

EUROPEAN ECONOMY

COMMISSION OF THE EUROPEAN COMMUNITIES • DIRECTORATE GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

Supplement A — No 6 — June 1984

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Recent economic trends

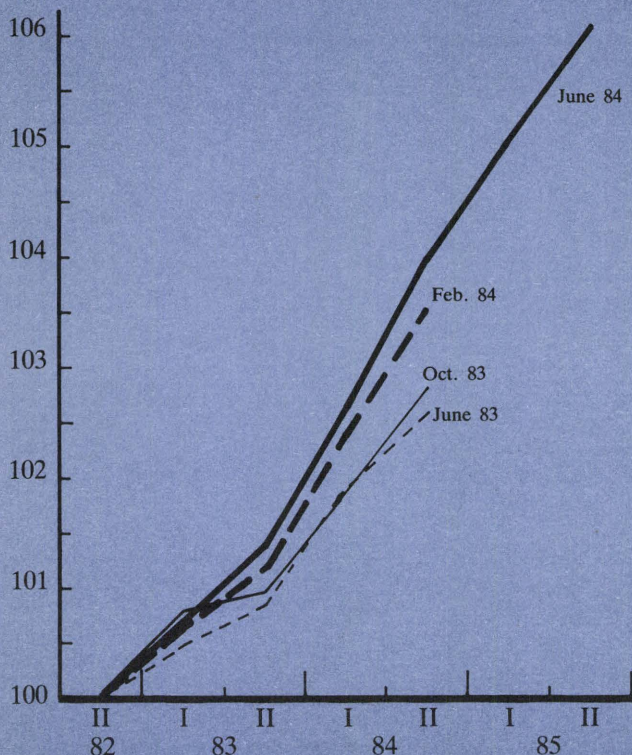
*In this number:
Economic forecasts for 1984 and 1985¹⁾*

The forecasts presented here confirm the recovery of economic activity in the Community, but the rate of growth is unlikely to be sufficient to reverse the upward trend of unemployment.

The principal features of the forecast for the Community as a whole are as follows:

- GDP growth at constant prices in 1984 is revised upwards, compared to the January forecasts, from 2,0 % to 2,2 %, and, for 1985, growth of 2,1 % is expected.
- Inflation, as reflected in the private consumption deflator, should fall from 6,3 % in 1983 to 5,1 % in 1984, and decline further to 4,5 % in 1985.
- GDP at current prices is forecast to rise by 7,6 % in 1984 and by 7,1 % in 1985.
- The main sources of growth in 1984 and 1985 will be the expansion of exports and a significant recovery in fixed investment, particularly in equipment.
- Whilst growth will be sufficient to halt the downward trend of employment, continued expansion of the labour force will result in a further increase in unemployment to an average of 11,4 % in 1985.
- The aggregate current account surplus of the Member States is forecast to increase from USD 9,2 billion in 1984 to USD 19,5 billion in 1985.
- The general government deficit should continue to decline, reaching 5,2 % of GDP in 1984 and 4,6 % in 1985.

GRAPH 1: GDP at constant prices — EC 10
Development of forecasts



International economic environment. — Developments since the previous forecast made in January 1984 have tended to confirm both the strength, and the localization, of the recovery in world economic activity as then foreseen. Economic growth in the USA, expected to average almost 6 % in 1984, has moved beyond the recovery phase and its effects have been increasingly felt in other countries, particularly in Canada and Japan (Table 1). Although some of the developing countries with external financial difficulties have started to make the necessary adjustments to their economies, the process inevitably implies a period of subdued activity and reduced internal demand. Similarly, oil exporting developing

TABLE 1: World GDP/GNP (at constant prices)

	Percentage change on preceding year					
	1980	1981	1982	1983	1984 ¹⁾	1985 ¹⁾
EC	1,1	-0,4	0,6	1,0	2,2	2,1
USA	-0,3	3,0	-2,4	3,3	5,9	2,6
Canada	1,0	4,0	-4,2	3,0	4,7	2,8
Japan	4,8	4,0	3,2	2,9	4,7	3,6
Other OECD	2,4	1,5	0,8	1,4	3,0	2,7
OECD total	1,2	2,0	-0,5	2,4	4,4	2,6
OPEC	-0,1	1,9	-4,0	-2,5	2,0	1,0
Other developing countries	5,0	3,0	0,9	0,2	2,4	3,3
Other countries	3,2	2,3	2,2	3,8	3,5	3,7

¹⁾ Forecasts.
Source: Commission services.

¹⁾ The following text summarizes the results of the Commission's spring forecasting round. The cut-off date for information used in the forecast was 5 June 1984. The previous forecast for 1983 and 1984 was summarized in Supplement A, No 2 (February 1984).

TABLE 2: World imports (at constant prices)

	Percentage change on preceding year					
	1980	1981	1982	1983	1984 ¹	1985 ¹
EC	1,9	-2,9	2,4	2,6	5,5	4,6
USA	2,5	1,1	-4,6	11,6	17,1	3,6
Canada	-5,4	2,9	-16,1	14,8	10,2	4,4
Japan	-5,0	-2,4	0,6	1,5	9,2	5,5
Other OECD	4,8	-0,6	1,7	-0,9	4,1	4,4
OECD total	1,4	-2,1	-0,6	4,4	8,4	4,4
OPEC	12,0	27,4	1,2	-8,2	2,4	0,0
Other developing countries	6,0	4,3	-7,0	-1,7	4,2	5,3
Other countries	4,0	1,7	-2,0	1,6	3,3	3,8
World	3,6	3,8	-0,1	2,0	6,7	4,1

¹ Forecasts.

