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Supplement A — No 2 — February 1988

Recent economic trends

In this number:
The March Communication from the Commission
1988 economic trends in figures[1]

On 17 February 1988, the Commission of the European Communities adopted its yearly March Communication to the Council concerning the current economic situation. The complete text is as follows.

OVERCOMING THE UNCERTAINTIES

Summary and conclusions

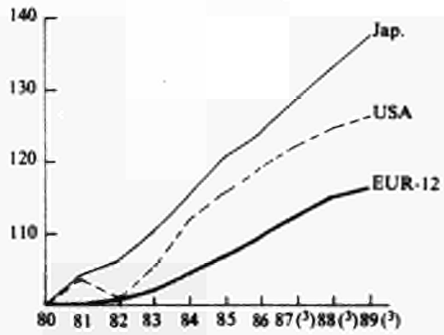
A. *THE ECONOMIC OUTLOOK*

A slowdown of worldwide economic activity is expected in 1988 and 1989. In the *Community*, although there remains a sound basis on the supply side for growth, real GDP is unlikely to increase by more than 2 % p.a. Unemployment will at best stagnate at the current intolerably high level. There are however some reassuring factors. *Worldwide*, some of the inflationary pressure which was building up in early 1987 has eased. Within the *Community*, the recent fluctuations in the dollar's exchange rate have not given rise to any marked tension in the EMS: a beneficial result, no doubt, of the Basle/Nyborg agreements. The Community has built credibility for monetary stability: inflation rates continue to converge towards very low levels.

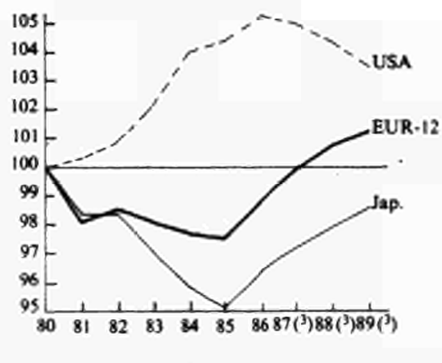
In the Community, the crisis on international stock exchanges had limited direct effects. However, net *exports* continue to make a strong negative contribution to growth as a consequence of the dollar's depreciation and slower growth of export markets. *Private consumption* growth, still quite strong, is decelerating as terms of trade gains fade away. Continuing moderate wage increases are helping to maintain the recovery in profitability of recent years. Nevertheless, uncertain demand will lead to *investment* remaining subdued despite lower interest rates. The Community now faces weakening growth and employment prospects in all countries, including in those which in the last few years have shown economic vitality and made a substantial contribution to intra-Community trade.

[1] Results of the revised forecasts of 3 February 1988. The previous forecasts for 1987 and 1988 were summarized in Supplement A, No 10, October 1987.

GRAPH 1: **GDP/GNP[1] (in volume), EUR-12, USA, Japan**
Index 100 in 1980



GRAPH 2: **Growth gap between domestic demand and GDP/GNP[1] (volume)[2]**
Index 100 in 1980



[1] EUR-12 GDP, USA and Japan GNP.
[2] Index domestic demand/Index GDP, GNP. A figure more than 100 denotes a more rapid growth in domestic demand than GDP/GNP and corresponds to a deterioration of the real external balance.
[3] Forecasts.

Source: Eurostat and Commission services.

Given the need to redress world trade imbalances, *economic prospects for the Community are not likely to improve* without further action, even in the medium-term:

— the USA is building up a considerable foreign debt; to stabilize it and meet the interest charges thereon will require a trade surplus. This implies subdued domestic demand in the US, and increased efforts by US exporters.

— the alternative to a convincing adjustment in the US trade deficit is even bleaker. Continuing downward pressure on the dollar would destabilize expectations. Foreign exchange interventions by central banks on the scale seen during 1987 will eventually cause a resurgence of inflation and promote further financial uncertainty.

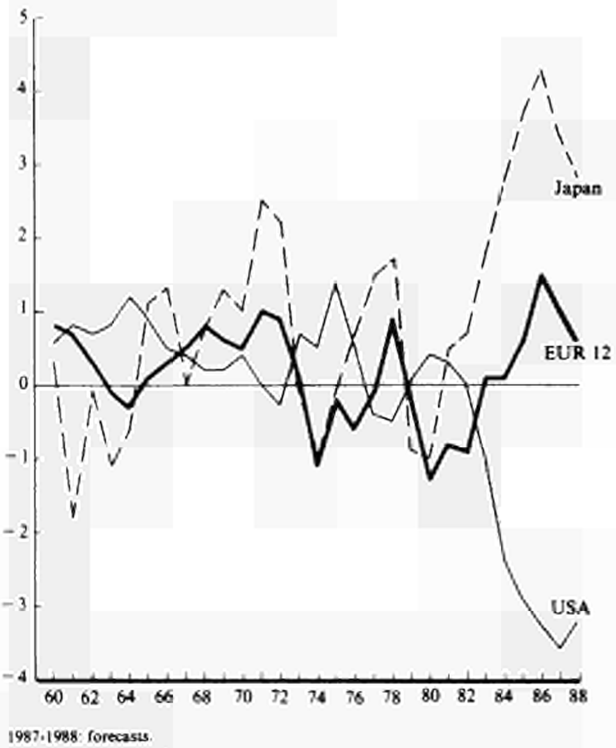
— given, in particular, the persistent debt problem of developing countries, these negative factors will not be compensated by demand from other areas.

Net exports will thus continue to make a negative contribution to the Community's growth well into the 1990's. *This is why the Community must rely on its own forces for the years to come. The Brussels European Council of 11th – 12th February 1988 has opened new perspectives and has removed some of the uncertainties affecting the future of Europe.*

B. *A CLEARER DEFINITION OF GOALS*

Governments in the Community recognise the inherent conflict of multiple goals and limited policy instruments. *Monetary policy* cannot simultaneously aim at keeping inflation down, managing exchange rates, stabilizing the money supply and interest rates. Similarly, in a period of weak growth, *fiscal policy* cannot simultaneously stabilize or reduce the public debt relative to GDP and improve supply conditions as well as support demand.

GRAPH 3: **Balance on current transactions with rest of the world as a percentage of GDP**[1]



[1] 1987-1988: forecasts.
Source: Commission services.

Priorities have to be clearly specified and choices made about the primary focus of monetary and fiscal policies and their mix. Tough policy decisions have to be taken so that enterprises and consumers have clear and reliable perspectives. Furthermore structural policies must be pursued with determination in order to improve supply side conditions.

C. *A JOINT EFFORT*

Application of the *Community's cooperative growth strategy*, together with a full and speedy realisation of the *internal market* goal by 1992, will be the best means for achieving a more appropriate balance between demand and supply in the European economy. The Brussels European Council has opened the way for the necessary decisions. The strengthening of production structures, the elimination of barriers, together with the exploitation of new economies of scale, will reduce costs and improve Europe's competitivity. The decisions taken at the Brussels European Council provide the necessary reinforcement of action to improve the economic and social cohesion of the Community. At the same time the social dialogue has to be pursued.

Savings should be mobilised for public and private investment and for helping developing countries. *Within the Community*, higher infrastructural investment spending for environment, transport, research and development and urban renewal have to be supported by national and Community finances. *Fiscal reform* aimed at a better environment for entrepreneurship, as well as *fiscal relief* to promote investment and employment should be pursued to the largest possible extent.

The slowdown in growth reduces tax revenues and increases expenditure. This operation of the 'automatic stabilizers' gives desirable support to demand and should be accepted as far as possible. In some cases additional budgetary measures may be appropriate. *Some* budgetary action *today* is preferable to even *higher* deficits *later*.

* * *

These guidelines correspond to the cooperative growth strategy: improvements on the supply side have to go hand in hand with sustained demand and increased social cohesion. The time is ripe for the Community to make a bolder effort to help others solve their problems by solving its own.

ECONOMIC SITUATION AND OUTLOOK

1. *Introduction*

In the Preamble to the Annual Economic Report 1987-1988, attention was drawn to the uncertainties in the world economy and to the need for the Community countries to adapt their policies to the situation. In particular, policies to promote internally-generated non-inflationary growth had to be improved.

Important decisions have since been taken:

At Community level the Brussels European Council of 11th – 12th February 1988 has removed some of the uncertainties affecting the future of Europe. The necessary decisions for the implementation of internal market can and should be taken now. The doubling of budget commitments for the structural funds between 1987 and 1993 which has been agreed will accelerate the catching-up process of less-advanced regions.

Prior to this some progress had been achieved towards a better worldwide policy mix:

- In the United States, Congress has approved the plan to reduce the fiscal 1988 budget deficit by measures amounting to USD 30,2 billion.
- The government of Japan has confirmed that it will implement the 6 trillion yen package announced last May and that in the fiscal year 1988 public investment expenditure will not be less than in fiscal year 1987.
- In the Federal Republic of Germany, the government has confirmed its intention of allowing the budget deficit in 1988 to be DM 10 billion higher than the initial plans. The 1988 budget already included tax cuts of DM 14 billion. The government has also announced a programme of investment assistance and will not seek to offset the budget revenue losses arising from recent developments.
- In a joint declaration, the finance ministers of the seven major industrialized countries (G7) reaffirmed their common interest in more stable exchange rates and confirmed their agreement to continue close economic policy cooperation.

Against this background, a less tentative evaluation can now be made of the consequences of the financial turmoil of the last few months for the Community's economic performance.

2. *Economic situation and outlook*

2.1 *1987 in retrospect*

The average growth rate in the Community slowed slightly in 1987, to just under 2 1/2 %. There were sharp contrasts between the member countries. In several countries where growth of activity was already below the Community average in 1986 (Belgium, the Federal Republic of Germany, France and the Netherlands), growth has decelerated. Other countries (Spain, Italy, Portugal and the United Kingdom) were able to maintain or even increase the already relatively high rates of growth achieved in 1986. Growth differentials within the Community thus widened further.

TABLE 1: **Gross domestic product, volume** (percentage change at constant prices on preceding year, 1961-88)

	1961-73	1974-83	1984	1985	1986	1987[1]	1988[1]
B	4,9	1,8	2,1	1,4	2,4	1,7	1,4
DK	4,7	1,5	3,5	4,2	3,4	−1,3	−0,4
D	4,4	1,6	2,8	2,1	2,6	1,6	1,4
GR	7,7	2,5	2,8	3,0	1,3	−0,4	1,8
E	7,3	1,7	1,8	2,3	3,2	4,4	3,3
F	5,6	2,6	1,4	1,7	2,0	1,8	1,4
IRL	4,3	3,8	3,2	1,1	−0,3	3,9	1,0
I	5,3	2,1	3,5	2,7	2,7	2,8	2,2
L	4,2	1,4	6,5	3,8	2,9	1,7	1,5
NL	5,3	1,6	3,2	2,3	2,4	1,8	0,9
P	6,8	2,7	−1,6	3,3	3,4	3,0	2,6
UK	3,1	1,0	2,0	3,7	3,0	3,6	2,8
EUR	4,8	1,8	2,4	2,5	2,6	2,4	1,9
USA	4,0	2,0	7,0	3,1	2,9	2,9	1,9
JAP	9,6	3,6	5,0	4,5	2,5	3,7	3,5

[1] Forecasts.
Source: Commission services.

TABLE 2: **Final domestic demand, volume** (percentage change at constant prices on preceding year, EC countries, EC, USA, Japan, 1961-88)

	1961-73	1974-83	1984	1985	1986	1987[1]	1988[1]
B	4,7	1,2	2,1	1,3	3,4	2,2	1,6
DK	5,1	0,5	4,1	5,7	5,7	−3,0	−1,4
D	4,5	1,4	2,0	1,0	3,7	2,9	2,1
GR	8,0	1,9	1,5	3,9	−0,3	−0,1	3,0
E	7,8	1,2	−0,7	2,9	6,1	7,1	5,4
F	5,7	2,3	0,5	2,2	3,5	3,0	1,7
IRL	5,1	2,4	0,2	−1,3	0,8	−0,8	−0,7
I	5,3	1,5	4,5	3,2	3,2	4,1	3,3
L	4,2	1,6	4,1	0,7	2,6	3,4	2,1
NL	5,3	1,3	1,7	2,5	3,9	2,1	0,9
P	7,5	2,0	−6,2	0,7	7,9	9,1	5,2
UK	3,1	0,8	2,7	2,9	3,8	3,9	3,6
EUR	5,0	1,4	1,9	2,4	3,8	3,6	2,8
USA	4,1	2,0	8,9	3,5	3,9	2,5	1,0
JAP	9,9	2,6	3,8	3,8	4,0	4,5	4,3

[1] Forecasts.
Source: Commission services.

TABLE 3: **Deflator of gross domestic product** (percentage change on preceding year, 1961-88)

	1961-73	1974-83	1984	1985	1986	1987[1]	1988[1]
B	4,1	7,0	5,0	5,5	3,8	1,9	2,4
DK	6,7	9,8	5,7	5,3	4,9	5,5	4,5
D	4,3	4,5	2,0	2,2	3,1	2,1	1,6
GR	4,5	17,4	20,3	17,8	19,0	15,6	15,5
E	7,1	16,2	10,9	8,7	11,4	6,0	5,4
F	4,9	10,8	7,4	5,7	4,6	3,2	2,8
IRL	7,2	14,2	7,7	5,0	5,2	3,6	3,1
I	5,4	17,3	10,2	8,8	8,1	5,3	5,7
L	4,3	7,1	5,6	3,4	4,0	1,0	2,6
NL	6,0	6,3	1,8	1,7	0,7	−1,6	0,6
P	4,0	20,2	23,4	21,7	18,3	12,9	8,6
UK	5,1	13,9	4,2	6,0	3,5	4,2	4,9
EUR	5,1	11,6	6,5	6,0	5,6	3,9	3,9
USA	3,6	7,4	3,7	3,1	2,6	3,0	3,2
JAP	6,0	5,8	1,2	1,5	1,8	−0,3	0,9

[1] Forecasts.
Source: Commission services.

TABLE 4: **Deflator of private consumption** (percentage change on preceding year, 1961-88)

	1961-73	1974-83	1984	1985	1986	1987[1]	1988[1]
B	3,7	7,6	5,8	5,2	1,1	1,6	2,0
DK	5,9	10,5	6,5	4,9	3,6	4,1	3,9
D	3,6	4,8	2,4	2,1	−0,5	0,6	1,0
GR	3,5	17,4	18,3	18,7	22,1	15,5	14,5
E	6,6	16,6	11,0	8,3	9,0	5,3	4,4
F	4,7	11,0	7,5	5,7	2,5	3,2	2,5
IRL	6,3	15,2	9,4	4,5	3,6	3,0	2,9
I	4,8	17,2	11,4	9,3	6,3	4,8	5,0
L	3,0	8,0	5,5	5,2	0,7	0,5	1,9
NL	5,3	6,5	2,0	2,5	0,1	−0,3	0,6
P	3,5	21,7	27,2	18,9	12,1	9,6	6,8
UK	4,8	13,4	4,8	5,2	3,6	3,2	4,1
EUR	4,6	11,7	7,0	5,9	3,7	3,2	3,3
USA	3,1	7,7	3,9	3,1	2,2	4,0	4,2
JAP	6,2	7,2	2,1	2,1	0,6	0,2	1,6

[1] Forecasts.
Source: Commission services.

