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Supplement A — No 10 — October 1985

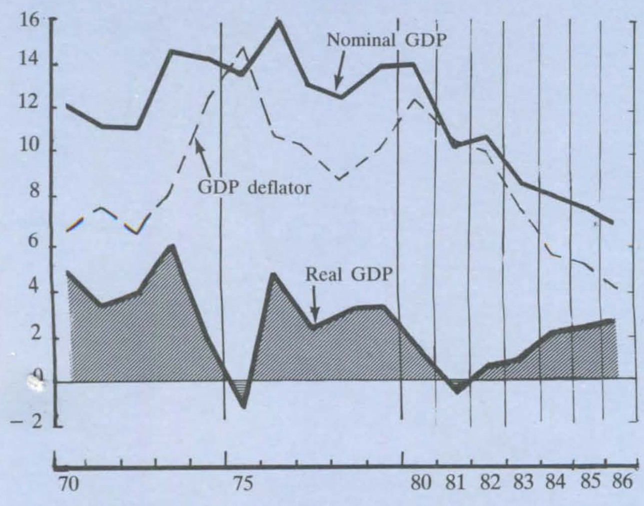
Recent economic trends

In this number:
Economic forecasts for 1985 and 1986[1]

The Commission's new economic forecast for 1985 and 1986 displays the following highlights :

- *Economic activity in the European Community should continue to expand at an underlying rate of 2 % to 2 ½ % in both 1985 and 1986.*
- *The sources of growth are seen to shift gradually from external to domestic factors. Exports are forecast to weaken somewhat as the growth of world trade falls back, but this should be offset by a gradual strengthening of internal demand.*
- *Inflation is expected to continue to decelerate markedly. Domestic cost pressures are likely to weaken further, and import prices could even stabilize next year. The convergence of national inflation rates should improve further.*
- *The expansion of employment should accelerate gently over the forecast period, and bring the increase in the rate of unemployment to a halt.*
- *The surplus on the external current account is forecast to increase moderately.*
- *The general government borrowing requirement is forecast, on the basis of present policies, to contract noticeably next year. The situation, however, differs between Member States, and the level of the public debt will continue to rise substantially in some of them.*

GRAPH 1 : **Nominal GDP, deflator of GDP, real GDP** (percentage change on preceding year, EC, 1970-1986) [1]



[1] 1985-1986 : forecasts.
Source : Commission services.

Fairly weak but stable growth in the US-sustained growth in other industrialised countries. — In the first half of 1985, economic growth in the U.S. decelerated more sharply than was expected last Spring when the previous forecast was prepared : real GNP is currently estimated to have expanded at an annual rate of only 1,6 %. However, while the net foreign balance showed a renewed deterioration, growth of final domestic demand remained quite strong (+4,2 %).

The U.S. economy is not expected to slow down further. Among the positive aspects are the facts that inflation remains subdued, and interest rates are tending to decline. It is expected that real GNP growth will be slightly above 2 % in 1985, which implies some strenghtening of economic activity in the second half of 1985. This trend is forecast to continue in 1986 and if realised, would result in an average GNP increase of 2 ½ % next year (Table 1). Sources of growth are seen to be a recovery of residential investment and a gradual lessening of the negative contribution to growth from foreign trade. On the other hand, growth of private consumption is expected to weaken as some recovery in the savings ratio, which is at present at a historical low level, should occur.

Little progress has been made by the U.S. authorities, since the previous forecast was prepared, in tackling the overriding problem of the federal budget deficit. The slower than expected growth of the economy could largely counterbalance the effect of the proposed measures to reduce federal

[1] The following text summarizes the results of the Commission's autumn forecasting round. The cut-off date for information used in the forecasts was 8 October 1985. The previous forecast for 1985 and 1986 was summarized in Supplement A, n° 6, June 1985.

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

	Percentage change on preceding year					
	1981	1982	1983	1984	1985[1]	1986[1]
EUR	−0,2	0,5	1,0	2,2	2,3	2,5
USA	3,4	−3,0	2,9	6,8	2,3	2,5
Canada	3,3	−4,4	3,3	5,0	3,9	2,7
Japan	4,2	3,0	3,0	5,7	5,0	4,2
Other OECD	1,6	0,9	1,6	3,3	2,6	2,5
OECD total	1,7	−0,1	2,3	4,5	2,8	2,7
OPEC	−3,5	−4,0	−2,5	1,4	2,0	2,0
Other developing countries	3,0	0,9	0,8	3,9	2,9	3,8
Other countries	2,3	2,2	3,1	3,9	3,6	3,7

[1] Forecasts.
Source: Commission services.

TABLE 2: **Interest and exchange rates assumptions**

	1981	1982	1983	1984	1985[1]	1986[1]
	Annual rates (%)					
Rates of interest (US)						
— short-term[1]	14,0	10,6	8,7	9,5	7,8	7,0
— long-term[2]	12,9	12,2	10,8	12,1	11,2	9,8
	Change on preceding year (%)					
Exchange rate of USD						
— vis-à-vis ECU[3]	+24,7	+13,7	+10,9	+13,1	+5,4	−12,3
— vis-à-vis DM[3]	+23,9	+7,5	+5,2	+11,4	+5,1	−13,7

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

expenditure which were agreed earlier this Summer. The good performance of the economy with regard to inflation has enabled the Federal Reserve to adopt a somewhat more expansionary monetary policy stance and interest rates have declined. This downward trend is assumed to continue over the outlook period but at a more moderate rate as the Federal Reserve will avoid excessive growth of the monetary aggregates.

These prospects for U.S. economic growth and interest rates are consistent with the assumption of some further weakening of the U.S. dollar. The set of exchange rates which have been adopted as a working hypothesis for the forecast include a depreciation of the dollar vis-à-vis the ECU of some 12 % between the averages of 1985 and 1986 (Table 2).

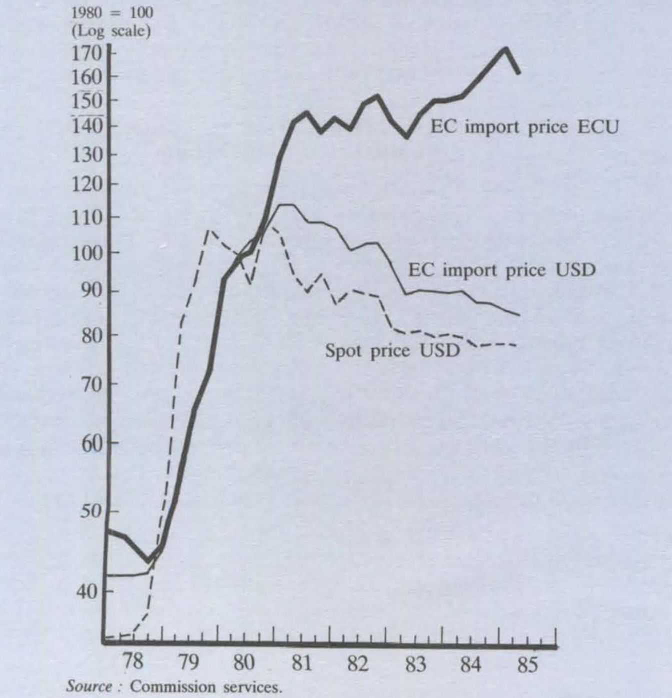
Declining trend in prices of commodities continues. — World markets for primary commodities and other basic materials showed signs of weakness in 1985 despite the fact that economic activity picked up in an increasing number of countries. As far as the oil market is concerned, it is clear that the cumulative long-term effects of the two oil price shocks still largely offset the short-term impact of recent price reductions, of higher demand associated with economic recovery in OECD countries and the increasing energy-intensity of economic activity in developing countries. Thus, free world oil demand is estimated to have increased by less than 0,4 million barrels per day (m.b.d.) in 1984 (less than 1 %), and would have shown a decrease had it not been for the extra demand arising as a result of the miners' strike in the United Kingdom. Indeed, the ending of this dispute in March 1985, together with the sharp weakening of economic activity in the U.S. and renewed destocking, caused a further marked decline in demand in the first half of this year. As non-OPEC suppliers have generally maintained their production levels, OPEC members have felt the full impact of this fall in demand; indeed OPEC output in the first half of 1985 was 14 % (0,7 m.b.d.) below the levels of the same period in 1984. These developments were reflected in a further weakening of spot prices for oil which, it is currently estimated, affect two thirds of all oil transactions.

There is little prospect of any marked change in the underlying state of the oil market during the outlook period. Total oil demand is expected to show only a marginal increase in 1986 (+0,2 m.b.d.) although this could lead to a somewhat larger increase in OPEC output as net exports from centrally-planned economies are expected to be lower than last year due to supply difficulties. These trends point to a further decline of oil prices over coming months (Table 3).

Prices of non-oil commodities also weakened in the first half of this year, and to an extent greater than expected at the time the Spring forecast was prepared. Although there have been a number of developments which would normally have been expected to provide some support to prices — including capacity closures and the falling dollar — these have obviously been outweighed, in most cases, by a series of negative influences, such as big carryover stocks, prospects of good harvests, lack of demand from certain "crisis" sectors (e.g. U.S. agriculture; the iron and steel industry), and the accumulating effects of changing technology (e.g. use of plastics instead of steel and of optical fibres or micro-waves in place of copper wiring).

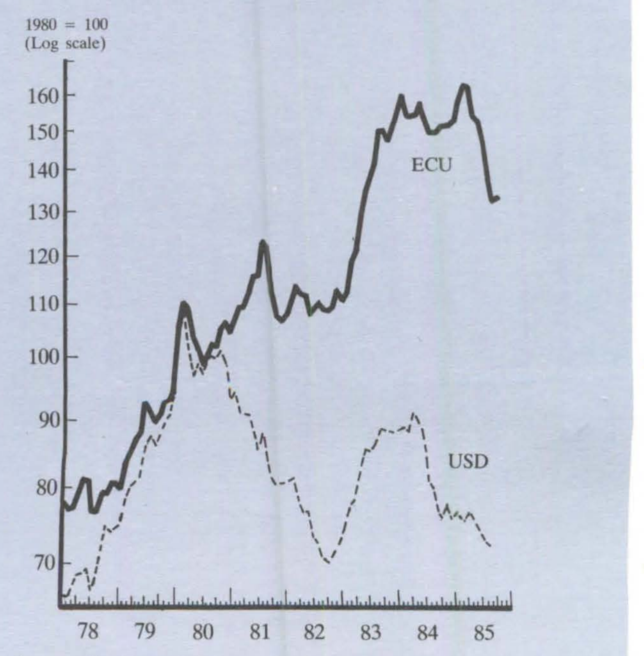
The prospects of slower growth of the U.S. economy and only moderate growth elsewhere indicate that overall demand for basic materials is likely to remain subdued. Such a develop-

GRAPH 2 : **Oil prices**



Source : Commission services.

GRAPH 3 : **Non-oil primary commodity prices**



Source : "The Economist" Commodity Price Index

TABLE 3: **World export prices**[1]

	Percentage change on preceding year					
	1981	1982	1983	1984	1985[2]	1986[2]
Fuels	10,8	−3,2	−11,0	−3,7	−4,1	−4,4
Other primary commodities	−10,1	−10,7	0,5	−1,5	−9,2	4,9
Manufactures	−4,8	−1,9	−3,4	−2,8	−0,5	10,7

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

ment, in conditions of more than adequate supply, suggests that upward pressure on commodity prices will be small; the only factor likely to lead to some upward movement will be the depreciation of the dollar, although both the timing and extent of this effect are very uncertain.

Rate of expansion of world trade virtually unchanged. — The economies of Japan and Canada will be particularly affected by the relative sluggishness of the US economy as 44 % of U.S. imports in 1984 came from these two countries. In the case of Japan, weaker export demand will be reflected directly in lower GDP growth, because the pace of domestic demand is not expected to accelerate significantly between this year and next. In some other OECD countries weaker foreign demand will probably be offset by stronger domestic demand. Amongst developing countries, prospects are mixed. The rapidly-industrialising countries, especially those of the Pacific Basin, will feel some backwash from the slowdown in the U.S. and Japan but should be able to record some modest growth. Similarly, the most heavily-indebted countries should be able to continue their recovery as renegotiation and falling interest rates have eased the most pressing debt problems which, nevertheless, remain serious.

