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EUROPEAN CENTRE FOR
PARLIAMENTARY RESEARCH
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RESEARCH AND DOCUMENTATION PAPERS

**Macroeconomic Research
in European
Parliamentary Assemblies**

An Experiment in Cooperation

«National Parliaments» Series No.

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**THE EUROPEAN CENTRE FOR
PARLIAMENTARY RESEARCH AND DOCUMENTATION (ECPRD)**

Created in 1977, the ECPRD is an organ of the Conference of Presidents of European Parliamentary Assemblies. Its two co-directors, *Mr Klaus PÖHLE* and *Mr Georges CHARITONS* are members respectively of the secretariats of the European Parliament and the Council of Europe. In each of the thirty-five member assemblies a senior official has the function of "Correspondent" of the ECPRD.

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European Centre for Parliamentary Research and Documentation
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INTRODUCTION

COOPERATION ON MACROECONOMIC RESEARCH IN EUROPEAN PARLIAMENTARY ASSEMBLIES

A. The Working Group on Macroeconomic Research

Origins of the Group

The European Centre for Parliamentary Research and Documentation has a number of working groups which meet regularly to discuss items of common interest to European Parliamentary Assemblies. Discussion of the topic of macroeconomic research began in the Informatics Working Group which was asked to consider a request made by President Mermaz of the French Assemblée Nationale during the Conference of Presidents of Parliamentary Assemblies of the Member States of the European Community and the European Parliament in Rome in November 1983.

His speech made two direct references to the subject as follows:

"... the economic models which we often use to test certain budgetary decisions are partly supplied by research carried out at the other side of the Atlantic. This means that decisions affecting our own sovereignty may be based on assumptions over which we have no influence and on a logic which is different from our own. Even though an external viewpoint may be very useful in these circumstances it would be extremely dangerous to accept this foreign viewpoint as an incontrovertible fact. The construction of such models is necessarily based on a number of political and economic hypotheses which, by their very nature, cannot be neutral.

"... it could be interesting for the Parliaments of the European Community to coordinate their efforts so as to construct a common European economic model so as to enable forecasts to be made and alternative actions to be considered in the principal areas of Community activity ..."

In November 1984 the Bureau of the Informatics Working Group appointed a rapporteur to examine the feasibility of the cooperation of Parliamentary Assemblies in this field. This report led to the creation of a small

sub-group which in turn presented an interim report to the Working Group in October 1986. The final conclusion of the sub-group, presented in November 1987, was that cooperation in the field of macroeconomic research between national parliaments was both desirable and possible.

Although parliamentary research services rarely possess the specialized skills necessary to construct their own models, it was felt that cooperation on exchanging information on the economies of Western Europe would encourage national parliaments to look beyond their own borders. In addition, due to the level of specialist knowledge required in this field, it was further recommended that a new working group of the Centre be set up, which would preferably be composed of economists from those Assemblies who wish to participate.

The Aims of the New Working Group

The Working Group on Macroeconomic Research held its inaugural meeting at the Sénat in Paris in September 1988. It had been decided at an early stage in the deliberations of the sub-group that it was not feasible at this time for Parliamentary Assemblies to attempt to construct their own economic models; it recommended that it would be more fruitful to make full use of existing models and forecasts which could be presented in such a way as to provide an insight into the subject for parliamentarians, which had previously not been available.

The first meeting of the Group, at which twelve Parliamentary Assemblies were represented,¹ decided to endorse this pragmatic approach. In consequence, it was decided that the first attempt at cooperation should be in the form of an exchange of existing information. Each of the seven countries represented at the meeting was asked to collate the results of economic forecasts made in their own country by the government and private research institutes. This data would then be presented in the form of a standardized table which would present the major economic aggregates of interest to Members of Parliament. Countries would submit this table, accompanied by a short commentary, by the end of October 1988 and the results would be translated into the five

¹ European Parliament, Council of Europe, France - Assemblée Nationale and Sénat, Germany - Bundestag, Belgium - Sénat, Spain - Congreso de los Diputados and Senado, Italy - Camera dei Deputati and Senato, United Kingdom - House of Commons, and Switzerland - Assemblée Fédérale

languages of the participating Assemblies. Each Assembly would then be in possession of a complete document showing the forecasts for the seven participating countries in a standardized form which, it was hoped, would be easy to assimilate.

B. Summary of Results

The Present Document

This document is the first in what is hoped to be a regular series summarizing the results of the exercise described above. A similar document is being published in each of the participating Assemblies, in a form appropriate to the structure of that Assembly. This edition of the results is intended principally for the Members of the European Parliament and the Council of Europe, but will also be made available to other interested parties. The results for each country are presented exactly as submitted by the participating Assembly or Assemblies for that country; no post-editing has been carried out on these studies.

Each country was asked to provide a table of results following the agreed uniform structure and to provide a short commentary on these results. Due to the differences of availability of information in the countries, it was not always possible for parliaments to provide all of the data requested in the outline table.

For each country, the table is divided into two sections.

Section I summarizes the basic assumptions on which forecasts have been based. These include the likely performance of the country's trading partners, the projected exchange rate, and the price of oil.

Section II of the table presents the forecasts of the main macroeconomic aggregates for the country for 1988 and 1989. So as not to be totally dependent on the viewpoint of the Government, the sources of the forecasts are, in addition to the Government, up to three research institutes in the country. The forecasts are presented in a form which makes it easy to compare the results for each economic aggregate.

It is believed that this is the first time that such a comprehensive variety of forecasts have been brought together in an easily readable form and in a single document. It is, of course, realised that the document is incomplete in many respects. It is hoped, however, that the limited amount of information presented will be useful to readers in comparing, firstly, the diversity of forecasts within a single country and, perhaps more importantly, to provide them with an insight into the possible economic performance of important trading partners.

