

EUROPEAN ECONOMY

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

Supplement A
Recent economic trends
No 4/5 – April-May 1990



*In this number:
Economic forecasts
for 1990 and 1991¹*

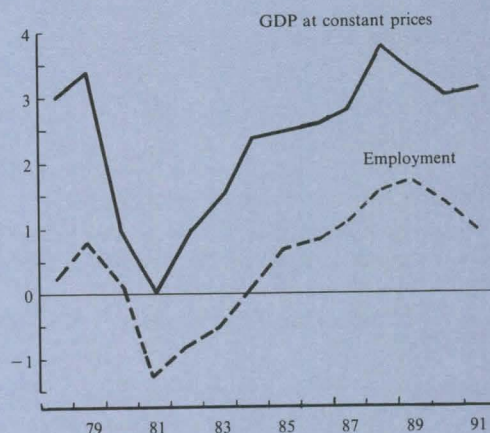
THE 1990/91 ECONOMIC SITUATION IN BRIEF.

The main features of the Commission services' spring economic forecasts are as follows:

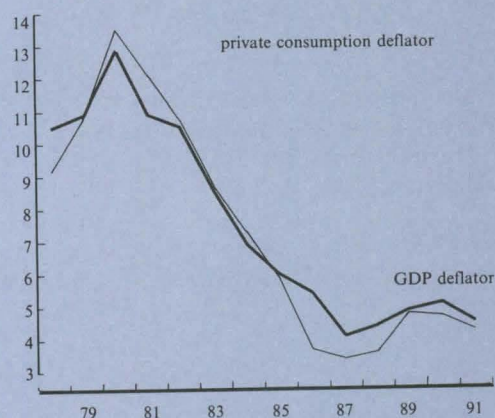
- *Economic growth in the Community continues at a rate of about 3 % in 1990 and 1991.*
- *Investment, which is expected to expand by 4 ½ % in 1990 and by 4 % in 1991, remains the fastest growing component of domestic demand, but the contributions of consumption - in 1990 - and exports - in 1991 - become relatively more important.*
- *Employment is expected to increase by 1.4 % this year and by 0.9 % in 1991 and unemployment should decline to 8 ¼ % next year.*
- *Inflation remains high in 1990 (4.7 %), but could decline somewhat next year.*
- *Budgetary consolidation marks time as general government borrowing as a percentage of GDP increases in 1990.*
- *The Community's external balance improves marginally.*
- *The uncertainties surrounding the outlook are now more important due to the difficulties of forecasting the consequences of developments in Germany.*

¹ This is a summary of the results of Commission services' spring forecasting exercise, based on data up to 2 May 1990. The earlier forecasts for 1989-90 were summarized in Supplement A, No 10, of October 1989.

GRAPH 1: GDP and employment growth in the Community, annual percentage growth rates



GRAPH 2: Inflation in the Community, annual percentage changes



The outlook for the Community economy remains positive. — Although growth is projected to moderate somewhat from the very high rates of 1988-89, output should increase in both 1990 and 1991 at a rate higher than the average for the 1980s. Inflation is expected to decline, although a complete reversal of the rise experienced during the last couple of years is unlikely even by 1991. Unemployment should continue to fall although at a slower pace than in the course of the last two years. Investment and exports are projected to remain fairly dynamic. On the whole, economic growth in most countries continues to display the same positive features of recent years, albeit in a less pronounced way.

On average, real output in the Community should grow at much the same rate in both 1990 and 1991: 3 % this year and 3.1 % next year. This is lower than the 3.8 % and 3.4 % recorded in 1988 and 1989 respectively, but it is still higher than the rates of growth experienced during the first five years of the present period of expansion.

Economic growth in the Community is shaped by different forces. On the one hand, the measures taken in certain countries to curb macroeconomic disequilibria, the progressive general tightening of monetary conditions throughout the industrialized world and the higher current exchange rate level of the European currencies are depressing demand. On the other hand, demand and supply are underpinned by the completion of the internal market, the transformation of the economies of Central and Eastern Europe and by the process of unification of the two German states. This last factor has a particularly strong influence on the short-term outlook. Even under the cautious assumptions made by the services of the Commission, exclusion of German unification, whose full impact will be felt only in 1992, would lower the forecast of economic growth in 1991 by more than a quarter of a percentage point.

A comparison of the present forecast for 1990 with that made last October shows that growth is now relatively more dependent on the expansion of consumption. Investment, both in equipment (particularly pronounced in the United Kingdom) and in construction, is weakening somewhat. Nevertheless, investment is expanding at a higher rate than GDP for the fifth consecutive year and the share of investment in the GDP in 1991, about 21 %, will be two points higher than the cyclical low of 19 % reached in 1986.

Employment is rising faster than had been predicted and is now projected to rise this year by 1.4 % following a record increase of 1.7 % in 1989. Unemployment continues to fall steadily and should reach a level of around 8.5 % of the civilian labour force.¹

The inflation forecast for this year has been revised upwards by a quarter of a point, to about 4.7 % (deflator of private consumption), much the same as in 1989. The current account of the Community, which was in equilibrium in 1989, is now projected to show a small surplus, 0.2 % of GDP, as in the previous forecast.

Next year, domestic demand in the Community is expected to increase by less than GDP for the first time since 1985. — *Real domestic demand* in the Community should grow by about 3 % in 1990. This represents a deceleration relative to the period 1986-1989 (4.2 % a year on average), but it is still well above the rate for the period 1983-1985. A similar deceleration in the rate of growth of domestic demand is being experienced by most of the industrialized world.

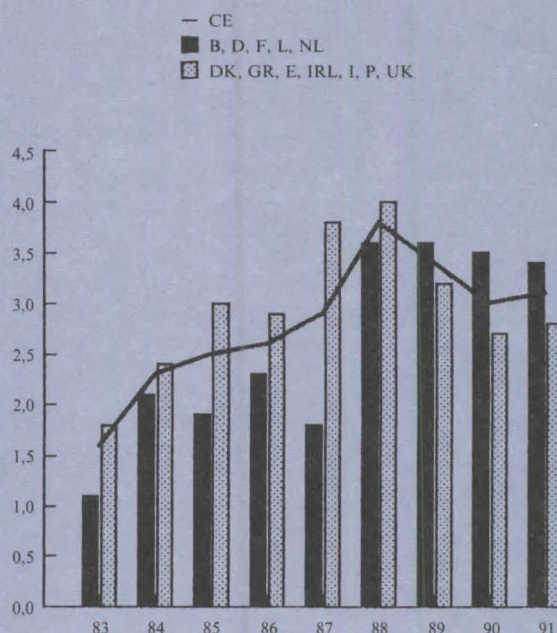
Gross fixed capital formation remains the fastest growing component of domestic demand, with a rise of 4.6 % projected in 1990. However, the contribution of consumption is becoming increasingly important, due to the stronger growth of both private and public consumption in 1990. In 1991, real domestic demand growth is expected to grow by 2.9 % as consumption and investment weaken somewhat.

Community exports to the rest of the world are forecast to increase by about 6 ¾ % in volume terms in 1990, after a rise of 7 % in 1989. On the usual technical assumption of exchange rate stability at present levels, the volume of exports to the rest of the world next year should increase even faster and reach some 7 ¾ %. This result is almost entirely explained by the expected large increase in the demand for Community exports coming from the countries in Central and Eastern Europe (essentially the GDR). On the other markets, the Community should experience a certain loss of market share given the currently higher level in the exchange rate of its currencies.

Extra-EC import volumes are not expected to maintain the very high growth rates of recent years given the weakening of domestic demand. In 1990, imports should grow by around 6 ¼ %, after an increase of 8 ½ % in 1989. For 1991, imports are expected to increase by 5 ¾ %.

Since 1985, the growth of domestic demand in the Community has been faster than that of domestic output and, correspondingly, imports have grown faster than exports. This implies that the variation of the external balance, in real terms, has made a 'negative' contribution to GDP growth. It is now expected that the negative contribution of the external sector to GDP growth will almost disappear in 1990 and that in 1991 net exports will be adding marginally to the rate of growth.

GRAPH 3: GDP in the Community, annual real percentage growth rates



⁽¹⁾ Unemployment according to the EC labour force survey which provides comparable unemployment rates for the member countries.

TABLE 1: Gross domestic product, volume (percentage change at constant prices on preceding year, 1961-91)*

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	4.9	2.1	1.5	0.4	2.1	0.9	1.6	1.9	4.3	4.5	3.0	2.5
DK	4.3	1.2	3.0	2.5	4.4	4.3	3.1	-0.7	-0.4	1.1	2.0	2.1
D	4.4	1.9	-0.6	1.5	2.8	2.0	2.3	1.8	3.7	3.4	3.7	3.7
GR	7.7	3.0	0.4	0.4	2.8	3.1	0.8	-0.1	4.0	2.9	1.6	1.6
E	7.2	1.8	1.2	1.8	1.8	2.3	3.3	5.5	5.0	4.9	3.8	3.6
F	5.4	2.5	2.5	0.7	1.3	1.9	2.3	1.9	3.5	3.5	3.2	3.2
IRL	4.4	4.5	2.3	-0.2	4.4	2.3	-0.3	4.9	3.7	5.7	4.6	3.4
I	5.3	3.4	0.3	1.1	3.0	2.6	2.5	3.0	3.9	3.2	3.1	2.8
L	4.0	1.0	1.1	3.0	6.2	2.9	4.4	2.8	4.3	4.6	3.7	3.2
NL	4.8	2.0	-1.4	1.4	3.1	2.6	2.0	1.1	2.7	4.0	3.5	3.1
P	6.9	2.9	2.1	-0.2	-1.9	2.8	4.1	5.3	3.9	5.4	4.0	3.8
UK	3.2	0.7	1.7	3.6	2.1	3.7	3.5	4.7	4.1	2.3	1.6	2.4
EUR	4.8	2.1	0.9	1.6	2.3	2.5	2.6	2.9	3.8	3.4	3.0	3.1
USA	4.0	2.1	-2.6	3.9	7.2	3.8	2.8	3.7	4.6	3.0	2.1	2.3
JAP	9.6	3.7	2.8	3.2	5.0	4.7	2.5	4.2	5.7	4.8	4.2	3.4

TABLE 2: Deflator of gross domestic product (percentage change on preceding year, 1961-91)*

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	4.1	7.1	7.1	5.6	5.2	6.0	3.5	2.1	2.0	3.5	4.0	3.0
DK	7.0	10.0	10.6	7.6	5.7	4.3	4.7	5.1	4.9	4.4	2.5	2.6
D	4.3	4.7	4.4	3.3	2.0	2.2	3.1	2.0	1.5	2.5	3.3	3.5
GR	4.5	16.3	25.1	19.1	20.3	17.7	17.8	14.2	14.5	14.2	17.7	15.7
E	7.1	17.0	13.8	11.6	10.9	8.5	10.9	5.9	5.7	6.9	7.0	6.2
F	5.0	11.0	11.7	9.7	7.5	5.8	5.1	2.9	3.1	2.9	3.0	2.9
IRL	7.2	14.5	15.2	10.7	6.5	5.1	6.1	2.0	2.9	5.0	2.6	3.4
I	5.5	17.6	17.1	14.9	11.4	8.9	7.5	6.1	6.0	6.3	6.4	5.2
L	4.4	6.9	10.8	6.8	4.4	3.0	1.7	0.9	2.2	3.0	3.3	4.4
NL	6.0	6.9	6.1	1.9	1.9	1.8	0.5	-0.4	1.9	1.0	2.6	2.4
P	3.9	19.7	20.7	24.6	24.7	21.7	20.5	11.2	11.6	12.5	13.1	10.5
UK	5.1	15.9	7.6	5.3	4.6	5.6	3.5	4.8	6.6	6.9	6.3	5.4
EUR	5.2	12.2	10.5	8.5	6.9	6.0	5.5	4.1	4.4	4.9	5.1	4.5
USA	3.6	8.3	6.5	3.4	3.6	2.7	2.5	2.9	3.2	4.1	3.5	4.2
JAP	6.0	6.9	1.9	0.8	1.2	1.4	1.8	-0.2	0.4	1.5	2.6	3.3

TABLE 3: Final domestic demand, volume (percentage change at constant prices on preceding year, 1961-91)*

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	4.8	1.7	0.7	-2.5	2.3	0.6	3.0	3.6	4.3	5.0	3.6	2.9
DK	4.6	0.1	3.4	1.5	4.9	5.4	5.5	-2.8	-2.2	0.6	1.1	1.3
D	4.5	1.8	-2.0	2.1	1.9	1.0	3.4	2.9	3.6	2.8	3.5	2.6
GR	8.1	1.9	1.4	0.5	0.6	4.9	-2.0	-1.1	5.6	4.2	2.3	1.6
E	7.6	1.4	1.1	-0.1	-0.6	2.9	6.1	8.4	6.9	7.7	5.3	4.3
F	5.4	1.2	7.1	-3.3	0.5	2.2	7.1	3.3	3.6	3.3	3.3	3.0
IRL	5.1	3.7	-2.4	-2.2	1.1	0.4	1.3	-0.4	0.2	5.4	4.6	3.3
I	5.2	2.7	0.2	0.1	4.0	2.9	3.2	4.8	4.6	3.3	3.7	3.2
L	3.8	1.9	1.0	-0.8	2.3	0.3	4.5	5.2	2.7	3.5	3.6	4.0
NL	4.9	1.4	-0.8	1.6	1.7	3.2	2.1	2.1	2.0	3.8	3.8	2.7
P	7.3	3.0	2.2	-5.7	-6.7	0.9	8.3	10.4	7.4	4.1	4.8	4.7
UK	3.2	0.3	2.2	4.7	2.6	2.8	4.2	5.2	7.3	3.2	0.2	2.0
EUR	4.9	1.5	1.5	0.5	1.8	2.3	4.4	4.1	4.7	3.7	3.0	2.9
USA	4.1	1.8	-1.7	5.3	8.7	4.0	3.5	3.2	3.2	2.4	2.0	2.2
JAP	9.7	2.7	2.9	1.9	3.7	3.8	4.0	5.1	7.5	5.8	5.5	5.0

