

EUROPEAN ECONOMY

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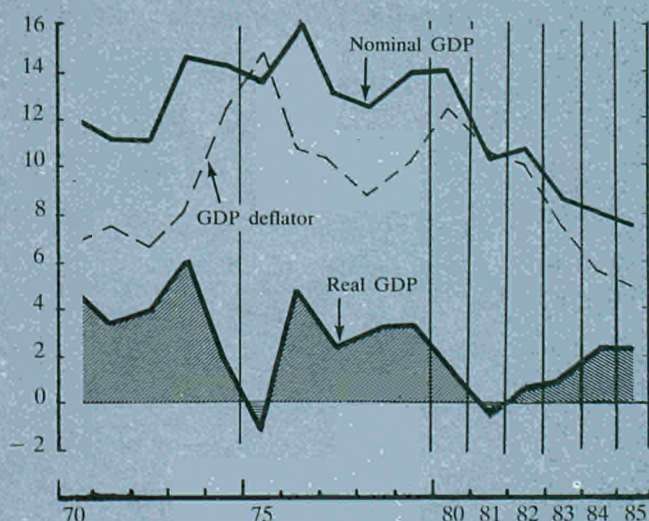
In this number :

Recent economic trends

Economic forecasts for 1984 and 1985¹

- The principal features of the Commission's new economic forecast are as follows for the Community as a whole :
- GDP growth at constant prices last year was slightly stronger than expected (2,4 % instead of 2,2 % in the October forecast) and the forecast for 1985 is also revised marginally upwards (2,4 % instead of 2,3 %).
 - Inflation, as expressed in the price deflator of private consumption, fell from 7,6 % in 1983 to 6,1 % last year, and should decelerate further to 5,1 % in 1985.
 - GDP at current prices rose by an estimated 8,1 % in 1984, and is expected to increase by 7,5 % this year.
 - In 1984, output was stimulated by strong export demand and a recovery in investment, both in fixed capital and in stocks : in 1985, growth is forecast to continue at the same rate, with somewhat stronger private consumption offsetting a slower growth of exports.
 - A modest recovery in employment is forecast for 1985. Unemployment is stabilising, but the yearly average figures will still show a slight rise in 1985 over 1984 (11,2 % and 10,9 % respectively).
 - The balance of payments on current account with the rest of the world recorded a surplus estimated at USD 1 billion in 1984, which should increase to USD 7,4 billion in 1985.
 - The general government borrowing requirement is forecast, on the basis of unchanged policies, to fall from 5,5 % of GDP in 1984 to 5,0 % in 1985.

GRAPH 1 : Nominal GDP, deflator of GDP, real GDP
(percentage change on preceding year, EC, 1970-1985)¹



¹ 1984 : estimate 1985 : forecast.
Source : Commission services.

The international economic environment. — World economic activity received a major stimulus in 1984 from the rapid expansion of the United States' economy. However, the sharper than expected deceleration in the second half of the year prompted the Federal Reserve Board to ease monetary conditions, and interest rates fell significantly. This should eventually lead to a strengthening of residential investment and of private consumption in the US economy in 1985, resulting in real GNP growth of 3,5 % (Table 1).

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

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

¹ Forecasts.
Source : Commission services.

¹ The following text summarizes the results of the Commission's Winter forecasting round. The cut-off date for information used in the forecasts was 31 January 1985. The previous forecast for 1984 and 1985 was summarized in Supplement A, N° 10 October.

Economic activity in other OECD countries outside the Community was more buoyant in 1984 than previously expected. Japan and Canada, in particular, benefited from the strong US demand for imports. The heavily-indebted non-OPEC developing countries showed increasing signs of recovery, and the rapidly industrialising Pacific Basin countries recorded GNP growth close to 8%. However, the economies of OPEC countries continued to suffer from the stagnant world demand for oil. In 1985, economic expansion is expected to continue in all these groups of countries (except possibly in OPEC member-States) but at a somewhat slower pace. The growth of world trade including the Community is forecast to fall from 9,5% in 1984 to 5,6% this year, reflecting in particular the sharp deceleration in US import growth (Table 2).