Source : Commission services.

countries are still feeling the effects of reduced export earnings as a result of the weakness of the world oil market.

The current forecast is based on the assumption that an increasing number of industrialized countries will experience a recovery in economic activity, but that the rates of expansion will remain moderate in 1984 and will tend to

TABLE 3: World export prices¹

	Percentage change on preceding year					
	1980	1981	1982	1983	1984 ²	1985 ²
Fuels	67,7	10,7	-3,8	-11,0	-5,3	-0,2
Other primary commodities	12,7	-9,7	-10,6	0,2	5,1	11,7
Manufactures	10,8	-4,8	-1,9	-3,5	2,4	9,2

¹ Based on export prices in US dollars.

² Forecasts.

Source : United Nations and forecasts by Commission services.

TABLE 4: Interest and exchange rates assumptions

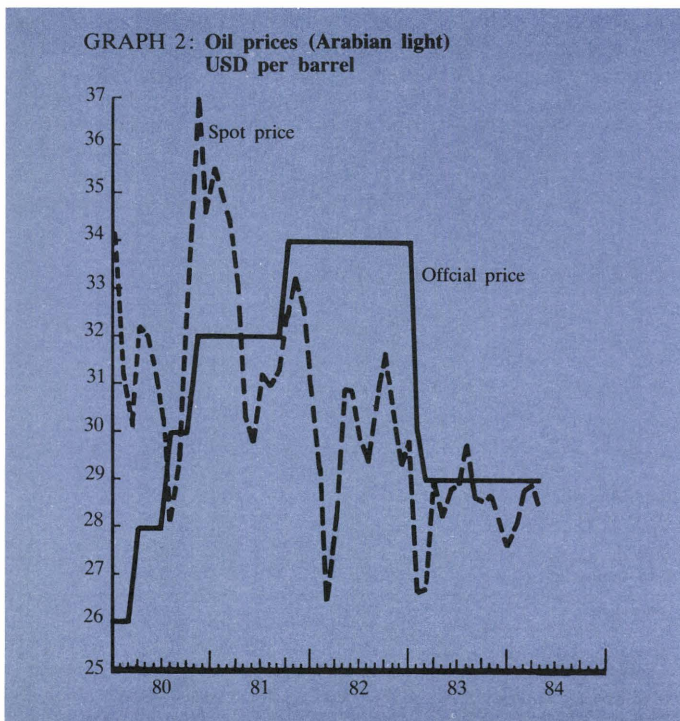
	1980	1981	1982	1983	1984	1985
	Annual rates (%)					
Rates of interest (US)						
— short-term ¹	11,6	14,0	10,6	8,7	10,0	10,8
— long-term ²	10,8	12,9	12,2	10,8	12,5	13,3
	Change on preceding year (%)					
Exchange rate of USD						
— vis-à-vis ECU ³	-1,6	+24,7	+13,7	+10,3	+4,2	-7,8
— vis-à-vis DM ³	-0,6	+23,9	+7,4	+5,4	+2,2	-9,1

¹ 13-week US Treasury bills.

² US bonds over 10 years.

³ + (-) signifies an appreciating (depreciating) USD.

Source : Commission services.



decelerate in 1985. For the OECD area excluding the EC, GDP growth is expected to exceed 5 % in 1984 but weaken to around 3 % in 1985. The growth of world trade (Table 2) will accelerate sharply to almost 7 % in 1984 as a result of higher demand from North America and a recovery of imports on the part of certain countries which had experienced large falls in 1983.

Little change in the price of oil is expected over the forecast period unless there is a significant deterioration in the political situation in the Gulf. However, the price of many non-oil commodities are expected to harden either in line with increased demand or under the impact of crop shortfalls, but the rates of increase should remain moderate (Table 3).

The continued expansion of the US external deficit will increase the pressure for a downward adjustment of the dollar over coming months, and it is expected that this will not be fully offset by some hardening of interest rates (Table 4).

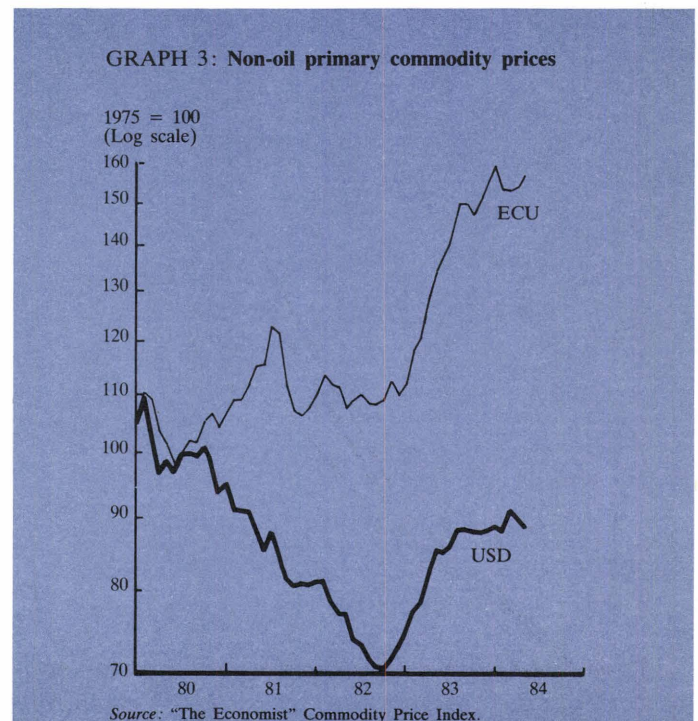
TABLE 5: Gross domestic product, volume (percentage change at constant prices on preceding year, EC countries, EC, USA, Japan, 1972-85)