TABLE 5: **World GDP/GNP** (at constant prices)

	Percentage change on preceding year					
	1983	1984	1985	1986	1987[1]	1988[1]
EUR	1,4	2,4	2,5	2,6	2,4	1,9
USA	3,5	6,9	3,1	2,9	2,9	1,9
Canada	3,1	5,6	4,0	3,2	3,7	2,7
Japan	3,2	5,0	5,0	2,5	3,7	3,5
Other OECD	1,0	4,5	2,6	2,7	2,7	2,1
OECD total	2,3	4,5	3,1	2,7	2,8	2,2
OPEC	− 1,0	1,5	− 0,5	− 0,8	− 0,1	1,8
Other developing countries	2,6	4,8	4,4	4,7	4,2	4,4
of which: NICS[2]	1,3	4,5	2,5	6,6	4,8	4,2
: Other LDCS	3,5	5,0	5,8	3,4	3,7	4,6
CPE[3]	3,9	3,9	3,3	4,2	3,0	2,8

[1] Forecasts.
[2] Newly industrialized countries: Argentina, Brazil, Hongkong, Israel, South-Korea, Philippines, Singapore, South-Africa, Taiwan, Thailand and Yugoslavia.
[3] Centrally planned economies: Excluding China, which is in other LDCS.
Source: Commission services.

TABLE 6: **World export prices**[1]

	Percentage change on preceding year					
	1983	1984	1985	1986	1987[2]	1988[2]
Fuels	− 11,0	− 3,5	− 2,4	− 46,9	24,4	− 9,3
Other primary commodities	− 1,5	− 1,5	− 10,5	5,1	6,6	7,4
Manufactures	− 3,3	− 3,7	− 1,2	17,4	13,4	11,4

[1] Based on export prices in US dollars.
[2] Forecasts.
Source: United Nations and forecasts by Commission services.

TABLE 7: **Interest and exchange rates assumption**

	1983	1984	1985	1986	1987[1]	1988[1]
	Annual rates (percentage)					
Rates of interest (US)						
— Short-term[2]	8,7	9,5	7,5	6,0	5,9	6,6
— Long-term[3]	10,8	12,1	10,8	8,1	8,6	8,8
	Change on preceding year (percentage)					
Exchange rate of USD						
— Vis-à-vis ECU[4]	9,8	13,4	3,7	− 22,7	− 14,8	− 10,5[5]
— Vis-à-vis YEN[4]	− 4,5	0,0	0,1	− 29,3	− 14,0	− 13,4[5]

[1] Forecasts.
[2] 13-week US treasury bills.
[3] US bonds over 10 years.
[4] + (−) signifies an appreciating (depreciating) USD.
[5] Corresponds to the stabilization of the exchange rates at the level of beginning 1988.
Source: Commission services.

TABLE 8: **World imports of goods** (at constant prices)

	Percentage change on preceding year					
	1983	1984	1985	1986	1987[1]	1988[1]
EUR	1,9	6,8	4,8	6,8	7,4	5,4
USA	13,1	24,4	5,4	13,9	5,5	1,5
Canada	11,0	19,6	9,8	8,0	4,8	2,6
Japan	0,1	10,9	− 9,0	10,6	3,7	8,7
Other OECD	0,9	10,7	6,8	4,5	2,0	2,7
OECD total	4,1	11,7	4,5	8,5	5,9	4,3
OPEC	− 7,9	− 9,2	− 12,5	− 20,3	− 10,0	1,0
Other developing countries	− 1,1	5,3	4,6	− 0,9	5,1	5,6
of which: NICS[2]	2,9	6,1	− 1,3	6,8	11,0	8,0
: Other LDCS	− 5,0	4,4	11,0	− 8,2	− 1,4	2,7
CPE[3]	2,6	4,7	3,0	− 2,0	− 3,0	2,0
World	2,1	8,7	3,4	4,9	4,8	4,3
World (excluding EUR)	2,1	9,6	2,2	3,7	3,1	3,6

[1] Forecasts.
[2] Newly industrialized countries: Argentina, Brazil, Hongkong, Israel, South-Korea, Philippines, Singapore, South-Africa, Taiwan, Thailand and Yugoslavia.
[3] Centrally planned economies. Excluding China, which is in other LDCS. Excluding intra-Comecon trade.
Source: Commission services.

Job creation, already analysed in the last Annual Economic Report[1] continued: in 1987 employment increased by an average of almost 1 % for the Community. However, much of this was accounted for by an increase in part-time employment. The unemployment rate was steady (11,6 % against 11,8 % in 1986), due to demographic pressure and a higher participation rate.

Inflation remained moderate, with a Community average of about 3 %. All countries now have an inflation rate of under or very close to 5 %, except for Portugal (9 1/2 %) and Greece (15 1/2 %). Further, the EMS has demonstrated a remarkable stability despite the depreciation of the dollar.

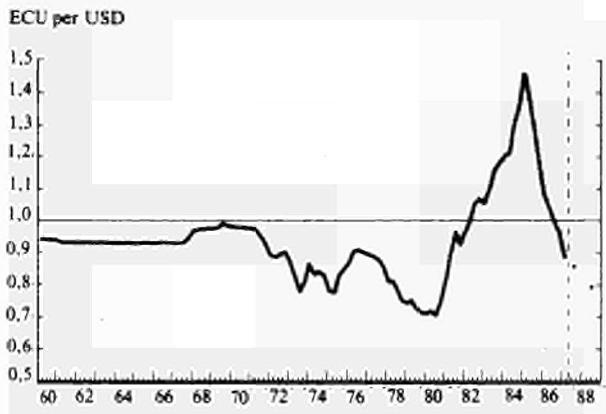
2.2 *Problems of the world economy*

In the course of the past few weeks there have been some promising developments. The dollar's exchange rate has recovered from its end-year trough and subsequently stabilised. The reduction in financial wealth resulting from the stock market crisis has reduced inflationary pressure in the U.S. and, desirably, its internal demand growth. Growth of activity in the US during the last quarter of 1987 was driven mostly by real net exports. Even nominal trade figures have been showing some improvements.

The most recent forecasts produced by Commission services are based on the technical assumption that the dollar's exchange rate will stabilize at a level close to that of end-December (averaging USD 1 = DM 1,60, USD 1 = Yen 125 in both 1988 and 1989).

[1] See box on pp 71-74 of Annual Economic Report 1987-1988, 'Growth and Employment'.

GRAPH 4: **ECU/USD exchange rate (quarterly averages)**



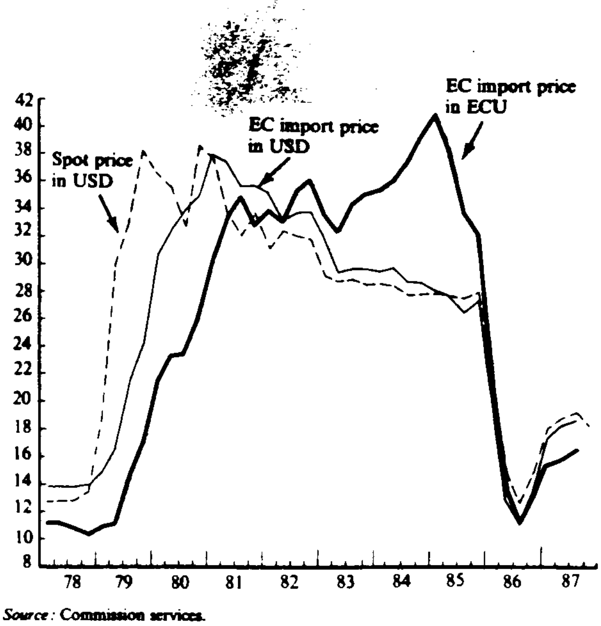
On average, in non-Community industrial countries growth in 1988 will probably slow down (to 2 1/2 % from 3 % in 1987). In particular, the 1988 growth forecast for the United States has been revised downwards: compared with the autumn 1987 forecasts produced before the financial crisis, from 2 3/4 % to roughly 2 %. Growth in the U.S. will probably slow further in 1989.

The Community's export markets are expected to expand only moderately, but still somewhat less rapidly than in 1987. Growth of imports of the Community's industrialized partners will slow down. This may be offset by imports of OPEC countries stabilizing in real terms in 1988, following the massive earlier downward adjustments. Imports of other developing countries should grow at a fairly buoyant rate (around 5 1/2 %). This average masks a significant divergence between the NICs on the one hand (+8 %) and other developing countries (+2 3/4 %). The assumption is made in particular that developing countries' debt problems, eased by the depreciation of the dollar and by lower interest rates, do not worsen.

These estimates incorporate the probable effects of recent financial and foreign exchange markets turbulence, but assume no new crisis. This is crucial, as future financial stability largely determines the adequacy of forecasts. This stability will greatly depend on the speed and the credibility with which payments imbalances, particularly the United States' external deficit, are reduced.

The adjustment process is clearly under way. Massive shifts in the volume of goods and services traded between the economic areas (especially of the industrial countries) are helping to reduce the imbalances. United States real exports of goods and services increased by 12 3/4 % in 1987, imports by only 7 %. The US trade balance improved in real terms in 1987 by 1/4 of a percentage point of GNP, while those of the Community and Japan deteriorated (by one percentage point of GDP and 3/4 of a percentage point of GNP respectively). In 1988 and 1989 further significant shifts in the volumes of goods traded will contribute to restore balance of payment equilibria.

GRAPH 5: **Crude oil prices**



Source: Commission services.

TABLE 9: **World trade balances fob-fob**
(in billions of US dollars)

	1983	1984	1985	1986	1987[1]	1988[1]
EUR	−0,8	1,8	9,9	45,1	35,3	30,5
USA	−67,1	−112,5	−124,4	−142,6	−153,0	−133,9
Canada	15,0	16,7	13,3	7,5	9,0	9,9
Japan	31,5	44,3	56,0	92,7	93,3	89,9
Other OECD	−5,3	−0,4	−2,1	−6,8	−6,8	−9,2
OECD Total	−26,8	−50,1	−47,3	−4,1	−22,1	−12,8
OPEC	44,4	55,2	57,0	10,5	30,1	23,1
Other developing countries	−20,2	0,2	−4,4	4,4	20,6	18,8
of which: NICS[2]	−1,6	16,3	26,5	33,6	40,4	40,1
: Other LDCS	−18,6	−16,1	−30,9	−29,2	−19,8	−21,3
CPE[3]	16,5	15,8	9,1	13,9	11,9	13,3
Errors and omissions	13,9	21,1	14,4	24,7	40,5	42,4

[1] Forecasts.
[2] Newly industrialized countries: Argentina, Brazil, Hongkong, Israel, South-Korea, Philippines, Singapore, South-Africa, Taiwan, Thailand and Yugoslavia.
[3] Centrally planned economies: Excluding China, which is in other LDCS. Excluding intra-Comecon trade.
Source: Commission services.

TABLE 10: **Trade balances (fob-fob) EC, USA and Japan**

	1984	1985	1986	1987[1]	1988[1]
	in % of GDP				
EUR	0,0	0,5	1,3	0,8	0,6
USA	−3,0	−3,0	−3,4	−3,4	−2,8
Japan	3,6	4,2	4,7	3,9	3,1
	in billions of US dollars				
EUR	1,8	9,9	45,1	35,3	30,5
USA	−112,5	−124,4	−142,6	−153,0	−133,9
Japan	44,3	56,0	92,7	93,3	89,9
	in billions of ECU				
EUR	2,3	13,0	45,9	30,6	23,7
USA	−142,9	−163,8	−145,2	−132,7	−103,9
Japan	56,3	73,8	94,4	80,9	69,8

[1] Forecast.
Source: Commission services.

TABLE 11: **Exports of goods, volume** (percentage change on preceding year, 1961-88)

	1961-73	1974-83	1984	1985	1986	1987[1]	1988[1]
B	10,2	2,2	6,5	1,0	5,9	4,5	3,0
DK	6,8	4,8	5,4	4,6	0,1	1,5	2,0
D	8,0	4,0	8,5	7,9	−0,4	0,4	1,0
GR	11,9	5,8	21,4	−0,1	16,9	−5,0	0,5
E	—	8,8	13,6	3,0	−3,5	6,7	4,0
F	10,3	5,0	7,0	2,0	−0,3	1,7	3,0
IRL	8,1	8,0	17,6	6,7	3,8	15,8	8,5
I	11,8	6,1	7,9	2,7	5,0	0,7	2,4
L	5,5	−0,4	22,1	11,6	2,1	0,1	1,6
NL	10,7	2,6	7,6	6,0	0,8	4,2	3,1
P	—	—	15,2	10,7	8,8	10,1	5,9
UK	5,1	3,2	8,4	5,5	3,7	6,1	2,4
EUR	8,3[2]	4,3[3]	8,4	4,7	1,9	3,0	2,5
USA	6,7[4]	3,2	7,8	3,3	7,7	15,3	16,3
JAP	16,8[4]	6,7	16,0	4,0	−2,0	−3,0	−0,8

[1] Forecasts.
[2] Total excluding Spain and Porugal.
[3] Total excluding Portugal.
[4] USA, Japan: average 1964-73.
Source: Commission services.

TABLE 12: **Imports of goods, volume** (percentage change on preceding year, 1961-88)

	1961-73	1974-83	1984	1985	1986	1987[1]	1988[1]
B	9,3	1,6	6,2	0,1	9,2	5,5	3,3
DK	7,9	0,4	6,8	8,4	6,4	−4,1	−1,0
D	8,8	3,3	6,6	5,2	3,8	4,5	3,5
GR	12,7	2,1	−0,1	28,8	4,2	3,0	6,0
E	—	1,8	−1,0	5,8	16,9	21,5	14,5
F	11,7	4,1	2,8	4,3	7,1	6,9	4,5
IRL	9,2	3,7	10,5	3,1	3,5	7,3	6,0
I	10,4	2,8	10,8	4,4	7,5	7,7	6,5
L	6,0	0,9	16,9	6,6	5,0	2,6	2,7
NL	9,5	1,6	5,4	6,2	3,1	4,3	3,0
P	—	—	−2,7	3,0	18,9	24,2	10,5
UK	5,2	1,6	11,0	3,4	6,5	7,8	5,6
EUR	8,3[2]	2,5[3]	6,8	4,8	6,8	7,4	5,4
USA	9,4[4]	−0,4	24,4	5,4	13,9	5,5	1,5
JAP	14,4[4]	−0,2	10,8	−1,9	10,6	3,7	8,7

[1] Forecasts.
[2] Total excluding Spain and Porugal.
[3] Total excluding Portugal.
[4] USA, Japan: average 1964-73.
Source: Commission services.