TABLE 4: **World imports** (at constant prices)

	Percentage change on preceding year					
	1981	1982	1983	1984	1985[1]	1986[1]
EUR	−2,9	2,4	2,2	7,1	5,0	5,3
USA	2,5	−5,0	11,8	29,9	10,0	6,6
Canada	2,8	−16,0	14,0	19,1	7,3	5,6
Japan	−2,2	−0,5	0,3	10,7	3,0	4,7
Other OECD	−0,2	1,1	−0,1	7,2	6,3	4,2
OECD total	−1,2	−0,4	4,1	12,9	6,4	5,4
OPEC	27,4	5,5	−8,2	−9,0	−10,9	−4,0
Other developing countries	4,3	−6,1	−0,3	6,0	4,0	4,5
Other countries	1,7	−2,0	2,6	4,7	5,5	5,4
World	1,8	−1,0	2,2	9,3	4,8	4,8

[1] Forecasts.
Source : Commission services.

TABLE 5: **World Balances of current account** (in billions of US Dollars)

	1981	1982	1983	1984	1985[1]	1986[1]
EUR	−13,7	−14,1	0,5	2,8	12,2	18,2
USA	6,3	−9,2	−41,6	−101,6	−125,6	−131,1
Canada	−5,1	2,2	1,4	1,9	0,7	1,8
Japan	4,8	6,9	20,8	35,1	48,5	58,7
Other OECD	−27,0	−26,1	−14,6	−3,0	−5,3	−2,6
OECD total	−34,7	−40,3	−33,5	−64,7	−69,5	−54,9
OPEC	49,8	−15,4	−18,1	−6,0	−11,5	−27,3
Other developing countries	−82,0	−69,3	−36,6	−20,0	−25,2	−30,1
Other countries	−,58	8,0	10,8	25,2	28,2	31,7
Errors and ommissions	−72,7	−117,0	−77,4	−65,5	−78,0	−80,7

[1] Forecasts.
Source : Commission services.

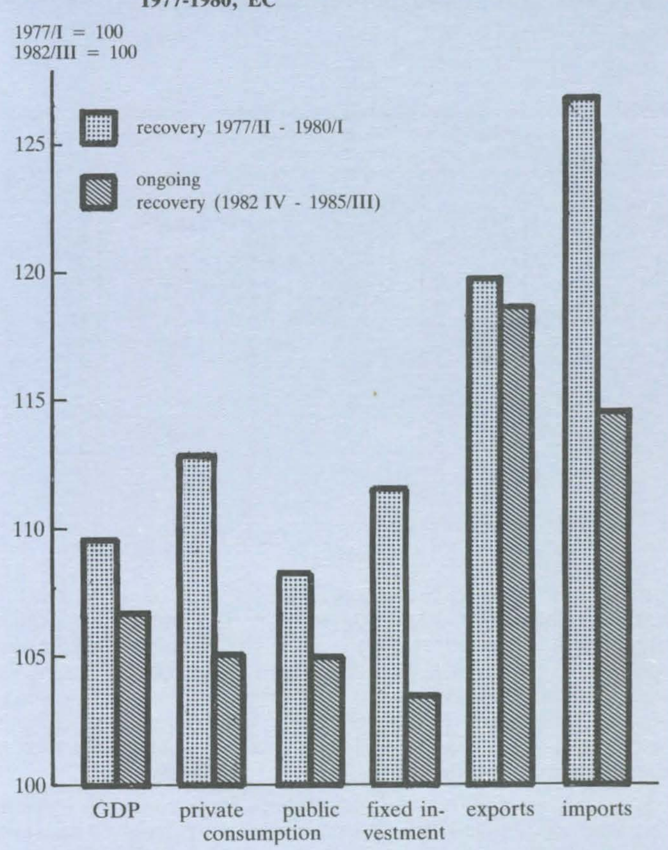
However, oil-exporting countries will continue to suffer from the combined effects of lower demand for oil, weaker prices and the assumed depreciation of the U.S. dollar. The export earnings of other developing countries dependent on primary commodity exports will, of course, also be adversely affected by the forecast continued weakness of prices.

The prospects of somewhat weaker growth of the world economy excluding the EC, and of a faster depreciation of the dollar, than in the June forecast, has led to a downward revision of the growth of world trade. World imports (excluding the EC) are now expected to grow by 4,7 % in 1985 and growth is forecast to be slightly slower next year at 4,5 % (Table 4).

Upturn in the Community less vigorous but probably longer than in preceding cycles : strengthening of domestic demand. — The present recovery in the Community is in many respects different from the traditional cyclical upturns of the past. It has now lasted for nearly three years. The previous upward phase of the cycle broke down after this length of time as a result of the second oil shock. The present recovery is characterized by slower overall expansion, and by a different performance of the various components of overall demand (Graph 4). In the present growth cycle real GDP has risen in a comparable length of time significantly less than in the earlier upswing. Private consumption and particularly fixed investment have been relatively weak despite the recent revival. The performance of exports has been about the same as in 1977/1980, but import demand was much stronger before than in the last three years. Thus the contribution of foreign trade to GDP growth has been positive in the present recovery, whereas it was significantly negative in the earlier one. The present forecast suggests that the relative weakness of consumption and investment, which was until recently a feature of the present growth cycle, is being replaced progressively by a more dynamic development of domestic demand.

Moderate but stable growth in the Community in 1985 and 1986. — Expansion in the Community is expected to continue at a fairly stable, though moderate, rate. The consecutive annual growth rates for 1984, 1985 and 1986 will be, according to the forecast, 2,2 %, 2,3 % and 2,5 % (Graph 1 and Table 6). Largely as a consequence of the severe winter, economic growth in the course of 1985 has followed an unusual profile, with the rate of expansion twice as high in the second half of the year as in the first. Linked to this, the annual growth rate for 1986 as a whole tends to overstate somewhat the underlying pace of expansion in the course of 1986, which is expected to be around 2 ¼ % (Table 12). Even so, given the deceleration of world trade, the pursuit of the recovery is a remarkable achievement. While exports are

GRAPH 4 : **The present recovery compared to that of 1977-1980, EC**



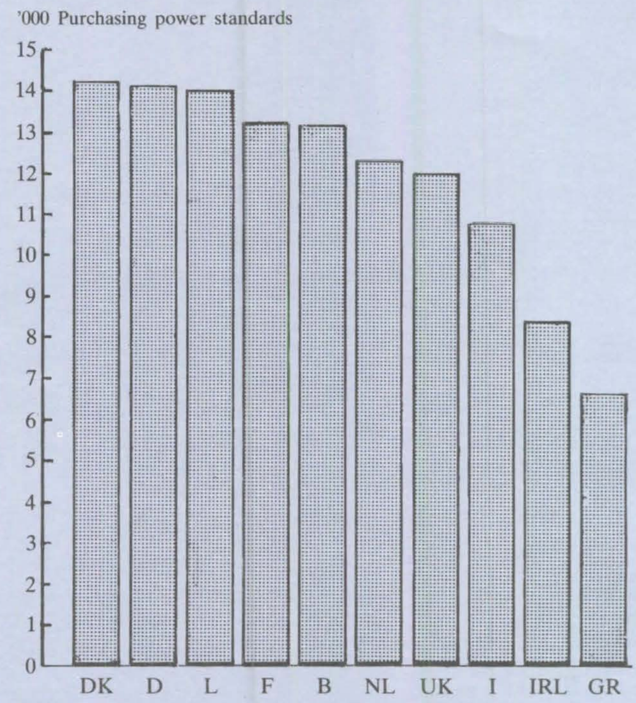
Source : Commission services

likely to weaken next year, domestic demand is seen to take over as the main support to economic activity.

Growth rates of individual Member States range between 1 ¼ % and 3 ½ % both in 1985 and 1986. Looking at the two years together, the position of individual countries may be summarized as follows : Germany, the United Kingdom, Italy and Denmark continue to enjoy above-average growth, with the German recovery accelerating and the British pace of activity likely to suffer next year from a weak export performance which is related to both a high exchange rate of the Pound Sterling and lower oil exports. The ongoing buoyancy of the Italian economy is associated with a very high and tenacious budget deficit. France, Belgium and the Netherlands form a group of countries which are progressively overcoming a difficult adjustment period; in the French case this step towards higher growth is likely to be somewhat lagged and will not materialize before next year. Ireland and Greece are still in the process of correcting imbalances accumulated over a number of years and are unlikely to be able to speed up in the near future the pace of economic development. (The measures taken by the Greek government at mid-October to combat inflation and balance of payments deficits have not been incorporated in the present forecast).

As a consequence the level of production of goods and services per head of population as measured in the national accounts will not converge between the Member States this year and next. On the basis of the purchasing power of the individual currencies, the average level of output in Denmark is more than twice as high as in Greece (Graph 5).

GRAPH 5 : **GDP per head in the Member States, 1985**



Source : Commission services.

Further reduction in the average inflation rate and in the variance of price rises within the Community. — A further significant reduction of the rate of inflation is one of the main features of the forecast. Since 1980 the average rate of increase in the deflator of private consumption, for the Community as a whole, has declined by between one and two percentage points every year. The rates forecast for 1985 and 1986 are 5,2 % and 3,9 % respectively (Table 7). The latter rate is similar to the average of the 1960s. The slowdown of inflation was based, until 1984, on the deceleration of domestic costs with import prices retarding the disinflation process; from 1985 onwards, this picture is likely to change : the domestic components of inflation, as reflected in the deflator of GDP, are still seen to weaken further, but import prices will also contribute significantly to lower consumer price inflation (Graph 6).

TABLE 6: **Gross domestic product, volume** (percentage change at constant prices on preceding year 1973-86)

	1973-82	1981	1982	1983	1984	1985[1]	1986[1]
B	2,2	−1,3	1,1	0,4	1,7	1,9	1,7
DK	1,8	−0,9	3,0	2,0	3,9	2,3	3,2
D	2,0	0,1	−0,9	0,9	2,6	2,3	3,5
GR	3,1	−0,3	−0,1	0,3	2,6	1,9	1,0
F	2,7	0,2	2,0	1,0	1,6	1,2	1,9
IRL	4,0	2,9	1,9	0,6	4,4	2,5	2,3
I	2,6	0,2	−0,4	−1,2	2,6	2,7	2,7
L	1,7	−1,8	−1,1	−2,2	3,2	1,7	1,3
NL	2,4	−0,7	−1,7	0,6	1,7	2,1	2,0
UK	1,5	−1,1	1,9	3,3	1,8	3,4	2,0
EUR	2,2	−0,2	0,5	1,0	2,2	2,3	2,5
USA	2,1	3,4	−3,0	2,9	6,8	2,3	2,5
JAP	4,3	4,2	3,0	3,0	5,7	5,0	4,2

[1] Forecasts.
Source : Commission services.

Unit labour costs in the whole economy are likely to rise by less than the deflator of GDP both in 1985 and 1986, which suggests that the adjustment process in income distribution continues (Tables 8 and 9, Graph 6). The further easing of wage cost pressures next year is entirely due to lower nominal increases in wages per head, while labour productivity per head is not expected to accelerate further (+2,0 %), which is not surprising for the fourth year of the recovery.

Import prices of goods and services are forecast to rise by 5 % this year and, given the assumptions on exchange rates and raw material prices, to be more or less stable next year. Graph 6 illustrates the erratic movements of import prices over the last decade, which are a reflection of the shocks and disruptions affecting the world economy.

Parallel to decreasing average inflation, the convergence of inflation rates among Member States continues to improve. Excepting Greece, the rate of increase of consumer prices is estimated to range in 1985 from 2,1 % (Germany) to 8,6 % (Italy). In 1986 the lower and upper limits are forecast to be 1,1 % (Netherlands) and 6,5 % (Italy). The "group of high inflation countries", a label used in descriptions of trends in the EC economy during the last dozen years, no longer exists. The achievements with respect to price convergence are also confirmed by other indicators of relative inflation performance (Table 10).

The clear-cut downward trend in inflation in the Community on the one hand and the marginal acceleration of real economic growth on the other hand implies that the rate of growth of GDP at current prices will continue to decelerate (Graph 1, Table 11).

Stronger growth in real disposable income and the volume of private consumption. — Private consumption in real terms is likely to be supported by lower inflation and higher employment. These factors, which apply to the Community as a whole, will probably be supplemented by some country specific developments, i.e. pay negotiations centering more than in the recent past on wage increases rather than on shorter working hours (Germany), and tax cuts (Germany, UK).

