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Supplement A — No 6 — June 1986

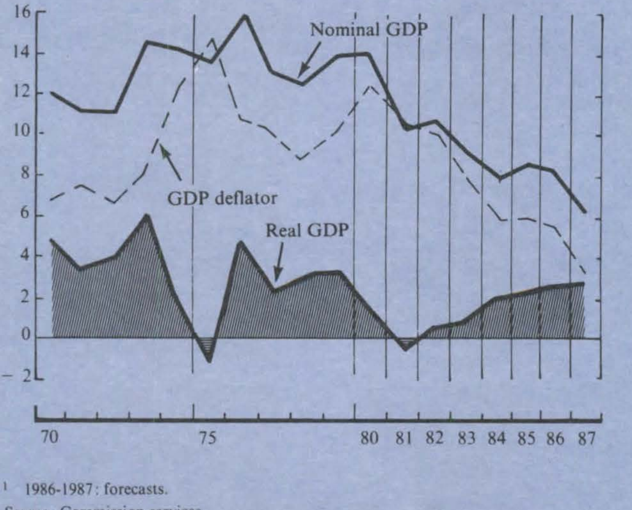
In this number:
Economic forecasts for 1986 and 1987[1]

Recent economic trends

The Commission's economic forecast for 1986 and 1987 has the following main features:

- *Economic growth in the Community will be boosted by the effects of lower oil prices, which are likely to outweigh the negative impact from weak external demand. Real gross domestic product could increase by 2 1/2 - 3 % in both 1986 and 1987.*
- *Domestic demand is expected to grow by 3,6 % in 1986 and by 3,3 % next year.*
- *More buoyant activity is likely to stimulate employment, and the average unemployment rate of the Community, while remaining very high, is forecast to decline marginally.*
- *Inflation is expected to ease further - not only thanks to lower import prices, but also because domestic costs are likely to rise more slowly. The convergence of inflation rates between Member States will improve further.*
- *The surplus on the external current account is forecast to rise significantly in the current year, before declining in 1987.*
- *The general government borrowing requirement is expected, on the basis of present policies, to contract noticeably.*

GRAPH 1: **Nominal GDP, deflator of GDP, real GDP** (percentage change on preceding year, EC, 1970-1987)[1]



[1] 1986-1987: forecasts.
Source: Commission services.

Major changes in the international environment. — In the past twelve months major changes have taken place in the international environment:

- the strong depreciation of the US dollar against the ECU and the yen, from its peak in the first quarter of 1985, which was reinforced by the Group of Five agreement of 22 September 1985 and has continued since that event;
- the change in the policy of Saudi Arabia from attempting to maintain the price of OPEC oil by limiting its own production, towards a policy of flexible prices. As a consequence, the price of oil has fallen rapidly, and its future path is uncertain;
- the introduction of the Gramm-Rudman-Hollings Act in the United States, which instituted a procedure for reducing the federal budget deficit to zero by fiscal year 1991;
- the fall in interest rates.

The effect of the devaluation of the dollar against the yen and against European currencies on the growth of world trade is expected initially to be small but negative. It is a necessary adjustment which is restoring a more realistic set of exchange rates and thus making it less likely that the world will need to suffer a recession in order to correct the external imbalances of the major trading countries.

Oil prices seem, for the moment, to have stabilised at about USD 15 per barrel and may well stay at this level over the next

[1] The following text summarizes the results of the Commission's spring forecasting round. The cut-off date for information used in the forecasts was 22 May 1986. The previous forecast for 1985 and 1986 was summarized in Supplement A, n° 10, October 1985.

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

	Percentage change on preceding year					
	1982	1983	1984	1985	1986[1]	1987[1]
EUR	0,6	1,2	2,0	2,3	2,7	2,8
USA	−2,6	3,4	6,6	2,2	2,5	2,7
Canada	−4,4	3,3	5,0	4,5	3,8	2,8
Japan	3,1	3,2	5,1	4,6	3,2	3,2
Other OECD	1,0	1,8	3,9	3,1	3,0	2,9
OECD total	0,7	2,6	4,8	2,8	2,8	2,8
OPEC	−4,0	−2,5	1,4	2,0	−1,0	1,0
Other developing countries	1,0	0,9	4,6	4,3	3,0	4,5
Other countries	1,9	3,9	3,9	3,3	2,5	2,0

[1] Forecasts.
Source: Commission services.

TABLE 2: **World export prices**[1]

	Percentage change on preceding year					
	1982	1983	1984	1985	1986[2]	1987[2]
Fuels	−3,8	−11,0	−3,5	−2,4	−38,6	−8,4
Other primary commodities	−11,1	1,5	−1,5	−10,2	7,6	2,4
Manufactures	−2,5	−3,3	−3,7	0,0	15,3	3,1

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

year and a half, although no firm predictions can be made in this respect. The initial impact of the price fall will be to cut the earnings of oil exporting countries by some USD 70 billion a year, with a corresponding gain to oil importers. The reduction in imports by net oil exporters consequent upon the fall in their export revenue will tend to occur more rapidly than the increase in imports of oil importing countries. Thus, a temporary slowdown in trade expansion may be expected before the more positive consequences of the oil price fall are felt. These derive essentially in the short-term from the beneficial effects on activity of an unanticipated fall in inflation rates. In the longer term, many investment projects will become more attractive, leading to a supply-side boost to potential output.

Moderate but stable growth in the United States. — The outlook for the United States federal budget deficit has improved greatly with the discipline imposed by the Balanced Budget and Emergency Deficit Control Act of 1985, commonly known as the Gramm-Rudman-Hollings Act. The expectation of a continuing decline in the federal government demand for loanable funds over the next few years, together with the disinflationary effect of the oil price fall, has contributed to the substantial reduction in nominal interest rates which has taken place in the past year. Fiscal policy is likely to be contractionary for several years.

Although the devaluation of the dollar has inflationary implications, the fall in oil prices itself is counter-inflationary and should permit the Federal Reserve Board to continue its relatively accommodating monetary stance.

Next year the effects of the fall in the dollar on the inflation rate will be at their strongest, while the effects of the oil price fall will be wearing off. In these circumstances, some tightening of monetary policy may be considered appropriate, but if monetary growth were to be constrained when fiscal policy is already becoming less expansionary a deceleration of GNP growth could be expected in the second half of 1987. The annual rates of growth of real GNP arrived at in this forecast are 2,5 % and 2,7 % for 1986 and 1987 respectively (Table 1).

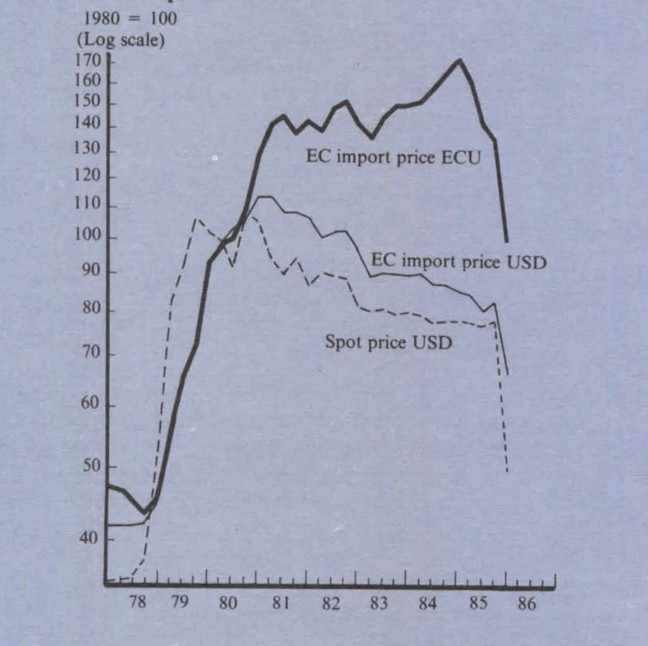
Mixed prospects for other parts of the world economy. — The outlook for Japan has been improved by the fall in oil prices, which may compensate to some extent for the effects of the rapid strengthening of the yen. The real income gains resulting from the massive improvement of the Japanese terms of trade are likely to boost private consumption in real terms and improve the prospects for investment. At the same time the fall in import prices and the ability of exporters to absorb a large part of the potential price-rise implied by the yen revaluation will prevent a sharp deterioration in the competitiveness of the Japanese exports.

The overall budgetary stance remains constrained by the commitment of the government to reduce the central government deficit and to contain the increase of the public debt; nevertheless the government has adopted a modest programme aimed at sustaining domestic demand which includes an acceleration of public works, housing loans facilities and measures to help the small and medium size enterprises hit by the appreciation of the yen.

In spite of a rapid rise in imports in real terms in the second half of 1986 and in 1987, the improvement of the terms of trade implies a sharply increased trade surplus in both years.

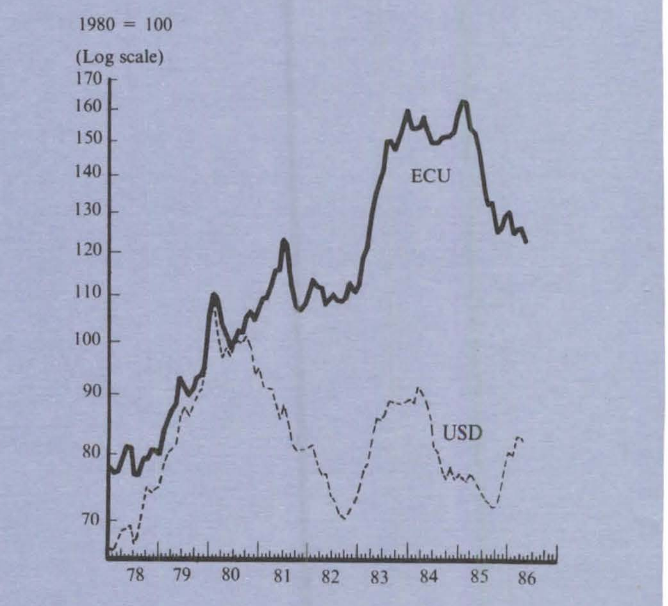
In Canada internal demand expanded vigorously in 1985. The slowdown which is to be expected for 1986 and 1987 will however not be fully reflected in the growth rate of GDP because trade volumes are likely to improve. In EFTA countries, GNP growth is likely to weaken gradually over the next two years.

GRAPH 2: **Oil prices**



Source: Commission services.

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



Source: «The Economist» Commodity Price Index

TABLE 3: **World imports** (at constant prices)

	Percentage change on preceding year					
	1982	1983	1984	1985	1986[1]	1987[1]
EUR	2,7	2,0	7,1	5,5	6,2	6,2
USA	−2,3	12,7	23,6	4,1	5,9	6,0
Canada	−16,0	14,0	19,1	7,5	6,0	4,5
Japan	0,5	−2,8	11,0	−2,1	4,4	10,6
Other OECD	2,1	0,8	10,1	6,4	5,1	4,0
OECD total	−0,4	4,6	11,3	4,7	5,8	6,2
OPEC	5,1	−10,1	−7,4	−11,3	−16,5	−10,0
Other developing countries	−8,2	−1,2	5,5	3,0	3,5	4,5
Other countries	−0,8	2,6	4,7	3,3	−3,0	−2,0
World	−0,8	1,7	8,9	3,3	3,8	4,8

[1] Forecast.
Source: Commission services.

The slowdown in world trade in 1985 had a strongly negative effect on the growth of the newly industrialised Pacific countries, whose export growth fell from 18,7 % in 1984 to −0,8 % in 1985. Prospects for 1986 and 1987 are a little brighter, following the fall in the price of oil, but the slow growth of world trade remains a handicap for their export-led economies.

Many of the OPEC countries, who were already facing current account problems before the latest oil price fall, will be obliged to reduce imports substantially. The richer OPEC countries with substantial foreign investment will be in a position to choose between cutting imports and running down assets. For OPEC as a whole a sharp fall in imports is expected in both 1986 and 1987.

Prospects for the oil-producing debtors, notably Mexico, Venezuela, Nigeria and Indonesia, are poor; only substantial cuts in internal demand and additional financial help will extricate them from their difficulties. The oil price fall which is so damaging to them favours other indebted developing countries, which are likely to receive additional help from a fall in interest rates. Moreover, the counter-inflationary plans introduced by Argentina and Brazil have so far met with considerable success and are likely to be imitated by certain other indebted countries. However, producers of primary commodities are unlikely to experience any marked improvement in their situation.