TABLE 13: **Balance on current account** (as percentage of GDP, 1961-88)

	1961-73	1974-83	1984	1985	1986	1987[1]	1988[1]
B	1,1	− 1,7	− 0,2	0,6	2,5	2,0	2,2
DK	− 2,1	− 3,4	− 3,3	− 4,7	− 5,1	− 2,8	− 2,2
D	0,7	0,6	1,3	2,4	4,1	3,9	3,4
GR	− 2,9	− 2,3	− 4,0	− 8,2	− 5,4	− 3,9	− 4,6
E	− 0,2	− 2,0	1,4	1,6	1,7	0,3	− 0,9
F	0,2	− 0,6	− 0,0	0,0	0,6	− 0,4	− 0,3
IRL	− 2,5	− 8,6	− 6,0	− 3,8	− 2,8	1,0	1,6
I	1,2	− 0,8	− 0,6	− 0,7	0,8	− 0,1	− 0,4
L	6,8	24,6	39,5	43,8	45,6	42,1	40,4
NL	0,5	1,4	4,2	4,3	2,8	1,6	1,4
P	0,4	− 7,6	− 3,1	1,7	3,9	1,3	− 0,9
UK	− 0,1	− 0,2	− 0,3	0,8	− 0,3	− 0,6	− 0,9
EUR	0,4	− 0,4	0,3	0,8	1,5	1,0	0,6
USA	0,5	0,1	− 2,4	− 2,9	− 3,3	− 3,6	− 3,3
JAP	0,5	0,4	2,8	3,7	4,3	3,4	2,8

[1] Forecasts.

Source: Commission services.

TABLE 14: **World balances of current account** (in billions of US dollars)

	1983	1984	1985	1986	1987[1]	1988[1]
EUR	0,2	3,0	14,4	52,6	40,7	31,2
USA	− 47,6	− 107,8	− 117,7	− 133,7	− 151,8	− 145,0
Canada	1,6	4,2	− 1,0	− 6,7	− 5,7	− 4,6
Japan	20,8	35,1	49,2	85,7	82,7	79,4
Other OECD	− 7,4	− 4,0	− 4,3	− 24,2	− 26,2	− 28,1
OECD Total	− 32,4	− 69,5	− 59,4	− 26,3	− 60,3	− 67,1
OPEC	− 22,5	− 7,1	3,4	− 30,0	− 13,4	− 23,8
Other developing countries	− 37,9	− 23,8	− 24,4	− 11,8	5,1	4,0
of which: NICS[2]	− 17,6	− 2,4	12,0	23,7	31,4	32,1
: Other LDCS	− 20,3	− 21,4	− 36,4	− 35,5	− 26,3	− 28,1
CPE[3]	10,9	10,9	5,2	3,5	5,4	5,8
Errors and omissions	− 81,9	− 89,5	− 95,2	− 64,5	− 63,3	− 81,0

[1] Forecasts.

[2] Newly industrialized countries: Argentina, Brazil, Hongkong, Israel, South-Korea, Philippines, Singapore, South-Africa, Taiwan, Thailand and Yugoslavia.

[3] Centrally planned economies: Excluding China, which is in other LDCS. Excluding intra-Comecon trade.

Source: Commission services.

TABLE 15: **Official reserves (excluding gold, USD billions)**

a) Level at end of period

	1980	1982	1985	1986	3rd quarter 1986	3rd quarter 1987	Oct. 1987	Nov. 1987	Dec. 1987
EUR 12	158,5	115,4	136,6	163,5	164,3	214,2	230,3	245,4	255,7*
Other OECD exc. USA	63,2	67,2	84,1	107,1	100,1	149,2	150,9	156,7	165,8*
of which: Japan	24,6	23,3	26,7	42,3	41,5	71,8	72,7	77,6	81,0
Non-OECD countries	172,7	156,7	192,4	204,0	195,6	234,0	236,7	240,2	
World exc. USA	394,4	339,3	413,0	474,6	460,1	597,4	617,8	642,3	
USA	15,6	22,8	32,1	37,5	37,0	34,0	35,1	35,7	
World	410,0	362,1	445,1	512,1	497,1	631,4	653,0	678,0	

b) Changes

		82/80	85/82	86/85	3rd qu.87/3rd qu.86	Nov. 87/end-'86	87/86
EUR 12	USD bil.	− 43,1	+ 21,3	+ 26,9	49,9	+ 81,9	92,2*
	% p.a.	(− 14,7%)	(+ 5,8%)	(+ 19,7%)	(+ 30,4%)	(+ 49,4%)	(+ 56,4%)
Other OECD exc. USA	USD bil.	4,0	16,9	23,0	49,0	49,6	58,7*
	% p.a.	(+ 3,1%)	(+ 7,8%)	(+ 27,3%)	(+ 49,0%)	(+ 46,3%)	(+ 54,8%)
of which Japan	USD bil.	− 1,3	3,4	15,5	30,3	35,3	38,7
	% p.a.	(− 2,7%)	(+ 4,6%)	(+ 58,4%)	(+ 73,0%)	(+ 83,5%)	(+ 91,5%)
Non-OECD	USD bil.	− 16,0	35,7	11,6	38,6	36,2	
	% p.a.	(− 4,7%)	(+ 7,1%)	(+ 6,0%)	(+ 19,6%)	(+ 17,7%)	
World exc. USA	USD bil.	− 55,1	73,7	61,6	137,3	167,7	
	% p.a.	(− 7,2%)	(+ 6,8%)	(+ 14,9%)	(+ 29,8%)	(+ 35,3%)	
USA	USD bil.	7,2	9,3	5,4	− 3,0	− 1,8	
	% p.a.	(+ 20,9%)	(+ 12,1%)	(+ 16,8%)	(− 8,1%)	(− 4,8%)	
World	USD bil.	− 47,9	83	66,9	134,3	165,9	
	% p.a.	(− 6,0%)	(+ 7,1%)	(+ 15,1%)	(+ 27,0%)	(+ 32,4%)	

Source: IMF.

* Figures for December are not available for E, F, GR, P, New Zealand and Turkey. Estimates on the assumption of unchanged positions in December for these countries.

However, balances in value terms are slow to adjust because of variations in the terms of trade caused by changes in exchange rates. In 1988, the United States' current external deficit (some $140 billion) is expected to remain slightly above 3 % of GNP for the fourth year in succession. According to the forecast, it should still stand at close to $130 billion (2 3/4 % of GNP) in 1989. The problem of the build-up of the United States' net external debt will thus worsen (Graph 6): net debt may almost triple in the three years 1987-1989. Japan's current surplus as a percentage of GNP could fall (from 3,4 % in 1987 to 2,8 % in 1988), but will remain roughly constant in dollar terms, close to $80 billion. The current balance of the Community should not amount to much more than about $30 billion (1/2 % of GDP) as against about $40 billion (1 % of GDP) in 1987, with significant differences between the countries.

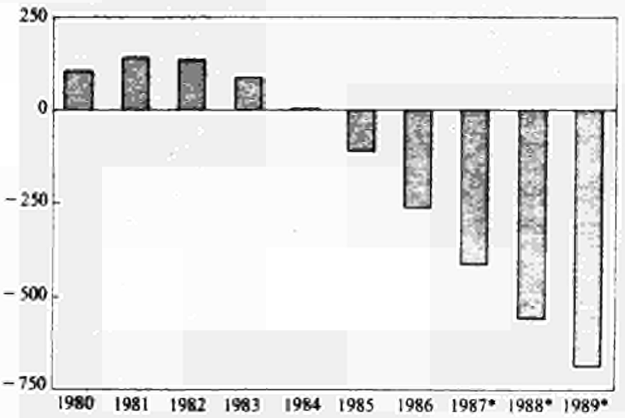
In order to turn real trade adjustment into smaller payments imbalances, the dollar's exchange rate has to stabilize. A further dollar depreciation, even if it sustained growth in the United States, would be harmful to the US's trade partners, and to the US itself. Overshooting of the dollar exchange rate on the downward side would give rise to inappropriate structural adjustments in the medium-term, just as in the previous period of overvaluation.

The forecast *assumption of a stable dollar exchange rate* is likely to prove correct if US foreign trade performance improves - and does so soon. A continuing improvement in the United States trade balance will probably need slower growth in that country. In the long-term the US trade deficit should not only be reduced, but turned around such that US net external indebtedness and its servicing can be stabilized. Achieving this goal will need a substantial transfer of resources which will affect growth in the rest of the world.

The alternative to stable dollar exchange rate expectations also gives cause for concern. If the US trade position does not improve quickly enough, the financial and foreign exchange markets could be affected. Stabilizing the dollar's exchange rate would then need a significant tightening of monetary policy in the United States (unlikely in the immediate future) or massive further intervention. However, on the one hand, tightening of monetary policy in the US would increase the risk of a recession and exacerbate the debt problems of the developing countries. On the other, substantial foreign exchange intervention would become increasingly problematic.

Already the amount of intervention has doubled between 1985 and 1986 and again between 1986 and 1987: last year, such intervention financed the bulk of the US current account deficit, and indirectly its budget deficit. Intervention has already pro-

GRAPH 6: U.S. net international assets/liabilities (at end-year, UDS billion)



Forecasts of the Commission services, assuming net position at end-year 1986 deteriorates by cumulative forecast current deficit.

Source: U.S. Dept. of Commerce and Commission services.

duced an extremely rapid build-up of official reserves outside the US, posing a long-run risk of inflation for the world economy, without providing a lasting solution to the problem of the United States' external deficit (see Table 15). Intervention eases the constraints placed on the United States to adjust, which otherwise all debtors (private and public) have to do. Furthermore, while central bank intervention limits the appreciation of the European currencies, and therefore provides support for the Community's export demand, it does not solve the problem of weak domestic demand in the Community. In fact, it becomes a form of subsidizing export sectors at the expense of non-tradable sectors.

This is why it is important to achieve a worldwide policy mix which provides for a more efficient adjustment process at a higher growth level. In particular, it is desirable that:

- the United States pursues with determination policies which increase net national saving, so as to finance domestically continuing public sector dissaving;
- Japan continues to sustain domestic demand and to open up its markets;
- the newly industrialized countries create favourable conditions for reducing their surpluses, notably through exchange rate adjustment;
- the Community raises internal growth.

2.3 *The outlook for the Community in 1988 and beyond*

The financial crisis of the last few months will probably have limited direct effects. The Commission services have revised downwards their forecasts for average growth in the Community, to slightly under 2 % in 1988 (against 2 1/2 % expected a few months earlier). Growth will also be close to 2 % in 1989. These forecasts are therefore of slow growth but not of recession.

In 1988 (as in 1986 and 1987) net exports will drain the Community of almost one percentage point of real growth: imports from outside the Community will increase (by around 7 %) while exports should remain flat.

According to forecast the growth of domestic demand will again decline compared with 1987 (by about three quarters of a point). Private consumption will be affected by a deterioration in the climate of consumer confidence (confirmed by recent EC surveys) and by slower growth of personal incomes. Investment will again expand sluggishly, because of weak export demand and increased uncertainty.

GRAPH 7: **Non-oil commodity price indices in ECU's and US dollars**

TABLE 16: **Rates of change of demand components** (EUR-12, 1982-88)

	Percentage change on preceding period at constant prices					
	1982-85	1986	1987[1]	1988[1]	1988-I[2]	1988-II
Private consumption	1,5	4,0	3,5	2,7	2,1	2,2
Government consumption	1,7	2,2	1,8	2,1	1,6	2,3
Fixed capital formation	0,3	3,2	3,7	3,2	2,2	2,0
— Construction	−0,9	2,7	2,2	2,5	0,5	1,3
— Equipment	3,6	3,9	5,4	4,1	4,1	2,7
Change in stocks as % of GDP	0,3	0,9	1,2	1,3	1,2	1,4
Domestic demand	1,5	3,8	3,6	2,8	2,1	2,5
Exports of goods and services	4,1	1,6	3,1	2,6	1,2	1,4
Imports of goods and services	3,3	5,9	6,9	5,3	3,1	4,6
Gross domestic product	1,8	2,6	2,4	1,9	1,5	1,6

[1] Forecasts.
[2] Half-yearly figures at annual rates, seasonally adjusted (1988-I = first half of 1988 etc.).
Source: Commission services.

TABLE 17: **Export markets and export performance** (per age change on preceding year, 1986-88)

	Export markets			Export performance[1]		
	1986	1987[2]	1988[2]	1986	1987[2]	1988[2]
B	5,0	5,7	4,4	0,9	−1,1	−1,3
DK	4,7	3,5	3,7	−4,4	−1,9	−1,7
D	4,8	5,4	4,2	−4,9	−4,8	−3,1
GR	2,1	4,1	3,8	14,5	−8,7	−3,2
E	2,6	4,7	4,0	−6,0	1,9	−0,0
F	3,4	5,5	4,6	−3,6	−3,6	−1,5
IRL	5,6	5,8	4,2	−1,7	9,5	4,2
I	3,6	5,4	4,2	1,4	−4,5	−1,7
L[3]	—	—	—	—	—	—
NL	3,7	3,6	3,8	−2,8	0,5	−0,7
P	5,3	5,8	4,4	3,3	4,0	1,5
UK	4,2	4,0	4,0	−0,5	2,0	−1,5
EUR	4,2	5,0	4,2	−2,2	−1,9	−1,6
USA	2,6	4,5	4,4	4,9	10,4	11,4
JAP	3,8	4,3	2,4	−5,7	−7,0	−3,2

[1] Indices of export volume growth divided by indices of market growth (includes intra community trade).
[2] Forecasts.
[3] Included in the figures for Belgium.
Source: Commission services.

TABLE 18: **Total employment** (percentage change on preceding year, 1961-88)

	1961-73	1974-83	1984	1985	1986	1987[1]	1988[1]
B	0,6	−0,4	0,0	0,7	1,0	0,2	0,1
DK	1,1	0,2	1,4	2,9	2,0	0,6	−0,3
D	0,2	−0,6	0,1	0,7	1,0	0,6	−0,1
GR	−0,1	1,1	0,3	1,0	0,3	−1,0	1,5
E	0,8	−1,4	−2,4	−1,4	2,0	3,0	2,1
F	0,7	0,1	−0,9	−0,4	0,3	−0,0	0,0
IRL	0,0	0,6	−1,6	−2,7	−0,4	−0,6	−0,6
I	−0,4	0,7	0,8	1,4	0,6	0,9	0,8
L	1,1	0,4	0,6	1,3	2,5	1,9	0,5
NL	0,9	−0,4	−0,1	1,3	1,8	1,1	0,1
P	0,1	2,0	1,1	0,3	0,2	2,3	0,9
UK	0,3	−0,6	1,9	1,6	0,6	1,3	1,3
EUR	0,3	−0,2	0,2	0,7	0,8	0,9	0,7
USA	2,1	1,5	4,5	2,2	2,3	2,6	1,1
JAP	1,2	0,7	0,5	0,7	0,8	1,0	1,0

[1] Forecasts.
Source: Commission services.

TABLE 19: **Employment in manufacturing industries** (percentage change on preceding year)

	1972-82	1983	1984	1985	1986	1987[1]	1988[1]
B	−3,0	−2,1	−1,0	−1,4	−1,4	−1,4	−1,5
DK	−1,2	0,2	2,1	6,8	0,4	−0,9	−1,0
D	−1,5	−4,0	−1,0	1,1	1,5	−0,5	−0,5
GR	—	−1,0	−2,4	−0,6	0,0	−2,0	1,5
E	—	−2,1	−2,6	−2,1	1,6	2,0	1,8
F	−0,7	−2,3	−2,9	−2,9	−2,5	−2,4	−2,5
IRL	0,9	−5,6	−3,6	−3,3	0,0	−0,5	−0,5
I	−0,1	−2,9	−3,6	−2,0	−0,9	−0,7	0,3
L	−1,3	−3,5	−1,8	−0,3	1,6	−0,5	−1,0
NL	−2,5	−4,3	−1,9	1,5	1,6	0,3	0,0
P	—	—	—	−0,5	0,4	3,6	0,9
UK	−2,8	−5,5	−1,9	−0,7	−2,1	−1,2	−0,1
EUR	−1,5[2]	−3,6	−2,1	−0,7	−0,3	−0,6	−0,3

[1] Forecasts.
[2] EUR-9.
Source: Commission services.