Nominal household income from dependent employment is forecast to increase by less than non-wage income both this year and next (compensation of employees : 6,5 % and 6,0 % respectively; non-labour income : 8,1 % and 7,9 %). After deduction of payments of direct taxes and addition of net current transfers received by households, the rate of increase of disposable income in nominal terms will continue to decrease in both years (6,8 % and 6,3 % respectively). However, due to falling inflation the rate of growth of real disposable income of private households is expected to accelerate, over the outlook period, from 1,5 % this year to 2,3 % in 1986. Given the combination of lower inflation, declining interest rates and improving prospects for employment, it is assumed that the savings ratio will fall somewhat. Hence private consumption is expected to strengthen moderately in 1985 (+1,7 %) and to become a major stimulus to overall demand in 1986 (+2,7 %, Table 12).

TABLE 7: **Deflator of private consumption** (percentage change on preceding year, 1973-86)

	1973-82	1981	1982	1983	1984	1985[1]	1986[1]
B	7,6	8,5	7,5	7,0	6,2	4,9	3,2
DK	10,7	12,0	11,0	7,2	6,6	4,2	1,7
D	5,2	6,0	4,8	2,9	2,5	2,1	1,5
GR	17,0	23,2	21,1	19,5	18,1	18,0	16,0
F	10,7	12,8	11,2	9,4	7,3	5,8	4,0
IRL	15,6	19,5	16,0	9,7	8,5	5,7	5,3
I	17,2	19,2	17,1	14,9	11,1	8,6	6,5
L	7,5	7,7	9,7	8,4	6,7	3,7	3,5
NL	7,2	6,3	5,4	2,9	2,6	2,4	1,1
UK	13,7	11,2	8,3	5,1	5,1	5,3	4,3
EUR	11,0	11,7	9,8	7,6	6,2	5,2	3,9
USA	7,5	8,3	5,9	4,5	3,2	3,2	4,4
JAP	8,1	4,8	2,8	1,6	2,1	1,9	1,4

[1] Forecasts.
Source : Commission services.

TABLE 8: **Deflator of gross domestic product** (percentage change on preceding year, 1973-86)

	1973-82	1981	1982	1983	1984	1985[1]	1986[1]
B	7,2	5,3	7,1	6,5	5,3	4,7	4,4
DK	10,1	10,1	11,3	8,1	5,8	3,9	2,2
D	4,8	4,0	4,4	3,3	1,9	2,1	1,9
GR	17,4	20,0	24,7	19,9	19,9	17,1	15,7
F	10,8	11,8	12,6	9,5	7,0	5,7	3,9
IRL	14,8	18,2	15,9	10,4	6,6	6,1	5,0
I	17,1	18,3	17,8	15,0	10,7	8,1	6,6
L	7,6	7,2	10,2	6,6	5,8	4,2	5,0
NL	7,0	5,5	6,0	1,6	2,6	2,3	1,0
UK	14,1	11,7	7,1	5,6	4,4	5,5	4,8
EUR	10,9	10,6	10,0	7,8	5,7	5,1	4,1
USA	7,6	8,9	6,9	4,5	3,7	3,8	4,2
JAP	6,6	2,7	1,7	0,7	0,6	1,3	1,3

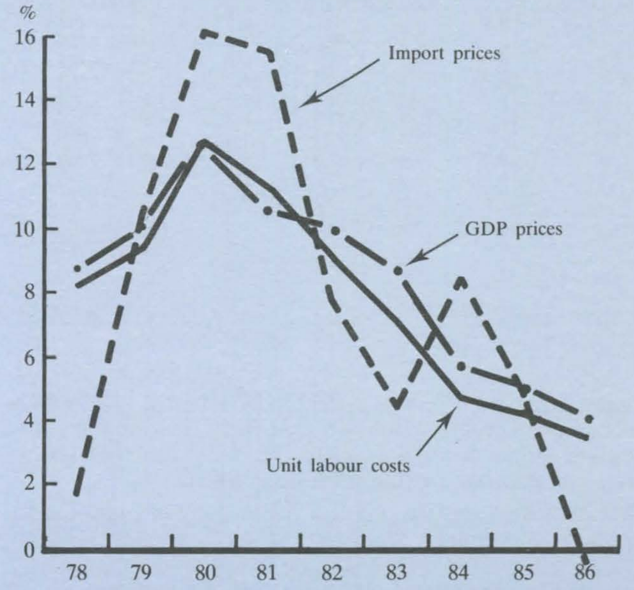
[1] Forecasts.
Source : Commission services.

TABLE 9: **Unit labour costs, whole economy** (percentage change on preceding year, 1973-86)

	1973-82	1981	1982	1983	1984	1985[1]	1986[1]
B	8,3	6,8	5,3	5,2	5,2	4,1	2,7
DK	10,0	8,7	8,6	4,8	3,2	3,0	0,6
D	4,7	4,3	3,4	0,9	0,4	1,5	1,7
GR	18,3	25,4	25,7	18,2	17,8	17,8	12,2
F	11,7	13,1	11,9	9,2	5,5	3,6	2,1
IRL	15,0	12,8	12,4	7,6	4,0	4,1	4,0
I	17,8	22,3	17,4	17,5	9,8	7,4	4,8
L	9,0	9,2	8,1	9,0	0,8	3,2	4,3
NL	6,8	2,8	4,5	0,2	−1,6	−0,3	1,1
UK	13,8	10,3	5,3	4,5	5,2	5,3	5,9
EUR	11,2	11,3	9,0	7,1	4,7	4,2	3,4

[1] Forecasts.
Source : Commission services.

GRAPH 6 : **GDP prices, unit labour costs and import prices, EC, 1978-1986, annual increase in %.**



Source : Commission services.

The restrictive stance of budgetary policies is reflected in a modest expansion of public consumption which is forecast to grow by about 1 % in both forecasting years.

Improved trend in investment in structures and further buoyancy in equipment investment. — Total fixed investment continues to show opposite trends of investment in construction and in equipment. Although the construction sector is expected to recoup in the second half of this year some of the severe losses of the last winter, activity is estimated to fall by 4 % in 1985 as a whole over 1984. The adjustment problems facing this sector are unlikely to permit strong activity in the near future, and the construction sector is forecast to grow by only 1 ½ % in 1986, with further, albeit moderate, declines in four Member States. In particular, public investment and investment in dwellings are likely to remain weak in most Member States, but business investment in structures may pick up somewhat, insofar as it is associated with investment in equipment.

This latter category of investment started to take off in the second half of 1984, and is expected to remain buoyant in 1986. While it is unlikely that a growth rate like that of this year (7,8 %) will be repeated in 1986 (5,6 %), the factors which initiated the investment boom will basically remain intact over the forecasting period. In particular, improved

TABLE 10: **Convergence and deceleration in inflation** (private consumption deflator, percentage change on preceding year or deviation from mean or minimum in percentage points, 1960-86)

	1969/1960	1973/1969	1975/1973	1979/1975	1980	1981	1982	1983	1984	1985	deceleration 1981/85	1986
EUR												
Percentage change	3,6	6,5	13,9	9,7	12,8	11,7	9,8	7,6	6,2	5,2	−6,5	3,9
dispersion in percentage points[1] from												
— mean	1,0	1,1	4,9	4,1	4,8	4,0	3,9	4,0	2,8	2,0	−2,8	1,7
— lowest	1,9	3,1	7,2	6,1	7,1	5,7	5,0	4,8	3,8	3,2	−3,9	2,9
EMS												
Percentage change	3,6	6,3	12,1	8,7	11,5	11,5	9,9	7,9	6,2	4,9	−6,6	3,5
dispersion in percentage points from												
— mean	1,0	1,0	3,8	4,0	5,1	4,6	4,2	4,1	2,9	2,2	−2,9	1,7
— lowest	1,7	2,0	5,3	5,0	5,9	5,4	5,1	5,1	3,7	2,8	−3,1	2,4
US												
Percentage change	2,4	4,7	8,9	6,8	10,3	8,3	5,9	3,7	3,2	3,2	−5,1	4,4

[1] Weighted arithmetic mean of absolute differences of individual country rates from mean or lowest rate.
Source : Commission Services.

TABLE 11: **Gross domestic product, nominal** (percentage change at current prices on preceding year, 1973-86)

	1973-1982	1981	1982	1983	1984	1985[1]	1986[1]
B	9,5	3,9	8,3	6,3	7,0	6,7	6,2
DK	12,0	9,1	14,6	10,3	9,9	6,4	5,4
D	6,9	4,2	3,7	4,1	4,5	4,4	5,4
GR	20,9	18,9	24,5	20,2	23,0	19,3	16,8
F	13,8	12,3	14,7	10,9	8,7	7,0	5,8
IRL	19,2	20,5	17,4	11,3	11,3	8,7	7,5
I	20,2	18,5	17,4	13,6	13,6	11,0	9,5
L	9,4	6,0	7,3	6,1	9,2	6,0	6,4
NL	9,6	4,8	4,3	2,5	4,3	4,5	3,0
UK	15,8	10,5	9,1	8,6	6,2	9,1	7,0
EUR	13,4	10,4	10,7	8,9	8,0	7,6	6,7
USA	9,9	12,6	3,7	7,5	10,8	6,2	6,8
JAP	11,1	7,0	4,8	3,7	6,4	6,3	5,5

[1] Forecasts.
Source: Commission services.

supply-side conditions as reflected in a better profitability of the company sector should progressively be complemented by positive domestic demand-side trends, given that the prospects for private consumption are improving.

The countries where capital formation in equipment is forecast to continue to grow fast next year are Denmark, Germany and Italy, while the recovery might weaken in the United Kingdom and remain modest in France.

No major disturbances in the stock cycle. — Given the modest rate of economic expansion in the Community, strong fluctuations in the stock cycle seem unlikely in 1986. It is assumed that stocks will be built up in line with the expansion of final demand, and will, therefore, make only a very small positive contribution to GDP growth in both years.

This year, the real net balance of trade in goods and services will contribute about ½ percentage point to overall growth. In 1986, when growth of real exports of goods and services is forecast to decelerate further and that of imports to pick up, on balance the contribution of foreign trade to GDP growth will be negative (−0,2 percentage points) for the first time since 1982.

Exports less stimulated with reduced competitiveness in 1986. — The effects of the sharp deceleration of world trade in 1985 on the Community's total exports tend to be mitigated by a number of factors. Firstly, the export markets of the Member States (within and outside the Community) are likely to slow down by less than total world trade (from 6,8 % last year to 5,0 % in 1985, Table 13). Secondly, the Community is likely to gain market shares, with exports estimated to grow by 1 ¼ % more than markets. This performance is mainly based on lagged effects from improved price competitiveness in 1983 and 1984; in 1985 however, the Community's export prices, expressed in a common currency, will rise in line with the average export price of its competitors (Table 14). In all, exports at constant prices are forecast to rise by 6,4 % this year (after 7,7 % in 1984, Table 15). However, whereas world trade and the Community's export markets are not expected to slow down further in 1986, exports will probably continue to decelerate (+4,8 %). The Community's price competitiveness will deteriorate with the assumed further weakening of the dollar vis-à-vis the European currencies, notwithstanding the efforts probably made by exporters to absorb some cost increases in dollar terms via reduced profit margins.

Imports responding to stronger dometic demand in 1986. — As a reflection of strengthening domestic demand, the Community's import volume is forecast to strengthen somewhat next year and to rise by more than the average growth of imports outside the Community (5,3 % against 4,5 %), thus supporting world activity at a time when US imports are seen to slow down (Table 16).

