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NEWS

EC COMMISSION ECONOMIC FORECASTS FOR 1993-1995

Commissioner Henning Christophersen today presented a revision of the summer forecasts for 1993 and 1994 and first figures for 1995. The conventional assumption of 'no policy change' applies, implying that the forecast for 1995 is essentially an extrapolation of expected trends in 1994. The main features are summarized below.

Main features of Autumn 1993 Economic Forecasts* - EUR (a)

	1988-90	1991	1992	1993	1994	1995
GDP growth	3.4	1.4	1.1	-0.4	1.3	2.1
Investment	6.6	-0.2	0.1	-4.6	2.0	4.5
Employment	1.6	0.2	-1.3	-1.9	-0.5	0.2
Unemployment rate (b)	8.3	8.8	9.5	10.6	11.2	11.3
Inflation (c)	4.4	5.4	4.6	3.8	3.5	3.2
Net borrowing (d)	-3.5	-4.5	-5.0	-6.4	-6.1	-5.5
Current account balance (% GDP)	-0.2	-1.1	-1.1	-0.4	-0.3	-0.1

* Real percentage change over previous year.

(a) EUR including the five new German Laender from 1992 onwards.

(b) As a percentage of the civilian labor force; first column: figure for 1990.

(c) Deflator of private consumption.

(d) General government: percentage of GDP.

The outlook

In its main lines, the present short-term growth outlook for 1993-94 is almost identical to the one presented a few months ago. The sharp deterioration in economic activity, which started in the second half of last year, has levelled off since early summer. It thus appears that the trough of the present recession is being reached or may have passed. Most economic indicators continue hovering around historically low levels, suggesting sluggish economic activity in coming months. The emergence of more solid rates of real Gross Domestic Product (GDP) growth 1 1/2 percent or more is tentatively anticipated for the second half of next year and beyond.

Overall, Community GDP is now expected to decline by about half a percent in 1993, followed by a moderately-paced recovery from next year onwards with growth rates of about 1 1/4 percent and 2 percent in 1994 and 1995 respectively. If these growth forecasts prove correct, output growth around the cyclical trough would be the

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weakest in Community history, clearly outstripping that experienced during the previous downturns of the mid-1970s and the early 1980s. Both the recession and the expected modest upswing are broadly based across Community member countries. Output this year is expected to fall, or at best to stay flat, in nine EC member countries; all nine are forecast to experience a modest turnaround in activity next year, with growth of GDP ranging between 1/2 percent and 1 1/2 percent. Only in Denmark, Ireland and the United Kingdom is GDP expected to expand at a rate close to potential. Conversely, in West Germany, expectations are for stagnation, of output in 1994, following a 2 1/4 percent fall this year.

The anticipated slowness of the recovery in the Community reflects the combined influence of a number of growth-constraining factors. Firstly, despite successive, gradual reductions in interest rates in the Community over the last twelve months, both nominal and real rates remain high, especially relative to the depth of the present downturn. In addition, the yield curve has remained inverted, suggesting continued tight monetary conditions in the Community. Secondly, during the last couple of months, several member countries have implemented or announced sizeable **fiscal consolidation programs** in order to rein in the observed deterioration in their budgetary positions. While such efforts are required to bring these economies back on a sustained, medium-term growth path, the demand-dampening impact of fiscal retrenchment risks outweighing the positive crowding-in effects in the short run.

This weakness in activity is being accompanied by unprecedented job losses and a steady climb in the unemployment rate. Community-wide unemployment is likely to rise throughout 1994 and may not peak before the middle of 1995 at about 11 1/2 percentage of the civilian labour force. The present increase in unemployment is largely cyclical in nature, but structural elements - such as corporate restructuring and a shift from labor to capital - are playing a role also. In this context, it is noteworthy that the fall in employment is almost entirely concentrated in manufacturing industry. Although in the services sector the overall number of jobs has thus far remained broadly unchanged, the growing number of job losses in this sector is a worrying feature.

The recession is creating great difficulties in all member countries for budgetary policies. The present forecasts confirm a deterioration in general government net borrowing to close to 6 1/2 percentage of GDP this year in the Community as a whole, followed by a modest improvement only over the next two years. This is the net outcome of several, partially offsetting factors. Adverse cyclical influences and discretionary fiscal-demand stimuli in some member countries have been contributing to a widening of budget deficits. On the other hand, falling interest rates and fiscal consolidation efforts in other countries have curtailed the trend to some extent.

Only modest progress is being made in reducing inflation, still averaging 3 1/4 percent in 1993, progressively edging down further to 3 1/2 percent and 3 1/4 percent on average in 1994 and 1995 respectively. This resistance of inflation is an important factor behind the cautious, step-wise monetary easing. On the other hand, the EC's current account is expected to show some moderate improvement, essentially reflecting weak import demand, though remaining slightly in deficit in 1995.

