

EUROPEAN ECONOMY

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DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

Supplement A
Recent economic trends
No 5/6 – May/June 1992



*In this number:
Economic Forecasts
for 1992 and 1993¹*

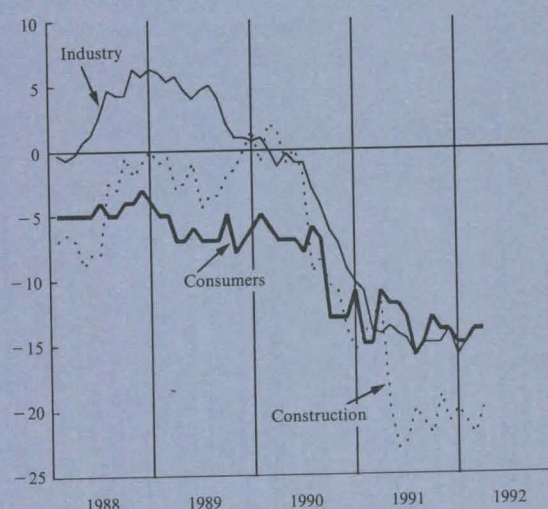
THE 1992-1993 ECONOMIC SITUATION IN BRIEF

The main features of the Commission services' Spring 1992 Economic Forecasts are as follows:

- In 1992, the Community is undergoing a second year of relatively weak economic activity with growth of real GDP picking up moderately to 1.7% against 1.3% last year. However, the recovery is expected to gather pace in the course of the year, leading to more sustained growth of 2.3% in 1993.
- The expected recovery is basically conditional on a moderate increase in private consumption resulting from the pent-up demand for consumer durables and a fall in the savings ratio. Investment, in residential construction in particular, is also expected to be mildly supportive to recovery. No positive contribution to growth is anticipated from the foreign balance.
- Divergences in individual Member States growth performances are set to narrow as the influence of exceptional factors like German unification and the UK recession wane.
- Total employment is forecast to fall slightly by 0.1% this year before recovering to growth of 0.4% next year. However, given expected increases in the civilian labour force of 0.5% and 0.9% in 1992 and 1993 respectively, unemployment is forecast to rise sharply to 9.5% of the labour force in 1992 and slightly further to 9.7% in 1993.
- Inflation as measured by the private consumption deflator is forecast to fall from 5.2% last year to 4.6% in 1992 and to 4.0% in 1993. The degree of inflation divergence between Member States is anticipated to narrow further.
- General government net borrowing is expected to increase from -4.3% of GDP in 1991 to -4.8% this year and to shrink marginally to -4.7% next year.
- The current account is forecast to remain in slight deficit of -3/4% of GDP in both forecasting years. A pick-up in extra-Community exports is expected to compensate for a sharp fall-off in the unification related German import boom.
- World output growth is expected to remain weak at only 1.3% this year before returning to more robust growth of 2.6% in 1993. The rate of growth of world trade (measured by import volumes) is forecast to increase by 4.4% and 5.5% in 1992 and 1993 respectively.

(1) This is a summary of the results of the Commission services' Spring forecasting exercise, based on data up to 6 May 1992. The earlier forecasts for 1992-1993 were summarized in Supplement A, No 11/12 of November/December 1991.

GRAPH 1: Confidence indicators - EUR



Source: EC business and consumer surveys.

Main features of Spring 1992 Economic Forecasts* - EUR (a)

	1988-89	1990	1991	1992	1993
GDP growth	3.7	2.8	1.3	1.7	2.3
Investment	7.8	4.2	-0.1	0.7	2.5
Employment	1.6	1.6	0.2	-0.1	0.4
Unemployment rate (b)	9.3	8.3	8.9	9.5	9.7
Inflation (c)	4.3	4.8	5.2	4.6	4.0
Net borrowing (d)	-3.3	-4.0	-4.3	-4.8	-4.7
Current balance (e)	0.0	-0.3	-0.9	-0.8	-0.9

(*) Real % change p.a. unless otherwise stated.

(a) EUR including West Germany, unless for the current balance and net borrowing which include unified Germany from 1991 onwards (see box for more details).

(b) As a percentage of civilian labour force.

(c) Deflator of private consumption, % change p.a.

(d) General government; as a percentage of GDP.

(e) As a percentage of GDP.

OVERVIEW

Like all major industrial countries, the economy of the European Community is undergoing a protracted phase of weak economic activity, which in the case of the Community commenced in early 1990. Short-term economic prospects are for a gentle recovery only, possibly starting in late spring or early summer of this year. As such, the outlook for the current year is less encouraging than appeared at the time of the last forecasts (Autumn 1991), since the then identified downside risks have, at least, partly materialized. As a result, the general picture emerging from the Spring 1992 forecast is a Community economy characterized by slow economic growth, deteriorating employment/unemployment conditions, some but insufficient progress towards price stability and little or no progress towards sounder public finances.

On average, economic growth in the twelve member countries is now forecast to recover to 1.7% in 1992 and to strengthen further to 2.3% in 1993, which is still well below the buoyant rates of growth experienced during 1986-90¹. Differences in growth rates among member countries, which were very substantial during 1990-91, are forecast to narrow significantly. In the absence of a strong rebound in economic activity, growth in employment is expected to turn slightly negative in 1992 and to pick up very moderately to half a percentage point in 1993. Consequently, the rate of unemployment, again on a rising trajectory since mid-1990, should climb further by more than half a percentage point to 9.5% of the civilian labour force in 1992 and to 9.7% in 1993.

On the other hand, a more positive picture emerges on the inflation front where pressures are expected to abate further throughout the forecasting period, with the price deflator of private consumption decelerating to 4% in 1993. The Community's overall trade and current account balances are anticipated to improve marginally though remaining in a slight deficit. Notwithstanding enhanced needs for fiscal consolidation in most member countries, particularly in view of Maastricht

exigencies, in the Community as a whole net borrowing of general government in proportion to GDP is expected to widen further by ½ a percentage point in 1992 and to shrink by only 0.1 point in 1993.

Under the influence of the 'classic' recovery forces, an essentially internally driven upswing is anticipated. It should be led by a moderate recovery in private consumption, mainly stemming from a pent-up demand for consumer durables. The resulting boost to economic activity should be supported by a certain pick-up in residential construction and a very mild recovery in business investment. The Community's external environment is also expected to become more supportive to Community growth. However, the benefits for the Community from the forecasted uptake in world output growth and trade are expected to be largely outweighed by the disappearance of the demand-pull effect of German unification.

A comparison with the Autumn 1991 forecast shows a considerable downward revision in the 1992 growth figures, but hardly any differences for 1993 apart from the obvious carry-over effects. It also reveals that the expected recovery is now relatively more dependent on an expansion in private consumption. Investment in construction, and equipment in particular, has been scaled down. In line with weaker output growth, employment is now expected to fall slightly instead of increasing by a ½% in 1992, leading to a corresponding higher rate of unemployment.

OUTLOOK FOR THE COMMUNITY ECONOMY

Gentle recovery in real GDP growth after mild but rather protracted downturn. — The present growth forecast for 1992 of 1.7% serves to confirm what has become increasingly apparent namely that the hoped-for recovery failed to materialise in the first months of the year. The Community economy has consequently settled into a period of protracted sluggishness. A contrast with the period of strong growth between 1985-1990 puts the scale of the present slowdown in perspective. The average annual growth of 3% over that six year period is exactly equal to the expected cumulative growth for the two years 1991-1992. The duration of the economic downturn has also taken forecasters by surprise. The growth forecast for 1992 has been successively scaled down from 2.5% in the Autumn 1990 forecast to the present figure of 1.7%.

¹ For the first time since German unification, the Commission services present an official forecast for the whole of Germany. However, for statistical reasons, this forecast does not cover all variables. Hence, apart from the accounts for general government and current transactions with the rest of the world, in this summary text, EC aggregates do not include the five new Länder. For more details, see box below on the treatment of Germany in the present forecast.

Treatment of Germany in the Spring 1992 Forecast

The treatment of Germany following unification continues to present some problems. On the one hand, the coalescence into an unified economic area makes it increasingly irrelevant and difficult to analyze economic developments in both parts of Germany separately. Furthermore, statistical data relating to West Germany only becomes progressively unavailable or risks becoming less reliable than that for the whole of Germany. On the other hand, in the foreseeable future, economic developments in West Germany are likely to remain the main focus of attention.

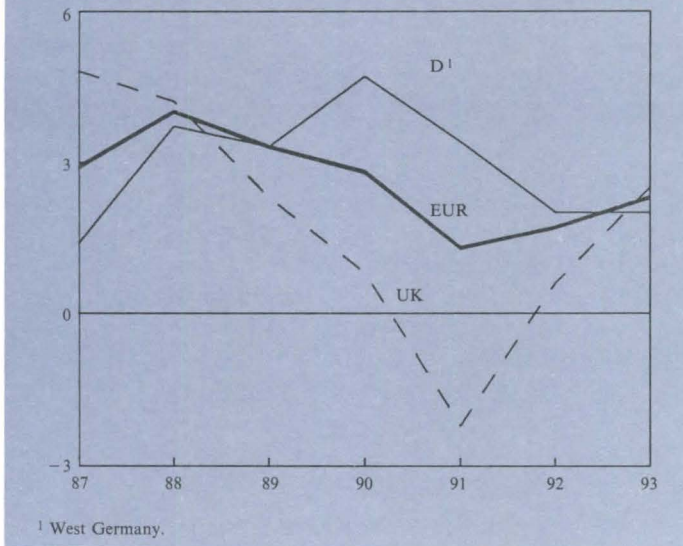
In view of the above considerations and the growing availability of statistical data for Germany including the five new Länder for the year 1991, the Commission services will henceforth produce forecasts for both West Germany (denoted by D) and the whole of Germany (denoted by D+). This in turn permits the presentation of two Community aggregates, one including West Germany only (EUR) and one covering the Community as it exists since October 1990 (EUR+)

The following summary tables set out the forecasts for the principal economic variables.

	West Germany			Unified Germany		
	1991	1992	1993	1991	1992	1993
Real GDP growth (% p.a.)	3.4	2.0	2.0	0.9	2.2	2.4
Priv. consumpt. defl. (% p.a.)	3.6	3.9	3.7	4.8	4.9	4.4
Unemployment rate (%)	4.3	4.4	4.9	8.0	7.9	7.9
Current account (% GDP)	0.8	0.3	0.1	-1.3	-0.9	-0.9
Net borrowing gen. govt. (% GDP)	-3.1	-3.4	-3.4	-2.9	-3.4	-3.2

	EUR excluding five new Länder			EUR including five new Länder		
	1991	1992	1993	1991	1992	1993
Real GDP growth (% p.a.)	1.3	1.7	2.3	0.8	1.7	2.4
Priv. consumpt. defl. (% p.a.)	5.2	4.6	4.0	5.5	4.8	4.1
Unemployment rate (%)	8.9	9.5	9.7	9.3	10.3	10.4
Current account (% GDP)	-0.4	-0.5	-0.6	-0.9	-0.8	-0.9
Net borrowing gen. govt. (% GDP)	-4.4	-4.9	-4.8	-4.3	-4.8	-4.7

GRAPH 2: GDP growth in the European Community
(real % change p.a.)



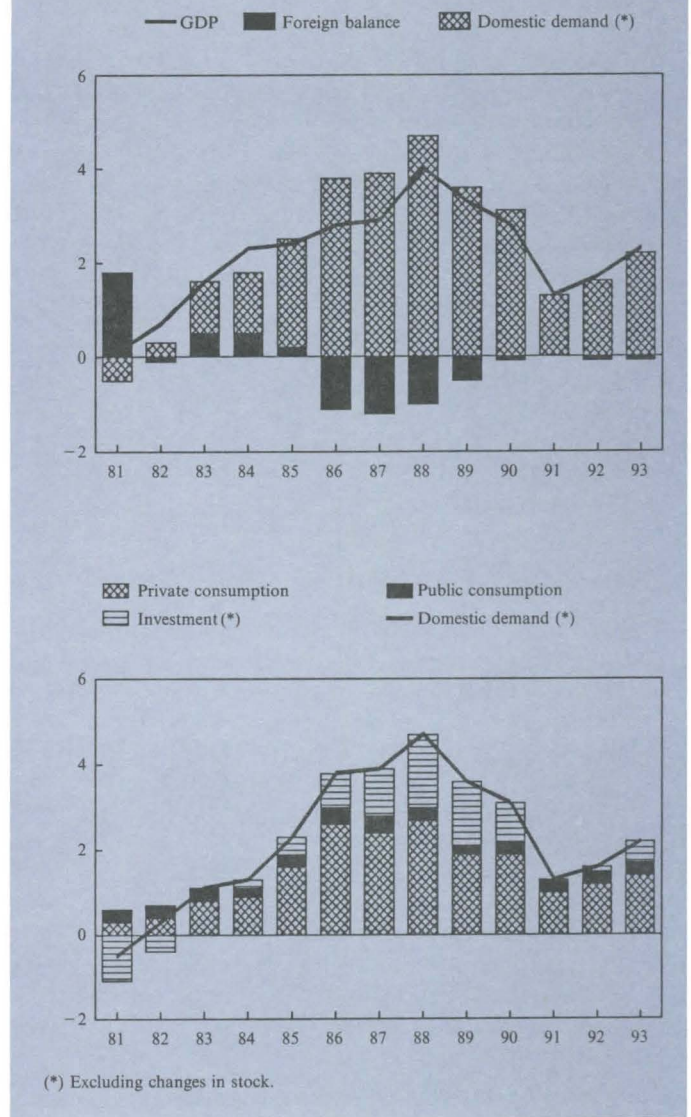
The extent of the downturn in economic activity should not however be exaggerated. The estimated outturn for 1991 and the predictions for 1992 do not compare with the outright recessions of the last two major downturns in 1974-75 and 1981-82. The aggregate outturn in 1991 was strongly influenced by the unification related boom in Germany, on the one hand, and the recession in the UK on the other. Last year, when the slowdown was expected to have reached its maximum strength, only the UK registered an actual fall (-2.2% of GDP) in annual output. The outturn in other Member States ranged from continued strong growth of 3.4% in West Germany (buoyed by an exceptional first quarter) to weak growth of between 1-1¼% in Denmark and France. The remaining Member States were in-between these two extremes.

The weak economic activity in 1991 has continued into the early part of this year. However, an internally driven upturn is taking shape. This will lead to a gradual strengthening of domestic demand in the course of 1992. The recovery will however be weak, particularly in relation to previous upturns. Firstly, the carry-over from 1991 will result in particularly weak output growth in the first half of this year. Secondly, the upturn is domestically driven, fuelled largely by a moderate pick-up in private consumption, and no significant impulse from the external sector is anticipated. Finally, both monetary and fiscal policy remain oriented towards price stability and convergence.

With the bottoming out of the recession in the UK and the end of the unification related import boom in Germany, divergences in growth performance are set to narrow sharply. The best growth performances in 1992 of about 2½% are expected in Denmark, Spain, and Luxemburg. The majority of Member States are expected to register growth in the range of 1½-2%. Finally the UK is forecast to return to growth of ½% in 1992. In 1993, almost all Member States are forecast to register much improved growth figures as the recovery strengthens. The UK should emerge from recession with growth of 2½%, though somewhat below the expected outturn in Denmark, Spain, Luxemburg and Portugal. All the other Member States, excluding the Netherlands (1¾%), are forecast to achieve growth in the region of 2-2½%.

Private consumption forecast to pick up as recovery gets underway, while budgetary constraints continue to restrain government consumption. — Private consumption is forecast to grow by 1.9% in

GRAPH 3: Contributions to change in real GDP – EUR
(as % of real GDP of previous period)

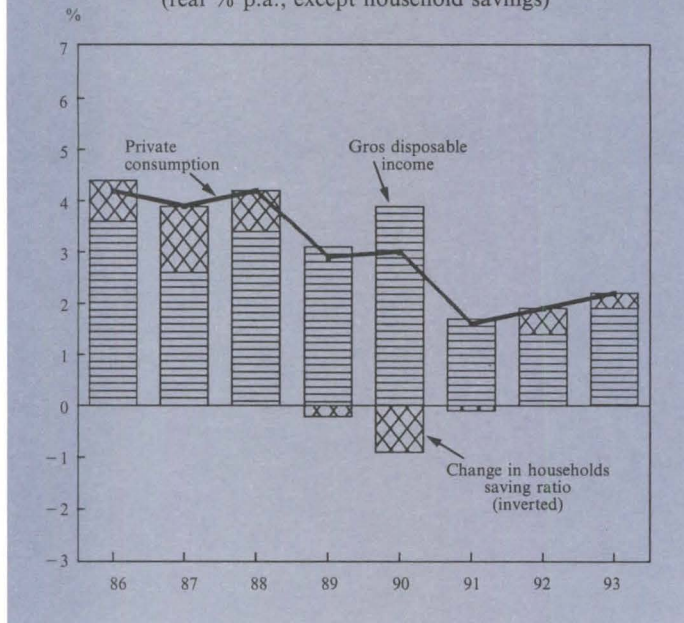


1992, up from 1.6% last year. However, this slight acceleration masks more substantial variations in the determinants of private consumption. *Real disposable income* is actually forecast to decelerate to 1.4% in 1992 from 1.7% in 1991. This is due to the moderation of nominal wage increases, the stagnation in employment and, in certain countries, increased taxation. However, the impact of this fall is expected to be compensated for through a reduction in the *households savings ratio* of half a percentage point. This reduction should result from the improvement in the economic climate and the resumption of spending as individuals catch up on previously postponed purchases of consumer durables.