Real foreign balance becoming slightly negative in 1986 but substantial terms of trade gains. — The Community's trade balance (fob/fob), which moved into surplus last year, is likely to improve further both in 1985 and 1986 (up to $ 17 and $ 24 billion respectively). While this year the improvement is mainly due to the behaviour of trade volumes, it will be based next year exclusively on better terms of trade; they are forecast to improve by about 1 percentage point, which, taken in isolation, is worth $ 10 billion. This is more than sufficient to compensate for the negative effect resulting from the movement of trade volumes. With no significant changes expected in the services balance or in the balance of unrequited transfers and factor income ($ 15 and $ −20 billion respectively in 1986), the overall surplus on current

TABLE 12: **Rates of change of demand components and contributions to GDP growth** (EC, 1973-86)[1]

	Percentage change on preceding period[1] at constant prices				
	1973-82	1983	1984	1985[2]	1986[2]
Private consumption	2,5	1,1	1,0	1,7	2,7
Government consumption	2,4	1,6	1,2	1,2	1,1
Fixed capital formation	0,3	0,0	2,3	1,6	3,7
— Construction	—	—	1,1	−4,1	1,6
— Equipment	—	—	3,6	7,8	5,6
Exports of goods and services	4,9	1,9	7,2	6,4	4,6
Imports of goods and services	4,0	1,5	6,6	5,0	5,3
GDP	2,2	1,0	2,2	2,3	2,5
	8402	8501	8502	8601	8602
Private consumption	0,7	2,0	2,2	2,9	2,6
Government consumption	1,7	0,6	2,1	0,8	0,7
Fixed capital formation	3,5	−1,4	6,0	3,0	2,7
— Construction	−2,2	−10,1	7,0	−0,8	1,5
— Equipment	10,0	8,1	5,1	6,7	3,9
Exports of goods and services	7,9	6,7	4,2	4,8	4,6
Imports of goods and services	6,2	5,5	2,8	6,1	6,1
GDP	2,3	1,7	3,4	2,2	2,0
	Contributions to changes in GDP[3]				
	1973-82	1983	1984	1985[1]	1986[2]
Final domestic demand	10,0	8,1	1,3	1,6	2,5
Stockbuilding	7,9	6,7	0,5	0,2	0,1
Foreign balance	6,2	5,5	0,2	0,4	−0,2
	8402	8501	8502	8601	8602
Final domestic demand	1,4	1,0	2,9	2,5	2,3
Stockbuilding	0,2	0,2	0,1	0,0	0,3
Foreign balance	0,5	0,4	0,5	−0,3	−0,4

[1] Half-yearly figures at annual rates, seasonally adjusted (8402 = second half of 1984 etc).
[2] Forecasts.
[3] Change as percentage of GDP of preceding period.
Source : Commission services.

TABLE 13: **Export markets and export performance** (percentage change on preceding year 1984-86)

	Export markets			Export performance[1]		
	1984	1985[3]	1986[3]	1984	1985[3]	1986[3]
B	7,3	5,5	5,7	−2,3	−1,0	−0,9
DK	7,0	5,8	4,8	−1,8	−0,3	0,2
D	7,6	5,7	5,1	0,6	3,2	1,4
GR	4,1	3.1	4,6	7,7	3,6	1,9
F	6,9	5,3	5,3	0,5	−1,6	−1,4
IRL	8,5	5,7	5,6	9,4	3,1	2,1
I	5,7	4,4	5,1	1,6	1,8	1,2
L[2]	—	—	—	—	—	—
NL	5,1	4,4	4,9	1,6	0,2	−0,4
UK	7,0	4,1	4,8	1,2	3,0	−3,4
EUR	6,8	5,0	5,1	0,8	1,3	−0,3
USA	8,1	4,9	5,2	−2,7	−6,4	3,2
JAP	12,8	7,7	6,0	2,3	−0,2	−0,9

[1] Export growth divided by market growth.
[2] Included in the figures for Belgium.
[3] Forecasts.
Source : Commission services.

TABLE 14: **Export price competitiveness**[1] (1984-1986)

	B	DK	D	GR	F	IRL
1984	−1,3	−2,8	−4,8	−6,8	−1,9	−2,9
1985[2]	0,2	0,8	−1,2	−0,2	1,6	3,8
1986[2]	3,5	3,0	4,0	0,0	4,5	5,4

	I	NL	UK	EC	USA	JAP
1984	−2,6	−1,9	−2,9	−3,0	−6,2	3,8
1985[2]	−0,5	−0,7	3,1	0,4	1,6	−1,6
1986[2]	2,4	2,8	5,0	3,8	−1,7	−4,4

[1] Percentage increase of country's export prices over that of competitor's export prices.
[2] Forecasts.
Source : Commission services.

TABLE 15: **Exports of goods** (percentage change on preceding year 1973-86)

	1973-82	1981	1982	1983	1984	1985[1]	1986[1]
B	3,8	1,3	3,2	−0,6	4,9	4,4	4,8
DK	4,3	7,0	2,0	5,8	5,1	5,5	5,0
D	5,2	8,0	3,9	−0,6	8,3	9,0	6,5
GR	8,7	−12,1	−3,8	18,9	12,2	6,8	6,5
F	5,9	4,8	−3,1	4,4	7,4	3,6	3,8
IRL	6,1	2,9	5,3	12,4	18,6	9,0	7,8
I	7,5	6,1	0,5	4,8	7,4	6,3	6,4
L	2,6	1,6	−0,1	−2,1	14,8	2,5	1,2
NL	2,2	0,8	0,1	6,3	6,8	4,6	4,5
UK	3,7	−0,8	2,3	0,8	8,2	7,3	1,2
EUR	3,2	4,0	1,3	2,5	7,7	6,4	4,8
USA	—	−2,6	−10,3	−5,7	5,2	−1,9	8,6
JAP	—	10,6	−2,4	8,4	15,4	7,5	5,1

[1] Forecasts.
Source: Commission services.

TABLE 16: **Imports of goods** (percentage change on preceding year, volume 1973-86)

	1973-82	1981	1982	1983	1984	1985[1]	1986[1]
B	3,9	−2,6	1,5	−3,3	3,8	3,0	3,8
DK	0,4	−2,5	1,4	1,8	7,3	5,6	4,4
D	4,4	−1,9	0,4	3,6	7,0	5,7	8,0
GR	4,6	−1,3	11,5	0,3	2,1	6,0	2,0
F	4,2	0,1	6,8	−0,6	2,5	3,0	4,0
IRL	5,4	3,0	−3,4	4,0	10,8	4,3	5,1
I	4,4	−5,7	0,8	0,4	10,3	7,8	5,6
L	0,6	2,2	−1,0	−1,9	7,9	3,1	2,0
NL	2,3	−6,2	1,2	4,7	6,7	4,5	4,6
UK	2,9	−3,7	4,7	6,9	10,9	4,4	4,7
EUR	1,1	−2,9	2,7	2,1	7,1	5,0	5,3
USA	—	6,6	0,1	11,8	29,9	10,0	6,6
JAP	—	−2,8	−0,5	0,3	10,7	3,0	4,7

[1] Forecasts.
Source: Commission services.

transactions of the Community should increase from $ 3 billion last year to over $ 12 billion this year before reaching $ 18 billion in 1986, equivalent to 0,1 %, 0,5 % and 0,6 % of GDP (Table 17).

Higher employment with small effect on unemployment in 1986. — The modest rate of expansion of the Community economy points to a continuation of present labour market trends. It is worth recalling that, although real GDP for the Community as a whole has shown positive growth since 1982, it was not until 1984 that the recovery was underway in *all* Member States and that the first effects on overall employment in the Community became discernible (Table 18).

As the slack in labour utilisation is taken up, even the relatively modest growth for the Community economy will tend to have an increasing effect an labour demand and, therefore, on employment. The forecast suggests that employment in the Community will, in 1986, be 1,1 % higher than in 1983 (the first year of the recovery) which is equivalent to the creation of 1,2 million additional jobs.

There are, however, at least two features of this development which have tended to reduce its impact on unemployment. Firstly, a large proportion of the increased demand for labour has arisen from the services sector and has been satisfied by

TABLE 17: **Balance on current account** (per cent of GDP, 1973-86)

	1973-82	1981	1982	1983	1984	1985[1]	1986[1]
B	−1,6	−4,5	−3,5	−0,7	−0,3	0,6	2,0
DK	−3,3	−3,0	−4,1	−2,2	−3,2	−3,4	−2,7
D	0,5	−0,8	0,6	0,7	1,0	2,1	2,0
GR	−2,3	−0,2	−3,9	−4,7	−4,0	−5,2	−4,1
F	−1,0	−1,4	−3,0	−1,7	−0,7	−0,5	−0,3
IRL	−8,4	−15,1	−10,9	−6,3	−5,1	−3,3	−2,0
I	−0,9	−2,3	−1,6	0,2	−0,9	−1,7	−1,1
L	26,2	28,1	35,3	31,0	33,2	32,1	30,8
NL	1,5	2,1	2,8	2,9	4,1	4,5	4,5
UK	−0,3	2,7	1,7	1,1	0,3	1,1	0,9
EUR	−0,3	−0,5	−0,6	0,1	0,1	0,5	0,6
USA	0,1	0,2	−0,2	−1,0	−2,8	−3,4	−3,8
JAP	0,2	0,5	0,7	1,9	2,8	3,5	3,8

[1] Forecasts.
Source: Commission services.

TABLE 18: **Total employment** (percentage change on preceding year, 1973-86)

	1973-82	1981	1982	1983	1984	1985[1]	1986[1]
B	−0,2	−2,1	−1,3	−1,6	0,4	0,4	0,3
DK	0,3	−1,3	0,3	0,5	2,2	2,0	1,6
D	−0,4	−0,8	−1,8	−1,7	0,0	0,6	1,3
GR	0,5	0,1	−1,3	−1,0	−0,2	0,8	0,1
F	0,2	−0,7	0,1	−0,6	−1,0	−1,0	−0,7
IRL	0,9	−0,9	0,2	−2,0	−0,9	−0,3	0,6
I	0,7	0,5	−0,1	0,1	0,4	0,2	0,3
L	0,7	−0,6	0,0	−0,3	0,5	0,6	0,4
NL	−0,2	−1,5	−2,5	−2,0	−0,5	0,4	0,6
UK	−0,2	−3,9	−1,4	−0,8	1,5	1,1	0,9
EUR	0,0	−1,3	−1,4	−0,5	0,2	0,4	0,5
USA	1,8	1,1	−0,9	1,3	4,1	—	—
JAP	1,0	0,7	0,9	1,0	1,5	—	—

[1] Forecasts.
Source: Commission services.

new entrants to the labour force rather than by the conversion and mobility of the existing unemployed. The employment record in manufacturing industry is still poor (Table 19). Secondly, such employment in services provides greater opportunities for part-time employment and, therefore, the positive effect of the present expansion of employment cannot be compared on a one-for-one basis with the number of full-time jobs lost during the recession.

Despite a continued expansion of the labour force, the interplay of the above factors, together with changes in the coverage of unemployment statistics in certain countries, has resulted in a marked deceleration in the upward trend of recorded unemployment which reached 10,9 % of the civilian labour force, taking the Community as a whole, in 1984. Latest figures indicate that in September 1985, the level of male unemployment was no higher than a year earlier, and the increase in the total was solely due to a further rise in the number of women registered as unemployed. Over the outlook period, the unemployment rate is expected to average 11,1 % in both figures implies some slight reduction, 1985 and 1986 (Table 20); however, this apparent stability of the yearly on a seasonally adjusted basis, during next year. At the national level, unemployment in 1986 is forecast to be lower than in 1984 in six Member States.

Less nominal but somewhat higher real increase in wages in 1986. — Although the present decelerating trend in the rate

TABLE 19: **Employment in manufacturing industries** (percentage change on preceding year, 1973-86)

	1973-82	1981	1982	1983	1984	1985[1]	1986[1]
B	−3,0	−5,1	−3,6	−2,1	−0,3	−0,2	0,2
DK	−1,7	−3,6	−0,4	−0,2	3,1	3,3	1,8
D	−1,6	−2,7	−3,7	−3,4	−1,1	1,3	2,0
GR	:	:	:	:	0,5	−0,3	0,3
F	−1,1	−3,5	−1,7	−2,3	−3,0	−2,3	−2,0
IRL	:	:	:	:	−2,8	−2,5	1,0
I	0,0	−1,5	−1,9	−2,9	−3,5	−0,9	−0,2
L	−1,3	−2,1	−2,2	−3,1	1,3	1,3	1,0
NL	−2,5	−3,1	−4,6	−4,7	−2,0	0,5	1,3
UK	(−3,1)	(−10,0)	−5,6	−5,5	−1,6	−0,7	−0,7
EUR	(−1,5)	(−4,7)	(−3,2)	(−3,1)	−1,9	−0,3	0,2

[1] Forecasts.
Source: Commission services.

TABLE 20: **Number of unemployed as percentage of working population** (1973-86)

	1973-1982	1981	1982	1983	1984	1985[1]	1986[1]
B	7,5	11,1	13,0	14,3	14,5	13,8	13,4
DK	5,7	8,9	9,5	10,2	10,0	9,1	8,6
D	3,7	4,7	6,8	8,4	8,4	8,4	8,0
GR	:	:	:	7,9	8,1	8,3	9,0
F	5,1	7,8	8,8	9,0	9,9	10,7	10,9
IRL	8,5	10,2	12,2	14,9	16,1	17,1	17,4
I	6,3	7,9	9,6	10,8	12,0	12,6	13,1
L	0,5	1,0	1,3	1,5	1,7	1,7	1,6
NL	6,1	8,8	11,7	14,0	14,2	13,2	13,0
UK	5,4	9,2	10,6	11,5	11,8	12,0	11,7
EUR 9	5,2	7,6	9,2	10,3	10,9	11,1	11,1
USA	7,0	7,6	9,7	9,6	7,5	7,3	7,7
JAP	2,0	2,2	2,4	2,7	2,7	2,5	2,6

[1] Forecasts.
Source: Commission services.