	1972-81	1980	1981	1982	1983	1984 ¹	1985 ¹
B	2,8	3,2	-1,1	1,1	0,0	1,3	0,8
DK	2,0	-0,4	-0,7	3,6	2,5	2,7	3,0
D	2,5	2,0	0,0	-1,0	0,9	3,0	2,5
GR	3,9	1,6	-0,4	0,0	0,2	1,7	1,6
F	3,1	1,1	0,3	1,6	0,8	1,1	1,4
IRL	4,1	3,7	1,6	1,2	0,5	2,4	2,5
I	3,0	3,9	0,1	-0,3	-1,3	2,4	2,9
L	2,5	1,7	-1,8	-1,1	-1,4	0,3	1,6
NL	2,9	0,9	-0,8	-1,6	0,8	2,1	1,7
UK	1,4	-2,6	-1,3	2,3	3,5	2,7	2,1
EC	2,6	1,1	-0,3	0,5	1,0	2,2	2,1
USA	2,9	-0,2	3,0	-2,4	3,3	5,9	2,6
JAP	4,8	4,9	4,0	3,2	2,9	4,7	3,6

¹ Forecasts.

Source : Commission services.

GDP growth in the Community. — Real GDP of the Community is forecast to grow by 2,2 % in 1984 and by 2,1 % in 1985 (Table 5). The rate of expansion accelerated significantly towards the end of 1983, and growth should continue at an annual rate of around 2 ½ % through 1984 (see half-yearly profile in Table 9) but fall to an underlying annual rate of about 2 % next year. The greater part of this growth in both years will be attributable to domestic demand, as private consumption continues to increase at an annual rate of just over 1 ½ % and fixed investment, particularly in equipment, recovers strongly. The volume of exports has also been increasing rapidly since the second half of 1983 and should continue to supply a significant stimulus to the growth of output over the next eighteen months.



Source : "The Economist" Commodity Price Index.

At the national level, there will be a marked increase of convergence of overall growth rates in 1984 as compared to 1983. Last year, changes in GDP varied from -1,4 % in Luxembourg to +3,5 % in the United Kingdom — a range of 4,9 percentage points. In 1984, the range is expected to be only 2,7 points, from a minimum of 0,3 % in Luxembourg to a maximum of 3,0 % in Germany. The range is expected to narrow even further next year to 2.2 percentage points.

TABLE 6: Deflator of private consumption (percentage change on preceding year, EC countries, EC, USA, Japan, 1972-85)

	1972-81	1980	1981	1982	1983	1984 ¹	1985 ¹
B	7,4	7,0	8,7	7,5	7,7	6,6	5,0
DK	10,4	9,8	11,7	10,3	6,7	5,3	3,8
D	5,2	5,4	5,7	5,1	3,0	2,9	2,4
GR	15,3	22,1	22,3	21,1	19,1	19,0	18,0
F	10,1	13,1	12,7	11,1	9,3	7,5	5,7
IRL	14,9	18,6	20,1	17,1	10,5	9,0	6,5
I	16,0	20,3	19,2	16,7	14,9	11,3	8,7
L	7,0	7,7	7,7	10,0	8,4	7,7	6,0
NL	7,5	6,7	6,2	5,5	2,5	3,0	2,0
UK	13,6	16,8	11,1	8,3	5,4	5,2	5,6
EC	10,1	11,1	10,1	8,8	6,3	5,1	4,5
USA	7,4	10,3	8,9	5,8	3,9	5,1	5,5
JAP	8,4	6,8	4,8	2,4	1,4	1,4	1,7

¹ Forecasts.
Source : Commission services.

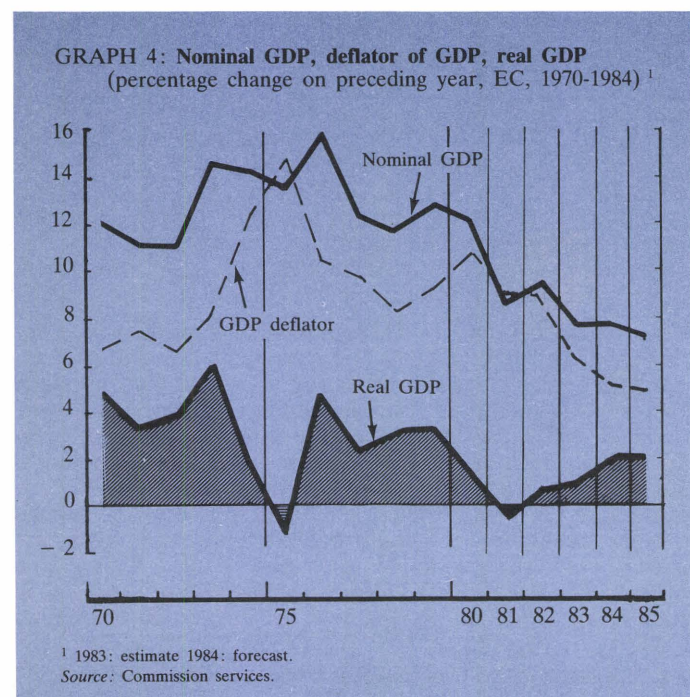
Inflation. — There has been a marked deceleration in the rate of inflation in the Community over the last three years and this is expected to continue over the outlook period (Table 6). For the Community as a whole, the rate of increase of the price deflator of private consumption is forecast to decline from 6,3 % in 1983 to 5,1 % in 1984, and then to 4,5 % in 1985. This downward trend reflects an improved performance in virtually all Member States, except for the Netherlands and the United Kingdom where little change from current low rates is expected. In 1985, all Member States except Greece should have inflation rates of less than 10 %.