Future Work

The next meeting of the Working Group on Macroeconomic Research is scheduled for May 1989 at the Assemblée Nationale in Paris. At this meeting, the results of the first exchange of information will be analysed and the future work programme will be defined. It is hoped that the publication of this document will encourage other Assemblies to participate in the future work of the Group.

Any suggestions or criticisms concerning the work of the Group or this publication would be most welcome. They should be addressed to the Vice-Chairman of the Working Group, Mr John Wittenberg, at the following address:

Office 6/48
Schuman Building
European Parliament
L-2929 Luxembourg

(Tel: 4300-2447; Fax: 43 40 71)

SUMMARY TABLES

The first table presents the range of forecasts for GNP growth and inflation rates as given in the country tables which follow.

The second table presents the latest forecasts of the services of the Commission of the European Community.

RANGE OF NATIONAL FORECASTS
(Percentage Changes)

	GNP		Consumer Prices	
	1988	1989	1988	1989
Germany	3.2	2.0	1.5	2.5
Belgium	1.6/2.7	1.8/2.5	1.2/1.5	1.5/2.5
Spain	4.2/5.1	4.0/4.3	4.2/4.7	2.8/4.8
France	3.2/3.8	2.4/3.1	2.6/2.7	2.4/2.9
Italy	3.1/3.6	2.9/3.1	4.8/5.1	4.0/5.6
UK	3.4/4.6	2.4/3.4	3.6/4.7	2.8/5.4
Switzerland	2.6/3.1	2.2/2.7	2.0/2.1	2.8/3.6

FORECAST OF THE SERVICES OF THE COMMISSION¹
(Percentage Changes)

	GNP		Consumer Prices		Employment	
	1988	1989	1988	1989	1988	1989
Germany	3.2	2.5	1.3	2.5	0.5	0.8
Belgium	2.9	2.2	1.3	2.4	1.2	0.7
Spain	4.7	3.9	4.7	4.3	2.6	2.1
France	3.1	2.8	2.7	2.7	0.6	0.5
Italy	3.9	3.2	4.9	4.6	0.5	0.6
UK	3.8	2.6	4.4	4.7	1.9	1.0
EC	3.5	2.8	3.5	3.7	1.1	0.9
United States	3.9	2.3	4.3	5.0	2.3	1.6
Japan	5.6	3.8	1.1	2.0	1.0	0.8

1 Source: European Economy Supplement A 8/9 of 4 October 1988

GERMANY

Short-term economic forecasts in the Federal Republic of Germany

At present, there are approximately 70-80 econometric models in use in the Federal Republic of Germany. Some 30 of these can be described as cyclical models (covering periods of six months or less).

THE ECONOMIC RESEARCH INSTITUTES' JOINT ANALYSIS

compiled by the German Institute for Economic Research (DIW); the HWWA Institute for Economic Research, Hamburg; the Info-Institute for Economic Research, Munich; the Institute for World Economy, Kiel; and the Institute for Economic Research of Rhineland-Westphalia (RWI).

The forecast is compiled twice a year (spring and autumn), and covers the following 4-6 quarters. It concentrates on quantifying any acceleration or downturn in business trends and setting dates for any turning-points. It is compiled on the same lines as the national accounts (VGR).

A dual approach is adopted in producing the forecast: in addition to an analytical method, a common econometric cyclical model is used.

(a) Analytical method

Exogenous and endogenous determinants for the current position are diagnosed and their continued applicability is debated. The five institutes then agree on a joint blueprint for a forecast: experts discuss hypotheses and tentative estimates; the computed findings of the regression procedure are checked for plausibility (intuitive method).

(b) Joint econometric cyclical model

Consists of approximately 40 estimate equations and 80 defining correlations. The quarterly data of the VGR provide the statistical basis; the reference period covers the past ten years.

In the event of major discrepancies between (a) and (b) the experts explore the reasons together.

The institutes' autumn forecast marked a definite upward revision of their expectations for 1989 as announced in the spring. They take the view that the upturn in the economy has developed considerable momentum and that it will be sustained in 1989 despite a number of restraining influences. The Federal Government and a number of associations are said to consider the autumn report too pessimistic.

GERMANY

COMPARATIVE TABLE OF SHORT-TERM FORECASTS

	Government ¹		Institutes ²	
	1988	1989	1988	1989
I. MAIN HYPOTHESES ON THE INTERNATIONAL ENVIRONMENT				
RATE OF GROWTH IN PRINCIPAL PARTNER COUNTRIES:				
- Federal Republic of Germany			3.5	2
- France			3	2.5
- Italy			3.5	3
- United Kingdom			4	2.5
- Spain			4.5	3.5
- Netherlands			2.5	2
- Switzerland			2.5	2
- Sweden			2.5	2
- Belgium			2.5	2
- Austria			3.5	2.5
- Denmark			0	1
- Finland			4	2.5
- Norway			0	1
- Western Europe			3.3	2.4
- USA			4	2.5
- Japan			5.5	4
- Canada			4.5	3
TOTAL			4.0	2.8
DOLLAR EXCHANGE RATE				
OIL PRICE (\$/barrel)				
II. MAIN FORECAST RESULTS				
PERCENTAGE ANNUAL CHANGE IN:				
- GDP (volume)	1.5-2		3.5	2.0
- Imports (volume)	4-5		6.5	4.0
- Consumption of households (volume)	1		3.0	2.0
- Firms' investments (volume)	1-2		5.5	3.5
- Exports (volume)	1.5-2.5		5.0	4.0
- Stocks (as % of GDP)	0.8-1.2		0.9	0.7
- Per capita productivity			2.5	2.5
- Number of salaried employees	0.5		0.5	0.5
- Consumer prices (annual average)	1		1.5	2.5
- GDP prices	1.5		1.5	2
- Purchasing power of households' disposable income	3.5-4.5		4	3.5
UNEMPLOYMENT				
(annual average in thousands)			2 250	2 300
(in %)	8-9		9.0	9.1
PUBLIC BORROWING REQUIREMENT				
(as % of total GDP)				
BALANCE OF PAYMENTS ON CURRENT ACCOUNT:				
- in bn ECU			42.5	45
- as % of GDP				