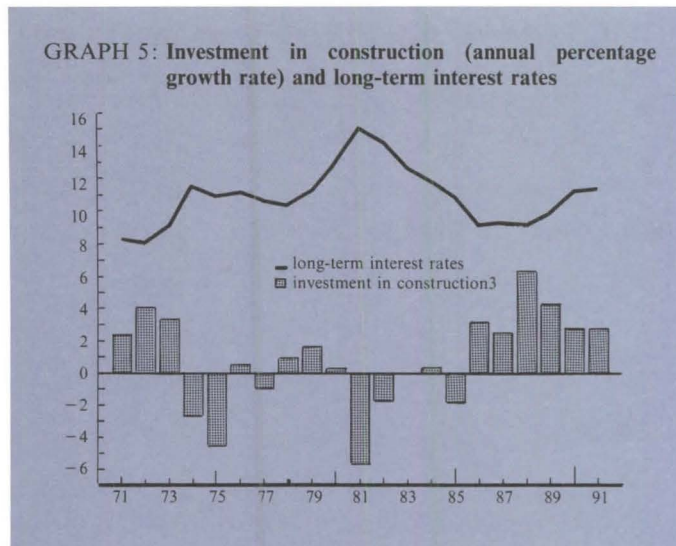
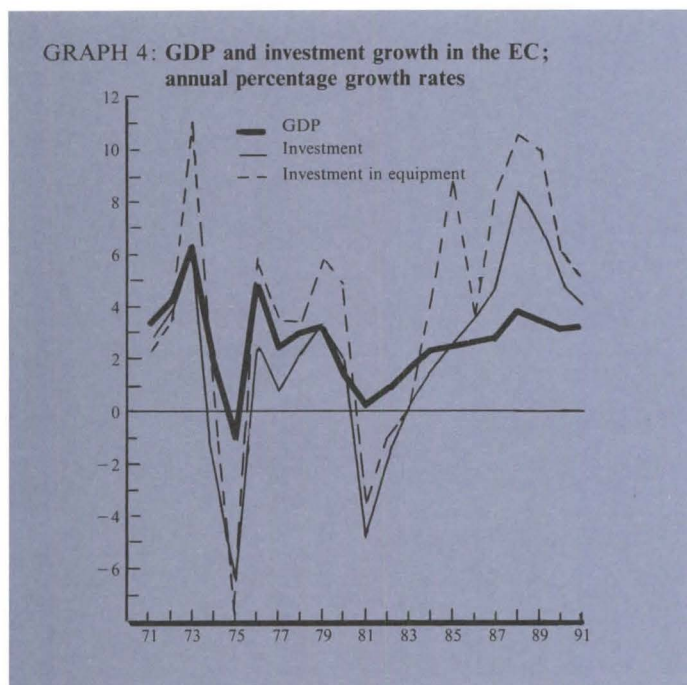
TABLE 4: Gross national product at current market prices (percentage change on preceding year, 1961-91)*

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	9.2	9.1	8.0	6.0	7.7	6.6	5.5	4.2	6.3	8.6	7.2	5.6
DK	11.6	11.0	13.0	10.6	9.6	8.8	8.0	4.4	4.6	5.2	4.4	4.8
D	8.9	6.7	3.4	5.2	5.3	4.2	5.5	3.7	5.2	6.5	6.8	7.4
GR	12.5	19.8	24.8	18.1	22.4	20.4	18.1	14.4	19.3	17.5	19.6	17.7
E	14.8	19.0	15.1	13.5	13.0	11.5	14.8	11.9	10.7	12.3	11.2	10.1
F	10.7	13.8	14.3	10.1	8.6	7.7	7.7	5.0	6.8	6.6	6.3	6.1
IRL	11.7	18.9	14.7	9.2	8.8	6.1	6.6	7.8	4.2	9.9	7.3	6.5
I	11.0	21.5	17.2	16.2	14.8	11.7	10.2	9.4	10.1	9.5	9.8	8.1
L	9.0	10.5	22.8	12.7	9.4	6.7	3.5	1.7	7.3	5.5	5.5	6.2
NL	11.1	8.9	4.7	3.6	4.8	4.8	2.1	0.7	4.4	5.5	6.3	5.6
P	11.2	22.5	21.2	24.9	21.1	26.1	28.1	18.2	16.5	19.0	17.6	14.9
UK	8.5	16.5	9.5	9.4	6.8	9.4	7.2	9.4	11.2	8.8	7.5	7.7
EUR	10.1	12.3	9.0	6.9	8.0	7.3	5.9	5.4	8.1	8.3	7.1	7.5
USA	7.7	10.6	3.6	7.3	10.8	6.3	5.2	6.6	7.9	7.2	5.7	6.6
JAP	16.2	10.9	5.0	4.0	6.4	6.4	4.4	4.2	6.2	6.5	6.9	6.8

* Notes: see page 15.

Investment growth decelerates. — *Gross fixed capital formation* is expected to expand in 1990 by 4.6 % in real terms. While this implies a slowdown compared to the three preceding years, the growth rate remains high when compared to that of the first half of the 1980s. Also, for the fifth consecutive year, growth of gross fixed capital formation is stronger than that of GDP, as called for under the Community's 'Cooperative growth strategy for more employment'. In 1991, total investment should continue to expand fairly rapidly by 4.1 % in real terms.

The slowdown in investment growth is mainly due to the effects of policies aimed at preventing overheating in many Member States, especially more restrictive monetary policies. The deceleration is especially large in Belgium, Greece, Spain and the United Kingdom. In this last country, gross fixed capital formation could actually decrease in 1990.



The deceleration in investment growth is particularly pronounced for *equipment* which had experienced very high rates of increase in 1988 and 1989. After an increase in real terms of 9 % in 1989, investment in equipment in the Community is expected to grow by 6.2 % in 1990. In the United Kingdom, investment in equipment is expected to increase by only 1.7 % in 1990 after an increase of 12 % in 1989. A significant deceleration is also expected in Belgium, Ireland and Spain. In 1991, investment in equipment in the Community should continue to expand at much the same rate as this year.

Investment in construction should also weaken further in 1990 and 1991. Higher interest rates will take their toll on residential construction. Capacity constraints and a weakening of pent-up demand will also limit the growth in this type of investment after some years of strong expansion.

Stronger consumption in 1990. — The rate of growth in the volume of *private consumption* is expected to accelerate slightly from 3.2 % in 1989 to 3.3 % in 1990, mainly as a result of stronger growth in Germany. In 1991, the rate of growth in private consumption could decelerate somewhat in line with projected weaker growth in households' disposable income.

TABLE 5: Investment in construction, volume (percentage change on preceding year, 1974-91) *

	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	-1,6	-5,6	-6,2	-5,9	-0,4	2,0	5,5	14,7	13,2	3,3	0,3
DK	-7,2	-1,3	1,9	8,8	8,9	17,5	-0,9	-3,1	-3,8	-3,8	0,5
D	-0,9	-4,3	1,7	1,6	-5,6	2,7	0,2	4,7	5,3	4,7	2,1
GR	-3,1	-13,2	5,3	-6,9	3,1	0,2	-4,9	7,7	9,1	5,0	2,5
E	-1,6	0,1	-2,0	-5,2	2,0	6,5	10,0	13,5	13,3	10,1	8,6
F	-0,2	-2,5	-3,6	-2,9	0,6	2,5	3,3	4,3	3,0	1,9	1,6
IRL	3,9	1,3	-14,3	-4,4	-9,7	-3,6	-6,7	-6,8	10,1	10,0	6,5
I	-0,4	-6,6	1,1	0,0	-0,6	0,7	-1,3	3,7	3,6	2,5	2,5
L	-1,5	-2,4	-12,7	-4,6	4,7	6,0	4,6	9,9	4,8	5,2	4,5
NL	-2,0	-6,6	-3,4	4,0	0,2	4,8	2,8	12,6	3,4	0,6	-0,6
P	-	1,8	-3,3	-9,2	-6,0	8,7	10,5	10,1	7,5	8,5	7,0
UK	-3,3	8,8	5,0	6,1	-2,2	3,7	3,9	6,8	-2,7	-4,2	1,6
EUR ¹	-1,4	-2,4	0,0	0,3	-1,8	3,2	2,6	6,4	4,3	2,8	2,8

¹ EUR-11 up to 1981, EUR-12 from 1982 onwards.

TABLE 6: Investment in equipment, volume (percentage change on preceding year, 1974-91) *

	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	2,6	5,5	-2,3	13,8	2,7	4,8	8,6	17,8	16,0	11,0	6,5
DK	-1,3	19,9	2,2	17,9	16,2	15,4	-14,5	-6,9	4,1	3,0	4,0
D	2,1	-7,0	5,6	-0,2	9,9	4,3	4,1	7,5	9,7	8,4	7,0
GR	0,1	14,1	-8,5	-4,2	7,7	-12,6	-1,0	10,7	8,3	7,5	5,0
E	-0,5	2,2	-4,8	-7,3	9,1	15,8	24,2	14,7	14,1	9,0	7,1
F	0,7	1,6	-3,5	-0,9	6,7	2,5	4,7	10,4	6,6	6,5	5,5
IRL	5,1	-8,0	-3,4	1,9	-2,7	5,3	2,7	2,8	12,5	9,8	5,5
I	1,9	-4,4	-4,2	9,3	8,2	2,0	15,0	6,0	6,3	6,0	4,8
L	-0,5	0,8	-7,2	3,7	-16,5	39,1	6,1	-4,0	4,1	6,7	8,1
NL	-0,6	0,0	10,0	9,5	16,1	11,3	1,1	6,3	5,9	6,4	5,2
P	-	6,4	-12,2	-30,3	-4,9	13,7	22,2	20,7	9,0	8,5	8,5
UK	-0,1	1,3	4,8	11,4	10,1	-1,8	7,2	21,1	12,0	1,7	1,9
EUR ¹	0,9	-1,5	0,9	3,9	9,0	3,6	7,9	11,1	9,0	6,2	5,2

¹ EUR-11 up to 1981, EUR-12 from 1982 onwards.

* Notes: see page 15.

TABLE 7: Total investment, volume (percentage change on preceding year, 1961-91)*

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	5,1	-0,6	-1,7	-4,4	1,7	0,6	4,2	5,2	16,0	14,4	6,6	3,0
DK	6,5	-5,3	7,1	1,9	12,9	12,6	16,2	-7,4	-6,5	-0,5	-0,8	2,1
D	4,0	0,1	-5,3	3,2	0,8	0,1	3,3	2,2	5,9	7,2	6,4	4,3
GR	10,0	-1,9	-1,9	-1,3	-5,7	5,2	-6,2	-7,8	9,0	8,8	6,1	3,6
E	10,4	-1,3	0,5	-2,5	-5,8	4,1	10,0	14,6	14,0	13,6	9,6	8,0
F	7,7	0,2	-1,4	-3,6	-2,6	3,2	3,3	3,7	7,5	5,1	4,6	3,9
IRL	9,9	4,5	-3,4	-9,3	-1,3	-8,2	-3,0	-1,9	-1,6	11,4	9,9	5,9
I	4,7	1,0	-5,2	-0,9	4,5	1,4	1,6	6,8	4,9	5,1	4,5	3,8
L	4,9	-1,3	-0,5	-11,5	0,5	-6,1	28,7	6,5	3,2	4,5	5,9	6,1
NL	5,3	-1,5	-4,3	1,9	5,2	6,7	7,9	0,7	9,8	4,5	3,2	2,0
P	7,9	1,6	2,3	-7,1	-17,4	-3,5	10,9	15,1	15,0	8,3	8,5	7,8
UK	4,6	-1,8	5,4	5,0	8,6	3,9	1,9	8,8	13,1	4,8	-1,0	1,8
EUR	5,7	-0,3	-1,9	0,0	1,3	2,4	3,7	5,4	8,4	6,7	4,6	4,1
USA	4,5	0,5	-8,7	8,8	15,9	6,9	2,0	4,1	5,4	1,6	2,6	5,0
JAP	14,1	1,5	0,8	-0,3	4,9	5,8	5,8	10,3	13,4	10,8	7,8	6,0

TABLE 8: Private consumption, volume (percentage change on preceding year, 1961-91)*

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	4,3	2,3	1,4	-1,6	1,2	2,0	2,5	2,8	2,4	3,6	3,6	3,5
DK	3,8	0,7	1,4	2,6	3,4	5,0	4,1	-1,2	-1,1	-0,5	2,0	1,9
D	4,9	2,5	-1,3	1,7	1,5	1,4	3,4	3,5	2,7	1,7	4,0	3,4
GR	6,7	3,3	3,9	0,3	1,7	3,9	0,3	0,9	3,7	2,8	1,7	1,3
E	7,2	2,0	0,2	0,3	-0,4	2,4	3,6	5,5	4,5	5,5	4,2	3,2
F	5,3	2,7	3,5	0,9	1,1	2,4	3,7	2,7	2,8	2,9	2,8	2,7
IRL	3,8	3,4	-7,1	0,9	1,1	3,7	2,5	2,5	3,2	4,9	4,1	3,1
I	6,0	3,8	1,0	0,5	2,3	3,2	4,5	4,3	4,2	3,8	3,5	3,2
L	4,7	3,3	0,4	0,3	1,1	2,5	2,4	4,1	1,8	3,5	3,2	3,7
NL	5,6	2,7	-1,4	0,7	0,8	2,4	3,2	3,1	1,2	3,4	3,7	2,7
P	6,0	2,2	2,4	-1,4	-2,9	0,7	5,6	5,4	6,6	3,3	3,5	3,7
UK	3,0	1,0	0,9	4,3	1,8	3,7	5,6	5,4	6,9	3,8	2,4	1,6
EUR	4,9	2,4	0,8	1,4	1,3	2,6	4,0	3,9	3,9	3,2	3,3	2,8
USA	4,2	2,3	1,1	5,0	4,8	4,7	4,1	2,7	3,4	2,7	1,8	2,1
JAP	8,8	3,3	4,1	3,2	2,7	2,7	3,1	4,2	5,0	3,5	4,2	4,2

