

# EFTA REPORTER

## European Free Trade Association

Geneva, May 1982

3/82

### The economic outlook

The prospects for a recovery in the OECD area later this year remain highly uncertain, according to an EFTA Secretariat report written for this week's meeting of the Committee of Members of Parliament of the EFTA countries.

GDP in the US appears to have fallen at an annual rate of about 4 per cent in the first quarter of 1982 and in Europe and Japan economic activity is still weak. On the other hand there are signs that the cyclical trough has been reached in most OECD countries and that the world economy could gradually pull itself out of the recession later this year but gather strength only in 1983.

For the European OECD countries the growth rate this year can be expected to average between 1 and 1½ per cent. GDP in the OECD area as a whole is, however, greatly influenced by the evolution of the US economy. Judging from developments in early 1982 and the prospect of a continuation of relatively high real interest rates, the upswing which is expected in the US around mid-year could be less steep than is anticipated. This would mean that GDP in the US would fall again this year by around 1½ per cent, reducing the total OECD growth rate to 0.5 per cent.

### Employment

The outlook for employment is bound to remain bleak. Unemployment will grow to more than 30 million people (8½ per cent of the OECD labour force) by 1983. For Europe it is predicted that sixteen and a half million people (10 per cent of the labour force) will be out of work by mid-1983. Especially disturbing is the outlook for youth unemployment. /--



### Table of contents

The economic outlook	1
Developments in individual EFTA countries	2
EFTA Trade 1979-1980	9
EFTA scholarships	9
The EFTA Industrial Development Fund for Portugal: new loans for 420 million escudos granted	9
Forthcoming meetings	10

The contents of the EFTA Reporter do not necessarily reflect the views of the EFTA Council or of individual EFTA governments. Articles may be reproduced without special permission. The editor would be grateful to receive a copy of any reproductions or items based on this material.

Editor: David Egli

The prospects for reducing inflation in 1982 are somewhat better than expected earlier, partly because the prices of crude oil, raw materials and food have reacted more to low demand. At the same time, wage increases in a number of OECD countries have been more moderate than could have been expected. Nevertheless the level of inflation remains high. This year the rate of inflation in the OECD area will still be around 8 per cent and in the EC around 10 per cent.

### Current account balances

Perhaps the brightest spot in the economic picture is the development of current accounts. According to the latest estimates the OECD current account deficit was halved last year. A further reduction to about US \$ 10 billion is forecast for this year because of the weakening of oil prices and the likelihood of easy oil market conditions throughout the year.

While part of the reduction of the OECD current account deficit is certainly due to the slack in economic activity and destocking, more lasting changes in the structure of demand for energy seem to have been accomplished. It is possible, however, that energy prices might fall so low as to reduce the incentive to raise energy efficiency in production and consumption.

The distribution of current account imbalances within the OECD area will remain rather uneven and could accentuate the strains on the open trading system. Since the seven major OECD countries are expected to move into a sizeable combined surplus, the smaller member countries will incur a deficit exceeding that of the whole OECD area. For some of them the current account position could constitute quite a severe external constraint for policy making.

### Developments in individual EFTA countries

#### Austria

In the first quarter of 1982 the Austrian economy continued to stagnate. Only good export performance prevented a fall in GDP in 1981. Unemployment began to edge up from May 1981 and exceeded 5 per cent of the labour force early this year. Inflation rose to 6.8 per cent but peaked in the first half of last year. The balance of trade and the current account, affected by the 23 per cent appreciation of the US dollar against the Austrian schilling, improved by less than might have been expected on the basis of the economic slack and the good export performance. The current account deficit was 20.6 billion Austrian schillings or 2 per cent of GDP. The budget deficit remained about 3 per cent of GDP.

For 1982 a mild recovery is expected, its time pattern roughly following the international economy and its main stimulus being a predicted 6 per cent rise in exports. Economic activity is expected to be supported also by the turn of the business cycle. Domestic demand will remain rather weak. Altogether, GDP growth of the order of  $1\frac{1}{2}$  per cent is expected.

The prospects for the current account are quite promising. With the surplus on net services increasing slightly the current account deficit will narrow to about  $1\frac{1}{2}$  per cent of GDP. Inflation should fall to under 6 per cent, reflecting the softening of international price rises, sluggish domestic demand and fairly low wage settlements.