TABLE 4: **Interest and exchange rates assumptions**

	1982	1983	1984	1985	1986[1]	1987[1]
	Annual rates of interest (percentage)					
Rates of interest (US)						
— Short-term[1]	10,6	8,7	9,5	7,5	6,5	6,0
— Long-term[2]	12,2	10,8	12,1	10,8	8,1	7,2
	Change on preceding year (Percentage)					
Exchange rate of USD						
— Vis-à-vis ECU[3]	+13,2	+10,9	+13,4	+4,0	−18,8	−1,1
— Vis-à-vis DM[3]	+7,5	+5,2	+11,4	+3,6	−21,4	−2,0

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

TABLE 5: **World balances of current account**
(in billions of US dollars)

	1982	1983	1984	1985	1986[1]	1987[1]
EUR	−15,2	0,2	3,0	13,6	45,0	39,0
USA	−8,0	−46,1	−107,4	−117,7	−108,8	−113,7
Canada	2,1	1,4	1,9	−2,0	−4,0	−2,1
Japan	6,9	20,8	35,0	49,3	81,9	78,8
Other OECD	−9,9	−7,3	−4,2	−5,2	−2,9	−3,7
OECD total	−28,1	−23,3	−69,0	−62,2	11,2	−1,8
OPEC	−19,2	−18,5	−10,4	−3,6	−32,3	−20,5
Other developing countries	−66,8	−38,9	−23,9	−25,6	−19,2	−19,7
Other countries	7,9	10,9	10,9	5,0	−9,2	−4,8
Errors and ommissions	−102,2	−77,5	−95,1	−86,3	−49,5	−46,8

[1] Forecasts.
Source: Commission services.

Substantial changes in raw material prices unlikely. — It is assumed in this forecast that oil prices in dollar will not undergo further changes before the end of 1987. The working hypothesis is USD 16 and USD 15 per barrel for the average of 1986 and 1987 respectively.

On many other primary commodity markets, a situation of over-supply has tended to depress prices which, in spite of the dollar depreciation, have gone down in dollar terms in the second half year of 1985. A price rise in dollar terms is probable in 1986 because of the positive reaction of the world economy to the oil price fall. In 1987, moderate growth in industrial countries should not result in a substantial increase in prices of commodities (Table 2).

World trade in 1986 weaker than previously expected, but acceleration foreseen for 1987. — Although data are far from complete, the latest available indicators suggest that the growth of world imports in 1985 was significantly weaker than expected at the time the Autumn forecast was prepared. Prospects for world trade in 1986 have been altered fundamentally as a result of the changes in exchange rates, oil prices and interest rates which are expected to provide a significant stimulus to world economic activity in industrial countries later in the year with a consequential increase in the rate of growth of their imports. However, the effect at the world level is already being offset by a further sharp contraction of imports by oil-exporting countries as a result of their reduced dollar export earnings, aggravated by the faster than expected depreciation of the dollar. The overall result of these factors is that world imports, including the Community, are currently forecast to expand by 3,8 % in 1986, 1 % lower than was forecast last Autumn (Table 3).

The present outlook tends to suggest that the favourable effects of the lower oil price and interest rates are likely to produce a further acceleration in the rate of growth of economic activity and trade in 1987. The growth of aggregate output in the OECD area is expected to increase slightly from 2,8 % in the current year to 2,9 % in 1987, but a stronger acceleration is expected in non-oil developing countries. The expansion of world imports is forecast to increase significantly to 4,8 %.

Exchange rate hypothesis: more stability - European interest rates: downward trend to continue. — The drop of oil prices and its beneficial effect on inflation have encouraged a general decline of nominal interest rates in the industrial countries. It is assumed that short-term US rates will still ease slightly in the current year; but in the course of next year, when the negative effects on US inflation of the depreciation of the dollar are likely to be felt more clearly, the downward trend might come to a halt. However, expressed as annual averages, the level of US interest rates is likely to be lower in 1987 than in the current year (Table 4). The decline in the Community's short-term interest rates is expected to continue in the current and next year, with the biggest fall in those Member States where rates are at present relatively high. In some low-interest countries the declining trend may be assumed to bottom out in the course of next year. The assumed trend of interest rates in the individual countries thus reflects the expected convergence of inflation rates in the Community.

The exchange rate structure established in the Spring of 1986 is not assumed to undergo further substantial changes throughout the forecasting period. The ECU/dollar rate which has been adopted as a working hypothesis is practically for stability. The Yen is assumed to strengthen still further against the US dollar. In annual averages, the hypotheses taken imply a depreciation of the dollar against the ECU of 19 % in the current year and of 1 % in 1987 (Table 4).

Community economy: net effect of exchange rate and oil price disruptions probably positive. — Macroeconomic trends in the Community in the rest of 1986 and in 1987 are still strongly affected by the changes in energy prices and exchange rates referred to above. The forecasting period covers an important part of the adjustment process of European economies to a new situation created by these changes. They tend to affect economic activity in the Community in different ways: cheaper oil will boost domestic demand; the lower dollar exchange rate will discourage exports, but adds to the improvement in the terms of trade and hence stimulates real income. On balance, it may be expected that the sharper growth of domestic demand will outweigh the negative impulse from a slower increase of exports.

The prospects for overall growth in 1986 and 1987 have therefore improved in the last few months.

Real growth in the Community had been running at an underlying rate of between 2 and 2 1/2 % in 1984 and 1985. In the present forecast real GDP is expected to grow by 2,7 % this year and by 2,8 % next (Table 6). This implies that the recovery which started in early 1983 will continue into its fourth and fifth year, which is a long cyclical upturn by historical standards, even if compared to the past its strength is still modest.

The expected half-yearly growth profile is rather stable around these annual growth rates. However, there has been a temporary slack in the early part of the year when the negative impact from foreign trade was being felt while the growth of domestic demand had not yet started to accelerate (Table 9).

TABLE 6: **Gross domestic product, volume** (percentage change at constant prices on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986[1]	1987[1]
B	1,7	1,5	−0,1	1,4	1,3	2,0	2,1
DK	1,5	2,9	2,1	3,9	3,8	2,5	2,2
D	1,6	−0,6	1,2	2,6	2,5	3,5	3,0
GR	2,4	−0,2	0,3	2,6	2,1	−0,4	−0,2
E	2,0	0,9	2,1	2,2	2,1	2,7	2,7
F	2,3	1,8	0,7	1,3	1,3	2,3	2,9
IRL	3,6	0,8	0,0	4,4	2,1	3,2	3,7
I	1,9	−0,5	−0,4	2,6	2,3	2,7	3,8
L	1,3	0,8	2,8	4,9	2,1	2,2	2,5
NL	1,6	−1,4	0,9	1,7	2,3	1,7	1,8
P	2,7	3,5	−0,3	−1,7	3,7	3,9	3,6
UK	1,0	1,5	3,4	1,8	3,3	2,6	2,4
EUR	1,7	0,5	1,2	2,0	2,3	2,7	2,8
USA	1,8	−2,5	3,5	6,5	2,2	2,5	2,7
JAP	3,6	3,1	3,2	5,1	4,6	3,2	3,2

[1] Forecasts.
Source: Commission services.

Trends in Member States not uniform. — Although the oil price fall and the dollar depreciation are common shocks to all of the Community economies, not all Member States are seen to follow the same growth pattern. First, the two main energy producing countries - the United Kingdom and the Netherlands - will probably experience a slowdown of overall growth at least this year. Second, some countries with high deficits in public finances or in external accounts have started or reinforced adjustment policies, whose short-term restraining effects on domestic demand will probably counteract the positive oil price effect. This is particularly true for Greece, where the downward impact of the adjustment policies will dominate any energy price effect, and no growth at all is expected either in 1986 or in 1987. In Belgium, the Netherlands and to some extent in Denmark domestic demand will also be restrained for the sake of better budgetary or - in the Danish case - external equilibrium. Furthermore and partly linked to these budgetary adjustments, several governments have decided to raise the taxation of energy prices or to increase monopoly prices for energy products. Countries concerned are Spain, Portugal, Greece, Italy, Ireland, Denmark and, without a direct reference to the oil price fall, France and the United Kingdom.

Looking at 1986 and 1987 as a whole, the expected average growth rates for the two years range between −0,3 % (Greece) and 3,8 % (Portugal). The position of individual countries may be summarized as follows: Germany, Italy, Ireland and Portugal enjoy above-average growth rates (more than 3 %); the Spanish and French economies will grow at about the Community average, with a clear upward trend in the latter case. The British rate of growth will probably not fall very short of the average, despite the adverse oil price impact. The adjustment policies in the Benelux countries and Denmark will probably not allow these economies to grow significantly more than two percent per year in the short-term, let alone Greece with no growth at all.

TABLE 7: **Domestic demand, volume** (percentage change at constant prices on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986[1]	1987[1]
B	1,1	0,1	−2,2	1,4	1,3	3,2	1,8
DK	0,4	3,0	1,1	4,9	5,3	3,1	1,7
D	1,3	−2,0	1,9	1,8	1,4	5,2	3,7
GR	1,8	1,4	−0,6	1,0	4,9	−2,4	−1,2
E	1,4	0,5	0,4	−1,1	2,4	3,6	3,3
F	2,3	3,9	−0,5	0,0	2,1	3,1	3,0
IRL	2,2	−3,4	−2,4	0,7	−0,4	3,1	3,7
I	1,2	−0,5	−1,4	3,1	2,4	3,9	4,9
L	1,8	0,3	1,2	3,4	2,3	2,8	2,9
NL	1,2	−0,9	0,7	1,0	2,6	2,4	1,8
P	1,7	3,2	−7,0	—	0,6	6,7	4,5
UK	0,7	2,4	4,4	2,4	2,4	3,0	2,9
EUR	1,4	0,8	0,7	1,7	2,1	3,6	3,3
USA	2,0	−2,0	4,5	8,5	2,8	2,6	2,9
JAP	2,6	2,8	1,7	3,8	3,7	3,8	4,2

[1] Forecasts.
Source: Commission services.

TABLE 8: **Income and expenditure of private households** (percentage change on preceding year, EC, 1985-87)

	1985	1986[1]	1987[1]
Compensation of employees	7,3	7,0	5,6
Income from enterpreneurship and wealth	8,7	9,9	7,8
Current transfers received	7,8	6,2	5,3
Direct taxes	8,8	8,2	5,6
Current transfers paid	8,2	7,6	5,7
Gross disposable income	7,5	7,4	6,3
p.m. Real gross disposable income	1,6	3,8	3,1
Private national consumption	8,0	7,1	6,5
p.m. Saving rate	15,2	15,4	15,3

[1] Forecasts.
Source: Commission services.

TABLE 9: **Rates of change of demand components and contributions to GDP growth** (EC, 1974-87)[1]

	Percentage change on preceding period[1] at constant prices				
	1974-83	1984	1985	1986[2]	1987[2]
Private consumption	2,0	0,9	2,1	3,5	3,4
Government consumption	2,4	1,1	1,6	1,3	1,2
Fixed capital formation	−0,2	1,3	2,3	4,9	4,9
— Construction	—	—	−2,4	3,1	2,9
— Equipment	—	—	7,5	6,8	6,9
Exports of goods and services	4,2	7,6	5,7	2,9	4,2
Imports of goods and services	2,9	5,6	5,3	6,2	6,0
GDP	1,7	2,0	2,3	2,7	2,8
	8502	8601	8602	8701	8702
Private consumption	3,6	3,3	3,7	3,2	3,3
Government consumption	2,6	0,7	1,2	1,1	1,1
Fixed capital formation	5,2	4,5	5,6	4,5	5,1
— Construction	6,4	0,9	4,3	2,2	3,0
— Equipment	4,0	8,2	7,0	6,7	7,1
Exports of goods and services	2,9	2,4	4,0	4,4	4,1
Imports of goods and services	3,6	7,1	6,9	5,7	6,0
GDP	3,5	2,1	2,9	2,8	2,8
	Contributions to changes in GDP[3]				
	1974-83	1984	1985	1986[2]	1987[2]
Final domestic demand	1,6	1,0	2,0	3,3	3,2
Stockbuilding	−0,2	0,3	0,1	0,3	0,0
Foreign balance	0,3	0,6	0,2	−0,9	−0,6
	8502	8601	8602	8701	8702
Final domestic demand	3,6	3,0	3,6	3,1	3,3
Stockbuilding	0,1	0,4	0,2	0,0	0,0
Foreign balance	−0,2	−1,4	−0,8	−0,4	−0,6

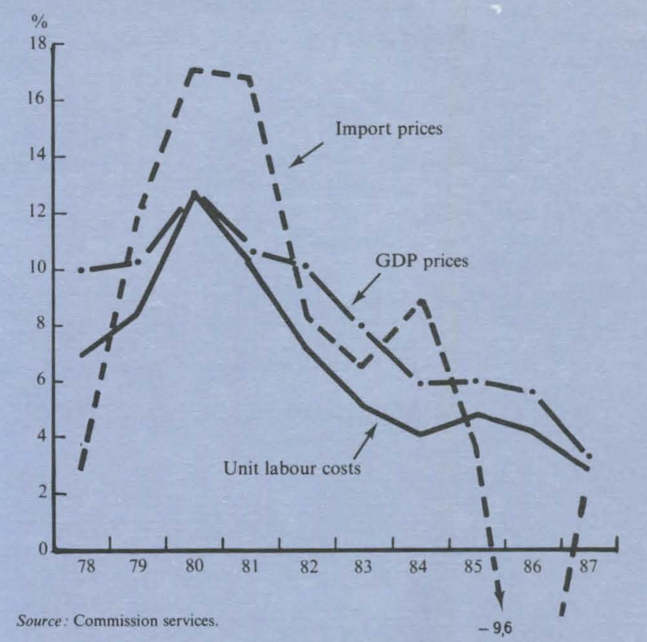
[1] Half-yearly figures at annual rates, seasonally adjusted (8502 = second half of 1985 etc.).
[2] Forecasts.
[3] Change as percentage of GDP of preceding period.
Source: Commission services.