¹ The Federal German Government's forecast is not published until January (Annual Economic Report 1989)

² Joint report by the five economic research institutes

BELGIUM

SUMMARY ANALYSIS OF THE MOST RECENT FORECASTS: IRES (INSTITUTE FOR ECONOMIC AND SOCIAL RESEARCH)

Viewed in the context of the prevailing European economic climate, available information concerning the 'structural' strengths and weaknesses of Belgium's external trade indicates that a surge in the exports of goods and services (+5% by volume and +3.8% respectively in 1988) may be expected, despite the absence of statistics for 1988 to support this analysis. As in other countries, market shares, compared with the average of the industrialized countries, are undeniably coming under pressure as a result of competition from American exporters. However, on the strength of available information and analyses, Belgium's performance, in 1988 at least, would appear to be somewhat better than that of European exporters in general. Furthermore, imports are continuing to follow a distinctly upward trend, reflecting vigorous investment activity and strong demand for durables. This, combined with the (slight) deterioration in the terms of trade, is eating into the large current account surplus accumulated in 1987, which is expected to sink from Bfrs 155 billion to Bfrs 105 billion in 1989.

Indicators suggest that the volume of private consumption, sustained by the demand for durable and automobiles, should rise by 2.5% in 1988 and possibly again in 1989. This increase in expenditure by households is the result of greater purchasing power, which has occurred for a number of reasons. Real disposable income, having been boosted by a low rate of inflation in 1988, will be chiefly sustained by a slightly greater increase in non-index-linked hourly wage rates in 1989 and, in particular, by a net reduction in personal income tax. In addition, consumers are making use of credit facilities for more costly purchases.

The favourable propensities of households, their renewed confidence and increased disposable income may also be explained by the distinct improvement on the labour market. Between 1987 and 1989 the level of under-employment is expected to drop by 40 000, while domestic employment should increase over the same period by 70 000 jobs.

All available indicators point to a surge in productive private investment (+12% in 1988), particularly in the chemical and metalworking sectors. In 1989 the growth in investment by firms is expected to level off distinctly. This should, however, be regarded as only a temporary lull. Households are also showing a propensity to invest. Investment in housing should continue to expand for the third consecutive year. While this upswing falls short of the investment levels of the late seventies, it is far from negligible since growth of 12.5% over a three-year period is anticipated.

Interest rates are expected to keep pace with international trends and to remain at their present high levels until mid-1989 at least, possibly peaking briefly to further highs. This trend and short-term rates, which should remain more or less stable, averaging 6.8% in 1988 and 1989, do not as yet appear to indicate any danger of public debt servicing getting seriously out of hand. Therefore the draft budget for 1989 should prove to be credible, especially since it will continue to be underpinned by an economic situation favourable to revenue. The 'official' borrowing requirement is therefore expected to amount to Bfrs 420 million (or 7.3% of GNP).

BELGIUM

COMPARATIVE TABLE OF SHORT-TERM FORECASTS

I. MAIN HYPOTHESES ON THE INTERNATIONAL ENVIRONMENT

	Ministry of Economic Affairs (June 1988)		Planning Office (June 1988)		IREB (Sept 1988)		Dulbea* (October 1988)	
	1988	1989	1988	1989	1988	1989	1988	1989
RATE OF GROWTH IN PRINCIPAL PARTNER COUNTRIES:	6.2	6.5	5.8	5.1	7.7	5.2		
DOLLAR EXCHANGE RATE	34.8	34.8	36.3	35.4				
OIL PRICE (annual rate of increase)	-12.0		-10.8	3.3	-7.0	1.0		

II. MAIN FORECAST RESULTS

	Ministry of Economic Affairs (June 1988)		Planning Office (June 1988)		IREB (Sept 1988)		Dulbea (October 1988)	
	1988	1989	1988	1989	1988	1989	1988	1989
PERCENTAGE ANNUAL CHANGE IN:								
- Commercial GDP (volume)	1.6	2.0	2.4	2.5	2.6	1.8	2.7	2.5
- Imports (volume)	5.1	4.7	4.9	4.9	6.0	4.3	5.5	4.5
- Consumption of households (volume)	1.9	1.9	2.4	2.4	2.6	2.3	2.5	2.5
- Firms' investments (volume)	4.7	5.0	4.2	4.6	12.0	4.0	6.5	5.2
- Exports (volume)	4.5	4.4	4.8	4.8	5.0	3.8	5.0	4.0
- Stocks (as % of GDP)								
- Per capita productivity	3.3	3.5	3.1	3.8				
- Number of salaried employees	3 184.3	3 188	3 105	3 119				
- Consumer prices (annual average)	1.3	1.5	1.4	1.7	1.2	2.0	1.5	2.5
- Purchasing power of households' disposable income	3.1	3.4	3.8	4.2	2.3	2.3		
UNEMPLOYMENT (in thousands as at 30 June)	514.7	506.3	498.7	480.5	(a) 388	(a) 357		
PUBLIC BORROWING REQUIREMENT (as % of total GDP)	-6.9	-6.8	-7.4	-6.9	-7.9	-7.3		
EXTERNAL BALANCE (as % of GDP):								
- Balance of trade in goods and services	1.7	1.6	3.3	3.3				
- Balance of payments on current account or net lending of the nation	1.9	1.9	2.2	2.2	(b) 115	(b) 105		

(a) those wholly unemployed and receiving benefits

(b) in billions

* Department of Applied Economics at Brussels Free University

SPAIN

We present a comparative summary of the short-term forecasts for the Spanish economy, which should be read in the light of the information which follows. The table summarizing the data consists of the forecasts supplied by, in order, the Government (specifically, the Directorate-General for Forecasting and Current Economic Analysis of the Ministry of Economy and Finance) and three private economic research institutes: the Centre for Economic Forecasting (CEPREDE), the Research Division of the Banco Bilbao Vizcaya (BBV) and the Institute for Economic Research (IEE), which are designated respectively as Institutes A, B and C in the table.