In 1993, private consumption is set to accelerate to 2.2% as real disposable income picks up again to 1.8% and the households savings ratio is anticipated to drop by another ¼ of a point (see Graph 4).

Government consumption is projected to increase by 1.7% annually over the forecasting period. The UK will witness a sharp increase in public consumption to 3% both this year and next. In West Germany, reduced military expenditure and the distribution of federal expenditures — in terms of national accounts — between East and West according to population, will help restrict the rate of growth to 0.9% and 1.4% in 1992 and 1993 respectively.

GRAPH 4: Private consumption and its determinants – EUR
(real % p.a., except household savings)



Denmark, Greece and the Netherlands are expected to register a cumulative decline of about ½% in real terms in government consumption over the forecasting period.

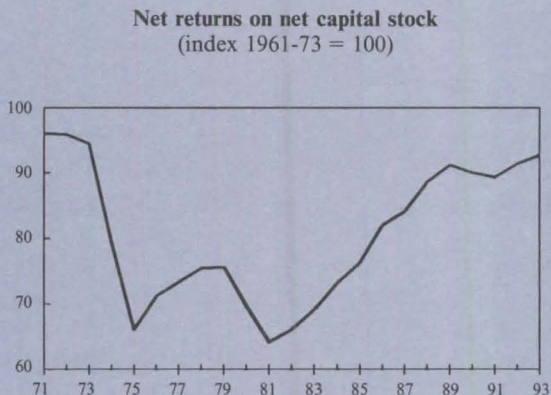
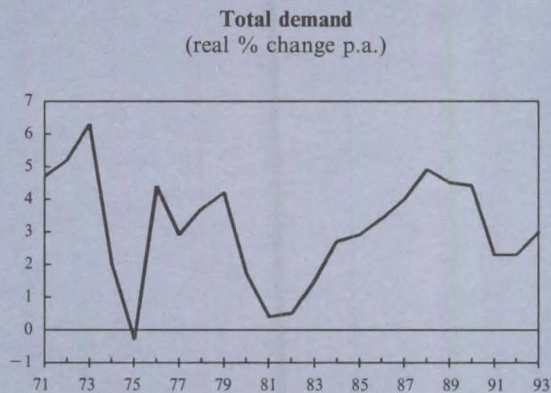
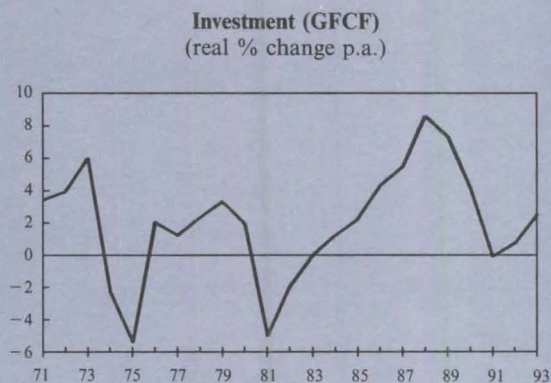
Investment, for several years the most dynamic component of growth, fell sharply in 1991 and is forecast to remain weak in 1992-93. — The rate of growth of investment has fallen sharply from an annual average of 6% between 1986-90 to -0.1% in 1991. An anaemic recovery to only 0.7% growth is forecast for 1992. This should strengthen to 2.5% in 1993 as economic conditions improve. The contribution of investment to GDP growth reflects these trends, falling from an average of 1.2 percentage points annually between 1986-90 (almost 40% of total growth) to an expected 0.1 and 0.5 percentage points in 1992 and 1993 respectively.

As can be expected at a turning point in economic activity, investment has fluctuated widely relative to the other components of demand. While the current forecasts for the other major components of domestic demand in 1992 — private and public consumption and exports — do not differ significantly from the Autumn 1991 forecasts, the figure for investment has had to be revised sharply downwards from 2.2% to 0.7%. Combined with an equally sharp downward stock adjustment, the revised figures for gross capital formation account almost entirely for the reduction of 0.5 percentage points in the forecast for GDP growth in 1992 from the Autumn 1991 forecast.

The factors behind the sharp fall in investment in 1991 are well known. Firstly, there was a considerable weakening of domestic demand and a cyclical slowdown in investment following its very strong growth between 1986-1990. Secondly, capital profitability deteriorated due to rising real unit labour costs. Finally, the continued tightening of monetary policy further dampened investment spending. Some of these factors will continue to act as a brake on a strong recovery of investment and thus account for the weakness of the forecast recovery.

On the positive side, demand factors will recover owing largely to the pick-up in private consumption outlined above. This recovery will strengthen as the forecasting period progresses and confidence as well as the international environment improve. Capital profitability will also be boosted by a welcome return to falling real unit labour costs of almost -1% annually after a cumulative rise of 1.1 points over 1990-91. On the negative side, the recent falls in

GRAPH 5: Investment and its determinants in the European Community



capacity utilisation in industry, down from a peak of 85.6% in 1989 to current levels of 80.5%, will offset the need to increase investment to meet a pick-up in demand. The continued tight stance of monetary policy will also continue to dampen investment activity. Finally, any significant fiscal boost can be ruled out by the continued need to improve budgetary positions.

A review of individual Member States' investment performances highlights significant differences. In 1992, the UK is expected to register a fall in investment of 4.4% (for the third consecutive year), the worst investment performance in the Community, reflecting the impact of its long and severe recession. In Germany, the squeeze on demand arising from tight monetary policy is finally having an impact on investment, whose rate of growth is expected to more than halve to 2.8%. The four 'catching up' Member States, will register investment growth above the Community average in 1992 which, while encouraging, should not

TABLE 1: Gross domestic product, volume (percentage change at constant prices on preceding year, 1961-93)*

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	4.9	1.8	2.1	0.8	1.5	2.2	4.9	3.6	3.8	1.4	1.6	2.0
DK	4.3	1.5	4.4	4.3	3.6	0.3	1.2	0.8	1.7	1.0	2.4	2.8
D	4.3	1.6	2.8	1.9	2.2	1.4	3.7	3.3	4.7	3.4	2.0	2.0
D+	—	—	—	—	—	—	—	—	—	0.9	2.2	2.4
GR	7.7	2.5	2.8	3.1	1.6	-0.7	4.1	3.5	-0.2	1.8	2.0	2.3
E	7.2	1.7	1.8	2.3	3.2	5.6	5.2	4.8	3.6	2.4	2.5	2.8
F	5.4	2.2	1.5	1.8	2.4	2.2	3.8	3.6	2.6	1.2	1.9	2.5
IRL	4.4	3.8	4.4	3.1	-0.5	4.6	4.5	6.4	7.1	1.9	2.2	2.6
I	5.3	2.8	2.7	2.6	2.9	3.1	4.1	3.0	2.0	1.4	1.5	2.1
L	4.0	1.2	6.2	2.9	4.8	2.7	5.6	6.3	2.3	2.9	2.9	3.6
NL	4.8	1.6	3.1	2.6	2.0	0.8	2.6	4.0	3.9	2.2	1.2	1.7
P	6.9	2.5	-1.9	2.8	4.1	5.3	3.9	5.2	4.4	1.8	2.3	3.1
UK	3.2	1.1	2.2	3.6	3.9	4.8	4.2	2.3	0.8	-2.2	0.6	2.5
EUR	4.8	1.9	2.3	2.4	2.8	2.9	4.0	3.3	2.8	1.3	1.7	2.3
EUR+	—	—	—	—	—	—	—	—	—	0.8	1.7	2.4
USA	4.0	1.8	7.2	3.8	3.2	3.5	4.5	2.8	0.9	-0.7	1.9	2.4
JAP	9.6	3.5	4.3	5.0	2.6	4.1	6.2	4.6	5.6	4.4	1.7	2.6

TABLE 2: Deflator of gross domestic product (percentage change on preceding year, 1961-93)*

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	4.1	6.9	5.2	6.1	3.7	2.2	1.5	4.7	3.0	3.1	3.4	3.5
DK	7.0	9.8	5.7	4.3	4.6	4.7	3.4	4.3	2.1	3.0	2.0	2.1
D	4.4	4.5	2.1	2.2	3.3	1.9	1.6	2.6	3.4	4.6	4.4	3.8
D+	—	—	—	—	—	—	—	—	—	5.4	5.5	4.6
GR	4.5	17.4	20.3	17.7	17.5	14.3	15.6	12.7	19.3	15.9	14.9	11.5
E	7.1	16.2	10.9	8.5	11.1	5.8	5.7	7.0	7.3	6.9	6.5	5.2
F	5.1	11.0	7.3	5.8	5.3	3.0	3.3	3.5	3.0	3.2	3.0	2.6
IRL	7.2	14.2	6.4	5.2	6.6	2.7	3.1	4.7	-1.3	2.5	4.0	4.2
I	5.5	17.4	11.6	8.9	7.9	6.0	6.6	6.0	7.5	7.3	5.4	4.8
L	4.4	7.3	4.4	3.0	3.8	-0.6	3.2	5.7	2.1	3.6	2.9	3.0
NL	6.0	6.3	1.9	1.8	0.5	-0.4	1.9	1.6	2.9	3.3	2.9	3.7
P	3.9	20.3	24.7	21.7	20.5	11.2	11.6	13.0	14.3	14.4	11.1	8.2
UK	5.1	13.9	4.6	5.7	3.5	5.0	6.6	6.9	6.8	6.7	5.3	2.9
EUR	5.2	11.5	6.8	6.0	5.6	4.1	4.5	4.9	5.3	5.6	4.8	3.9
EUR+	—	—	—	—	—	—	—	—	—	5.8	5.0	4.1
USA	3.6	7.6	3.6	2.7	2.1	3.0	3.3	3.8	4.1	3.6	2.8	3.2
JAP	6.0	6.0	2.3	1.6	1.8	0.0	0.4	1.9	1.9	1.9	1.8	1.8

TABLE 3: Final domestic demand, volume (percentage change at constant prices on preceding year, 1961-93)*

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	4.8	1.1	2.3	0.5	2.8	3.9	4.4	4.9	3.4	1.2	1.6	1.8
DK	4.6	0.5	5.1	5.4	6.1	-2.2	-1.2	0.4	-0.8	-0.1	1.8	2.7
D	4.5	1.3	1.9	0.9	3.3	2.6	3.6	2.6	5.0	3.0	1.7	1.9
D+	—	—	—	—	—	—	—	—	—	4.7	2.1	2.1
GR	8.1	1.7	0.0	5.4	-1.1	-1.5	6.7	3.8	0.8	2.3	1.2	2.0
E	7.6	1.2	-0.7	2.9	6.0	8.2	7.1	7.8	4.7	2.9	2.9	3.2
F	5.6	1.7	0.5	2.3	4.3	3.3	4.1	3.2	2.9	1.1	1.7	2.5
IRL	5.1	2.4	1.1	1.1	1.1	-0.7	1.1	6.6	5.0	-0.6	-0.1	2.7
I	5.3	2.2	3.6	2.8	3.4	4.3	4.7	3.0	1.8	2.3	2.0	2.2
L	4.0	1.5	2.5	0.1	7.7	4.2	6.2	5.8	3.4	4.4	3.8	3.7
NL	4.9	1.2	1.7	3.2	2.1	1.2	1.6	4.5	3.8	1.8	0.5	1.1
P	7.3	2.0	-6.7	0.9	8.3	10.4	7.4	4.3	5.4	4.0	3.0	3.9
UK	3.2	0.9	2.5	2.7	4.6	5.3	7.8	3.3	-0.1	-3.1	0.8	2.0
EUR	4.9	1.5	1.7	2.3	4.0	3.9	4.9	3.6	2.8	1.2	1.7	2.2
EUR+	—	—	—	—	—	—	—	—	—	1.7	1.8	2.3
USA	4.1	1.8	9.0	4.0	3.5	3.1	3.3	2.2	0.5	-1.3	1.6	2.2
JAP	9.8	2.6	3.6	4.1	3.7	5.1	7.6	5.7	5.8	3.0	1.4	2.4

TABLE 4: Gross national product at current market prices (percentage change on preceding year, 1961-93)*

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	9.2	8.7	7.6	6.7	5.6	4.6	6.4	8.9	6.5	4.8	5.0	5.5
DK	11.6	11.1	9.6	8.8	8.5	5.2	4.8	4.9	3.9	4.1	4.9	5.6
D	8.9	6.2	5.2	4.0	5.5	3.5	5.2	6.5	8.0	7.8	6.1	5.7
D+	—	—	—	—	—	—	—	—	—	6.4	7.5	7.0
GR	12.5	20.1	22.4	20.4	18.8	13.7	20.6	16.4	19.7	18.1	17.0	14.0
E	14.8	18.0	13.0	11.5	14.9	11.9	10.9	12.3	11.2	9.3	9.2	8.1
F	10.7	13.4	8.6	7.7	8.1	5.4	7.3	7.3	5.6	4.4	4.9	5.2
IRL	11.7	17.5	8.6	7.2	6.9	8.2	5.3	10.4	7.7	5.2	6.3	6.9
I	11.0	20.6	14.6	11.7	10.9	9.4	11.0	9.0	9.2	8.6	7.0	6.9
L	9.0	11.9	9.5	6.8	5.8	-0.2	9.5	12.2	5.9	3.1	7.8	9.7
NL	11.1	8.0	4.8	4.8	2.1	0.4	4.2	6.4	6.9	5.5	4.2	5.5
P	11.2	22.6	21.1	26.1	28.1	18.2	16.5	19.5	20.6	16.9	13.7	11.5
UK	8.5	15.1	6.8	9.4	7.6	9.5	10.9	9.2	7.8	6.8	6.2	6.1
EUR	10.1	11.4	8.0	7.3	6.2	5.4	8.4	8.8	7.4	6.8	6.5	6.2
EUR+	—	—	—	—	—	—	—	—	—	6.5	6.8	6.5
USA	7.7	9.6	10.8	6.3	5.2	6.4	8.0	6.7	5.1	2.9	4.7	5.6
JAP	16.2	9.6	6.7	6.8	4.4	4.4	6.6	6.7	7.6	6.4	3.4	4.4

* Notes: see page 19.

TABLE 5: Investment in construction, volume (percentage change on preceding year, 1974-93)*

	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	-2.4	-6.1	-0.6	3.0	3.3	13.2	8.9	6.7	-1.6	1.4	1.3
DK	-5.7	8.8	8.9	18.0	1.1	-4.5	-4.6	-4.6	-8.2	-0.1	3.5
D	-1.0	1.6	-5.6	2.7	-0.3	3.3	5.1	5.3	4.1	4.2	3.3
D+	—	—	—	—	—	—	—	—	4.0	5.5	4.8
GR	-3.4	-6.9	3.1	-0.8	-7.7	8.3	2.0	5.5	-6.4	2.0	5.0
E	-1.4	-5.2	2.0	6.5	9.9	12.2	14.9	10.8	4.3	1.7	2.9
F	-0.9	-2.9	-0.4	3.6	3.2	7.3	5.3	2.3	1.1	1.8	2.0
IRL	1.7	-2.0	-7.1	-2.7	-8.3	-0.7	9.8	11.7	-4.8	1.5	2.5
I	-1.5	-1.0	-0.5	1.1	-1.1	1.2	3.6	3.4	1.2	0.4	1.0
L	-3.0	-3.1	-3.1	5.5	10.8	7.1	4.4	5.9	6.0	4.9	5.0
NL	-2.6	3.8	-0.1	5.0	1.9	12.0	1.6	1.3	-1.3	-0.1	-0.1
P	—	-9.2	-6.0	8.7	9.4	10.1	3.5	5.3	4.5	5.0	5.0
UK	-1.3	6.1	-2.4	5.8	11.1	9.8	2.5	-1.0	-8.7	-4.8	1.4
EUR ¹	-1.4	-0.3	-1.7	3.7	3.0	6.3	5.3	3.9	0.3	1.1	2.2
EUR+	—	—	—	—	—	—	—	—	0.4	1.6	2.7

¹ EUR without Portugal up to 1983.

TABLE 6: Investment in equipment, volume (percentage change on preceding year, 1974-93)*

	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	2.4	13.6	2.3	5.3	7.2	13.8	18.2	10.3	1.5	1.4	2.2
DK	1.0	17.9	16.2	16.6	-8.9	-9.8	6.3	4.3	4.3	1.7	7.1
D	1.5	-0.2	9.9	4.3	5.6	7.7	10.0	12.9	9.4	1.4	3.0
D+	—	—	—	—	—	—	—	—	14.9	3.6	3.8
GR	0.5	-4.2	7.7	-12.6	-9.9	9.5	17.4	5.7	3.3	4.0	6.0
E	-0.7	-7.3	9.1	15.8	21.2	16.7	13.0	1.4	-2.5	1.4	3.8
F	0.4	-0.6	10.0	4.3	5.4	9.7	5.8	-5.1	-3.4	-1.0	3.4
IRL	2.7	-2.0	-6.7	1.1	1.3	4.8	15.3	8.5	-5.0	5.5	9.8
I	2.9	12.0	4.0	1.6	12.8	11.2	6.2	3.1	0.7	2.2	2.4
L	-1.2	2.7	-20.5	87.4	16.7	-19.0	26.3	13.7	6.6	4.5	4.6
NL	0.6	8.8	15.5	10.1	1.9	5.8	4.5	7.7	0.1	-1.4	-0.2
P	—	-29.6	-4.5	14.2	26.8	23.2	10.0	5.7	1.0	1.2	4.5
UK	0.5	11.3	10.7	-1.7	8.4	17.5	8.3	-3.8	-11.8	-4.0	1.1
EUR ¹	1.1	3.8	8.5	3.9	8.3	11.2	8.5	4.8	-0.5	0.2	2.8
EUR+	—	—	—	—	—	—	—	—	0.7	0.8	3.0

¹ EUR without Portugal up to 1983.