TABLE 10: **Export markets and export performance** (percentage change on preceding year, 1985-87)

	Export markets			Export performance[1]		
	1985	1986[3]	1987[3]	1985	1986[3]	1987[3]
B	4,9	4,9	4,8	−2,3	−0,8	−0,5
DK	4,7	4,1	4,4	−0,8	−1,2	−0,3
D	4,9	3,7	4,1	2,9	−0,6	−0,1
GR	2,8	3,5	4,4	−2,8	3,3	1,5
E	2,9	3,0	4,1	1,5	−1,6	−0,6
F	3,9	3,8	4,5	−1,0	−1,7	1,0
IRL	4,4	4,6	4,6	2,2	−0,1	1,6
I	3,4	2,9	3,5	3,8	1,1	1,7
L[2]	—	—	—	—	—	—
NL	3,3	4,4	4,1	1,8	−2,3	−0,6
P	5,1	5,1	5,2	5,4	−1,2	1,7
UK	3,1	3,7	4,0	2,3	−1,1	−0,9
EUR	4,0	3,8	4,2	1,6	−0,9	0,2
USA	3,8	3,3	4,0	−2,8	2,9	0,4
JAP	3,9	1,7	2,6	0,0	−0,5	1,4

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

GRAPH 4: **GDP prices, unit labour costs and import prices, EC, 1978-1987, annual increase in %**



Source: Commission services.

TABLE 11: Export price competitiveness[1] (1986-87)

	B	DK	D	GR	E	F	IRL
1985	1,2	3,3	−0,4	−1,8	2,6	2,1	3,3
1986[2]	4,8	4,0	7,6	−6,2	1,6	3,1	4,0
1987[2]	0,2	0,2	−0,8	−0,6	−1,4	−0,4	−0,2

	I	NL	P	UK	EUR	USA	JAP
1985	0,3	0,1	2,3	2,4	1,0	0,6	1,0
1986[2]	3,0	6,5	0,5	−1,7	4,0	−6,7	−0,6
1987[2]	0,8	0,5	−1,6	1,0	−0,1	3,1	−2,7

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

TABLE 12: **Exports of goods, volume** (percentage on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986[1]	1987[1]
B	2,6	1,8	2,5	4,8	2,5	4,1	4,3
DK	4,6	2,0	5,9	5,1	3,9	2,9	4,1
D	4,1	3,2	−0,2	8,2	7,9	3,1	4,0
GR	6,3	−3.8	19,0	12,1	−0,1	7,0	6,0
E	8,5	7,8	7,7	—	4,5	1,3	3,5
F	5,2	−3,2	4,9	7,5	2,9	2,0	5,6
IRL	8,0	5,3	12,0	18,3	6,7	4,5	6,3
I	6,0	0,1	4,4	7,0	7,3	4,0	5,3
L	−0,5	−0,9	3,4	18,9	4,2	1,7	2,8
NL	2,6	−0,4	4,9	6,8	5,2	2,0	3,5
P	—	11,3	22,8	15,2	10,7	3,8	7,0
UK	3,2	2,7	1,8	8,2	5,5	2,5	3,1
EUR	—	1,2	3,2	—	5,7	2,9	4,4
USA	—	−10,3	−3,2	7,3	0,9	6,3	4,5
JAP	—	−2,3	8,7	17,7	4,0	1,1	4,1

[1] Forecasts.
Source: Commission services.

TABLE 13: **Imports of goods, volume** (percentage change on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986[1]	1987[1]
B	1,9	−0,1	−0,2	4,9	2,0	6,2	3,8
DK	0,1	1,4	1,8	7,3	8,0	4,2	2,7
D	3,4	−1,2	3,1	6,6	5,1	9,0	6,5
GR	1,3	11,5	−1,3	5,6	13,3	−6,0	−1,0
E	1,7	4,1	−0,8	—	6,0	6,5	6,7
F	5,1	7,1	−0,8	2,9	5,8	5,6	5,6
IRL	3,7	−3,4	4,5	10,4	3,1	4,4	6,3
I	3,0	0,5	−0,1	9,4	8,8	8,7	10,4
L	0,9	−2,0	1,8	15,0	4,7	2,7	3,4
NL	1,5	1,0	3,0	6,7	5,9	3,1	3,4
P	—	6,1	−7,2	−2,7	3,0	10,8	8,6
UK	1,6	5,4	8,0	10,9	3,2	4,2	5,5
EUR	—	2,4	2,0	—	5,5	6,2	6,2
USA	—	−3,6	13,1	24,7	4,1	5,9	6,0
JAP	—	−0,5	1,2	11,0	−2,1	4,4	10,6

[1] Forecasts.
Source: Commission services.

Stronger growth of real household income and of private consumption. — Even before the collapse of oil prices in the winter of 1985/1986, the sources of growth were shifting gradually from foreign to domestic demand. This process is likely to be accentuated in 1986 and 1987. Real GDP will grow by less than domestic demand. The oil price impact on the Community economy may be seen more readily in the acceleration of domestic demand, which is forecast to grow by 3,6 % in 1986 and by 3,3 % in 1987 (after 2,1 % in 1985, Table 7).

Much of the oil price effect is reflected in the income accounts of private households. Nominal income from productive services (factor income) is forecast to rise by 7,9 % in the current year and by 6,3 % in 1987. Within this, income from dependent employment is likely to increase by less than non-wage income in both years (Table 8). The expected rates of increase of transfer payments and direct taxes reflect the policies towards moderation in the redistribution of factor incomes. On balance, the rate of increase of disposable income in nominal terms will continue to decrease in both years (7,4 % and 6,3 % respectively). By contrast, real disposable income will be boosted by quickly falling inflation rates (rise in real disposable income: 1,6 %, 3,8 % and 3,1 % in 1985, 1986 and 1987 respectively).

The reaction of households to this substantial change in the trend of real income is one of the major uncertainties in the present forecast. Basically, the economic environment is for a decline in the saving ratio: inflation is falling and the real wealth of households has increased, interest rates are declining and the confidence indicator of households has been rising for a year or so. It is however assumed that at least in the current year these effects will be dominated by a lagged adjustment of spending behaviour to the sudden rise in real income, which occurred mainly in the winter 1985/1986. Therefore, the saving ratio is assumed to rise somewhat in the current year (from 15,2 % in 1985 to 15,4 %), and to recede marginally in 1987 (to 15,3 %). Thus, the spending behaviour of private households is expected to smooth down the trend in real expenditure. Private consumption at constant prices is forecast to grow both in 1986 and 1987 at an annual rate of about 3 1/2 % (Table 9). Similar rates of expansion have not been achieved since the recovery of 1978/1979.

Public consumption in real terms is likely to remain on the moderate path it has been following since the beginning of the 'eighties (+1,3 % and +1,2 % in 1986 and 1987 respectively).

Further buoyancy in equipment investment and stabilization in construction. — Over the last few years the Community has

TABLE 14: **Balance on current account** (as percentage of GDP, 1974-87)

	1974-83	1982	1983	1984	1985	1986[1]	1987[1]
B	−1,8	−3,3	−0,6	−0,2	0,6	1,9	2,1
DK	−3,4	−4,2	−2,2	−3,3	−4,4	−2,5	−1,8
D	0,5	0,5	0,7	1,1	2,2	2,4	1,8
GR	−2,4	−3,8	−4,7	−4,1	−8,7	−5,0	−3,1
E	—	−2,3	—	1,3	1,7	4,0	3,9
F	−1,1	−3,0	−1,7	−0,9	−0,8	0,6	0,8
IRL	−8,6	−10,7	−6,9	−5,1	−3,2	−1,3	−1,5
I	−0,7	−1,6	0,2	−0,8	−1,1	1,0	0,6
L	21,7	26,7	29,1	30,5	29,4	31,5	30,3
NL	1,4	2,8	2,9	4,1	4,6	4,0	3,5
P	—	−13,5	−7,2	−3,0	1,8	2,0	0,8
UK	−0,2	1,5	0,8	0,3	0,8	0,1	−0,4
EUR	−0,3	−0,8	—	0,1	0,5	1,1	0,9
USA	−0,1	−0,3	−1,4	−2,6	−2,9	−2,5	−2,5
JAP	0,4	0,7	1,8	3,0	3,7	4,5	3,9

[1] Forecasts.
Source: Commission services.

experienced strongly divergent trends of investment in equipment and construction. While the construction sector continued to suffer from a severe recession, capital formation in equipment has recovered since 1984. This recovery which started in 1985 may be expected to be maintained in 1986 and 1987 on the Community level, with an annual growth rate of close to 7 % in both years. The factors which initiated the recovery in equipment will basically remain intact over the period ahead: the liquidity situation of enterprises is generally favourable, the degree of capacity utilization is fairly high, the prospects for consumer expenditure are improving, pressures from wage costs are not likely to become excessive in the foreseeable future, and nominal interest rates may be expected to decline further.

The structural problems encountered by the construction sector do not suggest a strong recovery in the near future. Among the three main components - dwellings, public works and enterprise investment in construction - only the latter is likely to resume some strength. On balance, the climate in construction has however already started to change, and a growth rate of around 3 % may be expected for the current and next year.

Stockbuilding is likely to be fairly dynamic in 1986. Both the price situation for raw materials and the acceleration of demand should be conducive to filling up inventories. In 1987 stockbuilding is forecast to be neutral with respect to overall growth.

TABLE 15: **Unit labour costs, whole economy** (percentage change on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986[1]	1987[1]
B	7,9	5,1	5,4	5,3	4,7	1,2	0,6
DK	9,5	8,7	4,7	3,2	4,1	3,5	2,2
D	4,2	3,1	1,1	0,7	0,9	1,8	1,3
GR	19,3	26,4	18,7	29,1	19,9	15,6	11,2
E	15,7	11,2	10,0	6,3	5,5	6,4	4,3
F	11,8	11,9	9,4	5,4	5,3	1,9	0,4
IRL	14,5	13,9	8,4	3,9	4,1	4,0	2,2
I	18,5	17,7	17,1	9,6	8,1	5,6	3,7
L	9,2	6,0	4,6	1,9	2,9	2,6	3,7
NL	5,8	4,6	0,2	−1,4	−0,1	1,5	1,0
P	—	—	—	—	16,4	13,3	9,3
UK	13,5	5,6	4,4	5,4	5,4	6,0	5,0
EUR	9,6	7,2	5,1	4,1	4,8	4,2	2,8

[1] Forecasts.
Source: Commission services.

Exports hit by weak markets and loss of competitiveness. — The exports of the Member States are likely to be slowed down on account of several factors: not only is world trade forecast to grow fairly slowly, but some important markets of the Community run the risk of contracting sharply after the fall of energy prices. This concerns the OPEC and the Eastern European markets, which together represented nearly 40 % of total EC exports to third countries in 1985. As a consequence, the Community's external export markets may on average hardly grow at all this year, and by perhaps only 2 % in 1987. By contrast, the Member States' total export markets including the intra-Community markets are forecast to grow by around 4 % in both years (Table 10).

TABLE 16: **Compensation of employees per head** (percentage change on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986[1]	1987[1]
B	10,2	8,1	6,4	6,8	5,7	3,0	2,6
DK	10,9	11,4	6,5	4,9	4,4	3,1	2,9
D	6,5	4,2	3,8	3,2	3,1	4,0	3,3
GR	21,7	27,8	20,3	24,2	22,0	15,2	10,9
E	20,1	13,6	13,3	13,0	9,2	8,6	6,1
F	14,2	13,7	10,7	7,8	6,9	4,3	2,7
IRL	17,9	14,6	10,5	9,9	6,6	6,6	4,7
I	19,7	17,2	16,5	12,0	10,0	7,6	6,1
L	10,1	7,2	7,6	6,8	4,6	4,2	5,6
NL	7,9	5,8	3,2	0,8	1,3	2,2	1,9
P	—	23,9	—	—	21,3	17,2	12,5
UK	15,4	9,1	9,2	5,5	7,5	7,7	6,7
EUR	11,7	8,8	5,6	6,3	6,9	6,1	4,7

[1] Forecasts.
Source: Commission services.

