



europaean community

NEWS

February 3, 1993
No. 6/93

EC RESPONDS TO ECONOMIC CHALLENGE

Measures to promote economic growth and employment creation as a response to the failure of the European Community's economy to recover in 1992 are urged in the EC's Annual Economic Report, which was released in Brussels today (Wednesday).

The Report, prepared by the EC's executive Commission, forecasts continuing stagnation in 1993. Gross Domestic Product (GDP) growth in 1992 is now estimated at only 1.1 percent compared with an expected output of 2.25 percent forecast at the time of last year's Report. Growth is expected to decelerate further in 1993 to about 0.75 percent notwithstanding the modest pick-up in activity which is forecast to occur in the second half of this year.

The downturn is also expected to become more generalized with a very severe contraction in the western part of Germany, where output is expected to fall by 0.5 percent. Some hopeful signs are, however, emerging in the United Kingdom where, after two years of recession, growth of the order of 1.5 percent is forecast for this year.

Commissioner Henning Christophersen responsible for Economic and Financial Affairs, today stressed that policy actions should be guided by the need to restore confidence and credibility. The present depressed economic conditions call for a policy response on two fronts:

- Firstly, action to support growth in the short-run without, however, endangering the commitment to price stability and budgetary consolidation.
- Secondly, generating the necessary conditions for promoting stronger employment creating growth in the medium-term.

A number of factors were responsible for the continued absence of recovery in the Community economy. Firstly, the longer and deeper than anticipated downturn in the Community's principal trading partners, most notably the European Free Trade Association (EFTA) countries and the US, has continued to depress community export and growth prospects. Secondly, a certain cyclical slowdown was inevitable in the Community due to the need to address the macroeconomic imbalances which built up in the period of strong growth at the end of the 1980s. Thirdly, while the surge in overall German demand resulting from unification served to sustain growth in 1990 and 1991, the subsequent weakening of economic activity in Germany combined with the latter's continuing tight monetary policy stance has depressed growth prospects in a large number of member states. Finally, the continuation of weak demand conditions has negatively influenced business and consumer confidence with the result that the downturn has become self-perpetuating.

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Mr. Christophersen highlighted the important role which the Edinburgh growth initiative is expected to play in breaking this self-perpetuating cycle of slowdown. This initiative is specifically aimed at restoring confidence which all member state governments see as one of the biggest obstacles to be overcome on the path to economic recovery. The Edinburgh European Council called on member states to exploit the macroeconomic margins of maneuver available to them in order to boost confidence and promote economic growth. More specifically, it called on governments to implement a two-pronged recovery initiative involving actions to be taken at both the national and the Community levels. Work has already started in effectively implementing this plan at the Community level. Furthermore the January EC Council of Economic and Finance Ministers (ECOFIN) discussed possible measures to be taken by member states in terms of exploiting the margins of maneuver available in the budgetary area, strengthening structural adjustment efforts and promoting wage moderation. Contacts are also presently being established between the Commission and the member countries to identify any measures that could potentially be taken in a concerted way.

In his presentation, Mr. Christophersen was adamant that any action to support growth in the short-term must not call into question the credibility of the Community's medium-term economic policy framework. Inflationary pressures, where they still give cause for concern, must be reduced by the avoidance of excessive wage increases. This would ease the task of monetary policy and create the conditions whereby a reduction of interest rates could take place on a sound and sustainable basis. In this regard he added that negotiations between the social partners (the Commission, governments, employers, labor) could be usefully considered as a means to further these objectives. On budgetary policy he reiterated that the Commission continues to advocate the need for a cautious overall approach with further consolidation measures required in those member states with excessive deficit and debt positions.

Even if the recovery takes hold in the course of the next few months, unemployment is unfortunately expected to remain high for many years to come, unless, of course, something is done to address the Community's underlying economic problems. It is currently running at an average of 10.5 percent. Mr. Christophersen felt that a significant reduction in unemployment could only realistically be achieved by permanently raising the Community's potential rate of growth from its present rate of around 2.5 percent to a rate of the order of 3.5 percent. This he said could be achieved by effectively taking action on two broad areas:

- By increasing the dynamism of the Community's economy by removing structural impediments which constrain the rate of increase of capital and labor productivity; this should be combined with increased efforts to improve the skills of workers by training.
- By generating sufficient investment which means in effect adding substantially to the Community's existing investment ratio.