TABLE 2: World imports (at constant prices)

	Percentage change on preceding year					
	1980	1981	1982	1983	1984	1985 ¹
EC	1,9	-2,9	2,4	2,2	6,8	4,7
USA	-6,0	2,5	-5,0	11,8	30,1	8,5
Canada	-5,7	2,8	-16,0	14,0	21,8	6,1
Japan	-5,0	-2,2	-0,5	0,3	11,8	6,5
Other OECD	5,3	-0,2	1,1	-0,1	7,1	5,4
OECD total	-0,1	-1,2	-0,4	4,1	13,0	6,0
OPEC	10,5	27,4	5,5	-8,2	-5,7	4,0
Other developing countries	6,7	4,3	-6,1	-0,3	6,1	6,1
Other countries	4,0	1,7	-2,0	2,6	3,7	3,8
World	1,9	1,8	-1,0	2,2	9,5	5,6

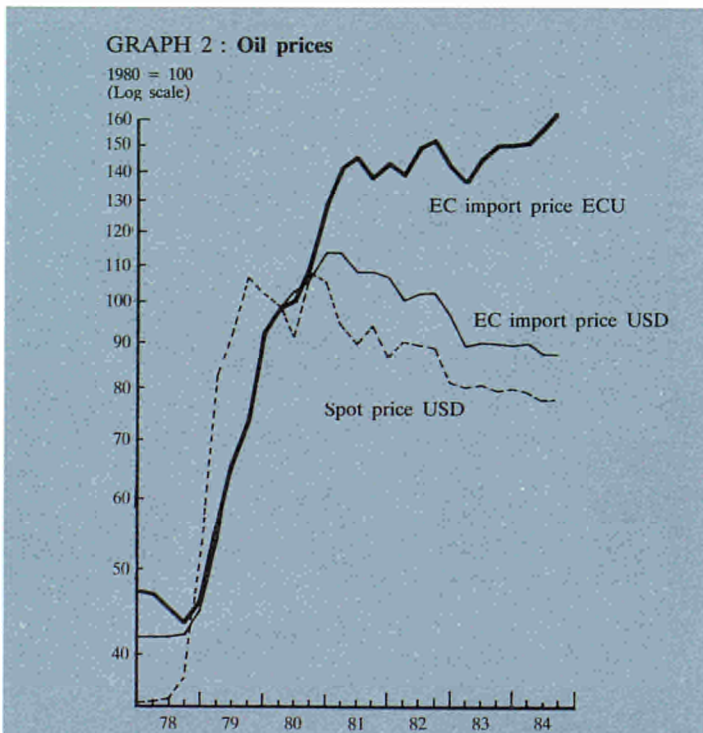
¹ Forecasts.
Source: Commission services.

Oil demand and prices remained weak in 1984 despite the general strengthening of economic activity. The recent agreement by OPEC members to adjust price differentials should result in a modest fall of about 2% in the average dollar price of oil for 1985. After last year's decline in the prices of non-oil primary commodities, some moderate hardening of prices is forecast reflecting the renewed expansion foreseen for the U.S. economy and the expected decline of the dollar (Table 3).

TABLE 3: World export prices¹

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

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



Despite lower US interest rates, the US dollar has remained strong. Nevertheless, a gradual weakening during 1985 of the US dollar against all Community currencies, except the drachma, is assumed. However, on a yearly average comparison, there remains a significant appreciation of the US dollar (Table 4).

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	9,6	7,7
— long-term ²	10,8	12,9	12,2	10,8	12,1	10,6
Change on preceding year (%)						
Exchange rate of USD						
— vis-à-vis ECU ³	-1,6	+24,7	+13,7	+10,1	+12,9	+7,3
— vis-à-vis DM ³	-0,6	+23,9	+7,5	+5,2	+11,3	+6,1

