Expect to see much more of Antonio Guterres, the popular Prime Minister.

- The economy will expand more than most in the EU. Inflation will be higher than the euro-zone average but worries about overheating will ease.

SPAIN

GDP: \$576.8bn
 GDP per head: \$14,623
 Population: 39.4m
 GDP growth: 2.9%
 Inflation: 2.3%

- The centre-right minority government, led by José Maria Aznar, will win the general election which is due by March 2000. It will again fail to take an absolute majority in parliament but should be in a position to reduce its dependence on the smaller regional parties, particularly the Catalan nationalist coalition.

- The economy will slow in 2000, as macroeconomic policy tightens and domestic demand moderates, but growth will remain buoyant and well above that for the EU as a whole.

- The peace process in the Basque country should hold. The political wing of ETA, the Basque terrorist group, will become increasingly integrated into mainstream politics.

SWEDEN

GDP: \$252.4bn
 GDP per head: \$28,417
 Population: 8.9m
 GDP growth: 3.3%
 Inflation: 1.7%

- The ruling Social Democrats will decide whether Sweden should join EMU at a party congress in March and are set to vote in favour. A referendum on the single currency could then be held before the year is out, although it is more likely to take place in 2001.

- Low and medium wage-earners will pay less tax. But businesses will still labour under one of the heaviest tax burdens in Europe.

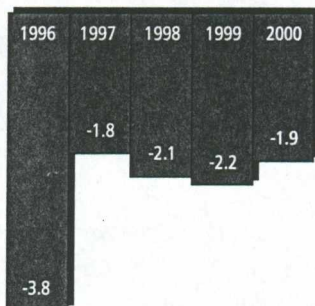
Western Europe

Growth in Western Europe will accelerate modestly, prompting the European Central Bank (ECB) to raise interest rates. The euro's second year will be less bumpy than the first—it will strengthen against the dollar. An inter-governmental conference will be convened to tackle EU internal reform.

AUSTRIA

GDP: \$217.9bn
GDP per head: \$26,740
Population: 8.1m
GDP growth: 2.4%
Inflation: 1.0%

Budget balance % of GDP



- The government gives and the government takes away. On the one hand, taxpayers will benefit from tax reductions. On the other, spending cuts will keep the budget deficit in line.
- EU enlargement negotiations will be a preoccupation. Austria will press its case for controls on freedom of movement even after countries in Eastern Europe join the EU. It will also push for the decommissioning of Soviet-era nuclear power plants in the region.
- Moves to develop a European defence capability within the EU will fuel the

All figures are 2000 forecasts unless otherwise indicated.

Inflation: year-on-year annual average.

Dollar GDPs calculated using 2000 forecasts for dollar exchange rates.

Source: **E·I·U** except where indicated.

The Economist
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debate on Austrian neutrality. But widespread misgivings about the Kosovo conflict will keep the country firmly out of the NATO alliance.

To watch

Jörg Haider, leader of the populist Freedom Party. After a strong performance in the October 1999 election, Mr Haider is now firmly in the political mainstream.

BELGIUM

GDP: \$262.8bn
GDP per head: \$25,670
Population: 10.2m
GDP growth: 2.6%
Inflation: 1.6%

- The new six-party government will clean up Belgium's rotten image. Expect measures to root out corruption, to combat racism and to restore public confidence in the food industry following the 1999 dioxin crisis. Tensions between the Flemish and francophone members of the coalition over the powers of the federal state will not disappear.

• A better year for business. Stronger export growth will cause overall growth to increase. Payroll taxes will be further reduced. Wage inflation will be modest.

To watch

The case of Marc Dutroux, a notorious paedophile. First arrested in 1996, bringing him to trial as swiftly as possible is a crucial test of the government's ambition to rehabilitate Belgium's public institutions.

DENMARK

GDP: \$173.8bn
GDP per head: \$32,576
Population: 5.3m
GDP growth: 1.8%
Inflation: 2.4%

- Relations with the EU will dominate the political agenda. The Social Democrats, senior partners in the coalition government, are likely to endorse Danish participation in EMU at a party congress in September, and to set a date for a referendum on the single currency soon thereafter. The debate on Denmark's opt-out from EU defence co-operation will also hot up.

- The lingering effects of fiscal consolidation in 1998 will keep growth sluggish, but the chances of a hard landing are now remote, thanks partly to a brighter outlook in the EU. The krone should remain stable, although its position outside EMU makes it vulnerable in the event of renewed international financial turbulence.

• The Oresund bridge linking Copenhagen, the Danish capital, and the Swedish city of Malmö will open to traffic on July 1st. The bridge will reinforce deepening economic integration between Denmark and the rest of the Baltic region.

FINLAND

GDP: \$145.0bn
GDP per head: \$27,979
Population: 5.18m
GDP growth: 3.8%
Inflation: 1.7%

- Finland will elect a new president in January. Elizabeth Rehn of the Swedish People's Party holds a consistent lead in the opinion polls. But constitutional changes have weakened the presidency. Decision-making power resides with the Social Democrat-led "rainbow" coalition, which is well ensconced.
- Prudent fiscal policy and a tighter monetary stance on the part of the ECB will limit domestic demand. Stronger EU growth and—fingers crossed—a modest recovery in Russia will compensate, leading to slightly faster growth than in 1999.

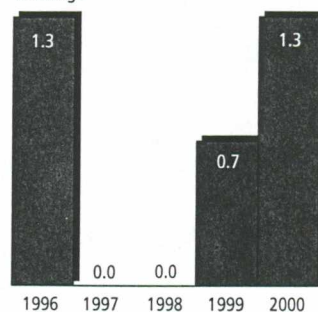
FRANCE

GDP: \$1,464.9bn
GDP per head: \$24,956
Population: 58.7m
GDP growth: 2.7%
Inflation: 1.1%

- The 35-hour working week will come into force for firms with more than 20 employees. Publicly, bosses will be livid. But in reality the impact on competitiveness will be cushioned by a reduction in social-security charges, slower wage growth and increasingly flexible working practices elsewhere in the labour market.

• The economy will pick up speed marginally, thanks largely to stronger growth in France's core export markets.

Unit labour costs % change



Inflation will remain low. The biggest blot on the copybook will be the size of the stubborn structural deficit.

- With no elections to fight and the economy healthy, the governing Socialists can sit back and enjoy the disarray of France's right-of-centre parties. If the new Rassemblement pour la France eclipses the extreme right, and the Union pour la Démocratie Française moves closer to the centre, President Jacques Chirac's party could find itself awkwardly sandwiched.

To watch

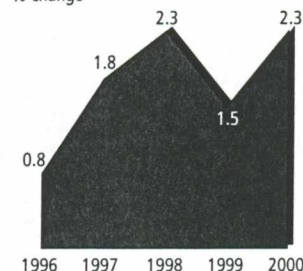
France's spell in the EU president's chair in the second half of the year. French resistance to radical reform of the Common Agricultural Policy could further slow the process of EU enlargement.

GERMANY

GDP: \$2,260.4bn
GDP per head: \$27,337
Population: 82.7m
GDP growth: 2.3%
Inflation: 1.4%

- To Europe's relief, German economic growth will gain speed again as export markets strengthen and business

GDP % change



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