While progress has already been made in the area of structural adjustment Mr. Christophersen felt that much more was needed in terms of increasing competition, improving skills, removing unnecessary regulations and ameliorating the efficiency of labor markets particularly in making wage-setting procedures more responsive to macroeconomic conditions. Regarding the need to increase investment the Commission calls in the Report for measures to promote investment profitability and for an increase in the savings ratio.

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Main features of Winter 1992/93 Economic Forecasts* - EUR (a)

	1988-90	1991	1992	1993	1994
GDP growth	3.4	1.4	1.1	0.7	1.7
Investment	6.6	0.0	-0.3	-1.0	2.1
Employment	1.6	0.2	-0.5	-0.8	-0.1
Unemployment rate (b)	9.0	8.8	9.5	10.5	11.0
Inflation (c)	4.5	5.3	4.5	4.4	3.5
Net borrowing (d)	-3.5	-4.6	-5.3	-5.7	-5.4
Current account balance (e)	-0.1	-1.1	-0.8	-0.9	-0.8

* Real percentage change per annum (p.a) unless otherwise stated.

(a) EUR excluding five new German Länder, unless for the current account balance and net borrowing which include united Germany from 1991 onwards.

(b) As a percentage of the civilian labor force.

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

(d) General government as a percentage of GDP.

(e) As a percentage of GDP.

For the following tables:

The member states of the European Community are Belgium (B), Denmark (DK), Federal Republic of Germany (D), Greece (GR), Spain (E), France (F), Ireland (IRL), Italy (I), Luxembourg (L), Netherlands (NL), Portugal (P), and the United Kingdom (UK).

WINTER 1992/93 FORECASTS

MAIN ECONOMIC INDICATORS 1990-1994

Community, USA and Japan

(a) GDP at constant prices (annual % change)		1990	1991	1992	1993*	1994*
B		3.4	1.9	1.0	1/2	1 3/4
DK		1.7	1.2	1.0	1 3/4	2 1/4
D		5.1	3.7	1.5	-1/2	1
D+		-	-	1.7	0	1 1/2
GR		-2	1.8	1.5	1 3/4	2
E		3.6	2.4	1.2	1	1 3/4
F		2.2	1.3	1.9	1	2
IRL		8.3	2.5	2.9	2 1/4	2 1/2
I		2.2	1.4	1.1	3/4	1 1/2
L		3.2	3.1	2.2	2	2 1/2
NL		3.9	2.2	1.3	3/4	1 1/4
P		4.4	1.9	1.7	1 1/4	2 1/2
UK		5	-2.2	-9	1 1/2	2 3/4
EC		2.8	1.4	1.1	3/4	1 3/4
EC+		-	-	1.1	3/4	1 3/4
USA		7	-1.3	2.0	2 1/2	2 3/4
JAP		5.2	4.4	1.5	1 1/2	2 1/2

(b) Domestic demand at constant prices (annual % change)		1990	1991	1992	1993*	1994*
B		3.5	1.6	1.9	1/2	1 1/2
DK		-6	.1	-4	2	2 1/4
D		4.9	3.1	1.3	-1/2	1/2
D+		-	-	2.2	0	1 1/4
GR		.8	2.3	1.1	1 1/2	2 1/2
E		4.7	2.9	1.8	1/2	1 3/4
F		2.6	.8	1.0	1	1 3/4
IRL		8.3	-7	-9	2 1/4	2 1/4
I		2.7	2.2	1.3	-1/4	1
L		5.1	8.4	3.3	2 1/4	2 3/4
NL		3.5	1.7	.6	1/4	1
P		5.4	4.1	3.6	3 1/4	4
UK		-5	-3.2	.0	1/2	2 1/2
EC		2.8	1.2	1.1	1/4	1 1/2
EC+		-	-	1.3	1/2	1 1/2
USA		.1	-2.1	2.1	2 1/4	2 3/4
JAP		5.4	3.0	1.1	1 1/2	2