TABLE 21: **Compensation of employees per head** (percentage change on preceding year, 1973-86)

	1973-82	1981	1982	1983	1984	1985[1]	1986[1]
B	10,9	7,7	7,9	6,7	6,2	5,7	4,2
DK	11,6	9,2	11,5	6,4	4,9	3,7	2,4
D	7,3	5,2	4,3	3,7	3,2	3,2	3,8
GR	21,3	24,8	27,2	19,7	21,3	19,0	12,6
F	14,5	14,2	14,1	10,9	8,1	5,9	4,5
IRL	18,6	17,0	14,4	10,5	9,6	7,0	5,7
I	20,0	21,9	17,0	16,0	12,1	10,2	7,6
L	10,1	7,8	6,9	6,6	4,2	4,9	5,6
NL	9,3	3,6	5,7	3,4	0,6	1,4	2,5
UK	15,7	13,5	8,8	8,8	5,5	7,7	7,1
EUR	13,6	12,6	10,6	8,7	6,7	6,3	5,4

[1] Forecasts.
Source: Commission services.

TABLE 22: **Per capita real compensation of employees** (percentage change on preceding year, 1973-86)

	1973-82	1981	1982	1983	1984	1985[1]	1986[1]
B	3,5	2,2	0,7	0,8	0,9	1,0	−0,2
DK	1,4	−0,8	0,2	−1,6	−0,8	−0,2	0,2
D	2,4	1,1	−0,3	0,4	1,3	1,1	1,9
GR	3,5	4,6	2,1	−0,0	1,2	1,6	−2,7
F	3,4	1,9	1,4	1,0	1,0	0,1	0,6
IRL	3,5	−1,0	−0,7	−0,1	2,8	0,9	0,6
I	2,5	3,0	−0,7	0,8	1,3	1,9	0,9
L	2,5	0,0	−1,5	−2,0	−1,5	0,5	0,7
NL	1,9	−1,9	−0,4	1,6	−1,9	−0,9	1,4
UK	1,5	1,6	1,6	3,5	1,0	2,1	2,1
EUR	2,5	1,8	0,5	1,3	0,9	1,1	1,2
EMS[2]	2,7	1,5	0,1	0,7	0,9	0,8	1,1

[1] Deflated by the GDP deflator.
[2] Countries participating in the EMS.
Source: Commission services.

TABLE 23: **Real wage gap**[1] (average 1961-70=100, 1973-86)

	1973-82	1981	1982	1983	1984	1985[1]	1986[1]
B	111,9	116,4	114,5	113,7	113,2	112,6	110,9
DK	101,2	100,5	98,1	95,1	92,8	92,3	91,1
D	104,2	103,8	102,6	100,3	99,1	98,5	98,3
GR	90,3	96,3	97,2	95,9	94,3	94,8	91,5
F	104,4	106,8	106,2	105,6	104,0	101,9	99,9
IRL	100,1	101,2	98,7	96,1	93,8	92,1	91,1
I	108,1	109,5	109,0	111,3	110,4	109,8	108,2
L	115,6	119,0	118,4	118,7	113,8	113,3	112,9
NL	104,5	102,1	100,6	99,2	95,1	92,7	92,8
UK	102,5	100,2	98,6	98,0	98,7	98,6	99,6
EUR	103,9	104,3	103,3	102,6	101,6	100,7	100,0
EMS[2]	105,3	106,2	105,3	104,6	103,2	102,0	100,9

[1] Per capita compensation of employees deflated by the GDP deflator, divided by labour productivity.
[2] Countries participating in the EMS.
Source: Commission services.

of increase of nominal average employee remuneration is expected to continue in 1985 and 1986, the slowdown is unlikely to be as marked as that of consumer price inflation. Thus, whereas the rate of increase of compensation of employees per head in nominal terms should decline from 6,7 % in 1984 to 5,4 % in 1986 (Table 21), the increase in real terms is forecast to accelerate from 0,9 % in 1984 to 1,2 % next year (Table 22).

TABLE 24: **General government lending or borrowing (−) as percentage of GDP** (1973-86)

	1973-82	1981	1982	1983	1984	1985[1]	1986[1]
B	−6,7	−12,6	−11,1	−11,1	−9,9	−8,6	−7,4
DK	−1,5	−7,1	−9,3	−7,4	−4,6	−2,9	−0,7
D	−2,7	−3,9	−3,4	−2,5	−1,9	−1,2	−0,8
GR	−4,7	−10,6	−9,4	−8,9	−9,9	−12,5	−10,5
F	−0,9	−1,8	−2,5	−3,1	−2,8	−3,2	−3,3
IRL	−10,4	−15,8	−14,2	−11,8	−10,1	−11,5	−10,4
I	−9,5	−11,7	−12,7	−12,4	−13,5	−13,6	−12,8
L	1,4	−2,3	−1,3	−0,0	1,5	2,1	1,9
NL	−2,8	−5,2	−7,1	−6,5	−6,3	−5,9	−6,5
UK	−3,6	−2,7	−2,4	−3,6	−3,8	−3,3	−2,8
EUR	−3,7	−5,4	−5,6	−5,5	−5,4	−5,2	−4,8
USA	−1,2	−0,9	−3,8	−4,1	−3,2	−3,5	−2,7
JAP	−2,3	−4,1	−3,8	−3,5	−3,0	−1,5	−0,5

[1] Forecasts.
Source: Commission services.

TABLE 25: **Public debt**[1] (percentage of GDP, 1975-85)

	1975	1980	1981	1982	1983	1984	1985[2]
B	59,5	76,4	88,1	96,0	105,6	111,7	117,0
DK	11,9	33,5	43,6	52,7	62,5	67,0	68,7
D	25,0	31,7	35,4	38,5	40,2	41,4	41,6
GR	22,4	27,7	33,0	36,7	41,4	47,5	54,4
F	25,8	25,0	26,0	29,1	30,7	33,0	35,5
IRL	72,4	84,4	89,8	96,6	107,6	113,7	117,0
I	66,8	67,2	70,3	76,6	84,4	91,6	99,7
L	18,1	13,6	14,5	14,9	15,2	15,5	15,4
NL	41,3	45,9	50,3	55,6	62,3	67,4	71,5
UK[3]	64,2	55,6	54,9	53,4	55,0	55,0	53,4
EUR	43,0	44,3	47,0	50,2	53,8	56,8	59,2

[1] Gross public debt. DK, F, L NL : general government; B, D, NL : general government excl. social security; GR, IRL : State; I : public sector. End-of-year figures.
[2] Forecasts.
[3] Financial years 1975 = 1975/76 etc.
Source : Commission services.

TABLE 26: **General government interest payments** (percentage of GDP, 1975-85)

	1975	1980	1981	1982	1983	1984	1985[1]
B	3,6	6,1	7,9	9,3	9,4	10,1	10,9
DK	1,2	3,9	5,3	5,9	8,0	9,5	9,6
D	1,4	1,9	2,3	2,8	3,0	3,0	3,0
GR	1,4	2,4	3,2	2,6	3,4	4,3	5,4
F	1,3	1,6	2,1	2,2	2,6	2,8	2,8
IRL	4,5	6,7	7,6	9,3	9,4	9,5	10,7
I	4,2	6,4	7,3	8,6	9,0	9,6	9,6
L	0,9	0,8	0,9	0,9	0,9	1,1	1,2
NL	3,1	3,7	4,4	5,2	5,7	6,1	6,3
UK	4,0	4,8	5,1	4,9	4,8	4,9	4,9
EUR	2,6	3,6	4,2	4,7	4,9	5,2	5,3

[1] Forecasts.
Source : Commission services.

As might be expected at a time of steady, but moderate, growth, little change in labour productivity growth is foreseen over the outlook period for the Community economy as a whole; productivity gains of 2,0 % are forecast for both 1985 and 1986, only marginally higher than last year (1,9 %).

If the above trends in average employee compensation and labour productivity are compared, two principal conclusions may be drawn. Firstly, when taken in nominal terms, they should ensure that the downward trend in the growth of unit labour costs continues in both outlook years, thus helping to reduce further domestically-generated inflationary pressures. Secondly, if considered in real terms, it is clear that, on average in the Community, real wage increases will remain below the rate of growth of labour productivity, as recommended in the Commission's Annual Economic Report 1985-1986. By contributing to improved profitability, this should help to stimulate employment-creating investment (Table 23).

Reduced borrowing requirement and share of public expenditure in GDP next year... but public debt continues to increase rapidly in some Member countries. — The effects on government finances of the restrictive budgetary policies pursued over the last few years have until now proved to be slow to appear at the Community level. Since 1983 the net borrowing requirement of general government, expressed as a percentage of GDP, has been falling marginally (from 5,6 % in 1982 to an estimated 5,2 % this year, Table 24). It is forecast that this decline will become stronger next year (4,8 % of GDP). Until last year public expenditure and receipts used to grow faster than nominal GDP. This year and probably next this trend will be stopped. The proportion of government expenditure in GDP will fall, according to the forecast, from 52,0 % in 1984 to 51,5 % this year and to 50,9 % in 1986. These developments for the Community as a whole are shared by most Member States. However, convergence of government finances is less satisfactory than that of inflation rates. In fact, the size of public deficits is approaching very low levels in some countries, (Denmark, Germany) while in others it remains at levels above 10 % (Italy, Ireland).

The level of government debt will thus keep on rising rapidly in some Member States. At the end of 1985 gross debt will be equal to or higher than this year's GDP in three countries (Ireland, Belgium, Italy). For the Community as a whole the

TABLE 27: **Money supply M2/M3** (percentage change at end of year on twelve months earlier, 1973-86)

	1973-82	1981	1982	1983	1984	1985[1]	1986[1]
B	11,1	10,0	7,5	7,0	6,1	6,0	5,5
DK	11,5	9,1	11,4	25,5	17,0	11,0	7,5
D	8,2	5,0	7,1	5,3	4,7	5,0	4,8
GR	24,3	34,7	29,0	20,3	29,4	29,3	19,1
F	13,1	10,4	10,8	11,2	8,3	5,8	4,9
IRL	19,2	17,4	13,0	5,6	10,1	6,6	9,8
I	20,6	15,9	17,2	13,2	11,8	12,1	8,5
L	—	—	—	—	—	—	—
NL	10,0	5,3	7,6	10,5	7,7	8,0	6,5
UK	13,1	13,7	8,9	10,3	9,6	11,3	8,6
EUR	13,2	10,9	10,7	9,7	8,7	8,4	6,7
USA	9,6	10,0	9,4	11,7	8,2	:	:
JAP	12,4	11,0	7,9	7,3	7,8	:	:

[1] Forecasts.
Source: Commission services.

level of the debt corresponds to about 59 % of GDP (Table 25).

The associated increase in interest payments by the public sector partly explains why the rise in general government expenditure did not slow down more quickly in recent years. For the community interest payments on the public debt will be approximately as high as the whole government deficit in the current year (5,3 % of GDP). In four countries interest payments will be in the region of 10 % of GDP (Table 26).

Increase of money supply in line with nominal GDP. — On the general assumption that there will not be any unforeseen change in the stance of monetary policy in Member States and given the expected financial balances of the various sectors of the economy, the rate of expansion of the money supply (M2 or M3) is likely to decline further, from 8,4 % this year to 6,7 % next (end-year figures, Table 27). This forecast suggests that the money supply will keep on growing at a rate slightly above or equal to that of nominal GDP.

31 october 1985.