TABLE 9: Real compensation of employees per head¹ (percentage change on preceding year 1961-91)*

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	5,1	2,8	-0,3	-1,1	0,8	-1,5	4,1	0,4	0,1	2,2	2,1	2,8
DK	3,8	0,4	1,5	1,3	-0,8	0,4	1,6	3,7	-0,6	-1,1	0,9	0,6
D	5,5	2,0	-0,6	0,5	0,9	1,0	4,3	2,5	1,9	-0,2	1,4	1,7
GR	6,5	3,7	5,9	2,8	3,8	5,8	-7,5	-3,7	4,4	6,1	1,3	0,0
E	7,5	3,2	-0,7	1,3	-0,9	1,1	0,7	0,9	1,8	-0,8	1,3	1,3
F	4,8	3,0	2,3	0,4	0,5	0,8	1,6	0,4	1,3	0,8	1,5	1,3
IRL	4,7	2,8	-0,5	3,1	3,0	3,2	0,7	4,2	0,8	0,6	2,2	2,1
I	6,3	2,8	-0,6	0,8	-0,1	1,0	1,6	4,1	3,8	3,0	3,0	2,3
L	4,2	3,1	-3,3	-1,4	0,2	-0,9	4,0	2,3	0,5	1,5	2,2	2,1
NL	6,0	1,6	0,2	0,2	-1,9	-0,8	1,4	1,8	0,7	0,0	1,9	1,3
P	7,8	3,1	1,1	-3,2	-5,6	2,6	6,8	5,3	-0,2	0,2	2,1	2,6
UK	3,2	1,7	-0,2	3,5	0,3	1,6	2,8	2,2	2,0	2,5	2,4	1,8
EUR	5,1	2,4	0,3	1,1	0,2	1,0	2,4	2,0	1,9	1,2	1,9	1,7

¹ Deflated by private consumption prices.

TABLE 10: Public consumption, volume (percentage change on preceding year 1961-91)*

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	5,5	3,0	-1,4	-0,1	0,2	2,6	1,2	1,2	-1,4	0,4	0,2	0,0
DK	5,8	3,9	3,1	0,0	-0,4	2,5	1,5	2,0	-0,4	-0,5	-0,7	-1,0
D	4,5	2,8	-0,8	0,2	2,4	2,1	2,6	1,5	2,2	-0,8	1,0	0,5
GR	6,2	6,4	2,3	2,7	3,0	3,2	-0,6	1,8	5,6	5,9	2,5	1,0
E	4,5	5,1	4,9	3,9	2,9	4,6	5,7	8,7	5,0	5,5	3,2	3,0
F	4,0	3,2	3,8	2,1	1,2	2,3	1,7	3,0	2,2	2,8	3,0	2,4
IRL	5,2	5,1	3,2	-0,4	-0,7	1,6	2,4	-3,8	-4,3	-3,0	0,2	0,4
I	4,0	2,7	2,9	2,9	2,5	3,5	2,9	3,6	3,0	0,5	2,5	2,5
L	3,4	2,7	1,5	1,9	2,2	2,0	3,3	2,6	3,1	2,0	1,7	1,8
NL	2,8	2,9	0,4	1,0	-0,8	1,3	2,5	2,0	0,0	0,5	0,5	1,0
P	9,1	8,2	3,6	3,7	0,1	0,1	7,2	4,9	5,3	1,5	2,0	2,0
UK	2,5	1,7	0,8	2,0	1,0	0,0	2,1	1,2	0,4	0,5	1,3	1,2
EUR	3,8	2,9	1,6	1,7	1,6	2,1	2,5	2,6	2,0	1,1	1,8	1,5
USA	3,1	1,5	2,4	3,5	4,5	5,3	4,9	2,7	2,3	2,7	1,1	0,4
JAP	5,8	4,5	1,9	2,9	2,8	1,7	6,2	-0,7	2,2	2,1	2,5	4,8

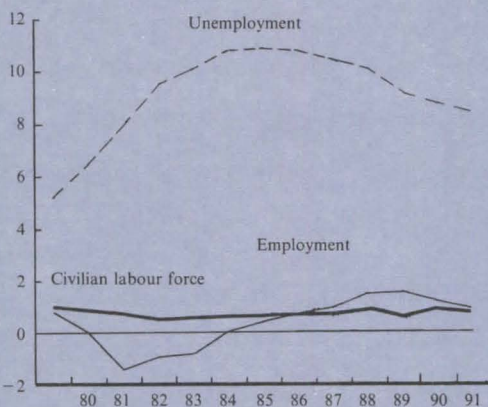
* Notes: see page 15.

The volume of *public consumption* should increase by 1.8 % in 1990, a rate not significantly different from the trend of the last few years. In 1991, it is assumed that a new consolidation effort will take place and public consumption should not increase by more than 1.5 %.

Employment creation continues at a high level, but unemployment remains high. — After the record increases of 1988 and 1989 — 1.6 % and 1.7 % respectively — employment is expected to continue to increase substantially: 1.4 % in 1990 and 0.9 % in 1991. In absolute terms, about 3 million jobs will be created in 1990 and 1991. Over these two years, employment creation is expected to be higher than the Community average in Germany, the Netherlands, Luxembourg, France and Spain. As was the case for 1988 and 1989, manufacturing employment is expected to expand again (0.8 % in 1990 and 0.6 % in 1991), reversing a trend that had lasted for many years.

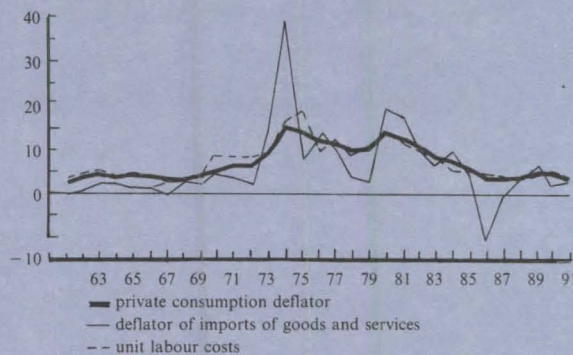
This strong employment performance, however, will result only in a small decline in unemployment since the civilian labour force is expected to increase by more than 2 million people in 1990 and 1991. This increase is the result of both a higher activity rate and an acceleration in the rate of growth of the population of working age. Activity rates are, in general, positively related to employment prospects. In recent years, the activity rate of the population of working age in the Community has risen, responding to the greater availability of jobs. A comparison with the much higher activity rates in the USA and Japan suggests that there is still an important reservoir of potential employment in the Community over and above what the unemployment figures suggest. The acceleration in the rate of growth in the population of working age results essentially from the large immigration flows into the Federal Republic of Germany.

GRAPH 6: Labour force, employment and unemployment, EUR-12, annual change in % except unemployment rate



Inflation remains high in 1990, but could decline next year. — After a through in 1987, inflation, as measured by the deflator of private consumption, started to accelerate again in 1988 and 1989. On the basis of the evidence which has become available over the last six months, consumer prices are now expected to increase this year at a similar rate to last year. This somewhat disappointing inflation forecast is the outcome of higher-than-expected unit labour costs which are not completely offset by softer import prices. In 1991, inflation could ease if wage

GRAPH 7: Inflation in the Community, factors influencing inflation, annual percentage changes



increases moderate as projected, notwithstanding a stronger increase in import prices.

The prices of imported goods and services, which had been an important factor behind the deterioration of inflation performance last year, are forecast to increase by only 1.8 % on average for the Community in 1990 compared to 6.6 % in 1989. This is due to the weakening of the dollar and the expected stable trend of non-oil primary commodity prices expressed in dollars. Oil prices, which increased steeply at the end of last year are not expected to increase very much. On the usual assumption of real stability of exchange rates for the rest of the forecast period, import prices are forecast to increase by 3.4 % in 1991. This will be due to a strengthening of the prices of primary commodities. Wages per head in the Community should increase in 1990 by 6.7 %, 0.7 percentage points faster than the preceding year. In 1991, the increase could return to the pace of last year. The deceleration of wage increases in 1991 is expected to be significant in the countries where the increases are now highest: Greece, Portugal, Italy and the United Kingdom. Given the projected productivity increases, 1.6 % this year and about 2 % in 1991, *unit labour costs* should increase by 5.1 % in 1990 and by 3.9 % in 1991. Real unit labour costs (GDP deflator) should remain stable in 1990. Next year, they could fall slightly thus contributing to a further increase in the profitability of investment.

Budgetary consolidation marks time. — General government borrowing as a percentage of GDP at the Community level should increase slightly in 1990 and resume its downward path next year. The overall picture, however, hides some important differences among Member States. In 1990, the increase in total general government borrowing as a percentage of Community GDP is mainly the result of a deterioration in Germany, the United Kingdom and Portugal, partly offset by improvements in other countries. If allowance is made for the increase in

TABLE 11: Real unit labour costs¹ (indices 1980 = 100) *

	1961-70	1975	1979	1981	1989	1990	1991
B	87,5	96,8	98,8	100,5	89,4	88,5	88,7
DK	98,3	102,7	98,4	98,8	93,5	92,8	92,0
D	96,1	102,6	98,3	100,3	91,6	90,5	89,9
GR	104,4	91,7	101,8	106,3	111,9	114,3	115,1
E	95,7	100,8	101,7	100,5	86,9	86,5	86,1
F	93,4	98,9	98,1	100,8	91,0	91,0	90,8
IRL	96,2	100,3	96,7	96,5	83,7	83,4	82,9
I	97,1	105,8	101,1	102,4	98,0	97,7	97,8
L	84,1	101,4	99,1	102,1	94,3	94,4	94,0
NL	93,9	103,3	100,3	97,3	87,7	87,4	87,2
P	84,7	120,4	101,0	102,3	82,4	81,1	80,3
UK	98,8	109,0	97,9	99,8	97,2	99,7	99,1
EUR	96,9	103,8	99,2	100,7	93,2	93,2	92,8
USA	96,9	98,2	99,0	98,6	99,7	100,9	101,3
JAP	92,8	104,1	101,1	100,2	98,1	100,2	102,8

¹ Nominal unit labour costs divided by GDP deflator.

* Notes: see page 15.

TABLE 12: Deflator of private consumption (percentage change on preceding year, 1961-91)*

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	3,7	7,9	7,8	7,2	5,7	5,9	0,3	1,8	1,8	3,1	3,2	2,7
DK	6,6	11,0	10,2	6,8	6,4	4,3	3,5	4,4	4,9	5,0	2,5	2,7
D	3,5	5,0	4,8	3,2	2,5	2,1	-0,5	0,6	1,2	3,1	2,8	3,0
GR	3,5	16,8	20,7	18,1	17,9	18,3	22,0	15,6	14,0	13,8	17,0	16,0
E	6,6	17,5	14,5	12,3	11,0	8,2	8,7	5,4	5,1	6,6	6,6	6,1
F	4,8	11,5	11,5	9,7	7,7	5,8	2,7	3,1	2,7	3,5	2,9	3,0
IRL	6,3	16,1	14,9	9,2	7,6	4,7	4,0	2,6	2,5	4,1	3,0	3,4
I	4,9	17,4	16,9	15,1	11,9	9,0	5,7	5,0	4,8	6,0	5,5	5,0
L	3,0	7,4	10,6	8,5	6,9	4,5	1,2	1,5	2,6	3,4	3,5	3,6
NL	5,0	7,0	5,5	2,9	2,2	2,2	0,2	-0,4	0,7	1,1	2,3	2,7
P	3,9	21,6	20,3	25,8	28,5	19,4	13,8	10,0	10,0	12,8	11,7	10,0
UK	4,9	15,1	8,7	5,0	5,1	5,2	4,4	3,9	5,0	5,8	6,6	5,1
EUR	4,6	12,3	10,7	8,6	7,3	5,9	3,7	3,4	3,6	4,8	4,7	4,3
USA	3,1	8,4	6,0	3,5	3,9	3,1	2,0	4,4	4,1	4,4	4,1	4,6
JAP	6,1	8,4	2,6	1,9	2,1	2,2	0,6	-0,1	0,0	1,7	2,9	3,5

TABLE 13: Compensation of employees per head (percentage change on preceding year, 1961-91)*

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	8,9	10,9	7,6	6,0	6,6	4,3	4,4	2,2	2,0	5,3	5,3	5,6
DK	10,7	11,4	11,9	8,2	5,5	4,7	5,1	8,2	4,3	3,8	3,4	3,4
D	9,2	7,1	4,2	3,7	3,5	3,1	3,8	3,1	3,1	2,9	4,2	4,7
GR	10,2	21,2	27,8	21,4	22,3	25,2	12,8	11,3	19,0	20,7	18,5	16,0
E	14,6	21,2	13,7	13,8	10,0	9,4	9,5	6,4	7,0	5,8	8,0	7,5
F	9,9	14,9	14,1	10,1	8,2	6,6	4,3	3,5	4,0	4,4	4,4	4,3
IRL	11,3	19,3	14,4	12,6	10,9	8,0	4,7	7,0	3,3	4,8	5,3	5,6
I	11,5	20,7	16,2	16,0	11,8	10,1	7,4	9,3	8,8	9,2	8,6	7,5
L	7,4	10,7	6,9	6,9	7,1	3,5	5,2	3,9	3,1	5,0	5,8	5,7
NL	11,4	8,7	5,8	3,2	0,2	1,4	1,6	1,4	1,4	1,1	4,2	4,1
P	12,0	25,4	21,6	21,8	21,2	22,5	21,6	15,8	9,8	13,0	14,1	12,9
UK	8,2	17,1	8,4	8,7	5,4	6,8	7,3	6,2	7,2	8,4	9,1	7,0
EUR	9,9	14,9	11,0	9,8	7,5	6,9	6,2	5,5	5,6	6,0	6,7	6,1