The continued deceleration of inflation in 1984 is attributable, above all, to a weakening of domestically-generated cost

TABLE 7: Deflator of GDP, of imports and unit labour costs (percentage change on preceding year, EC, 1972-85)

	1972-81	1980	1981	1982	1983	1984 ¹	1985 ¹
Deflator of GDP	10,0	10,9	9,2	9,0	6,4	5,3	4,9
Deflator of imports (goods and services)	11,7	14,6	14,1	6,9	3,2	4,7	2,5
Unit labour costs (whole economy)	10,5	11,5	10,2	7,4	5,0	3,3	3,7

¹ Forecasts.
Source : Commission services.



¹ 1983: estimate 1984: forecast.
Source: Commission services.

TABLE 8: Gross domestic product, nominal (percentage change at current prices on preceding year, EC countries, EC, USA, Japan, 1972-85)

	1972-81	1980	1981	1982	1983	1984 ¹	1985 ¹
B	9,9	7,7	3,9	8,2	6,2	7,0	6,1
DK	12,1	7,8	9,8	14,4	10,3	7,7	7,2
D	7,5	6,4	4,1	3,7	4,1	5,5	5,8
GR	19,9	19,7	18,9	23,8	19,8	21,1	19,7
F	13,5	13,2	12,3	14,3	10,7	9,4	7,9
IRL	19,0	18,7	19,3	17,5	11,7	10,4	9,7
I	19,3	25,4	18,5	17,1	13,7	14,8	12,5
L	9,9	9,6	5,9	6,7	6,0	6,9	7,6
NL	10,5	6,6	4,9	4,0	2,1	4,7	3,1
UK	15,8	16,7	10,2	9,6	9,1	8,1	7,5
EC	12,9	12,2	8,9	9,5	7,5	7,6	7,1
USA	10,5	9,1	12,5	4,0	7,6	10,9	7,9
JAP	12,1	7,9	6,7	5,0	3,9	5,6	5,2

¹ Forecasts.
Source : Commission services.

pressures. With the growth in average compensation per employee falling from 7,4 % in 1983 to 5,9 % in 1984, and a further increase in productivity of 2,5 %, unit labour costs will rise by only 3,3 % in 1984, compared to 5,0 % last year (Table 7). Although this easing of internal cost pressures will not be repeated in 1985, the forecast strengthening of European currencies *vis-à-vis* the US dollar will have a beneficial effect on import prices and should ensure that the downward trend of inflation is maintained.

Nominal GDP. — For the Community as a whole, the rate of growth of GDP at current prices in 1984, at about 7 1/2 %, is expected to be little different from last year as the expansion of GDP in volume terms will offset the deceleration in prices. In 1985, the growth of nominal GDP will decline to 7,1 %, reflecting largely a slowdown in prices (Table 8 and Graph 4).

Components of demand. — *Private consumption*, in real terms, should show moderate growth in both years for the Community as a whole. Despite slightly weaker growth of compensation of employees as compared to 1983, other income will increase sufficiently to enable total disposable income of households to grow by 6,6 % in 1984 and by 6,0 % in 1985. Real disposable income is expected to increase by around 1 1/2 % in both years and, although there will be little further change in the savings ratio, this will permit private consumption, in the Community as a whole, to grow by 1,4 % and 1,6 % respectively for 1984 and 1985. The experience of individual member countries will, however, vary considerably with low, or even negative, rates of growth in those countries which are still in the process of adjustment (Table 15).

TABLE 9: Rates of change of demand components and contributions to GDP growth (EC, 1972-85)¹

	Percentage change on preceding period ¹ at constant prices				
	1972-81	1982	1983	1984 ²	1985 ²
Private consumption	2,9	0,5	1,1	1,4	1,6
Government consumption	2,6	1,1	1,6	0,6	0,6
Fixed capital formation	0,7	-1,7	0,0	3,1	3,8
Exports of goods and services	5,6	0,9	2,3	6,3	4,9
Imports of goods and services	4,5	2,3	2,2	5,4	4,5
GDP	2,6	0,5	1,0	2,2	2,1
Private consumption	8302	8401	8402	8501	8502
Government consumption	1,3	1,4	1,5	1,6	1,6
Fixed capital formation	1,8	0,2	0,2	0,6	0,9
Exports of goods and services	1,0	3,1	5,4	3,2	3,6
Imports of goods and services	6,2	6,8	5,4	4,8	4,5
GDP	7,2	5,5	3,4	4,0	6,4
	1,4	2,5	2,6	2,0	2,0
	Contributions to changes in GDP ³				
	1972-81	1982	1983	1984 ²	1985 ²
Final domestic demand	2,4	0,8	0,9	1,6	1,8
Stockbuilding	-0,1	0,6	0,0	0,3	0,1
Foreign balance	0,3	-0,4	0,0	0,3	0,2
Final domestic demand	8302	8401	8402	8501	8502
Stockbuilding	1,3	1,5	2,0	1,7	1,8
Foreign balance	0,3	0,6	-0,1	-0,1	0,7
	-0,2	0,4	0,6	0,3	-0,5

¹ Half-yearly figures at annual rates, seasonally adjusted (8202 = second half of 1982 etc).
² Forecasts.
³ Change as percentage of GDP of preceding period.
Source : Commission services.