Apart from a bleak outlook for market growth, the sharp appreciation of European currencies against the US dollar will lead to a deterioration of the price competitiveness of exports in 1986, even allowing for price concessions of European exporters on foreign markets (Table 11). Consequently, the Community is likely to lose market share on extra- and intra-EC markets, and at constant prices exports of goods and services are forecast to grow by around 3 % in 1986. The Community's price competitiveness will not again deteriorate further significantly in 1987, but lagged effects from the price performance in 1986 are not likely to allow notable gains in market shares (real exports of goods and services in 1987: +4 1/4 %).

But imports growing fast. — With domestic demand expanding vigorously, the volume of imports is likely to grow much faster than that of exports (about +6 % in both years). On balance, the net contribution of export and import volumes to total growth in the Community will probably be significantly negative (−0,9 and −0,6 percentage points of GDP in 1986 and 1987 respectively). A notable part of the additional income from lower oil prices will thus be spent on foreign markets, supporting world trade in a difficult period of adjustment.

External surplus rising in 1986, falling in 1987. — As far as the balance of payments of the Community is concerned, these changes in trade volumes will be more than outweighed by the improvement in the terms of trade in 1986. This improvement may be of the order of 6 ½ % which, taken in isolation, is worth around USD 60 billion. On account of the negative trend in volumes, the likely improvement in the trade balance (fob/fob) between 1985 and 1986 is however limited to about USD 30 billion (surplus in 1985: USD 9 billion, in 1986: USD 41 billion). Next year, the terms of trade could still improve slightly (+0,5 %) with present assumptions, but import volumes should

TABLE 17: **Deflator of private consumption** (percentage change on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986[1]	1987[1]
B	7,7	7,4	7,5	5,9	4,9	1,2	1,7
DK	10,6	10,8	7,2	6,6	5,0	2,4	2,1
D	4,8	4,7	3,1	2,4	2,0	0,0	1,1
GR	17,4	21,2	18,6	18,0	18,4	22,5	12,6
E	16,6	14,2	12,2	11,1	8,4	8,0	4,8
F	10,9	11,2	9,5	7,3	5,5	2,4	2,2
IRL	15,4	16,0	8,2	8,5	5,4	2,9	1,3
I	17,4	17,0	15,1	11,1	9,4	5,6	4,8
L	7,9	10,6	8,0	6,4	4,0	0,8	1,8
NL	6,5	5,3	2,8	2,6	2,3	−0,1	0,2
P	21,7	22,5	25,5	29,3	19,3	12,0	9,3
UK	13,5	8,5	5,2	5,1	5,4	3,9	4,0
EUR	11,5	10,0	7,9	6,2	5,8	3,5	3,1
USA	7,4	5,7	3,9	4,1	3,1	2,5	3,9
JAP	7,2	2,6	1,9	2,1	2,3	0,5	−0,2

[1] Forecasts.
Source: Commission services.

TABLE 18: **Deflator of gross domestic product** (percentage change on preceding year 1974-87)

	1974-83	1982	1983	1984	1985	1986[1]	1987[1]
B	7,0	7,1	6,4	5,3	5,3	4,0	1,7
DK	9,9	11,3	8,1	5,8	5,4	4,5	2,6
D	4,5	4,4	3,3	1,9	2,1	2,7	1,5
GR	17,5	24,7	19,9	19,9	17,1	21,8	12,0
E	16,2	13,7	11,8	11,6	9,1	11,1	5,6
F	10,9	12,6	9,5	7,3	5,7	4,5	2,2
IRL	14,3	15,9	10,4	6,6	6,1	6,1	2,2
I	17,4	17,8	15,0	10,7	8,8	9,1	4,6
L	7,2	9,9	8,2	6,6	5,6	6,1	2,9
NL	6,3	6,0	1,6	2,6	2,1	0,1	−0,3
P	20,1	21,8	24,1	25,6	21,3	18,1	11,4
UK	13,9	7,5	5,0	4,4	6,1	3,6	4,2
EUR	11,5	10,6	8,2	6,7	6,0	5,6	3,3
USA	7,6	6,9	4,5	3,5	3,2	3,0	4,3
JAP	5,8	1,9	0,8	0,6	1,6	0,8	0,1

[1] Forecasts.
Source: Commission services.

again rise significantly faster than export volumes, with the surplus in the trade account declining (to USD 34 billion). With the traditional large surplus on services and the usual important deficit in net factor income and transfers, the surplus in the current balance may be expected to exceed 1 % of GDP (USD 45 billion) in 1986 and be below 1 % (USD 39 billion) in 1987 (Table 14).

The fall in inflation rates continues in 1986 and 1987. — The disinflation process in the Community will be accelerated by the exchange rate and oil price developments. Average import prices of goods and services in national currencies are forecast to fall substantially in 1986 (−9,6 %, Graph 4). Next year they are not likely to drop again given the exchange rate and raw material price assumptions (+1,7 %). Assuming that wage policies do not undergo substantial changes and competition in the goods markets prevents excessive profit margins, domestic factors will continue to dampen inflation as well. Looking at the Community as a whole, there are in fact good prospects for a further slowdown of consumer prices in 1987, although import prices are unlikely to contribute again much to the deceleration.

This result would mainly reflect the further decline in the rate of increase of unit labour costs (4,8 %, 4,2 % and 2,8 % in 1985, 1986 and 1987 respectively, Table 15, Graph 5). The further easing of wage cost pressures is seen to be entirely due to lower nominal increases in wages per head (Table 16), while the rise in labour productivity per head is expected to remain constant over the 1985−1987 period (about 2 % per year). On balance, internal and external cost developments are forecast to reduce the rate of increase in the consumer price inflation from 5,8 % last year to 3,5 % in the current year and to 3,1 % in 1987 (Table 17).

Improving price and cost convergence. — Parallel to decreasing average inflation, the convergence of inflation rates among Member States continues to improve. In some of them, stability of consumer prices will in fact be achieved in the current year (Germany, Netherlands). The decrease of inflation between 1985

TABLE 19: **Per capital real compensation of employees**[1] (percentage change on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986[1]	1987[1]
B	2,3	0,7	−1,0	0,8	0,8	1,8	0,9
DK	0,3	0,5	−0,6	−1,6	−0,6	0,7	0,8
D	1,6	−0,5	0,7	0,8	1,1	4,0	2,2
GR	3,6	5,4	1,5	5,2	3,1	−5,9	−1,5
E	3,0	−0,5	1,0	1,7	0,7	0,6	1,2
F	2,9	2,3	1,1	0,5	1,3	1,9	0,5
IRL	2,1	−1,2	2,1	1,3	1,1	3,6	3,4
I	2,0	0,2	1,2	0,8	0,5	1,9	1,2
L	2,1	−3,1	−0,4	0,4	0,6	3,3	3,7
NL	1,3	0,5	0,4	−1,7	−1,0	2,2	1,7
P	—	—	—	—	1,7	4,6	2,9
UK	1,7	0,5	3,9	0,4	2,0	3,6	2,6
EUR	0,1	−1,1	−2,2	0,1	1,0	2,5	1,6

[1] Deflated by private consumption prices.
Source: Services of the Commission.

and 1986 will however generally be larger in those countries where inflation is still relatively high (with the exception of Greece, where the inflation rate will be rising in the current year due to the devaluation of the Drachma last Autumn). Since the deceleration of internal costs may be expected to continue in 1987 in countries with still relatively high inflation, the prospects for further convergence in inflation rates in the Community are good. Apart from Greece and Portugal, the rates of increase of consumer prices could fall below 5 % in all Member States next year.

Higher purchasing power of wages, but recent trends in income distribution to continue. — The international income redistribution between energy producing and energy consuming countries which is implied in the fall in oil prices raises the question of how the upward shift in the income level in the latter group of countries will affect the internal distribution between labour and non-labour income. The substantial improvement in the Community's terms of trade in 1986 is reflected

TABLE 20: **Real wage gap**[1] (percentage change on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986[1]	1987[1]
B	2,1	2,9	0,9	1,4	−0,6	−2,7	−1,1
DK	1,3	2,5	1,7	1,6	−1,2	−0,9	−0,4
D	2,2	1,1	2,7	2,5	−1,1	−0,8	−0,2
GR	2,0	1,1	1,3	−3,8	2,3	−5,1	−0,8
E	3,8	2,1	3,0	6,3	−3,3	−4,3	−1,2
F	2,1	1,7	1,2	2,4	−0,5	−2,5	−1,8
IRL	2,9	0,6	2,0	5,8	−1,8	−2,0	0,0
I	1,0	−0,4	−0,5	2,2	−0,7	−3,1	−0,8
L	0,8	1,1	2,8	4,9	−2,5	−3,3	0,8
NL	1,9	1,1	3,0	2,2	−2,2	1,4	1,3
P	0,7	2,3	−1,4	−2,8	−4,0	−4,0	−2,0
UK	1,6	3,3	4,7	0,2	−0,7	2,3	0,7
EUR	1,9	1,6	2,1	1,6	−1,1	−1,4	−0,5

[1] Per capita real compensation of employees deflated by the GDP deflator, divided by labour productivity.
Source: Services of the Commission.

in a large difference in the rates of increase of the GDP deflator (+5,6 %, Graph 4) and the deflator of private consumption (+3,5 %). The real purchasing power of wages per head deflated by consumer prices is likely to rise significantly in most countries (Table 19). In order to assess trends in the distribution of income, nominal wages have been deflated by GDP prices and compared to the rise in labour productivity (Table 20). These figures suggest that the 'real product wages' will rise more slowly than productivity, which means that the adjustment in income distribution towards a higher share of non-labour income is likely to continue in 1986 and 1987 in the Community as a whole.

Higher employment, but small impact on unemployment. — The greater buoyancy in overall activity will probably have a favourable impact on employment, which is forecast to rise by 0,8 %

TABLE 21: **Total employment** (percentage change on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986[1]	1987[1]
B	−0,4	−1,3	−1,6	0,2	0,3	0,3	0,1
DK	0,2	0,3	0,5	2,4	3,1	1,6	0,8
D	−0,6	−1,8	−1,7	0,1	0,7	1,3	0,9
GR	0,3	−1,3	−1,0	−0,2	0,4	−0,3	−0,0
E	−1,7	−1,5	−1,3	−1,9	−1,4	0,6	1,0
F	0,1	0,1	−0,6	−1,0	−0,4	0,1	0,5
IRL	0,6	0,2	−2,0	−0,9	−0,3	0,6	1,3
I	0,8	−0,1	0,1	0,4	0,5	0,7	1,3
L	0,4	0,0	−0,3	0,3	0,4	0,7	0,6
NL	−0,4	−2,5	−2,0	−0,5	0,9	1,0	0,9
P	2,0	—	—	−1,3	−0,5	0,5	0,6
UK	−0,6	−1,4	−0,8	1,5	1,3	1,0	0,7
EUR	−0,2	−1,4	−0,5	−0,1	0,4	0,8	0,8
USA	1,5	−0,9	1,3	4,1	2,0	2,2	1,7
JAP	0,7	0,9	1,7	0,6	0,7	—	—

[1] Forecasts.
Source: Commission services.

TABLE 22: **Employment in manufacturing industries** (percentage change on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986[1]	1987[1]
B	−3,3	−3,6	−2,1	−1,0	−1,2	0,1	0,0
DK	−1,9	−0,4	−0,4	5,2	6,6	2,8	2,0
D	−2,2	−3,7	−3,9	−1,1	1,3	1,6	1,0
GR	—	−2,7	−1,3	−0,2	−0,6	−0,5	0,0
E	—	−4,5	−2,4	−4,5	−2,4	0,1	1,0
F	−1,4	−1,4	−2,3	−2,8	−3,1	−1,4	−0,8
IRL	—	−2,6	−6,3	−4,2	−3,5	0,3	1,2
I	−0,4	−1,9	−2,9	−3,6	−1,9	0,0	0,3
L	—	—	—	—	0,8	0,3	0,0
NL	−2,8	−4,6	−4,7	−2,7	1,1	1,3	1,1
P	—	—	—	—	−0,7	0,4	0,5
UK	—	−5,7	−5,5	−1,9	0,3	−0,2	−0,1
EUR	—	−3,4	−3,5	−2,2	−0,9	0,3	0,5

[1] Forecasts.
Source: Commission services.

both in 1986 and 1987 (Table 21). Looked at in isolation, these figures compare favourably not only with the recent past, but also with employment growth in the 'sixties. However, even this recovery in labour demand implies that almost half of the number of jobs lost during the recession in the early 'eighties will still not be recouped at the end of 1987. In fact, according to the forecast, the level of employment in 1987 will be more than 1 % below the level of 1980. The bulk of new jobs will continue to be created outside the industry. However, the employment prospects in this sector have also improved; after an uninterrupted decline since 1975 employment in manufacturing industry is expected to rise again in 1986 and 1987 (+ 0,3 % and + 0,5 % respectively, Table 22).