TABLE 14: Real GDP per occupied person (percentage change on preceding year, 1961-91)*

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	4,3	2,3	2,9	1,5	2,1	0,1	0,6	1,5	2,9	3,4	2,3	2,3
DK	3,2	1,1	2,6	2,2	2,6	1,7	0,6	-1,5	-0,2	1,8	1,4	1,4
D	4,1	2,3	1,1	3,1	2,7	1,3	1,3	1,0	3,0	2,0	2,0	2,0
GR	8,2	1,7	1,2	-0,6	2,4	2,1	0,5	0,1	2,5	1,4	0,9	1,1
E	6,5	3,3	2,2	2,3	4,3	3,7	1,0	0,1	2,4	0,8	1,5	2,0
F	4,7	2,3	2,4	1,1	2,3	2,2	2,2	1,7	2,9	1,8	1,7	1,7
IRL	4,3	3,6	2,3	1,7	6,4	4,6	-0,5	4,9	2,7	4,9	3,3	2,7
I	5,5	2,3	-0,2	0,5	2,6	1,7	1,8	2,4	2,5	3,6	2,4	2,3
L	3,0	0,4	1,4	3,3	5,6	1,5	1,8	0,1	1,2	1,9	2,2	1,7
NL	3,9	1,9	1,1	3,3	3,2	1,0	0,0	-0,3	1,5	2,3	1,9	1,9
P	7,5	3,0	4,1	1,0	-0,4	2,8	7,0	2,5	1,3	3,1	2,8	3,0
UK	2,9	1,0	3,6	4,8	-0,4	2,1	2,9	2,2	0,8	-0,5	0,1	2,5
EUR	4,5	2,1	1,8	2,3	2,1	1,9	1,8	1,4	2,2	1,7	1,6	2,1
USA	2,0	0,2	-0,9	2,9	2,2	1,3	1,1	0,8	1,7	1,0	1,1	1,3
JAP	8,2	3,1	2,0	1,5	4,5	4,0	1,6	3,2	4,0	3,1	2,9	2,3

TABLE 15: Unit labour cost, whole economy¹ (percentage change on preceding year, 1961-91)*

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	4,4	8,7	6,3	4,5	4,4	4,2	3,8	0,7	-0,9	2,0	2,9	3,3
DK	7,3	10,4	10,6	5,8	2,8	2,9	4,5	9,9	4,5	1,1	2,0	1,9
D	4,8	5,0	2,2	0,6	0,7	1,7	2,5	2,1	0,1	0,8	2,2	2,6
GR	1,9	19,4	26,7	22,2	19,4	22,6	12,3	11,2	16,1	19,0	17,5	14,7
E	7,7	17,8	11,2	11,2	5,5	5,6	8,5	6,2	4,5	5,0	6,4	5,4
F	4,9	12,6	12,0	8,9	5,8	4,3	2,1	1,8	1,1	2,6	2,7	2,5
IRL	6,8	15,6	10,6	10,8	4,3	3,3	5,2	2,0	0,5	-0,1	1,9	2,7
I	5,6	18,2	14,1	15,5	8,9	8,2	5,5	6,8	6,1	6,1	6,1	5,0
L	4,3	10,3	4,4	3,5	1,5	1,9	3,4	3,7	1,9	2,9	3,4	3,8
NL	7,1	6,9	4,2	-0,2	-2,9	0,4	1,6	1,8	-0,1	-1,2	2,2	2,2
P	4,2	22,1	18,5	20,6	21,7	19,1	13,6	13,1	8,4	9,1	10,9	9,6
UK	5,2	16,0	6,0	3,7	5,9	4,7	4,3	3,9	6,3	8,9	9,0	4,4
EUR	5,2	12,8	8,9	7,3	5,2	5,0	4,3	4,0	3,3	4,3	5,1	3,9

¹ Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employment i.e. real GDP per occupied person.

TABLE 16: Total employment (percentage change on preceding year, 1961-91)*

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	0,6	-0,2	-1,3	-1,1	0,0	0,8	1,0	0,4	1,4	1,1	0,6	0,2
DK	1,1	0,2	0,4	0,3	1,7	2,5	2,4	0,8	-0,3	-0,7	0,6	0,7
D	0,2	-0,4	-1,7	-1,5	0,1	0,7	1,0	0,8	0,6	1,4	1,7	1,7
GR	-0,5	1,3	-0,8	1,0	0,3	1,0	0,3	-0,1	1,4	1,5	0,7	0,5
E	0,7	-1,5	-0,9	-0,5	-2,4	-1,3	2,3	5,4	2,5	4,1	2,3	1,6
F	0,7	0,2	0,2	-0,4	-0,9	-0,3	0,1	0,2	0,6	1,7	1,5	1,4
IRL	0,1	0,9	0,0	-1,9	-1,9	-2,2	0,2	0,0	0,9	0,8	1,3	0,6
I	-0,2	1,1	0,6	0,6	0,4	0,9	0,8	0,6	1,4	-0,5	0,7	0,5
L	1,1	0,6	-0,3	-0,3	0,6	1,4	2,6	2,7	3,1	2,6	1,5	1,5
NL	0,9	0,1	-2,5	-1,9	-0,1	1,5	2,0	1,4	1,3	1,7	1,6	1,2
P	-0,5	-0,1	-1,9	-1,1	-1,5	0,0	-2,7	2,7	2,6	2,3	1,1	0,8
UK	0,3	-0,4	-1,8	-1,2	2,6	1,6	0,6	2,5	3,3	2,8	1,5	-0,1
EUR	0,3	0,0	-0,9	-0,7	0,2	0,6	0,8	1,4	1,6	1,7	1,4	0,9
USA	1,9	1,9	-1,6	1,0	4,9	2,4	1,7	2,9	2,9	2,0	1,0	1,0
JAP	1,3	0,6	0,8	1,7	0,5	0,7	0,9	1,0	1,7	1,7	1,3	1,0

TABLE 17: Employment in manufacturing industries (percentage change on preceding year, 1974-91)*

	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	-3,4	-3,6	-2,2	-1,0	-1,3	-1,4	-2,2	-0,9	0,4	-0,3	-0,7
DK	-2,3	-0,4	0,2	5,1	5,6	3,5	-2,4	-2,9	-0,9	1,7	1,8
D	-1,4	-4,0	-3,7	-1,1	1,1	1,7	0,0	-0,1	1,6	2,1	2,0
GR	-	0,1	-1,0	-2,4	-0,7	3,1	1,0	1,0	1,0	0,5	0,5
E	-	-4,9	-2,1	-2,4	-2,8	1,7	5,0	1,5	3,3	1,5	1,0
F	-1,3	-1,3	-2,0	-3,0	-3,1	-2,4	-2,3	-1,8	0,4	0,5	0,5
IRL	0,9	-1,7	-5,6	-4,1	-2,8	2,9	-1,4	0,5	1,0	1,0	1,0
I	-0,4	-2,6	-3,9	-4,5	-1,4	-0,5	-1,0	1,5	0,4	0,2	0,1
L	-2,1	-2,1	-3,7	-0,9	0,3	0,3	-1,8	-3,4	1,9	1,1	1,0
NL	-2,2	-4,3	-4,3	-1,1	2,0	1,8	0,7	0,4	1,3	1,3	1,1
P	-	-1,5	-0,9	-4,1	-1,2	-2,4	4,4	3,3	1,5	1,4	1,0
UK	-2,7	-6,0	-6,4	-2,6	-0,0	-1,1	-1,3	1,5	0,7	-1,0	-1,3
EUR	-1,6 ¹	-3,5	-3,6	-2,4	-0,6	0,0	-0,3	0,4	1,1	0,8	0,6

¹ EUR-9.TABLE 18: Number of unemployed (as percentage of civilian labour force, 1961-91)*¹

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	2,2	8,1	11,9	12,5	12,5	11,6	11,6	11,4	10,3	9,5	8,9	8,5
DK	1,1	8,1	11,1	9,3	8,7	7,2	5,6	5,7	6,2	6,7	6,7	6,6
D	0,9	4,5	6,8	6,9	7,1	7,1	6,3	6,2	6,1	5,5	6,0	6,2
GR	4,2	3,0	5,8	7,9	8,1	7,7	7,4	7,4	7,7	7,6	8,0	8,5
E	2,8	9,5	16,3	17,7	20,6	21,8	21,0	20,4	19,4	16,9	16,3	15,9
F	2,3	6,3	8,3	8,2	9,8	10,2	10,3	10,4	9,9	9,5	8,8	8,1
IRL	5,3	9,4	11,6	15,2	16,8	18,2	18,2	18,1	17,6	17,0	16,3	16,1
I	5,6	8,1	8,7	8,8	9,5	9,4	10,4	10,2	10,7	11,0	11,0	11,0
L	0,0	0,7	1,3	3,5	3,1	2,9	2,6	2,6	2,1	1,8	1,7	1,6
NL	1,3	7,1	11,6	12,4	12,3	10,5	10,2	10,0	9,5	9,3	8,9	8,5
P	2,6	7,4	7,5	7,8	8,5	8,6	8,2	6,8	5,6	5,0	4,9	4,9
UK	2,0	6,3	10,5	11,1	11,3	11,4	11,4	10,4	8,5	6,7	6,1	6,3
EUR	2,6	6,7	9,5	9,9	10,7	10,8	10,7	10,3	9,7	9,0	8,5	8,3
USA	4,5	8,0	9,5	9,5	7,4	7,1	6,9	6,1	5,4	5,2	5,3	5,5
JAP	1,2	2,3	2,4	2,6	2,7	2,6	2,8	2,8	2,5	2,3	2,5	2,8

¹ Series following SOEC definition, based on the labour force survey.

TABLE 19: General government lending or borrowing (-) (as a percentage of GDP, 1974-91)*

	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	-6,6	-11,0	-11,2	-9,0	-8,5	-9,0	-7,1	-6,7	-6,1	-5,9	-6,1
DK	-1,4	-9,1	-7,2	-4,2	-2,2	3,1	2,2	-0,1	-0,7	-0,5	0,5
D	-3,0	-3,3	-2,5	-1,9	-1,1	-1,3	-1,9	-2,1	0,2	-0,8	-0,2
GR	-	-7,7	-8,3	-10,0	-13,8	-12,7	-12,0	-14,5	-17,7	-17,7	-16,8
E	-1,3	-5,6	-4,8	-5,5	-7,0	-6,1	-3,6	-3,1	-2,1	-2,0	-1,1
F	-1,0	-2,8	-3,2	-2,8	-2,9	-2,7	-2,0	-1,3	-1,3	-1,2	-1,2
IRL	-10,5	-13,8	-11,8	-9,8	-11,3	-11,1	-9,1	-3,9	-3,1	-2,8	-3,2
I	-8,4	-11,3	-10,6	-11,6	-12,5	-11,7	-11,2	-10,6	-10,2	-10,3	-10,0
L	1,4	-1,0	2,0	3,4	5,3	3,3	1,3	2,3	3,3	3,9	3,1
NL	-2,9	-7,1	-6,4	-6,3	-4,8	-6,0	-6,5	-5,0	-5,1	-5,3	-5,1
P	-	-10,4	-9,0	-12,0	-10,1	-7,2	-6,8	-6,5	-5,0	-7,4	-6,9
UK	-3,8	-2,5	-3,3	-3,9	-2,7	-2,4	-1,0	1,0	1,6	0,2	0,9
EUR	-3,7 ¹	-5,5	-5,3	-5,3	-5,2	-4,8	-4,2	-3,6	-2,8	-3,3	-2,9
USA	-1,4	-4,0	-4,9	-3,8	-4,2	-4,4	-2,3	-2,0	-2,0	-1,9	-1,3
JAP	-3,5	-3,6	-3,7	-2,1	-0,8	-1,0	-0,3	1,2	1,8	1,8	1,6

¹ EUR without Greece and Portugal.

* Notes: see page 15.

TABLE 20: World export prices¹ *

	Percentage change on preceding year					
	1986	1987	1988	1989	1990	1991
Fuels	-46,9	19,0	-15,6	16,9	1,4	5,0
Other primary commodities	5,1	7,0	20,0	-0,2	-1,0	2,1
Manufactures	17,4	11,6	5,7	-0,2	7,5	4,4

¹ In US dollars.

Source: United Nations and forecasts by Commission services.

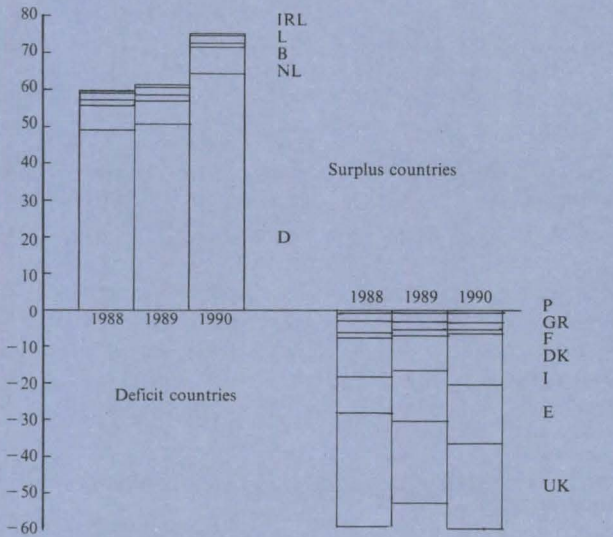
the public deficit in Germany where exceptional factors are at work (tax reform and unification), government borrowing in the Community measured in percentage of GDP will still only stabilise in 1990. This trend is worrying, as it signals a certain relaxation of budgetary consolidation in a year where economic growth could have facilitated bolder action.