Little stimulus to GDP growth can be expected from *real government consumption*, of which the growth rate for the Community will stabilize at 0,6 % in both outlook years. Only in Italy and Greece will this aggregate expand by more than 1,0 %.

The prospects for *fixed investment* in the Community have become brighter since the last forecast, with growth of 3,1 % now expected in 1984, accelerating to 3,8 % in 1985. Within this total, investment in equipment will show stronger growth, 4,4 % and 5,7 % for 1984 and 1985 respectively. The rate of expansion of this type of investment will be positive in all member countries in both years. However, the outlook for investment in construction is more varied. Whilst some improvement is expected in most member countries over the outlook period, a further contraction of this type of investment is expected in Belgium, France and Luxembourg in both 1984 and 1985. For the Community as a whole, construction investment should increase by around 2 % in both years.

The upturn of economic activity that is foreseen should lead to a faster rate of *stockbuilding* which should, therefore, have a positive effect on GDP growth both in 1984 and 1985.

The growth of Community *exports* of goods and services will tend to follow the profile of world trade, accelerating strongly in the current year to 6,3 % with especially fast growth of exports to the United States, before showing somewhat weaker growth (4,9 %) in 1985. Despite the relatively favourable competitive position of Community exporters there will be little gain in market share in 1984 partly because the principal export markets of member countries will not be those in which the fastest growth of demand is expected to be found. The contribution of the external sector to GDP growth will be largely offset by an acceleration in the growth of *imports* as demand recovers.

Balance of payments. — The improvement in the Community's external payments position, which began in 1981, is expected to continue over the forecast period. The surplus on trade account (fob/fob) of the Community is forecast to increase to USD 25 billion (1 % of GDP) this year, and to over USD 40 billion (1,4 % of GDP) in 1985. The improvement in 1984 arises wholly from a favourable change in volumes (exports +6,9 % : imports +5,4 %) as the terms of trade should remain unchanged. Next year, however, the greater part of the increase in the surplus will arise from an improvement in the terms of trade of around 1 %.

Part of the improvement of the trade account will be offset by a small but persistent deterioration on factor income and transfers account. Nevertheless, the surplus on current transactions of the Community should increase to the equivalent of 0,4 % of GDP in 1984, and reach 0,7 % of GDP next year (Table 10). This improving trend is expected to be found in most member countries with the exception of Greece in both years, and Italy and the United Kingdom in 1985.

TABLE 10: **Balance on current account** (per cent of GDP, EC countries, EC, USA, Japan, 1972-85)

	1972-81	1980	1981	1982	1983	1984 ¹	1985 ¹
B	-1,4	-4,5	-4,3	-3,6	-1,6	-0,6	0,7
DK	-3,2	-3,7	-3,1	-4,1	-2,1	-2,2	-1,7
D	0,3	-1,8	-1,0	0,6	0,7	1,2	1,9
GR	-1,4	0,3	0,3	-3,7	-4,3	-4,7	-5,3
F	-0,7	-1,4	-1,4	-3,0	-1,6	-1,0	-0,8
IRL ²	-7,6	-9,9	-13,1	-8,3	-2,3	-0,9	0,1
I	-0,7	-2,4	-2,3	-1,6	0,1	0,2	0,1
L	24,5	22,6	28,2	40,2	39,0	37,7	35,8
NL	1,1	-1,6	2,2	2,8	2,7	3,5	4,8
UK	0,1	1,8	2,5	2,0	0,7	0,7	0,5
EC	-0,3	-1,3	-0,6	-0,5	0,0	0,4	0,7
USA	0,0	0,2	0,1	-3	-1,2	-2,5	-2,8
JAP	0,3	-1,0	0,5	0,7	2,0	2,6	2,6

¹ Forecasts.

² After these forecasts were made, the Central Statistics Office of Ireland published revised figures for the current account balance back to 1979. The revisions are substantial: in 1983 the deficit on the new basis is estimated to be equivalent to 6,1 % of GDP.

Source: Commission services.

Labour markets. — The outlook for labour markets throughout the Community leaves no room for complacency. The increase in economic activity remains moderate and, given the expected improvement in labour productivity (+2,5 % in 1984; +2,2 % in 1985), will only just be sufficient

TABLE 11: **Number of unemployed as percentage of working population** (EC countries, EC, USA, Japan, 1972-85)

	1972-1981	1980	1981	1982	1983	1984 ¹	1985 ¹
B	6,5	9,1	11,2	13,1	13,4	13,7	14,0
DK	4,9	6,7	8,9	9,5	10,5	10,3	10,0
D	3,1	3,3	4,7	6,8	8,4	8,4	8,3
GR	:	:	:	(5,8)	(7,8)	(8,5)	(9,2)
F	4,4	6,4	7,8	8,8	9,0	10,3	11,0
IRL	7,9	8,3	10,2	12,4	15,0	16,2	17,4
I	6,4	8,0	8,9	8,2	9,7	10,6	11,2
L	0,4	0,7	1,0	1,3	1,6	1,9	2,1
NL	5,1	6,2	8,8	11,7	14,0	16,5	17,2
UK	4,8	6,3	9,2	10,6	11,5	11,6	11,6
EC	4,8	6,1	7,8	9,2	10,3	11,1	11,4
USA	6,6	5,8	7,6	9,7	9,7	7,5	6,9
JAP	1,9	2,1	2,2	2,4	2,7	2,6	2,6

¹ Forecasts.