Unemployment will remain serious by Austrian standards and is now expected to be some  $3\frac{1}{2}$  per cent. In order to counteract the rise in unemployment the Austrian Government introduced measures early this year to assist the construction industry as well as the iron and steel industry and to support investment more generally, with the aim of lowering the unemployment rate by about half a percentage point for 1982.

### Finland

After two years of rapid growth GDP in Finland levelled off in 1981. The downswing was expected but proved sharper than earlier envisaged and the growth forecast for this year has therefore been revised downwards. This is due both to less buoyant domestic demand and to weakening export growth.

Finland's exports to Western markets have been falling in volume terms since 1980, the cyclically sensitive forest industries being the hardest hit. Last year this was more than compensated for by a rapid rise of exports to the Soviet Union to pay for the increased bill for oil. As a result, total exports of goods increased by 3 per cent in 1981.

Both private and public consumption slowed down in 1981 and there was a big downward swing in investment. As a whole domestic demand fell by some  $1\frac{1}{2}$  per cent, reducing GDP growth from 5 per cent in 1980 to 1 per cent in 1981. The marked swing in the real foreign balance resulted in a larger than expected improvement in the external balance, the current account deficit being cut to 1.7 billion Finnish marks or 0.8 per cent of GDP in 1981.

Unemployment has been increasing since the middle of last year. The average rate in 1981 was 5.3 per cent compared to 4.8 in 1980. Inflation, although decelerating, remained high in 1981: the average rise in consumer prices was 12 per cent. Finland continued to lose some of its competitiveness in terms of unit labour costs.

The prospects for the current year are not very promising. Possibilities for increasing Eastern exports have been exhausted but a gradual revival of international demand could increase sales to the traditional export markets towards the end of the year. Fixed investment is still expected to decline slightly. As a whole GDP growth may be expected to increase

marginally from 1981, the current account turning into surplus and unemployment continuing to increase, up to  $6\frac{1}{2}$  - 7 per cent.

Economic policy has endeavoured to maintain the reasonably good macro-economic balance reached in previous years while helping to support growth and employment on the one hand and price stability and competitiveness on the other by selective measures. The over-all fiscal position, which was slightly restrictive in 1981, is turning into a moderately stimulatory factor in 1982.

### Iceland

In Iceland GNP rose by 1.1 per cent in 1981 because of a significant upsurge of domestic demand. Sharply rising imports in conjunction with a fall of exports led to a current account deficit of 4.7 per cent of GNP or I. Kr. 1 billion. Full employment was maintained.

For 1982 a decline in real GNP of  $\frac{1}{2}$  per cent is forecast. Falling investment, a much slower rise in consumption and a reduction of stocks will reduce domestic demand by 1.1 per cent. This will be partly offset by a rise in net exports. Nonetheless the balance of trade is expected to close with a deficit of I. Kr. 140 million. A further substantial rise (to more than I. Kr. 1 billion) in the deficit on services account reflects the growing burden of servicing the foreign debt and is causing concern to the authorities. The current account deficit is expected to rise to about I. Kr. 1.2 billion which, however, entails a reduction to 4.1 per cent of GNP.

The export of marine products is expected to fall between 3 and 6 per cent depending on the cod catch. The total fish catch is likely to decline by some 20 per cent in 1982. On the other hand the production of manufacturing industries (aluminium, ferro-silicon, diatomite) as well as other manufacturing products is forecast to rise. Total export production will at best remain unchanged, at worst fall by 2.5 per cent from 1981's level.

The Government expects to bring the rate of inflation down from 50 per cent last year to 35 per cent by the end of this year. The likelihood of achieving this was reduced with the 12 per cent devaluation of the kronur in January to relax the squeeze on profit margins of the fisheries. In order to offset some of the effect on prices the Government sharply increased consumer subsidies on 1st February. In addition, import duties on household appliances were cut by half. These measures are also designed to influence the wage negotiations which began in mid-March.

### Norway

In Norway output from the North Sea levelled off in 1981, after several years of rapidly increasing oil and gas production, and a reduction is expected this year. For mainland Norway output is expected to grow by  $1\frac{1}{2}$  to 2 per cent, but the importance of the oil sector in the Norwegian economy is such (15 per cent of GDP

in 1980) that there will be a drop of 1 per cent in GDP in 1982.

Although traditional commodity exports will rise by some 4 per cent in volume in 1982, the drop in oil and gas output will cause exports as a whole to fall. With increasing imports, the trade surplus is likely to be cut considerably and will not offset the high deficit on the transfer account. Thus the current account will show a small deficit of some 3 billion Norwegian kroner.