TABLE 20: **Compensation of employees per head** (percentage change on preceding year, 1961-88)

	1961-73	1974-83	1984	1985	1986	1987[1]	1988[1]
B	8,9	10,2	6,1	4,8	3,8	3,3	2,6
DK	10,6	11,1	5,4	4,6	5,3	7,8	4,0
D	9,2	6,5	3,5	3,0	3,9	3,0	2,7
GR	10,8	21,6	22,3	22,6	13,7	12,5	16,2
E	—	19,7	10,0	10,1	7,1	7,1	6,1
F	9,9	14,5	8,6	6,6	4,0	3,4	3,2
IRL	11,5	17,9	11,5	6,7	6,2	4,2	3,8
I	11,6	19,6	11,4	10,2	7,7	7,9	5,9
L	7,4	10,0	6,4	4,2	4,0	4,4	4,2
NL	11,6	7,9	0,2	1,4	1,6	1,9	1,6
P	—	23,4	14,1	26,1	17,0	13,7	9,1
UK	8,3	15,3	5,3	6,7	7,3	6,7	6,7
EUR	9,8	14,0	7,3	7,0	6,0	5,4	4,7

[1] Forecasts.
Source: Commission services.

TABLE 21: **Real compensation of employees per head**[1] (percentage change on preceding year 1961-88)

	1961-73	1974-83	1984	1985	1986	1987[2]	1988[2]
B	5,0	2,3	0,3	−0,5	2,7	1,7	0,6
DK	4,5	0,6	−1,0	−0,2	1,6	3,6	0,1
D	5,4	1,6	1,0	0,9	4,4	2,4	1,7
GR	7,0	3,6	3,4	3,3	−6,9	−2,6	1,5
E	—	2,6	−0,9	1,7	−1,7	1,7	1,6
F	5,0	3,2	1,0	0,9	1,5	0,2	0,6
IRL	4,9	2,4	1,9	2,1	2,5	1,2	0,9
I	6,5	2,1	0,0	0,8	1,3	3,0	0,9
L	4,2	1,8	0,8	−0,9	3,4	3,9	2,2
NL	5,9	1,3	−1,7	−1,1	1,4	2,2	1,0
P	—	1,4	−10,3	6,0	4,4	3,7	2,2
UK	3,3	1,7	0,5	1,4	3,6	3,4	2,6
EUR	5,0	2,1	0,2	1,0	2,2	2,1	1,4

[1] Deflated by private consumption prices.
[2] Forecasts.
Source: Commission services.

TABLE 22: **Unit labour costs, whole economy**[1] (percentage change on preceding year, 1961-88)

	1961-73	1974-83	1984	1985	1986	1987[2]	1988[2]
B	4,5	7,8	3,9	4,1	2,4	1,8	1,3
DK	6,8	9,7	3,3	3,3	4,0	8,5	4,1
D	4,8	4,1	0,7	1,6	2,1	2,1	1,1
GR	2,8	19,9	19,4	20,2	12,5	11,9	15,7
E	—	16,0	5,4	6,1	5,9	5,8	5,0
F	4,8	11,8	6,1	4,5	2,4	1,6	1,8
IRL	6,9	14,4	6,3	2,7	6,1	−0,3	2,1
I	5,6	17,9	8,5	8,7	5,7	5,7	4,4
L	4,1	8,9	0,6	1,7	3,7	4,7	3,1
NL	6,9	5,8	−2,9	0,4	1,0	1,2	0,8
P	—	22,6	17,3	22,4	13,4	12,8	7,3
UK	5,3	13,5	5,2	4,5	4,9	4,3	5,2
EUR	5,1	11,8	5,0	5,0	4,2	3,8	3,4

[1] Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employment.
[2] Forecasts.
Source: Commission services.

TABLE 23: **Real unit labour costs**[1] (indices 1980 = 100)

	1961-70	1975	1979	1981	1986	1987[2]	1988[2]
B	87,5	96,9	98,9	101,0	94,2	94,1	93,0
DK	98,3	102,7	98,4	98,8	91,5	94,1	93,7
D	96,1	102,6	98,3	100,3	93,6	93,6	93,2
GR	104,4	91,7	101,8	106,5	105,8	102,4	102,6
E	99,4	102,2	101,8	100,4	87,8	87,5	87,2
F	93,8	99,2	98,8	101,2	95,2	93,7	92,8
IRL	96,2	100,3	96,7	96,5	92,0	88,5	87,7
I	94,4	105,5	101,5	102,2	99,2	99,7	98,4
L	84,1	101,7	99,5	101,7	88,0	91,2	91,6
NL	93,9	103,3	100,3	97,3	88,6	91,1	91,3
P	85,4	121,3	101,6	104,0	84,1	84,1	83,1
UK	98,3	108,2	98,2	98,7	97,4	97,5	97,8
EUR	96,8	103,8	99,5	100,5	95,0	94,8	94,4

[1] Nominal unit labour costs divided by GDP deflator.
[2] Forecasts.
Source: Commission services.

The Community's balance on current transactions will again diminish slightly (from 35 billion ECU in 1987 to 24 billion in 1988, i.e. a fall of some 1/4 to 1/2 percentage point of GDP). However, the positions of member countries will still differ widely. In 1988, the surplus of the Federal Republic of Germany should still be over 34 billion ECU and that of the Benelux countries and Ireland taken together 8 billion ECU. The combined deficit of other countries should total 18 billion ECU. Continuing persistant divergence in intra-Community payments balances risks making more difficult exchange rate management within the EMS.

Achievements in terms of price stability and convergence of inflation rates will be preserved in 1988. The average inflation rate in the Community should remain close to 3 % and under 5 % in almost all Member States.

2.4 *The damaging effects of persistently slow growth*

The Community cannot allow this situation of slow growth and underemployment of resources to continue, for the following reasons:

— it becomes a vicious circle. Business investors become accustomed to poor performances, and their behaviour is affected: growth of productive potential slows. Slow growth becomes increasingly structural. This favours the development of the 'hidden' economy and of unrecorded employment, and thus of economic and social development outside the legal framework.

— growth continues to be too slow to make a significant reduction in the average unemployment rate in the Community. There are 16 million unemployed in the Community, 11 1/2 % of the civilian labour force — an unacceptable level. Certain groups have been more particularly affected and the probability of their finding or refinding employment has declined; this is notably true for young people, older workers and women. This exacerbates the structural problems of the labour market.

— the slowdown in growth is now even affecting the countries which in the last few years have shown most vitality: Spain, Italy, Portugal and the United Kingdom. These countries have made a substantial contribution to trade and economic activity in the Community. The trade balances of Spain, Italy and Portugal (goods only) vis-à-vis their partners in the Community alone have deteriorated significantly in both value and volume terms (see Table 28): in some cases deep into the red. On the other hand, 1987 saw an improvement in the intra-Community trade balances particularly of Germany (accounting for around 0,4 of a percentage point of GDP), Denmark (2 points) and Ireland (4,3 points).

The external constraint is beginning to be felt by the faster growing EC countries. As a result, growth rates in the Community are tending to converge downwards. This runs counter to the strengthening of the Community's economic and social cohesion.

— major structural adjustments are necessary if completion of the large internal market is to produce its full benefits. If growth is slow, these adjustments become more painful and might meet with powerful opposition.

— if there is no visible success in combatting unemployment, the economic policy consensus risks being undermined. This consensus has been built up in the last few years and provides a solid basis to the progress that has been achieved: price stability, higher profitability and greater flexibility of markets. Such consensus remains necessary for further progress to be made.

3. *The policy resolve*

The Community must step up its own efforts to emerge from the slow growth in which it is trapped.

3.1 *Economic policies: reconciling opposing pressures*

For a number of years now, Member States have implemented structural policies aimed at improving supply-side conditions. In this respect, the *guidelines regarding the markets for goods, services and capital laid down in the last Annual Economic Reports remain entirely valid.* This essentially concerns improving the fiscal, financial and regulatory environment faced by business, strengthening competition and developing specific policies in respect of small- and medium-sized enterprises. These policies contribute to a new spirit of enterprise in the Community. They are essential if the Community is to respond successfully to the challenges facing it.

Furthermore, *employment policies* are necessary to face the structural problems of the labour market. In effect, stronger growth is necessary in order to reduce unemployment. However, even the faster growth which can be reasonably hoped for will not resolve the problem entirely. Growth needs to be more employment-creating. This also involves pursuing efforts to increase further market flexibility while heeding fundamental social rights.[1] Moreover, investment in job training is required particularly for the categories most affected by long-term unemployment: young people, older workers and women. The Commission on its side proposes to make the fight against long-term unemployment a primary objective of the structural funds. In addition, it wishes to examine with the Member States the social treatment of unemployment, and proposes this year to inaugurate an action programme.

[1] Annual Economic Report 1987-1988, pp. 41-45.

TABLE 24: **Number of unemployed as percentage of civilian labour force** (1961-88)

	1961-73	1974-83	1984	1985	1986	1987[1]	1988[1]
B	2,2	8,6	14,4	13,7	12,6	12,3	12,3
DK	1,1	6,6	9,9	8,7	7,6	7,6	8,7
D	0,8	4,5	8,4	8,4	8,1	8,1	8,4
GR	—	1,1	8,1	7,8	7,4	7,4	7,4
E	—	7,7	18,4	21,4	21,0	20,5	20,3
F	1,1	5,8	10,0	10,5	10,7	10,8	10,9
IRL	4,8	9,4	16,6	18,0	18,3	19,2	19,4
I	5,2	7,0	12,0	12,9	13,0	13,8	14,0
L	0,0	0,7	1,8	1,6	1,4	1,5	1,4
NL	1,3	7,2	14,5	13,1	12,1	11,5	11,1
P	—	5,2	6,7	8,7	8,6	7,4	7,3
UK	2,1	6,3	11,8	12,0	12,1	10,9	9,3
EUR-12	—	6,0	11,2	11,9	11,8	11,6	11,4
EUR-9	2,2	6,1	10,9	11,1	11,0	10,9	10,7
USA	4,9	7,5	7,5	7,2	6,2	6,2	6,7
JAP	1,3	2,1	2,7	2,6	2,8	2,9	2,8

[1] Forecasts.
Source: Commission services.

While structural policies increase productive potential, stronger growth will not materialize unless appropriate macroeconomic policies are set in place. In the Community, *monetary policy* has until now borne almost the full brunt of the financial turbulence due to international payments imbalances. During 1987, short-term interest rates fell in all Community countries: monetary expansion was strong, with the liquidity ratio rising by an average of some 4 percentage points for the Community as a whole. The downward movement of short-term rates suggests that monetary policies were given an accomodating stance. However, lower short-term interest rates in most EC countries were not accompanied by equally lower long-term rates, probably because markets remained suspicious regarding the long-term impact on inflation of these monetary policies.

GRAPH 8: **Labour force, employment and unemployment, EUR-12, annual change in % except unemployment rate**

Source: Commission services.

TABLE 25: **Total public receipts** (as percentage of GDP)

	1972-82	1983	1984	1985	1986	1987[1]	1988[1]
B	42,5	46,1	47,3	47,8	46,1	46,4	45,8
DK	49,6	54,4	56,7	57,4	58,7	59,8	61,0
D	44,4	45,8	46,1	46,4	45,5	45,1	44,3
GR	28,7	33,2	34,2	34,5	36,0	37,7	37,8
E	27,1	34,0	33,8	35,4	36,2	37,3	37,6
F	43,0	48,2	49,1	49,2	48,9	48,8	48,9
IRL	—	42,7	43,0	43,1	43,2	42,9	40,9
I	30,3	38,1	38,0	38,5	39,2	39,8	40,2
L	49,6	56,4	54,5	56,9	55,0	54,8	54,9
NL	50,2	55,6	54,4	55,1	53,4	53,9	52,7
P	—	37,1	34,4	33,1	37,4	34,2	34,0
UK	38,8	41,8	42,0	41,8	40,6	40,3	39,5
EUR	39,8[2]	43,4	43,6	43,9	43,5	43,6	43,3

[1] Forecasts.
[2] EUR-9.
Source: Commission services.

TABLE 26: **Total public expenditure** (as percentage of GDP)

	1972-82	1983	1984	1985	1986	1987[1]	1988[1]
B	48,9	57,5	56,7	56,2	55,0	53,7	52,9
DK	50,6	61,6	60,7	59,5	55,9	57,6	60,0
D	46,8	48,4	48,0	47,5	46,9	47,0	47,5
GR	—	41,5	44,3	48,1	46,8	48,1	50,0
E	28,4	38,8	39,3	42,2	41,9	42,4	42,9
F	43,8	51,4	51,8	52,1	51,9	51,4	51,3
IRL	—	54,4	52,9	54,7	54,2	51,4	47,8
I	38,6	48,8	49,5	50,8	50,8	50,7	50,4
L	48,3	56,2	52,5	52,5	50,6	51,7	51,2
NL	52,9	62,0	60,7	59,5	58,4	60,5	60,3
P	—	46,2	46,4	43,1	45,4	43,1	42,9
UK	42,1	45,2	45,9	44,6	43,6	42,4	41,5
EUR	43,3[2]	48,7	49,0	49,1	48,5	48,2	48,1

[1] Forecasts.
[2] EUR-9.
Source: Commission services.

TABLE 27: **General government lending or borrowing (-) as percentage of GDP** (EC countries, EC, USA, JAP, 1972-88)

	1972-82	1983	1984	1985	1986	1987[1]	1988[1]
B	−6,5	−11,3	−9,4	−8,4	−8,9	−7,3	−7,1
DK	−1,0	−7,2	−4,1	−2,1	2,8	2,2	1,0
D	−2,4	−2,5	−1,9	−1,2	−1,4	−1,9	−3,2
GR	—	−8,3	−10,0	−13,6	−10,8	−10,4	−12,2
E	−1,4	−4,8	−5,5	−6,7	−5,7	−5,1	−5,3
F	−0,8	−3,2	−2,7	−2,9	−3,0	−2,6	−2,4
IRL	—	−11,8	−9,9	−11,6	−11,0	−8,5	−6,9
I	−8,3	−10,7	−11,5	−12,3	−11,6	−10,9	−10,2
L	1,4	0,2	2,0	4,4	4,4	3,1	3,7
NL	−2,7	−6,4	−6,3	−4,7	−5,0	−6,6	−7,6
P	—	−9,1	−12,0	−10,0	−8,0	−8,9	−8,9
UK	−3,3	−3,4	−3,9	−2,9	−3,0	−2,1	−2,0
EUR	−3,5[2]	−5,3	−5,3	−5,2	−5,0	−4,6	−4,8
USA	−1,4	−4,9	−3,9	−3,3	−3,5	−2,3	−3,0
JAP	−2,8	−3,7	−2,1	−1,2	−1,5	−1,2	−1,0

[1] Forecasts.
[2] EUR-9.
Source: Commission services.

