

EUROPEAN COMMUNITY

BACKGROUND INFORMATION

EUROPEAN COMMUNITY INFORMATION SERVICE

2100 M Street NW, Washington DC 20037 Telephone (202) 872-8350
New York Office: 277 Park Avenue, New York NY 10017 Telephone (212) 371-3804

BACKGROUND NOTE

No. 22/1974

November 26, 1974

ECONOMIC AND FINANCIAL SITUATION IN THE EUROPEAN COMMUNITY

An inventory of the nine-nation European Community's economic and financial situation since 1972 shows a steady growth in the Community's gross domestic product (GDP). This rose from 3.3 per cent in 1971 to 3.7 per cent in 1972, and 5.6 per cent in 1973. Due to increased use of available production capacities, the acceleration was particularly marked in Italy -- from 1.6 per cent in 1971 to 3.2 per cent in 1972 and to nearly 6 per cent in 1973. For the United Kingdom the figures were 2.4 per cent, 2.3 per cent, and 5.6 per cent, according to the October 25 EC Commission inventory on the Community's economic and financial situation since enlargement and survey of future developments.

In 1974, the report says, economic activity has remained at a relatively high level, but with signs of stabilization, even recession. Britain's GDP contracted slightly because of the energy crisis and a production decline caused by the temporary introduction of the three-day week last winter. Unemployment rose in all member states. Inflation was described as the Community's major problem.

The rate of consumer price increases in the Community which for some years prior to 1972 had varied between 3 per cent and 6 per cent a year has consistently risen. In 1973, the range was between 6 and 11.5 per cent. For the first two thirds of 1974, the cost of living increase has been between 15 per cent and 20 per cent in Britain, Belgium, Ireland, Italy, and Denmark, and between 10 per cent and 15 per cent in France, the Netherlands, and Luxembourg. It appears to have been less than 10 per cent only in West Germany.

World trade, however, continued to expand -- by 8 per cent in 1972 and by over 13 per cent in 1973. Community member states fully participated in this rapid expansion. The rate of growth of the Community's external trade rose from 9 per cent in 1972 to 15 per cent in 1973. In 1974, the volume growth of exports to non-member countries slowed, because of the rise in export prices, but expansion in value remained rapid.

In 1974, the Community fears a current account deficit of approximately \$20 billion dollars, although Germany anticipates a surplus of about \$7 billion.

The report says that the Community's long and short term economic prospects have never been so uncertain. The Community's economic future will to a large extent be determined by how the imbalance of payments caused by the energy crisis is solved and by the extent to which inflation is brought under control. For the immediate future, for 1975, although a number of factors point to an upward trend in domestic demand and a slight increase in the rate of growth, it "cannot be fully excluded that there will be a danger of a serious crisis brought about by the cumulative effects of restrictive policies," the Commission says. But an average growth rate of between 4 per cent and 4.5 per cent is projected

This assumes, says the report, that the "necessary restructuring of the member states' economies can be carried out rapidly and under the best possible conditions."

Annex I

VOLUME INCREASE OF GDP

(annual rates in percentages)

	1966-1971	1972	1973	1974
Denmark	4.6	5.1	3.8	2.0
Germany	4.4	3.0	5.3	1.9
France	5.8	5.5	6.0	5.2
Ireland	4.4	3.2	6.0	3.5
Italy	5.2	3.2	5.9	5.0
Netherlands	5.6	4.3	4.7	3.3
Belgium	4.7	5.2	5.7	4.0
Luxembourg	3.3	4.6	7.4	4.5
United Kingdom	2.2	2.3	5.6	-0.9
Community	4.4	3.7	5.6	2.7

Annex II

MEMBER STATES' RELATIVE SHARE IN COMMUNITY'S
GDP CALCULATED AT CURRENT MARKET EXCHANGE RATES

(in percentages)

	1972	1973	1974
Denmark	2.5	2.6	2.8
Germany	31.0	33.0	33.6
France	23.2	23.9	23.2
Ireland	0.7	0.6	0.6
Italy	14.2	13.2	13.2
Netherlands	5.5	5.8	6.0
Belgium/ Luxembourg	4.4	4.5	4.7
United Kingdom	18.5	16.4	15.9
Community	100.	100.	100.

Annex III

MEMBER STATES' RELATIVE SHARE IN COMMUNITY'S GDP
CALCULATED AT BUDGETARY EXCHANGE RATES

(in percentages)

	1972	1973	1974
	Denmark	2.6	2.6
Germany	29.7	29.2	28.2
France	23.2	23.2	23.7
Ireland	0.7	0.8	0.7
Italy	14.6	15.0	16.0
Netherlands	5.4	5.3	5.3
Belgium/ Luxembourg	4.3	4.3	4.3
United Kingdom	19.6	19.6	19.1
Community	100.	100.	100.

Annex IV

GDP RATE OF GROWTH IN VOLUME

(annual rate in percentages)

	1975	Average 1973/1978
	Denmark	3.0
Germany	3.5	3.7
France	4.6	5.5
Ireland	3.0	5.0
Italy	2.0	5.3
Netherlands	3.6	3.5 to 4
Belgium	3.7	4.3
Luxembourg	3.6	3.5
United Kingdom	2.6	2.5 to 3.5
Community	3.4	4 to 4.5