Unemployment remains very low in Norway although tending to rise. The labour force sample survey of the last quarter of 1981 showed an unemployment rate of 2 per cent. Registered unemployment (which is usually lower) reached 1.6 per cent in January 1982 (seasonally adjusted).

Inflation is expected to remain a major policy problem in 1982 and to stay above the average for Norway's main trading partners. The annualized six-months' inflation rate rose from 6.9 per cent in December, after the ending of the price freeze, to 10.3 per cent in January. Moreover, general wage negotiations, now taking place, will have a major impact on the inflation rate. Taking into account the abating international inflation and the generally high pressures in the Norwegian economy, it is quite likely that Norway's competitive position will deteriorate further.

The changed outlook for oil production and State revenue has limited the scope for manoeuvre in economic policy. The current account is expected to show deficits of the order of 2 to 3 per cent of GDP in the next few years but these should be manageable. But an extensive investment programme, with a high import content and costing 5 to 7 per cent of GDP, will be carried out in the Continental Shelf during these years. It can be expected that the budget surplus will be at least significantly reduced and the efforts to limit public expenditure growth increased.

### Portugal

The state of the Portuguese economy worsened on almost all fronts in 1981: the deficit on current account doubled to nearly 11 per cent of GDP; output growth slowed down from 5½ per cent to 1½ per cent; inflation accelerated from an average annual rate of 16.6 per cent to 20 per cent; and unemployment rose from 7.8 to 8.8 per cent of the civilian labour force.

Agriculture and electricity production were seriously affected by drought and industrial production was hit by declining international demand, aggravated by protectionist measures especially against textiles.

The worsening of the external account led to a tightening of economic policies in the second half of the year: legal reserve requirements were raised and stricter credit rationing was introduced in the third quarter while public consumption was being restrained.

For 1982 a recovery of exports, with a contribution from the new petrochemical production from the Sines complex, together with an expected improvement in terms of trade and a slowdown of imports should produce an improvement in the external balance and allow for slightly higher output growth. Inflation should gradually slow down, especially if the weather permits a better agricultural production, although the average inflation rate in 1982 will be about the same as last year and unemployment is not likely to show any improvement.

### Sweden

In 1981 the Swedish economy was in recession. Real GDP declined by about 1 per cent and manufacturing output decreased by 2 to 3 per cent in real terms. Of the domestic demand components only public consumption increased. Investment, especially in manufacturing, fell sharply. Exports remained unchanged compared with 1980. Imports decreased substantially, thereby helping to improve the current account. The deficit was reduced from about 19 billion in 1980 to somewhat less than 16 billion Swedish Kronor in 1981.

Last September's 10 per cent devaluation improved the competitiveness of Swedish goods and is expected to boost exports which may grow by as much as 7 per cent this year with most of the growth in the second half. The rest of the economy, however, gives few impulses to growth. Real wages will decline by some 4 per cent, real disposable income by some 2½ per cent and private consumption by almost 2 per cent. The budget proposal implies only a slight increase in public consumption. Fixed capital formation is expected to continue falling although not at the same rate as in 1981. Thus, GDP could grow by 1 per cent in 1982.

Abating international price pressures and weak domestic demand resulted in an easing of inflation by the end of 1981. A further slowdown is expected for 1982.

With moderate import growth and the expected rise in exports the trade balance would be in surplus. Heavy transfer payments and a deterioration in the terms of trade will, however, offset this improvement. The current account will therefore remain roughly unchanged in nominal terms. New steps to curb public expenditure were announced in January when the budget proposals were presented. For 1982 the Government intends to bring the growth down to a little more than 1 per cent compared with 3½ per cent last year.

### Switzerland

GDP in Switzerland rose by about 2 per cent last year. Consumer demand slowed down considerably in the latter part of the year because of declining real wages and worsening employment prospects. Since this coincided with lower State expenditure and with weaker investment, domestic demand decelerated in the second half of 1981. Export demand, however, revived in the second and third quarters, making for a net positive contribution of the foreign sector to GDP growth. The rate of unemployment remained insignificant (0.3 per cent).

Inflation accelerated from 4.0 per cent in 1980 to 6½ per cent

in 1981 but by the end of the year consumer prices were weakening thanks to the appreciation of the franc and to falling oil prices.