For the first time since the early 'seventies, the total increase in employment could outweigh the rise of the labour force, and the average unemployment rate in the Community (excluding Spain, Portugal and Greece) could decline from an annual

TABLE 23: **Number of unemployed as percentage of working population** (1974-87)

	1974-83	1982	1983	1984	1985	1986[1]	1987[1]
B	8,6	13,0	14,3	14,4	13,7	13,2	13,1
DK	6,7	9,5	10,2	9,8	9,0	7,7	7,3
D	4,5	6,9	8,4	8,4	8,4	7,7	7,3
GR	1,1	—	7,9	8,1	8,5	9,4	9,9
E	7,7	16,3	17,9	20,7	22,1	22,1	21,9
F	5,8	8,7	8,8	9,9	10,3	10,6	10,5
IRL	9,4	12,2	14,9	16,5	17,1	17,2	16,8
I	7,0	9,7	10,9	11,9	13,0	12,9	12,5
L	0,7	1,3	1,6	1,7	1,6	1,4	1,2
NL	7,2	11,8	14,3	14,5	13,1	12,0	11,1
P	5,2	—	10,2	10,5	10,5	10,3	10,1
UK	6,3	10,6	11,6	11,8	11,8	11,8	11,5
EUR-9	6,1	9,3	10,4	10,9	11,1	10,8	10,5
USA	7,5	9,7	9,6	7,5	7,2	6,9	6,6
JAP	2,1	2,4	2,7	2,7	2,6	2,9	2,9

[1] Forecasts.
Source: Commission services.

average of about 11 % in 1985 (equivalent to 12,7 million unemployed) to 10 ½ % in 1987 (Table 23). If account is taken of the unemployment statistics for the three countries excluded, the level would be higher (unemployment rate in 1985: 12,0 %, number of unemployed: 15,8 million), but the expected decline would be of the same order of magnitude. The forecast suggests that the change in the trend of unemployment is shared by most countries, although the expected decline is more pronounced in some (the Netherlands, Denmark, Germany) than in others, where an improvement, if at all, is unlikely to show up before next year (Spain, France, Italy, United Kingdom).

Declining government borrowing requirement and share of public expenditure in GDP. — The effects on government finances of the restrictive budgetary policies pursued over the last few years are starting to be reflected more clearly at the Community level. The share of government expenditure in GDP had reached a record level in 1983 (51,6 %, Table 24). Since then it has been on a decreasing trend and will have declined according to the forecast by approximately 3 percentage points in 1987 (to 48,7 %). In this context it is worth mentioning that contrary to trends in the past when expenditure cuts often concentrated on public investment, gross capital formation at current prices in the government sector is likely to grow in line with current expenditure in the 1985 to 1987 period.

Tax receipts, on the other hand, have roughly grown in line with nominal GDP in the last few years; a notable decline in the share of current government resources in GDP, although less pronounced than for expenditure, is however expected to occur in the forecasting period (from 45,1 % in 1985 to 44,3 % in 1987).

As a consequence, the net borrowing requirement of general government, expressed as a percentage of GDP, is expected to fall from 5,2 % in 1985 to 4,6 % in the current year and to 4,4 % in 1987 (Table 25). The foreseeable achievements in alleviating budgetary constraints vary however between Member States. Among the countries with high deficits, Greece may

TABLE 24: **Total public expenditure** (as percentage of GDP, 1982-87)

	1982	1983	1984	1985	1986[1]	1987[1]
B	58,1	57,9	57,2	56,9	55,6	55,0
DK	60,9	61,5	60,9	59,5	56,4	54,9
D	49,4	48,5	48,2	47,5	46,6	46,5
GR	40,9	40,8	44,3	48,3	47,1	45,7
E	36,6	—	37,8	39,8	38,6	38,6
F	51,1	52,0	52,8	52,5	51,7	51,2
IRL	54,4	54,3	52,5	53,5	50,9	50,0
I	54,8	57,5	57,4	58,4	56,7	55,9
L	57,0	58,1	54,0	52,6	50,7	50,2
NL	61,3	62,5	61,6	60,4	60,2	59,5
P	—	—	39,6	40,7	43,9	44,5
UK	44,9	54,2	46,2	45,1	44,0	43,0
EUR	51,0	51,6	50,4	50,3	49,3	48,7

[1] Forecasts.
Source: Commission services.

TABLE 25: **General government lending or borrowing (-) as percentage of GDP** (1982-87)

	1982	1983	1984	1985	1986[1]	1987[1]
B	−11,1	−11,7	−9,8	−9,3	−8,9	−8,1
DK	−9,3	−7,3	−4,2	−1,9	2,4	3,2
D	−3,4	−2,5	−1,9	−1,1	−0,7	−0,3
GR	−9,4	−8,9	−10,1	−13,9	−9,5	−6,4
E	−5,3	−5,3	−5,0	−6,2	−5,1	−4,7
F	−2,5	−3,2	−2,9	−2,6	−2,4	−2,6
IRL	−14,2	−11,8	−9,7	−11,4	−9,6	−9,1
I	−12,7	−12,4	−13,0	−14,0	−12,7	−12,8
L	−1,3	−0,8	1,5	4,2	3,7	2,6
NL	−7,1	−6,5	−6,3	−5,1	−5,2	−5,8
P	−8,8	−7,1	−7,7	−11,1	−11,2	−11,2
UK	−2,4	−3,7	−4,2	−3,1	−3,2	−2,9
EUR	−5,6	−5,5	−5,4	−5,2	−4,6	−4,4

[1] Forecasts.
Source: Commission services.

TABLE 26: **Money supply M2/M3** (percentage change at end of year on twelve months earlier, 1974-87)

	1974-83	1982	1983	1984	1985	1986[1]	1987[1]
B	10,3	7,5	7,1	6,2	6,7	5,5	4,0
DK	12,8	11,4	25,4	17,8	15,8	8,5	6,0
D	7,7	7,1	5,3	4,7	5,0	5,7	5,0
GR	25,0	29,0	20,3	29,4	26,1	19,5	11,3
E	18,1	16,6	15,9	13,1	12,8	11,5	8,0
F	12,7	10,8	11,2	8,3	6,0	5,5	4,5
IRL	17,2	13,0	5,6	10,1	5,3	10,7	9,8
I	17,8	18,0	12,3	12,1	11,2	9,5	8,0
L	—	—	—	—	—	—	—
NL	9,1	7,6	10,4	7,6	10,2	5,8	4,3
P	21,4	24,6	16,3	24,5	28,5	25,0	19,0
UK	11,6	8,9	10,4	10,0	13,5	9,4	6,7
EUR	12,8	11,6	10,6	8,7	9,5	7,9	6,2
USA	10,3	8,9	12,0	8,4	8,1	—	—
JAP	10,5	7,9	7,3	7,8	8,7	—	—

[1] Forecasts.
Source: Commission services.

TABLE 27: **Demand components at constant prices** (percentage change on preceding year, EC countries, 1974-87)

		1974-83	1984	1985	1986[1]	1987[1]
B[3]	Private consumption	1,8	1,0	0,7	2,8	1,9
	Government consumption	2,4	−0,1	1,0	0,4	0,0
	Fixed capital formation	−1,0	1,0	3,3	5,3	4,1
	— Construction	−2,6	—	1,9	2,6	1,1
	— Equipment	0,4	—	5,4	9,2	8,1
	Exports of goods and services	3,2	4,6	2,4	4,0	4,1
	Imports of goods and services	2,3	4,8	2,4	5,9	3,8
	GDP	1,7	1,4	1,3	2,0	2,1
DK[3]	Private consumption	0,8	2,8	4,3	2,6	2,4
	Government consumption	3,4	−0,1	1,7	−0,2	0,9
	Fixed capital formation	−3,3	12,8	14,6	10,8	1,2
	— Construction	−5,6	9,7	13,1	8,2	2,9
	— Equipment	1,3	16,0	16,5	13,7	−0,7
	Exports of goods and services	3,8	3,5	3,6	2,8	4,0
	Imports of goods and services	0,6	6,6	7,8	4,2	2,4
	GDP	1,5	3,9	3,8	2,5	2,2
D[3]	Private consumption	2,1	1,1	1,7	4,9	4,0
	Government consumption	1,6	0,9	2,1	2,5	2,3
	Fixed capital formation	−0,1	0,8	−0,3	5,8	5,7
	— Construction	−0,9	—	−6,2	2,7	3,2
	— Equipment	2,0	—	9,3	10,2	8,9
	Exports of goods and services	4,1	7,6	7,6	3,0	4,0
	Imports of goods and services	3,2	5,2	4,6	8,9	6,5
	GDP	1,6	2,6	2,5	3,5	3,0
GR[2]	Private consumption	2,8	1,1	3,2	−1,3	−0,9
	Government consumption	5,5	3,9	2,3	−0,8	−1,3
	Fixed capital formation	−1,9	−4,7	3,4	−2,5	−0,3
	— Construction	−3,5	−7,7	2,6	−1,1	−0,5
	— Equipment	0,5	−0,9	4,4	−4,1	0,0
	Exports of goods and services	5,2	11,6	−0,3	5,9	5,1
	Imports of goods and services	2,0	−0,1	13,2	−5,3	−0,9
	GDP	2,4	2,6	2,1	−0,4	−0,2
E[4]	Private consumption	1,9	−1,0	1,3	2,8	2,8
	Government consumption	5,0	2,0	3,5	2,3	1,3
	Fixed capital formation	−1,0	−3,8	5,4	6,6	6,3
	— Construction	—	—	1,5	5,3	5,1
	— Equipment	—	—	12,0	8,5	8,0
	Exports of goods and services	5,7	15,0	4,7	1,4	3,6
	Imports of goods and services	2,6	0,0	6,2	5,9	6,5
	GDP	2,0	2,2	2,1	2,7	2,7
F[2]	Private consumption	3,0	0,3	2,4	2,9	2,9
	Government consumption	2,8	0,3	1,3	0,6	0,3
	Fixed capital formation	0,6	−2,2	3,0	3,9	4,4
	— Construction	−1,2	−4,4	0,1	1,7	2,0
	— Equipment	0,6	−1,5	4,5	5,0	5,5
	Exports of goods and services	5,7	7,4	2,3	2,0	5,1
	Imports of goods and services	5,6	2,3	5,3	5,3	5,3
	GDP	2,3	1,3	1,3	2,3	2,9
IRL[3]	Private consumption	1,9	−0,5	1,5	3,2	4,3
	Government consumption	4,5	−1,2	0,5	1,0	0,4
	Fixed capital formation	1,8	−1,8	1,6	2,5	5,0
	— Construction	—	—	−5,5	−0,8	2,9
	— Equipment	—	—	8,0	5,2	6,5
	Exports of goods and services	7,3	16,9	6,8	4,4	6,1
	Imports of goods and services	4,0	9,5	2,9	4,3	6,1
	GDP	3,6	4,4	2,1	3,2	3,7
I[2]	Private consumption	1,9	2,0	1,9	3,2	4,2
	Government consumption	2,5	2,7	2,5	2,1	2,2
	Fixed capital formation	−0,2	4,1	4,1	5,9	7.5
	— Construction	−0,6	−0,4	−1,7	2,6	3,3
	— Equipment	0,7	10,1	9,9	9,0	11,2
	Exports of goods and services	5,6	6,2	8,2	4,0	5,3
	Imports of goods and services	3,0	9,7	9,4	8,9	10,3
	GDP	1,9	2,6	2,3	2,7	3,8
L[3]	Private consumption	2,8	0,6	1,7	3,2	3,7
	Government consumption	2,8	0,4	1,0	1,2	1,1
	Fixed capital formation	−1,2	−1,4	1,7	2,7	2,0
	— Construction	—	—	0,7	1,7	1,0
	— Equipment	—	—	4,0	5,0	4,0
	Exports of goods and services	0,7	15,4	4,1	2,1	3,0
	Imports of goods and services	1,3	13,5	4,4	2,7	3,4
	GDP	1,3	4,9	2,1	2,2	2,5
NL[3]	Private consumption	2,1	−0,5	2,0	3,1	2,0
	Government consumption	2,5	−1,6	0,6	0,5	0,1
	Fixed capital formation	−1,6	4,3	2,4	3,7	3,2
	— Construction	−2,4	—	−3,2	1,8	0,6
	— Equipment	0,0	—	10,7	6.3	6,5
	Exports of goods and services	2,4	7,0	4,9	2,2	3,4
	Imports of goods and services	1,7	5,9	5,7	3,4	3,5
	GDP	1,6	1,7	2,3	1,7	1,8
P[4]	Private consumption	1,0	−3,0	0,7	4,6	3,6
	Government consumption	6,8	1,8	1,6	1,0	1,0
	Fixed capital formation	3,7	−18,0	−1,8	8,6	8,5
	— Construction	—	—	−4,0	7,7	8,5
	— Equipment	—	—	1,0	9,6	8,6
	Exports of goods and services	6,2	14,7	12,0	4,3	6,9
	Imports of goods and services	2,3	−3,2	3,3	10,6	8,4
	GDP	2,7	−1,7	3,7	3,9	3,6
UK[3]	Private consumption	1,1	1,7	2,8	3,6	3,6
	Government consumption	1,5	1,0	0,5	0,8	0,7
	Fixed capital formation	−0,3	8,2	1,0	3,6	2,6
	— Construction	−1,3	7,5	−3,1	4,0	2,6
	— Equipment	0,6	9,7	6,1	3,1	2,7
	Exports of goods and services	2,6	6,7	6,0	2,8	3,2
	Imports of goods and services	1,6	9,2	3,0	4,1	5,1
	GDP	1,0	1,8	3,3	2,6	2,4

[1] Forecasts.
[2] 1970 prices.
[3] 1980 prices.
[4] 1984 prices.
Source: Commission services.