TABLE 28: **Demand components at constant prices** (percentage change on preceding year, 1973-86)

		1973-82	1983	1984	1985[1]	1986[1]
B[4]	Private consumption	2,6	−0,9	0,5	0,0	0,5
	Government consumption	2,9	0,3	−0,2	0,4	0,0
	Fixed capital formation	0,1	−6,4	2,3	5,2	3,0
	— Construction	—	—	−2,9	2,9	0,1
	— Equipment	—	—	11,4	8,7	7,0
	Exports of goods and services	4,5	0,0	5,1	4,2	4,5
	Imports of goods and services	4,3	−2,9	4,6	3,0	3,8
	GDP	2,2	0,4	1,7	1,9	1,7
DK[4]	Private consumption	1,5	1,7	2,8	1,7	2,6
	Government consumption	3,8	0,0	−0,1	0,2	0,0
	Fixed capital formation	−3,1	3,2	12,8	10,1	8,6
	— Construction	—	—	10,7	2,0	7,3
	— Equipment	—	—	15,7	20,6	10,0
	Exports of goods and services	4,6	3,4	3,5	5,5	4,8
	Imports of goods and services	2,4	0,7	6,6	5,7	4,2
	GDP	1,8	2,0	3,9	2,3	3,2
D[4]	Private consumption	2,3	1,1	0,6	1,3	3,6
	Government consumption	1,8	−0,2	2,4	1,5	2,0
	Fixed capital formation	−0,1	3,0	0,8	−1,2	4,9
	— Construction	—	—	1,6	−8,8	2,0
	— Equipment	—	—	−0,5	11,2	8,8
	Exports of goods and services	5,5	−1,3	7,8	8,8	6,2
	Imports of goods and services	4,0	1,8	5,6	5,5	7,5
	GDP	2,0	0,9	2,6	2,3	3,5
GR[2]	Private consumption	3,5	0,6	2,1	1,7	0,2
	Government consumption	6,0	2,4	3,9	4,3	0,7
	Fixed capital formation	−1,0	−1,4	−4,7	2,2	1,1
	— Construction	—	—	−7,7	2,0	1,1
	— Equipment	—	—	−1,0	2,5	1,0
	Exports of goods and services	6,5	9,7	9,8	5,7	5,8
	Imports of goods and services	4,6	2,6	0,6	5,8	2,0
	GDP	3,1	0,3	2,6	1,9	1,0
F[2]	Private consumption	3,5	0,7	0,7	1,5	1,9
	Government consumption	2,9	1,9	0,3	1,0	0,9
	Fixed capital formation	1,3	−1,4	−2,3	−0,2	1,9
	— Construction	—	—	−4,8	−4,1	−0,5
	— Equipment	—	—	−1,0	1,8	3,0
	Exports of goods and services	6,5	3,4	6,8	3,3	3,4
	Imports of goods and services	7,2	−1,5	2,3	3,0	4,0
	GDP	2,7	1,0	1,6	1,2	1,9
IRL[3]	Private consumption	2,7	−3,5	−0,5	1,1	1,3
	Government consumption	5,3	0,1	−1,2	0,5	−0,5
	Fixed capital formation	4,2	−7,9	−1,8	2,5	2,3
	— Construction	—	—	−10,0	−4,0	−1,4
	— Equipment	—	—	7,0	8,5	5,2
	Exports of goods and services	7,3	10,6	16,9	8,5	7,4
	Imports of goods and services	5,4	3,9	9,5	4,3	5,0
	GDP	4,0	0,6	4,4	2,5	2,3
I[2]	Private consumption	2,5	−0,6	1,8	2,4	2,2
	Government consumption	2,5	2,7	2,7	1,9	1,5
	Fixed capital formation	0,9	−5,3	4,1	4,9	5,6
	— Construction	—	—	−0,5	−1,7	4,0
	— Equipment	—	—	9,5	11,9	7,2
	Exports of goods and services	5,6	4,0	7,0	6,1	6,2
	Imports of goods and services	4,1	0,8	9,6	8,0	6,1
	GDP	2,6	−1,2	2,6	2,7	2,7
L[3]	Private consumption	3,1	−1,4	−1,2	2,0	2,0
	Government consumption	3,3	0,0	−0,7	0,1	0,4
	Fixed capital formation	−0,9	−5,4	−1,4	0,0	0,8
	— Construction	—	—	−3,2	−2,0	−0,8
	— Equipment	—	—	2,6	4,0	4,0
	Exports of goods and services	2,6	−1,3	12,4	2,7	1,6
	Imports of goods and services	2,9	−1,9	7,6	3,1	2,1
	GDP	1,7	−2,2	3,2	1,7	1,3
NL[4]	Private consumption	3,0	−0,2	−0,5	1,8	2,3
	Government consumption	2,4	1,0	−1,6	0,6	0,3
	Fixed capital formation	−0,7	0,4	4,3	2,4	2,5
	— Construction	—	—	2,7	−3,1	−0,6
	— Equipment	—	—	6,8	10,9	6,6
	Exports of goods and services	3,3	4,8	7,0	4,4	4,2
	Imports of goods and services	2,4	4,8	5,9	4,3	4,4
	GDP	2,4	0,6	1,7	2,1	2,0
UK[4]	Private consumption	1,3	4,2	1,7	2,3	3,7
	Government consumption	1,8	2,6	1,0	1,0	0,8
	Fixed capital formation	0,0	4,2	8,2	3,1	2,5
	— Construction	—	—	7,3	−1,2	1,2
	— Equipment	—	—	9,4	8,4	3,9
	Exports of goods and services	3,4	0,9	6,9	8,1	1,8
	Imports of goods and services	1,9	5,4	9,4	4,6	4,6
	GDP	1,5	3,3	1,8	3,4	2,0

[1] Forecasts.
[2] 1970 prices.
[3] 1975 prices.
[4] 1980 prices.
Source: Commission services.

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

	1980	1981	1982	1983	1984	1984 II	1984 III	1984 IV	1985 I	1985 II	1985 Jan.	Feb.	March	April	May	June	July	Change over 12 months %[2]
B	−1,3	−2,7	0	2,0	2,5	0,2	1,7	−0,4	0,9	0,8	−4,4	2,4	2,9	−3,8	1,0	4,2	:	5,1
DK	0,2	0	2,7	3,2	9,7	0	2,4	5,1	−5,8	2,8	3,0	−3,0	−11,4	7,4	9,2	−2,8	3,3	13,6
D	0,2	−1,9	−2,9	0,6	3,0	−4,1	6,1	1,5	0,4	1,2	0,7	−0,4	0,9	−0,1	0,9	1,6	1,1	7,7
GR	0,9	−0,6	−4,2	−0,7	3,5	0,1	0,4	0	−1,4	1,8	4,1	0,9	−2,7	0,2	5,7	−1,8	:	1,6
F	−0,7	−2,3	−1,5	0,8	3,1	−1,3	3,1	−2,5	−0,8	0,8	−2,3	4,8	1,5	−2,2	1,5	−1,5	:	0,7
IRL	−0,8	2,2	0,3	6,5	12,9	7,9	−2,8	5,7	−0,3	−1,4	−5,1	0,1	8,4	−5,9	0,8	−3,7	:	−4,9
I	5,5	−1,6	−3,0	−3,2	3,1	0,6	1,8	−1,8	1,8	−0,3	−3,9	8,8	0,3	−4,3	1,3	2,8	−3,7	4,4
L	−3,3	−5,7	0,9	5,4	13,3	2,1	3,0	3,1	0,4	:	−2,3	−3,7	7,1	0,4	:	:	:	10,0
NL	−1,0	−2,0	−4,1	2,1	5,2	1,0	0,3	−1,3	6,3	−4,0	8,0	−2,8	2,9	−6,5	1,0	2,9	−3,8	2,5
UK	−6,6	−3,4	1,9	3,6	1,2	−1,9	−0,1	1,1	2,2	1,9	1,3	−0,2	1,7	0,8	0,2	−0,4	−1,0	4,7
EUR10	−0,5	−2,3	−1,5	0,9	2,8	−1,1	2,3	0,5	0,5	(1,0)	−0,2	1,5	0,7	−0,9	(1,1)	(0,9)	:	(6,2)
USA	−2,9	2,1	−7,4	7,8	12,4	2,1	1,8	0,1	0,3	0,6	0	−0,1	0,3	0,3	(0,2)	(0,3)	(0,3)	(1,6)
JAP	4,7	1,0	0,3	3,6	11,1	2,8	1,6	2,7	−0,7	2,7	0,2	−0,1	−1,4	2,8	2,4	(−2,0)	(1,7)	(6,3)

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

	1980	1981	1982	1983	1984	1984 II	1984 III	1984 IV	1985 I	1985 II	1985 Feb.	March	April	May	June	July	Aug.	Change over 12 months %[2]
B[6]	9,1	11,1	13,0	14,3	14,4	14,3	14,3	14,3	14,4	13,7	14,4	14,2	13,9	13,8	13,3	13,1	12,9	:
DK	6,7	8,9	9,5	10,2	9,8	9,9	10,0	9,4	9,4	(8,8)	9,5	9,2	8,9	8,9	(8,8)	(9,0)	(8,7)	(−11,6)
D	3,4	4,8	6,9	8,4	8,4	8,4	8,4	8,2	8,5	8,5	8,5	8,6	8,5	8,5	8,5	8,5	8,5	0,7
F	6,4	7,7	8,7	8,8	9,9	9,8	10,0	10,4	10,5	10,4	10,5	10,4	10,3	10,4	10,3	10,4	10,4	3,1
IRL	8,2	10,2	12,2	14,9	16,3	16,3	16,4	16,6	17,0	17,3	17,1	17,0	17,1	17,2	17,5	17,6	17,8	9,7
I	7,2	8,0	9,7	10,9	11,9	11,9	11,9	12,1	12,4	12,8	12,4	12,5	12,6	12,6	13,0	12,9	13,0	10,5
L	0,7	1,0	1,3	1,6	1,7	1,6	1,7	1,7	1,6	1,7	1,6	1,7	1,7	1,7	1,7	1,6	1,6	−5,2
NL[6]	6,2	8,8	11,8	14,3	14,5	14,7	14,5	13,9	13,6	13,3	13,7	13,6	13,5	13,4	13,4	13,1	13,3	:
UK	(6,0)	(9,2)	(10,6)	(11,6)	11,8	11,8	11,8	11,9	12,0	12,2	12,0	12,0	12,1	12,2	12,2	12,2	12,2	4,0
EUR9	(5,8)	(7,7)	(9,3)	(10,4)	10,9	10,8	10,9	10,9	11,1	(11,1)	11,1	11,1	11,1	11,1	(11,2)	(11,2)	(11,2)	(2,8)
USA	7,1	7,6	9,7	9,6	7,5	7,5	7,5	7,2	7,3	7,3	7,3	7,3	7,3	7,3	7,3	7,3	:	−0,4
JAP[7]	2,0	2,2	2,4	2,7	2,7	2,7	2,8	2,7	2,5	2,5	2,6	2,6	2,4	2,5	2,6	2,6	:	(−7,3)

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

	1980	1981	1982	1983	1984	1984 II	1984 III	1984 IV	1985 I	1985 II	1985 Feb.	March	April	May	June	July	Aug.	Change over 12 months %[2]
B	6,6	7,6	8,7	7,7	6,4	1,4	1,2	0,9	1,8	1,3	1,0	0,8	0,4	0,1	0	0,5	0	4,7
DK	:	11,7	10,1	6,9	6,3	1,8	1,0	1,4	1,3	1,5	0,6	0,8	0,3	0,7	0	−0,4	(−0,1)	(4,1)
D	5,4	6,3	5,3	3,3	2,4	0,5	0	0,7	1,1	0,6	0,4	0,3	0,2	0,1	0,1	−0,2	−0,3	2,1
GR	24,9	24,5	21,0	20,5	18,3	5,6	1,7	5,5	4,5	4,5	−0,2	2,9	1,6	0,7	1,8	−0,7	0,3	17,8
F	:	13,4	11,8	9,6	7,3	1,8	1,7	1,4	1,4	1,8	0,5	0,7	0,7	0,5	0,4	0,4	0,1	5,6
IRL[8]	:	20,4	17,2	10,4	8,6	2,2	1,2	0,7	1,9	1,3	(0,6)	(0,4)	(0,4)	(0,4)	(0,5)	(0,5)	(0,5)	5,5
I	21,2	17,8	16,5	14,7	10,8	2,3	1,4	2,4	2,9	2,4	1,2	0,8	0,8	0,7	0,5	0,2	(0,2)	(9,1)
L	6,3	8,1	9,4	8,7	5,6	1,1	0,6	1,1	1,0	1,6	0,6	0,5	0,9	0,1	0,2	0,5	−0,4	4,0
NL	:	6,7	5,7	2,7	3,2	0,9	0,1	1,1	0,2	1,0	0,3	0,7	0,4	0,1	−0,1	−0,2	(0)	(2,3)
UK	18,0	11,9	8,6	4,6	5,0	2,0	0,9	1,2	1,3	3,4	0,8	0,9	2,1	0,5	0,2	−0,2	0,3	6,2
EUR10	:	11,7	10,1	7,6	6,3	1,6	0,9	1,5	1,6	1,9	0,7	0,7	0,8	0,4	0,3	0,1	(0)	(5,5)
USA	13,5	10,3	6,2	3,2	4,3	1,1	1,1	0,7	0,7	1,2	0,4	0,4	0,4	0,4	0,3	0,2	0,2	3,4
JAP	8,0	4,9	2,7	1,9	2,2	0,9	−0,2	1,2	0,1	0,9	−0,8	0,4	0,5	0,4	0,1	(0,3)	−0,6	2,7

TABLE A.4 : **Volume of retail sales** - Percentage change on preceding period (s.a.)