Good export performance combined with a decline in imports led to a sharp contraction of the trade deficit - from 11.3 to 7.3 billion Swiss francs - and to the re-emergence of a comfortable surplus of S.Frs 4.2 billion on current account.

For 1982 a decline in GDP of close to 1 per cent is expected, mostly due to a fall in construction activity, the continuation of destocking and stagnating exports. A good deal of uncertainty still remains, given the difficulty in predicting the course of the exchange rate of the franc.

The recession should have only a limited impact on the number of unemployed as the decline in economic activity is likely to affect mostly seasonal and temporary migrant workers. The rate of unemployment will not exceed 0.5 per cent. Inflation should decline to around 4 per cent, thanks to an improvement in terms of trade and to weaker over-all demand. Wage indexation is bound to have some lagged effects on wage and price developments, helping at the same time to support household demand.

GDP - GROWTH RATES

(In percent)

Table 1

	1980	1981	1982
United States	-0.2	2.0	-1.5
Japan	4.2	3.0	2.5
Germany	1.8	-0.3	1.0
France	1.2	0.5	2.5
United Kingdom	-1.8	-2.0	1.0
Italy	4.0	0	1.0
Canada	0	3.0	-0.5
Above 7	1.0	1.2	0.3
Growth in EFTA market countries	0.9	-0.7	1.0
EFTA	3.4	0.5	0.5
EC	1.1	-0.8	1.2
OECD Europe	1.4	-0.3	1.2
OECD Total	1.2	1.2	0.5

Source: Secretariat estimates based on OECD, national and other sources

ECONOMIC DEVELOPMENTS IN THE EFTA COUNTRIES

Table 2

	GNP/GDP Annual volume growth in percent			Current account of the balance of payments					
	1980	1981*	1982*	1980		1981		1982	
				B111 US \$	% of GDP	B111 us \$	% of GDP	B111 US \$	% of GDP
Austria	3.1	0.1	1.5	-2.0 <sup>†</sup>	-2.6 <sup>†</sup>	-1.7 <sup>†</sup>	-2.0 <sup>†</sup>	-1.0 <sup>†</sup>	-1.5 <sup>†</sup>
Finland	5.0	1.0	1.5	-1.3	-2.6	-0.4	-0.8	0.3	0.6
Iceland	2.8	1.1	-0.5	-0.1	-2.4	-0.1	-4.7	-0.1	-4.1
Norway	3.8	0.7	-1.0	1.0	1.7	2.4	4.2	-0.5	-0.7
Portugal	5.5	1.6	3.0	-1.3	5.0	-2.5	-10.7	-2.2	-9.0
Sweden	1.4	-0.9	1.0	-5.2	-4.3	-3.0	-2.6	-2.5	-2.2
Switzerland	4.4	1.9	-0.8	-0.5	-0.5	2.1	2.2	2.2	2.3
EFTA <sup>‡</sup>	3.4	0.5	0.5	-9.4	-2.1	-2.8	-0.5	-3.8	-0.7
EC	1.4	-0.5	1.5	-37.3	1.3	-18.8	-0.8	-5.0	-0.3
OECD Europe	1.5	-0.3	1.5	-57.0	-1.6	-31.0	-0.9	-10.0	-0.3
OECD	1.3	1.3	0.5	-72.7	-1.0	-34.6	-0.4	-10.0	-0.1

\* Secretariat estimates based on OECD, EC and national sources

<sup>†</sup> Current deficit adjusted for 80% of the errors and omissions item

<sup>‡</sup> GDP and consumer price averages are weighted by 1980 GDP; unemployment is weighted by labour force

ECONOMIC DEVELOPMENTS IN THE EFTA COUNTRIES

Table 3

	Unemployment percent of labour force			Consumer prices percentage increases		
	1980 Average	1981	1982 Feb.	1980	1981	6 mths to Feb. 1982 at annual rate
Austria	1.9	2.4	5.1	6.4	6.8	6.1
Finland	4.9	5.3	6.7	11.6	12.0	9.6
Iceland	0.3	0.4	0.5*	57.5	51.6	44.0
Norway	1.1	1.5	2.0*	10.9	13.6	11.7
Portugal	7.8	8.8*	9.0*	16.6	20.0*	26.3
Sweden	2.0	2.5	3.1	13.7	12.1	10.0
Switzerland	0.2	0.2	0.3	4.0	6.5	2.0
EFTA <sup>†</sup>	3.3	3.8	4.5	10.0	10.7	
EC	6.1	8.8	n.a.	12.3	11.4	10.5
OECD Europe	7.0	n.a.	n.a.	14.2	12.3	11.3
OECD	6.2	8.7	n.a.	12.9	10.6	8.2