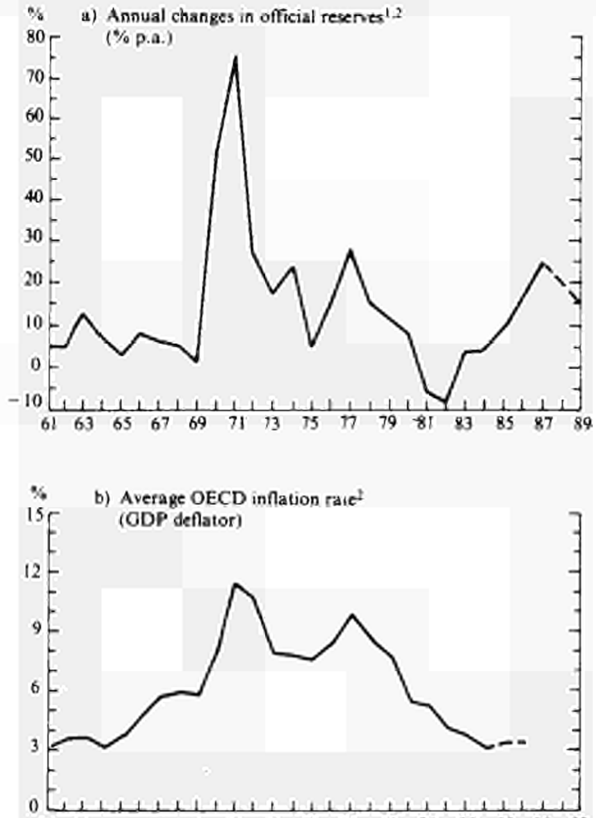
In the medium-term, monetary policies cannot simultaneously hold inflation at a low level, contribute to exchange rate management (within and outside the EMS) and control interest rates. There is no immediate risk of a resurgence of inflation. However, monetary expansion accompanied by a rapid build-up of official reserves may be problematic in the longer run. In the absence of favourable demand prospects, the build-up of liquidity and the fall of short-term rates do not provide a great deal of stimulus for investment. All this marks the limits of monetary policy.

According to the forecast, in four of the largest Community countries, *budgetary policies* in 1988 will result in either stable deficits (Spain and the United Kingdom, see Table 27) or deficit reductions (France and Italy). In Italy, the levels as percentages of GDP of public indebtedness and the deficit are both excessive: around 95 % and 10 1/2 % in 1988 respectively. In Germany, the budget deficit could grow by almost 1 1/4 percentage points (3/4 of a point if one disregards the effects of the disappearance of the Bundesbank's profits).

The slowdown in growth reduces tax revenues and increases expenditure. This operation of the 'automatic stabilizers' gives desirable support to demand and should be accepted as far as possible. Of course, it puts pressure on budgetary policies. However, these difficulties will later be even more acute if the Community does not return to a higher rate of growth. The question is whether, by accepting *lower* growth now, it will not be necessary to underpin demand later by *stronger* budget stimulus in a situation of less room for manoeuvre. In this context it has to be stressed that the room for manoeuvre of each Member State would be higher if their existing interdependence were used positively[1]. In the current situation, fiscal easing and higher public investment would have the advantage of improving supply and demand conditions and would allow the absorption of liquidity by higher non-inflationary growth.

[1] Annual Economic Report, 1987-88, pp. 64-68

GRAPH 9: **Annual changes in official reserves and inflation rate**

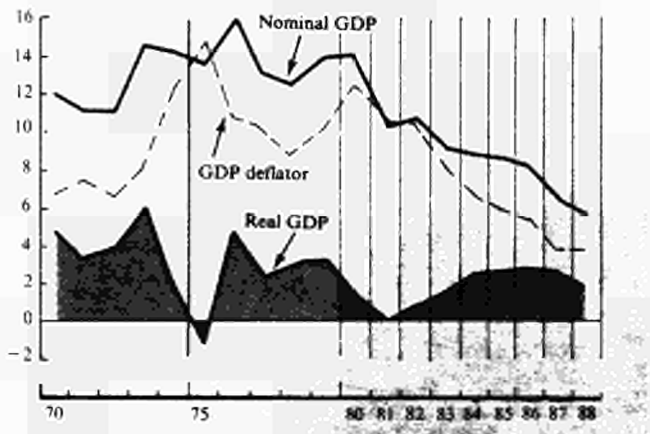


Source: OECD and IMF.
[1] Excluding gold and excluding U.S. Extrapolation to 1989 on the assumption that U.S. current deficits are completely financed by official reserves in 1988 and 1989.
[2] Time scale in (a) lags that of (b) by 3 years.

3.2 *The Community response*

The completion of the EC internal market is the most important Community contribution to the reorientation of supply policy in Europe. According to recent researches there is large scope for achieving greater economies of scale, the rationalisation of productive and distributive structures, improvement in productivity and reductions in costs and prices. This supply-side programme will therefore enhance the Community's potential for non-inflationary growth by a macroeconomically significant margin. This potential will be fully exploited if the credibility and irreversibility of the single market process, the implementation of competition and growth-oriented macroeconomic policies and the private sector response all interact. Effects could even also be felt in the short-term if decisions to implement the internal market programme were taken without delay: in this case business investment decisions could immediately take full account of the internal market dimension. Measures to improve further the supply side will enable greater benefit to be drawn from the internal market and will give *greater momentum to demand*, favouring investment relative to consumers' expenditure. Decisive steps have been taken with the agreements reached at the recent Brussels European Council. These agreements have opened the way for the necessary decisions for the implementation of the internal market programme. Moreover, cooperation in research and development, as laid down in the Community framework programme, would ensure that industry adapted towards high demand sectors and increased its worldwide competitivity.

GRAPH 10: **Nominal GDP, Deflator of GDP, real GDP (percentage change on preceding year, EC 1970-1988)**[1]



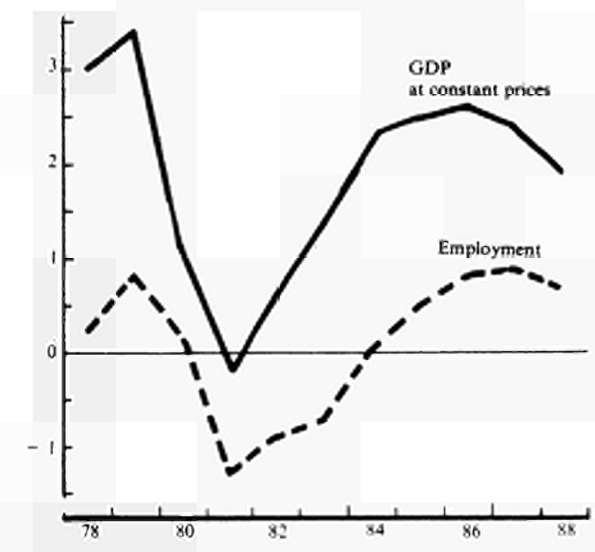
[1] 1987-1988 forecasts.
Source: Commission services.

TABLE 28: **Intra- and extra-Community trade balances and volume changes by Member State (% of GDP)**

	Trade balance				Change due to volume[2]		
	1984	1985	1986	1987 (I-III)[1]	1985	1986	1987 (I-III)[1]
(a) Intra-EC trade							
Bel. Lux	0,1	−1,3	1,6	0,7	−1,3	1,1	−0,6
DK	−1,7	−2,7	−2,6	−0,6	−1,1	−0,5	1,7
D	1,0	1,1	2,2	2,6	0,1	−0,3	0,2
GR	−6,0	−7,5	−7,7	−8,4	−1,2	1,6	−1,4
E	1,6	1,2	−0,3	−1,4	N.A	−1,4	−1,3
F	−2,2	−2,3	−1,9	−2,0	0,0	−0,5	−0,2
IRL	−0,8	−0,2	2,3	6,6	0,5	0,1	5,2
I	−0,8	−1,2	−0,5	−0,7	−0,4	0,6	−0,4
NL	12,4	12,1	8,7	6,7	−0,4	2,1	0,9
P	−1,0	−0,1	−2,3	−5,6	N.A	−2,2	−5,9
UK	−0,8	−0,6	−2,3	−2,3	0,3	0,5	0,1
(b) Extra-EC trade							
Bel. Lux	−5,0	−2,4	−2,2	−1,7	2,7	−3,2	−0,4
DK	0,7	0,8	0,8	1,0	0,0	−1,6	−0,3
D	2,0	2,8	3,6	2,9	0,7	−1,5	−1,2
GR	−8,3	−9,9	−6,9	−6,3	−1,9	1,9	−1,4
E	−4,0	−3,8	−2,5	−2,3	N.A	−2,3	−1,2
F	0,0	0,3	0,7	0,3	−0,1	−1,8	−0,7
IRL	0,3	1,9	1,4	0,7	1,9	−1,5	−0,4
I	−2,0	−1,8	0,1	−0,5	−0,1	−0,3	−1,2
NL	−10,5	−10,6	−6,5	−6,6	−0,8	−3,4	−1,0
P	−13,2	−10,0	−5,6	−6,2	N.A	−2,7	−2,3
UK	−1,8	−1,4	−1,3	−1,5	0,1	−0,8	−0,6
EUR 12	−1,3	−0,8	0,2	−0,1	0,2	−1,4	−1,0
(c) Total trade[3]							
Bel. Lux	−4,7	−3,4	−0,2	−0,7	1,4	−1,5	−0,9
DK	−1,0	−1,9	−1,8	0,4	−1,2	−2,0	1,4
D	3,1	4,0	5,8	5,6	0,8	−1,6	−1,0
GR	−14,3	−17,3	−14,6	−14,7	−3,1	2,8	−2,7
E	−2,4	−2,6	−2,7	−3,4	N.A	−3,6	−2,4
F	−2,1	−2,0	−1,3	−1,8	0,0	−2,3	−0,9
IRL	−0,2	1,9	4,0	7,4	2,3	−0,9	4,6
I	−2,7	−2,9	−0,4	−1,2	−0,6	0,4	−1,5
NL	2,7	2,4	2,6	0,4	−1,1	0,0	0,0
P	−14,3	−10,1	−7,8	−11,6	N.A	−4,8	−8,0
UK	−2,6	−2,0	−3,6	−3,7	0,3	0,2	−0,5

[1] 1987: Denmark, I only, Greece, I, II only.
[2] Trade balance volume change calculated as the preceding year's exports as a percentage of that year's GDP multiplied by the change in the volume index for exports (base year, 1980, except for Greece, 1982, and Spain and Portugal, 1985), less the corresponding calculation for imports.
[3] Total trade includes unclassified items; the balance does not therefore necessarily sum those for intra and extra trade.
Source: Eurostat (external trade statistics) and Commission services.

GRAPH 11: **GDP and employement growth in the Community, EUR-12, annual percentage growth rate**



Source: Commission services.

TABLE 29: **Demand components at constant prices** (percentage change on preceding year, EC countries, 1961-88)