	1980	1981	1982	1983	1984	1984 II	1984 III	1984 IV	1985 I	1985 II	1985 Jan.	Feb.	March	April	May	June	July	Change over 12 months %[2]
B	:	−3,3	−1,3	−7,1	−1,8	−3,5	1,7	−1,0	0	:	4,0	−4,0	1,7	0,5	3,1	:	:	1,3
DK	:	−0,6	1,7	1,6	3,0	1,0	0,1	0,3	−2,1	1,3	−0,9	−1,1	−0,1	−1,4	5,9	−2,1	3,3	6,0
D	:	−1,5	−3,7	0,9	−0,2	1,0	−0,8	−1,4	−0,4	1,7	6,7	−6,4	−1,6	5,9	1,9	−5,6	:	−3,5
GR	:	−3,3	−4,1	−0,5	4,3	3,7	−0,8	−1,7	−4,4	2,0	−10,9	7,6	−0,7	−0,9	−0,6	4,1	:	−2,3
F	:	−2,2	1,3	−3,1	−5,0	−2,4	−2,0	−2,1	1,4	:	3,1	−2,9	0,7	−0,9	1,6	:	:	−2,4
IRL	:	−0,6	−5,4	−3,5	−1,4	1,9	−1,6	1,4	−2,3		−1,2	−1,4	2,0	−0,9	6,2	:	:	1,6
I[9]	:	2,9	3,9	2,4	9,3	3,9	0,2	3,5	−1,7	0,2	−2,0	−3,7	3,5	−2,4	4,7	−4,2	:	0,5
L[9]	:	3,9	4,6	−5,0	−2,1	−1,3	−1,5	1,2	1,3	:	3,3	−0,8	1,3	−3,1	2,8	:	:	1,5
NL	:	−3,6	−2,9	−1,9	−2,7	−1,6	0,3	−0,3	−0,3	0,8	2,4	−0,1	1,2	−2,0	5,6	−4,7	:	−4,6
UK	:	0,2	2,0	4,8	3,4	2,3	0,7	2,2	−0,9	2,2	−3,5	0,4	1,6	0,3	0,4	1,2	0,1	4,6
EUR10	:	−0,7	0,1	0,6	1,4	0,9	−0,4	0,4	−0,5	:	1,2	−3,1	0,9	0,7	2,5	:	:	2,0
USA	−3,0	1,1	−1,0	7,1	8,4	2,6	−0,8	1,6	1,0	2,2	0,1	0,8	−0,5	2,9	(−0,2)	(−1,4)	(0,6)	(4,4)
JAP[9]	−1,1	1,8	0,7	0,9	3,1	−0,7	1,8	−1,9	4,0	−0,5	3,8	−1,7	2,1	−0,5	(−1,4)	(0,6)	:	(3,6)

TABLE A.5 : **Visible trade balance** - fob/cif, million ECU (s.a.)

	1980	1981	1982	1983	1984	1984 II	1984 III	1984 IV	1985 I	1985 II	1985 Jan.	Feb.	March	April	May	June	July	Change over 12 months %[3]
B/L	−4993	−5418	−3082	−2435	−4897	−1276	−1478	−1306	−1501	−429	−554	−768	−178	−375	−114	60	−50	322
DK	−2116	−1475	−1866	−740	−1108	−383	−188	−204	−494	−306	−174	−125	−196	−160	−216	69	−155	−79
D	3615	11239	21599	18501	24136	3846	5614	8377	6589	8631	2010	2156	2424	2707	3125	2799	3276	1825
GR	−3853	−3951	−5826	−5800	−6048	−1011	−1146	−2073	−1727	:	−666	−563	−498	−468	:	:	:	−219
F	−16948	−17283	−24457	−15628	−13130	−3332	−2450	−2736	−3810	−3028	−1470	−1610	−730	−1277	−1240	−511	−1471	−655
IRL	−1893	−2467	−1574	−621	81	195	26	−32	195	56	−29	72	153	−109	28	136	20	−83
I	−15307	−13554	−12513	−8516	−13849	−3872	−2230	−5148	−5505	−5866	−1773	−1924	−1808	−2046	−1763	(−2058)	:	(−860)
NL	−2981	1320	3500	4499	4740	1858	589	1419	492	1234	142	387	−36	670	182	383	470	219
UK	−3353	−445	−3295	−9681	−14005	−3686	−3876	−3930	−4514	−2272	−1008	−1489	−2017	−1074	−238	−960	−943	−31
EUR10[10]	−47829	−32033	−27515	−20422	−24080	−7810	−5221	−6016	−10258	(−3598)	−3382	−3875	−3001	−2211	(−780)	(−607)	:	(2591)
USA	−26113	−35538	−43518	−77969	−156288	−36181	−46099	−38116	−47958	−52238	−14652	−16942	−16364	−16.345	−17591	−18302	−13612	3918
JAP	−7707	7832	7034	23072	42599	10121	9698	14810	13114	14354	5699	3683	3732	3974	5126	5254	(4784)	(1545)

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

[1] National sources, except for the Community, Denmark, Ireland, Belgium and Luxembourg. Because of differences in methods of seasonal adjustment, the change in the EC index, adjusted by Eurostat and given in Table 1 may differ from the change in the EC index obtained by aggregating national indices. Data are adjusted for working days. They do not include building; data for France do not include food products and drinks.

[2] % change over 12 months on the basis of the non-adjusted nominal series of the most recent figure given.

[3] Change on corresponding month in previous year; seasonally adjusted.

[4] Change over 12 months in seasonally adjusted figures of the most recent figure given for each country.

[5] Difference in relation to the same month of the previous year.

[6] Changes in the coverage of these series occurred in 1984 for thr Netherlands and in 1985 for Belgium.

[7] As % of total labour force.

[8] Monthly series calculated by linear interpolation.

[9] Department stores only.

[10] The seasonally adjusted position for the Community does not correspond to the sum of positions of the Member States; it is obtained by seasonal adjustment of the sum of gross figures for the various countries' exports and imports.

TABLE A.6 : **Money stock**[11] - Percentage change on preceding period (s.a.)

	1980	1981	1982	1983	1984	1984 II	1984 III	1984 IV	1985 I	1985 II	1985 Feb.	March	April	May	June	July	Aug.	Change over 12 months %[4]
B (M2)	2,6	5,8	5,7	8,7	5,7	1,6	1,4	0,2	3,2	1,1	:	:	:	:	:	:	:	6,0
DK (M2)	8,1	9,6	11,5	25,5	17,8	3,6	4,0	5,4	−0,8	4,1	0,7	−0,7	1,3	0,9	1,9	1,1	2,2	13,8
D (M3)	6,2	5,0	7,1	5,3	4,7	1,4	1,5	1,4	1,0	1,4	0,6	0,2	0,4	0,2	0,8	0	0,3	4,7
GR (M3)	24,7	34,7	29,0	20,3	29,4	7,5	5,8	8,9	5,7	(7,9)	3,0	0,9	2,9	3,5	(1,3)	(2,2)	:	(29,9)
F (M2R)	8,4	10,4	10,8	11,2	8,3	2,4	1,5	2,6	1,2	(1,2)	0,1	1,3	(0,5)	(−1,0)	(1,8)	(−0,3)	:	(9,0)
IRL (M3)	17,7	17,4	13,0	5,6	10,1	3,1	2,9	3,8	−0,4	1,3	−1,1	1,2	2,0	0,6	−1,3	0,7	1,6	7,1
I (M2)	12,7	9,9	16,9	13,3	12,1	2,1	3,4	2,8	4,5	3,0	0,7	1,5	1,4	0,5	1,0	1,2	:	14,7
NL (M2)	3,8	5,3	7,6	10,4	7,7	3,4	2,6	1,1	3,6	−0,5	2,9	1,7	0,7	−0,8	−0,3	0,7	:	6,9
UK (£M3)	18,5	13,7	8,9	10,3	9,8	2,8	1,3	3,0	2,2	5,8	0,3	0,9	2,9	0,5	2,3	−0,8	2,0	14,1
EUR10[12]	10,4	9,4	10,4	10,1	8,5	2,2	1,9	2,4	(2,1)	(2,5)	0,6	0,9	(1,1)	(0)	(1,3)	(0,1)	:	(10,0)
USA (M2)	8,9	10,0	9,4	11,7	8,2	1,8	1,7	2,7	2,4	1,8	0,9	0,3	−0,1	0,7	1,1	0,7	0,9	9,6
JAP (M2)	7,2	11,0	7,9	7,3	7,9	1,4	3,1	0,8	3,5	1,4	0,9	2,0	−0,7	0,5	1,6	:	:	9,1

TABLE A.7 : **Short-term interest rates**[13]

	1980	1981	1982	1983	1984	1984 III	1984 IV	1985 I	1985 II	1985 III	1985 March	April	May	June	July	Aug.	Sept.	Change over 12 months %[5]
B	14,2	15,6	14,1	10,5	11,5	11,0	10,7	10,7	8,9	9,4	10,7	9,8	9,3	8,9	8,9	9,6	9,4	−1,6
DK	16,9	14,9	16,4	12,1	11,5	11,3	12,0	12,0	10,3	9,4	12,0	10,5	9,4	10,3	9,5	9,3	9,4	−1,9
D	9,5	12,3	8,8	5,8	6,0	5,8	5,8	6,3	5,7	4,7	6,3	6,0	5,8	5,7	5,1	4,6	4,7	−1,1
GR	11,0	16,8	20,2	19,4	15,7	15,0	16,8	19,3	16,6	16,5	19,3	16,3	16,5	16,6	16,4	17,9	16,5	1,5
F	12,3	15,6	14,6	12,5	11,7	11,0	10,8	10,7	10,3	9,5	10,7	10,4	10,2	10,3	9,9	9,7	9,5	−1,5
IRL	16,2	16,6	17,5	14,1	13,3	13,0	15,0	13,9	11,6	10,1	13,9	12,7	12,4	11,6	10,2	10,3	10,1	−2,9
I	17,6	20,0	20,1	18,1	17,2	17,7	17,0	15,6	15,1	14,1	15,6	15,2	15,2	15,1	14,6	14,2	14,1	−3,6
NL	10,6	11,8	8,3	5,7	6,1	6,2	5,7	6,9	6,7	5,8	6,8	7,1	6,9	6,7	6,1	5,7	5,8	−0,4
UK	16,8	14,2	12,2	10,1	10,1	10,8	10,0	13,2	12,6	11,6	13,2	12,7	12,5	12,6	11,2	11,7	11,6	0,8
EUR10[14]	13,4	15,0	13,2	10,8	10,5	10,5	10,2	10,8	10,1	9,3	10,8	10,4	10,2	10,1	9,5	9,4	9,3	−0,8
USA	11,6	14,0	10,6	8,7	9,5	10,2	7,8	8,2	6,8	7,3	8,2	7,8	7,1	6,8	7,3	7,4	7,3	−2,9
JAP	10,9	7,4	6,9	6,4	6,1	6,3	6,4	6,4	6,1	:	6,4	6,1	6,0	6,1	6,2	:	:	0,2

TABLE A.8 : **Long-term interest rates**[15]