I. Main hypotheses with respect to trends in the international environment

There is fairly general agreement regarding the estimated growth rates of the US, West German and Japanese economies; the final figures for the current year are expected to be about 3% for the US and the FRG and over 5% for Japan. For the coming year, the forecasts all point to a certain downturn in economic activity in the three countries.

With regard to the evolution of the peseta in relation to the dollar in 1988, all the signs are that the Spanish currency will continue the tendency to appreciation which it has shown since mid-1985 (despite sporadic interruptions over a period of several months this year). However, the forecasts suggest that in 1989 a turning point will occur, although there is no consensus as regards the maximum level likely to be reached by the peseta.

There is a greater degree of agreement with regard to the possible evolution of the price of oil which appears unlikely to change significantly: estimates suggest a figure of \$15-16 per barrel.

II. Main forecast results

Both the Government and the three private economic research institutes agree that by the end of the current year the Spanish economy will have registered levels of activity very similar to those of last year, and that the rate of

activity in 1989 is unlikely to be much lower than at present. GDP is therefore expected to grow at around 4% next year.

This economic boom has been reflected in job creation, and, therefore, in the reduction of the unemployment rate to below 20% of the working population. This trend is expected to continue next year, when, according to the official forecasts, this indicator will stand at around 19%.

Inflation, as measured by the yearly average of the official consumer price index, is forecast by the Government and the three private institutes to reach about 5%, with a similar rate for 1989; the official forecast is, however, more optimistic, suggesting a rate of 3.8% (see graph).

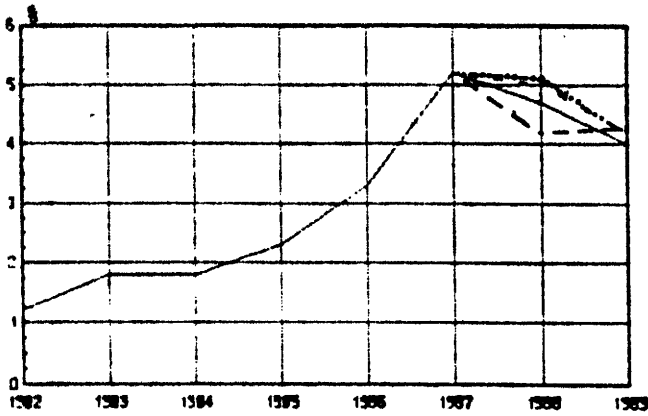
The public sector borrowing requirement is likely to be around 3 to 3.5% of GDP, which implies continuation of the last few years' trend towards reduction of the budget deficit.

As regards the external sector of the Spanish economy, a reduced rate of growth of imports of goods and services is forecast, with export growth stabilizing at the current level (about 6%). However, all the forecasts agree that the current account external balance will continue to deteriorate. Thus, it is estimated that the current account deficit will be 1% of GDP in 1988 and 2% in 1989; it is the official forecasts, moreover, which are the most pessimistic.

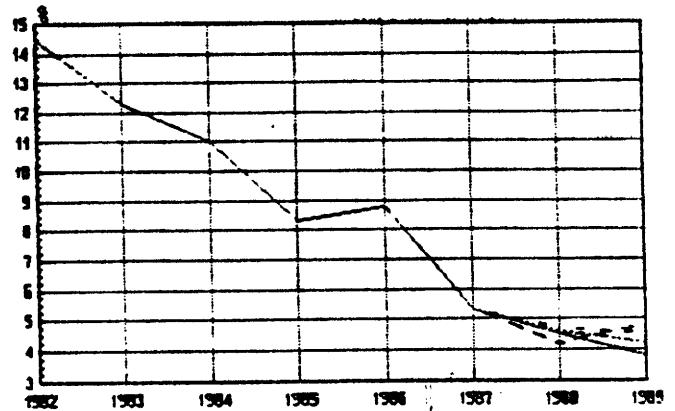
All the analysts agree that in 1989 the Spanish economy will continue on the expansionist path which it has followed for the last three years. It is expected that total output will rise, albeit at a slower rate due to a slackening in the growth of internal demand (private consumption and gross capital formation will grow more slowly than at present) and that the contribution of the external sector will be less unfavourable, allowing a more solid basis to be laid for the continuation of the present level of growth in the middle term.

GROWTH, INFLATION, EXTERNAL SECTOR AND UNEMPLOYMENT, TRENDS 1982-1987
AND FORECASTS FOR 1988 AND 1989 (*)

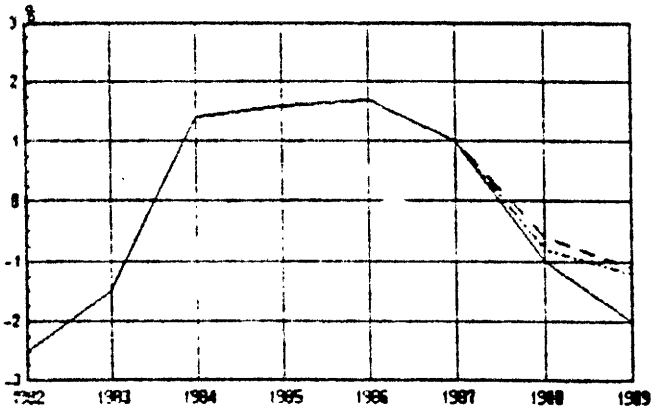
GDP AT MARKET PRICES
(real growth rate)