* Notes: see page 19.

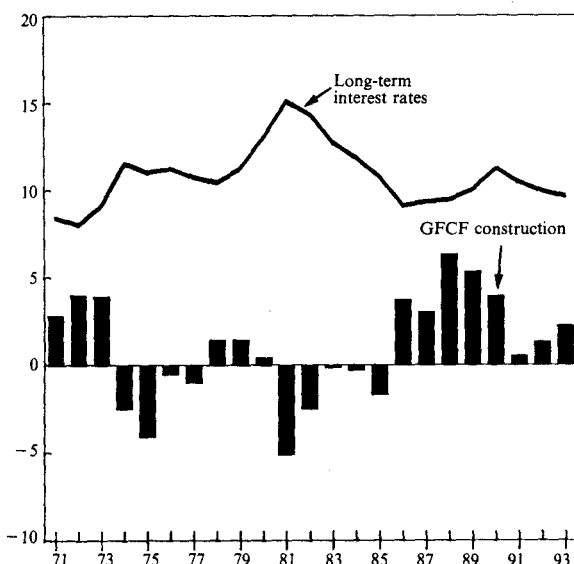
lead to complacency given the needs in these countries. In 1993, all Member States are expected to register an improvement on the previous year's performance, particularly France (2.8%) and Denmark (5.4%). In the case of the Netherlands however this involves a return to zero growth, rather than the falls of the previous two years.

Investment in equipment has been particularly hard hit. The 1991 outturn of a real fall of 0.5% in equipment spending, after annual average growth of 8% plus over the preceding four years, highlights the strength of the slowdown. This year will see a mild recovery with growth of just 0.2%. Germany, notwithstanding a very strong deceleration, will achieve a better performance (1.4%)

relative to some of its Community partners. France and the UK will register real falls but on a lesser scale than in 1991. In 1993, all Member States will return to positive growth in investment in equipment except the Netherlands where, however, the fall should be confined to about ¼%. The aggregate growth figure for the Community is expected to be 2.8%.

Investment in construction, notwithstanding historically high real interest rates, is proving to be relatively resilient. While the exceptionally strong growth of 4.4% per annum between 1986-1990 has come to an abrupt halt, real construction spending will remain positive throughout the forecasting period. As for equipment however, the expected recovery will be mild, with a real increase of only 1.1% in 1992, improving further to 2.2% in 1993. Residential construction is expected to be slightly more buoyant than non-residential as pent-up demand, the slight moderation of long-term interest rates in 1992 and the general improvement in the economic climate help revive house building. Excess factory space and office capacity in some Member States will conversely restrain non-residential construction.

GRAPH 6: Investment in construction (real % change p.a.) and long-term interest rates in the European Community



Employment/unemployment outlook shows a sharp reversal on previous progress. — The sharp slowdown in economic growth has been accompanied by a deterioration in the rate of growth of employment, which fell to only 0.2% in 1991. A further deterioration to -0.1% is expected in 1992 before employment growth resumes to 0.4% in 1993, in response to the pick-up in output growth. These figures represent a sharp reversal on the substantial progress achieved from 1987-1990, when employment grew at an annual average rate of 1.5%. The wide divergences in employment creation patterns between Member States in 1991 are expected to narrow as the slowdown becomes more generalised. Hence the very strong employment growth of 2.6% in West Germany in 1991 is expected to slow to 1% and ¾% in 1992 and 1993 respectively. The employment situation in the UK should

TABLE 7: Total investment, volume (percentage change on preceding year, 1961-93)*

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	5.1	-1.0	1.7	0.7	4.4	5.6	15.2	14.5	8.3	-0.2	1.4	1.7
DK	6.5	-3.4	12.9	12.6	17.1	-3.8	-6.6	-0.6	-0.5	-2.1	0.9	5.4
D	4.0	-0.2	0.3	0.0	3.6	2.1	4.6	7.0	8.8	6.7	2.8	3.1
D+	—	—	—	—	—	—	—	—	—	8.8	4.6	4.3
GR	10.0	-1.9	-5.7	5.2	-6.2	-5.1	8.9	10.0	4.8	-1.9	3.0	5.5
E	10.4	-1.2	-5.8	4.1	10.1	14.0	14.0	13.8	6.9	1.6	1.6	3.2
F	7.5	-0.3	-2.6	3.4	4.6	5.0	8.7	7.4	3.5	-1.5	0.2	2.8
IRL	9.9	2.2	-2.5	-7.7	-3.1	-2.3	3.3	15.8	9.5	-4.9	3.5	6.3
I	4.7	0.2	3.6	0.6	2.2	5.0	6.9	4.6	3.0	0.9	1.3	1.7
L	4.9	-2.3	0.1	-9.5	31.5	14.8	12.3	-6.5	9.4	6.3	4.7	4.8
NL	5.3	-1.5	5.2	6.7	7.9	1.5	8.1	3.9	4.0	-0.7	-0.7	-0.1
P	7.9	0.8	-17.4	-3.5	10.9	15.1	15.0	5.6	5.9	2.8	3.1	4.8
UK	4.6	-0.4	8.5	4.0	2.4	9.6	13.1	6.8	-2.4	-10.3	-4.4	1.2
EUR	5.6	-0.4	0.9	2.2	4.3	5.5	8.6	7.3	4.2	-0.1	0.7	2.5
EUR+	—	—	—	—	—	—	—	—	—	0.6	1.2	2.9
USA	4.5	0.3	15.9	6.9	2.0	2.9	5.0	2.7	1.2	-6.5	4.0	6.5
JAP	14.0	1.1	4.7	5.3	4.8	9.6	11.9	8.9	10.9	3.4	0.5	2.9

TABLE 8: Private consumption, volume (percentage change on preceding year, 1961-93)*

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	4.3	1.8	1.2	2.0	2.4	3.2	3.1	3.3	2.6	1.7	2.2	2.1
DK	3.8	0.9	3.4	5.0	5.7	-1.5	-1.0	-0.4	0.4	2.2	2.3	2.9
D	5.1	2.1	2.0	1.6	3.4	3.2	3.1	1.0	4.6	2.5	1.5	1.5
D+	—	—	—	—	—	—	—	—	—	2.8	1.8	1.6
GR	6.7	3.0	1.7	3.9	0.7	1.0	3.5	4.3	2.0	1.2	1.2	1.7
E	7.2	1.6	-0.4	2.4	4.1	5.8	4.8	5.6	3.7	3.0	3.1	3.0
F	5.3	2.4	0.9	2.2	3.7	2.7	3.1	3.0	3.0	1.5	2.3	2.5
IRL	3.8	2.1	2.0	4.6	2.1	2.3	3.6	3.7	1.1	0.9	1.9	2.3
I	6.0	3.2	2.2	3.1	4.4	4.4	4.6	3.6	2.6	2.8	2.4	2.7
L	4.6	2.7	1.4	2.7	3.0	4.8	4.6	3.4	3.4	4.1	3.5	3.5
NL	5.6	2.1	0.8	2.4	3.2	4.0	0.9	1.7	3.6	3.0	1.2	1.6
P	6.0	1.9	-2.9	0.7	5.6	5.4	6.6	3.3	5.3	4.4	3.8	3.5
UK	3.0	1.3	1.6	3.5	6.3	5.3	7.4	3.5	1.0	-1.7	0.6	1.7
EUR	5.0	2.1	1.4	2.5	4.2	3.9	4.2	2.9	3.0	1.6	1.9	2.2
EUR+	—	—	—	—	—	—	—	—	—	1.7	1.9	2.2
USA	4.2	2.4	4.8	4.7	4.1	2.8	3.7	2.0	0.9	-0.1	1.4	1.7
JAP	8.7	3.4	2.7	3.4	3.4	4.2	5.2	4.4	4.0	2.6	2.0	2.1

TABLE 9: Real compensation of employees per head¹ (percentage change on preceding year 1961-93)*

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	5.0	2.2	0.8	-1.3	4.1	-0.0	1.0	0.0	2.7	1.8	1.8	1.9
DK	3.8	0.6	-0.8	0.4	1.5	3.1	0.5	-0.8	1.2	1.0	1.1	1.4
D	5.4	1.4	0.7	0.8	3.9	2.4	1.6	-0.2	1.6	2.1	1.2	0.7
D+	—	—	—	—	—	—	—	—	—	—	—	—
GR	6.7	3.7	2.4	4.3	-7.9	-5.1	6.0	2.5	0.2	-3.7	-4.1	-1.9
E	7.5	2.6	-0.9	1.1	0.8	0.9	1.2	-0.3	1.1	2.1	1.7	1.4
F	4.8	2.6	0.4	0.6	1.7	0.4	1.5	1.3	1.5	1.3	0.7	0.8
IRL	4.7	2.5	3.2	3.7	0.7	1.6	3.3	2.2	1.6	2.1	1.0	2.2
I	6.1	2.2	-0.3	1.0	1.3	2.8	2.9	2.1	3.7	1.9	0.6	1.3
L	4.2	1.9	0.5	-0.0	1.9	2.9	0.3	3.5	2.4	0.8	1.4	2.0
NL	6.0	1.3	-1.9	-0.8	1.4	2.4	0.4	-1.9	0.9	1.1	1.1	1.3
P	6.7	2.4	-5.6	2.6	6.8	7.2	3.1	0.6	5.4	6.4	5.7	2.5
UK	3.3	1.7	0.7	1.8	3.8	3.0	2.7	3.4	4.4	1.2	0.3	1.6
EUR	5.0	2.0	0.1	1.0	2.5	1.9	1.9	1.1	2.5	1.7	1.0	1.2
EUR+	—	—	—	—	—	—	—	—	—	—	—	—

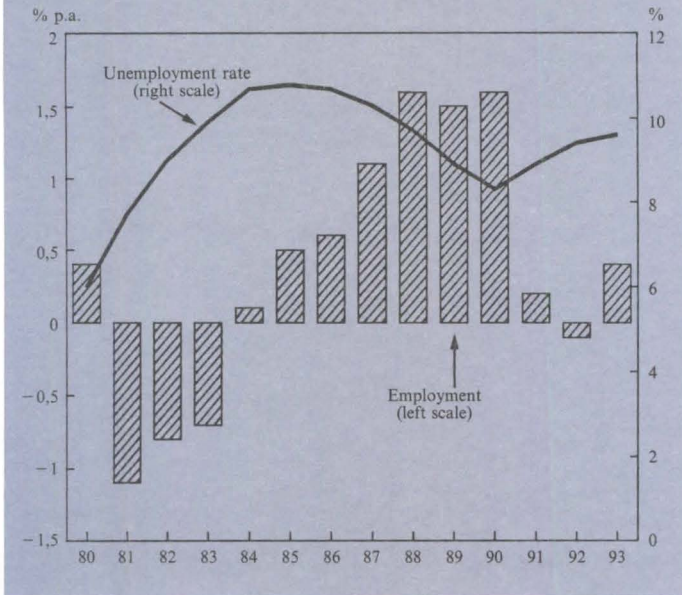
¹ Deflated by the price deflator of private consumption.

TABLE 10: Public consumption, volume (percentage change on preceding year 1961-93)*

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	5.5	2.3	0.2	2.4	1.7	0.3	-1.0	-0.8	0.9	1.0	-0.2	0.4
DK	5.8	3.4	-0.4	2.5	0.5	2.5	0.9	-0.3	-1.0	-2.2	0.1	-0.5
D	3.8	1.6	1.1	1.5	2.3	1.2	0.2	0.3	1.1	0.8	0.9	1.4
D+	—	—	—	—	—	—	—	—	—	2.2	0.3	1.0
GR	6.2	5.6	3.0	3.2	-0.8	0.9	4.7	4.2	0.6	-0.7	-0.5	0.0
E	4.5	5.0	2.9	4.6	5.8	8.9	4.0	8.3	4.2	4.4	3.7	3.3
F	4.0	3.2	1.2	2.2	1.7	2.8	2.8	0.2	3.4	2.0	2.0	2.0
IRL	5.2	4.3	-0.7	1.8	2.5	-4.4	-5.3	-2.0	3.5	1.7	1.8	0.0
I	4.0	2.7	2.2	3.4	2.6	3.5	2.8	0.9	1.0	1.7	1.1	1.1
L	3.4	2.5	2.2	2.0	3.1	2.7	3.8	1.9	3.2	3.0	3.2	3.2
NL	2.8	2.5	-0.8	1.3	2.5	2.9	0.2	-0.4	0.0	-0.9	-0.3	-0.4
P	9.1	7.3	0.1	0.1	7.2	4.9	5.3	2.8	1.5	4.2	1.0	2.5
UK	2.5	1.6	1.0	0.0	1.8	1.2	0.6	0.9	2.8	2.4	3.1	2.9
EUR	3.7	2.6	1.3	2.0	2.3	2.6	1.7	1.2	2.1	1.7	1.7	1.8
EUR+	—	—	—	—	—	—	—	—	—	2.0	1.5	1.7
USA	3.1	1.8	4.5	5.3	4.9	3.4	2.1	0.3	1.7	0.8	-1.7	-0.2
JAP	5.8	4.2	2.7	1.7	4.5	0.4	2.1	2.1	1.4	3.4	2.4	2.7

* Notes: see page 19.

GRAPH 7: Employment and unemployment – EUR
(% change p.a. except unemployment rate)



stabilize over the same period with the exceptional fall of 3% in 1991 being followed by lesser falls of 2.4% in 1992 and 0.2% in 1993. Employment growth will be minimal in all other Member States, with only Luxemburg exceeding growth of more than 1% in either year. The Netherlands and Portugal will register slight falls in employment in both 1992 and 1993.

The fall-off in the rate of job creation and continued strong civilian labour force growth (about ½% in 1992 and 1% in 1993) will result in a marked increase in unemployment in the Community. This will be particularly pronounced in 1992 when the jobless rate is expected to rise by 0.6 percentage points to 9.5% of the civilian labour force. The unemployment rate is predicted to stabilize at about 9.7% in 1993, due to a return to more substantial output growth in 1992 and the consequent lagged pick-up in employment growth. The unemployment rate is expected to increase throughout the forecasting period in all member countries and particularly in Ireland (plus 2¼ points), the United Kingdom and Greece (plus 1½ points) and Belgium (plus circa 1¼ points).

Inflation forecast to fall and divergences between Member States set to narrow but further progress towards price stability necessary.

The inflation outlook for the Community continues to give cause for concern. Inflation (private consumption deflator) is forecast to fall from 5.2% in 1991 to 4.6% in 1992. However, given the continued tight stance of monetary policy, sluggish domestic output, low import price increases and high rates of unemployment, greater progress might reasonably have been expected. A further edging down to 4% is anticipated for 1993.

An examination of the factors determining the rate of inflation is revealing. A particularly sharp moderation in the rate of growth of nominal compensation of employees per head to 5.6% is expected this year from the rate of 7.1% in 1991. A further more modest deceleration to 5.2% is forecast for 1993. The figures for the individual member countries present interesting contrasts. In the UK, the increase in nominal compensation of employees is projected to almost halve to 4.9% between 1991 and 1993, due to downward pressures on wages from both the recession and ERM discipline. Greece and Portugal, in particular, and to a lesser extent Spain and Italy, are also expected to register significant progress. In Germany, on the other hand, while inflationary pressures from rising labour costs are set to continue to assume major importance, following two years of strong increases in nominal compensation

per head, the latter is expected to slow to 5.2% from 5.8% last year. A slightly more pronounced deceleration to 4.4% is predicted for 1993. Conversely, Belgium, Denmark, Ireland and the Netherlands will suffer setbacks in 1993, although in 1992 nominal compensation per head in these countries is expected to increase at the same or even at a slightly lower rate than in 1991.

In the Community, the contribution of this moderation in wage developments to price stability will be boosted further by an increase in labour productivity, largely attributable to cyclical factors. This will contribute to an even sharper fall in unit labour costs from 5.8% in 1991 to 3.7% this year. With no additional increase in labour productivity in 1993, a further slight deceleration of unit labour costs to 3.2% is expected in 1993, reflecting the continued downward trend in nominal wages per head.

The impact of this welcome fall on inflation will be partly offset, however, by increases in the non-labour factors determining inflation. Owing to a deterioration in the terms of trade, the price deflator of imports of goods and services should increase to about 1.1% in 1992 from the rate of only 0.3% last year. An even more substantial increase to 3.6% is forecast for 1993. A further impetus to inflation is expected to come from indirect tax increases, although their incidence is expected to diminish over the forecasting period.

GRAPH 8: Inflation in the European Community
(% change p.a.)