TABLE 28: **Contributions to real GDP growth**[1] (EC countries, 1974-87)

		1974-83	1984	1985	1986[2]	1987[2]
B	Final domestic demand	1,4	0,8	1,2	2,7	1,9
	Stockbuilding	−0,2	0,6	0,1	0,4	−0,2
	Foreign balance	0,5	0,1	0,1	−1,0	0,3
DK	Final domestic demand	0,7	3,6	5,2	3,4	1,8
	Stockbuilding	−0,1	1,2	−0,1	−0,3	−0,1
	Foreign balance	1,0	−0,9	−1,3	−0,5	0,6
D	Final domestic demand	1,5	1,0	1,3	4,3	3,9
	Stockbuilding	−0,1	0,7	0,1	0,6	−0,3
	Foreign balance	0,3	0,9	1,1	−1,5	−0,6
GR	Final domestic demand	2,2	0,4	3,2	−1,5	−0,9
	Stockbuilding	−0,4	0,5	2,0	−1,2	−0,4
	Foreign balance	0,4	2,5	−3,0	2,3	1,1
E	Final domestic demand	1,7	−1,1	2,5	3,6	3,5
	Stockbuilding	−0,1	0,1	0,0	0,1	0,0
	Foreign balance	0,4	2,8	−0,5	−1,0	−0,8
F	Final domestic demand	2,5	−0,2	2,3	2,8	2,9
	Stockbuilding	−0,1	0,2	−0,3	0,3	0,2
	Foreign balance	−0,1	1,1	−0,7	−0,9	−0,1
IRL	Final domestic demand	2,7	−1,0	1,4	2,6	3,7
	Stockbuilding	0,1	1,8	−1,7	0,5	0,0
	Foreign balance	0,9	3,6	2,4	0,1	0,0
I	Final domestic demand	1,5	2,5	2,3	3,3	4,3
	Stockbuilding	−0,4	0,8	0,0	0,4	0,4
	Foreign balance	0,5	−0,9	0,1	−1,0	−1,1
L	Final domestic demand	1,7	0,1	1,5	2,6	2,7
	Stockbuilding	0,1	3,4	0,7	0,1	0,1
	Foreign balance	−0,5	1,4	−0,1	−0,6	−0,3
NL	Final domestic demand	1,3	0,2	1,7	2,6	1,8
	Stockbuilding	−0,1	0,8	0,8	−0,3	−0,1
	Foreign balance	0,4	0,8	−0,2	−0,6	0,1
P	Final domestic demand	2,7	−6,6	0,3	5,2	4,7
	Stockbuilding	0,0	—	0,3	1,7	0,2
	Foreign balance	0,8	6,9	3,1	−3,1	−1,2
UK	Final domestic demand	0,9	2,6	2,0	3,0	2,8
	Stockbuilding	−0,2	−0,3	0,4	−0,0	0,1
	Foreign balance	0,3	−0,6	0,9	−0,3	−0,5

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

be expected to reduce its net borrowing of general government in the framework of the consolidation programme started in the Autumn of 1985 by as much as 7 % of GDP within two years (to 6,4 % in 1987). In other countries the deficit is likely to remain at levels of above 10 % of GDP (Italy, Portugal). In Denmark, on the other hand, net borrowing of general government will probably turn into a net lending in the current year, and the German deficit is forecast to fall below 1 % of GDP.

Increase in money supply remains moderate.— On the general assumption that monetary policy in the Member States will not be changed and given the expected financial balances of the various sectors of the economy, the rate of expansion of the money supply (M2 or M3), whose declining trend was interrupted in 1985, is likely to decrease further (Table 26). The forecast suggests that the money supply will grow in 1986 and 1987 at a rate slightly below or equal to that of nominal GDP.

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

	1981	1982	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Sept.	1985 Oct.	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 March	Change over 12 months % (b)
B	-2,7	0	2,0	2,5	2,4	0,1	1,7	-1,1	3,2	:	5,5	-1,4	5,2	-4,9	0,9	1,1	:	4,2
DK	0	2,7	3,2	9,7	4,2	-5,8	2,8	5,0	1,8	-1,6	1,8	3,4	-3,6	-3,0	5,1	-2,5	-5,2	9,8
D	-1,9	-2,9	0,6	3,0	5,7	0,5	0,9	1,9	0,7	-0,5	0,4	2,9	0,2	-5,2	3,2	0,1	-0,6	-1,0
GR	-0,6	-4,2	-0,7	3,5	2,6	-1,5	1,3	5,7	-1,1	:	3,0	-0,6	-1,9	0,4	-1,1	-1,7	:	2,2
E	-1,0	-1,1	2,7	0,8	2,2	1,2	-1,1	1,9	2,9	:	-0,5	7,7	-4,4	-1,7	3,4	:	:	1,8
F	-2,3	-1,5	0,8	2,3	0,8	-0,8	0,5	1,8	0	-1,5	-1,5	0,8	2,2	-3,6	-0,8	1,5	0	1,4
IRL	2,2	0,3	6,5	12,9	2,2	-0,3	-1,4	-3,4	2,9	:	1,3	0,2	4,0	-3,4	-0,4	2,1	:	2,9
I	-1,6	-3,0	-3,2	3,4	1,2	1,7	0,1	-0,6	-0,4	3,5	2,4	-3,3	3,7	-3,7	2,1	2,6	2,8	-0,9
L	-5,7	0,9	5,4	13,3	6,9	0,5	2,5	-2,2	4,3	:	-0,6	3,5	2,9	-0,4	:	:	:	3,8
NL	-2,0	-4,1	2,1	5,2	3,0	7,4	-2,8	-2,2	2,6	1,3	-1,9	1,0	7,8	-9,9	5,0	2,9	-3,7	-3,5
P	0,5	4,6	1,6	-0,1	4,1	-1,5	4,4	0,4	1,2	:	3,5	1,9	-6,1	2,5	:	:	:	4,7
UK	-3,4	1,9	3,6	1,3	4,7	2,8	1,9	0	-0,1	0,5	1,1	-1,1	1,4	-2,1	0,7	1,2	-0,1	-0,1
EUR 12	-2,1	-1,4	1,1	2,7	3,2	0,6	0,8	0,8	0,7	(0)	0,7	0,8	0,6	-2,3	(1,3)	(0,7)	(-1,2)	(0,9)
USA	2,1	-7,4	7,8	12,4	2,6	0,3	0,4	0,8	0,5	(0,7)	-0,4	-0,3	0,9	0,5	(0,7)	(-0,8)	(-0,4)	(1,5)
JAP	1,0	0,3	3,6	11,1	4,6	-0,3	2,2	-0,2	-0,9	0,2	-1,1	0,4	-0,4	0,2	0,2	0,2	-0,2	(2,6)

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

	1981	1982	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Oct.	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 March	1986 April	Change over 12 months % (b)
B (f)	11,1	13,0	14,3	14,4	13,4	14,4	13,7	13,0	12,7	12,5	12,8	12,6	12,7	12,6	12,5	12,5	12,4	:
DK	8,9	9,5	10,2	9,8	8,7	9,4	8,8	8,6	(7,9)	(7,7)	8,1	7,9	7,8	(7,7)	(7,8)	(7,8)	(7,5)	(-14,8)
D	4,8	6,9	8,4	8,4	8,5	8,5	8,5	8,5	8,4	8,4	8,5	8,4	8,3	8,4	8,4	8,4	8,2	-3,2
GR	1,2	1,4	1,6	1,9	2,2	2,2	2,2	2,2	2,4	2,8	2,3	2,3	2,5	2,8	2,7	2,7	2,8	37,8
E	12,1	14,3	16,6	18,6	19,8	19,6	20,0	19,9	20,3	20,5	19,9	20,4	20,1	20,3	20,2	20,4	20,4	4,3
F	7,7	8,7	8,8	9,9	10,3	10,5	10,4	10,4	10,2	10,3	10,3	10,3	10,1	10,3	10,2	10,3	10,4	1,4
IRL	10,2	12,2	14,9	16,5	17,6	17,2	17,4	17,9	17,7	17,6	17,6	17,6	17,9	17,6	17,5	17,6	17,5	1,9
I	8,0	9,7	10,9	11,9	12,9	12,4	12,8	13,0	13,2	13,5	13,2	13,2	13,3	13,3	13,5	13,5	13,7	9,0
L	1,0	1,3	1,6	1,7	1,6	1,6	1,7	1,6	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,4	1,4	-16,0
NL (f)	8,8	11,8	14,3	14,5	13,2	13,5	13,2	13,1	12,7	12,6	12,8	12,7	12,6	12,6	12,5	12,5	12,4	-6,7
P	5,8	5,7	5,6	6,7	7,7	7,3	7,6	7,9	8,0	8,1	8,0	8,0	8,1	8,1	8,2	8,2	8,3	11,0
UK	(9,2)	(10,6)	(11,6)	11,8	12,1	12,0	12,2	12,2	12,1	12,1	12,1	12,0	12,1	12,2	12,1	12,2	12,2	1,6
EUR 12	(7,8)	(9,4)	(10,6)	11,2	(11,6)	11,6	11,6	11,7	(11,6)	(11,7)	11,6	11,6	11,6	(11,7)	(11,7)	(11,7)	(11,7)	(2,0)
USA	7,6	9,7	9,6	7,5	7,2	7,3	7,3	7,1	7,0	7,1	7,1	7,0	6,9	6,7	7,3	7,2	:	0,5
JAP (g)	2,2	2,4	2,7	2,7	2,6	2,5	2,6	2,6	2,8	2,6	2,8	2,8	2,9	2,7	2,6	2,7	:	5,2

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

	1981	1982	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Oct.	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 March	1986 April	Change over 12 months % (b)
B	7,6	8,7	7,7	6,4	4,9	1,8	1,3	0,7	0,2	0,2	-0,1	0,2	0	0,1	0,1	-0,2	0,3	1,4
DK	11,7	10,1	6,9	6,3	4,7	1,3	1,5	-0,1	0,8	-0,1	0,3	0,4	-0,1	-0,3	-0,1	0,4	(2,5)	3,9
D	6,3	5,3	3,3	2,4	2,2	1,1	0,6	-0,2	0,3	0	0,2	0,2	0,1	0,2	-0,2	-0,2	-0,1	-0,2
GR	24,5	21,0	20,5	18,3	19,4	4,5	4,5	2,6	9,7	6,0	3,3	2,5	3,3	2,3	-0,7	3,2	1,5	24,7
E	14,6	14,4	12,2	11,3	8,8	3,2	1,9	1,0	1,9	3,8	0,4	0,8	0,4	2,8	0,5	0,4	0,2	7,7
F	13,4	11,8	9,6	7,3	5,9	1,4	1,8	0,9	0,6	0,1	0,3	0,2	0,1	0,1	-0,2	0,3	0,4	2,7
IRL (h)	20,4	17,2	10,4	8,6	5,4	1,9	1,3	1,5	0,2	1,6	(0,1)	(0,1)	(0,5)	(0,5)	(0,5)	:	:	4,6
I	17,8	16,5	14,7	10,8	9,2	2,9	2,4	1,2	2,2	1,8	1,0	0,8	0,6	0,5	0,7	0,4	(0,3)	6,8
L	8,1	9,4	8,7	5,6	4,2	1,0	1,6	0,5	0,9	-0,4	0,8	0,2	0,2	-0,2	-0,4	-0,5	-0,1	0,5
NL	6,7	5,7	2,7	3,2	2,3	0,2	1,0	0	0,6	-0,4	0,3	0	-0,2	-0,4	0,2	0,1	0,4	0,7
P	20,0	22,7	25,1	28,9	19,6	8,0	3,4	1,1	3,0	4,9	1,0	1,6	1,7	1,9	1,3	1,2	1,3	12,3
UK	11,9	8,6	4,6	5,0	6,1	1,3	3,4	0,3	0,5	0,7	0,2	0,3	0,1	0,2	0,4	0,1	1,0	3,0
EUR 12	12,1	10,7	8,6	7,4	6,1	1,8	1,9	0,6	1,1	(1,0)	0,4	0,4	0,3	0,5	0,1	0,2	(0,4)	(3,7)
USA	10,3	6,2	3,2	4,3	3,6	0,7	1,2	0,7	0,9	0,2	0,3	0,3	0,2	0,3	-0,3	-0,5	-0,2	1,6
JAP	4,9	2,7	1,9	2,2	2,1	0,1	0,9	0	1,0	-0,5	1,4	-1,0	0,1	0,2	-0,4	-0,3	0,3	0,9