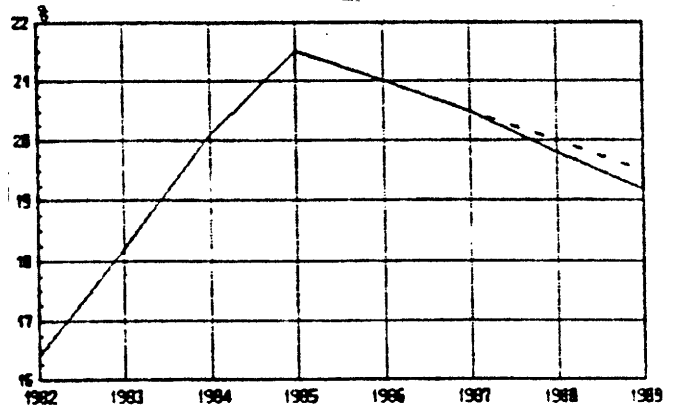
INFLATION RATE



BALANCE ON CURRENT ACCOUNT
as % of GDP



UNEMPLOYMENT RATE



----- 1982-1987 Historic series

Forecasts:

- GOVERNMENT
- - - - - CEPREDE
- . - . - BBV
- IEE

Sources: The historic series for 1982-1987 is supplied by the Directorate-General for Forecasting and Current Economic Analysis of the Ministry of Economy and Finance. The forecasts for 1988 and 1989 are taken from the comparative table of short-term forecasts.

(*) It is not possible to provide quarterly forecasts, since national accounts are not prepared on a quarterly basis in Spain.

SPAIN

COMPARATIVE TABLE OF SHORT-TERM FORECASTS

I. MAIN HYPOTHESES ON THE INTERNATIONAL ENVIRONMENT

	Government September 1988		CEF (May-Jul '88)		BBV (Sept 1988)		IER (Oct 1988)	
	1988	1989	1988	1989	1988	1989	1988	1989
RATE OF GROWTH IN PRINCIPAL PARTNER COUNTRIES:								
- United States	3.5	2.7	3.9	2.2	4.0	2.5	4.0	2.5
- Germany (Federal Republic)	3.0	2.0	2.1	1.4			3.0	2.0
- Japan	5.8	4.2	5.0	3.9				
DOLLAR EXCHANGE RATE ¹	118.5	125.0			116.5	120.0	120	120
OIL PRICE (\$/barrel)	15.2	15.0	15.6	15.6	16	16	15	15

II. MAIN FORECAST RESULTS

	Government		CEF (May-Jul '88)		BBV (Sept 1988)		IER (Oct 1988)	
	1988	1989	1988	1989	1988	1989	1988	1989
PERCENTAGE ANNUAL CHANGE IN:								
- GDP (volume) ²	4.7	4.0	4.2	4.3	5.1	4.2	5.0	4.2
- Imports (volume)	14.4	9.7	16.6	8.3	14.5	12.0	14.0	10.0
- Consumption of households (volume)	4.5	3.6	4.6	3.7	4.8	4.2	4.7	3.8
- Firms' investments (volume) ³	13.8	9.8	14.4	8.3	12.6	10.0	15.0	10.5
- Exports (volume)	6.2	5.4	6.1	5.9	6.5	6.0	6.0	6.0
- Stocks (as % of GDP)	0.0	0.0			0.7	0.8		
- Per capita productivity	1.8	1.6	0.77	0.9	2.1	1.9	1.6	1.6
- Number of salaried employees ⁴	4.0	3.2	3.4	3.4	2.6	4.8		
- Consumer prices (annual average)	4.5	3.8	4.2	4.8	4.6	4.2	4.7	4.5
- GDP prices (annual average)	5.1	4.0			5.2	4.5	5.1	4.2
- Purchasing power of households' disposable income	4.8	3.9	4.4	3.3				
UNEMPLOYMENT (annual average in thousands)	2 908.0	2 862.0	2 907	2 880	2 900	2 850	2 900	2 840
PUBLIC BORROWING REQUIREMENT (as % of total GDP)	3.2	3.0			3.5	3.3	3.3	3.0
BALANCE OF PAYMENTS ON CURRENT ACCOUNT:								
in bn ECU	-2.84	-6.04	-1.8	-3.37	-2.2	-2.8		
- as % of GDP	-1.0	-2.0	-0.65	-1.14	-0.8	-1.2	-1.0	-2.0

Source: Directorate General for Forecasting and Current Economic Analysis, CEPREVE, BBV and IEE

1 Expected average peseta/dollar exchange rate

2 Total GDP, estimated at market prices in real terms

3 Not private investment alone, but total investment both public and private, i.e. gross fixed capital information

4 The figures of CEF refer to total employment (not specifically paid employment)

FRANCE

The four forecasts given here assume there will be no major exchange rate or oil price movements and anticipate a slowdown in the growth of our main trading partners in 1989. Depending on when the expected adjustment in the USA starts, the American growth rate is expected to be between 2.1% and 2.8% in 1989 (cf. 4% in 1988). Similarly, forecasts for German growth rates in 1989 vary from 1.9% to 2.4% (compared with 3% in 1988).

As is to be expected, the forecast which anticipates the best foreign growth rate (IPECODE) also gives the most optimistic prediction for growth in France : 3.1% in 1989 (cf. around 3.5% in 1988); the other three forecasts expect our economy to grow in 1989 by between 2.4% and 2.7%. The slowdown from one year to the next thus varies depending on the source of the forecast : according to the OFCE, it will be 1.1 points.

As in 1988, the number of jobs created is expected to exceed that of jobs lost (+ 0.8% according to the Government, + 0.5% according to the institutes).

All four forecasts indicate a lower visible increase in productivity for 1989 than for 1988 this is due to the 'employment lag' which is usually experienced in the initial stage of a recovery (some of the new jobs expected to be created in 1989 are thus a consequence of the 1988 recovery).

While the Government is counting on a slowdown in inflation in 1989, the three institutes anticipate a figure the same as or slightly higher (as a yearly average) than in 1988. However, all forecasts expect the increase in consumer prices in 1989 to remain below 3%.