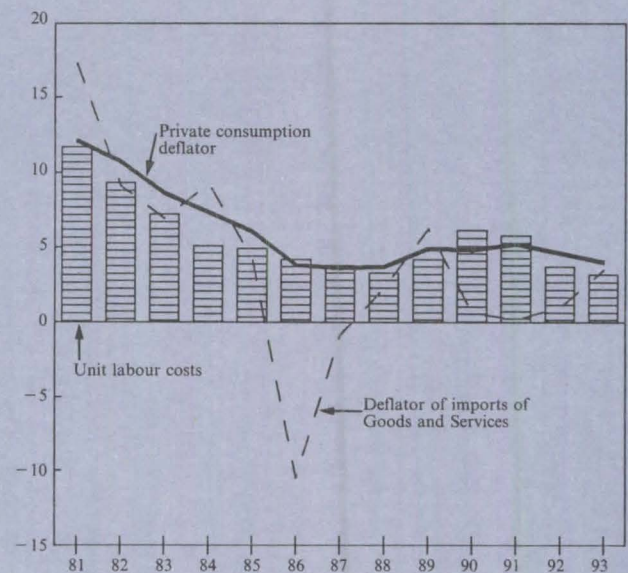


TABLE 11: Real unit labour costs¹ (index 1980 = 100) *

	1961-70	1975	1979	1981	1991	1992	1993
B	87.5	96.8	98.8	100.6	88.8	88.2	88.2
DK	98.3	102.7	98.4	98.8	90.5	89.0	88.3
D	94.6	101.1	97.8	100.4	92.2	92.0	91.3
D+	—	—	—	—	—	—	—
GR	105.3	92.5	101.8	106.4	101.6	96.0	93.0
E	95.7	100.8	101.7	100.5	83.9	83.4	82.9
F	93.4	98.9	98.1	100.8	90.9	90.0	89.3
IRL	96.2	100.3	96.7	96.5	84.4	83.5	83.0
I	98.5	105.8	101.1	102.4	97.7	97.0	96.8
L	84.1	101.4	99.1	102.1	97.6	98.1	98.3
NL	93.9	103.3	100.3	97.3	86.7	86.9	86.7
P	86.3	120.6	101.0	102.3	84.8	85.7	84.5
UK	98.5	108.9	97.9	99.7	102.5	99.7	98.9
EUR	96.6	103.3	99.1	100.7	93.5	92.6	92.0
EUR+	—	—	—	—	—	—	—
USA	96.8	98.2	99.0	98.6	98.8	98.0	97.6
JAP	92.8	104.1	101.1	99.9	91.3	92.2	91.6

¹ Nominal unit labour costs divided by GDP price deflator.

* Notes: see page 19.

TABLE 12: Price deflator of private consumption (percentage change on preceding year, 1961-93)*

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	3.7	7.8	5.7	6.0	0.5	1.7	1.2	3.6	3.6	3.2	3.1	3.3
DK	6.6	10.5	6.4	4.3	2.9	4.6	4.0	5.0	2.1	2.5	2.2	2.3
D	3.5	4.9	2.6	2.1	-0.3	0.8	1.4	3.0	2.7	3.6	3.9	3.7
D+	—	—	—	—	—	—	—	—	—	4.8	4.9	4.4
GR	3.5	17.3	17.9	18.3	22.1	15.7	14.3	15.2	20.1	19.5	16.0	12.5
E	6.6	16.6	11.0	8.2	8.6	5.7	5.0	6.6	6.4	6.3	6.3	5.1
F	4.8	11.5	7.9	6.0	2.9	3.3	2.9	3.6	3.3	3.0	3.0	2.9
IRL	6.3	15.2	7.3	5.0	4.5	3.7	2.6	3.7	2.5	3.0	3.8	3.5
I	4.9	17.1	12.1	9.0	6.2	5.3	5.7	6.5	6.5	6.7	5.2	4.8
L	3.0	7.8	6.5	4.3	1.7	1.8	2.7	3.3	4.2	3.2	2.8	2.9
NL	5.0	6.4	2.2	2.2	0.2	-0.9	1.0	2.8	2.7	3.5	3.5	4.0
P	3.9	21.9	28.5	19.4	13.8	10.0	10.0	12.1	12.6	11.9	9.0	7.5
UK	4.9	13.4	4.9	5.4	4.4	4.3	5.0	5.6	6.0	7.2	5.3	3.2
EUR	4.6	11.7	7.3	5.9	3.8	3.6	3.8	4.9	4.8	5.2	4.6	4.0
EUR+	—	—	—	—	—	—	—	—	—	5.5	4.8	4.1
USA	3.1	7.7	3.9	3.1	2.0	4.4	4.0	4.5	5.2	4.0	2.8	3.5
JAP	6.1	7.3	2.5	2.2	0.4	0.2	-0.1	1.8	2.4	2.6	1.8	2.2

TABLE 13: Compensation of employees per head (percentage change on preceding year, 1961-93)*

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	8.9	10.1	6.5	4.6	4.7	1.7	2.2	3.6	6.4	5.0	5.0	5.3
DK	10.7	11.1	5.5	4.7	4.4	7.9	4.5	4.1	3.4	3.5	3.3	3.8
D	9.1	6.3	3.4	2.9	3.6	3.2	3.0	2.9	4.3	5.8	5.2	4.4
D+	—	—	—	—	—	—	—	—	—	—	—	—
GR	10.4	21.6	20.7	23.4	12.5	9.8	21.1	18.1	20.3	15.0	11.2	10.4
E	14.6	19.7	10.0	9.4	9.5	6.7	6.3	6.3	7.6	8.5	8.2	6.6
F	9.9	14.3	8.2	6.6	4.6	3.7	4.5	5.0	4.8	4.4	3.7	3.8
IRL	11.3	18.1	10.7	8.9	5.3	5.4	6.1	6.0	4.2	5.1	4.9	5.7
I	11.3	19.7	11.8	10.1	7.5	8.2	8.8	8.7	10.4	8.7	5.9	6.2
L	7.4	9.9	7.1	4.2	3.6	4.8	3.1	7.0	6.7	4.0	4.3	5.0
NL	11.4	7.9	0.2	1.4	1.6	1.5	1.4	0.8	3.6	4.6	4.6	5.3
P	10.8	24.8	21.2	22.5	21.6	17.9	13.4	12.8	18.7	19.0	15.2	10.1
UK	8.3	15.3	5.6	7.3	8.4	7.5	7.9	9.2	10.7	8.5	5.6	4.9
EUR	9.9	13.9	7.4	6.9	6.4	5.6	5.8	6.1	7.4	7.1	5.6	5.2
EUR+	—	—	—	—	—	—	—	—	—	—	—	—

TABLE 14: Real GDP per occupied person (percentage change on preceding year, 1961-93)*

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	4.3	2.2	2.3	0.2	0.8	1.7	3.4	2.0	2.7	1.7	2.2	1.8
DK	3.2	1.3	2.6	1.7	1.0	-0.6	1.2	1.5	2.2	2.0	2.9	2.5
D	4.0	1.9	2.6	1.1	0.8	0.7	2.9	1.9	1.8	0.8	0.9	1.4
D+	—	—	—	—	—	—	—	—	—	4.8	2.3	1.8
GR	8.1	1.4	2.4	2.2	1.3	-0.6	2.5	3.1	-0.4	4.0	2.5	2.1
E	6.5	3.1	4.3	3.7	1.8	1.1	1.6	1.1	1.0	2.1	2.2	1.9
F	4.7	2.1	2.4	2.1	2.3	1.9	3.1	2.5	1.4	0.8	1.7	1.9
IRL	4.3	3.3	6.3	5.4	-0.6	4.7	3.4	6.5	4.2	2.2	1.9	2.1
I	5.5	1.8	2.3	1.7	2.1	2.7	3.1	2.8	1.0	0.7	1.1	1.6
L	3.0	0.8	5.6	1.5	2.1	-0.1	2.5	2.5	-1.9	-0.7	0.9	1.7
NL	3.9	2.0	3.2	1.0	0.0	-0.6	1.2	2.3	1.8	1.2	1.3	1.8
P	6.7	3.0	-0.4	2.8	7.0	4.7	3.9	4.1	3.5	0.8	2.5	3.3
UK	2.9	1.7	0.2	2.3	4.0	3.0	1.0	-0.2	-0.1	0.9	3.1	2.7
EUR	4.4	2.0	2.2	1.9	2.1	1.7	2.4	1.8	1.2	1.2	1.8	1.9
EUR+	—	—	—	—	—	—	—	—	—	2.1	2.1	2.0
USA	2.0	0.4	2.2	1.3	1.4	0.6	1.6	0.5	0.5	0.2	1.5	1.4
JAP	8.1	2.7	3.9	4.4	1.8	3.2	4.5	2.6	3.6	2.5	0.1	0.8

TABLE 15: Unit labour costs, whole economy¹ (percentage change on preceding year, 1961-93)*

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	4.4	7.7	4.1	4.3	3.8	-0.0	-1.1	1.6	3.6	3.3	2.8	3.4
DK	7.3	9.7	2.8	2.9	3.3	8.5	3.3	2.6	1.2	1.8	0.4	1.2
D	4.9	4.3	0.8	1.8	2.8	2.5	0.1	0.9	2.5	5.0	4.2	3.0
D+	—	—	—	—	—	—	—	—	—	—	—	—
GR	2.1	20.0	17.9	20.7	11.0	10.5	18.2	14.5	20.7	10.7	8.6	8.1
E	7.7	16.1	5.5	5.6	7.6	5.5	4.6	5.1	6.5	6.3	5.8	4.6
F	5.0	12.0	5.7	4.4	2.2	1.8	1.3	2.4	3.4	3.5	2.0	1.8
IRL	6.8	14.4	4.1	3.3	6.0	0.7	2.6	-0.5	-0.1	2.9	2.9	3.5
I	5.5	17.6	9.3	8.3	5.3	5.3	5.5	5.7	9.3	8.0	4.7	4.6
L	4.3	9.1	1.5	2.7	1.5	4.9	0.6	4.3	8.7	4.8	3.8	3.2
NL	7.1	5.8	-2.9	0.4	1.6	2.1	0.2	-1.4	1.8	3.4	3.2	3.5
P	3.9	21.2	21.7	19.1	13.6	12.6	9.1	8.3	14.7	18.0	12.4	6.6
UK	5.2	13.4	5.4	4.9	4.2	4.4	6.8	9.4	10.7	7.6	2.5	2.1
EUR	5.3	11.6	5.1	4.9	4.2	3.8	3.3	4.2	6.1	5.8	3.7	3.2
EUR+	—	—	—	—	—	—	—	—	—	—	—	—

¹ Compensation of employees per head divided by labour productivity per head, defined as GDP volume divided by total employment.

* Notes: see page 19.

TABLE 16: Total employment (percentage change on preceding year, 1961-93)*

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	0.6	-0.4	-0.2	0.6	0.6	0.5	1.5	1.6	1.1	-0.3	-0.6	0.1
DK	1.1	0.2	1.7	2.5	2.6	0.9	-0.0	-0.6	-0.4	-0.9	-0.5	0.4
D	0.3	-0.3	0.2	0.7	1.4	0.7	0.8	1.4	2.9	2.6	1.0	0.6
D+										-3.7	-0.1	0.7
GR	-0.4	1.1	0.3	0.9	0.3	-0.1	1.6	0.4	0.2	-2.0	-0.5	0.2
E	0.7	-1.3	-2.4	-1.3	1.4	4.5	3.5	3.6	2.6	0.2	0.3	0.8
F	0.7	0.1	-0.9	-0.3	0.1	0.3	0.7	1.1	1.2	0.4	0.2	0.6
IRL	0.1	0.5	-1.9	-2.2	0.2	-0.1	1.0	-0.1	2.8	-0.3	0.3	0.4
I	-0.2	1.0	0.4	0.9	0.8	0.4	1.0	0.2	1.0	0.8	0.4	0.5
L	1.1	0.4	0.6	1.4	2.6	2.8	3.1	3.7	4.3	3.7	2.0	1.8
NL	0.9	-0.4	-0.1	1.5	2.0	1.4	1.4	1.7	2.1	1.0	-0.1	-0.1
P	0.2	-0.4	-1.5	-0.0	-2.7	0.5	0.1	1.0	0.9	0.9	-0.2	-0.2
UK	0.3	-0.6	1.9	1.3	-0.1	1.8	3.2	2.5	0.9	-3.0	-2.4	-0.2
EUR	0.3	-0.1	0.1	0.5	0.6	1.1	1.6	1.5	1.6	0.2	-0.1	0.4
EUR+										-1.3	-0.4	0.4
USA	1.9	1.4	4.9	2.4	1.7	2.9	2.8	2.3	0.5	-0.9	0.4	1.0
JAP	1.3	0.7	0.3	0.6	0.9	0.9	1.7	1.9	2.0	1.9	1.6	1.8

TABLE 17: Employment in manufacturing industries (percentage change on preceding year, 1974-93)*

	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	-3.5	-1.0	-1.7	-1.8	-2.5	-0.7	2.0	0.0	-2.3	-1.2	0.2
DK	-1.7	5.6	6.1	3.8	-1.3	-1.8	-0.2	0.6	-2.3	-0.7	0.9
D	-1.9	-1.1	1.1	1.7	-0.2	0.1	1.3	3.6	1.7	-0.1	0.0
D+									1.7	-0.1	0.0
GR		-1.0	0.4	3.6	-4.2	-1.4	-1.1	-1.6	-5.0	0.5	1.0
E	-2.3	-3.1	-0.8	1.5	2.6	2.7	3.8	2.9	-3.0	-1.0	0.2
F	-1.4	-3.1	-3.0	-2.0	-2.6	-2.0	0.0	1.0	-1.4	-2.0	-0.7
IRL	-0.0	-4.1	-4.3	4.0	-3.4	0.0	2.5	2.4	-0.9	-0.0	0.5
I	-0.5	-4.9	-1.4	-1.2	-0.4	1.2	0.5	0.1	-2.1	-1.1	-0.4
L	-2.2	-1.0	-0.1	1.8	-1.5	-3.3	-0.2	0.3	0.3	0.0	0.0
NL	-2.7	-1.2	2.1	2.1	0.8	0.8	1.8	2.0	0.7	-1.1	-0.2
P		-4.2	-1.0	-2.5	-1.7	-1.7	1.5	1.2	-0.1	-0.7	-1.0
UK	-3.5	-3.1	0.4	-2.5	-1.4	1.4	0.3	-1.5	-5.4	-2.9	-1.1
EUR	-2.1 ¹	-2.6	-0.4	-0.3	-0.8	0.3	1.0	1.2	-1.5	-1.1	-0.3
EUR+									-1.5	-1.1	-0.3

¹ EUR without Greece and Portugal.

TABLE 18: Number of unemployed (as percentage of civilian labour force, 1964-93)^{1*}

	1964-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	2.0	7.3	12.5	11.8	11.7	11.3	10.2	8.6	7.8	8.3	9.2	9.4
DK	0.9	6.1	8.7	7.2	5.5	5.6	6.4	7.7	8.0	8.6	9.2	9.1
D	0.7	3.7	7.1	7.1	6.5	6.3	6.3	5.6	4.8	4.3	4.4	4.9
D+										8.0	7.9	7.9
GR	4.2	3.2	8.1	7.8	7.4	7.4	7.7	7.5	7.0	8.6	9.5	10.0
E	2.8	9.4	20.6	21.6	20.9	20.4	19.3	17.0	16.1	15.9	16.3	16.3
F	2.2	5.7	9.7	10.1	10.3	10.4	9.9	9.4	9.1	9.7	10.2	10.4
IRL	5.7	9.7	16.8	18.2	18.2	18.0	17.3	15.7	14.5	16.1	17.6	18.4
I	5.2	6.9	9.3	9.6	10.5	10.3	10.8	10.6	9.8	10.3	10.4	10.5
L	0.0	1.4	3.1	3.0	2.6	2.5	2.0	1.8	1.8	2.0	1.9	1.9
NL	1.3	7.1	12.3	10.5	10.3	10.0	9.3	8.5	7.5	7.0	7.4	7.8
P	2.5	6.6	8.7	8.8	8.3	6.9	5.7	5.0	4.5	3.8	4.0	4.4
UK	2.0	6.1	11.0	11.4	11.4	10.4	8.5	7.1	7.1	9.4	11.0	11.0
EUR	2.4	6.0	10.6	10.8	10.7	10.3	9.7	8.9	8.3	8.9	9.5	9.7
EUR+										9.3	10.3	10.4
USA ²	4.6	7.5	7.5	7.2	7.0	6.2	5.5	5.3	5.5	6.7	7.2	6.8
JAP ²	1.2	2.1	2.7	2.6	2.8	2.8	2.5	2.3	2.1	2.1	2.2	2.1

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

² In percentage of total labour force.