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

	1981	1982	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Sept.	1985 Oct.	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 March	Change over 12 months % (b)
B/L	-5418	-3082	-2435	-4897	-3514	-1501	-581	-714	-811	-195	-276	-375	-262	-174	-405	68	142	320
DK	-1475	-1866	-740	-1108	-1538	-494	-306	-279	-473	-450	-18	-218	-61	-194	-176	-229	-46	150
D	11239	21599	18501	24136	32963	6589	8631	8742	9403	10774	3046	3246	2978	3179	4003	3272	3499	1075
GR	-3951	-5826	-5800	-6048	-7266	-1727	-2341	-1621	-1590	-1938	-565	-513	-558	-520	-555	-724	-659	-161
E (i)	:	:	:	-6773	-5582	-1641	-1884	-1054	-1004	:	-590	-364	-105	-535	:	:	:	-127
F	-17283	-24457	-15628	-13130	-13428	-3810	-3028	-3535	-3040	-2259	-1070	-1029	-916	-1095	-403	-797	-1059	-329
IRL	-2467	-1574	-621	81	430	195	56	138	28	318	40	-46	96	-21	72	54	192	39
I	-13554	-12513	-8516	-13849	-16130	-5505	-5911	-1589	-4105	:	-241	-842	-1930	-1333	-1424	-661	:	1263
NL	1320	3500	4499	4740	3874	492	1234	944	1085	1185	255	189	183	713	342	809	33	70
P (i)	:	:	:	-3465	-2585	-713	-723	-600	-548	:	-193	-187	-244	-117	-221	-70	:	370
UK	-445	-3295	-9681	-14005	-11540	-4514	-2272	-2493	-2493	:	-772	-709	-1084	-700	-371	-1151	:	338
EUR 10 (j)	-32033	-27515	-20422	-24080	-16127	-10258	-4681	-509	-2078	:	394	-425	-1449	-205	904	685	:	4560
USA	-35538	-43518	-77969	-156288	-194873	-47958	-52238	-45831	-49712	:	-19809	-13683	-16059	-19970	:	:	:	-8807
JAP	7832	7034	23072	42599	60497	12902	14548	15243	17299	16828	4899	4823	6336	6130	6350	4605	5873	270

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

	1981	1982	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Oct.	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 March	1986 April	Change over 12 months % (b)
B (M2)	5,8	5,7	8,7	5,7	7,9	3,2	1,1	0,8	2,6	:	:	:	:	:	:	:	:	7,9
DK (M2)	9,6	11,5	25,5	17,8	15,8	-0,5	4,5	4,2	6,7	2,8	0,2	0,1	6,5	-1,2	1,8	2,2	0,6	17,5
D (M3)	5,0	7,1	5,3	4,7	5,0	1,2	1,3	0,6	2,0	1,4	0,5	0,3	1,2	0,6	0,2	0,6	0	5,0
GR (M3)	34,7	29,0	20,3	29,4	(26,8)	5,7	7,9	6,1	(5,9)	:	1,7	0,9	(3,1)	(1,0)	(1,2)	:	:	(24,1)
E (ALP)	17,0	16,6	15,9	13,2	12,8	4,0	4,0	1,7	2,8	4,0	0,9	1,0	1,0	0,9	1,7	1,4	0,8	12,7
F (M3)	11,0	11,4	11,5	9,4	5,0	2,5	0,5	2,0	0,3	(2,5)	0,5	0,5	-1,0	0,9	0,2	(1,1)	(-0,7)	(4,5)
IRL (M3)	17,4	13,0	5,6	10,1	5,3	1,4	1,0	1,6	1,3	-1,7	0,8	1,0	-0,5	1,7	-2,1	(-1,3)	:	(1,5)
I (M2)	9,9	16,9	13,3	12,1	10,8	4,3	3,2	3,2	(1,5)	:	0,7	0,1	0,7	0,6	(0,1)	:	:	(9,2)
NL (M2)	5,3	7,6	10,4	7,7	10,4	3,7	-0,4	1,9	4,4	:	1,5	1,0	1,8	:	:	:	:	10,4
P (L)	23,8	23,9	16,1	23,9	(28,8)	6,1	5,6	(9,0)	(5,4)	:	(1,8)	(1,4)	(2,1)	(2,4)	(1,8)	:	:	(29,1)
UK (LM3)	13,7	8,9	10,3	9,8	15,6	2,2	5,8	2,9	3,4	3,4	0,8	2,0	0,6	0,1	1,0	2,3	3,2	16,9
EUR 12 (l)	10,6	11,5	10,8	9,7	(9,8)	2,7	2,6	(2,2)	(2,2)	:	(0,7)	(0,7)	(0,7)	(0,6)	(0,5)	:	:	(9,1)
USA (M2)	10,0	9,4	11,7	8,2	8,1	2,4	1,8	2,3	1,4	1,0	0,3	0,5	0,6	0,1	0,3	0,6	1,1	8,0
JAP (M2)	11,0	7,9	7,3	7,8	8,7	3,3	1,5	1,0	2,6	2,3	1,0	1,0	0,6	0,7	0,7	0,9	:	7,6

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

	1981	1982	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 March	1986 April	1986 May	Change over 12 months % (e)
B	15,6	14,1	10,5	11,5	9,6	10,7	8,9	9,4	9,8	9,3	8,6	9,8	9,8	9,7	9,3	8,0	7,6	−1,7
DK	14,9	16,4	12,1	11,5	10,0	12,0	10,3	9,4	9,5	9,1	9,3	9,5	9,0	8,7	9,1	9,2	9,0	−0,4
D	12,3	8,8	5,8	6,0	5,4	6,3	5,7	4,7	4,8	4,7	4,8	4,8	4,6	4,5	4,7	4,6	4,6	−0,8
GR	16,8	20,2	19,4	15,7	17,1	19,3	16,6	16,5	17,9	21,8	19,5	17,9	19,0	20,5	21,8	21,8	:	5,3
E	16,2	16,3	20,1	14,9	12,2	12,1	14,2	11,5	10,5	11,6	10,5	10,5	10,6	10,6	11,6	12,4	11,7	−1,1
F	15,6	14,6	12,5	11,7	9,9	10,7	10,2	9,5	9,1	8,3	8,8	9,1	8,9	8,7	8,3	7,4	7,3	−2,9
IRL	16,6	17,5	14,1	13,3	11,9	13,9	11,6	10,1	11,7	14,5	10,4	11,7	15,1	16,1	14,5	11,3	10,3	−2,1
I	20,0	20,1	18,1	17,2	15,1	15,6	15,1	14,1	14,9	14,7	14,6	14,9	15,7	16,5	14,7	12,7	11,9	−3,3
NL	11,8	8,3	5,7	6,1	6,4	6,9	6,7	5,8	5,8	5,4	5,9	5,8	5,8	5,8	5,4	5,5	5,9	−1,0
P	16,0	16,8	20,9	22,5	21,0	21,7	21,4	22,2	18,6	16,0	16,3	18,8	18,6	18,4	16,0	15,2	16,6	:
UK	14,2	12,2	10,1	10,1	12,3	13,2	12,6	11,5	11,9	11,3	11,6	11,9	12,9	12,3	11,3	10,3	9,8	−2,7
EUR 12 (n)	15,2	13,8	12,0	11,2	10,5	11,2	10,8	9,8	9,9	9,6	9,6	9,9	10,1	10,1	9,6	8,9	(8,7)	−2,0
USA	14,0	10,6	8,7	9,5	7,0	8,2	6,8	7,3	7,2	6,6	7,4	7,3	7,0	7,0	6,6	6,1	:	−1,7
JAP	7,4	6,8	6,5	6,3	6,5	6,3	6,3	6,3	7,4	5,5	7,3	7,4	6,6	6,0	5,5	4,9	:	−1,4

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

	1981	1982	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Oct.	1985 Nov.	Dec.	1986 Jan.	1986 Feb.	1986 March	1986 April	Change over 12 months % (e)
B	13,8	13,5	11,8	12,0	10,6	11,5	10,3	10,4	9,6	8,4	9,7	9,4	9,6	9,6	9,4	8,4	7,5	−4,0
DK	19,3	20,5	14,4	14,0	11,6	13,0	11,8	11,1	9,9	9,5	10,7	10,5	9,9	10,3	9.6	9,5	9,2	−3,1
D	10,4	9,0	7,9	7,8	6,9	7,6	6,9	6,3	6,5	5,9	6,5	6,6	6,5	6,3	6,2	5,9	5,5	−1,8
GR	17,7	15,4	18,2	18,5	15,8	18,4	15,8	14,2	15,1	15,1	14,0	13,1	15,1	14,7	15,0	15,1	16,7	−1,6
E	15,8	16,0	16,9	16,5	13,4	13,5	13,8	13,9	12,3	12,2	12,6	12,1	12,3	12,3	12,3	12,2	12,1	:
F	16,3	16,0	14,4	13,4	11,9	12,3	12,1	12,0	11,3	9,3	11,7	11,2	11,3	10,8	10,1	9,3	8,6	−3,4
IRL	17,2	17,0	13,9	14,6	12,7	13,6	12,4	11,9	11,8	9,4	11,8	12,1	11,8	11,9	10,7	9,4	8,7	−4,4
I	20,6	20,9	18,0	14,9	13,0	12,8	13,3	13,0	13,1	12,4	12,8	13,0	13,1	12,9	12,9	12,4	11,9	−1,4
L	8,6	10,4	9,8	10,3	9,5	9,7	9,6	9,3	9,3	9,1	9,3	9,3	9,2	9,2	9,2	9,1	9,0	−0,7
NL	12,2	10,5	8,8	8,6	7,8	8,6	7,8	7,4	7,5	6,9	7,7	7,6	7,5	7,4	7,2	6,9	6,5	−1,5
P	22,6	25,3	30,4	32,5	30,8	32,5	32,5	30,0	26,0	20,3	25,1	25,0	22,1	20,9	20,9	20,3	19,3	:
UK	14,8	12,7	10,8	10,7	10,6	10,7	10,7	10,3	10,5	8,9	10,3	10,3	10,5	10,8	10,0	8,9	8,8	−1,9
EUR 12 (n)	15,2	14,5	13,0	12,3	10,9	11,3	11,1	10,7	10,5	9,3	10,5	10,3	10,4	10,2	9,9	9,3	8,9	−2,0
USA	12,9	12,2	10,8	12,0	10,8	11,8	10,4	10,7	9,6	8,0	10,6	10,1	9,6	9,5	9,1	8,0	:	−3,8
JAP	8,4	8,3	7,8	7,3	6,5	6,8	6,6	5,8	5,8	4,7	6,6	6,4	5,8	5,8	5,2	4,7	4,7	−1,9

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

	1981	1982	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 March	1986 April	1986 May	Change over 12 months % (b)
BFR/LFR	41,29	44,68	45,44	45,44	44,91	44,66	45,12	45,13	44,74	44,35	44,67	44,73	44,51	44,27	44,25	43,94	43,93	−2,6
DKR	7,92	8,15	8,13	8,15	8,02	7,96	8,05	8,07	7,99	7,98	7,99	7,96	7,98	7,98	7,98	7,95	7,96	−1,2
DM	2,51	2,38	2,27	2,24	2,23	2,23	2,24	2,23	2,20	2,17	2,21	2,19	2,18	2,16	2,16	2,16	2,15	−4,0
DR	61,62	65,30	78,09	88,44	105,7	91,97	98,47	104,5	127,7	133,2	130,0	130,9	132,4	132,9	134,4	134,8	134,7	36,5
PTA	102,7	107,6	127,5	126,6	129,1	123,1	126,4	131,0	135,8	136,2	135,9	136,2	136,3	136,2	136,0	136,6	136,8	8,3
FF	6,04	6,43	6,77	6,87	6,80	6,81	6,83	6,81	6,73	6,66	6,73	6,71	6,68	6,64	6,65	6,83	6,86	0,3
IRL	0,691	0,690	0,715	0,726	0,715	0,715	0,716	0,716	0,714	0,715	0,714	0,71	0,715	0,715	0,715	0,709	0.707	−1,2
LIT	1263	1324	1350	1381	1447	1382	1430	1484	1494	1476	1492	1490	1484	1472	1470	1476	1,476	3,3
HFL	2,78	2,62	2,54	2,52	2,51	2,52	2,53	2,51	2,48	2,45	2,49	2,47	2,45	2,44	2,44	2,43	2,42	−4,2
ESC	68,5	78,0	98,7	116,3	130,2	122,4	127,2	132,8	138,4	141,3	138,1	139,8	140,5	141,4	142,0	142,4	143,9	13,1
UKL	0,553	0,561	0,587	0,591	0,589	0,614	0,578	0,570	0,595	0,642	0,592	0,60	0,626	0,649	0,651	0,634	0,635	9,8
USD	1,116	0,981	0,890	0,789	0,762	0,684	0,726	0,785	0,853	0,924	0,852	0,87	0,891	0,928	0,954	0,951	0,964	33,9
YEN	245,4	243,5	211,4	187,0	180,5	176,1	182,0	187,0	176,8	173,3	173,8	177,0	178,4	171,0	170,4	166,1	161,0	−11,2
DTS	0,946	0,888	0,833	0,767	0,749	0,707	0,732	0,764	0,791	0,821	0.788	0,80	0,812	0,822	0,830	0,826	0,826	13,3