IPECODE : Institut de prévisions économiques pour le développement des entreprises.

OFCE : Observatoire français des conjonctures économiques.

BIPE : Bureau d'informations et de prévisions économiques.

According to all the projections, the slowdown in economic growth is not connected to trends in household consumption, the rate of increase in which could even be slightly higher, as a yearly average, than in 1988. However, a decline is expected in company investment (with a growth rate of between 4.6% and 6.7% in 1989, compared with around 8% in 1988), as well as in exports.

Above all, three forecasts out of four anticipate a movement of stocks which alone will lead to a lower growth rate - as much as 0.9 points in the OFCE forecast.

The public borrowing requirement (estimated by the three institutions at approximately 2% of GDP) will fall slightly according to two of the four forecasts, while changing hardly at all according to the other two.

Lastly, the external deficit should be reduced in 1989, according to both the OFCE and the Government. The other two forecasts expect it to remain the same as in 1988.

FRANCE

COMPARATIVE TABLE OF SHORT-TERM FORECASTS

I. MAIN HYPOTHESES ON THE INTERNATIONAL ENVIRONMENT

	Government (21.9.88)		IPECODE (14.10.88)		OFCE (19.10.88)		BIPE (9.11.88)	
	1988	1989	1988	1989	1988	1989	1988	1989
RATE OF GROWTH IN PRINCIPAL PARTNER COUNTRIES:			4.2	3.0			3.3	2.4
- United States	4.1	2.4	4.0	2.8	4.0	2.1	4.1	2.7
- Germany	3.0	2.1	3.2	2.4	3.0	1.9	3.1	2.0
DOLLAR EXCHANGE RATE	5.96	6.20	6.04	6.29	6.02	6.23	5.99	6.06
OIL PRICE (\$/barrel)	15.5	17.0	15.3	14.5	15.4	15.6	14.7	14.8

II. MAIN FORECAST RESULTS

	Government (21.9.88)		IPECODE (14.10.88)		OFCE (19.10.88)		BIPE (9.11.88)	
	1988	1989	1988	1989	1988	1989	1988	1989
PERCENTAGE ANNUAL CHANGE IN:								
- GDP (volume)	3.2	2.7	3.8	3.1	3.5	2.4	3.4	2.5
- Imports (volume)	7.6	5.3	6.0	4.7	7.6	4.8	7.0	5.2
- Consumption of households (volume)	2.0	2.2	2.5	2.8	2.4	2.3	2.2	2.4
- Firms' investments (volume)	9.0	6.5	7.9	6.7	7.7	5.0	8.5	4.6
- Exports (volume)	6.7	5.1	8.4	6.3	7.5	4.7	6.5	4.3
- Stocks (as % of GDP)	0.4	0.0	0.0	-0.5	0.5	-0.4	0.2	0.1
- Per capita productivity	3.1	2.2	3.6	2.7	2.7	1.6	2.3	1.9
- Number of salaried employees	0.9	0.8	0.2	0.5	0.7	0.6	0.9	0.5
- Consumer prices (annual average)	2.6	2.4	2.7	2.7	2.7	2.9	2.7	2.9
- GDP prices (annual average)	2.8	2.5	2.3	2.8	2.5	3.0	2.8	3.0
- Purchasing power of households' disposable income	2.4	2.2	2.1	2.4	2.7	2.2	2.5	2.0
UNEMPLOYMENT (annual average in thousands)			2 575	2 649	2 571	2 625		
PUBLIC BORROWING REQUIREMENT (as % of total GDP)	1.6	1.6	2.1	1.9	2.1	2.2	2.1	1.8
EXTERNAL BALANCE:								
- in bn francs	-26	-15			-13	-5	-19	-20
- as % of GDP account or national financial capability	-0.5	-0.2			-0.2	-0.1	-0.3	-0.3

ITALY

1. The latest forecasts for 1988 show higher estimates of growth in GDP than those drawn up earlier. The improvement is mainly due to more favourable developments worldwide which have also made it possible to contain the balance of payments deficit. Overall, the Italian economy in 1988 is characterized by sustained dynamic growth of investments and exports. In the forecast submitted by the Government at the end of September, exports, with a growth rate of 5.8%, appear to be the most dynamic demand component. The rate of growth of gross fixed investments remained high in 1988 (+ 5.0%) whilst growth in consumption was more restrained (+ 4%) although the rate was higher than for GDP.

Whilst overall demand increased by 4.5%, GDP increased by 3.6% and imports by 8%. The increase in domestic supply was achieved by a 2.5% increase in productivity and a 1% increase in overall employment. The latter increase, given the growth of the working population, did not lead to a reduction in the rate of unemployment which rose from 12.0% in 1987 to 12.2% in 1988.

The volume of foreign trade and the stability of the terms of trade help to explain the modest increase in the current account deficit (from 0.1% of GDP in 1987 to 0.4% in 1988).

The growth in demand and the stability of international terms of trade, together with a 4.7% increase in labour costs per production unit, meant that the slowing-down of inflation was arrested (the implicit price of consumer goods increased by 4.8%, the same as in 1987). Nevertheless there was a further reduction in the inflation differential between Italy and the other major industrialized countries.

As far as public finances are concerned, the substantial growth in income (revenue from taxation is expected to increase by 14.5%, partly as a result of the measures introduced during the year) should bring about a reduction in the effect on GDP of the public sector borrowing requirement (from 10.5% in 1987 to 9.9% in 1988).

2. In 1989 the slower growth of Italy's main trading partners will, according to Government forecasts, lead to reduced export growth (from 5.8% to 4.5%). Investments will continue to grow (+ 4.6%), although slightly more slowly than in 1988. Although the level of propensity to consume will remain stable, the rate of increase in consumption will decrease from 4% in 1988 to 3% in 1989. Overall demand is expected to increase by 3.7% (compared with 4.5% in 1988), GDP by 3% and, therefore, the rate of growth of imports will remain high (6.4%). The slowdown in the growth of GDP will be accompanied by a decrease in the rate of increase of productivity, whilst overall unemployment will increase by 0.9%.