TABLE 19: General government lending (+) or borrowing (-) (as a percentage of GDP, 1974-93)^{1*}

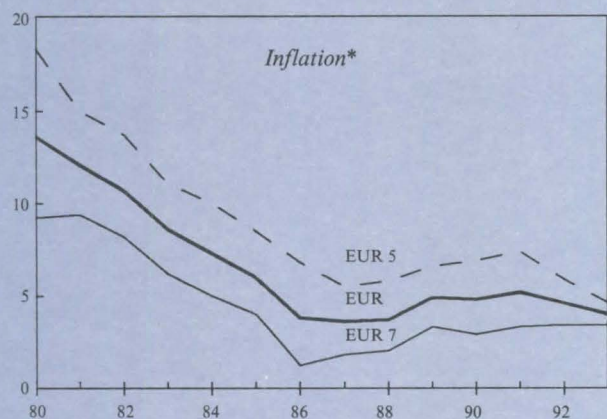
	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	-8.2	-9.5	-8.8	-9.2	-7.3	-6.6	-6.5	-5.3	-6.2	-5.9	-5.7
DK	-2.8	-4.1	-2.0	3.4	2.4	0.6	-0.5	-1.4	-2.0	-2.1	-0.6
D²	-3.0	-1.9	-1.2	-1.3	-1.9	-2.1	0.2	-1.9	-3.1	-3.4	-3.4
D+									-2.9	-3.4	-3.2
GR		-10.0	-13.8	-12.6	-12.2	-14.4	-18.3	-19.6	-16.5	-13.2	-9.0
E	-2.1	-5.4	-6.9	-6.0	-3.1	-3.3	-2.8	-4.0	-4.4	-4.3	-3.9
F	-1.4	-2.8	-2.9	-2.7	-1.9	-1.8	-1.2	-1.6	-1.7	-2.0	-2.0
IRL	-11.0	-10.4	-11.7	-11.6	-9.3	-5.1	-2.2	-2.6	-2.3	-2.5	-2.8
I	-9.1	-11.6	-12.6	-11.6	-11.0	-10.7	-9.9	-11.0	-10.2	-9.9	-9.9
L	1.3	2.8	6.0	4.4	2.5	3.3	5.5	5.6	2.5	2.6	2.4
NL	-3.7	-6.3	-4.8	-6.0	-6.6	-5.2	-5.2	-5.3	-3.9	-4.0	-4.0
P		-12.0	-10.1	-7.2	-6.8	-5.4	-3.4	-5.8	-6.4	-5.4	-4.3
UK	-3.6	-4.0	-2.8	-2.4	-1.3	1.1	1.2	-0.8	-2.0	-4.9	-5.3
EUR	-4.1 ¹	-5.3	-5.2	-4.8	-4.1	-3.6	-2.8	-4.0	-4.4	-4.9	-4.8
EUR+									-4.3	-4.8	-4.7
USA	-1.7	-2.9	-3.2	-3.5	-2.5	-2.0	-1.6	-2.6	-3.0	-3.4	-3.5
JAP	-3.6	-2.1	-0.8	-0.9	0.5	1.5	2.5	2.2	3.2	2.2	2.4

¹ EUR without Greece and Portugal.

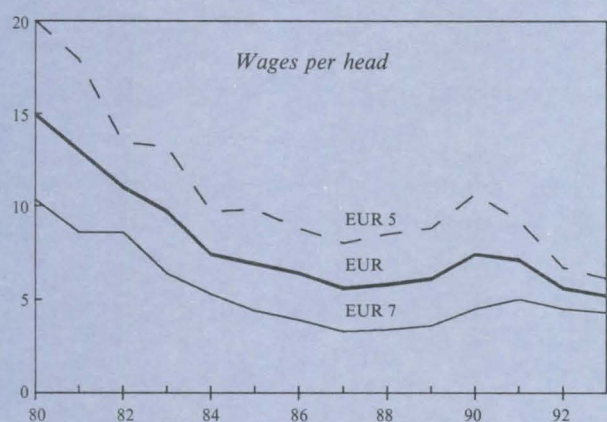
² Including current transfers to East Germany from 1991 onwards.

* Notes: see page 19.

GRAPH 9: Price and cost convergence
(% change p.a.)



EUR 5: GR, E, I, P, UK
EUR 7: B, DK, D, F, IRL, L, NL
* Implicit price deflator of private consumption



EUR 5: GR, E, I, P, UK
EUR 7: B, DK, D, F, IRL, L, NL

On a more positive note, the degree of divergence in individual Member States' inflation performances continues to narrow. This is due to an anticipated sharp improvement in the non-ERM narrow-band members. In 1993 eight Member States — the seven original members of the ERM and the UK — are expected to enjoy private consumption price deflators within a range of 1 1/2 percentage points of the three best performers in terms of price stability. The 'gap' between the remaining four Member States and this reference range will also narrow substantially. In the case of Greece and Portugal it should halve to about 8 and 3 1/4 percentage points respectively between 1991 and 1993. Over the same time period, the private consumption deflators in Italy and Spain are forecast to approach to less than 1 percentage point of this target. This progress is however conditional on a continued commitment to price stability and the successful implementation of anti-

inflationary measures contained in the convergence programmes presented to the Community by several member countries.

General government net borrowing: continued widening in 1992 and stabilization in 1993. — General government net borrowing in the Community (including the five new Länder) is forecast to broaden from 4.3% of GDP in 1991 to 4.8% of GDP in 1992 under the combined impact of exceptional factors, budgetary slippages and the adverse impact on public finances of the envisaged sluggish economic activity. No significant improvement in the budgetary position is expected for 1993.

The forecasting period will not therefore witness a reversal in the strong deterioration in public finances which first became apparent in 1990, when government net borrowing increased sharply to 4.0% of GDP after substantial falls in each of the preceding four years. Although the Community average masks marked differences among member countries, generally speaking this in turn suggests that there will be no substantial progress in 1992 and 1993 towards reducing public deficits to the levels agreed at Maastricht. Based on current projections, only four Member States (Denmark, France, Ireland and Luxemburg) will enjoy deficits of less than 3% of GDP in 1993.

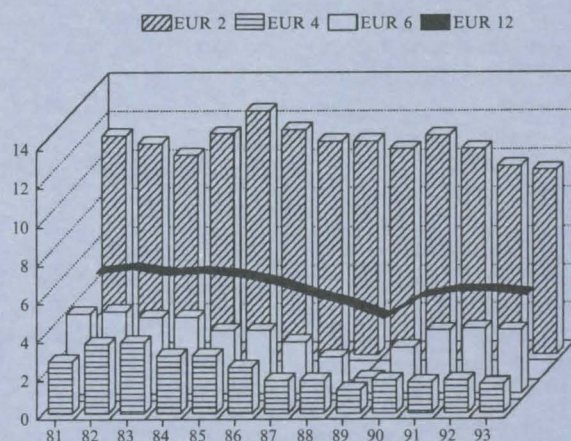
The deterioration in the overall Community budgetary position is almost entirely due to the significant widening of budget deficits in the United Kingdom, in particular, and Germany. In 1992, general government net borrowing in the UK is forecast to increase to 4.9% of GDP from only 2% the previous year under the combined influence of the strong adverse impact on public finances of the severe domestic recession and a large-scale deliberate easing of the fiscal stance. A further slight deterioration to 5.3% of GDP is expected in 1993. The deficit for unified Germany is expected to increase from 2.9% in 1991 to 3.4% in 1992 owing to the continuing high costs of unification. Conversely, over the forecasting period, a certain improvement in the budgetary position is foreseen in Greece, Portugal, Belgium and Italy, though in most of these countries substantially less than previously envisaged.

TABLE 20: World export prices¹
(Percentage change on preceding year) *

	1988	1989	1990	1991	1992	1993
Fuels	-15.6	16.9	27.3	-16.7	-10.0	0.0
Other primary commodities	20.0	-0.2	-0.6	-6.2	-0.6	3.9
Manufactures	5.7	-0.2	8.3	-0.9	0.3	0.7

¹ In US dollars.
Source: United Nations and forecasts by Commission services.
* Notes: see page 19.

GRAPH 10: Net borrowing of general government
(as % of GDP)



EUR 2: GR and I.
EUR 4: DK, F, IRL and L.
EUR 6: B, D, E, NL, P and UK.

TABLE 21: Total public expenditure (as percentage of GDP, 1974-93)*

	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	51.4	56.4	56.0	55.6	54.1	52.3	50.9	49.9	49.6	50.0	49.7
DK	52.0	58.9	58.1	54.3	55.7	58.0	58.1	57.2	57.2	57.0	55.3
D²	48.2	48.1	47.7	47.1	47.4	46.9	45.5	46.0	48.8	49.5	49.0
D+	—	—	—	—	—	—	—	—	49.2	50.1	49.4
GR	—	44.3	48.1	47.7	48.2	48.5	50.0	53.9	54.0	50.0	46.3
E	30.7	39.6	42.4	41.9	40.8	41.0	42.2	43.3	44.3	44.8	45.0
F	46.1	52.5	52.7	52.2	51.7	51.0	50.1	50.6	50.9	51.1	51.1
IRL	48.6	53.6	54.2	54.2	51.9	48.5	41.9	42.5	42.5	42.2	42.2
I	41.3	49.4	50.9	50.7	50.2	50.3	51.4	53.4	53.5	53.9	54.2
L	52.0	53.6	51.9	51.2	54.8	53.0	49.1	49.9	49.8	49.8	50.1
NL	54.6	59.6	58.5	58.5	60.1	57.7	55.4	55.1	55.2	55.3	55.4
P	—	46.6	43.5	44.6	43.0	43.0	42.9	44.2	46.1	47.0	46.2
UK	43.3	45.4	44.3	42.8	41.1	38.4	38.0	39.8	39.8	41.5	41.7
EUR	44.6 ¹	49.0	49.2	48.5	47.9	47.1	46.7	47.7	48.6	49.2	49.0
EUR+	—	—	—	—	—	—	—	—	48.7	49.3	49.1

¹ EUR without Greece and Portugal.² Including current transfers to East Germany from 1991 onwards.

TABLE 22: Total public receipts (as percentage of GDP, 1974-93)*

	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	43.2	46.9	47.2	46.4	46.8	45.7	44.4	44.6	43.4	44.1	44.0
DK	49.2	54.8	56.1	57.7	58.2	58.6	57.6	55.8	55.1	54.9	54.8
D	45.2	46.2	46.5	45.8	45.5	44.8	45.7	44.1	45.7	46.1	45.6
D+	—	—	—	—	—	—	—	—	46.3	46.8	46.2
GR	29.7	34.2	34.2	35.1	36.0	34.1	31.7	34.3	37.5	36.9	37.2
E	28.8	34.2	35.5	35.9	37.7	37.7	39.4	39.3	39.9	40.4	41.1
F	44.7	49.8	49.9	49.4	49.8	49.2	48.9	49.0	49.2	49.2	49.1
IRL	37.6	43.3	42.5	42.6	42.6	43.4	39.7	39.9	40.2	39.7	39.4
I	32.2	37.7	38.3	39.1	39.2	39.6	41.5	42.4	43.3	44.1	44.3
L	53.3	56.4	57.9	55.6	57.3	56.3	54.6	55.5	52.3	52.4	52.5
NL	50.9	53.4	53.7	52.5	53.5	52.5	50.2	49.8	51.4	51.3	51.4
P	—	34.6	33.4	37.3	36.2	37.6	39.5	38.4	39.7	41.5	41.9
UK	39.7	41.5	41.4	40.4	39.7	39.5	39.2	39.0	37.8	36.6	36.5
EUR	40.5 ¹	43.7	44.0	43.7	43.8	43.5	43.8	43.6	44.2	44.3	44.2
EUR+	—	—	—	—	—	—	—	—	44.3	44.5	44.4

¹ EUR without Portugal.

* Notes: see page 19.

External Sector: both the trade balance and current account to remain in slight deficit in 1992 and 1993. — The Community's *trade balance* (including the five new Länder) is forecast to remain in a slight deficit of 0.3% of GDP both this year and next, relatively unchanged on the deficit outturn of a 0.5% of GDP in 1991. The trade impact of German unification, which led to very substantial changes in German and EC trade figures has petered out. Hence the (West) German trade surplus, which fell from 4.9% of GDP in 1990 to only 1% for the whole of Germany in 1991 is expected to increase by a ¼ of a percentage point this year and next. This return to a growing trade surplus in the second year after unification is due to a combination of a sharp fall-off in the import boom and a resumption of export growth after a fall of over 5% in 1991. The divergences in other Member States trade balances are predicted to remain substantial. Both Greece and Portugal will experience trade deficits in excess of 10% of GDP in 1992 and 1993 while Ireland's surplus will increase further to 13% by 1993.

The Community's *current account deficit* (again including the five new Länder) is expected to virtually stabilize at 0.9% of GDP in both 1992 and 1993. A modest improvement in the German current account deficit to 0.9% of GDP is forecast for 1992, down from 1.3% of GDP in 1991. Little change is expected in the current account positions of the other Member States with Spain continuing to run the largest deficit (-3.4% of GDP in 1993) and Ireland (apart from Luxemburg) the largest surplus (5.8% of GDP in 1993).

THE COMMUNITY'S EXTERNAL ENVIRONMENT

Growth in world output and trade: poised for a moderate upswing.

— World output is forecast to remain sluggish in 1992, growing by only 1.3%, which is nonetheless an improvement on the estimated outturn of 0.3% in 1991. The positive impact of the expected recovery in the English speaking OECD member states in 1992 is being partly offset by the cooling off of the Japanese and German economies. However, a more robust return to growth of 2.6% is forecast for 1993. World trade (excluding the EC) as measured by import volumes, is forecast to grow by 4.7% and 5.8% respectively in 1992 and 1993, following an increase of only 2.2% last year.

The international environment is expected to become progressively more favourable to Community growth prospects in the course of 1992. Both the US and Japan have eased monetary policy very significantly in the course of the past year and announced a range of supporting fiscal measures. These should help restore business and consumer confidence which have suffered badly due to the lack of clear signs of recovery. A certain recovery is also expected in some EFTA countries and in Canada and Australia which are both expected to return to growth rates of 2-2½% in 1992. Primary commodity prices, including oil, are expected to remain weak in 1992 following falls of over 11% in 1992, which will also be conducive to growth. The growth prospects in the principal trading blocs outside the Community are briefly reviewed in the following paragraphs.

TABLE 23: Rates of change of demand components, EUR (1991-93)¹*

	Percentage change on preceding period at constant prices						
	1991	1992	1993	92-I	92-II	93-I	93-II
Private consumption	1.6	1.9	2.2	2.2	2.4	2.1	2.1
Government consumption	1.7	1.7	1.8	1.7	2.2	1.6	1.7
Fixed capital formation	-0.1	0.7	2.5	1.1	1.6	2.7	3.1
— Construction	0.3	1.1	2.2	1.5	1.8	2.1	2.8
— Equipment	-0.5	0.2	2.8	0.6	1.3	3.2	3.4
Change in stocks as % of GDP	0.6	0.7	0.8	0.7	0.7	0.7	0.8
Domestic demand	1.2	1.7	2.2	1.9	2.1	2.2	2.4
Exports of goods and services	5.3	4.4	5.3	3.5	5.2	5.1	5.7
Imports of goods and services	4.8	4.3	5.0	3.9	4.2	5.0	5.6
Gross domestic product	1.3	1.7	2.3	1.7	2.4	2.2	2.4

¹ Half-yearly figures at annual rates, seasonally adjusted (92-I = first half of 1992 etc.).

TABLE 24: Export markets and export performance (percentage change on preceding year, 1991-93)*

	Export markets			Export performance ¹		
	1991	1992	1993	1991	1992	1993
B	4.3	3.9	5.5	-0.8	-0.2	-0.3
DK	1.8	3.0	4.7	3.9	1.9	0.8
D+	0.9	3.8	5.8	-6.1	-1.6	-0.4
GR	2.6	3.3	4.5	11.8	0.7	1.0
E	3.8	4.0	5.5	7.1	3.8	2.8
F	4.3	4.1	5.4	0.0	0.7	1.1
IRL	1.9	4.3	5.3	3.2	2.0	-0.6
I	2.9	3.7	5.6	-1.9	-1.0	-0.8
L²	—	—	—	—	—	—
NL	4.4	3.5	4.9	-0.1	-0.2	-0.3
P	3.7	4.1	5.6	-3.6	1.8	0.8
UK	4.1	4.2	5.6	-2.3	0.1	0.4
EUR+	2.9	3.9	5.5	-1.5	-0.1	0.2
USA	4.5	5.2	6.5	3.0	0.7	-0.2
JAP	5.9	6.2	7.6	-2.8	-0.2	-1.0

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

² Included in the figures for Belgium.

TABLE 25: Imports of goods, volume (percentage change on preceding year, 1961-93)*

	1961-73	1974-81	1982-89	1990	1991	1992	1993
B	9.3	1.8	4.5	4.7	3.0	3.7	4.8
DK	7.9	-0.2	3.4	1.9	5.4	4.4	5.9
D	8.7	4.1	4.5	11.4	13.2	3.4	3.8
D+	—	—	—	—	10.4	2.4	3.7
GR	12.8	0.4	9.1	12.7	13.0	2.3	4.9
E	—	1.7	9.5	7.4	10.1	7.9	8.2
F	11.4	2.4	4.7	5.7	3.4	3.9	5.8
IRL	9.2	4.5	4.8	7.1	2.2	3.2	4.2
I	10.2	2.6	5.1	2.8	4.4	4.6	5.0
L	6.2	1.0	6.0	3.1	4.3	4.0	4.1
NL	9.4	1.3	5.0	5.0	3.9	2.6	4.0
P	—	—	6.9	9.7	5.6	6.0	6.8
UK	5.2	0.4	8.0	1.2	-2.8	4.6	4.4
EUR¹	9.0	2.3	5.7	5.8	5.5	4.3	5.0
EUR+	—	—	—	—	5.1	4.0	5.0
USA	9.3 ²	2.1	8.7	3.9	0.4	4.0	4.9
JAP	—	7.3	7.8	6.7	3.0	3.5	5.0

¹ Excluding Spain up to 1973 and Portugal up to 1981.