TABLE 21: Total public expenditure (as percentage of GDP, 1974-91)*

	1974-81	1982	1985	1988	1989	1990	1991
B	50,7	58,7	56,8	53,3	50,3	49,8	49,6
DK	51,3	61,2	59,5	60,8	59,9	58,7	57,5
D	47,9	49,4	47,5	46,6	45,1	44,6	44,1
GR	—	39,7	48,1	49,4	51,1	52,1	51,8
E	28,6	37,5	42,1	40,3	40,9	40,8	40,6
F	44,2	50,3	52,1	50,2	50,1	50,0	49,8
IRL	46,3	54,6	53,7	48,7	43,2	42,0	42,0
I	39,6	47,4	50,8	50,8	51,7	52,5	52,4
L	50,3	55,8	51,7	54,5	52,5	51,5	50,9
NL	53,8	61,3	59,6	59,2	57,3	57,4	56,6
P	—	43,8	43,5	42,2	41,0	42,7	42,2
UK	43,0	44,8	44,3	38,3	37,2	38,1	37,0
EUR	43,4 ¹	48,2	49,0	46,9	46,4	46,6	46,1

¹ EUR without Greece and Portugal.

GRAPH 8: Current balances in billions of Ecus



A slight improvement in the Community's external balances and continuing internal imbalances. — The external position of the Community is expected to improve slightly in 1990 and 1991. The surplus on the trade balance (fob/fob) as a percentage of GDP should increase from 0.2 % in 1989 to 0.5 % in 1990 and to 0.7 % in 1991. The current account is expected to move in parallel: small surpluses of 0.2 % of GDP and 0.3 % should appear in 1990 and 1991 respectively.

The improvement in the Community's external position is explained by a more favourable trend in the real balance and an improvement in the terms of trade. Member states are contributing differently to the overall Community trend. In particular, the current account balance of the United Kingdom is expected to improve in 1990, while that of Spain should experience a certain deterioration throughout the forecasting period.

* Notes: see page 15.

The Community's external environment: decelerating world growth and a slower expansion of world trade.

— In 1990, real GDP growth outside the EC will reach 2.2 %, almost one percentage point lower than last year. World economic growth will be depressed by the rather poor performance of the United States and the countries of Central and Eastern Europe.

Among the *EFTA* countries, a pronounced slowdown is expected in Norway and Finland, while the growth performance of Sweden should remain poor over the whole forecasting period. In the rest of the industrialized world, the *Australian* economy seems to be heading towards a marked deceleration.

The Countries in Central and Eastern Europe (*CCEEs*) are suffering from the fact that the old economic steering mechanisms are working less and less while economic reforms - if already decided - are not yet producing positive results. The negative effects on economic growth appear to be particularly pronounced in the *CCEEs* outside the *USSR*. The *OPEC* countries, too, will show some deceleration in economic activity, but should remain on a fairly strong growth path (+4 %). The *Dynamic Asian Economies* will be, at 6.6 %, somewhat less buoyant than last year, following a profile broadly in line with developments in their external markets. The group of other Asian developing countries is expected to maintain last year's growth rate of approximately 4 %.

In 1991, real GDP growth in the *non-EC economies* may accelerate by half a percentage point to around 2.7 %. The somewhat better outlook for the USA may, however, be offset by the expected deceleration in Japan. Therefore, the *OECD* region will not contribute to this improvement in world growth which is expected to come essentially from the *CCEEs* where the growth rate may return to almost 2 %. The *non-OPEC* developing countries - with the exception of Africa which continues on a decelerating path - may also improve their growth performance.

Growth of world trade (measured by real imports of goods) in 1990 will reflect the generally declining trend in real economic expansion and will be 1.8 percentage points lower than last year at 6.3 %. Although US imports are not expected to decelerate in 1990, imports of the *OECD*-area may be 2 percentage points lower than last year, due essentially to lower import growth in the EC and Canada and in particular to a very sharp

TABLE 22: Rates of change of demand components (EUR-12, 1989-91)¹ *

	Percentage change on preceding period at constant prices						
	1989	1990	1991	1990-I	1990-II	1991-I	1991-II
Private consumption	3,2	3,3	2,8	3,7	3,1	2,7	2,7
Government consumption	1,1	1,8	1,5	1,8	1,7	1,5	1,5
Fixed capital formation	6,7	4,6	4,1	5,7	3,4	3,8	5,1
— Construction	4,3	2,8	2,8	5,7	0,6	2,7	5,3
— Equipment	9,0	6,2	5,2	5,7	6,1	4,8	5,0
Change in stock as % of GDP	1,2	0,9	1,0	0,9	1,0	1,0	0,9
Domestic demand	3,7	3,0	2,9	3,0	3,2	2,7	2,9
Exports of goods and services	7,9	6,7	7,3	8,1	6,5	7,6	7,5
Imports of goods and services	8,6	6,5	6,4	7,5	6,0	6,7	6,2
Gross domestic product	3,4	3,0	3,1	3,1	3,2	2,9	3,3

¹ Half-yearly figures at annual rates, seasonally adjusted (1990-I = first half of 1990 etc.).

TABLE 23: Export markets and export performance (percentage change on preceding year, 1989-91) *

	Export markets			Export performance ¹		
	1989	1990	1991	1989	1990	1991
B	8,6	6,6	6,6	-0,1	-0,4	-0,2
DK	6,7	5,3	5,7	-0,6	-0,4	-0,6
D	8,4	9,9	10,0	1,5	-0,6	1,4
GR	8,0	6,2	6,5	-3,7	-0,6	-0,7
E	8,1	6,1	6,3	0,7	0,6	0,1
F	8,5	6,4	6,4	-0,4	-0,5	0,1
IRL	7,7	4,9	5,5	3,8	1,9	0,1
I	9,1	6,6	6,7	0,0	-1,0	-1,3
L ²	—	—	—	—	—	—
NL	7,5	6,1	6,5	-1,9	-0,8	-0,5
P	8,5	5,2	5,8	11,8	4,1	3,2
UK	8,3	6,3	6,3	-2,6	1,7	-1,3
EUR	8,3	7,3	7,5	-0,0	-0,2	-0,2
USA	8,3	5,0	5,6	3,7	2,8	2,5
JAP	8,9	6,6	6,9	-4,0	-2,5	-3,6

¹ Indices of export volume growth divided by indices of market growth (includes intra community trade).

² Included in the figures for Belgium.

TABLE 24: Imports of goods, volume (percentage change on preceding year, 1961-91) *

	1961-73	1974-81	1982-87	1988	1989	1990	1991
B	9,3	1,9	3,6	9,2	8,4	7,1	6,9
DK	7,9	-0,2	3,5	-0,1	4,8	3,4	3,5
D	8,8	4,0	3,9	6,5	8,4	10,3	10,5
GR	12,7	0,4	9,4	6,2	9,1	6,4	4,3
E	—	1,7	7,8	14,5	18,3	10,6	8,0
F	11,3	2,4	3,2	9,2	7,9	6,3	6,1
IRL	9,2	4,5	4,6	3,9	13,1	7,3	5,7
I	10,4	3,9	4,8	7,2	8,3	7,1	6,4
L	6,1	1,1	6,1	7,0	7,0	5,6	6,2
NL	9,4	1,3	4,4	7,4	5,6	5,6	5,4
P	—	—	—	17,7	11,5	9,4	9,1
UK	5,2	0,3	6,2	13,0	7,8	1,5	3,7
EUR	9,0 ¹	2,3 ²	3,9 ²	9,2	8,7	6,7	6,7
USA	9,4 ³	2,2	9,9	6,0	5,8	5,3	5,2
JAP	—	—	—	16,7	7,4	4,8	4,4

¹ Total excluding Spain and Portugal.

² Total excluding Portugal.

³ USA: average 1964-73.

TABLE 25: Exports of goods, volume (percentage change on preceding year, 1961-91) *

	1961-73	1974-81	1982-87	1988	1989	1990	1991
B	10,2	2,2	3,5	9,2	8,5	6,2	6,4
DK	6,8	4,7	3,4	6,0	6,1	4,9	5,1
D	8,0	4,7	2,6	6,2	10,0	9,2	11,5
GR	11,9	5,5	10,6	6,1	4,0	5,5	5,7
E	—	8,9	6,0	8,0	8,8	6,8	6,4
F	10,0	5,2	2,6	7,9	8,1	5,9	6,6
IRL	8,1	7,9	8,8	10,8	11,8	6,9	5,6
I	11,8	7,3	3,7	5,9	9,1	5,6	5,3
L	5,5	-0,8	7,8	9,0	8,3	5,6	5,5
NL	10,3	2,7	4,0	8,2	5,4	5,2	6,0
P	—	—	—	7,8	21,2	9,5	9,2
UK	5,0	3,5	4,1	1,4	5,5	8,1	4,9
EUR	8,9 ¹	4,8 ²	3,9 ²	6,3	8,3	7,1	7,2
USA	6,7 ³	5,1	4,9	20,5	12,3	7,9	8,2
JAP	—	—	—	4,4	4,5	3,9	3,0

¹ Total excluding Spain and Portugal.

² Total excluding Portugal.

³ USA: average 1964-73.

* Notes: see page 15.

deceleration in Australia. Another sharp deceleration of imports is expected in the *USSR*. Import growth of the *non OPEC developing countries* will also slowdown but remain significant at 6.7 %. Practically the only world regions with an import acceleration will be the *OPEC* countries and the *CCEE's outside the USSR*. The very strong import surge in this latter group, however, can be almost entirely attributed to the *GDR*.

USA: moderate growth and continued imbalances. — The United States economy is experiencing a 'soft landing'. Growth decelerated in 1989, and was barely 1 % (annual rate) during the fourth quarter. Business investment softened last year, as a delayed effect of the tightening of monetary policy during 1988 and early 1989. Export growth has also lost momentum, as the dollar has been stable and even appreciating somewhat during the past two years. As a result, supply pressures have eased, and inflation and unemployment have stabilised.

The forecast shows a gradual recovery from the current period of low growth. This implies real GNP growth of 2.1 % in 1990 and 2.3 % next year. Such a scenario is consistent with an inflation rate (4.5 % for consumer prices) that stays within the Fed's assumed range of tolerance. The unemployment rate should increase by 0.5 percentage points from its cyclical low at the end of 1989 (5.3 %).

The trade balance is projected to deteriorate again from early 1990 onwards, despite a fairly robust export performance. US import propensity is high, especially for consumer goods. Moreover, the terms of trade are likely to deteriorate due to weak prices for some of the main export categories. Due to increasing external indebtedness, the invisibles balance is also likely to worsen; consequently, the improving trend of the past few years in the current account balance is set to be reversed, and the deficit could reach about 2 % of GNP.

The Federal budget deficit is likely to stabilise in nominal terms during 1990. Next year, as the economy picks up again and some expenditure cuts are carried out, there could be a reduction of some \$30 bn. Although this is still far from the Gramm-Rudman targets, next year's general government deficit (including the state and local government surplus) will have fallen to 1.3 % of GNP, compared to 2 % in 1989.

Japan: Strong growth, but continuing concern at financial and monetary developments. — In 1990 the Japanese economy is expected to lose steam, due inter alia to capacity constraints, tensions on the labour market and unsolved problems in the financial and monetary sphere. Nevertheless real GDP is expected to grow at a rate of 4.3 %.

The tight conditions on the labour market will lead to higher wage increases than last year (present wage claims are around 8-9 %, combined with claims for reduced working time) and higher non-wage labour costs. Higher import prices, due to the considerably lower Yen, and the increase of the discount rate on March 20 by a full point are additional factors leading to a substantially smaller than expected profit expansion and to a downward revision of private investment projects. Therefore, real private capital formation will grow by almost 9 1/2 %, notably less than last year, but continuing to enjoy a strong momentum. Since wage settlements will be considerably higher than last year and the negative effects of the consumption tax are tapering off, private consumption will accelerate.

TABLE 26: Trade balance total (fob/cif)* (in billions of ecus)

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	-0,1	-3,8	-5,5	-4,0	-4,8	-3,7	-0,2	-0,7	-0,1	-0,7	-0,8	-1,5
DK	-0,7	-2,4	-1,6	-0,2	-0,7	-1,5	-1,5	0,2	1,3	1,7	2,5	3,0
D	3,6	14,6	21,6	18,5	24,1	33,0	53,1	57,0	61,8	65,0	64,8	62,4
GR	-0,9	-4,1	-5,8	-5,8	-6,1	-7,4	-5,8	-5,6	-5,5	-6,7	-7,2	-7,7
E	-1,9	-8,6	-11,2	-10,6	-4,7	-5,6	-6,3	-8,7	-17,1	-24,5	-28,3	-32,2
F	-0,8	-11,2	-23,5	-15,5	-13,1	-13,5	-9,2	-12,6	-8,9	-12,8	-14,2	-14,8
IRL	-0,4	-1,5	-1,6	-0,6	0,0	0,5	1,0	2,0	2,7	3,0	3,1	3,3
I	-1,3	-8,4	-12,8	-8,5	-13,9	-16,0	-2,5	-7,5	-8,9	-11,2	-11,9	-14,0
L¹	---	---	---	---	---	---	---	---	---	---	---	---
NL	-1,0	-0,3	3,7	4,5	4,3	3,9	4,6	1,1	3,1	2,5	3,4	4,0
P	-0,5	-3,4	-5,4	-4,0	-3,5	-2,7	-2,3	-3,7	-5,8	-6,0	-6,2	-6,9
UK	-2,7	-7,0	-3,3	-9,7	-14,2	-11,9	-19,9	-20,9	-36,9	-40,3	-30,8	-30,1
EUR	-6,6	-36,0	-45,5	-35,8	-32,6	-24,7	11,0	0,8	-14,2	-29,9	-15,8	-9,9

¹ Included in the figures for Belgium.