	1980	1981	1982	1983	1984	1984 II	1984 III	1984 IV	1985 I	1985 II	1985 Feb.	March	April	May	June	July	Aug.	Change over 12 months %[5]
B	12,2	13,8	13,5	11,8	12,0	12,1	11,9	11,6	11,5	10,3	11,6	11,5	11,5	10,8	10,3	10,5	10,5	−1,3
DK	18,7	19,3	20,5	14,4	14,0	14,6	14,6	14,0	13,0	11,8	13,2	13,0	12,3	11,8	11,8	10,6	10,5	−3,8
D	8,5	10,4	9,0	7,9	7,8	8,1	7,6	7,0	7,6	6,9	7,4	7,6	7,3	7,1	6,9	6,7	6,4	−1,5
GR	17,1	17,7	15,4	18,2	18,5	18,3	16,4	17,9	18,4	17,8	18,4	18,4	18,3	15,6	17,8	14,4	14,0	−3,5
F	13,7	16,3	16,0	14,4	13,4	14,0	13,1	12,7	12,3	12,1	12,3	12,3	12,0	11,7	12,1	11,9	12,0	−1,6
IRL	15,4	17,2	17,0	13,9	14,6	14,6	15,0	14,9	13,6	12,4	14,7	13,6	13,1	13,2	12,4	11,2	11,7	−3,2
I	16,1	20,6	20,9	18,0	14,9	14,9	14,5	13,9	12,8	13,3	12,4	12,8	13,3	13,4	13,3	13,3	13,5	−0,8
L	7,4	8,6	10,4	9,8	10,3	10,4	10,4	10,0	9,7	9,6	9,8	9,7	9,7	9,7	9,6	9,4	9,4	−1,1
NL	10,7	12,2	10,5	8,8	8,6	8,9	8,4	7,8	8,6	7,8	8,2	8,6	8,0	7,9	7,8	7,7	7,3	−1,6
UK	13,9	14,8	12,7	10,8	10,8	11,3	10,6	10,8	10,7	10,7	11,0	10,7	10,7	10,8	10,7	10,3	10,4	−0,5
EUR10[14]	12,7	14,9	14,0	12,2	11,4	11,7	11,1	10,8	10,7	10,4	10,6	10,7	10,6	10,4	10,4	10,1	10,1	(−1,6)
USA	10,8	12,9	12,2	10,8	11,2	13,0	12,0	11,2	11,8	10,4	11,4	11,8	11,4	10,9	10,4	10,5	:	−2,6
JAP	9,2	8,7	8,1	7,4	6,3	7,1	6,8	6,3	6,6	6,3	6,8	6,6	6,5	6,4	6,3	6,3	:	−0,9

TABLE A.9 : **Value of ECU** - 1 ECU = ... units of national currency or SDR

	1980	1981	1982	1983	1984	1984 III	1984 IV	1985 I	1985 II	1985 III	1985 March	April	May	June	July	Aug.	Sept.	Change over 12 months %[2]
BFR/LFR	40,60	41,29	44,68	45,44	45,44	45,25	45,01	44,66	45,12	45,13	44,80	45,03	45,09	45,23	45,30	45,05	45,04	−0,4
DKR	7,83	7,92	8,15	8,13	8,15	8,15	8,04	7,96	8,05	8,07	7,97	8,03	8,06	8,06	8,08	8,06	8,07	−0,6
DM	2,53	2,51	2,38	2,27	2,24	2,24	2,23	2,23	2,24	2,23	2,23	2,24	2,24	2,25	2,25	2,23	2,23	−0,7
DR	59,24	61,62	65,30	78,09	88,44	88,83	91,57	91,97	98,47	104,5	94,45	97,29	98,68	99,44	101,7	104,9	106,9	19,9
FF	5,87	6,04	6,43	6,77	6,87	6,87	6,84	6,81	6,83	6,81	6,81	6,82	6,83	6,84	6,84	6,80	6,79	−1,2
IRL	0,676	0,691	0,690	0,715	0,726	0,726	0,719	0,715	0,716	0,716	0,715	0,715	0,716	0,717	0,718	0,715	0,716	−1,0
LIT	1189	1263	1324	1350	1381	1380	1382	1382	1430	1484	1404	1428	1429	1432	1466	1493	1493	7,9
HFL	2,76	2,78	2,62	2,54	2,52	2,53	2,52	2,52	2,53	2,51	2,52	2,53	2,53	2,53	2,53	2,50	2,50	−0,9
UKL	0,598	0,553	0,561	0,587	0,591	0,592	0,601	0,614	0,578	0,570	0,602	0,584	0,578	0,572	0,560	0,576	0,576	−2,3
USD	1,391	1,116	0,981	0,890	0,789	0,768	0,731	0,684	0,726	0,785	0,675	0,725	0,720	0,733	0,772	0,798	0,785	5,9
YEN	315,0	245,4	243,5	211,4	187,0	186,9	179,8	176,1	182,0	187,0	174,2	182,3	181,2	182,4	186,3	189,3	185,5	2,0
SDR	1,068	0,946	0,888	0,833	0,767	0,757	0,732	0,707	0,732	0,764	0,700	0,731	0,728	0,735	0,757	0,772	0,763	3,7

TABLE A.10 : **Effective exchange rates: export aspect**[16] - Percentage change on preceding period

	1980	1981	1982	1983	1984	1984 III	1984 IV	1985 I	1985 II	1985 III	1985 March	April	May	June	July	Aug.	Sept.	Change over 12 months %[2]
B/L	−0,5	−5,3	−9,2	−2,5	−1,8	0	−0,3	0,1	0	1,0	−0,2	0,6	−0,2	−0,1	0,5	0,9	−0,2	1,4
DK	−7,9	−6,8	−4,0	−0,1	−2,9	−0,5	0,4	0,3	0	1,1	−0,1	0,6	−0,5	0,2	0,5	1,1	−0,5	2,3
D	0,4	−5,2	5,1	4,2	−1,0	−1,4	−0,9	−0,7	1,0	2,1	0	1,4	−0,4	0,2	0,9	2,0	−0,4	2,9
GR	−13,5	−9,4	−7,3	−18,0	−14,4	−1,7	−4,2	−1,5	−4,9	−4,0	−3,7	−1,1	−1,6	−0,3	−1,0	−2,3	−2,3	−14,8
F	0,4	−8,6	−8,0	−6,7	−4,2	−1,2	−0,8	−0,4	1,3	2,3	0	1,6	−0,3	0,3	1,2	1,6	−0,2	3,9
IRL	−2,0	−8,3	−1,1	−3,4	−3,6	−0,7	0,4	0,1	−0,2	1,1	−0,4	0,8	−0,5	0	0,3	1,7	−0,5	2,1
I	−3,7	−12,2	−6,7	−3,5	−5,3	−1,1	−1,5	−1,1	−1,9	−2,3	−2,1	−0,1	−0,2	0,2	−1,4	−1,2	−0,4	−6,0
NL	0,1	−5,0	5,5	2,3	−1,5	−1,2	−0,6	−0,8	0,7	1,9	0,1	0,9	−0,2	0,3	0,7	1,7	−0,2	2,4
UK	10,1	1,1	−4,6	−7,0	−4,4	−1,8	−3,4	−3,6	9,1	3,6	2,7	5,9	1,0	1,6	3,8	−2,0	−0,4	5,1
ECU	2,2	−14,9	−5,5	−5,3	−8,2	−3,2	−3,3	−2,7	4,4	4,1	0,2	4,7	−0,4	1,1	2,6	1,8	−1,0	4,6
USA	−0,3	14,0	12,1	7,1	8,9	6,3	3,2	6,2	−3,4	−5,7	0,6	−4,8	0,5	−1,3	−4,0	−2,2	1,3	−2,3
JAP	−4,1	14,0	−4,8	11,5	6,6	−1,9	1,3	−0,6	0,4	1,1	1,3	−0,7	0,1	0,3	0,3	0,2	1,4	2,3

[11] National sources for Belgium, Denmark, Germany, France, Ireland and the United Kingdom; seasonal adjustment by Eurostat for Greece, Italy and the Netherlands.
[12] Average of monthly changes, seasonally adjusted, weighted by GDP at 1975 prices and purchasing power parities. For money supply, the monthly change in Belgium is obtained by linear interpolation of quarterly data.
[13] National sources; three-month interbank rate except: Belgium: yield on issue of four-month *Fonds des Rentes* certificates; Denmark: daily money market rate (monthly average). Annual average, end quarter and end month.
[14] Average weighted by GDP at 1975 prices and purchasing power parities.
[15] Yield on public sector bonds. Annual average. Average for last month of quarter and monthly average for Germany, Italy, Luxembourg and the Netherlands. End quarter and end month for the other Member States.
[16] Weighting coefficients are calculated so as to allow not only for bilateral trade but also for competition on third markets and on the domestic market of the exporting country.

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

Principal economic policy measures — October 1985

Community (EC)

None.

Belgium (B)

9.9 The Banque Nationale lowered the discount rate from 10 to 9.50 % and the rate for advances from 10.50 to 10 %.

Denmark (DK)

None.

Federal Republic of Germany (D)

None.

Greece (GR)

None.

France (F)

1.9 The Ministry of Finance confirmed a measure which will relax exchange controls : the proportion of non-EC investment by companies to be financied in foreign currencies is reduced to 50 % (instead of the former 70 %).

16.9 The Banque de France lowered its money market intervention rate from 9 5/8 % to 9 3/8 %. The central government launched a nine-year, FF 15 000 million bond issue at the fixed rate of 9,9 % and an issue price of 96 %.

18.9 The Government adopted the draft finance law for 1986, which provides for total expenditure of FF 1 034 000 million, an increase of 5 % on 1985. Revenue is projected at FF 899 000 million. The total deficit is estimated to be FF 145 000 million, 3,3 % of gross domestic product. The draft finance law provides for a 3 % reduction in personal income tax. Also, the rate of company on profits which are reinvested instead of being distributed is cut from 50 % to 45 %. Lastly, repayment of the State loan to which higher-rate tax payers were compelled to subscribe in June 1983 is planned for 15 January 1986. The sum involved is FF 18 000 million (including interest).

Ireland (IRL)

None.

Italy (I)

30.9 The Government presented Parliament with the estimates and the report which sets out economic policy for 1986, and the finance bill and the draft budget for 1986. Other texts will be presented to complete the planned budgetary measures. The target for the Treasury deficit is LIT 110 000 000 million, or 14,8 % of GDP. The measures already agreed reduce the trend deficit by some LIT 10 000 000 million. Additional measures will cover LIT 4 000 000 million. On the receipts side, the budget plans to increase social security contributions by LIT 3 500 000 million, to increase the direct taxes to be levied by the local authorities by LIT 1 500 000 million and to reduce personal income tax by LIT 3 700 000 million. On the expenditure side, some LIT 2 500 000 million will be saved by applying the indexation mechanism for pensions every six months only and by withdrawing family allowances for the first child and dependent parents. Other expenditure cuts will be achieved by increasing charges for services provided by the State (education, health care outside hospital) and increasing public utility charges (transport and telephone). Lastly, financial expenditure will be cut by depositing with the Treasury an amount of some LIT 2 000 000 million which the special status regions hold with the banks and by reducing the budget allocation to the electricity authority (ENEL).

Luxembourg (L)

12.9 The draft budget for 1986 was presented to Parliament; it is based on the assumption that GDP will grow by 2 % and the sliding wage scale will rise by 2,9 %. Total expenditure, including debt redemption, is to amount to LFR 77 600 million, an increase of 6 % compared with the budget voted for 1985. Public investment appropriations are over LFR 7 000 million compared with LFR 6 800 million in 1985. Total revenue, including LFR 1 100 million in borrowed funds, is to amount to LFR 77 700 million, an increase of 5,0 %. The draft budget is therefore in balance. The Government decided to reduce the solidarity tax, to index tax allowances and thresholds, to increase the amount exempted under the system for deducting tax on wages and salaries and to take certain measures to assist the financial market.

Netherlands (NL)

17.9 The Government presented the draft budget for 1986. The borrowing requirement — including the deficit on budget funds — totals HL 26 500 million or 7,3 % of net national income (NNI) compared with 7,5 % in 1985. Expenditure is set at HFL 169 400 (including budget funds), an increase of 1,3 % on this year. Revenue is estimated at HFL 142 900 million, an increase of 1,6 % on 1985. The growth in revenue is obtained without increasing taxation; it is reduced both by the adjustment of tax allowances and thresholds to inflation and by the cut in corporation tax from 43 to 42 %. The moderate increase in expenditure is due to budget savings of HFL 8 000 million. For Government as a whole taxation and parafiscal charges will fall by 1,0 % of NNI, 0,8 % of which will come from cuts in social security contributions. The general Government net cash deficit is likely to fall to 7,8 % of NNI (8 % in 1985).

United Kingdom (UK)

None.

Corrigendum Supplement A — No. 8/9 — August/September 1985 — English

Graph 7 : title should read "Exchange rates, value of USD, yen and some EC currencies in ECU"
Table 3 : last row, column 4 should read "44,8320 BFR"

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