² Average 1964-73.

TABLE 26: Exports of goods, volume (percentage change on preceding year, 1961-93)*

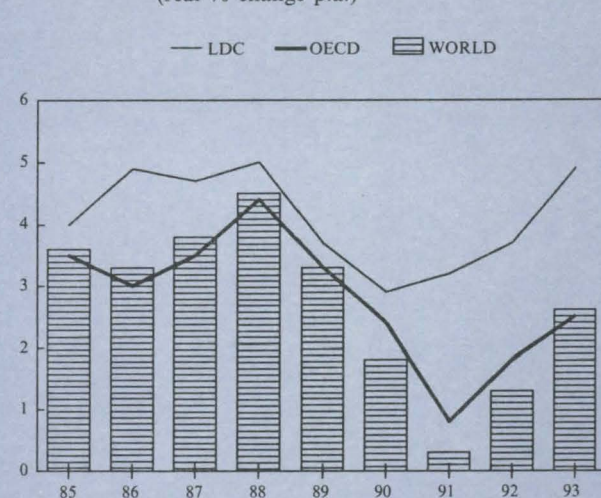
	1961-73	1974-81	1982-89	1990	1991	1992	1993
B	10.2	2.2	4.7	4.7	3.5	3.7	5.1
DK	6.8	4.7	4.4	7.2	5.8	5.0	5.5
D	8.0	4.8	4.3	7.0	10.9	5.1	5.5
D+	—	—	—	—	-5.3	2.2	5.4
GR	12.0	5.6	9.0	-5.2	14.6	4.0	5.6
E	—	8.9	6.4	7.3	11.2	8.0	8.5
F	10.1	5.5	3.8	5.3	4.3	4.9	6.6
IRL	8.1	7.9	9.8	8.8	5.1	6.4	4.6
I	11.5	6.5	4.4	4.2	0.9	2.7	4.8
L	5.3	-0.9	7.2	1.8	2.3	2.6	3.7
NL	10.3	2.8	4.7	4.6	4.3	3.4	4.6
P	—	—	11.0	10.3	-0.1	6.0	6.5
UK	5.0	3.5	4.3	6.6	1.7	4.2	6.0
EUR¹	8.8	4.8	4.7	5.8	5.5	4.5	5.7
EUR+	—	—	—	—	1.4	3.8	5.7
USA	6.8 ²	5.2	6.8	8.4	7.7	6.0	6.2
JAP	—	9.6	4.3	4.8	3.0	6.0	6.5

¹ Excluding Spain up to 1973 and Portugal up to 1981.

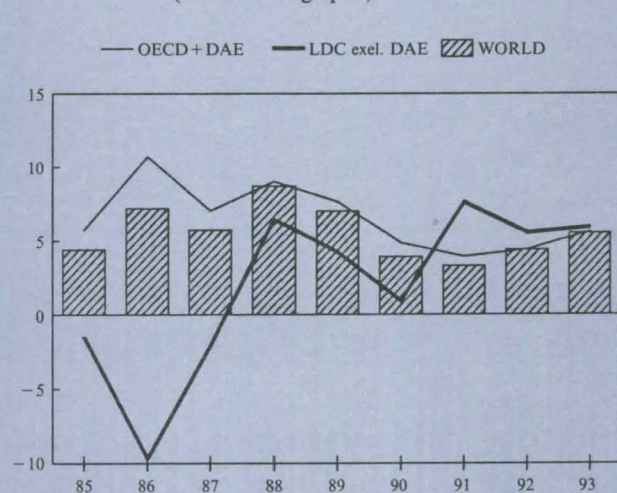
² Average 1964-73.

* Notes: see page 19.

GRAPH 11a: World output growth (real % change p.a.)



GRAPH 11b: World import growth (real % change p.a.)



GRAPH 12: GDP/GNP growth in the EC, USA and Japan (real % change p.a.)

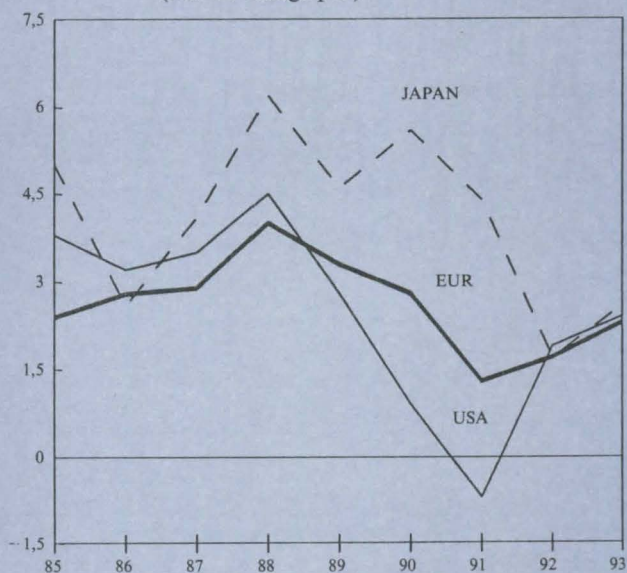


TABLE 27: Trade balance total (fob/cif) (in billions of ECU, 1961-93)*

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	-0.1	-3.4	-4.8	-3.7	-0.2	-0.7	-2.9	-2.2	-5.6	-2.1	-2.1	-2.0
DK	-0.7	-1.9	-0.7	-1.5	-1.5	0.2	0.9	1.2	2.4	3.3	3.5	3.5
D	3.6	13.5	24.1	33.0	53.1	57.0	61.0	64.0	44.0	6.9	13.7	21.3
D+	—	—	—	—	—	—	—	—	—	10.1	17.1	25.1
GR	-0.9	-3.9	-6.1	-7.4	-5.8	-5.6	-5.9	-7.8	-9.2	-7.1	-7.5	-8.0
E	-1.9	-7.9	-4.7	-5.6	-6.3	-8.7	-11.9	-19.3	-20.1	-26.8	-28.8	-32.1
F	-0.8	-10.5	-13.1	-13.5	-9.2	-12.6	-12.2	-14.9	-17.3	-13.9	-12.7	-14.7
IRL	-0.4	-1.3	-0.0	0.5	1.0	2.0	2.7	3.1	2.3	2.8	3.7	4.2
I	-1.3	-7.6	-13.9	-16.0	-2.5	-7.5	-8.4	-11.2	-9.3	-10.5	-11.9	-14.0
L¹	—	—	—	—	—	—	—	—	—	—	—	—
NL	-1.0	0.2	4.3	3.9	4.6	1.1	1.2	3.5	0.3	6.5	6.9	7.8
P	-0.5	-3.1	-3.5	-2.7	-2.3	-3.7	-5.8	-5.6	-6.7	-8.0	-8.5	-9.4
UK	-2.7	-6.6	-14.2	-11.9	-19.9	-20.9	-42.6	-41.1	-31.9	-20.0	-19.6	-21.6
EUR	-6.6	-32.4	-32.6	-24.7	11.0	0.8	-23.9	-30.3	-51.0	-68.9	-63.2	-64.9
EUR+	—	—	—	—	—	—	—	—	—	-65.6	-59.8	-61.1

¹ Included in the figures for Belgium.

TABLE 28: Trade balance intra-EC (fob/cif) (in billions of ECU, 1961-93) *

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	0.5	0.7	0.1	-1.4	1.9	1.0	0.9	2.7	0.1	0.6	0.9	0.7
DK	-0.3	-1.1	-1.2	-2.1	-2.2	-1.0	-0.4	0.2	0.8	1.6	1.9	1.7
D	1.4	5.2	7.8	9.5	20.3	26.2	34.7	38.6	23.8	11.8	15.7	20.4
D+	—	—	—	—	—	—	—	—	—	12.1	16.0	20.8
GR	-0.5	-1.7	-2.6	-3.2	-3.1	-3.1	-3.6	-4.7	-5.9	-3.4	-3.5	-3.9
E	-0.7	-0.5	3.2	2.6	-0.6	-3.5	-5.3	-8.9	-9.2	-10.7	-11.2	-12.5
F	-0.1	-5.1	-13.4	-15.3	-14.0	-14.7	-13.1	-15.4	-14.9	0.2	1.2	0.4
IRL	-0.2	-0.9	-0.2	-0.1	0.6	1.8	2.4	3.0	2.4	3.6	4.3	4.8
I	0.0	-0.8	-4.2	-6.4	-3.3	-4.8	-5.3	-6.8	-4.3	-4.3	-4.5	-5.4
L¹	—	—	—	—	—	—	—	—	—	—	—	—
NL	0.2	8.3	19.5	19.9	15.5	12.4	12.4	18.5	18.0	18.9	19.1	20.9
P	-0.3	-1.1	-0.3	-0.0	-0.7	-1.7	-3.5	-3.4	-4.1	-5.3	-5.5	-6.3
UK	-0.4	-1.6	-4.5	-3.6	-12.7	-13.0	-20.2	-22.5	-14.0	-2.7	-3.9	-4.5
EUR	-0.4	1.4	4.2	-0.1	1.6	-0.6	-0.8	1.2	-7.0	10.2	14.6	16.4
EUR+	—	—	—	—	—	—	—	—	—	10.5	14.9	16.8

¹ Included in the figures for Belgium.

TABLE 29: Trade balance extra-EC (fob/cif) (in billions of ECU, 1961-93)*

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	-0.6	-4.4	-5.1	-2.6	-2.6	-2.0	-4.2	-5.4	-6.3	-2.7	-3.0	-2.7
DK	-0.3	-0.9	0.5	0.6	0.7	1.2	1.3	1.0	1.6	1.7	1.6	1.8
D	2.2	8.1	15.8	22.9	32.5	30.5	26.0	25.0	19.7	-4.9	-2.0	0.8
D+	—	—	—	—	—	—	—	—	—	-1.9	1.1	4.3
GR	-0.4	-2.2	-3.6	-4.2	-2.7	-2.6	-2.3	-3.2	-3.3	-3.7	-4.0	-4.1
E	-1.2	-7.5	-7.9	-8.3	-5.9	-5.7	-6.9	-10.8	-11.5	-16.1	-17.6	-19.6
F	-0.7	-5.4	0.3	1.9	5.0	2.4	1.1	0.9	-2.0	-14.1	-13.9	-15.1
IRL	-0.2	-0.4	0.1	0.4	0.4	0.2	0.3	0.1	-0.1	-0.7	-0.6	-0.6
I	-1.3	-7.1	-10.3	-10.2	0.6	-3.0	-3.3	-4.4	-5.0	-6.1	-7.4	-8.6
L¹	—	—	—	—	—	—	—	—	—	—	—	—
NL	-1.2	-8.6	-16.6	-17.4	-11.7	-11.9	-11.9	-15.7	-18.5	-12.4	-12.2	-13.1
P	-0.2	-2.0	-3.2	-2.7	-1.7	-2.0	-2.4	-2.3	-2.8	-2.7	-2.9	-3.1
UK	-2.3	-5.0	-9.7	-8.2	-7.2	-8.0	-22.6	-18.8	-18.0	-17.3	-15.7	-17.1
EUR	-6.3	-35.2	-39.8	-27.8	7.4	-0.7	-25.0	-33.7	-46.2	-79.1	-77.8	-81.3
EUR+	—	—	—	—	—	—	—	—	—	-76.1	-74.7	-77.9

¹ Included in the figures for Belgium.

TABLE 30: Balance on current account (as a percentage of GDP)*

	1961-73	1974-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
B	1.1	-1.7	-0.6	0.3	2.1	1.3	1.7	1.7	1.2	1.4	1.4	1.5
DK	-2.0	-3.4	-3.3	-4.6	-5.4	-2.9	-1.3	-1.5	0.5	1.3	1.7	2.1
D	0.7	0.6	1.4	2.4	4.3	4.1	4.3	4.9	3.2	0.8	0.3	0.1
D+	—	—	—	—	—	—	—	—	—	-1.3	-0.9	-0.9
GR	-2.9	-2.3	-4.0	-8.2	-5.3	-3.1	-2.0	-5.0	-6.2	-5.1	-3.4	-2.8
E	-0.2	-2.0	1.4	1.4	1.6	0.1	-1.1	-3.2	-3.7	-3.5	-3.3	-3.4
F	0.4	-0.3	-0.0	0.1	0.5	-0.2	-0.3	-0.3	-0.6	-0.6	-0.4	-0.5
IRL	-2.5	-8.6	-5.8	-3.9	-2.9	1.2	1.7	1.2	2.5	4.9	5.8	5.8
I	1.4	-0.6	-0.6	-0.9	0.5	-0.2	-0.7	-1.3	-1.5	-1.8	-2.0	-2.2
L¹	6.8	24.0	39.1	43.8	38.7	30.3	31.3	34.3	33.8	25.9	27.7	31.5
NL	0.5	1.4	4.2	4.1	2.7	1.4	2.4	3.7	3.8	3.8	3.9	4.0
P	0.4	-7.7	-3.4	0.4	2.4	-0.4	-4.4	-2.3	-2.5	-1.0	-1.0	-1.8
UK	-0.1	-0.1	-0.2	0.5	-0.8	-2.0	-4.6	-5.1	-3.5	-0.8	-0.9	-1.0
EUR	0.4	-0.3	0.3	0.7	1.3	0.7	0.1	-0.1	-0.3	-0.4	-0.5	-0.6
EUR+	—	—	—	—	—	—	—	—	—	-0.9	-0.8	-0.9
USA	0.5	0.1	-2.4	-2.9	-3.3	-3.5	-2.5	-1.9	-1.6	-0.2	-0.7	-0.7
JAP	0.6	0.4	2.8	3.6	4.3	3.6	2.8	2.0	1.3	2.2	3.0	3.0

* Notes: see page 19.

United States: a weak recovery in prospect for 1992, strengthening further in 1993. — The Commission forecast for the US is for a return to real GDP growth of 1.9% and 2.4% in 1992 and 1993 respectively, following a fall of 0.7% in 1991. The expectation is therefore that the batch of recent positive economic indicators points to a more sustained recovery, than the feeble and transitory upturn of the second and third quarters of 1991.

The recovery is based largely on a strong pick-up in investment including stock replenishment and continued advances on export markets. A recovery in business profitability, the restructuring of both industry and services in recent years, interest rate falls and cheaper equity finance have all improved the business climate which is expected to lead to investment growth of 4% in 1992 and 6½% in 1993. Residential construction has already shown strong signs of recovery with housing starts up over a quarter on last year. The US is also expected to continue its strong export performance of recent years with growth in exports of 6% plus throughout the forecasting period. Furthermore, the resulting positive impact will be enhanced by the expectation that the growth rate of imports will be substantially lower than that of exports. The slower import growth than in previous recoveries is predicted on the basis of the strong gains in competitiveness by US manufacturers in recent years, lower levels of capacity utilisation and the relative weakness of the dollar which should enable US producers to compete effectively against importers.

A number of factors account for the weakness of the anticipated recovery, particularly when compared to the strong emergence of the US from previous recessions. Firstly, private consumption growth is expected to remain muted, at well below 2% annually over the forecasting period owing to continued high (though falling) levels of consumer debt, the limited scope for any reduction in the already very low savings ratio and only modest income growth. Secondly, the continued high level of the federal deficit excludes anything other than a very modest fiscal boost to domestic economic activity. Finally, the substantial easing of monetary policy of the past year leaves little scope for any further interest rate cuts and in any event is having little downward impact on long-term interest rates.

Inflation is expected to remain under control in the US with the private consumption deflator at below 3% in 1992 but accelerating to some 3.5% in 1993 as the recovery gathers strength. The federal deficit is expected to increase slightly to 3.5% of GDP in 1992, up from 3% in 1991. Substantially reduced military expenditures will help offset the recently announced fiscal package to aid recovery. The US current balance will remain in deficit of about 0.7% of GDP in 1992 and 1993.

Japan: a sharp slowdown in 1992. — Japan enjoyed another year of high growth in 1991 with the expected outturn of 4.4% comparing favourably with other OECD members. This satisfactory performance was largely due to exceptionally strong growth in the first quarter of 1991 which compensated for the strong slowdown in each of the remaining three quarters. This slowdown is continuing and has gathered pace. Consequently, growth forecasts for 1992 and 1993 have been revised sharply downward to 1.7% and 2.6% respectively.

The present slowdown has its roots in the exceptional growth rates of the late 1980s, which led to an asset-price boom and a resurgence of inflationary pressures. The monetary authorities were obliged to raise interest rates from 1989 in an effort to cool domestic demand and pierce the asset-price bubble. Notwithstan-

ding the subsequent easing of monetary policy in 1991, adjustment has been painful. The deterioration in the external environment and a cyclical slowdown have further dampened economic activity. Industrial production has fallen sharply, inventories are bulging and investment plans are being scaled back. Business and consumer confidence are also low, due partly to an on-going series of scandals in the financial sector. These negative factors have produced a greater than expected slowdown and a marked degree of uncertainty over the pace and strength of recovery.