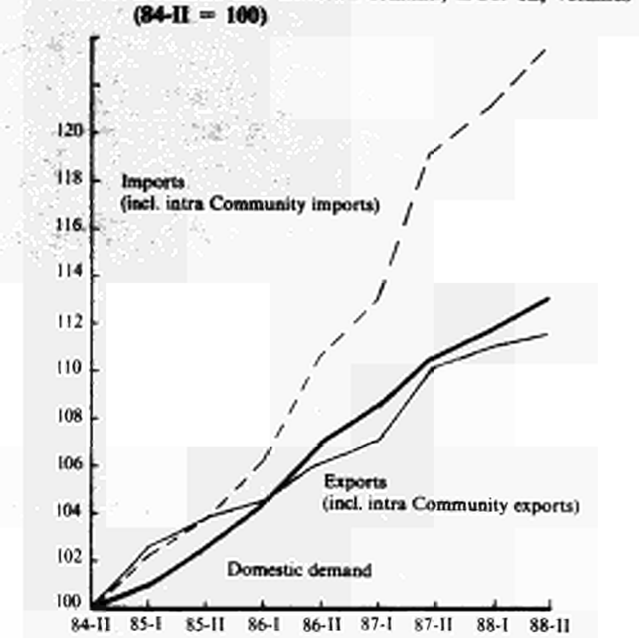
		1961-73	1974-83	1984	1985	1986	1987[1]	1988[1]
B[3]	Private consumption	4.3	1.9	1.5	1.8	2.7	2.5	1.5
	Government consumption	5.4	2.4	0.4	1.9	0.8	−1.5	−0.5
	Fixed capital formation	5.1	−1.1	2.1	1.0	6.6	5.2	3.9
	— Construction	—	−2.5	−5.9	−0.5	1.8	3.0	1.9
	— Equipment	—	1.9	13.4	3.1	13.1	7.9	6.3
	Exports of goods and services	9.4	2.9	5.8	1.1	5.6	4.1	3.0
	Imports of goods and services	9.0	2.0	6.0	0.8	7.3	5.0	3.3
	GDP	4.9	1.8	2.1	1.4	2.4	1.7	1.4
DK[3]	Private consumption	4.4	0.9	2.8	5.3	4.0	−1.8	−1.1
	Government consumption	5.8	3.4	−1.0	2.5	0.5	0.7	0.5
	Fixed capital formation	6.9	−3.4	10.5	11.9	17.0	−4.9	−4.3
	— Construction	—	−5.7	6.7	9.9	19.2	−1.3	−4.1
	— Equipment	—	1.0	13.9	16.3	14.4	−9.1	−4.5
	Exports of goods and services	7.2	4.0	3.4	4.2	0.2	1.8	2.1
	Imports of goods and services	8.1	0.7	5.1	8.6	6.4	−3.0	−0.6
	GDP	4.7	1.5	3.5	4.2	3.4	−1.3	−0.4
D[3]	Private consumption	5.0	2.2	1.9	1.9	4.3	3.0	2.5
	Government consumption	3.8	1.5	1.1	1.7	2.3	1.5	1.5
	Fixed capital formation	4.0	−0.1	0.8	0.1	3.1	1.6	1.2
	— Construction	—	−1.0	1.5	−6.2	2.4	−0.4	1.0
	— Equipment	—	1.5	−0.2	10.0	4.1	4.2	1.5
	Exports of goods and services	7.7	4.0	7.9	7.6	−0.5	−0.4	1.0
	Imports of goods and services	8.8	3.1	5.4	4.6	3.0	4.0	3.5
	GDP	4.4	1.6	2.8	2.1	2.6	1.6	1.4
GR[2]	Private consumption	6.7	2.9	1.4	3.8	1.0	0.0	1.0
	Government consumption	6.2	5.6	3.0	2.8	0.0	2.0	6.5
	Fixed capital formation	10.0	−1.9	−5.7	5.1	−4.8	1.2	4.8
	Construction	—	−3.4	−6.9	2.9	−3.4	0.0	3.0
	Equipment	—	0.5	−4.1	7.6	−6.5	2.7	6.9
	Exports of goods and services	12.6	4.3	16.9	1.3	16.2	2.0	0.5
	Imports of goods and services	12.7	2.5	0.2	12.8	3.8	2.8	6.0
	GDP	7.7	2.5	2.8	3.0	1.3	−0.4	1.8
E[3]	Private consumption	6.9	1.6	−0.4	2.2	3.8	4.7	4.0
	Government consumption	5.2	5.0	2.9	4.6	5.1	7.3	6.5
	Fixed capital formation	11.9	−1.2	−5.8	3.8	9.3	14.4	9.2
	— Construction	—	−1.4	−5.4	1.9	6.5	10.9	7.3
	— Equipment	—	−0.7	−4.5	7.7	14.0	20.0	12.0
	Exports of goods and services	11.9	5.7	11.7	2.7	−2.1	6.2	4.0
	Imports of goods and services	17.4	2.3	−1.0	6.2	15.5	20.5	13.9
	GDP	7.3	1.7	1.8	2.3	3.2	4.4	3.3
F[3]	Private consumption	5.6	2.5	1.0	2.4	3.0	2.0	1.3
	Government consumption	3.8	5.0	1.2	3.2	2.7	2.1	2.0
	Fixed capital formation	7.6	0.8	−2.3	1.1	3.5	2.3	3.0
	— Construction	—	−1.2	−4.1	−0.6	2.0	1.3	1.9
	— Equipment	—	2.6	2.1	6.8	4.7	3.1	3.8
	Exports of goods and services	9.7	5.3	7.1	2.1	−0.2	0.8	2.8
	Imports of goods and services	11.5	4.2	2.8	4.7	6.9	6.4	4.2
	GDP	5.6	2.6	1.4	1.7	2.0	1.8	1.4
IRL[3]	Private consumption	3.8	2.0	−0.8	1.1	2.1	0.3	0.5
	Government consumption	5.2	4.4	−0.1	−0.3	3.2	−3.0	−4.0
	Fixed capital formation	9.9	2.2	−2.4	−4.4	−2.3	−1.5	−1.5
	— Construction	—	1.3	−13.5	—	−5.3	−7.1	−10.0
	— Equipment	—	2.9	9.2	—	0.3	3.2	5.0
	Exports of goods and services	8.7	7.3	16.4	6.7	2.7	14.4	7.9
	Imports of goods and services	9.7	4.0	9.9	2.8	4.3	7.4	5.8
	GDP	4.4	3.8	3.2	1.1	−0.3	3.9	1.0
I[3]	Private consumption	5.9	2.1	2.4	2.9	3.2	4.2	3.3
	Government consumption	4.1	2.5	1.9	3.4	3.0	2.6	3.0
	Fixed capital formation	4.3	−0.4	4.4	3.3	1.2	2.9	2.8
	— Construction	—	−0.6	−0.4	−1.7	−0.7	0.7	1.5
	— Equipment	—	0.7	15.1	11.4	3.1	4.9	4.0
	Exports of goods and services	10.2	5.6	6.8	3.7	3.1	2.4	2.3
	Imports of goods and services	10.5	2.8	11.3	5.4	5.1	7.6	6.7
	GDP	5.3	2.1	3.5	2.7	2.7	2.8	2.2
L[3]	Private consumption	4.6	2.5	2.4	1.7	3.2	4.0	2.5
	Government consumption	4.0	2.5	1.7	1.3	1.8	1.6	1.3
	Fixed capital formation	5.1	−2.0	−2.3	−3.7	11.5	3.5	2.0
	— Construction	—	−2.8	−5.3	—	7.7	3.2	2.1
	— Equipment	—	−1.0	0.8	—	19.4	4.0	1.7
	Exports of goods and services	6.1	1.2	18.0	9.2	4.2	1.0	2.0
	Imports of goods and services	6.3	1.4	15.4	6.2	4.1	2.6	2.6
	GDP	4.2	1.4	6.5	3.8	2.9	1.7	1.5
NL[3]	Private consumption	6.0	2.1	1.0	1.9	3.1	2.7	1.3
	Government consumption	3.1	2.5	−0.6	1.3	1.8	0.8	0.3
	Fixed capital formation	6.3	−1.5	5.4	5.2	7.2	3.0	−0.0
	— Construction	—	−2.6	2.9	−3.6	4.9	3.6	−0.4
	— Equipment	—	0.5	8.3	14.1	9.9	2.4	0.3
	Exports of goods and services	9.7	2.4	7.4	5.4	0.7	3.6	2.9
	Imports of goods and services	9.6	1.8	5.0	5.9	3.2	4.2	3.0
	GDP	5.3	1.6	3.2	2.3	2.4	1.8	0.9
P[4]	Private consumption	6.7	1.2	−3.0	1.0	7.0	7.1	4.1
	Government consumption	8.3	6.3	2.5	1.7	2.0	2.9	2.0
	Fixed capital formation	8.0	3.8	−18.0	−3.0	9.5	18.8	8.9
	— Construction	—	—	—	—	4.7	10.5	7.0
	— Equipment	—	—	—	—	16.0	29.0	11.0
	Exports of goods and services	7.9	4.5	14.2	11.0	6.8	10.5	5.9
	Imports of goods and services	10.1	1.5	−2.7	3.9	17.6	23.1	10.4
	GDP	6.8	2.7	−1.6	3.3	3.4	3.0	2.6
UK[3]	Private consumption	2.9	1.2	2.1	3.7	6.0	5.0	4.1
	Government consumption	2.5	1.6	0.8	−0.1	0.8	0.2	1.4
	Fixed capital formation	4.6	−0.4	8.2	3.1	0.1	3.4	4.2
	— Construction	—	−1.4	8.5	−3.3	3.7	2.5	4.5
	— Equipment	—	0.6	10.2	7.8	−3.9	4.5	3.9
	Exports of goods and services	5.1	2.6	6.9	5.5	3.2	6.3	3.1
	Imports of goods and services	5.1	1.7	9.6	2.7	6.2	7.6	5.8
	GDP	3.1	1.0	2.0	3.7	3.0	3.6	2.8

[1] Forecasts.
[2] 1970 prices.
[3] 1980 prices.
[4] 1985 prices.
Source: Commission services.

Investments in infrastructure, at both national and Community level, in the fields of the environment, transport and research and development are necessary. More particularly, the major *infrastructure projects of European interest*, as, for example, the improvement of the transport system, the railway and road networks, are a highly desirable complement to the internal market and would contribute to strengthening the economic and social cohesion of the Community. In order to avoid adding to the budgetary burden, private financing of such projects, at least in part, should be envisaged. The projects should thus be sufficiently profitable to attract investors. Such programmes could also overcome the cautious tendency of investors on the capital markets, and thus mobilize saving and absorb part of the liquidity which is presently accumulating.

In accordance with the decisions adopted recently by the Brussels European Council, the objective of *strengthening the economic and social cohesion of the Community* must be pursued with determination as part of a sustained and coordinated effort by all the Member States: this will be achieved by creating in the less advanced countries conditions favourable to faster and more balanced growth, by greater dynamism in the more advanced partners and by reforming the structural funds, concentrating them on the less-advanced regions as well as doubling their budget commitments by 1993. It is in the interest of the Community as a whole that the less advanced countries should continue to be buoyant.

GRAPH 12: Domestic and external demand, EUR 12, volumes (84-II = 100)



While resolutely following these policies in its own interest, it remains essential that the Community's voice is heard in the relevant *international* meetings in order to contribute to the freedom of international trade, especially those conducted as part of the Uruguay round, to the solution of the problems of the developing countries and in the field of economic and monetary cooperation.

For the Community, *stronger demand, allied to improvements to the supply side*, will enable to face up to the adjustments in trade flows which are inevitably going to affect growth during the next few years.

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TABLE 30: **Contributions to real GDP growth**[1] (EC countries and EC, 1982-88)

		1982	1983	1984	1985	1986	1987[2]	1988[2]
B	Final domestic demand	0,5	−1,6	1,4	1,6	2,9	2,2	1,6
	Stockbuilding	0,3	−0,7	0,7	−0,4	0,3	0,0	0,0
	Foreign balance	0,7	2,4	0,1	0,2	−0,8	−0,5	−0,2
DK	Final domestic demand	2,7	1,7	2,9	5,5	5,4	−1,8	−1,3
	Stockbuilding	0,7	−0,3	1,1	0,1	0,2	−1,2	−0,1
	Foreign balance	−0,4	1,1	−0,5	−1,4	−2,2	1,7	1,0
D	Final domestic demand	−2,1	1,7	1,5	1,4	3,4	2,3	2,0
	Stockbuilding	0,1	0,6	0,4	−0,4	0,1	0,5	0,1
	Foreign balance	1,3	−0,7	0,9	1,1	−1,0	−1,2	−0,7
GR	Final domestic demand	2,0	0,8	0,3	4,0	−0,1	0,5	2,5
	Stockbuilding	−0,2	−1,3	1,0	0,1	−0,3	−0,6	0,7
	Foreign balance	−3,3	−0,5	3,3	−3,6	1,6	−0,3	−1,5
E	Final domestic demand	0,9	0,2	−1,0	2,8	5,0	7,1	5,7
	Stockbuilding	0,2	−0,3	0,4	0,0	1,1	0,1	0,0
	Foreign balance	0,1	1,9	2,4	−0,5	−3,0	−2,9	−2,4
F	Final domestic demand	2,4	0,2	0,4	2,3	3,0	2,1	1,8
	Stockbuilding	1,0	−0,9	0,1	−0,1	0,5	1,0	0,0
	Foreign balance	−0,9	1,4	0,9	−0,5	−1,5	−1,3	−0,4
IRL	Final domestic demand	−5,0	−2,6	−1,1	−0,6	1,2	−0,8	−0,8
	Stockbuilding	2,6	−0,5	1,3	−0,8	−0,5	0,0	0,1
	Foreign balance	4,6	2,6	3,0	2,4	−1,1	4,7	1,7
I	Final domestic demand	−0,3	0,2	2,8	3,0	2,7	3,7	3,2
	Stockbuilding	0,6	−0,7	1,8	0,2	0,6	0,5	0,2
	Foreign balance	−0,0	0,9	−1,0	−0,4	−0,5	−1,3	−1,2
L	Final domestic demand	0,3	−2,3	1,1	0,3	4,2	3,1	2,0
	Stockbuilding	0,3	2,9	2,8	0,3	−1,7	0,1	0,0
	Foreign balance	0,6	2,6	2,5	3,2	0,4	−1,5	−0,5
NL	Final domestic demand	−1,4	1,1	1,5	2,3	3,5	2,3	0,8
	Stockbuilding	0,5	0,4	0,2	0,1	0,3	−0,3	0,1
	Foreign balance	−0,5	−0,1	1,5	−0,0	−1,4	−0,2	0,0
P	Final domestic demand	2,7	−2,5	−6,6	0,3	7,0	9,6	5,6
	Stockbuilding	0,2	−3,7	−0,3	0,5	1,1	0,3	0,4
	Foreign balance	−0,8	8,4	5,6	2,5	−4,7	−6,8	−3,4
UK	Final domestic demand	1,5	3,7	2,9	2,8	3,8	3,8	3,6
	Stockbuilding	0,6	0,8	−0,2	0,1	−0,0	0,1	−0,0
	Foreign balance	−1,0	−0,9	−0,7	0,8	−0,8	−0,4	−0,8
EUR	Final domestic demand	0,3	1,1	1,4	2,4	3,4	3,2	2,7
	Stockbuilding	0,5	−0,2	0,5	−0,0	0,4	0,4	0,1
	Foreign balance	−0,1	0,5	0,5	0,1	−1,2	−1,1	−0,9

[1] Change as percentage of GDP of preceding period.
[2] Forecasts.
Source: Commission services.

TABLE A.1: **Industrial production** (a) — Percentage change on preceding period (s.a.)

	1982	1983	1984	1985	1986	1986 III	1986 IV	1987 I	1987 II	1987 III	1987 May	June	July	Aug.	Sept.	Oct.	Nov.	Change over 12 months %(b)
B	0	2,0	2,5	2,5	0,8	2,4	-2,2	1,1	2,8	-3,0	2,2	-1,3	-0,4	-5,6	1,4	:	:	-0,3
DK	2,7	3,2	9,7	4,2	4,2	-3,4	0,9	-3,0	-1,6	0,9	-4,6	1,5	2,6	-2,5	2,0	-3,7	:	-7,9
D	-2,9	0,6	3,0	5,7	2,1	0,7	-0,8	-1,0	1,4	0,4	0,9	-1,5	-0,8	3,9	-1,8	0,7	-0,1	2,7
GR	1,1	-0,1	1,6	3,4	-0,2	-1,7	-0,9	-1,6	-1,0	-0,2	-1,5	-0,7	0,9	-2,0	3,6	2,2	:	-1,3
E	-1,1	2,7	0,8	2,0	3,1	-2,0	2,2	-0,6	2,6	2,3	1,5	4,2	3,8	-9,8	6,6	-1,1	:	2,9
F	-0,5	0	2,0	1,0	1,0	1,3	-1,3	-0,3	2,3	0,6	1,0	1,9	-1,0	0	1,0	-1,0	1,0	5,7
IRL	-0,9	6,6	12,4	2,3	2,7	0	3,7	-0,6	8,2	0,7	4,2	-2,3	-2,6	6,8	-2,5	2,8	:	10,1
I	-3,0	-3,2	3,4	1,2	2,8	-0,1	1,5	-0,4	1,8	-0,8	2,3	-2,6	0,9	-1,6	1,2	2,4	-0,9	7,3
L	0,9	5,4	13,3	6,9	2,8	-2,1	-0,6	-1,3	2,9	-1,8	4,2	0,1	-1,5	-3,3	1,2	6,3	:	7,1
NL	-4,1	3,2	4,1	4,0	1,0	2,2	-0,9	3,2	-3,4	-0,9	1,9	-0,9	1,0	0,9	-2,9	3,9	3,8	4,4
P	4,6	1,6	-0,1	10,9	4,7	2,9	-2,1	-3,7	6,5	0,5	1,9	1,1	3,3	-9,1	6,7	:	:	1,3
UK	1,9	3,6	1,4	4,5	1,9	1,0	0,4	0,4	0,7	2,4	0,5	-1,1	2,4	1,4	-1,3	1,3	-0,3	4,3
EUR 12	-1,2	0,9	2,3	3,4	1,9	-0,4	0,6	-0,6	1,4	(0,1)	1,0	0,3	0,1	-1,5	1,4	(0,9)	(0,4)	(3,6)
USA	-7,4	7,8	12,3	2,1	2,1	0,5	0,9	0,9	1,2	1,9	0,6	0,6	1,2	0,1	0	(0,8)	:	(5,5)
JAP	0,3	3,6	11,1	4,6	-0,3	-0,3	0	1,3	-0,2	3,7	-1,4	4,3	1,0	-1,1	3,1	(2,2)	(-0,2)	(8,5)

TABLE A.2: **Unemployment rate** — Number of unemployed as percentage of civilian labour force (s.a.)