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

	1981	1982	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 March	1986 April	1986 May	Change over 12 months % (b)
B/L	−5,8	−9,2	−2,8	−2,1	0,7	0,1	0	1,0	1,6	1,8	0,4	0,3	0,8	0,8	0,4	0,7	0,1	5,8
DK	−7,5	−4,4	−0,6	−3,2	0,8	0,3	0	1,1	2,4	1,9	0,5	1,1	0,4	0,7	0,4	−0,1	0,2	6,3
D	−5,6	5,0	4,0	−1,3	−0,2	−0,7	1,0	2,1	2,9	3,5	0,3	1,5	1,4	1,1	0,7	0	0,3	10,3
GR	−10,2	−8,0	−18,0	−14,0	−12,5	−1,5	−4,9	−4,0	−17,2	−2,9	−6,0	0	−0,7	0	−0,6	−0,7	0,1	−23,7
E	−9,6	−6,0	−17,2	−2,2	−0,6	0,3	−0,9	−1,8	−2,2	1,3	−0,3	0,5	0,5	0,5	0,7	−0,7	0	−2,8
F	−8,8	−8,3	−7,2	−4,6	0,5	−0,4	1,3	2,3	2,9	2,8	0,4	1,1	1,0	1,1	0,4	−3,4	−0,3	5,0
IRL	−8,7	−1,1	−4,1	−4,0	0,6	0,1	−0,2	1,1	2,6	3,0	0,4	1,3	0,8	1,4	0,6	−0,1	0,5	8,4
I	−12,4	−6,9	−3,8	−5,4	−6,2	−1,1	−1,9	−2,3	0,8	2,9	0,3	0,4	1,4	1,3	0,7	−0,8	0,1	1,6
NL	−4,3	5,1	2,1	−1,4	−0,2	−0,8	0,7	1,9	2,3	2,8	0,4	1,3	1,1	0,8	0,6	0,1	0,4	8,6
P	−3,8	−12,9	−21,1	−17,1	−10,9	−2,9	−2,6	−2,9	−2,7	−0,5	−0,5	−0,5	0,1	−0,1	0,1	−0,7	−0,8	−7,2
UK	0,2	−4,4	−6,9	−4,6	0,2	−3,6	9,1	3,6	−2,7	−6,1	−0,3	−1,3	−3,1	−3,3	0,3	2,4	0	−3,6
ECU	−14,7	−5,8	−5,8	−8,0	−2,2	−2,7	4,4	4,1	2,9	3,4	0,3	1,7	1,1	0,8	1,2	−1,0	0	11,5
USA	12,8	12,0	5,7	8,0	4,9	6,2	−3,4	−5,7	−6,8	−5,9	−1,7	−1,3	−1,3	−3,7	−2,3	−0,5	−1,7	−21,9
JAP	13,6	−5,0	10,8	6,2	1,4	−0,6	0,4	1,1	11,0	6,7	4,6	−0,4	0,4	6,5	1,9	2,1	4,0	31,4

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

(a) National sources, except for the Community, Denmark, Ireland, Belgium and Luxembourg. Because of differences in methods of seasonal adjustment, the change in the EUR index, adjusted by Eurostat and given in Table 1 may differ from the change in the EUR index obtained by aggregating national indices. Data are adjusted for working days. They do not include building; data for France do not include food products and drinks.
(b) % change over 12 months on the basis of the non-adjusted nominal series of the most recent figure given.
(c) Change on corresponding month in previous year; seasonally adjusted
(d) Change over 12 months in seasonally adjusted figures of the most recent figure given for each country.
(e) Difference in relation to the same month of the previous year.
(f) Changes in the coverage of these series occurred in 1984 for the Netherlands and in 1985 for Belgium.
(g) As % of total labour force.
(h) Monthly series calculated by linear interpolation.
(j) The seasonally adjusted position for the Community does not correspond to the sum of other Member States; it is obtained by seasonal adjustment of the sum of gross figures for the various countries' exports and imports.
(k) National sources for Belgium, Denmark, Germany, Spain, France, Portugal and the United Kingdom; seasonal adjustment by Eurostat for Greece, Ireland, Italy and the Netherlands.
(l) Average of monthly changes, seasonally adjusted, weightened by GDP at 1980 prices and purchasing power parities. The monthly change in Belgium is obtained by linear interpolation of quarterly data.
(m) National sources; three-month interbank rate except: Belgium: yield on issue of four-month *Fonds des Rentes* certificates; Denmark: daily money market rate (monthly average). Portugal, 6 month deposits; from 8/85, 3 month Treasury Bills. Annual average, end quarter and end month.
(n) Average weighted by GDP at 1980 prices and purchasing power parities.
(o) Yield on public sector bonds. Annual average. Average for the last month of quarter and monthly average for Germany, Italy, Luxembourg and the Netherlands. End quarter and end month for the other Member States.
(p) Weighting coefficients are calculated so as to allow not only for bilateral trade but also for competition on third markets and on the domestic market of the exporting country.

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

Principal economic policy measures - May 1986

Community (EUR)

23.5 The Commission adopts a communication to the Council: Programme for the liberalization of capital movements in the Community (COM(86)292 final).

Belgium (B)

7.5 and 29.5 The central bank cuts the discount rate from 8.75 % to 8.0 % and the rate for advances from 9 to 8.25 %, both in two stages.

28.5 The National Assembly approves the Government's programme, presented on 23 May, for reducing the central government borrowing requirement to 8 % of GNP in 1987. The total amount to be saved is BFR 195 000 million, or some 4 % of GDP, to come primarily from spending cuts. At the same time, the Government decides on some back-up measures:
- 1 August has been chosen as the date on which the VAT chargeable on housebuilding is to revert to the standard rate, but repair work will still be eligible for the lower rate of 6 %; the amount of mortgage interest deductible against personal income tax has also been increased;
- the basic rate of corporation tax is to be cut from 45 % to 43 % from 1988;
- a reserve of BFR 5 000 million is to be set aside to mitigate the restrictive effects of the economy measures on employment in the short term.

Denmark (DK)

13.5 Local governments agree with the central authorities to accept fixed ceilings on local expenditure in 1987 and 1988. If ceilings are exceeded, the central government may retaliate according to the agreement.

30.5 The land tax payable to local government will be fixed between 0.6 % and 2.4 % of land value. The introduction of a minimum rate will compel several local councils to raise taxation.

Federal Republic of Germany (D)

13.5 The Government decides on subsidies to farmers following the EC agreement on agricultural prices. The supplementary subsidies will amount to DM 660 million. The law will become effective retrospectively from the beginning of the year.

21.5 The Government decides on further subsidies to farmers in order to alleviate the financial losses from the effects of the nuclear power plant accident in the USSR. The initial emergency aid will amount to DM 200 million.

Greece (GR)

12.5 By decision of the Governor of the Bank of Greece, the commercial banks join the National Bank for Real Estate in being allowed to make loans for the purchase and construction of property to persons who have imported foreign currency for this purpose.

12. The commercial banks are authorized to buy and sell foreign bills and banknotes for an amount equivalent to USD 25 000 per operation and at an exchange rate diverging by up to 4 % (instead of the previous 3 %) from the Bank of Greece mean rate (fixing).

Spain (E)

30.5 With effect from 1 June, a lower interest rate is payable on banks' deposits with the central bank under the cash ratio arrangements.

France (F)

14.5 The Government adopts a two-stage procedure under which the official authorization of dismissals will be phased out by 1 February 1987. Measures immediately applicable:
- the authorities will no longer verify whether the economic difficulties alleged by the employer are genuine. The effect of this measure is that prior authorization will no longer be required for dismissals of fewer than ten workers, although provisionally and until 31 December, the formality of a prior interview between the employer and the worker will be retained.
- Ending of the procedure under which prior official authorization is required for the hiring and dismissal of workers within twelve months of a dismissal because of economic difficulties, as had been envisaged by employers and unions in the protocol of 16 December 1984 on the adaptation of employment conditions. The only cases in which authorization will still be required, on a basis to be agreed, are those where recruitment follows manpower reductions financed by the National Employment Fund.

Measures applicable on 1 January 1987: the legislation which requires the official authorization of dismissals because of economic difficulties will be scrapped. The Government would like the employers' organizations and the trade unions to negotiate new procedures, on the basis of which it will table a second draft law in the autumn. Taking account of the outcome of the negotiations, the draft law will lay down the procedures for ensuring compliance with the rules for informing and consulting with staff representatives and for the preparation by the employer of regrading and compensation measures.

14.5 The Minister for Economic Affairs, Finance and Privatization announces a further set of measures easing exchange controls. They include:
- restoration of the free movement of capital: residents are now free to purchase foreign securities (ending of the investment currency arrangements), and second homes abroad, to transfer assets outside France when moving abroad, and to make gifts to non-residents;
- the forward cover of exchange risks is increased from three to six months and extended to cover imports of services and to the service of foreign currency debts;
- commodity dealers are now free to purchase foreign exchange forward and to operate on foreign commodity markets.

14.5 With effect from 15 May, substantial cuts are made in all regulated interest rates: the rates for one-year Treasury bills, savings books, blue saving books, and industrial development accounts (CODEVI) come down from 6 % to 4.5 %, while regulated debtor rates (housing loans, and subsidized loans to industry and local authorities) are cut by an average of between 0.5 % and 1 %.

14.5 A package of measures liberalizing the financial markets are adopted: the maximum life of commercial paper is increased to two years, the calendar procedure for industrial enterprises and local authorities is brought to an end, the interest rate on bills and time deposits of over three months may be set freely and the system of quantitative credit control is to be discarded on 1 January 1987.

20.5 With effect from 1 January 1987, all quantitative controls on lending will be scrapped. The system of credit ceilings and compulsory reserves will disappear. Money supply growth will henceforth be controlled by interest rate variations. The money supply growth target remains set at 5 % for 1986 and the inflation target at 2.4 % by the end of 1986. Money supply is now increasing at an annual rate of 5.2 % compared with 7 % at the beginning of the year.

Ireland (IRL)

None.

Italy (I)

8.5 Confindustria and the trade union organizations sign an agreement concerning the rounding of sliding scale wage increases to the nearest decimal point and the resultant entitlement to back-pay. The agreement will be applied for the first time at the end of May when, on the occasion of the six-monthly application of the indexation mechanism, LIT 6 800 will be added in respect of the decimal points. The arrears of LIT 100 000 will be paid in two equal instalments in May and September. Apart from the back-pay due in respect of the decimal points, the agreement includes a set of measures to help young people enter working life, and to promote new working practices. The principle of a 'recruitment wage' was decided for youth training contracts, under which companies will save 30 %, as a result of additional reductions in social security contributions. If the young worker is not offered a job at the end of the training period, the company will be able to dismiss him by paying compensation equivalent to two months' wages.

27.5 Acting on a proposal by the Governor of the Bank of Italy, the Minister for the Treasury decides to cut the discount rate from 13 % to 12 %.

Luxembourg (L)

3.5 The Governemt decides to submit to the National Assembly a draft law providing for an additional wage increase of 1.5 % (the 'special indexation instalment') to be paid in two stages: 1 % in July 1986 and 0.5 % in January 1987.

Netherlands (NL)

21.5 The total stock of bank advances and discount credits from the Nederlandsche Bank is set at HFL 6 100 million for the period 22 May to 21 August. The normal 5 % interest rate on advances will be charged on the first HFL 3 800 million and an additional 1 % interest will be payable on the remainder.

Portugal (P)

1.5 The price of petroleum products falls by an average of 6.5 %.

1.5 The issuing institution authorizes banks established in Portugal to effect foreign exchange operations on sight with banks established abroad and to transfer their available foreign exchange from one to another.

13.5 Abolition of the 'Supply Fund', which was established in 1947 to subsidize food prices from public sector revenue obtained by imports of petroleum products.

27.5 A Minister of Finance decree implements the central government budget for 1986, which was adopted on 30 April.

United Kingdom (UK)

None.

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