With regard to inflation, a reduction is expected in the rate of growth of the implicit price of GDP (from 5.0% to 4.3%) and in that of the consumption of private households (from 4.8% to 4%). The public sector borrowing requirement is expected to continue to decrease as a factor in GDP from 9.9% in 1988 to 9.5% in 1989.

The latter forecasts are the ones most dependent on the effective implementation of the measures proposed by the Government and now being considered by Parliament. This means that they are important objectives as far as fiscal policy and, more generally, economic policy are concerned.

The aim of reducing the PSBR will be pursued, on the revenue side, by increasing indirect taxation, partly intended to compensate for the substantial effects of the reduction in revenue resulting from the proposed changes to the structure of general income tax (IRPEF). On the expenditure side, efforts will be concentrated on containing the increases in civil service pay. This approach, combined with adherence to a strict system for regulating the growth of wages in the private sector (pay for employees in all sectors of the economy should not increase by more than 5.5%), should bring about a fall in the rate of inflation, despite increases in indirect taxation (especially VAT).

If these conditions are not met, there may, as the Government itself warns, be increases in the rate of inflation and the amount of disposable income exceeding the targets set. The Government believes this could put intolerable pressure on consumption and the balance of payments which would have to be remedied by fiscal and monetary restraint.

The other forecasts for 1989 set out in the following table give higher levels for inflation and the current account deficit than those forecast by the Government.

ITALY

COMPARATIVE TABLE OF SHORT-TERM FORECASTS

	Government (Sept 1988)		Prometeia (Sept 1988)		European Research Centre (July 1988)	
	1988	1989	1988	1989	1988	1989
I. MAIN HYPOTHESES ON THE INTERNATIONAL ENVIRONMENT						
RATE OF GROWTH IN PRINCIPAL PARTNER COUNTRIES:	3.9(a)	2.8(a)	(7.4)(e)	(5.5)(e)	(6.5)(b)	(5.8)(b)
- United States	4.0	2.8	4.0	3.0/2.5		
- Federal Republic of Germany	2.9	1.9	3.0			
- France	2.9	2.4	3.5			
DOLLAR EXCHANGE RATE	1 330		1 312	1 323	1 250	1 254
OIL PRICE (\$/barrel)	14.5	14.5				
II. MAIN FORECAST RESULTS						
PERCENTAGE ANNUAL CHANGE IN:						
- GDP at market prices (volume)	3.6	3.0	3.6	3.1	3.1	2.9
- Imports (volume)	8.0	6.4	8.4	5.3	7.2	6.6
- Consumption of households (volume)	4.0	3.0	4.0	2.9	4.0	3.9
- Firms' investments (volume)						
- Gross fixed investments (volume)	5.0	4.6	5.7	4.5	3.9	3.6
- Exports (volume)	5.8	4.5	5.8	4.6	4.9	4.6
- Stocks (as % of GDP)	0.4	0.3	0.2	0.2	0.1	
- Per capita productivity	2.5	2.1	0.9(d)	1.3(d)		
- Number of salaried employees (c)	0.7		1.1	0.8	0.8	0.8
- Total number of employed persons (c)	1.0	0.9	0.5	0.8	0.8	0.8
- Consumption deflator(annual average)	4.8	4.0	5.0	5.6	5.1	4.5
- GDP deflator (annual average)	5.0	4.3	5.1	5.6	5.3	5.2
- Purchasing power of households' disposable income	3.0	3.0	3.8	3.0	2.9	3.6
UNEMPLOYMENT (annual average in thousands)	12.2		12.1	12.2	12.3	12.3
PUBLIC ADMINISTRATION REQUIREMENT (as % of total GDP)						
- requirements of public sector	10.9/11.0	10.2	11.2	10.6	10.8	11.0
- public sector borrowing requirement	9.9	9.5	10.2	9.8	10.0	10.3
BALANCE OF PAYMENTS ON CURRENT ACCOUNT:						
- in billions of ECU (f)	3.1	4.4	3.2	5.9	2.4	4.9
- as % of GDP	-0.4	-0.6	-0.5	-0.8	-0.4	-0.7

- (a) industrialised countries
 (b) export market
 (c) labour units
 (d) hourly industrial productivity
 (e) foreign demand
 (f) lira/ECU exchange rate at 22.10.88

UNITED KINGDOM

1. The UK Government published two forecasts each year, one at the time of the Budget normally in March and the other at the time of the Autumn Statement in late October or November. The autumn figures are not yet available so the figures here are the March 1988 figures. In practice the Government will almost certainly have revised its estimates of some variables, particularly the Balance of Payments. These forecasts are limited to a narrow range of variables. The Government borrowing figure covers the financial year 1988-89. All the figures for Government borrowing cover financial years in this way.
2. Institute A = National Institute of Economic and Social Research. The latest forecasts appeared in the National Institute Economic Review of March 1988.
3. Institute B = London Business School. These forecasts appeared in the Economic Outlook of June 1988.
4. Institute C = Liverpool Research Group in Macroeconomics. These forecasts appeared in the October 1988 Quarterly Economic Bulletin.