Source: Commission services.

to halt the downward trend in total employment in the Community. However, there should be a modest expansion of employment in six member countries in 1985.

The forecast stability of the demand for labour will not, however, prevent a further increase in unemployment (Table 11) as the expansion of the civilian labour force, which has been a feature of recent years, is forecast to continue during the outlook period, despite a slightly lower participation rate compared to 1983. In only three member countries — Denmark, Germany and the United Kingdom — is the rate of unemployment forecast to be lower in 1985 than in 1983.

Wages. — The forecast suggests that the deceleration of wage increases, which has occurred over the last three years, should continue in 1984 but that no further deceleration can be expected next year. Average compensation per employee at the Community level is expected to increase by around 6,0 % in both years (Table 12), with average real wages increasing by 0,8 % in 1984 and by 1,4 % in 1985. The Netherlands is likely to be the only country in which the real value of employee compensation actually declines in 1985, reflecting a stringent incomes policy there.

TABLE 12: **Compensation of employees per had** (percentage change on preceding year, EC countries, EC, 1972-85)

	1972-81	1980	1981	1982	1983	1984 ¹	1985 ¹
B	11,5	9,0	7,4	7,7	5,7	7,6	6,7
DK	11,4	10,8	10,0	11,7	7,0	5,1	3,8
D	7,8	6,8	5,3	4,4	3,7	3,7	4,2
GR	19,8	14,4	24,3	26,7	19,1	21,7	19,9
F	14,1	14,8	14,4	13,5	10,5	9,1	7,1
IRL	18,7	21,1	17,1	15,2	10,8	10,1	8,9
I	19,3	22,5	21,2	17,1	15,9	11,4	10,8
L	10,4	7,8	8,5	6,7	6,6	6,8	7,1
NL	9,9	5,4	3,5	5,7	2,8	0,3	0,3
UK	16,1	19,6	13,2	8,4	8,1	6,9	7,4
EC	12,6	13,4	11,6	8,7	7,4	5,9	6,0

¹ Forecasts.

Source: Commission services.

The rate of growth of unit labour costs should continue to decelerate in 1984 as the lower growth of average employee compensation combines with a further relatively high increase in labour productivity. In 1985, however, the slightly weaker growth of productivity will not be offset by any additional deceleration in employee compensation and, therefore, will cause a modest acceleration in the rate of growth of unit labour costs in all member countries except the Netherlands.

Government finance. — There has been a marked deceleration in the growth of general government expenditure since 1980, as a result of both an easing of inflationary pressures and the introduction in several member countries of measures designed specifically to reduce the government deficit. The forecasts, which are based on the general assumption of unchanged policies with quantitative estimates of the effects of announced policies being made where necessary, indicate that this declining trend could well continue over the outlook period. On these restrictive 'unchanged policy' assumptions, the rate of increase of government expenditure (+ 6,4 % in 1984 and +5,1 % in 1985) should fall below that of nominal GDP.

Although the rate of increase of current revenue will follow a similar downward trend, it should nevertheless remain above

TABLE 13: General government lending or borrowing (-) as percentage of GDP (EC countries, EC, 1972-85)

	1972-81	1980	1981	1982	1983	1984 ¹	1985 ¹
B	-5,6	-9,9	-12,6	-11,6	-11,7	-10,9	-9,3
DK	-0,7	-3,3	-7,1	-9,3	-8,0	-6,5	-4,9
D	-2,5	-3,1	-3,9	-3,4	-2,7	-1,6	-0,7
GR	-5,1	-5,4	-10,6	-10,0	-9,7	-10,1	-10,1
F	-0,6	0,3	-1,8	-2,6	-3,3	-3,3	-3,5
IRL	-9,3	-11,8	-15,8	-15,6	-12,9	-11,7	-10,6
I	-8,9	-8,4	-11,7	-12,7	-11,8	-12,6	-12,1
L	1,7	-0,8	-2,3	-1,4	-2,2	-0,7	0,3
NL	-2,1	-4,0	-5,2	-7,0	-6,4	-5,8	-4,8
UK	-3,6	-3,4	-2,7	-2,0	-3,3	-2,9	-2,3
EC	-3,3	-3,5	-5,4	-5,6	-5,5	-5,2	-4,6

¹ Forecasts.

Source: Commission services.

that of current expenditure in both 1984 and 1985. This differential would be sufficient, despite the expected growth in capital formation and net capital transfers, to reduce the general government borrowing requirement as a percentage of GDP (Table 13) from 5,5 % of GDP in 1983 to 5,2 % in 1984 and 4,6 % in 1985 for the EC as a whole. This general trend towards a smaller borrowing requirement in relative terms is likely to be seen in most member countries. Despite this further progress in reducing the general government borrowing requirement, on the assumptions of this forecast, the burden of interest payments will continue to be the fastest growing item of expenditure in 1985.