There are however several factors which will help limit the impact of the slowdown. Employment growth continues to be strong and the jobless rate low, helping to maintain increases in private consumption of 2% plus. Business profitability remains satisfactory and continued labour saving investment is expected. Inflation will remain below 2% in 1992 before increasing slightly in 1993. The most recent cut of ¼ of a percentage point in the discount rate and the announcement of a front-loading of public work programmes, will also sustain domestic demand. There is also the prospect of a fiscal boost if these measures prove insufficient. The foreign balance is also expected to make a positive contribution to growth this year and next. Ominously for the Community however, this will result largely from a marked slowdown in import growth and a more aggressive presence on export markets leading to a return to a substantial positive trade balance of 3½% of GDP in 1992 and 1993.

EFTA: from shallow recession to moderate recovery. — Output in the EFTA as a whole fell by 0.5% of GDP in 1991. A slight improvement to growth of 0.6% of GDP is foreseen for 1992, strengthening to 2.0% in 1993. This gloomy economic outlook reflects two principal factors. Firstly the poor international environment and slowdown in world trade has had a disproportionate impact on EFTA due to its members heavy dependence (over one third of GDP on average) on exports. Secondly a number of country specific problems have severely dampened overall output. There is a wide divergence in individual countries economic performance ranging from outright recession in Finland (output down by 6.3% in 1991) to strong growth (+3% in 1991) in Austria.

The poor growth outlook in EFTA partly explains the Community's own economic difficulties. Given that EFTA accounts for over a quarter of total extra-EC exports, any downturn has obvious adverse implications for the Community. The projection of 1.1% growth in EFTA imports in 1992, after a fall of 2.7% in 1991, highlights the difficult trading environment facing Community exporters. A major determinant of the speed of recovery in EFTA will be the restoration of recent losses in competitiveness, a return to sustainable price stability and the reversal of recent sharp increases in public deficits. These objectives must be achieved if the opportunities presented by the agreement on the creation of the European Economic Area are to be fully exploited. A resumption of world economic growth will also have a major role to play in recovery.

Countries in Central and Eastern Europe: continued output contraction in prospect. — The Commission forecasts further falls in output in the former Soviet bloc in 1992. These range from 15% of GDP for the Commonwealth of Independent States (unchanged on 1991) to 3.1% for the remainder of the former Comecon members (an improvement on the estimated fall of 11% in 1991). The scale of the on-going economic restructuring and the enormity of the task facing policy-makers makes any forecasts tenuous. Insofar as the Community is concerned

TABLE 31: World GDP/GNP (at constant prices)*
(Percentage change on preceding year)

	1988	1989	1990	1991	1992	1993
EUR	4.0	3.3	2.8	1.3	1.7	2.3
USA	4.5	2.8	0.9	-0.7	1.9	2.4
Canada	4.4	3.0	0.5	-1.5	2.2	3.5
Japan	6.2	4.6	5.6	4.4	1.7	2.6
EFTA	2.9	3.1	1.9	-0.5	0.6	2.0
Total OECD	4.4	3.3	2.4	0.8	1.8	2.5
CCEEs	—	—	-8.6	-14.2	-12.5	-3.1
OPEC	—	—	1.1	0.2	4.3	4.7
Other developing countries	5.0	3.7	2.9	3.8	3.6	4.9
— DAE's	10.0	7.2	7.3	6.9	6.5	7.2
— other Asia	8.7	3.7	5.7	4.8	5.8	6.1
— Latin America	0.1	2.6	-0.9	1.6	-0.1	2.8
— Africa	3.1	2.2	1.3	1.3	2.5	3.2
World	4.5	3.3	1.8	0.3	1.3	2.6
World excluding EUR	4.7	13.4	1.5	0.0	1.2	2.7

TABLE 32: World imports of goods (at constant prices)*
(Percentage change on preceding year)

	1988	1989	1990	1991	1992	1993
EUR ¹	8.6	8.9	5.8	5.1	4.0	5.0
USA	6.7	6.7	3.9	0.4	4.0	4.9
Canada	12.9	4.4	-1.0	1.3	4.5	5.5
Japan	20.6	13.0	6.7	3.0	3.5	5.0
EFTA	6.8	6.7	4.3	-2.7	1.1	3.9
Total OECD	7.8	7.0	4.0	2.8	3.7	4.9
Countries in Central and Eastern Europe	—	—	-5.3	-22.3	2.1	2.9
OPEC	0.5	2.3	1.7	11.1	6.5	6.1
Other developing countries	11.9	7.6	5.6	9.6	7.3	8.4
— DAE's	21.4	12.7	12.2	12.8	9.4	10.7
— other Asia	11.1	3.7	-1.8	6.2	6.9	7.2
— Latin America	5.9	12.1	4.7	9.6	4.1	5.2
— Africa	7.8	-0.3	0.5	1.9	2.4	3.6
World	8.7	7.1	3.9	3.3	4.4	5.5
World excluding EUR	9.7	7.0	3.1	2.2	4.7	5.8

¹ Including unified Germany from 1991 onwards.

TABLE 33: World balances of current account
(in billions of USD)*

	1988	1989	1990	1991	1992	1993
EUR ¹	17.0	7.9	-3.1	-60.5	-55.3	-61.0
USA ²	-126.4	-106.4	-92.2	-8.7	-44.0	-43.4
Canada	-11.2	-17.5	-18.8	-21.0	-21.2	-21.1
Japan	79.6	57.0	35.9	73.0	106.3	114.5
EFTA	0.9	-0.9	-1.0	5.3	3.7	6.1
Total OECD	-49.5	-78.1	-98.2	-25.5	-24.8	-18.3
Countries in Central and Eastern Europe	—	3.2	-14.5	-12.1	-18.1	-18.9
OPEC	-17.8	-0.3	23.8	-41.7	-19.8	-22.5
Other developing countries	-15.6	-6.9	18.8	-27.5	-33.2	-42.4
— DAE's	28.6	21.6	6.5	-1.3	-5.1	-14.5
— other Asia	-16.9	-14.5	-2.9	-9.0	-12.2	-13.5
— Latin America	-3.1	-8.3	-4.8	-11.9	-9.8	-7.7
— Africa	-6.3	-5.5	-3.9	-5.3	-6.2	-6.7
Errors and omissions	-65.1	-81.8	-93.9	-106.9	-95.9	-102.1

¹ Including unified Germany from 1991 onwards.

² The balance takes into account as public transfers to the USA the contributions of foreign governments to the cost of the Gulf war in 1991.

TABLE 34: World trade balances
(fob-fob, in billions of USD)*

	1988	1989	1990	1991	1992	1993
EUR ¹	17.3	3.3	-0.8	-31.4	-23.7	-22.8
USA	-127.0	-115.9	-108.1	-73.5	-68.5	-70.4
Canada	9.4	6.7	10.0	7.5	7.8	9.4
Japan	95.0	76.9	63.6	103.7	126.3	137.1
EFTA	-5.1	-3.2	-2.4	1.4	1.8	3.6
Total OECD	-11.1	-39.4	-46.6	4.0	39.4	52.9
Countries in Central and Eastern Europe	—	-4.3	-9.2	-4.2	-11.7	-11.9
OPEC	21.0	44.7	74.1	47.3	34.7	34.1
Other developing countries	44.7	63.3	78.5	-16.5	-24.1	-35.4
— DAE's	25.7	20.2	2.6	-6.3	-11.1	-22.0
— other Asia	-22.8	-18.1	-8.0	-12.0	-14.2	-16.0
— Latin America	25.1	22.2	17.3	10.1	9.8	11.3
— Africa	-4.3	-5.6	-7.3	-8.3	-8.7	-8.7
Errors and omissions	33.7	19.6	22.7	30.6	38.3	39.7

¹ Including unified Germany from 1991 onwards.

* Notes: see page 19.

TABLE 35: Trade balances (fob-fob) EUR, USA and Japan*

	1988	1989	1990	1991	1992	1993
as a % of GDP						
EUR ¹	0.8	0.2	-0.0	0.7	1.0	1.0
USA	-2.6	-2.3	-2.0	-1.3	-1.2	-1.1
Japan	3.2	2.7	2.2	2.9	3.5	3.6
in billions of USD						
EUR ¹	17.3	3.3	-0.8	-31.4	-23.7	-22.8
USA	-127.0	-115.9	-108.1	-73.5	-68.5	-70.4
Japan	95.0	76.9	63.6	103.7	126.3	137.1
in billions of ECU						
EUR ¹	14.6	3.0	-0.6	-25.3	-19.3	-18.9
USA	-107.4	-105.2	-85.0	-59.4	-55.7	-58.4
Japan	80.3	69.8	50.0	83.7	102.7	113.8

¹ Including unified Germany from 1991 onwards.

* Notes: see page 19.

it is considered prudent to assume that there will be little or no boost to economic activity from a recovery in the countries in Central and Eastern Europe in 1992. The best that can be hoped for in 1992 is that reform measures can be successfully implemented, allowing a gradual stabilisation of output and the commencement of sustainable growth.

The challenge facing the CIS is particularly daunting. While a number of major economic reforms have been introduced, they are slow in taking effect. The liberalisation of prices (excluding energy) in particular has not been accompanied by the required supply side measures which would allow market forces to operate effectively. State monopolies are continuing to accumulate huge deficits and privatisation is still in its infancy. Foreign exchange is in short supply and trade relations between the Commonwealth states are becoming increasingly difficult. The recently announced G7 aid package of \$24 billion should however help maintain essential imports but the best prospects for recovery remain with the successful implementation of the governments' reform programmes. The situation elsewhere in Central and Eastern Europe is substantially more varied. Some countries, notably Hungary, Czechoslovakia and Poland are making progress while in the remainder few signs of recovery are evident.

MAIN ASSUMPTIONS AND RISKS

Assumptions. — *Oil prices* — In comparison with the previous forecast, a major change relates to the downward revision of oil prices (UK Brent), which are assumed to remain low and flat throughout the forecasting period at an average of 18 USD per barrel. Market conditions are expected to remain soft. An expected moderate pick-up in the demand for oil, in line with a resumption in economic activity, should easily be matched by increased supply, given the investment in new facilities and the re-emergence of Kuwait, sooner than expected, on world oil markets.

Non-oil commodity prices — Dollar prices of non-oil commodities, which have fallen since 1989 are assumed to decrease further by about half a percentage point in 1992 but to start rising again in 1993 by almost 4% on average.

Interest rates — For the Community, the monetary frame of reference, at least as regards short-term interest rates, is pretty similar to that underlying the previous forecast, but takes into account developments in recent months. Basically, it assumes no relaxation of monetary conditions in Germany before autumn of this year and a moderate loosening thereafter, resulting in around a 100 basis points cut between then and end 1993. In the other narrow-band countries short-term interest rates are set to

TABLE 36: Interest and exchange rates assumptions *

	1988	1989	1990	1991	1992	1993
Annual average in % points						
Interest rates (US)						
— Short-term ¹	6.9	8.4	7.8	5.5	4.1	4.5
— Long-term ²	9.0	8.5	8.6	8.1	7.7	7.5
% change on preceding year						
Exchange rate of USD						
— Vis-à-vis ECU ³	-3.1	7.4	-13.3	2.7	0.7	2.1
— Vis-à-vis YEN ³	-12.0	7.6	4.9	-7.0	-2.6	-0.5

¹ 13-week US treasury bills.

² US 10 year-bonds.

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

* Notes: see page 19.

follow German moves, while in the remaining countries short-term interest rate differentials with the DM are assumed to narrow considerably. In the narrow-band ERM countries, due to continued inflationary pressures and high budget deficits, long-term interest rates are set to increase somewhat after a certain drop in early 1992. Overall, the interest rate setting is slightly more benign to economic growth in the Community than in autumn last.

In the United States and Japan, after the aggressive loosening in the past year, and particularly in recent months, no further significant cuts in short-term interest rates are expected. As economic recovery picks up momentum towards the end of the year, short-term interest rates are set to edge up in both countries.

Exchange rates — As usual, the assumption made is of constant exchange rates throughout the forecasting period. More precisely, *real* exchange rates between the ERM currencies, the USD and the yen are assumed to remain constant at their average level of March 1992. This assumption results in the following exchange rate for the USD against the DM; 1992: 1.663 and 1993: 1.697. Stability in *nominal* terms is assumed between all ERM currencies including the Portuguese escudo. The Greek drachma is assumed to appreciate in real terms in 1992 by 1.4% and to remain constant in 1993.

Policy — The assumption made is the traditional 'no-policy change'. As in the past, this implies that both monetary and fiscal policies for the forecasting period are assumed to be an extrapolation of present stances except where new measures are decided or concretely announced. However, in the present situation where most member countries have presented convergence programmes, or are in the course of doing so, the actual interpretation of this assumption is not always so clear-cut. It also renders forecasts for some member countries more vulnerable since far-reaching adjustment measures, not yet taken but very likely to occur during the forecasting period, might have an important bearing on the actual future course of events.

As regards *monetary policy*, for all member countries, the no-policy change assumption means the maintenance of the currently prevailing cautious stance towards price and exchange rate stability. In the hitherto non-converging member countries, a disinflation process is assumed under the influence of EMU exigencies and ERM discipline. As regards *budgetary policies*, the traditional assumption applies but in the case of the three member countries facing significant convergence problems the following assumptions were made. In Greece, it is assumed that given insufficient consolidation results thusfar, adjustment efforts will

intensify in the near future. Their effects have partly been discounted in the forecast. As regards Italy, the forecast for 1992 seeks to incorporate the effects of the 1992 budget and accompanying measures as approved by Parliament at the end of 1991. As for 1993, in the absence of indications of the planned fiscal policy actions, the forecast is based on assumptions which leave the fiscal pressure unchanged at its 1992 level and allow for trend developments in current and capital expenditure. With respect to Portugal, the convergence programme and the 1992 budget are taken into account.

Risks — The forecast for the Community economy which is presented in this document is, as always, a central one, representing the most likely outcome on the basis of a reasonable set of assumptions. However, it appears that the balance of risks is at the downside as regards 1992, but rather on the upside with respect to 1993.

At present the main source of uncertainty continues to be the timing and the strength of the recovery in the Community and the United States, on the one hand, and the extent of the slowing down of the Japanese economy on the other. In none of the three major industrial blocs, do early indicators point to an imminent and sustained recovery. On the other hand, it is very plausible that once the economic climate improves the bounce back in economic activity will be much more vigorous than generally envisaged. Indeed, the combined and simultaneous impact of the significant loosening of monetary and/or fiscal policy in several industrial countries, the continued and progressive economic restructuring and the favourable 'systemic' improvements in the Community and in the world may generate an unexpectedly buoyant economic expansion.

Among the factors of uncertainty the following may be noted:

- *consumer confidence*; a resumption of growth hinges crucially on a pick-up in private consumption. However, consumer confidence remains low and may not recover before economic activity resumes. The savings rate of households is assumed to decline. This assumption is to some extent uncertain, implying that the forecast for private consumption could be on the high side;
- *wage behaviour*; the forecasted recovery also depends on the assumption of a significant moderation in wage increases after two years of rapid growth. If wage increases turn out to be considerably higher, the growth forecast may be jeopardized, since they would adversely affect investment and export performance and prevent a certain relaxation of monetary conditions;
- *export performance*; expectations are for a gradual strengthening of world trade and it is assumed that growth rates of Community exports will be close to the expansion of export markets. To achieve this performance in rather soft world markets characterized by fierce competition, substantial efforts may be required by European export industries, particularly to realize a switch from intra-EC to extra-EC exports after the disappearance of the German import demand surge;
- *behaviour of the dollar*; financial markets are expecting a rising dollar over the next eighteen months. While for the Community a sustained appreciation of the dollar is likely to entail a beneficial impact on exports and inflation performance, it may also dampen or even halt the recovery in the United States, adding uncertainty over the upswing in the Community.