	1983	1984	1985	1986	1987	1986 IV	1987 I	1987 II	1987 III	1987 IV	1987 June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Change over 12 months %(b)
B (f)	14,3	14,4	13,6	12,5	12,2	12,4	12,4	12,4	12,2	11,9	12,5	12,5	12,1	12,0	12,0	11,9	11,8	-6,6
DK	10,1	9,9	8,7	7,4	7,5	7,3	7,7	7,7	7,7	(7,7)	7,8	7,7	7,7	(7,7)	(7,5)	(7,7)	(7,8)	(2,1)
D	8,4	8,4	8,4	8,1	8,1	7,8	8,0	8,0	8,1	8,1	8,1	8,1	8,1	8,1	8,1	8,1	8,2	4,1
GR	1,6	1,8	2,2	2,8	2,9	2,8	2,9	2,9	2,9	2,8	2,9	2,9	2,9	2,8	2,7	2,7	2,8	-1,1
E	16,5	18,4	19,5	20,0	20,9	20,3	20,7	20,8	20,9	21,1	20,8	20,9	20,8	20,9	21,0	21,0	21,1	4,2
F	8,9	10,0	10,5	10,7	11,2	10,9	11,3	11,3	11,3	11,0	11,2	11,2	11,4	11,2	11,1	11,0	11,1	-0,5
IRL	14,9	16,6	17,9	18,3	19,2	18,7	19,0	19,4	19,4	19,1	19,4	19,4	19,4	19,3	19,2	19,1	19,1	0
I	11,0	12,0	12,9	13,5	14,0	13,8	13,9	13,6	14,2	14,2	13,8	14,0	14,3	14,3	14,1	14,1	14,4	5,2
L	1,6	1,8	1,7	1,5	1,7	1,4	1,6	1,7	1,7	1,7	1,7	1,7	1,7	1,8	1,7	1,7	1,7	10,7
NL (f)	(14,2)	14,5	13,3	12,4	11,9	12,0	12,0	11,9	11,9	11,9	11,8	12,0	11,9	11,9	12,0	11,9	12,0	-1,2
P	5,6	6,7	7,7	8,3	7,1	8,3	8,2	7,2	6,5	6,6	6,8	6,5	6,5	6,5	6,5	6,6	6,7	-15,8
UK	(11,6)	11,8	12,0	12,0	10,7	11,8	11,5	11,1	10,5	9,9	11,0	10,8	10,6	10,2	10,1	9,8	9,8	-16,5
EUR 12	(10,6)	11,2	11,6	11,7	11,6	11,7	11,8	11,7	11,6	(11,5)	11,6	11,6	11,7	(11,6)	(11,5)	(11,4)	(11,5)	(-1,6)
USA	9,6	7,5	7,2	7,0	:	6,8	6,7	6,2	6,0	:	6,1	6,0	6,0	5,9	6,0	5,9	:	-13,6
JAP (g)	2,7	2,7	2,6	2,8	:	2,8	2,9	3,0	2,8	:	3,0	2,7	2,8	2,8	2,7	2,7	:	-1,8

TABLE A.3: **Consumer price index** — Percentage change on preceding period

	1983	1984	1985	1986	1987	1986 IV	1987 I	1987 II	1987 III	1987 IV	1987 June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Change over 12 months %(b)
B	7,7	6,3	4,9	1,3	1,6	0,1	0,6	0,7	0,6	-0,3	0,1	0,4	0,3	-0,2	-0,1	-0,3	0	1,4
DK	6,9	6,3	4,7	3,6	4,0	1,0	0,5	1,6	0,7	1,2	-0,1	0	0,3	0,6	0,4	0,3	(0,1)	(4,1)
D	3,3	2,4	2,2	-0,2	0,2	-0,3	0,6	0,4	0	0	0,2	0	-0,1	-0,2	0,2	0	0,2	1,0
GR	20,5	18,3	19,4	23,1	:	5,9	3,2	5,6	0,4	5,4	2,0	-1,5	-0,5	2,2	3,1	0,7	1,2	15,7
E	12,2	11,2	8,8	8,8	:	1,2	1,4	0,7	1,3	1,2	0	1,0	-0,1	0,9	0,6	-0,2	0,4	4,6
F	9,6	7,3	5,9	2,7	3,1	0,7	1,2	0,9	0,6	0,5	0,2	0,2	0,2	0,1	0,2	0,1	0,1	3,1
IRL (h)	10,4	8,6	5,4	3,8	3,1	0,2	1,8	0,6	0,6	0,1	0,2	0,2	0,2	0	0	0	:	3,1
I	14,7	10,8	9,2	5,8	4,7	1,2	1,4	1,2	1,0	1,6	0,4	0,2	0,3	0,6	0,8	0,3	(0,2)	(5,2)
L	8,7	5,6	4,2	0,3	:	0,2	0,2	-0,3	0	0,5	-0,1	-0,1	0,3	0,1	0	0,2	0,3	0,7
NL	2,7	3,2	2,3	0,3	-0,2	1,0	-1,3	0,6	0,2	0,8	-0,2	-0,1	0,2	0,5	0,5	-0,1	(-0,2)	(0,2)
P	25,1	28,9	19,6	11,8	9,3	2,4	3,8	1,7	1,0	2,5	-0,3	0,3	1,1	0,3	1,2	0,4	1,4	8,9
UK	4,6	5,0	6,1	3,4	4,1	1,3	1,2	1,5	0,2	1,1	0	-0,1	0,3	0,3	0,5	0,5	-0,1	3,7
EUR 12	8,6	7,4	6,1	3,6	3,2	0,8	1,0	1,0	0,4	0,8	0,2	0,1	0,2	0,2	0,5	0,2	(0,1)	(3,2)
USA	3,2	4,3	3,6	1,9	3,7	0,6	1,1	1,3	1,1	0,9	0,4	0,2	0,6	0,5	0,3	0,1	0	4,4
JAP	1,8	2,4	2,0	0,7	0	-0,1	-0,6	1,3	-0,2	0,3	-0,2	-0,5	0,1	0,9	0	-0,5	0,1	1,0

TABLE A.4: **Visible trade balance** — fob/cif, million ECU (s.a.)

	1982	1983	1984	1985	1986	1986 III	1986 IV	1987 I	1987 II	1987 III	1987 May	June	July	Aug.	Sept.	Oct.	Nov.	Change over 12 months %(c)
B/L	-3082	-2435	-4897	-3514	146	-52	930	-108	414	-150	138	208	173	-199	-124	-272	-63	-220
DK	-1866	-740	-1108	-1538	-1714	-579	-226	72	61	:	71	-47	70	-85	:	:	:	46
D	21599	18501	24136	32986	53044	14718	14502	14373	13818	14132	4914	4362	4846	4098	5189	4175	4965	176
GR	-5826	-5800	-6048	-7266	-5809	-1631	-1126	-1661	-1339	:	-495	-455	-387	:	:	:	:	127
E	:	:	-4711	-5582	-6306	-1750	-1981	-1934	-2181	-2382	-611	-698	-870	-727	-785	-1243	-743	-86
F	-24457	-15628	-13130	-13428	-9699	-2583	-1819	-2588	-3567	-3095	-1247	-1288	-1041	-756	-1299	-1321	-911	-290
IRL	-1574	-621	81	430	983	242	262	338	511	517	251	96	147	203	168	232	246	99
I	-12513	-8516	-13849	-16130	-2459	502	473	-1117	-2360	-1643	-416	-1476	-702	-52	-889	-930	-225	-413
NL	3500	4499	4740	3874	4161	1554	206	-470	140	289	-8	303	-31	173	147	430	163	100
P	:	:	-3467	-2735	-1297	-329	-271	-716	-827	-781	-190	-376	-219	-302	-260	-297	-249	-237
UK	-3295	-9681	-14005	-11540	-19868	-5756	-6180	-3705	-4911	-5714	-1844	-1710	-1735	-2366	-1613	-1976	-2303	-92
EUR 12 (j)	:	:	-32258	-24444	11161	2722	4314	2832	-619	-1530	460	-1144	-357	(-965)	(-208)	(-1894)	(180)	(-1210)
USA (i)	-43435	-77911	-154992	-194856	-169039	-44291	-41331	-34862	-37149	-41003	-12077	-13771	-14659	-14048	-12296	-15307	-10769	4229
JAP	7034	23072	42599	60497	84010	23688	21839	21512	16544	16184	5539	4828	5495	5296	5393	5766	4287	-2519

TABLE A.5: **Money stock** (k) — Percentage change on preceding period (s.a.)

	1983	1984	1985	1986	1987	1986 IV	1987 I	1987 II	1987 III	1987 IV	1987 June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Change over 12 months %(d)
B (M2)	8,7	5,9	7,6	11,5	:	3,6	3,1	3,6	0,6	:	:	:	:	:	:	:	:	11,3
DK (M2)	25,5	17,8	15,8	8,4	4,4	2,5	-0,1	3,6	-1,0	1,9	3,2	-0,8	0,3	-0,5	1,1	-0,3	1,2	4,4
D (M3)	5,3	4,7	5,1	6,8	6,0	1,9	2,1	1,5	0,9	1,4	0,3	0,2	0,6	0,1	0,6	0,7	0,1	6,0
GR (M3)	20,3	29,4	26,8	19,0	:	4,3	5,5	5,2	6,2	:	2,6	2,0	2,5	1,6	1,9	1,6	:	24,2
E (ALP)	15,9	13,2	12,8	11,4	:	2,8	3,3	3,2	3,5	:	0,9	0,7	1,6	1,1	1,5	1,1	:	14,4
F (M3)	11,5	9,4	5,0	4,3	:	0,4	3,2	2,7	1,6	:	0,7	0,6	0,5	0,4	1,6	0	:	8,9
IRL (M3)	5,6	10,1	5,3	-1,0	:	0,1	2,2	4,4	3,0	:	0,9	0	1,9	1,0	0,1	0,9	:	11,3
I (M2)	13,3	12,1	10,8	9,4	:	3,1	2,9	3,3	1,4	:	0,8	0,4	0,4	0,6	0,8	0,5	:	9,5
NL (M2)	(10,7)	(6,8)	(10,5)	4,5	:	2,2	-1,4	1,7	1,7	:	0,2	1,0	-0,8	1,5	:	:	:	4,7
P (L)	16,8	24,6	28,9	25,9	(18,4)	5,5	5,8	(3,5)	(5,4)	(2,7)	1,0	3,0	(1,1)	(1,2)	(1,0)	(2,1)	(-0,4)	(18,4)
UK (LM3)	11,1	10,0	13,4	18,8	22,7	(2,3)	5,9	5,1	5,0	5,0	1,4	2,2	1,4	1,4	3,6	0	1,4	22,7
EUR 12 (l)	(11,0)	(9,7)	(9,8)	(9,8)	:	2,2	3,1	3,0	2,2	:	0,8	0,8	0,7	0,7	(1,5)	(0,4)	:	(11,3)
USA (M2)	11,7	8,2	8,1	9,1	3,5	2,1	0,9	0,6	1,3	0,7	0	0,3	0,5	0,5	0,5	0	0,2	3,5
JAP (M2)	7,3	7,8	8,7	9,2	:	3,5	1,9	2,8	2,2	:	-0,6	1,8	0,6	-0,2	2,6	0	:	9,8

TABLE A.6: **Short-term interest rates** (m)

	1983	1984	1985	1986	1987	1986	1987				1987						1988	Change over
						IV	I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	12 months %(e)
B	10,5	11,5	9,5	8,0	7,0	7,5	7,4	6,8	6,7	6,8	6,7	6,7	6,7	7,2	6,9	6,8	6,4	-1,4
DK	12,0	11,5	10,0	9,1	9,9	9,2	10,7	9,6	9,4	9,3	9,5	9,3	9,4	9,5	9,3	9,3	8,9	-2,1
D	5,8	6,0	5,4	4,6	4,0	4,8	4,0	3,8	4,0	3,5	4,1	4,0	4,0	4,1	3,7	3,5	3,3	-0,8
GR	16,6	15,7	17,0	19,8	15,8	18,9	23,3	13,9	19,5	14,1	11,1	8,0	19,5	17,1	15,0	14,1	16,5	2,1
E	20,0	14,9	12,2	11,7	15,8	12,1	16,2	17,8	17,0	13,1	17,4	16,7	17,0	14,5	14,6	13,1	13,1	0,6
F	12,5	11,7	9,9	7,7	8,2	8,5	7,9	8,2	8,0	8,6	7,9	7,9	8,0	8,3	8,7	8,6	8,6	0
IRL	14,0	13,2	12,0	12,4	11,0	13,9	13,3	10,4	9,2	8,8	9,8	10,0	9,2	9,2	9,2	8,8	8,6	-5,5
I	18,3	17,3	15,0	12,8	11,4	11,6	10,6	11,3	12,8	11,5	11,6	13,0	12,8	12,0	11,6	11,5	10,7	-1,1
NL	5,7	6,1	6,3	5,7	5,4	6,4	5,5	5,2	5,6	4,6	5,3	5,3	5,6	5,2	4,7	4,6	4,1	-1,3
P	20,9	22,5	21,0	15,6	13,9	14,1	13,2	15,0	14,8	13,9	15,0	14,8	14,8	13,8	13,9	13,9	13,9	0,6
UK	10,1	10,0	12,2	10,9	9,7	11,2	9,9	9,2	10,3	8,9	9,4	10,4	10,3	9,4	8,9	8,9	8,7	-2,4
EUR 12 (n)	12,0	11,2	10,4	9,0	8,8	9,1	8,8	8,8	9,2	8,3	8,8	9,0	9,2	8,8	8,5	8,3	8,1	-0,9
USA	8,7	9,4	7,5	6,0	5,9	5,8	5,8	6,0	6,8	5,9	6,3	6,5	6,8	5,4	5,5	5,9	5,8	0
JAP	6,5	6,3	6,5	5,0	3,9	4,3	4,0	3,7	3,9	3,9	3,7	3,7	3,9	4,0	3,9	3,9	3,9	-0,4

TABLE A.7: **Long-term interest rates** (o)

	1983	1984	1985	1986	1987	1986	1987				1987						1988	Change over
						IV	I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	12 months %(e)
B	11,8	12,0	10,6	7,9	7,8	7,7	7,6	7,8	8,3	8,0	7,6	7,8	8,3	8,3	8,0	8,0	7,6	0
DK	14,4	14,0	11,6	10,5	11,9	11,6	12,1	11,6	12,3	11,7	11,8	11,5	12,3	12,6	11,9	11,7	11,0	-0,2
D	7,9	7,8	6,9	5,9	5,8	5,9	5,6	5,6	6,2	6,0	5,8	6,0	6,2	6,5	6,0	6,0	6,0	0,2
GR	18,2	18,5	15,8	15,8	17,2	14,7	17,5	16,2	17,1	:	16,5	17,1	17,1	17,4	:	:	:	2,9
E	16,9	16,5	13,4	11,4	12,8	10,4	10,9	13,2	14,3	13,1	13,6	13,7	14,3	14,2	13,4	13,1	12,5	1,7
F	13,6	12,5	10,9	8,4	9,4	8,9	8,5	9,4	10,5	10,0	9,5	9,8	10,5	10,0	9,9	10,0	9,5	0,6
IRL	13,9	14,6	12,7	11,1	11,3	13,0	11,2	10,9	11,3	10,4	11,8	11,9	11,3	11,0	10,2	10,4	10,6	-2,0
I	18,0	14,9	14,3	11,7	11,3	10,2	10,2	11,1	12,3	12,5	11,5	12,0	12,3	12,4	12,7	12,5	12,0	2,0
L	9,8	10,3	9,5	8,7	8,0	8,1	8,2	8,2	8,1	7,0	8,1	8,0	8,1	8,0	7,5	7,0	:	-1,1
NL	8,8	8,6	7,3	6,4	6,4	6,4	6,2	6,3	6,8	6,3	6,4	6,6	6,8	7,0	6,4	6,3	6,3	0,1
P	30,4	32,5	25,4	17,9	15,4	16,0	15,4	15,4	15,9	15,7	15,3	15,3	15,9	15,8	15,7	15,7	:	-0,3
UK	10,8	10,7	10,6	9,8	9,5	10,3	9,1	9,1	10,0	9,5	9,7	10,1	10,0	9,3	9,3	9,5	9,3	-0,7
EUR 12 (n)	12,8	12,1	10,8	9,1	9,3	8,9	8,6	9,1	10,0	9,7	9,4	9,7	10,0	9,9	9,8	9,7	9,4	0,5
USA	10,8	12,0	10,8	8,1	8,6	7,7	7,6	8,6	9,6	9,0	8,7	9,0	9,6	9,5	9,0	9,0	8,7	1,1
JAP	7,8	7,3	6,5	5,2	5,0	5,2	4,4	4,6	7,0	5,1	5,3	5,6	7,0	5,4	5,2	5,1	:	-0,2