TABLE 27: Trade balance intra-EC (fob/cif)* (in billions of ecus)

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	0,5	0,9	1,8	0,6	0,1	-1,4	1,9	1,0	0,7	1,1	1,3	0,7
DK	-0,3	-1,3	-0,8	-0,2	-1,2	-2,1	-2,2	-1,0	-0,2	-0,4	0,2	0,4
D	1,4	5,7	10,5	6,1	7,8	9,5	20,3	26,2	39,0	45,5	48,6	49,3
GR	-0,5	-1,7	-2,8	-2,6	-2,6	-3,2	-3,1	-3,1	-3,0	-3,4	-3,6	-3,9
E	-0,7	-0,7	-0,1	0,3	3,2	2,6	-0,6	-3,5	-6,7	-10,1	-12,4	-14,6
F	-0,1	-4,8	-14,3	-12,8	-13,4	-15,3	-14,0	-14,7	-4,4	-6,5	-6,5	-6,6
IRL	-0,2	-1,0	-1,5	-0,7	-0,2	-0,1	0,6	1,8	3,0	4,0	4,2	4,6
I	0,0	-1,0	-1,9	-0,5	-4,2	-6,4	-3,3	-4,8	-5,3	-6,5	-6,1	-7,8
L¹	---	---	---	---	---	---	---	---	---	---	---	---
NL	0,2	8,3	14,4	16,1	19,5	19,9	15,5	12,4	11,4	13,1	14,5	16,8
P	-0,3	-1,3	-1,9	-0,9	-0,3	0,0	-0,7	-1,7	-3,5	-3,7	-4,1	-4,4
UK	-0,4	-1,5	-1,2	-3,8	-4,5	-3,6	-12,7	-13,0	-22,4	-24,3	-19,7	-19,4
EUR	-0,4	1,6	2,1	1,6	4,2	-0,1	1,6	-0,6	8,6	8,8	16,3	14,9

¹ Included in the figures for Belgium.

TABLE 28: Trade balance extra-EC (fob/cif)* (in billions of ecus)

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	-0,6	-4,8	-7,9	-5,2	-5,1	-2,6	-2,6	-2,0	-0,9	-1,8	-2,1	-2,2
DK	-0,3	-1,1	-0,8	0,0	0,5	0,6	0,7	1,2	1,5	2,1	2,3	2,6
D	2,2	8,7	10,5	11,9	15,8	22,9	32,5	30,5	22,8	19,5	16,2	13,2
GR	-0,4	-2,3	-3,1	-3,2	-3,6	-4,2	-2,7	-2,6	-2,5	-3,3	-3,6	-3,8
E	-1,2	-8,0	-11,4	-11,1	-7,9	-8,3	-5,9	-5,7	-10,4	-14,4	-15,9	-17,5
F	-0,7	-6,4	-9,2	-2,7	0,3	1,9	5,0	2,4	-4,6	-6,3	-7,7	-8,1
IRL	-0,2	-0,5	-0,2	0,0	0,1	0,4	0,4	0,2	-0,3	-1,0	-1,1	-1,3
I	-1,3	-7,7	-11,8	-8,8	-10,3	-10,2	0,6	-3,0	-3,6	-4,7	-5,7	-6,2
L¹	---	---	---	---	---	---	---	---	---	---	---	---
NL	-1,2	-9,1	-11,9	-13,0	-16,6	-17,4	-11,7	-11,9	-8,3	-10,5	-11,1	-12,8
P	-0,2	-2,1	-3,5	-3,1	-3,2	-2,7	-1,7	-2,0	-2,3	-2,3	-2,1	-2,4
UK	-2,3	-5,5	-2,1	-5,9	-9,7	-8,2	-7,2	-8,0	-14,5	-16,0	-11,1	-10,8
EUR	-6,3	-38,8	-51,3	-41,1	-39,8	-27,8	7,4	-0,7	-22,8	-38,8	-32,1	-24,8

¹ Included in the figures for Belgium.

TABLE 29: Balance on current account (as percentage of GDP, 1961-91)*

	1961-73	1974-81	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
B	1,1	-2,1	-3,7	-0,8	-0,6	0,3	2,0	1,2	1,0	1,0	1,0	0,7
DK	-2,0	-4,0	-4,2	-2,6	-3,3	-4,6	-5,5	-3,0	-1,8	-1,8	-1,3	-0,8
D	0,7	0,5	0,5	0,7	1,3	2,6	4,4	4,1	4,1	4,5	4,3	5,1
GR	-2,9	-2,3	-4,4	-5,0	-4,0	-8,2	-5,3	-3,1	-1,7	-4,9	-4,6	-4,6
E	-0,2	-2,3	-2,5	-1,5	1,4	1,6	1,7	0,1	-1,1	-2,9	-3,6	-3,9
F	0,4	-0,3	-2,1	-0,8	0,0	0,1	0,5	-0,3	-0,4	-0,4	-0,3	-0,2
IRL	-2,5	-9,9	-10,6	-6,9	-5,8	-4,0	-2,9	1,3	1,8	1,6	1,2	0,7
I	1,4	-0,8	-1,6	0,3	-0,6	-0,9	0,5	-0,2	-0,6	-1,3	-1,1	-1,5
L	6,8	25,0	34,4	39,3	38,9	43,5	39,4	31,6	34,3	32,1	30,0	28,0
NL	0,5	1,4	3,2	3,1	4,2	4,1	2,7	1,4	2,4	3,2	3,0	3,1
P	0,4	-8,5	-13,5	-8,3	-3,4	0,4	2,4	-0,4	-4,4	-1,2	-1,2	-1,8
UK	-0,1	-0,3	1,4	0,9	-0,2	0,6	-0,8	-1,9	-4,1	-4,1	-3,0	-2,8
EUR	0,4	-0,4	33,1	0,1	0,3	0,7	1,4	0,7	0,2	0,0	0,2	0,3
USA	0,5	0,3	0,0	-1,0	-2,4	-2,9	-3,2	-3,4	-2,4	-1,8	-1,8	-1,8
JAP	0,6	0,3	0,7	1,8	2,8	3,7	4,3	3,7	2,8	2,2	2,1	2,0

* Notes: see page 15.

TABLE 30: World GDP/GNP (at constant prices)

	Percentage change on preceding year					
	1986	1987	1988	1989	1990	1991
EUR	2,6	2,9	3,8	3,4	3,0	3,1
USA	2,8	3,7	4,6	3,0	2,1	2,3
Canada	3,2	4,4	5,0	2,9	2,0	2,1
Japan	2,5	4,2	5,7	4,8	4,2	3,4
EFTA	2,3	2,1	3,1	3,6	2,2	2,0
Total OECD	2,7	3,5	4,4	3,5	2,8	2,8
CCEEs	3,0	1,4	4,1	1,9	-0,4	1,9
OPEC	-0,8	2,3	3,3	4,5	4,0	4,0
Other developing countries	5,9	4,3	5,4	3,4	3,1	4,2
— DAE's	8,8	11,7	9,4	6,9	6,6	6,8
— other Asia	7,9	3,1	9,5	4,0	4,0	4,2
— Latin America	3,8	3,2	0,0	1,0	0,0	3,4
— Africa	2,6	1,0	2,0	2,6	2,4	2,0
World	2,9	3,2	4,4	3,3	2,4	2,9

TABLE 31: World imports of goods (at constant prices) *

	Percentage change on preceding year					
	1986	1987	1988	1989	1990	1991
EUR	6,7	8,8	9,2	8,7	6,7	6,7
USA	13,9	6,5	6,0	5,8	5,3	5,2
Canada	5,3	9,1	14,5	7,0	3,5	4,7
Japan	10,6	9,1	16,7	7,4	4,8	4,4
EFTA	7,1	6,1	-3,7	6,0	4,9	4,7
Total OECD	8,1	7,9	8,2	7,8	5,6	5,8
CCEEs	-3,5	-2,7	6,0	8,3	16,3	22,7
OPEC	-20,7	-2,0	2,9	3,0	5,0	6,0
Other developing countries	0,5	8,8	13,3	9,2	6,7	6,9
— DAE's	12,0	22,3	21,4	12,5	9,5	9,5
— other Asia	-10,4	-3,4	8,7	7,0	4,5	5,0
— Latin America	3,2	3,2	2,5	6,0	2,5	5,0
— Africa	-7,9	0,1	6,3	4,0	4,0	1,0
World	4,6	7,2	8,8	7,9	6,1	6,5
World excluding EUR	3,4	6,4	8,6	7,4	5,8	6,5

TABLE 32: World balances of current account (in billions of US dollars)

	1986	1987	1988	1989	1990	1991
EUR	68,9	37,9	15,2	0,2	9,4	18,8
USA	-135,9	-150,9	-117,5	-96,1	-101,3	-108,9
Canada	-7,5	-7,7	-8,8	-16,2	-18,0	-18,5
Japan	85,8	87,1	79,7	57,0	57,8	59,0
EFTA	-7,3	-8,0	-10,4	0,2	-0,6	-2,6
Total OECD	-2,1	-46,0	-43,6	-72,2	-68,1	-68,7
CCEEs	0,4	5,4	3,5	-3,0	-14,6	-32,0
OPEC	-21,7	-8,0	-17,1	4,3	3,6	6,8
Other developing countries	-20,2	10,1	0,6	-8,7	-13,8	-7,0
— DAE's	22,4	32,0	25,3	19,1	18,7	23,6
— other Asia	-17,6	-6,2	-7,5	-12,5	-17,0	-19,1
— Latin America	-14,0	-8,2	-5,4	-4,4	-1,9	
— Africa	-11,0	-7,5	-11,8	-9,9	-11,1	-9,6
Errors and omissions	-43,6	-38,5	-56,6	-79,7	-92,8	-100,9

TABLE 33: World trade balances (fob-fob, in billions of US dollars)

	1986	1987	1988	1989	1990	1991
EUR	43,2	36,1	21,0	9,2	30,4	45,2
USA	-143,4	-157,4	-127,1	-111,3	-116,2	-122,9
Canada	7,6	9,1	8,8	4,0	3,7	4,0
Japan	92,8	96,4	95,0	77,1	76,9	79,2
EFTA	-5,0	-5,5	-8,5	-5,3	-5,9	-7,6
Total OECD	-9,8	-24,5	-11,7	-31,1	-13,5	-4,2
CCEEs	1,1	6,4	3,4	-1,8	-16,6	-36,3
OPEC	17,8	35,0	24,9	46,3	46,6	51,8
Other developing countries	-0,7	21,8	17,2	11,3	8,2	14,0
— DAE's	21,4	29,5	22,6	16,1	14,7	18,6
— other Asia	-34,1	-22,3	-24,0	-25,5	-28,0	-30,1
— Latin America	15,0	18,2	25,3	27,5	29,6	32,1
— Africa	-3,0	-3,6	-6,7	-6,9	-8,1	-6,6
Errors and omissions	8,4	38,7	33,8	24,7	24,8	25,4

* Notes: see page 15.

TABLE 34: Trade balances (fob-fob) EC, USA and Japan *

	1986	1987	1988	1989	1990	1991
as a % of GDP						
EUR	1,1	0,6	0,3	0,2	0,5	0,7
USA	-3,5	-3,6	-2,6	-2,1	-2,1	-2,1
Japan	4,7	4,1	3,3	2,7	2,9	2,7
in billions of US dollars						
EUR	43,2	36,1	21,0	9,2	30,4	45,2
USA	-143,4	-157,4	-127,1	-111,3	-116,2	-122,9
Japan	92,8	96,4	95,0	77,1	76,6	79,2
in billions of ecus						
EUR	43,9	31,5	17,8	8,4	24,9	36,3
USA	-145,7	-137,4	-107,7	-101,1	-95,2	-98,8
Japan	94,3	84,1	80,5	69,9	63,0	63,7

In spite of favourable trends in the 'fundamentals' of the real economy, a number of temporary factors have been weakening the Yen exchange rate since the end of 1988. The reversal of the speculative rising trend on the Tokyo stock exchange has recently further depressed the Japanese currency. If these factors result in a relatively weak Yen (as assumed in the forecast), the substantial decrease in the trade and current balance surplus in dollar terms during the last year - stemming to a large extent from 'J-curve' effects resulting from the Yen depreciation - may well be reversed. Next year, the current account surplus could still be around 2 % of GDP.

An export of capital of such magnitude can be considered appropriate for a highly developed country like Japan, provided that the surplus is increasingly used to support the efforts of the developing countries and the reforming countries in Central and Eastern Europe. Furthermore, the favourable rates of return in South East Asia and reduced interest rate differentials between the USA and Japan may increasingly produce a welcome regional restructuring of the Japanese external surplus.

Main assumptions. — Demand for *oil* is expected to remain fairly strong in 1990, but increased supplies are planned by non-Opec producers. Supplies from the USSR have, on the other hand, been down for some time and may still drop substantially, e.g. as a consequence of renewed strikes. Nevertheless worldwide production capacities still appear sufficient to respond to any increase in demand. Oil prices are thus expected to be relatively flat in 1990. However, short-term price fluctuations of 2 or 3 USD/bl around this level are not unlikely. For 1991 a modest rise in oil prices is assumed.

Dollar prices of *non-oil commodities* will be weak in 1990, unless negative climatic developments intervene so as to limit supply. In 1991 these prices will probably rise moderately.

As usual, this forecast is based on the technical assumption that *exchange rates* will remain constant throughout the forecast period. More precisely, the assumption is of stability in real terms at the levels of end February 1990 between the US-dollar and the group of currencies participating in the ERM and stability in nominal terms for all European (intra- and extra-Community) currencies except the Greek drachma and the Portuguese escudo which are assumed to remain stable in real terms. This assumption implies a lower dollar over the forecast period than projected in autumn (DM1.67 per USD on average for 1990 and DM1.64 per USD for 1991).

The forecast is also based on a 'no-policy-change' assumption. This implies that monetary policies maintain their present stance throughout the period. Budgetary policy for 1990 and 1991 is assumed to be an extrapolation of present trends except where discretionary measures have already been decided and announced.