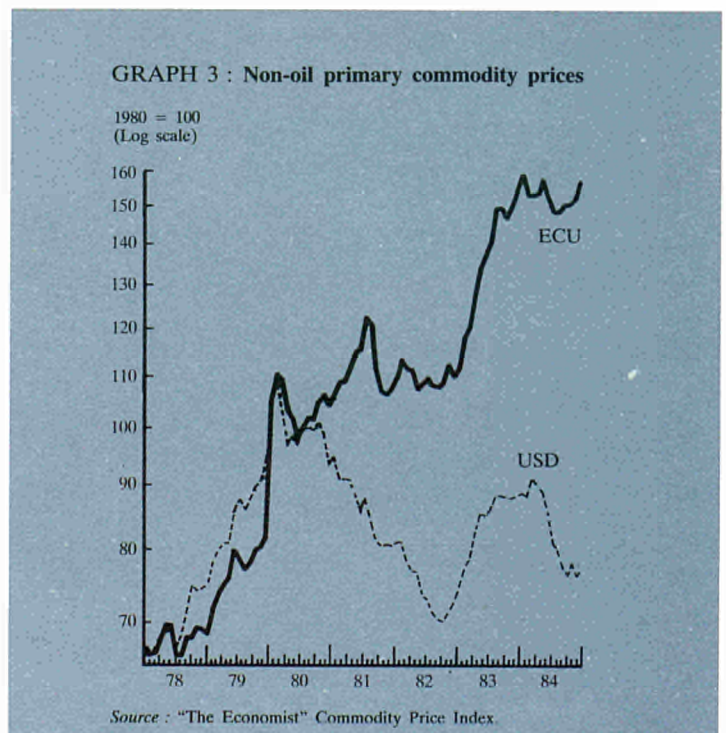
¹ 13-week US Treasury bills.
² US bonds over 10 years.
³ + (-) signifies an appreciating (depreciating) USD.
Source: Services of the Commission.

GDP growth in the Community. — Although real growth of GDP in the Community last year (2,4%) proved to be slightly more dynamic than previously forecast, no further acceleration is likely this year (Table 5). Growth should arise from the strengthening of fixed investment, especially in equipment, and of private consumption. The weaker expansion of world trade will result in somewhat less buoyant exports, but the rate of growth of imports will decelerate even more reflecting the changed composition of total demand.

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	1985 ¹
B	2,6	3,5	-1,3	1,1	0,4	1,7	1,3
DK	2,0	-0,4	-0,9	3,0	2,0	4,3	3,0
D	2,5	2,0	0,1	-0,9	1,0	2,6	2,7
GR	3,9	1,8	-0,3	-0,1	0,3	2,4	2,0
F	3,1	1,1	0,2	2,0	0,7	2,0	1,4
IRL	4,5	3,3	2,9	1,9	0,6	3,7	3,0
I	3,0	3,9	0,2	-0,4	-1,2	3,0	2,5
L	2,5	1,7	-1,8	-1,1	1,9	2,4	2,0
NL	2,9	0,9	-0,8	-1,7	0,6	2,0	1,8
UK	1,5	-2,2	-1,1	1,9	3,4	1,8	3,2
EC	2,6	1,2	-0,2	0,5	1,0	2,4	2,4
USA	3,0	-0,4	3,4	-3,0	3,7	6,8	3,5
JAP	4,8	4,9	4,2	3,0	2,9	5,6	4,3

¹ Forecasts.
Source: Commission services.



Source: "The Economist" Commodity Price Index.

Last year, the rates of growth of real GDP for individual Member States ranged from 1,7 % in Belgium to 4,3 % in Denmark. For 1985, the forecast points to increased convergence and only three countries (Belgium, France and the Netherlands) are expected to show growth rates of less than 2 %.

Inflation. — further progress was made last year in reducing the rate of inflation of the Community (Table 6), and the average rate of increase of the deflator of private consumption fell by 1,5 percentage points to 6,1 %. This decline was attributable to a marked weakening of domestic cost pressures. An increase in average employee compensation which was 2 percentage points less than in 1983, combined with a greater improvement in productivity, resulted in a significant reduction in the rate of growth of unit labour costs, from 7,1 % in 1983 to 4,5 % last year (Table 7). However, this favourable effect was diminished by a faster rate of increase of import prices, to which the appreciation of the dollar contributed. The average price of imports of goods by the Community in 1984 fell by 4,8 % in dollar terms but increased by 7,5 % in ECU terms. This inflationary pressure from imports is expected to abate in 1985 and, together with a small additional deceleration in unit labour cost should ensure a further fall of around 1 percentage point in the rate of inflation.

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	1985 ¹
B	7,4	6,6	8,5	7,5	6,8	6,3	5,1
DK	10,4	10,7	12,0	11,0	7,2	6,1	4,4
D	5,2	5,5	6,0	4,8	2,9	2,6	2,1
GR	15,6	21,4	23,2	21,1	19,0	18,4	17,5
F	10,1	13,2	12,8	11,2	9,4	7,2	5,9
IRL	15,3	17,0	19,5	16,0	9,7	8,3	6,0
I	16,3	20,2	19,2	17,1	15,1	10,7	8,1
L	7,0	7,7	7,7	9,7	9,1	6,7	4,5
NL	7,5	6,9	6,3	5,4	3,0	3,0	1,6
UK	13,6	16,4	11,2	8,3	5,1	4,6	5,2
EC	10,6	12,8	11,7	9,8	7,6	6,1	5,1
USA	7,3	10,3	8,3	5,9	3,7	3,2	3,5
JAP	8,4	6,8	4,8	2,8	1,5	2,6	2,9

¹ Forecasts.
Source: Commission services.