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AUTUMN 1993 FORECASTS

MAIN ECONOMIC INDICATORS 1991-1995

(a) GDP at constant prices (annual % change)					
	1991	1992	1993*	1994*	1995*
B	1.9	.5	-1.6	.5	1.3
DK	1.2	1.2	.0	2.8	2.8
D	4.5	1.6	-2.2	-0	1.2
D+	-	2.1	-1.6	.5	1.6
GR	1.8	1.3	-2	.9	1.0
E	2.3	.8	-9	1.1	2.0
F	.7	1.4	-9	1.0	2.1
IRL	2.6	4.6	2.0	3.3	3.7
I	1.3	.9	-3	1.8	2.3
L	3.1	1.8	.7	2.0	2.7
NL	2.1	1.4	-3	.9	1.8
P	2.1	1.1	-5	1.4	3.0
UK	-2.2	-5	1.9	2.5	2.7
EC	1.8	1.0	-6	1.2	2.0
EC+	-	1.1	-4	1.3	2.1
USA	-1.3	2.6	2.7	2.8	2.4
JAP	4.4	1.4	-1	1.3	2.8

(b) Domestic demand at constant prices (annual % change)					
	1991	1992	1993*	1994*	1995*
B	1.6	1.5	-1.3	.5	1.1
DK	-.4	-.6	.4	2.7	2.9
D	3.6	1.5	-2.1	-.3	1.0
D+	-	2.7	-1.2	.2	1.4
GR	2.7	1.1	-.5	1.1	1.4
E	3.1	1.1	-3.1	.1	1.7
F	.5	.5	-1.3	.9	1.8
IRL	-.3	-1.2	1.5	3.0	3.5
I	1.8	1.2	-4.3	.9	2.4
L	8.0	.5	1.7	1.9	2.2
NL	1.5	1.4	-.6	.3	1.5
P	4.1	3.8	.8	1.8	2.7
UK	-3.2	.4	1.9	2.4	2.5
EC	1.1	1.0	-1.6	.9	1.9
EC+	-	1.3	-1.3	.9	1.9
USA	-2.1	2.9	3.4	2.9	2.4
JAP	3.0	.7	-0	1.5	2.9

(c) Deflator of private consumption (annual % change) (Inflation)					
	1991	1992	1993*	1994*	1995*
B	2.9	2.4	2.8	3.2	3.0
DK	2.5	1.9	1.4	2.6	2.8
D	3.8	4.0	3.6	3.0	2.8
D+	-	4.7	4.3	3.2	3.0
GR	16.4	14.9	13.7	11.1	10.0
E	6.2	6.4	4.7	4.4	4.1
F	3.0	2.4	2.3	2.2	2.2
IRL	2.3	2.6	2.3	3.5	3.0
I	6.9	5.4	4.4	4.0	3.5
L	2.9	2.8	3.6	3.2	3.3
NL	3.4	3.0	2.1	2.5	2.7
P	11.1	9.7	6.7	5.6	4.7
UK	7.2	4.7	3.4	3.6	3.3
EC	6.3	4.4	3.7	3.4	3.2
EC+	-	4.6	3.8	3.6	3.2
USA	4.2	3.3	2.9	2.9	3.2
JAP	2.6	2.0	1.3	1.6	2.0

(d) Balance on current transactions (as a % of GDP)					
	1991	1992	1993*	1994*	1995*
B	1.7	1.8	1.3	1.1	1.2
DK	1.4	3.0	2.8	2.7	2.9
D	1.4	1.6	.4	.7	.3
D+	-.6	-1.3	-.9	-.8	-.7
GR	-5.1	-4.4	-3.7	-4.1	-4.8
E	-3.6	-3.7	-2.7	-2.4	-2.2
F	-.5	.2	.6	.3	.4
IRL	2.0	3.8	5.1	5.4	5.7
I	-1.8	-2.1	.2	.9	1.0
L	28.0	27.6	25.2	25.0	24.8
NL	3.6	3.2	3.0	3.5	3.6
P (1)	-2.9	-2.1	-2.1	-2.8	-1.9
UK	-1.8	-2.3	-2.0	-2.0	-1.9
EC	-.6	-.3	-.0	.2	.1
EC+	-1.0	-1.1	-.4	-.3	-.1
USA	.2	-.9	-1.5	-1.5	-1.4
JAP	2.5	3.2	3.1	3.0	2.9

Note : EC+ , these aggregates include values for unified Germany.

(*) Based on the forecasts of November 1993.

(1) Break in series 1991-92; - [: ?] : national accounts figures.
- from 1992 onwards : balance of payments.