Money supply. — Assuming that there is no change in the overall direction of monetary policy in member countries, the average expansion of the money supply in the Community using the broad definition (M2 or M3) is expected to decelerate further to 8,9 % in 1984, and to 8,1 % next year (Table 14). In both forecasting years, the rate of growth is about 1 % above that of nominal GDP of the Community. However, in Germany, France and Italy (1984 only), the forecast average growth of money supply is expected to be significantly less than that of GDP at current prices.

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TABLE 16: Contributions to real GDP growth¹ (EC countries, 1972-85)

	1972-81	1982	1983	1984 ²	1985 ²
B Final domestic demand	2,4	0,4	-3,0	-0,6	-0,9
Stockbuilding	-0,2	-0,0	0,6	0,0	0,0
Foreign balance	0,3	0,7	2,4	1,9	1,7
DK Final domestic demand	1,3	3,8	1,9	1,7	2,2
Stockbuilding	-0,1	0,1	-0,6	0,5	0,3
Foreign balance	0,9	-0,2	1,1	0,5	0,5
D Final domestic demand	2,2	-2,0	1,1	1,9	2,1
Stockbuilding	-0,1	0,4	0,7	0,2	-0,1
Foreign balance	0,5	0,9	-0,9	0,9	0,5
GR Final domestic demand	4,0	1,6	0,2	1,6	1,6
Stockbuilding	0,1	1,1	-1,3	0,0	0,0
Foreign balance	-0,1	-2,5	1,3	0,1	0,0
F Final domestic demand	3,4	3,5	0,6	0,7	1,4
Stockbuilding	-0,1	0,9	-0,9	0,0	-0,1
Foreign balance	-0,1	-2,0	1,0	0,4	0,2
IRL Final domestic demand	4,3	-3,7	-4,5	-0,3	0,7
Stockbuilding	-0,2	1,2	0,2	0,1	0,0
Foreign balance	0,0	4,9	4,9	2,6	1,7
I Final domestic demand	2,9	-0,2	-0,8	2,0	2,5
Stockbuilding	0,0	0,3	-1,0	0,3	0,5
Foreign balance	0,2	-0,3	0,6	0,0	-0,1
L Final domestic demand	2,8	-2,2	-2,1	-1,9	0,5
Stockbuilding	0,1	-0,7	0,1	0,2	0,1
Foreign balance	-0,3	1,2	0,6	2,0	0,9
NL Final domestic demand	2,2	-0,4	0,7	-0,2	0,7
Stockbuilding	-0,3	1,2	-0,1	1,8	0,3
Foreign balance	0,9	-1,1	0,2	0,5	0,7
UK Final domestic demand	1,3	2,8	3,8	2,6	2,0
Stockbuilding	-0,2	0,8	0,8	0,2	0,1
Foreign balance	0,2	-0,5	-1,0	-0,1	0,0

¹ Change as percentage of GDP of preceding period.

² Forecasts.

Source: Commission services.

TABLE 14: Money supply M2/M3 (percentage change at end of year on twelve months earlier, EC countries, EC, USA, Japan, 1972-85)

	1972-81	1980	1981	1982	1983	1984 ¹	1985 ¹
B	12,1	6,5	10,1	7,8	7,1	7,6	7,1
DK	11,8	8,1	9,1	11,4	24,2	10,0	8,0
D	8,9	6,2	5,0	7,1	5,3	5,2	5,0
GR	23,6	24,7	34,7	29,0	20,2	21,9	22,9
F	14,2	9,8	11,4	11,5	10,9	7,0	6,0
IRL	19,3	17,7	17,4	13,0	5,6	12,0	13,2
I	20,7	17,3	15,9	17,2	14,6	12,9	12,9
L	—	—	—	—	—	—	—
NL	10,4	4,4	5,3	7,6	10,7	9,0	6,5
UK	14,5	18,6	13,5	9,3	10,2	8,9	7,9
EC	14,0	11,7	10,9	10,9	10,2	8,5	7,8
USA	9,7	8,9	10,0	9,4	11,7	—	—
JAP	18,7	7,1	11,0	7,9	7,2	—	—

¹ Forecasts.

Source: Commission services.

TABLE 15: Demand components of constant prices (percentage change on preceding year, EC countries, 1972-85)