TABLE 37: Demand components at constant prices⁽¹⁾ and contributions to real GDP growth⁽²⁾, EC Countries and EC, 1987-93 *

	1987	1988	1989	1990	1991	1992	1993		1987	1988	1989	1990	1991	1992	1993
B⁵ Demand components															
Private consumption	3.2	3.1	3.3	2.6	1.7	2.2	2.1								
Government consumption	0.3	-1.0	-0.8	0.9	1.0	-0.2	0.4								
Fixed capital formation	5.6	15.2	14.5	8.3	-0.2	1.4	1.7								
— Construction	3.3	13.2	8.9	6.7	-1.6	1.4	1.3								
— Equipment	7.2	13.8	18.2	10.3	1.5	1.4	2.2								
Exports of goods and services	6.6	8.6	7.3	4.6	4.0	3.7	4.9								
Imports of goods and services	8.8	8.0	8.8	4.2	3.7	3.7	4.7								
GDP	2.2	4.9	3.6	3.8	1.4	1.6	2.0								
Contributions to growth															
Final domestic demand	3.1	4.4	4.7	3.5	1.2	1.7	1.8								
Stockbuilding	0.8	0.0	0.2	-0.1	0.0	0.0	0.0								
Foreign balance	-1.7	0.5	-1.3	0.3	0.2	-0.1	0.2								
DK⁴ Demand components															
Private consumption	-1.5	-1.0	-0.4	0.4	2.2	2.3	2.9								
Government consumption	2.5	0.9	-0.3	-1.0	-2.2	0.1	-0.5								
Fixed capital formation	-3.8	-6.6	-0.6	-0.5	-2.1	0.9	5.4								
— Construction	1.1	-4.5	-4.6	-4.6	-8.2	-0.1	3.5								
— Equipment	-8.9	-9.8	6.3	4.3	4.3	1.7	7.1								
Exports of goods and services	5.1	7.8	5.0	8.0	5.8	5.3	5.6								
Imports of goods and services	-2.0	1.5	4.4	2.1	3.8	4.3	6.0								
GDP	0.3	1.2	0.8	1.7	1.0	2.4	2.8								
Contributions to growth															
Final domestic demand	-1.0	-1.7	-0.4	-0.1	0.2	1.4	2.3								
Stockbuilding	-1.2	0.5	0.8	-0.7	-0.3	0.3	0.2								
Foreign balance	2.5	2.3	0.4	2.5	1.1	0.8	0.3								
D⁵ Demand components															
Private consumption	3.2	3.1	1.0	4.6	2.5	1.5	1.5								
Government consumption	1.2	0.2	0.3	1.1	0.8	0.9	1.4								
Fixed capital formation	2.1	4.6	7.0	8.8	6.7	2.8	3.1								
— Construction	-0.3	3.3	5.1	5.3	4.1	4.2	3.3								
— Equipment	5.6	7.7	10.0	12.9	9.4	1.4	3.0								
Exports of goods and services	0.4	5.3	10.2	9.1	12.4	4.6	4.3								
Imports of goods and services	4.2	5.1	8.4	10.4	11.8	4.0	4.1								
GDP	1.4	3.7	3.3	4.7	3.4	2.0	2.0								
Contributions to growth															
Final domestic demand	2.6	3.0	2.1	4.9	3.0	1.6	1.8								
Stockbuilding	-0.1	0.6	0.5	0.0	-0.0	-0.0	0.0								
Foreign balance	-1.1	0.1	0.7	-0.2	0.5	0.3	0.2								
D+⁸ Demand components															
Private consumption	—	—	—	—	2.8	1.8	1.6								
Government consumption	—	—	—	—	2.2	0.3	1.0								
Fixed capital formation	—	—	—	—	8.8	4.6	4.3								
— Construction	—	—	—	—	4.0	5.5	4.8								
— Equipment	—	—	—	—	14.9	3.6	3.8								
Exports of goods and services	—	—	—	—	-5.3	3.0	5.3								
Imports of goods and services	—	—	—	—	8.8	2.6	3.7								
GDP	—	—	—	—	0.9	2.2	2.4								
Contributions to growth															
Final domestic demand	—	—	—	—	4.0	2.2	2.2								
Stockbuilding	—	—	—	—	0.7	-0.0	0.0								
Foreign balance	—	—	—	—	-3.9	-0.0	0.2								
GR³ Demand components															
Private consumption	1.0	3.5	4.3	2.0	1.2	1.2	1.7								
Government consumption	0.9	4.7	4.2	0.6	-0.7	-0.5	0.0								
Fixed capital formation	-5.1	8.9	10.0	4.8	-1.9	3.0	5.5								
— Construction	-7.7	8.3	2.0	5.5	-6.4	2.0	5.0								
— Equipment	-9.9	9.5	17.4	5.7	3.3	4.0	6.0								
Exports of goods and services	16.0	9.0	1.3	0.9	16.4	7.4	8.5								
Imports of goods and services	16.6	8.0	10.8	12.0	13.2	3.8	6.1								
GDP	-0.7	4.1	3.5	-0.2	1.8	2.0	2.3								
Contributions to growth															
Final domestic demand	-0.1	4.8	5.4	2.3	0.4	1.3	2.1								
Stockbuilding	-1.5	2.2	-1.4	-1.4	2.1	0.1	0.1								
Foreign balance	-1.8	-0.7	-4.0	-5.0	-0.7	0.6	0.1								
E⁶ Demand components															
Private consumption	5.8	4.8	5.6	3.7	3.0	3.1	3.0								
Government consumption	8.9	4.0	8.3	4.2	4.4	3.7	3.3								
Fixed capital formation	14.0	14.0	13.8	6.9	1.6	1.6	3.2								
— Construction	9.9	12.2	14.9	10.8	4.3	1.7	2.9								
— Equipment	21.2	16.7	13.0	1.4	-2.5	1.4	3.8								
Exports of goods and services	6.3	5.1	3.0	3.2	8.4	7.5	7.2								
Imports of goods and services	20.1	14.4	17.2	7.8	9.4	7.7	7.7								
GDP	5.6	5.2	4.8	3.6	2.4	2.5	2.8								
Contributions to growth															
Final domestic demand	8.0	6.8	8.2	4.9	3.0	2.9	3.3								
Stockbuilding	0.3	0.5	0.0	0.2	0.1	0.1	0.1								
Foreign balance	-3.2	-2.6	-4.2	-1.8	-0.7	-0.5	-0.6								
F⁴ Demand components															
Private consumption	2.7	3.1	3.0	3.0	1.5	2.3	2.5								
Government consumption	2.8	2.8	0.2	3.4	2.0	2.0	2.0								
Fixed capital formation	5.0	8.7	7.4	3.5	-1.5	0.2	2.8								
— Construction	3.2	7.3	5.3	2.3	1.1	1.8	2.0								
— Equipment	5.4	9.7	5.8	5.1	-3.4	-1.0	3.4								
Exports of goods and services	2.8	7.9	10.4	5.1	4.0	4.4	5.8								
Imports of goods and services	7.6	8.5	8.1	6.2	3.2	3.4	5.4								
GDP	2.2	3.8	3.6	2.6	1.2	1.9	2.5								
Contributions to growth															
Final domestic demand	3.2	4.2	3.4	3.2	0.9	1.8	2.5								
Stockbuilding	0.2	-0.1	-0.2	-0.2	0.2	-0.1	0.0								
Foreign balance	-1.2	-0.3	0.4	-0.4	0.1	0.2	0.0								
IRL⁵ Demand components															
Private consumption	2.3	3.6	3.7	1.1	0.9	1.9	2.3								
Government consumption	-4.4	-5.3	-2.0	3.5	1.7	1.8	0.0								
Fixed capital formation	-2.3	3.3	15.8	9.5	-4.9	3.5	6.3								
— Construction	-8.3	-0.7	9.8	11.7	-4.8	1.5	2.5								
— Equipment	1.3	4.8	15.3	8.5	-5.0	5.5	9.8								
Exports of goods and services	13.4	8.7	10.1	8.8	5.2	6.0	4.4								
Imports of goods and services	5.0	3.9	10.9	6.0	2.2	3.6	5.0								
GDP	4.6	4.5	6.4	7.1	1.9	2.2	2.6								
Contributions to growth															
Final domestic demand	0.2	1.8	4.6	2.9	-0.2	1.9	2.4								
Stockbuilding	-0.9	-0.8	1.4	1.7	-0.3	-2.0	-0.0								
Foreign balance	5.3	3.5	0.4	2.5	2.4	2.3	0.2								

	1987	1988	1989	1990	1991	1992	1993
I⁵ Demand components							
Private consumption	4.4	4.6	3.6	2.6	2.8	2.4	2.7
Government consumption	3.5	2.8	0.9	1.0	1.7	1.1	1.1
Fixed capital formation	5.0	6.9	4.6	3.0	0.9	1.3	1.7
— Construction	-1.1	1.2	3.6	3.4	1.2	0.4	1.0
— Equipment	12.8	11.2	6.2	3.1	0.7	2.2	2.4
Exports of goods and services	4.3	5.1	9.0	9.2	-0.8	3.0	4.8
Imports of goods and services	9.4	7.5	8.4	8.0	2.9	4.7	5.0
GDP	3.1	4.1	3.0	2.0	1.4	1.5	2.1
Contributions to growth							
Final domestic demand	4.4	4.8	3.4	2.4	2.3	2.0	2.3
Stockbuilding	-0.0	-0.0	-0.3	-0.6	0.1	0.1	0.0
Foreign balance	-1.2	-0.7	-0.1	0.1	-1.0	-0.6	-0.3
L⁵ Demand components							
Private consumption	4.8	4.6	3.4	3.4	4.1	3.5	3.5
Government consumption	2.7	3.8	1.9	3.2	3.0	3.2	3.2
Fixed capital formation	14.8	12.3	-6.5	9.4	6.3	4.7	4.8
— Construction	10.8	7.1	4.4	5.9	6.0	4.9	5.0
— Equipment	16.7	-19.0	26.3	13.7	6.6	4.5	4.6
Exports of goods and services	6.0	7.6	6.8	2.2	2.9	3.2	4.2
Imports of goods and services	7.5	8.2	6.4	3.1	4.3	4.0	4.2
GDP	2.7	5.6	6.3	2.3	2.9	2.9	3.6
Contributions to growth							
Final domestic demand	6.5	6.3	0.5	4.6	4.4	3.7	3.8
Stockbuilding	-2.5	-0.2	5.2	-1.2	0.1	0.1	-0.0
Foreign balance	-1.4	-0.5	0.5	-1.0	-1.5	-1.0	-0.2
NL⁴ Demand components							
Private consumption	4.0	0.9	1.7	3.6	3.0	1.2	1.6
Government consumption	2.9	0.2	-0.4	0.0	-0.9	-0.3	-0.4
Fixed capital formation	1.5	8.1	3.9	4.0	-0.7	-0.7	-0.1
— Construction	1.9	12.0	1.6	1.3	-1.3	-0.1	-0.1
— Equipment	1.9	5.8	4.5	7.7	0.1	-1.4	-0.2
Exports of goods and services	4.0	7.8	5.5	4.7	4.3	3.4	4.6
Imports of goods and services	4.9	6.6	6.4	4.5	3.7	2.6	3.9
GDP	0.8	2.6	4.0	3.9	2.2	1.2	1.7
Contributions to growth							
Final domestic demand	3.2	2.2	1.8	3.0	1.4	0.5	0.9
Stockbuilding	-2.0	-0.7	2.5	0.6	0.3	0.0	0.2
Foreign balance	-0.4	1.1	-0.3	0.4	0.5	0.7	0.7
P⁷ Demand components							
Private consumption	5.4	6.6	3.3	5.3	4.4	3.8	3.5
Government consumption	4.9	5.3	2.8	1.5	4.2	1.0	2.5
Fixed capital formation	15.1	15.0	5.6	5.9	2.8	3.1	4.8
— Construction	9.4	10.1	3.5	5.3	4.5	5.0	5.0
— Equipment	26.8	23.2	10.0	5.7	1.0	1.2	4.5
Exports of goods and services	8.6	10.2	13.3	9.5	-0.6	5.4	6.1
Imports of goods and services	20.0	16.1	9.1	10.1	5.7	6.1	6.9
GDP	5.3	3.9	5.2	4.4	1.8	2.3	3.1
Contributions to growth							
Final domestic demand	8.0	9.2	4.4	5.6	4.3	3.6	4.1
Stockbuilding	3.2	-0.8	0.6	0.7	0.1	-0.2	0.4
Foreign balance	-6.0	-4.5	0.2	-1.9	-2.7	-1.1	-1.3

	1987	1988	1989	1990	1991	1992	1993
UK⁵ Demand components							
Private consumption	5.3	7.4	3.5	1.0	-1.7	0.6	1.7
Government consumption	1.2	0.6	0.9	2.8	2.4	3.1	2.9
Fixed capital formation	9.6	13.1	6.8	-2.4	-10.3	-4.4	1.2
— Construction	11.1	9.8	2.5	-1.0	-8.7	-4.8	1.4
— Equipment	8.4	17.5	8.3	-3.8	-11.8	-4.0	1.1
Exports of goods and services	5.7	0.1	4.3	4.9	0.7	4.1	6.0
Imports of goods and services	7.9	12.4	7.3	1.3	-2.9	4.4	4.2
GDP	4.8	4.2	2.3	0.8	-2.2	0.6	2.5
Contributions to growth							
Final domestic demand	5.1	7.1	3.7	0.7	-2.6	0.2	1.9
Stockbuilding	0.1	0.7	-0.3	-0.8	-0.6	0.6	0.2
Foreign balance	-0.6	-3.6	-1.1	1.0	1.2	-0.2	0.4
EUR⁵ Demand components							
Private consumption	3.9	4.2	2.9	3.0	1.6	1.9	2.2
Government consumption	2.6	1.7	1.2	2.1	1.7	1.7	1.8
Fixed capital formation	5.5	8.6	7.3	4.2	-0.1	0.7	2.5
— Construction	3.0	6.3	5.3	3.9	0.3	1.1	2.2
— Equipment	8.3	11.2	8.5	4.8	-0.5	0.2	2.8
Exports of goods and services	4.1	5.5	7.7	6.5	5.3	4.4	5.3
Imports of goods and services	8.0	8.5	8.7	6.4	4.8	4.3	5.0
GDP	2.9	4.0	3.3	2.8	1.3	1.7	2.3
Contributions to growth							
Final domestic demand	3.9	4.7	3.6	3.1	1.3	1.6	2.2
Stockbuilding	-0.0	0.3	0.1	-0.3	-0.0	0.1	0.1
Foreign balance	-1.2	-1.0	-0.5	-0.1	0.0	-0.1	-0.0
EUR +⁵ Demand components							
Private consumption	—	—	—	—	1.7	1.9	2.2
Government consumption	—	—	—	—	2.0	1.5	1.7
Fixed capital formation	—	—	—	—	0.6	1.2	2.9
— Construction	—	—	—	—	0.4	1.6	2.7
— Equipment	—	—	—	—	0.7	0.8	3.0
Exports of goods and services	—	—	—	—	1.2	4.0	5.5
Imports of goods and services	—	—	—	—	4.4	3.9	4.9
GDP	—	—	—	—	0.8	1.7	2.4
Contributions to growth							
Final domestic demand	—	—	—	—	1.6	1.8	2.3
Stockbuilding	—	—	—	—	0.1	0.1	0.1
Foreign balance	—	—	—	—	-1.2	-0.2	-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 1990 prices.

* Notes: see below.

Notes on technicalities, concepts and sources

- Directorate General II 'Economic and Financial Affairs' regularly produces, under its own responsibility, short-term economic forecasts. These forecasts cover the principal 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'.
- Concepts and sources**
 The sources for the tables and graphs are the Commission's services, except where otherwise indicated.
 The historical part of the time series presented in the tables (in the present case, until 1990) is based on ESA national accounts (European System of Integrated Economic Accounts) which are published once a year by Eurostat. In the prospective part (1991 estimates, 1992 and 1993 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.
- 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 (CEE): Bulgaria, Czechoslovakia, Hungary, Poland, Romania, former 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 — April 1992

Belgium (B)

4.4 The Government completes the 1992 budget control procedures. Revenue has been fixed at BFR 1 269 billion and expenditure at BFR 1 624 billion. The combined central government and social security deficit is therefore limited to BFR 354,8 billion, or 5 % of GDP. To achieve this budget, the Government adopts a series of social security and budgetary measures.

10.4 The Government adopts a draft law introducing a special tax on the registration of luxury cars, pleasure boats and aircraft, intended to compensate in part for the reduction to 19,5 % of the top 25 % and 33 % VAT rates. This reduction produces a revenue shortfall estimated at BFR 29 billion. The receipts expected from the new tax are BFR 6 billion on an annual basis (BFR 3 billion in 1992).

Denmark (DK)

None.

Germany (D)

None.

Greece (GR)

26.3 A new series of Treasury bonds is issued at 31.12.1991 for an amount of DRS 529 billion in substitution of overdue state guarantees. The bonds have a duration from 6 to 10 years of which two years is grace period during which the interest accrued will be capitalised.

16.4 The government cuts budget expenditure by DRS 100 billion. Exempt from this decision is spending on defence, education and health.

20.4 Investment banks are allowed to carry out banking operations which were up to now reserved to the commercial banks. In particular, they are now allowed to accept Drachma and currency deposits (except savings and non-business sight deposits), to grant loans and guarantees to export companies, to invest up to 10 % of their short-term deposits in bonds and long-term loans and to carry out operations in foreign currency (except sales to tourists and students).

Spain (E)

2.4 The Treasury increases interest rates on long-term public debt by 0,13 of a percentage point for three-year, 0,16 of a percentage point for five-year and 0,15 of a percentage point for ten-year securities. This brings them up to 11,72 %, 11,37 % and 10,91 % respectively.

3.4 As part of the measures envisaged under the Convergence Programme, the Government approves a decree intended to promote employment and reduce unemployment expenditure by reducing the amount and duration of unemployment benefits and introducing more restrictive eligibility requirements.

7.4 The Government approves the Convergence Programme, which is then presented to Parliament.

9.4 The Treasury increases by 0,2 of a percentage point the interest rate on twelve-month securities, raising it to 11,9 %.

France (F)

7.4 Top VAT rate (22 %) to be abolished on 13 April, leaving only two rates (5,5 % and 18,6 %).

20.4 Cigarette prices to increase by 10,25 % on 27 April.

24.4 The budget deficit for 1992 is revised upward: from FF 90 billion to FF 135 billion.

29.4 New measures are adopted in favour of long-term unemployment.

29.4 The law which allows partial privatisation of public insurance companies is voted by Parliament.

Ireland (IRL)

None.

Italy (I)

None.

Luxembourg (L)

None.

Netherlands (NL)

None.

Portugal (P)

6.4 Following the Government's application, the escudo joins the exchange-rate mechanism of the EMS in the wide band (fluctuation margin of 6 % on either side) with a central rate against the ecu of PTE 178,73.

9.4 The government decides a strong increase (around 25 %) in taxes on cars with low and medium size engines (up to 1 750 cc) which is not compensated by the reduction in taxation for high powered cars.

United Kingdom (UK)

None.

Prices (excluding VAT) in Luxembourg

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