Source : Commission services.

AUTUMN 1993 FORECASTS

(e) Number of unemployed as % of the civilian labour force					
	1991	1992	1993*	1994*	1995*
B	7.5	8.2	9.5	10.7	11.3
DK	8.9	9.5	10.5	10.1	9.5
D	4.2	4.5	5.6	6.9	7.4
D+	5.1	5.9	6.8	8.0	8.6
GR	7.7	7.7	7.8	8.3	8.8
E	16.3	18.0	21.2	22.4	22.7
F	9.5	10.0	10.8	11.6	11.7
IRL	16.2	17.8	18.4	18.7	18.8
I	10.0	10.3	11.0	11.3	11.4
L	1.6	1.9	2.6	2.6	2.5
NL	7.0	6.7	8.2	9.1	9.5
P	4.1	4.7	5.2	6.2	6.1
UK	8.8	10.0	10.4	9.9	9.3
EC	8.7	9.3	10.4	11.0	11.1
EC+	8.8	9.5	10.8	11.2	11.3
USA	6.7	7.3	6.7	6.0	5.9
JAP	2.1	2.2	2.5	3.1	2.8

(f) General government lending and borrowing (as a % of GDP)					
	1991	1992	1993*	1994*	1995*
B	-6.6	-6.9	-7.4	-6.4	-6.0
DK	-2.2	-2.6	-4.4	-4.9	-3.4
D	-3.5	-2.3	-3.8	-3.3	-3.3
D+	-3.2	-2.6	-4.2	-4.0	-3.6
GR	-16.3	-13.2	-15.4	-15.4	-15.4
E	-5.2	-4.8	-7.2	-7.2	-6.6
F	-2.1	-3.9	-5.9	-5.9	-5.4
IRL	-2.0	-2.2	-3.0	-3.2	-2.9
I	-10.2	-9.5	-10.0	-8.9	-8.1
L	-1.0	-2.6	-2.5	-2.2	-1.8
NL	-2.5	-3.5	-4.0	-4.1	-3.6
P	-6.4	-5.2	-8.9	-8.2	-6.9
UK	-2.7	-5.9	-7.6	-6.8	-6.0
EC	-4.7	-5.0	-6.4	-5.9	-5.6
EC+	-4.8	-5.0	-6.4	-6.1	-5.6
USA	-3.5	-4.5	-3.6	-2.5	-1.6
JAP	2.9	2.6	1.0	.1	-2

(k) Gross fixed capital formation at constant prices (annual % change)					
	1991	1992	1993*	1994*	1995*
B	.3	.0	-6.0	1.2	2.1
DK	-4.2	-10.3	-3.8	3.1	3.5
D	6.1	1.1	-5.9	1.6	3.1
D+	-	4.2	-3.4	2.9	4.3
GR	-2.0	1.1	.8	2.2	3.1
E	1.6	-3.9	-8.6	-1	2.9
F	-1.5	-2.1	-6.2	.4	3.7
IRL	-7.3	-1.9	-1.6	3.4	4.7
I	.6	-1.4	-8.4	1.8	5.7
L	9.8	-2.1	5.7	-3.8	2.0
NL	.4	1.1	-3.3	.4	3.1
P	2.4	4.5	-4	2.7	5.4
UK	-8.9	-1.1	1.0	4.4	6.6
EC	-3	-1.0	-5.3	1.8	4.2
EC+	-	-2	-4.6	2.0	4.5
USA	-8.5	6.4	7.2	5.2	4.7
JAP	3.4	-9	-1.8	2.0	4.0

(l) GDP per head (EC=100) at current prices and current PPS					
	1990	1993	1996	1994*	1995*
B	97.7	103.7	103.0	103.3	102.8
DK	116.4	111.3	115.0	110.3	111.3
D	123.2	115.7	118.4	115.1	113.8
D+	-	-	-	103.5	103.3
GR	34.8	51.2	50.6	47.3	48.7
E	58.4	76.6	70.5	77.8	78.0
F	106.2	111.5	111.2	110.3	110.3
IRL	59.9	56.1	62.8	78.8	79.9
I	86.8	83.7	102.6	104.3	104.8
L	153.8	139.3	124.8	132.4	134.4
NL	115.5	110.1	103.8	99.8	90.2
P	37.9	64.5	52.1	62.7	63.4
UK	124.5	105.2	102.6	98.1	98.9
EC	100.0	100.0	100.0	100.0	100.0
EC+	-	-	-	98.0	98.1
USA	183.5	156.5	146.8	141.3	141.0
JAP	54.4	93.5	105.7	118.2	119.2

Note: EC+ , these aggregates include values for unified Germany.
 (*) Based on the forecasts of November 1993.

Source: Commission services.