(c) Deflator of private consumption (annual % change) (inflation)		1990	1991	1992	1993*	1994*
B		3.1	2.9	2.4	2 3/4	2 3/4
DK		2.1	2.4	2.1	1 1/2	2
D		2.7	3.9	4.0	3 1/2	3
D+		-	-	4.8	4 1/4	3 1/2
GR		20.1	18.4	18.0	13 1/2	8
E		6.4	6.3	6.0	5 1/2	6
F		3.2	3.2	2.6	2 3/4	2 1/2
IRL		1.7	3.2	2.9	2 1/4	2 1/4
I		5.9	6.8	5.3	5 3/4	4 3/4
L		3.6	2.6	3.4	4 3/4	3 1/4
NL		2.3	3.3	3.1	2 3/4	2 1/2
P		12.6	11.9	9.1	6 3/4	5 3/4
UK		5.3	7.2	5.1	5	3
EC		4.8	5.3	4.5	4 1/4	3 1/2
EC+		-	-	4.6	4 1/2	3 1/2
USA		5.0	4.2	3.1	2 3/4	2 3/4
JAP		2.6	2.6	2.4	2 1/2	2 1/2

(d) Balance on current transactions (as a % of GDP)		1990	1991	1992	1993*	1994*
B		.9	1.7	1.6	1 3/4	2
DK		.5	1.3	3.0	3	2 3/4
D		3.5	1.2	.4	0	0
D+		-	-7	-8	-1 1/4	-1
GR		-8.2	-6.1	-3.3	-3	-3 1/4
E		-3.7	-3.5	-3.7	-3 1/2	-3
F		-8	-5	.1	1/4	1/4
IRL		1.3	8.0	6.7	8 1/2	7
I		-1.4	-1.9	-1.9	-1 3/4	-1 1/2
L		34.2	27.9	19.9	16 3/4	17 1/2
NL		4.0	3.9	3.9	3 3/4	3 3/4
P		-2.5	-3.5	-2	-2 1/4	-3 1/4
UK		-4.2	-1.8	-2.1	-2 3/4	-3
EC		-3	-5	-5	-3/4	-1/2
EC+		-	-1.0	-8	-1	-3/4
USA		-1.4	.2	-1.0	-1	-1 1/4
JAP		1.3	2.5	3.2	3 1/4	3 1/2

Note: EC+, these aggregates include values for unified Germany.

(*) Based on the forecasts of January 1993 (final).

Unusually high uncertainties surround the Winter 1992/93 Economic Forecasts which are based on the standard assumption of "no change in economic policy", implying that projections for 1994 are essentially extrapolations of expected 1993 trends. Actual outcomes for 1993 and, particularly, 1994 might differ substantially from present forecasts if, inter alia, economic policies were to be significantly modified.

Source: Commission services.

Date: 29-01-1993

WINTER 1992/93 FORECASTS

(i) Investment in construction at constant prices (annual % change)					
	1990	1991	1992	1993*	1994*
B	7.1	2.0	3.8	-2 3/4	1 1/4
DK	-4.8	-8.1	-4.5	4 1/2	3 1/2
D	5.3	4.1	4.5	1/2	2
D+	-	-	5.8	1 3/4	3
GR	2.2	-6.4	-3.0	3	5
E	10.8	4.3	-3.4	-3 1/4	1/2
F	2.7	.8	2.3	1/4	1 3/4
IRL	11.7	-1.4	2.5	3	2
I	2.5	1.2	.4	-3/4	1/2
L	6.0	7.1	6.0	3 1/4	4
NL	.8	-2.1	.0	-1/2	1/2
P	5.3	4.5	2.5	2 3/4	5 3/4
UK	-6	-8.4	-1.4	-1 1/2	5 1/2
EC	3.8	.8	1.8	-1/2	2
EC+	-	-	1.8	-1/4	2 1/4