	1972-81	1982	1983	1984 ¹	1985 ¹
B³ Private consumption	3,2	1,8	-3,0	-1,0	-1,5
Government consumption	3,6	-1,4	-0,9	-0,7	-0,7
Fixed capital formation	0,8	-2,3	-5,5	0,7	1,0
Exports of goods and services	5,3	1,6	2,4	5,1	4,3
Imports of goods and services	5,1	0,5	-1,7	2,4	2,0
GDP	2,8	1,1	0,0	1,3	0,8
DK³ Private consumption	1,5	2,1	2,2	1,8	2,0
Government consumption	4,1	4,1	1,3	-0,2	-0,2
Fixed capital formation	-2,5	6,0	2,3	5,0	7,6
Exports of goods and services	5,0	1,7	4,6	4,3	5,0
Imports of goods and services	2,1	2,7	1,7	3,5	4,4
GDP	2,0	3,6	2,5	2,7	3,0
D⁴ Private consumption	2,8	-1,9	1,0	1,2	1,8
Government consumption	2,2	-0,9	-0,2	0,5	0,5
Fixed capital formation	0,6	-5,2	2,9	5,4	4,7
Exports of goods and services	6,0	3,7	-0,9	8,6	5,7
Imports of goods and services	4,5	0,5	2,4	6,6	4,9
GDP	2,5	-1,0	0,9	3,0	2,5
GR² Private consumption	4,1	0,6	0,0	1,2	1,0
Government consumption	6,4	1,0	2,4	2,0	2,5
Fixed capital formation	0,2	-1,0	-1,4	2,6	2,6
Exports of goods and services	10,1	-5,8	16,6	5,5	4,5
Imports of goods and services	5,4	5,9	3,9	3,5	3,2
GDP	3,9	0,0	0,2	1,7	1,6
F² Private consumption	3,8	3,3	1,0	0,9	1,2
Government consumption	2,9	2,2	1,6	0,1	0,0
Fixed capital formation	2,0	0,5	-1,4	0,5	3,0
Exports of goods and services	7,5	-3,7	3,9	5,2	4,5
Imports of goods and services	7,7	4,8	-0,5	3,4	3,9
GDP	3,1	1,6	0,8	1,1	1,4
IRL³ Private consumption	2,6	-5,0	-3,8	0,9	1,5
Government consumption	5,7	3,3	-0,5	-1,2	-2,0
Fixed capital formation	5,3	-8,5	-8,7	-2,1	1,4
Exports of goods and services	7,7	4,3	11,2	10,0	7,4
Imports of goods and services	6,0	-4,3	2,5	6,0	5,0
GDP	4,1	1,2	0,5	2,4	2,5
I² Private consumption	2,9	0,3	-0,4	2,1	2,4
Government consumption	2,8	1,8	2,6	2,2	2,2
Fixed capital formation	1,5	-5,3	-5,5	2,3	3,7
Exports of goods and services	6,8	1,2	3,4	5,6	3,6
Imports of goods and services	5,2	2,1	1,2	6,6	4,6
GDP	3,0	-0,3	-1,3	2,4	2,9
L³ Private consumption	3,7	-1,6	-1,4	-2,0	1,0
Government consumption	3,7	0,3	0,0	-0,7	-0,3
Fixed capital formation	-0,1	-2,2	-5,4	-2,5	0,0
Exports of goods and services	2,9	0,3	-1,3	2,9	4,0
Imports of goods and services	3,2	-0,9	-1,9	0,5	2,9
GDP	2,5	-1,1	-1,4	0,3	1,6
NL⁵ Private consumption	3,4	-1,4	0,5	-0,2	0,0
Government consumption	2,5	0,6	0,8	-1,7	0,0
Fixed capital formation	-0,4	-4,9	1,3	1,7	3,8
Exports of goods and services	4,4	-0,7	4,3	5,5	5,6
Imports of goods and services	2,7	1,7	4,1	4,8	4,7
GDP	2,9	-1,6	0,8	2,1	1,7
UK⁵ Private consumption	1,7	1,2	3,9	2,7	1,9
Government consumption	2,1	1,4	3,1	0,8	0,4
Fixed capital formation	-1,1	5,8	4,7	5,1	4,1
Exports of goods and services	3,3	1,6	0,8	5,3	4,4
Imports of goods and services	2,4	3,3	5,0	6,1	4,5
GDP	1,4	2,3	3,5	2,7	2,1

¹ Forecasts.

² 1970 prices.

³ 1975 prices.

⁴ 1976 prices.

⁵ 1980 prices.

Source: Commission services.

Major economic policy measures — May 1984

Community (EC)

None.

Belgium (B)

None.

Denmark (DK)

None.

Federal Republic of Germany (D)

None.

Greece (GR)

2.5. Commercial banks were authorized to grant short-term foreign currency loans to industrial and mining firms to finance the cost of promoting exports.

5.5. It was announced that a national system of unemployment insurance would be set up. Under the new system, benefits will be payable for seven months (instead of three and a half, as at present). In addition, young jobseekers under 30 will be eligible for benefits of DR 15 000 a month for six months.

20.5 By decision of the Ministry of the National Economy, central supervisory bodies were set up to monitor investments under the development laws.

France (F)

1.5. The minimum wage was increased by 3,4 % as from 1 May. It should be raised again from 1 July by some 1 % to 1,5 % (bringing the minimum hourly rate from FF 23,55 to between FF 23,79 and FF 23,90).

Ireland (IRL)

None.

Italy (I)

1.5. Postal charges were selectively increased by an average of 13-14 % in annual terms. Electricity charges to industrial and commercial users (but not to domestic users) were raised by 6,6 % for small consumers and by 5,2 % for medium consumers while charges to large consumers were reduced. Motorway tolls were increased by an average of 11 %.

4.5. The Ministry of the Treasury decided, on a proposal from the Governor of the Bank of Italy, to reduce the discount rate and the rate of advances on central bank securities from 16 % to 15 %.

9.5 The banking association advised member banks to pass on the reduction in the discount rate in their borrowing and lending rates.

Luxembourg (L)

20.5. The government approved a programme to stimulate construction. It includes the reimbursement of VAT to the contracting authority, more generous provisions on tax deductibility for interest payments on home-purchasing loans, and an increase in the income limit on eligibility for subsidized loans.

Netherlands (NL)

None.

United Kingdom (UK)

None.

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