TABLE 35: Interest and exchange rates assumptions *

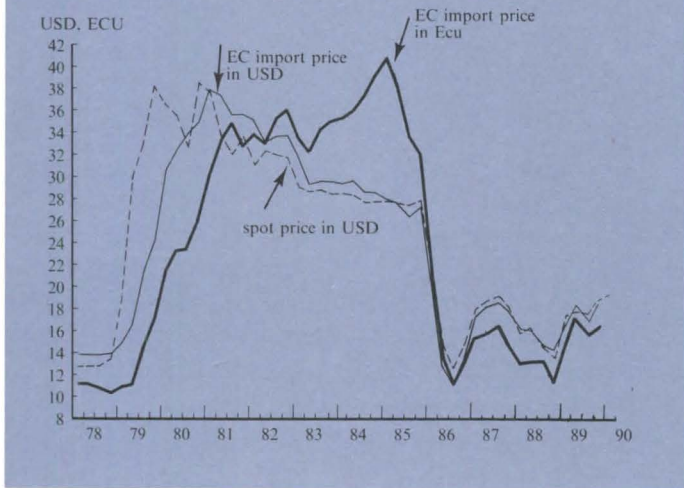
	1986	1987	1988	1989	1990	1991
Annual rates in percentage points						
Rates of interest (US)						
— Short-term ¹	7,5	6,0	6,8	8,4	8,0	8,0
— Long-term ²	10,8	8,1	9,0	8,5	8,5	8,6
Percentage change on preceding year						
Exchange rate of USD						
— Vis-à-vis ECU ³	-22,5	-14,1	-2,9	7,1	-9,7	-1,8
— Vis-à-vis YEN ³	-29,1	-13,2	-12	7,6	12,6	-0,5

¹ 13-week US treasury bills.

² US 10 year-bonds.

³ + (-) signifies an appreciation (depreciation) of the USD.

GRAPH 9: Crude oil prices



Concerning *German Economic, Monetary and Social Union* (GEMSU), it is assumed that implementation will begin in the middle of 1990 as the East-German currency is replaced by the Deutsche Mark. Large budgetary transfers from West Germany will take place to ease the social impact of the transformation, but a substantial deficit on the East German budget may still appear. As a result of these unification measures, the GDR demand for West German exports will increase gradually and reach a level equivalent to 1.75 % of West German GDP in 1991. Immigration to the Federal Republic of Germany, after a total influx and 720.000 in 1989, is expected to slow down to about 650.000 persons in 1990 and 540.000 in the course of 1991.

Risks. — The forecast for the Community economy which is presented in this document is based upon the balance of conflicting forces. On the one hand, there is the general healthier state of economic fundamentals and the positive impulses coming from the completion of the internal market and the liberalisation of the Eastern European economies. On the other, there are the appreciation of the European currencies, tight monetary conditions and higher labour costs.

The uncertainties surrounding the forecasts are larger than usual. As is always the case, the outcome of the forecasts depends crucially on the technical assumptions concerning exchange rates. In this area, the persistence of large payments imbalances constitutes a potential source of disturbance which might be intensified by the effects which new investment opportunities in the East may have on capital flows. The assumptions concerning oil and raw material prices are also fraught with risks.

On this occasion however, the single largest source of uncertainty lies within Europe. GEMSU confronts forecasters with new problems of which they have no previous experience. At the time these projections were completed, the details of this historic transformation were still being negotiated and so had to be replaced by assumptions. However, knowledge of the institutional arrangements still provides only limited guidance to forecasting the behaviour of economic agents reacting to an entirely new environment.

The stimulus to the German and the European economies will depend upon the behaviour of consumers and firms. There is great uncertainty surrounding the future consumption behaviour of GDR households when their savings have been converted to DM. The high level of pent-up demand, on the one hand, and the uncertainties linked to the transition to a market economy, on the other, suggest opposing responses. The response of private firms to the opening up of new investment opportunities will obviously depend on the speed with which the GDR economy is transformed and the prospects for profitable investment. However, it is extremely difficult to quantify the size of the additional demand that will arise from this channel and the extent to which investment in the GDR might crowd out other investment possibilities especially in the Federal Republic. The outcome, for both Germany and the rest of the Community, may well turn out to be substantially different from that presented in this forecast on the basis of rather cautious assumptions.

8 May 1990.

* Notes: see page 15.

TABLE 37: Demand components at constant prices⁽¹⁾ and contributions to real GDP growth⁽²⁾, EC Countries and EC, 1985-91 *

	1985	1986	1987	1988	1989	1990	1991		1985	1986	1987	1988	1989	1990	1991
B⁴ Demand components															
Private consumption	2,0	2,5	2,8	2,4	3,6	3,6	3,5								
Government consumption	2,6	1,2	1,2	-1,4	0,4	0,2	0,0								
Fixed capital formation	0,6	4,2	5,2	16,0	14,4	6,6	3,0								
— Construction	-0,4	2,0	5,5	14,7	13,2	3,3	0,3								
— Equipment	2,7	4,8	8,6	17,8	16,0	11,0	6,5								
Exports of goods and services	1,1	5,9	6,4	7,4	7,9	5,9	6,3								
Imports of goods and services	0,8	7,8	8,6	7,3	8,5	6,6	6,7								
GDP	0,9	1,6	1,9	4,3	4,5	3,0	2,5								
Contributions to growth															
Final domestic demand	1,8	2,5	2,9	4,0	5,0	3,7	2,9								
Stockbuilding	-1,3	0,4	0,6	0,3	0,0	0,0	0,0								
Foreign balance	0,3	-1,3	-1,6	0,0	-0,5	-0,7	-0,4								
DK⁴ Demand components															
Private consumption	5,0	4,1	-1,2	-1,1	-0,5	2,0	1,9								
Government consumption	2,5	1,5	2,0	-0,4	-0,5	-0,7	-1,0								
Fixed capital formation	12,6	16,2	-7,4	-6,5	-0,5	-0,8	2,1								
— Construction	8,9	17,5	-0,9	-3,1	-3,8	-3,8	0,5								
— Equipment	16,2	15,4	-14,5	-6,9	4,1	3,0	4,0								
Exports of goods and services	5,0	-0,3	4,7	5,3	6,2	5,2	5,1								
Imports of goods and services	8,1	6,4	-2,0	0,6	5,1	3,2	3,4								
GDP	4,3	3,1	-0,7	-0,4	1,1	2,0	2,1								
Contributions to growth															
Final domestic demand	5,5	5,7	-1,7	-2,0	-0,5	0,7	1,1								
Stockbuilding	-0,2	-0,1	-1,2	-0,2	1,0	0,3	0,1								
Foreign balance	-1,0	-2,4	2,4	1,8	0,6	1,0	0,9								
D⁴ Demand components															
Private consumption	1,4	3,4	3,5	2,7	1,7	4,0	3,4								
Government consumption	2,1	2,6	1,5	2,2	-0,8	1,0	0,5								
Fixed capital formation	0,1	3,3	2,2	5,9	7,2	6,4	4,3								
— Construction	-5,6	2,7	0,2	4,7	5,3	4,7	2,1								
— Equipment	9,9	4,3	4,1	7,5	9,7	8,4	7,0								
Exports of goods and services	7,0	-0,5	0,4	5,6	9,4	9,3	12,0								
Imports of goods and services	3,4	3,1	4,1	5,9	7,7	9,3	9,4								
GDP	2,0	2,3	1,8	3,7	3,4	3,7	3,7								
Contributions to growth															
Final domestic demand	1,2	3,1	2,7	3,2	2,3	3,8	2,9								
Stockbuilding	-0,3	-0,2	0,1	0,3	0,4	-0,3	-0,4								
Foreign balance	1,2	-1,1	-1,1	-0,0	0,7	0,3	1,2								
GR³ Demand components															
Private consumption	3,9	0,3	0,9	3,7	2,8	1,7	1,3								
Government consumption	3,2	-0,6	1,8	5,6	5,9	2,5	1,0								
Fixed capital formation	5,2	-6,2	-7,8	9,0	8,8	6,1	3,6								
— Construction	3,1	0,2	-4,9	7,7	9,1	5,0	2,5								
— Equipment	7,7	-12,6	-1,0	10,7	8,3	7,5	5,0								
Exports of goods and services	1,3	14,0	16,0	7,6	5,0	4,6	5,6								
Imports of goods and services	12,8	3,8	16,6	6,5	9,1	6,0	4,3								
GDP	3,1	0,8	-0,1	4,0	2,9	1,6	1,6								
Contributions to growth															
Final domestic demand	4,2	-1,1	-0,4	5,0	4,3	2,6	1,7								
Stockbuilding	1,0	-1,0	-0,7	0,8	0,2	-0,2	0,0								
Foreign balance	-3,6	1,7	-1,8	-0,5	-1,6	-0,9	-0,1								
E⁶ Demand components															
Private consumption	2,4	3,6	5,5	4,5	5,5	4,2	3,2								
Government consumption	4,6	5,7	8,7	5,0	5,5	3,2	3,0								
Fixed capital formation	4,1	10,0	14,6	14,0	13,6	9,6	8,0								
— Construction	2,0	6,5	10,0	13,5	13,3	10,1	8,6								
— Equipment	9,1	15,8	24,2	14,7	14,1	9,0	7,1								
Exports of goods and services	2,7	1,3	5,9	6,3	4,4	4,5	5,8								
Imports of goods and services	6,2	16,5	20,4	15,2	17,5	10,5	8,0								
GDP	2,3	3,3	5,5	5,0	4,9	3,8	3,6								
Contributions to growth															
Final domestic demand	3,0	5,0	7,7	6,8	7,4	5,5	4,6								
Stockbuilding	-0,1	0,9	0,7	0,4	0,4	0,0	0,0								
Foreign balance	-0,6	-3,2	-3,5	-2,7	-3,0	-1,7	-0,9								
F⁴ Demand components															
Private consumption	2,4	3,7	2,7	2,8	2,9	2,8	2,7								
Government consumption	2,3	1,7	3,0	2,2	2,8	3,0	2,4								
Fixed capital formation	3,2	3,3	3,7	7,5	5,1	4,6	3,9								
— Construction	0,6	2,5	3,3	4,3	3,0	1,9	1,6								
— Equipment	6,7	2,5	4,7	10,4	6,6	6,5	5,5								
Exports of goods and services	1,9	-1,1	3,0	7,4	10,1	6,9	7,3								
Imports of goods and services	4,5	7,0	7,7	7,6	8,4	6,7	6,3								
GDP	1,9	2,3	1,9	3,5	3,5	3,2	3,2								
Contributions to growth															
Final domestic demand	2,5	3,2	3,0	3,6	3,4	3,3	2,9								
Stockbuilding	-0,4	3,9	0,5	0,1	0,0	0,0	0,1								
Foreign balance	-0,6	-1,9	-1,2	-0,2	0,2	-0,1	0,1								
IRL⁵ Demand components															
Private consumption	3,7	2,5	2,5	3,2	4,9	4,1	3,1								
Government consumption	1,6	2,4	-3,8	-4,3	-3,0	0,2	0,4								
Fixed capital formation	-8,2	-3,0	-0,7	0,3	11,4	9,9	5,9								
— Construction	-9,7	-3,6	-6,7	-6,8	10,1	10,0	6,5								
— Equipment	-2,7	5,3	2,7	2,8	12,5	9,8	5,5								
Exports of goods and services	6,6	2,9	13,4	8,7	11,3	7,0	5,6								
Imports of goods and services	3,2	5,6	5,0	3,9	11,5	7,3	5,7								
GDP	2,3	-0,3	4,9	3,7	5,7	4,6	3,4								
Contributions to growth															
Final domestic demand	0,7	1,3	0,7	1,2	4,3	4,2	3,0								
Stockbuilding	-0,3	-0,1	-1,1	-1,0	0,6	0,0	0,0								
Foreign balance	1,9	-1,6	5,3	3,5	0,8	0,4	0,4								
I⁴ Demand components															
Private consumption	3,2	4,5	4,3	4,2	3,8	3,5	3,2								
Government consumption	3,5	2,9	3,6	3,0	0,5	2,5	2,5								
Fixed capital formation	1,4	1,6	6,8	4,9	5,1	4,5	3,8								
— Construction	-0,6	0,7	-1,3	3,7	3,6	2,5	2,5								
— Equipment	8,2	2,0	15,0	6,0	6,3	6,0	4,8								
Exports of goods and services	3,7	2,4	3,2	5,3	10,1	5,6	5,4								
Imports of goods and services	4,7	5,0	10,6	7,8	9,6	7,3	6,3								
GDP	2,6	2,5	3,0	3,9	3,2	3,1	2,8								
Contributions to growth															
Final domestic demand	2,8	3,6	4,7	4,2	3,6	3,7	3,3								
Stockbuilding	0,1	-0,4	0,2	0,5	-0,2	0,2	0,1								
Foreign balance	-0,2	-0,6	-1,8	-0,8	-0,3	-0,7	-0,6								

	1985	1986	1987	1988	1989	1990	1991
5 Demand components							
Private consumption	2,5	2,4	4,1	1,8	3,5	3,2	3,7
Government consumption	2,1	3,3	2,6	3,1	2,0	1,7	1,8
Fixed capital formation	-6,1	28,7	6,5	3,2	4,5	5,9	6,1
— Construction	4,7	6,0	4,6	9,9	4,8	5,2	4,5
— Equipment	-16,5	39,1	6,1	-4,0	4,1	6,7	8,1
Exports of goods and services	9,5	4,2	5,2	8,9	7,5	5,4	5,3
Imports of goods and services	7,1	4,2	7,4	7,6	6,7	5,4	6,0
GDP	2,9	4,4	2,8	4,3	4,6	3,7	3,2
Contributions to growth							
Final domestic demand	0,5	7,2	4,3	2,3	3,3	3,4	3,8
Stockbuilding	-0,3	-3,0	0,7	0,3	0,0	0,0	0,0
Foreign balance	2,6	0,2	-2,1	1,7	1,2	0,3	-0,6