UNITED KINGDOM

COMPARATIVE TABLE OF SHORT-TERM FORECASTS

I. MAIN HYPOTHESES ON THE INTERNATIONAL ENVIRONMENT

	Government		Institute A		Institute B		Institute C	
	1988	1989	1988	1989	1988	1989	1988	1989
RATE OF GROWTH IN PRINCIPAL PARTNER COUNTRIES:								
- United States			3.2	1.4			3.7	2.9
- France			2.6	1.8			2.7	3.2
- Germany			2.6	1.7			2.7	2.3
DOLLAR EXCHANGE RATE								
OIL PRICE (\$/barrel)								

II. MAIN FORECAST RESULTS

	Government		Institute A		Institute B		Institute C	
	1988	1989	1988	1989	1988	1989	1988	1989
PERCENTAGE ANNUAL CHANGE IN:								
- GDP (volume)	3.0		3.9	2.4	3.4	2.4	4.6	3.4
- Imports (volume)	6.5		9.5	7.2	7.3	5.2		
- Consumption of households (volume)	4.0		5.3	2.7	4.6	3.1		
- Firms' investments (volume)	6.5		10.1	6.4	8.3	3.6		
- Exports (volume)	3.0		0.8	6.0	2.6	5.1		
- Stocks (as % of GDP)	0		0	0	0	0		
- Per capita productivity								
- Number of salaried employees			22.3	22.4				
- Consumer prices (annual average)			4.6	5.4	4.7	4.4	3.6	2.8
- Purchasing power of households' disposable income			5.2	2.4	4.5	4.1		
UNEMPLOYMENT (annual average in thousands)			2 300	2 000	2 420	2 372	2 200	1 900
PUBLIC BORROWING REQUIREMENT (as % of total GDP)	-0.75%		-1.3%	-1.4%	-1.3%	-0.9%	-2.7%	-1.8%
EXTERNAL BALANCE (in £bn):								
- Balance of trade								
- Balance of payments on current account or national financial capability	-4		-11.2	-13.4	-5.0	-4.9	-9.9	-8.7

SWITZERLAND

1. Introduction

In Switzerland, official economic forecasts are prepared by the Committee on Short-Term Economic Affairs (Subcommittee III), which meets towards the end of each year. The forecasts appear in the second half of December and for this reason no official projections for 1989 are available at present. We enclose the results of the last round of estimates (end of 1987), which were heavily influenced by the stock market crash and were therefore over-pessimistic. In addition, we enclose the latest forecasts of the national Technical University's Short-Term Economic Research Centre (KOF ETH) in Zürich and the CREA (University of Lausanne). It would not be appropriate to compare the official forecasts and those of the institutes, as nearly a year elapsed between them. The comments based below are based primarily on quarterly estimates of GDP. For 1989, the relevant institute publications should be consulted. As far as the international context is concerned, the committee basis its position on the OECD's short-term forecasts. Here too, the relevant publications should be consulted.

2. The Economic Situation in Switzerland in 1988

2.1 Consumption

The mood among consumers is positive, since incomes are high and prospects remain good. Final household consumption will rise in real terms by more than 2% in 1988.

2.2 Investment

Investment in both building and capital goods has been growing since 1983 and reached a peak in 1987. Although growth rates fell slightly in 1988, it is still reasonable to speak of a boom. In 1988 the rise in fixed capital investment will reach about 6%.

2.3 Exports

Swiss industry has recovered rapidly from the upsets in the currency markets and is doing well out of the present favourable international situation. Exports are set to grow by about 5.5% in 1988.

2.4 Imports

Imports will rise by nearly 8% in 1988, owing to the high levels of consumption and a sharp increase in capital goods investment.

2.5 GDP

The servicesector and the building industry have been largely responsible for a rise in GDP of 2.5% to 3% in real terms in 1988. High capacity utilization rates in industry have also contributed, although to a lesser extent.

2.6

The labour market

Employment will rise by about 1.2%, while the unemployment rate will reach a record low of 0.7% of the workforce. An increase in the number of foreign workers is the main reason for the possible rise in the employment figures. There is now a marked shortage of trained staff, indicating that labour reserves have been exhausted.

2.7 Prices

The cost of living has risen slightly, because prices of imported goods have not fallen further. Prices of consumer goods are increasing by around 2%. Building investment forms the sole exception with slightly higher increases of around 4.5%.

SWITZERLAND

COMPARATIVE TABLE OF SHORT-TERM FORECASTS

I. MAIN HYPOTHESES ON THE INTERNATIONAL ENVIRONMENT

	Government 10 Dec 1987		KOF ETH		CREA 16 Sept 1988)	
	1988	1989	1988	1989	1988	1989
RATE OF GROWTH IN PRINCIPAL PARTNER COUNTRIES:						
- United States			4.2	2.5		
- Japan			5.3	4.0		
- Germany (Federal Republic)			3.0	2.0		
DOLLAR EXCHANGE RATE	1.40					
OIL PRICE (\$/barrel)						

II. MAIN FORECAST RESULTS

	Government 10 Dec 1987)		KOF ETH		CREA 16 Sept 1988)	
	1988	1989	1988	1989	1988	1989
PERCENTAGE ANNUAL CHANGE IN:						
- GDP (volume)	1.2		2.6	2.2	3.1	2.7
- Imports (volume)	2.1		6.7	4.5	7.7	3.7
- Consumption of households (volume)	1.7		2.3	2.0	4.3	2.0
- Investment (volume) ¹	3.4				5.2	3.7
- Exports (volume)	0.2		4.4	3.3	5.2	5.0
- Stocks (as % of GDP)	-0.2				0.2	-0.4
- Per capita productivity	1.0				1.7	1.6
- Number of salaried employees						
- Consumer prices (annual average)	2.0		2.0	2.8	2.1	3.6
- GDP prices (annual average)	2.0				2.0	3.7
- Purchasing power of households' disposable income						
UNEMPLOYMENT (unemployment rate %)	0.8				0.6	0.7
PUBLIC BORROWING REQUIREMENT (as % of total GDP)						
BALANCE ON CURRENT ACCOUNT:						
- in billion ECU	9 700				7 629	7 777
- as % of GDP	3.7					

KOF ETH = Konjunkturforschungsstelle, Eidgenössische Technische Hochschule, Zürich
 CREA = Centre de recherches économiques appliqués, Lausanne

1 Fixed capital formation

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