(j) Investment in equipment at constant prices (annual % change)					
	1990	1991	1992	1993*	1994*
B	10.9	-1.9	.7	-4	1 1/4
DK	3.7	2.8	-12.0	-3/4	4 3/4
D	13.3	8.1	-2.0	-4	1 3/4
D+	-	-	1.3	-1 1/2	3 1/4
GR	7.9	3.3	4.5	8	7 1/2
E	1.4	-2.5	.2	1/4	2 1/4
F	4.1	-2.5	-4.3	-1 1/4	1 1/2
IRL	7.2	-11.8	.5	1 1/4	1 1/2
I	3.5	.7	-7	-1 1/2	1 1/4
L	10.9	11.4	3.5	1 3/4	3
NL	7.8	2.8	-.8	-3/4	1 1/2
P	5.8	1.0	4.8	3 3/4	6
UK	-3.8	-11.9	.8	-0	3 3/4
EC	4.8	-2	-1.8	-1 1/2	2 1/4
EC+	-	-	-7	-1	2 1/2

(k) Gross fixed capital formation at constant prices (annual % change)					
	1990	1991	1992	1993*	1994*
B	8.4	.3	2.5	-3 1/4	1 1/4
DK	-.5	-2.8	-8.3	2	4 1/4
D	8.7	6.5	1.3	-1 3/4	1 3/4
D+	-	-	3.8	1/4	3
GR	4.8	-1.9	.8	4 1/2	6 1/4
E	8.9	1.8	-2.0	-2	1 1/4
F	3.1	-1.3	-1.5	-3/4	1 3/4
IRL	10.2	-7.2	1.8	2 1/4	1 3/4
I	3.3	.9	-2	-1 1/4	1
L	2.5	9.8	4.5	2 1/4	3 1/4
NL	3.8	.1	-.4	-3/4	1
P	5.9	2.8	3.8	3 1/4	5 3/4
UK	-3.1	-9.9	-.4	-3/4	4 3/4
EC	3.9	-.0	-.3	-1	2
EC+	-	-	.4	-1/2	2 1/2
USA	-2.8	-8.5	5.2	4 1/2	6
JAP	9.5	3.4	-7	1	2

(l) GDP per head (EC=100) at current prices and current PPS					
	1990	1991	1992	1993*	1994*
B	97.5	103.5	103.1	106.7	107.1
DK	115.2	110.1	114.2	107.5	108.4
D	124.3	118.7	119.2	116.3	114.7
D+	-	-	-	-	-
GR	34.4	50.8	50.1	48.8	46.9
E	58.3	78.4	70.8	77.2	77.8
F	107.7	112.7	112.2	113.3	113.6
IRL	57.2	55.5	60.1	72.3	72.8
I	86.8	83.4	102.8	103.8	103.9
L	155.4	138.9	124.9	130.8	130.8
NL	118.8	111.4	104.5	104.0	103.3
P	37.2	54.1	50.7	58.1	58.8
UK	122.8	103.5	101.3	95.2	96.3
EC	100.0	100.0	100.0	100.0	100.0
EC+	-	-	-	-	-
USA	182.8	155.8	148.4	136.8	137.7
JAP	54.1	82.8	105.2	118.1	119.3

Note: EC+ , these aggregates include values for unified Germany.
 (*) Based on the forecasts of January 1993 (final).

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Source: Commission services.

WINTER 1992/93 FORECASTS

(e) Number of unemployed as % of the civilian labour force					
	1990	1991	1992	1993*	1994*
B	7.6	7.5	8.2	8 1/4	9 3/4
DK	8.1	8.9	9.5	9 1/2	9 1/4
D	4.8	4.2	4.5	5	5 1/2
D+	-	-	7.5	8 1/2	8 3/4
GR	7.2	7.7	7.7	8 1/2	9
E	18.1	18.3	18.0	19 1/2	20
F	8.0	9.5	10.1	10 3/4	11 1/4
IRL	14.5	15.2	17.8	19 1/4	20 1/2
I	9.5	10.2	10.2	10 1/2	10 3/4
L	1.7	1.6	1.9	2	2
NL	7.3	7.0	6.7	7 1/2	8
P	4.6	4.1	4.8	5 1/2	6 3/4
UK	7.0	9.1	10.6	12 1/4	12 3/4
EC	8.3	8.8	9.5	10 1/2	11
EC+	-	-	10.1	11	11 1/2
USA	5.5	6.7	7.3	7 1/4	7
JAP	2.1	2.1	2.1	2 1/4	2 1/4