	1985	1986	1987	1988	1989	1990	1991
1L4 Demand components							
Private consumption	2,4	3,2	3,1	1,2	3,4	3,7	2,7
Government consumption	1,3	2,5	2,0	-0,0	0,5	0,5	1,0
Fixed capital formation	6,7	7,9	0,7	9,8	4,5	3,2	2,0
— Construction	0,2	4,8	2,8	12,6	3,4	0,6	-0,6
— Equipment	16,1	11,3	1,1	6,3	5,9	6,4	5,2
Exports of goods and services	5,3	3,4	4,1	7,8	5,8	5,1	5,7
Imports of goods and services	6,5	3,6	6,1	7,0	5,5	5,6	5,2
GDP	2,6	2,0	1,1	2,7	4,0	3,5	3,1
Contributions to growth							
Final domestic demand	2,9	3,8	2,3	2,7	3,1	3,0	2,2
Stockbuilding	0,1	-1,8	-0,3	-0,8	0,6	0,8	0,4
Foreign balance	-0,4	0,0	-1,0	0,8	0,4	-0,2	0,5

	1985	1986	1987	1988	1989	1990	1991
7 Demand components							
Private consumption	0,7	5,6	5,4	6,6	3,3	3,5	3,7
Government consumption	0,1	7,2	4,9	5,3	1,5	2,0	2,0
Fixed capital formation	-3,5	10,9	15,1	15,0	8,3	8,5	7,8
— Construction	-6,0	8,7	10,5	10,1	7,5	8,5	7,0
— Equipment	-4,9	13,7	22,2	20,7	9,0	8,5	8,5
Exports of goods and services	6,7	6,8	8,6	10,2	16,8	8,1	8,0
Imports of goods and services	1,4	16,9	20,0	16,1	11,0	9,2	8,9
GDP	2,8	4,1	5,3	3,9	5,4	4,0	3,8
Contributions to growth							
Final domestic demand	-0,3	7,3	8,0	9,2	4,6	4,9	4,9
Stockbuilding	1,3	1,3	3,2	-0,8	-0,1	0,4	0,3
Foreign balance	1,8	-4,5	-6,0	-4,5	0,9	-1,3	-1,3

	1985	1986	1987	1988	1989	1990	1991
UK 5 Demand components							
Private consumption	3,7	5,6	5,4	6,9	3,8	2,4	1,6
Government consumption	-0,0	2,1	1,2	0,4	0,5	1,3	1,2
Fixed capital formation	3,9	1,9	8,8	13,1	4,8	-1,0	1,8
— Construction	-2,2	3,7	3,9	6,8	-2,7	-4,2	1,6
— Equipment	10,1	-1,8	7,2	21,1	12,0	1,7	1,9
Exports of goods and services	5,8	4,1	5,2	0,7	4,1	6,5	4,9
Imports of goods and services	2,4	6,7	7,7	12,3	7,1	1,5	3,6
GDP	3,7	3,5	4,7	4,1	2,3	1,6	2,4
Contributions to growth							
Final domestic demand	2,9	4,2	5,1	6,7	3,4	1,6	1,6
Stockbuilding	-0,1	0,0	0,1	0,7	-0,2	-1,4	0,4
Foreign balance	1,0	-0,7	-0,7	-3,4	-1,1	1,3	0,3

	1985	1986	1987	1988	1989	1990	1991
EUR Demand components							
Private consumption	2,6	4,0	3,9	3,9	3,2	3,3	2,8
Government consumption	2,1	2,5	2,6	2,0	1,1	1,8	1,5
Fixed capital formation	2,4	3,7	5,4	8,4	6,7	4,6	4,1
— Construction	-1,8	3,2	2,6	6,4	4,3	2,8	2,8
— Equipment	9,0	3,6	7,9	11,1	9,0	6,2	5,2
Exports of goods and services	4,5	2,0	3,9	5,5	7,9	6,7	7,3
Imports of goods and services	4,1	6,3	8,4	8,6	8,6	6,5	6,4
GDP	2,5	2,6	2,9	3,8	3,4	3,0	3,1
Contributions to growth							
Final domestic demand	2,4	3,6	3,9	4,5	3,6	3,3	2,9
Stockbuilding	-0,2	0,7	0,2	0,3	0,1	-0,2	0,0
Foreign balance	0,2	-1,2	-1,4	-1,1	-0,4	-0,1	0,1

- ¹ Percentage change on preceding year.
- ² Change as a percentage of GDP of preceding period.
- ³ 1970 prices.
- ⁴ 1980 prices.
- ⁵ 1985 prices.
- ⁶ 1986 prices.
- ⁷ 1988 prices.

Notes on technicalities, concepts and sources

1. Directorate General II 'Economic and Financial Affairs' regularly produces, under its own responsibility, short-term economic forecasts (treating the current and the following year). These forecasts cover the principle macro-economic aggregates of the Member States and of the Community as a whole, in addition to the international environment. Although the forecasts primarily serve as a support to the internal work of the Commission and its services, they also form the subject-matter of a regular publication in the Supplement A series 'Economic Trends' of 'European Economy'.
2. *Concepts and sources*
The sources for the tables and graphs are the Commission's services, except where otherwise indicated.
All figures for 1990 and 1991 are obviously forecasts.
The historical part of the time series presented in the tables (in the present case, until 1988) is based on ESA national accounts (European System of Integrated Economic Accounts) which are published once a year by Eurostat. In the prospective part (1989 estimates, 1990 and 1991 forecasts) the concepts are generally in line with national economic accounting practice and, therefore, do not always follow the ESA definitions.
Since October 1989, the rates of unemployment presented in table 18, both for the historical part and the forecast, are based on the definition of the Statistical Office of the European Communities (SOEC), which relies on labour survey data.
3. Community (EC) data are generally aggregated using Purchasing Power Standards (PPS). For aggregates at constant prices, 1985 PPS are used. The aggregation in the tables 'Current Balance as % of GDP' and 'GNP at Market Prices' is made using current exchange rates.

4. *Technical Notes*
The world *geographical zones* are defined as follows:
 - EFTA: Austria, Finland, Iceland, Norway, Sweden and Switzerland
 - OECD: EC, EFTA, USA, Canada, Japan, Australia, New Zealand and Turkey
 - Countries in Central and Eastern Europe (CCEE): Bulgaria, Czechoslovakia, GDR, Hungary, Poland, Romania, USSR and Yugoslavia
 - OPEC: Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela
 - Dynamic Asian Economies (DAE): Hong Kong, Korea, Malaysia, Singapore, Taiwan and Thailand
 - Other Asia: all except: DAE's, Indonesia, Iran, Iraq, Kuwait, Qatar, Saudi Arabia and UAE.
 - Latin America: all except: Ecuador and Venezuela
 - Africa: all except: Algeria, Gabon, Libya and Nigeria.

In the ESA definition of 'General Government' social security is included but public enterprises are excluded.

The employment statistics refer to the number of occupied persons except in the Netherlands where they refer to man-years.

In the 'imports' and 'exports' tables, the EC figures include both intra- and extra-Community trade.

Principal economic policy measures — March 1990

Community

12.3 The ECOFIN Council adopts two decisions relating to the implementation of the first stage of Economic and Monetary Union, concerning in particular economic convergence and cooperation between central banks.

15.3 The Commission adopts the guidelines which will govern new Community actions in regional policy concerning frontier zones, ultra-peripheral regions and the strengthening of research and technological development capacities (STRIDE programme).

20.3 The Commission adopts the Community Support Framework for Spanish regions in industrial decline. Seven regions will benefit from Community support worth a total of 650 million ecus.

27.3 The Commission announces the financing through the European Regional Development Fund (ERDF) of a series of regional projects in the Federal Republic of Germany, France and the United Kingdom for 190 million ecus. These projects form part of the actions aimed at helping regions in industrial decline.

30.3 The Commission and Hungary sign the first tranche (350 million ecus) of a loan of a total amount of 870 million ecus over five years. This loan is designed for a programme of structural adjustment and reform in Hungary.

Belgium (B)

1.3 The Council of Ministers adopts budget adjustment measures for 1990 (BFR 27.4 billion). The Treasury's net borrowing requirement is estimated at BFR 405.4 billion, or 6.3 % of GDP. Savings include cutbacks in all departments (BFR 9.8 billion), bringing forward the due date for advance payment on earned income tax from January to November-December (BFR 7.6 billion) and a reduction in transfers to social security funds (BFR 10 billion).

2.3 Belgium and the Grand Duchy of Luxembourg decide to abolish the two-tier exchange market (i.e. to discontinue arrangements for a market reserved for commercial transactions on which the National Bank intervened to avoid fluctuations due to speculation). There had been no significant difference between the two rates for some time.

23.3 The National Bank reduces the rate of interest on one-month, two-month and three-month Treasury certificates by 0.10 percentage points. The rate on three-month certificates becomes 10.3 %.

Denmark (DK)

23.3 Against the background of the recent considerable inflow of foreign exchange, the rate of interest for the banks' borrowing from and deposits with the Nationalbank is lowered by 1/2 per cent to 11 1/2 per cent for drawings on current-account and 10 1/2 per cent for deposits. In accordance with the wish for a gradual adjustment of the official discount rate to the level of the short-term market interest rate, the official discount rate is increased by 1 point to 8 per cent.

Federal Republic of Germany (D)

20.3 Emergency accommodation procedure for immigrants from the GDR to be abolished. According to the law of 1950, the West German Government is obliged to provide accommodation to every refugee from the GDR. As the basic conditions for this law no longer apply after the democratic elections in the GDR the law will cease to have effect as from 1 July 1990.

22.3 No integration allowances will be paid to immigrants who quit their job in the GDR. The President of the Bundesanstalt für Arbeit announces that Paragraph 119.1 of the 'Employment Promotion Act' (Arbeitsförderungsgesetz) will also be applied to immigrants from the GDR as from 1 April (with holding of allowances for 12 weeks from those unemployed who have voluntarily left their job).

28.3 Immigration procedure to be changed for immigrants from Eastern European countries. According to a draft legislation, adopted by the Federal Cabinet, potential immigrants from Eastern European countries will have to stay in their country until they have been accepted by West German authorities as being of German origin and until a state (Land) has agreed to give them accommodation.

28.3 Subsidies for East German students to be halved as from 1 April. For East German students who officially live in the GDR but study in the Federal Republic subsidies out of the 'Federal Education Promotion Act' (Bundesausbildungsförderungsgesetz) will be reduced to a maximum of DM 400/month, of which 20 % will be paid in Ostmarks.

28.3 The Bundestag adopts the Pension Adjustment Act. According to this Act, about 17.3 million pensions will be increased by 3.16 % as from 1 July.

Greece (GR)

22.3 By decision of the Governor of the Bank of Greece a series of measures were taken to improve the effectiveness of monetary policy and contribute to easing the balance of payments situation:

- from 1 April, the minimum interest rate for savings deposits rises from 15 % to 16 %;
- also from 1 April, the minimum interest rate for bank credit rises by 1 point; thus the minimum rate on overdrafts rises to 18 %, and that on medium and long term credit to 17 %;
- from 31 March, the compulsory reserve requirement of the Agriculture Bank rises from 3.5 % to 4.5 % of available funds;
- from 31 March, the proportion of deposits which commercial banks are required to invest in Treasury bonds rises from 39 % to 40 %;
- the proportion of deposits with commercial banks set aside for financing business and public bodies falls from 10.5 % to 9.5 % with effect from 30 April and 9 % with effect on 31 May.

Spain (E)

29.3 The Treasury increases the maximum yield on its 12-month securities by 0.27 % to 14.27 %.

France (F)

1.3 The 'Overborrowed Households Act' comes into force. Under this act, people who have run into excessively heavy debt may apply to one of the 'Committees on Overborrowing' set up under the authority of the Banque de France, so as to work out individually tailored plans of debt reduction. If no amicable settlement can be reached, the debtor or the creditor may ask for the matter to be settled by the Courts.

Ireland (IRL)

None.

Italy (I)

1.3 The Government renews the decree on urgent tax measures linked to the Finance Act; the new decree provides for only LIT 4 463 billion in tax revenue (a reduction of LIT 522 billion on the earlier figure).

Luxembourg (L)

9.3 The Government adopts a draft law with sanctions for insider trading, and announces plans to set up a stock exchange commission to supervise the stock market.

Netherlands (NL)

29.3 The Nederlandsche Bank reduces the rate on special advances from 8.3 % to 8.1 % in two stages.

1.4 The Nederlandsche Bank suspends arrangements for compulsory banking reserves (decision of 9 June with respect to net domestic credit expansion limits). These arrangements were inoperative because of the decline in money creation by banks.

Portugal (P)

15.3 The Council of Ministers approves legislation substituting indirect monetary control instruments for credit ceilings from 1 May 1990.

United-Kingdom (UK)

20.3 The March Budget offers no radical changes in taxation policy. The overall tax burden, compared to an indexed base, rises by a net UKL 500 million in 1990/91 and by UKL 1 billion in 1991/92:

- some excise duties and company car taxation are increased in real terms;
 - no changes in the basic and higher rates (25 % and 40 %, respectively) of personal tax;
 - introduction of tax-exempt savings accounts (TESSAs) aimed at small savers (tax-free interest on deposits of up to UKL 9 000 over five years);
 - the composite tax paid on bank and building society deposits to be abolished effective April 1991; the amount individuals can invest in Personal Equity Plans raised by 25 % to UKL 6 000;
 - abolition of turnover tax on securities transactions effective from late 1991;
 - inheritance tax threshold raised in line with inflation.
- Public sector debt repayment 1989-90 and 1990-91 is forecast at UKL 7 billion in each financial year. Total expenditure in 1990-91 and 1991-92 rises because of higher local government expenditure and higher interest rates. MO target rolled over (1.5 % growth p.a.).

Prices (excluding VAT) in Luxembourg

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