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	1985 ¹
Deflator of GDP	10,5	12,6	10,6	10,1	7,6	5,6	5,0
Deflator of imports (goods and services)	11,7	13,6	15,5	7,8	4,4	8,5	5,9
Unit labour costs (whole economy)	10,4	11,8	9,9	7,7	7,1	4,5	4,3

¹ Forecasts.
Source: Commission services.

Nominal GDP. — This weakening of inflationary pressures in the Community as a whole will also be reflected in the price deflator for GDP, and as the rate of growth of real GDP in 1985 will be unchanged from 1984, the rate of growth of GDP at current prices will decelerate once again (Table 8 and Graph 1).

Components of demand — Last year, the growth of real disposable income reached 1,2 % as inflation continued to slow down. *Private consumption* increased, in volume, at almost the same rate (Table 9). In 1985, total disposable income will grow somewhat more slowly as a result of a smaller increase in other non-wage income and a further increase in direct tax rates. Nevertheless, with the continued progress expected in reducing inflation, real disposable income should grow by 1,6 %. This should lead to stronger real private consumption and also permit a slight increase in the savings ratio. At the national level, those Member States in which private consumption grew rapidly in 1984 (Denmark, Greece, Italy and the United Kingdom) will experience a modest deceleration, but this will be more than offset by an acceleration in most other countries.

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	1985 ¹
B	9,9	7,5	3,9	8,3	6,2	7,1	6,4
DK	12,1	7,8	9,1	14,6	10,3	10,3	7,2
D	7,5	6,4	4,2	3,6	4,2	4,5	4,9
GR	19,9	19,7	18,9	24,4	20,1	21,0	19,9
F	13,5	13,4	12,4	14,7	10,5	9,1	7,1
IRL	19,6	17,9	20,5	17,5	11,1	10,5	8,9
I	19,3	25,4	18,5	17,4	13,7	13,8	10,6
L	9,9	9,6	5,9	7,4	8,4	8,4	7,0
NL	10,5	6,6	4,8	4,2	2,4	5,1	3,3
UK	16,0	17,2	10,4	9,1	8,7	5,6	8,4
EC	13,4	14,0	10,4	10,6	8,7	8,1	7,5
USA	10,6	9,1	12,6	3,8	7,6	10,7	7,3
JAP	12,1	7,9	7,1	4,8	3,6	6,0	6,4

¹ Forecasts.
Source: Commission services.

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

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.

Measures to reduce public sector deficits are reflected in a marked reduction in the rate of growth of *real government consumption*, which declined from 1,7 % in 1983 to 1,1 % last year. Even though no further deceleration is foreseen in 1985, government consumption will account for a declining share of real GDP in the Community on average, and in all individual Member States except Greece.

Although a recovery in *fixed investment* is now clearly underway, its overall growth in 1984 at the Community level was weaker than investment surveys had suggested for manufacturing industry alone. Investment in equipment grew most strongly and the acceleration was particularly marked in Belgium (+ 12,0 %) and in Denmark (+ 14,3 %). The positive, but the weak growth of construction investment in the Community as a whole was largely due to the performance of Denmark (+ 11,0 %) and the United Kingdom (+ 7,7 %), which more than offset the contractions in four other Member States. A modest acceleration in investment growth is foreseen in 1985, due to a marked strengthening of investment in equipment. Construction investment, which will show little growth, is being adversely affected by the termination of fiscal incentives in a number of Member States. The rebuilding of *stocks* which normally accompanies the recovery phase of a cycle was re-inforced, last year, by an accumulation in some Member States of agricultural produce after an exceptionally prolific harvest. This is unlikely to recur in 1985 and stockbuilding should provide only a small positive contribution to GDP growth.

The buoyancy of world trade stimulated Community exports of goods and services last year. However, the Community lost market share despite the further improvement in its competitive position. In the current year, total exports are forecast to grow by 5,7 %, in line with the expected expansion of world trade. Imports of goods and services for the Community as a whole in 1984 were adversely affected by the exceptional increase in imports by the United Kingdom to offset the loss of coal output. The effect of this factor is assumed to disappear in the first half of the current year and the growth of Community imports should decelerate to about 4,5 %.