TABLE A.8: **Value of ECU** = ... units of national currency or SDR

	1983	1984	1985	1986	1987	1986	1987				1987						1988	Change over
						IV	I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	12 months %(b)
BFR/LFR	45,43	45,44	44,91	43,80	43,04	43,29	42,86	43,04	43,07	43,18	43,05	43,06	43,09	43,21	43,16	43,18	43,18	0,7
DKR	8,13	8,14	8,02	7,94	7,88	7,86	7,81	7,82	7,94	7,96	7,88	7,95	7,99	7,97	7,96	7,95	7,93	1,3
DM	2,27	2,24	2,23	2,13	2,07	2,08	2,07	2,08	2,07	2.07	2,08	2,07	2,07	2,07	2,06	2,06	2,06	0
DR	78,1	88,4	104,8	137,3	156,1	143,5	151,1	154,4	157,4	161,9	156,4	157,2	158,5	159,8	162,3	163,5	164,6	9,9
PTA	127,4	126,5	129,0	137,5	142,2	139,8	145,0	145,0	140,5	138,4	142,6	140,2	138,9	136,6	138,8	139,8	140,2	-2,6
FF	6,77	6,87	6,79	6,80	6,93	6,82	6,89	6,93	6,92	6,98	6,91	6,92	6,93	6,93	7,01	7,00	6,97	1,3
IRL	0,715	0,726	0,715	0,733	0,775	0,765	0,775	0,776	0,775	0,776	0,775	0,775	0,776	0,775	0,776	0,776	0,777	0,7
LIT	1349	1381	1447	1462	1495	1443	1469	1494	1502	1514	1503	1502	1500	1500	1520	1521	1519	3,8
HFL	2,54	2,52	2,51	2,40	2,33	2,35	2,33	2,34	2,34	2,33	2,34	2,34	2,33	2,33	2,32	2,32	2,32	-0,3
ESC	98,2	115,6	130,0	146,9	162,5	154,0	159,4	161,4	162,8	166,6	162,4	162,6	163,5	164,4	166,9	168,5	168,8	6,5
UKL	0,587	0,591	0,589	0,670	0,705	0,727	0,730	0,700	0,698	0,692	0,698	0,699	0,696	0,693	0,691	0,691	0,694	-6,0
USD	0,890	0,788	0,759	0,983	1,154	1,038	1,124	1,150	1,128	1,213	1,124	1,116	1,145	1,152	1,227	1,264	1,250	12,4
YEN	211,3	187,0	180,4	165,0	166,5	166,5	172,2	164,0	165,8	164,3	168,9	164,7	163,9	165,0	166,0	162,0	159,4	-7,2
DTS	0,833	0,767	0,749	0,838	0,892	0,842	0,859	0,895	0,889	0,884	0,885	0,879	0,887	0,889	0,909	0,914	0,908	5,0

TABLE A.9: **Effective exchange rates: export aspect** (p) — Percentage change on preceding period

	1983	1984	1985	1986	1987	1986	1987				1987						1988	Change over
						IV	I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	12 months %(b)
B/L	-2,8	-2,2	0,9	5,5	4,1	1,6	2,4	-0,6	-0,3	0,6	-0,2	-0,3	0,2	-0,2	1,1	0,2	-0,3	0
DK	-0,6	-3,7	1,2	6,3	4,2	2,6	2,5	-0,6	-1,9	1,1	-0,9	-1,3	-0,2	0,4	1,6	0,5	-0,1	-0,5
D	4,0	-1,6	0,3	10,7	6,9	2,9	3,0	-0,7	-0,3	1,8	-0,2	-0,2	0,3	0,1	2,2	0,3	-0,5	1,3
GR	-18,1	-14,4	-15,9	-21,3	-9,9	-3,2	-3,5	-2,2	-2,2	-1,8	-0,7	-0,8	-0,6	-0,7	-0,4	-0,5	-1,0	-8,0
E	-17,2	-2,4	-2,3	-1,5	0,2	-0,9	-1,7	-0,1	2,9	3,0	0,9	1,4	1,4	1,8	-0,2	-0,4	-0,7	4,3
F	-7,1	-4,8	1,1	4,5	1,1	1,9	0,9	-0,8	-0,2	0,3	0,2	-0,6	0,2	0,0	0,2	0,5	0	-0,3
IRL	-4,1	-4,2	1,2	3,7	-2,1	-0,8	0,4	-0,9	-0,3	1,0	-0,2	-0,3	0,2	0,2	1,0	0,3	-0,4	-0,5
I	-3,8	-5,9	-5,2	3,7	1,1	2,0	0,1	-2,0	-0,9	0,5	-0,2	-0,3	0,6	0,1	0,1	0,3	-0,3	-2,6
NL	2,0	-1,6	0,3	7,7	5,1	2,0	2,1	-0,4	0,0	1,3	-0,1	-0,2	0,3	0,1	1,5	0,2	-0,2	1,1
P	-21,1	-17,4	-11,5	-7,8	-7,1	-2,2	-1,9	-1,5	-1,3	-1,4	-0,4	-0,4	-0,3	-0,5	-0,4	-0,6	-0,5	-5,6
UK	-7,0	-4,7	-0,2	-7,3	-1,0	-5,6	2,1	4,4	-0,1	2,8	0,1	-0,5	0,9	0,6	2,3	0,5	-0,9	8,9
EUR 12	-8,5	-9,3	-1,9	9,6	7,0	2,1	4,2	-0,5	-0,6	3,3	-0,1	-0,9	1,0	0,6	3,2	0,6	-1,1	3,0
USA	5,7	7,8	4,1	-19,1	-12,1	-0,3	-5,8	-3,4	1,6	-5,8	1,6	-0,2	-2,3	-0,4	-4,4	-3,0	0,1	-11,8
JAP	10,9	5,8	3,0	27,2	8,2	-3,8	1,0	5,9	-2,2	5,1	-3,2	2,1	1,8	-0,3	3,2	4,0	0,9	14,2

Sources For Community countries: Eurostat, unless otherwise specified; for the USA and Japan: national sources.

(a) National sources, except for the Community, Denmark, Ireland, Belgium and Luxembourg. Because of differences in methods of seasonal adjustment, the change in the EUR index, adjusted by Eurostat and given in Table 1 may differ from the change in the EUR index obtained by aggregating national indices. Data are adjusted for working days. They do not include building.
(b) % change over 12 months on the basis of the non-adjusted nominal series of the most recent figure given.
(c) Change on corresponding month in previous year; seasonally adjusted.
(d) Change over 12 months in seasonally adjusted figures of the most recent figure given for each country.
(e) Difference in relation to the same month of the previous year.
(f) Changes in the coverage of these series occurred in 1984 for the Netherlands and in 1985 for Belgium.
(g) As % of total labour force.
(h) Monthly series calculated by linear interpolation.
(i) Unadjusted figures.
(j) The seasonally adjusted position for the Community does not correspond to the sum of other Member States; it is obtained by seasonal adjustment of the sum of gross figures for the various countries' exports and imports.
(k) National sources for Belgium, Denmark, Germany, Spain, France, Portugal and the United Kingdom; seasonal adjustment by Eurostat for Greece, Ireland, Italy and the Netherlands.
(l) Average of monthly changes, seasonally adjusted, weighted by GDP at 1980 prices and purchasing power parities. The monthly change in Belgium is obtained by linear interpolation of quarterly data.
(m) National sources; three-month interbank rate except: Belgium: yield on issue of four-month *Fonds des Rentes* certificates; Denmark: daily money market rate (monthly average); Portugal, 6 month deposits; from 8.85, 3 month Treasury Bills. Annual average, end quarter and end month.
(n) Average weighted by GDP at 1980 prices and purchasing power parities.
(o) Yield on public sector bonds. Annual average. Average for the last month of quarter and monthly average for Germany, Spain, Italy, Luxembourg, the Netherlands and Portugal. End quarter and end month for the other Member States.
(p) Weighting coefficients are calculated so as to allow not only for bilateral trade but also for competition on third markets and on the domestic market of the exporting country.

Note (s.a.) = seasonally adjusted : = data not available ( ) = estimated

Principal economic policy measures - January 1988

Community (EUR)

None.

Belgium (B)

12.1 The central bank cuts key interest rates in several stages. The rates on one-, two- and three-month Treasury certificates fell from 6,65 % to 6,35 % during the month, while the discount rate and the rate for advances were reduced by one quarter of a point on 28 January.

Denmark (DK)

26.1 The Central bank tightens its rules for refinancing private banks requiring supplementary guarantees for credits exceeding 25 % of their net capital.

Federal Republic of Germany (D)

21.1 The Bundesbank fixes the monetary target for 1988. The monetary expansion is to be kept within a corridor of 3-6 %. However, the Bundesbank changes its indicator for monetary expansion; instead of the Central Bank Money Stock (currency in circulation plus compulsory minimum reserves) the traditional concept of M3 will now be used.

Greece (GR)

1.1 The Governor of the Bank of Greece brings the following measures into force:
- The commercial banks are authorized to determine interest rates for working capital to industry, and are no longer required to charge the compulsory minimum of 21 %. This means that the interest rate on four-fifths of the lending to the private sector is now freely determined.
- The proportion of their high-interest deposits which commercial banks are required to lodge with the Bank of Greece is cut from 20 % to 18 %.
- The discount rate is cut from 20,5 % to 19 %; this will make it easier for the commercial banks to obtain finance from the Bank of Greece when they are short of liquidity.
- The interest rate applicable to the 10 % of commercial banks' deposit earmarked for industry goes up from 8,5 % to 12,5 %.
- The Agricultural Bank's financing balances are merged into a single account at an interest rate of 19 %. This will help to rationalise the use of these resources.
- The Agricultural Bank's compulsory deposits with the Bank of Greece are increased from 2 % to 3 %.
- The interest rate payable on the first 4,5 % of banks' compulsory deposits with the Bank of Greece is cut from 14 % to 12,5 %; there is still no interest payable on the remaining 3 %.

8.1 The basis for the wage indexation of central government employees for the first four months of 1988 is set at 8,5 %. This rate allows for an anticipated inflation rate of 4 % for the four months and a further 4,3 % to make up for the difference between actual inflation in 1987 and the inflation forecast on which wage indexation for 1987 was based.

Spain (E)

21.1 The Government adopts a plan to provide vocational training for 500 000 persons, chiefly young first-time job-seekers and the long-term unemployed. Some PTA 110 000 million is earmarked for this plan which will pay firms PTA 120 000 for each job created for a period of between six and twelve months, and PTA 240 000 for each two-year contract.

25.1 The Bank of Spain reduces the interest rate on its loans to financial institutions by one point to 12,5 %.

France (F)

5.1 The Bank of France lowers its key rates by one quarter of a point. The rate for tenders is cut from 7 3 4 % to 7 1 2 % and the rate for seven-day sale and repurchase agreements from 8 1 4 % to 8 %.

25.1 The Bank of France again lowers its intervention rates by one quarter of a point: the rate for tenders is reduced from 7 1 2 % to 7 1 4 % and the rate for seven-day sale and repurchase agreements from 8 % to 7 3 4 %.

Ireland (IRL)

27.1 The Minister for Finance announces the Government's Budget for 1988. The Budget continues the policy of budgetary adjustment and aims to reduce the Exchequer Borrowing Requirement by about another 2,0 % in terms of GDP. The adjustment is to be achieved almost entirely by cuts in public expenditure, which were announced last October and had already been approved by Parliament before Christmas. The Budget, therefore, was primarily concerned with tax measures. The main changes contained in the Budget are (i) adjustments to income tax rates and bands, (ii) extension of social insurance contributions to farmers and the self-employed, (iii) increased excise duty on gasoline, diesel fuel and tobacco, (iv) adjustments to corporation and capital taxes, (v) a 'once-off' tax on pension funds, (vi) the introduction of value-added tax on electricity. There were a number of minor revisions to the expenditure provisions in the area of tourism and education and social welfare benefits were increased in line with inflation (although the lowest rates of benefit were increased by a greater amount). With the main expenditure provisions already established, the Budget was broadly as expected. If budgetary targets for the year are achieved the EBR will have been reduced from 11,7 % of GDP in 1986 to 7,2 % of GDP in 1988. The economic forecast accompanying the Budget expects real GDP growth of 3 4 % in 1988 after a rise of over 3 1 2 % in 1987.

Italy (I)

20.1 The Minister for the Treasury and the Minister for Foreign Trade decree the lifting, two months early, of the foreign exchange restrictions which were introduced on 13 September 1987. Importers are no longer required to finance 100 % of anticipated settlements and exporters 75 % of delayed settlements in foreign currency. However, the quantitative ceiling on bank lending remains in force.

Luxembourg (L)

None.

Netherlands (NL)

19.1 In a letter addressed to Parliament, the Government announces measures to tighten budget discipline. Everything must be done to avoid overspending; when it does occur it must be indicated quickly and reported clearly and where it is considered inevitable adequate offsetting measures must be taken.

21.1 The Nederlandsche Bank (central bank) cuts the discount rate and the rate for advances by 0,25 of a point to 3,25 % and 3,75 % respectively.

Portugal (P)

None.

United Kingdom (UK)

19.1 The Government published its annual White Paper on Public Expenditure setting out in specific detail the public expenditure plans for financial years 1988/89 to 1990/91, which had been already announced in the Chancellor's Autumn Statement last November. The public expenditure planning totals have been set at UKL 156,8 billion for 1988/89, UKL 167,1 billion for 1989/90 and UKL 176,1 billion for 1990/91. Compared with last year's White Paper, extra resources have been allocated to the Government's priority services, including health, education, law and order, defence and inner cities. Provision for social security and local authority current spending has also been increased. Extra provision of about UKL 1 1/2 billion in 1988-1989 and 1989-1990 has been made for capital spending, including increases for the nationalised industries and for housing and education.

Prices (excluding VAT) in Luxembourg

	ECU	BFR	IRL	UKL	USD	
'European Economy' (4 issues per year)	58	2 500	45	40	69	The annual subscription runs from 1 January to 31 December of each year.
Supplements						
Series A — 'Economic trends' (11 issues per year)	23,50	1 000	18	16,50	28	Payments to be made only to the agents in the countries listed on page 3 of the cover of European Economy.
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