\* Estimate

<sup>†</sup> GDP and consumer price averages are weighted by 1980 GDP; unemployment is weighted by labour force



## EFTA Trade 1979-1980

With the 1979-1980 edition, EFTA Trade undergoes a reform both in content and presentation. The size of the publication has been substantially reduced by avoiding multiple presentations of the more disaggregated trade statistics and preference has been given to statistics on trade shares, since the changes in the nominal trade values are often dominated by price movements.

The number of selected commodities for which detailed data are provided has been cut down as some of these have lost weight in EFTA trade. On the other hand, more detailed information is now supplied on trade with Japan, Spain and Yugoslavia. This is because of the increased importance of Japan in EFTA trade and the special relationship between EFTA and the other two countries. Greater detail than earlier is also provided on trade with developing countries, as well as on trade in energy and in some "sensitive" goods like textiles and clothing, iron and steel and cars.

Individual copies of EFTA Trade 1979-1980 are available free of charge from the EFTA Press and Information Service.

---

## EFTA Scholarships

For the second year in succession, EFTA last November invited applications for postgraduate scholarships for research into the activities of EFTA or European trade and trade policy. Three scholarships, amounting to a total of Sw.frs. 17,000 and covering the 1982-1983 academic year, have now been awarded. The award-winners are : Mr. Ossi Tuusvuori (Finland), Mr. Ari Saarinen (Finland) and Mr. Fernando de las Cuevas (Spain).

Mr. Tuusvuori's research project, entitled "The premises and function of the EFTA-EC free trade" is part of a comprehensive project on the development of European free trade being carried out at the University of Turku. Mr. Saarinen, who is studying at the Helsinki School of Economics, is preparing a paper on the effects of EFTA tariff and quota reductions and elimination on the Finnish economy while Mr. de las Cuevas, who is at the College of Europe in Bruges, is working on a project entitled "Economic effects of the 1979 agreement between EFTA and Spain".

---

## The EFTA Industrial Development Fund for Portugal : new loans for 420 million escudos granted

Two loans for a total of 420 million escudos (almost 6 million US dollars) were recently approved by the Steering Committee of the EFTA Industrial Development Fund for Portugal.

10.

The bigger of the two loans, Esc. 300 million (about \$ 4.2 million) goes to Celulose Beira Industrial S.A.R.L., which is located in Leirosa, near Figueira da Foz, and produces pulp and paper. The company was founded in 1964 and is owned by the Swedish firm of Billeruds. The new investment, of a total of over Esc. 720 million, will finance the conversion of a recovery boiler to wood waste burning and the installation of ancillary equipment. This conversion will achieve substantial savings in the use of fuel oil and thus contribute to an improvement in Portugal's balance of payments.

Another loan, of Esc. 120 million (about \$ 1.7 million), will help finance an extension and modernisation project of Sociedade Nacional de Sabões. The company is of Portugal's most important manufacturers of soaps, oils, detergents, margarines and animal feeding stuffs. The total investment, about Esc. 147 million, will increase capacity, reduce the consumption of steam, improve product quality and make it possible to increase exports substantially.

---

#### Forthcoming meetings

##### May

- |         |  |
|---------|--|
| 10 - 11 | Economic and Social Sub-Committee of the Consultative Committee                      |
| 11 - 12 | Pharmaceutical Inspection Convention (PIC): Working Group on Packaging and Labelling |
| 13      | PIC - Committee of Officials   |
| 18 - 19 | Economic Committee (Lisbon)  |
| 18 - 19 | Committee on Pharmaceutical Evaluation Reports (PER) (Vienna)                        |
| 27      | Pressure Vessels Scheme: Participating authorities                                   |
| 27 - 28 | Bilateral Customs Committees (Brussels)  |

##### June

- |   |  |
|---|--|
| 3 | Consultative Committee meeting with Ministers (Helsinki) |
| 4 | EFTA Councils: ministerial meeting (Helsinki)            |

---

All meetings take place in Geneva unless otherwise indicated. Meetings of the Councils are not listed; they usually take place once a fortnight.

- - - - -