Balance of payments. — The improvement in the Community's external payments position, underway since 1980, came to a perhaps temporary halt in the course of 1984, and its trade surplus (fob/fob) fell from USD 9 billion in 1983 to USD 8 billion. Several factors were responsible for this lack of progress including the inability of exporters to maintain their share of world markets, the rapid growth of imports of which part reflected deficiencies in domestic supply and the deterioration in the terms of trade. Some attenuation of all of these factors is expected in the current year, and the aggregate trade surplus for the Community should increase markedly to almost USD 15 billion (0,6 % of GDP). The Community's deficit on invisible transactions diminished, in 1984, by more than USD 1 billion to an estimated USD 7 billion, but is expected to show a renewed moderate deterioration this year. When combined with the surplus on the trade account, the result for last year was a small surplus on current transactions of USD 1 billion which is expected to increase, in 1985, to USD 7 billions (0,3 % of GDP) (Table 10).

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

	1972-81	1980	1981	1982	1983	1984	1985 ¹
B	-0,8	-4,5	-4,5	-3,5	-0,9	-0,6	0,5
DK	-3,0	-3,7	-3,0	-4,1	-2,1	-3,1	-2,3
D	0,5	-1,8	-0,8	0,6	0,7	1,0	1,5
GR	-2,0	0,3	-0,2	-3,9	-4,5	-4,2	-4,8
F	-0,6	-1,4	-1,4	-3,0	-1,6	-0,8	-0,7
IRL	-7,6	-12,0	-15,1	-10,9	-5,9	-4,9	-3,6
I	-0,6	-2,5	-2,3	-1,6	0,1	-0,7	-0,7
L	23,8	22,6	28,1	35,3	38,5	38,1	36,8
NL	1,5	-1,5	2,1	2,8	2,8	3,8	4,5
UK	-0,5	1,8	2,7	1,7	0,8	0,1	0,1
EC	-0,2	-1,3	-0,5	-0,6	0,0	0,1	0,3
USA	0,1	0,2	0,2	-0,2	-1,3	-2,9	-3,7
JAP	0,4	-1,1	0,5	0,7	1,9	2,8	3,0

¹ Forecasts.
Source: Commission services.

Labour markets. — The quickening of economic activity last year had some relatively favourable impact on the labour market. In 1984 as a whole the number of persons employed stabilised, after three years of declining employment levels. In 1985 employment in the EC is, on average, expected to rise slightly (0,2 %). This gain is likely to be concentrated in the services sector, and will include a net increase in the number of self-employed. Manufacturing industry, on the other hand, is expected to experience a further, albeit slower, loss of employment.

This improved trend in total employment is not expected to prevent a further rise in unemployment (Table 11) as it will be

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

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

¹ Forecasts.
Source: Commission services.

insufficient to fully absorb the continued expansion of the labour force. Unemployment in the Community is forecast to average 11,2 % of the civilian labour force in 1985 compared to 10,9 % last year. However, unemployment is expected to decline, or at least to remain stable, in 1985 in Germany, the Netherlands, Denmark and Luxembourg.

Wages. — The rate of increase in average employee compensation in the Community decelerated by a further two percentage points in 1984 to reach 6,9 %, less than half the recent peak rate of 1980. A further moderate deceleration is forecast, at the Community level, during 1985, but given the sharper deceleration expected in the rate of price inflation, the real value of compensation per employee should increase by 1,3 % in 1985 compared to 0,8 % last year.

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

	1972-81	1980	1981	1982	1983	1984	1985 ¹
B	11,5	8,8	7,7	7,9	7,1	6,8	6,1
DK	11,4	10,8	9,2	11,5	6,4	5,5	4,6
D	7,8	6,8	5,2	4,3	3,7	3,2	3,2
GR	19,8	14,4	24,8	27,2	21,3	21,2	19,6
F	14,1	14,9	14,2	14,1	10,8	8,3	6,3
IRL	18,7	21,5	17,0	14,4	10,5	9,9	6,6
I	19,3	22,5	21,9	17,0	16,1	12,7	10,4
L	10,4	7,8	7,8	6,9	6,8	7,0	4,9
NL	9,9	5,4	3,6	5,7	3,4	-0,2	1,1
UK	16,1	19,1	13,5	8,8	8,3	5,9	8,0
EC	12,6	14,3	12,6	10,6	8,9	6,9	6,5

¹ Forecasts.
Source: Commission services.