(f) General government lending and borrowing (as a % of GDP)					
	1990	1991	1992	1993*	1994*
B	-5.7	-6.8	-6.7	-6	-5 1/4
DK	-1.4	-2.0	-2.3	-2 3/4	-1 3/4
D	-2.0	-3.8	-3.4	-3 3/4	-3 3/4
D+	-	-3.2	-3.2	-3 1/2	-3 3/4
GR	-18.8	-15.4	-13.4	-9 3/4	-7 3/4
E	-4.0	-4.9	-4.6	-4 1/4	-3 3/4
F	-1.4	-1.9	-2.8	-3 1/4	-3 1/2
IRL	-2.5	-2.1	-2.7	-3	-3 3/4
I	-10.9	-10.2	-10.5	-10 1/4	-9 1/4
L	5.0	-8	-4	-1	-3/4
NL	-4.9	-2.5	-3.5	-3 1/2	-3 1/4
P	-5.5	-6.4	-5.6	-4 3/4	-3 3/4
UK	-1.3	-2.8	-6.1	-8 1/4	-8
EC	-4.1	-4.7	-5.4	-5 3/4	-6 1/2
EC+	-	-4.8	-5.3	-5 3/4	-5 1/2
USA	-2.5	-3.4	-4.8	-4 3/4	-4 1/2
JAP	3.0	2.4	2.2	1/2	1/2

(g) Total employment (annual % change)					
	1990	1991	1992	1993*	1994*
B	1.1	-3	-7	-3/4	1/4
DK	-5	-9	-7	0	1/4
D	3.0	2.8	.8	-1	-1/4
D+	-	-	-5	-1	-1/4
GR	.2	-2.0	-5	0	1/4
E	2.8	.2	-1.8	-1 1/2	0
F	1.0	.4	-2	-1/4	0
IRL	3.3	-.1	.1	0	1/4
I	1.1	.8	.1	0	1/4
L	4.3	3.5	1.5	1 1/2	1 3/4
NL	2.3	1.3	.4	-1/2	0
P	.9	.9	-.2	-1/2	0
UK	.7	-3.1	-2.3	-1 3/4	-1/2
EC	1.8	.1	-.5	-3/4	0
EC+	-	-	-.7	-3/4	0
USA	1.2	-1.6	.7	1	1 1/4
JAP	2.1	1.9	.5	1/4	3/4

(h) Compensation of employees per head (annual % change)					
	1990	1991	1992	1993*	1994*
B	7.7	6.8	5.4	4 3/4	4 1/2
DK	3.4	3.7	3.2	2 1/2	2 3/4
D	4.7	5.8	5.3	3 1/2	3 1/2
D+	-	-	-	-	-
GR	19.7	15.0	12.3	11 1/4	10 3/4
E	7.9	6.7	6.0	7 1/4	5 3/4
F	5.0	4.2	4.1	4	4
IRL	4.4	4.4	6.3	6	3 1/4
I	10.5	8.7	5.1	4	4 3/4
L	6.9	5.4	5.1	6	4 1/2
NL	4.1	4.3	4.8	3 1/4	3 1/4
P	18.7	19.0	14.9	9 3/4	8 3/4
UK	9.5	8.9	6.0	3 3/4	4 3/4
EC	7.6	7.2	8.8	4 1/4	4 1/2
EC+	-	-	-	-	-
USA	4.9	5.1	2.4	2	2 1/4
JAP	5.3	4.4	3.2	2	2 3/4

Note: EC+, these aggregates include values for unified Germany.

(*) Based on the forecasts of January 1993 (final).

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