After taking account of productivity gains of 2,4 % in 1984 and a forecast 2,1 % in 1985, the slower rate of increase in average employee compensation should contribute to moderating further the growth of unit labour costs. For the Community, the average rise in unit labour costs declined from 7,1 % in 1983 to 4,5 % in 1984, and should decelerate further to 4,3 % this year.

Government Finance. — The forecasts, prepared on the general assumption of unchanged policies, indicate that the measures introduced in various Member States to halt the deterioration of public finances have started to yield results, but that progress will not be as quick as previously expected. The rate of growth of general government current expenditure is expected to decline from 8,2 % in 1984 to 6,8 % in 1985, the latter figure being well below the expected increase in nominal GDP. Contributing to this deceleration will be sharp reductions in the rate of growth of transfers to the enterprise sector, and of interest payments, although the latter is forecast to remain the fastest growing item of current expenditure (+ 15,3 % in 1984; + 9,1 % in 1985).

As the differential between the rates of growth of current revenue and current expenditure is expected to increase significantly, from 0,1 % last year to 1,8 % in 1985, a reduction in the aggregate general government current deficit of the Community is foreseen, both in absolute terms and as a proportion of GDP (from 1,4 % in 1984 to 1,0 % in 1985). After taking account of capital expenditure which, as in previous years, is expected to increase more slowly than current revenue, the general government borrowing requirement, as a percentage of GDP, is forecast to fall by one-half percentage point in 1985 (Table 13).

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

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

¹ Forecasts.
Source: Commission services.

Money Supply. — Last year the average growth rate of money supply in the Community (based on broad definitions : M2 or M3) decelerated significantly from 10,0 % at end-1983 to 8,1 % at end-1984. A further slowdown, to 6,7 % is forecast for 1985 (Table 14). When related to the growth of nominal GDP, these figures imply a stance of monetary policy which is becoming steadily less accommodating.

15 February 1985

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	1985 ¹
B	12,1	6,5	10,0	7,5	7,0	7,0	6,8
DK	11,8	8,1	9,1	11,4	25,5	14,8	10,3
D	8,9	6,2	5,0	7,1	5,3	4,7	4,0
GR	23,6	24,7	34,7	29,0	20,3	27,3	23,8
F	14,2	8,4	11,4	10,8	11,2	6,0	5,0
IRL	19,3	17,7	17,4	13,0	5,6	12,5	10,4
I	20,7	17,3	15,9	17,2	13,2	12,0	10,8
L	—	—	—	—	—	—	—
NL	10,4	4,4	5,3	7,6	10,5	7,0	6,0
UK	14,5	18,5	13,7	8,9	10,3	9,4	7,0
EC	14,0	10,8	9,6	9,7	10,0	8,1	6,7
USA	9,7	8,9	10,1	9,2	11,5	—	—
JAP	18,7	7,2	11,0	7,9	7,3	—	—

¹ Forecasts.

Source: Commission services.

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

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

¹ Change as percentage of GDP of preceding period.² Forecasts.

Source: Commission services.

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

		1972-81	1982	1983	1984	1985 ¹
B³	Private consumption	3,2	0,7	-1,0	-0,9	-0,8
	Government consumption	3,6	-1,2	0,2	0,4	-0,2
	Fixed capital formation	0,6	-0,9	-6,4	4,9	3,4
	Exports of goods and services	5,1	3,1	0	6,7	4,2
	Imports of goods and services	5,1	1,1	-3,0	5,3	2,6
	GDP	2,6	1,1	0,4	1,7	1,3
DK³	Private consumption	1,5	1,5	1,7	2,9	1,7
	Government consumption	4,1	2,8	0	0,1	0,6
	Fixed capital formation	-2,8	5,4	3,2	12,4	10,8
	Exports of goods and services	4,9	2,6	3,4	3,6	5,3
	Imports of goods and services	2,2	2,9	0,7	5,4	4,0
	GDP	2,0	3,0	2,0	4,3	3,0
D⁴	Private consumption	3,0	-1,4	1,1	0,8	1,8
	Government consumption	2,1	-0,9	0	1,9	1,0
	Fixed capital formation	0,6	-4,7	3,1	1,3	3,3
	Exports of goods and services	6,5	4,2	1,2	7,6	6,7
	Imports of goods and services	5,5	1,0	1,9	5,6	5,0
	GDP	2,5	-0,9	1,0	2,6	2,7
GR²	Private consumption	3,7	2,0	0	2,1	1,4
	Government consumption	6,4	1,9	2,4	3,0	3,5
	Fixed capital formation	0,6	-1,5	-1,4	-1,7	1,8
	Exports of goods and services	13,1	-9,0	16,6	11,1	6,0
	Imports of goods and services	6,0	5,1	3,3	4,5	4,0
	GDP	3,9	-0,1	0,3	2,4	2,0
F²	Private consumption	3,8	3,2	1,1	0,5	0,9
	Government consumption	2,9	2,5	1,8	0,7	0,6
	Fixed capital formation	2,0	-0,6	-2,1	-1,7	1,0
	Exports of goods and services	8,0	-1,7	4,0	5,6	3,6
	Imports of goods and services	8,2	5,8	-1,0	2,0	2,5
	GDP	3,1	2,0	0,7	2,0	1,4
IRL³	Private consumption	3,4	-4,9	-3,5	0,8	1,3
	Government consumption	5,7	4,0	0	-1,0	1,1
	Fixed capital formation	5,6	-6,2	-7,7	-1,4	0,6
	Exports of goods and services	8,3	5,5	10,6	14,9	9,4
	Imports of goods and services	6,7	-3,1	3,9	8,3	6,6
	GDP	4,5	1,9	0,6	3,7	3,0
I²	Private consumption	2,6	0,2	-0,6	1,9	1,9
	Government consumption	2,8	2,3	2,8	2,1	1,5
	Fixed capital formation	1,5	-5,2	-5,2	1,9	3,4
	Exports of goods and services	7,7	1,6	3,8	6,2	6,7
	Imports of goods and services	5,4	2,1	1,1	7,1	5,6
	GDP	3,0	-0,4	-1,2	3,0	2,5
L³	Private consumption	3,7	-1,6	-1,5	-1,2	1,0
	Government consumption	3,7	0,3	0	-0,7	-0,3
	Fixed capital formation	-0,1	-2,2	-7,5	-1,4	1,1
	Exports of goods and services	2,9	0,2	4,2	10,4	4,0
	Imports of goods and services	3,2	-0,9	0,2	6,4	2,8
	GDP	2,5	-1,1	1,9	2,4	2,0
NL⁵	Private consumption	3,5	-1,3	-0,2	0	1,5
	Government consumption	2,5	0,2	1,0	-1,1	0,6
	Fixed capital formation	-0,5	-4,2	1,1	3,6	1,8
	Exports of goods and services	4,3	-0,2	4,7	5,5	4,2
	Imports of goods and services	2,9	0,7	4,8	5,2	3,2
	GDP	2,9	-1,7	0,6	2,0	1,8
UK⁵	Private consumption	1,8	1,0	4,3	2,1	2,0
	Government consumption	2,1	0,9	2,9	0,7	1,4
	Fixed capital formation	-0,7	6,7	4,0	6,9	4,1
	Exports of goods and services	3,3	1,0	1,1	7,4	6,4
	Imports of goods and services	2,4	4,0	5,6	8,9	5,4
	GDP	1,5	1,9	3,4	1,8	3,2

¹ Forecasts.² 1970 prices.³ 1975 prices.⁴ 1976 prices.⁵ 1980 prices.

Source: Commission services.

Principal economic policy measures — January 1985

Community

14.1 In a speech to the plenary session of the European Parliament, President Jacques Delors presented the guidelines of the new Commission.

Belgium (B)

22.1 Parliament adopted the social chapter of the Government's draft law for economic recovery.

Denmark (DK)

None.

Federal Republic of Germany (FRG)

31.1 The Central Council of the Bundesbank (Zentralbankrat) decided to raise the Lombard rate from 5,5 % to 6 % with effect from February 1985; the discount rate remained unchanged.

Greece (GR)

10.1 The plan to grant subsidies to private undertakings recruiting unemployed persons was introduced in practice in January 1985. The subsidies range from DRA 600 to DRA 1 100 a day, for each worker, and vary with the activity of the firm (services sector, industrial sector, exporting sector, new technology) and the worker recruited (repatriated immigrant, handicapped person).

16.1 The Minister for Commerce announced that, pursuant to the Government's policy aim of limiting inflation to 16 % in 1985, price increases in excess of 15 % by private firms would be authorized only in exceptional cases.

19.1 After wage negotiations, employers and unions agreed to a daily wage of DRA 1 422 for blue-collar workers and a monthly wage of DRA 31 932 for white-collar workers, representing increases of 18,3 % and 18,2 % respectively in relation to 1 January 1984. In line with the policy on public sector pay, these wages will be adapted to the increase in consumer prices on 1 May and 1 September.

France (F)

22.1 The industrial modernization fund (FIM) will receive an endowment of FF 8 000 million this year: with the carry-over of amounts not used last year, FF 1 500 million of the total amount devoted to conversion, the FIM will have FF 9 500 million at its disposal in 1985, most of which will probably go to small and medium-sized firms, since they received little more than half the FF 10 000 million distributed last year.

24.1 The Government adopted a five-point plan to support the building industry:

1. Home purchasing and improvement:

- rates on home purchasing loans (PAP: *prêts d'accèsion à la propriété*) will be reduced by 0,5 % point from 1 February, to 10,17 %;
- the ceiling on tax deductions for interest on loans contracted to purchase a main residence will rise from FF 9 000 to FF 12 000 per family, and from FF 1 200 to FF 2 000 per dependant;
- building loans to holders of home purchasers' savings accounts (PEL: *prêts d'épargne logement*) will also be granted for the purchase of secondary residences,

although not to savers who have already received a PEL for the purchase of their main residence.

2. Energy conservation: the ceiling on tax allowances to set against the cost of work to conserve energy will be raised from FF 8 000 to FF 12 000, plus FF 2 000 per dependant.
3. Rented accommodation: a programme for a further 10 000 lowcost rented homes was launched, to bring the total number of homes in this category to 80 000 in 1985. Moreover, a further 20 000 homes at moderate rent (HLM: *habitations à loyer modéré*) will be renovated in 1985, as well as the 140 000 renovations already planned.
4. Public works: to support public works activity, a further FF 700 million has been released immediately from the fourth tranche of the special fund for major works (FSGT: *Fonds spécial de grands travaux*) in addition to the amount of FF 4 500 million allocated in 1984.
5. Building and public works undertaking: concertation is planned between the trade and the authorities to reduce the time needed for setting public contracts and to speed up the issuing of building permits.

Ireland (IRL)

30.1 The main feature of the Budget 1985 announced by the Minister for Finance are: — the targets for the Current Budget Deficit (CBD) and Exchequer Borrowing Requirement (EBR) are 7,9 % and 13 % of GNP respectively; the outturns for 1984 were 7,1 % and 12,5 %, — total current expenditure is planned to rise by 9,2 %. Capital expenditure by the Exchequer will fall by about 6 % in real terms, — total current revenue is planned to rise by 7,5 %.

Italy (I)

4.1 The discount rate was reduced from 16,5 % to 15,5 %.

Luxembourg (L)

1.1 The Luxembourg Monetary Institute gave banks five years to adjust their lending so as to limit the volume of credit to any one borrower (or group of economically associated borrowers) to a maximum of 30 % of their own capital. The Institute has imposed a procedure in two stages: with some exceptions, a ceiling of 50 % of own capital will be applied to the volume of credit granted by a bank to any one borrower from 1 January 1988, with the 30 % ceiling to be introduced on 1 January 1990.

Netherlands (NL)

1.1 In a letter to Parliament, the Minister for Economic Affairs proposed to maintain in 1985 the policy of price freedom applied in 1984.

United Kingdom (UK)

22.1 The Government published the White Paper «The Government's Expenditure Plans, 1985-1986 to 1987-1988», giving its revised spending plans for the next two years and first detailed plans for 1987-1988. The public expenditure planning total in 1985-1986 amounts to UK £ 132 100 million, unchanged from the plans in the 1984 White Paper and some 3,1 % higher than the estimated outcome in 1984-1985. Spending is planned to increase by 3,5 % in each of the following two years.

Prices (excluding VAT) in Luxembourg

	ECU	BFR	IRL	UKL	USD	
„European Economy” (4 issues per year)	33.06	1 500	23.90	19.50	25.00	The annual subscription runs from 1 January to 31 December of each year.
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Series B — 'Business survey results' (11 issues per year)	14.10	640	10.20	8.50	10.50	
Complete series of supplements	24.24	1 100	17.50	14.50	18.00	These are surface mail rates; for air subscription rates please apply to the agents
Combined subscription — 'European Economy' and supplements	44.07	2 000	31.90	26.00	33.00	

