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GLOOMY ECONOMIC FORECASTS

The European Community is in an economic recession, Economic and Financial Affairs Commissioner Henning Christophersen said, presenting the Commission's revised forecast for 1993 and 1994. For the first time since 1975, the Community will have negative growth of -0.5 percent this year. And for 1994 the recovery will only be moderate.

This means that unemployment will increase in 1994 and will exceed 12 percent of the working population, the highest level since the previous peak in 1985. Compared to its main partners the Community is not only characterized by lower growth and considerably higher unemployment levels, its capacity to create jobs is also lower than the capacity of the US and Japan, said the Commissioner.

Against this background, the Commissioner emphasized the need for a reinforcement of concerted action to improve growth and employment, including structural measures to increase the job-creating capacity of the Community. Furthermore, he emphasized the need for member states to create the conditions for further reductions in interest rates. In this respect the Commissioner warned against the increase in fiscal deficits in the Community. The total deficit (general government basis) will increase to more than 6 percent of GDP.

Mr. Christophersen expected the Commission to present draft guidelines for economic policy to the Council of Economic and Financial Affairs Ministers and the European Council (Heads of State and Government) in the autumn. Such guidelines would build on the need for further concerted action to combat unemployment as well as the need to restore macro-economic convergence in the Community.

COMMISSION'S FORECASTS FOR 1993 AND 1994 Summer 1993 Forecasts

The outlook for the European Community economy has deteriorated significantly since the publication of the Annual Economic Report for 1993 in early February. Economic activity is more depressed and the recovery which had been projected for the end of this year is now expected to take hold towards mid-1994. Community GDP is forecast to decline this year by 1/2 percent in real terms - the first decline since 1975 - and to expand by a modest 1 1/4 percent in 1994. As a result, unemployment is expected to increase faster than previously projected and could reach 12 percent in 1994 on average. Budget deficits are also negatively affected and are expected to rise to record levels (6 1/4 percent for the EC as a whole in 1993). On the other hand, notwithstanding the weakness of demand, only modest progress is being made in reducing inflation, still averaging 4 1/4 percent in 1993.

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Mild recession in 1993, moderate recovery in 1994

There is now evidence that the Community slid into recession in the second half of last year. With incoming data pointing to continued weak economic activity, it is expected that output will contract further over the first half of this year. Since the usual survey indicators do not point to the imminence of a turnaround, the present forecasts suggest that the decline in output would level off in the second half of 1993, after which output should remain very depressed during the first months of next year with a return to more healthy rates of growth tentatively projected from the middle of 1994 onwards.

This growth profile translates into an average contraction in GDP of 1/2 percent in 1993 followed by a resumption of growth to 1 1/4 percent in 1994. The present figures for 1993 and 1994 represent a substantial downward revision compared with the forecasts produced last January, which indicated growth rates of 0.8 percent and 1.8 percent respectively in the two years. In fact, the size of the successive revisions of GDP growth in 1993 from the 2 1/2 percent projected in June of last year to the present figure of -1/2 percent measures the dramatic speed of the change in the outlook for the EC economy.

The uncertainties which surround the present forecast for 1994 are highlighted by the fact that the projection of a recovery from mid-year onwards depends on the emergence of four factors: (i) a further decline in interest rates, particularly short-term, in the Community; (ii) a gradual pick-up in world trade; (iii) an improvement in the competitive position of the EC as a whole and iv) a rebound in consumer and business confidence. It should be noted, however, that although a further strengthening is desirable, the profitability of investment is at present well above levels experienced during previous downturns. As a result, a pick-up in external demand together with further improvements in profitability and a de-tightening of monetary conditions in the EC could trigger a sound recovery led by exports and investment.

According to the present forecasts, five member states will experience a decline in GDP in 1993. Only in Ireland and the UK, are there expectations of a positive growth in output (2 1/4 percent and 1 1/2 percent respectively). All rates of GDP growth are expected to turn positive in 1994, but they will remain very subdued. (See tables in annex.)

Marked deterioration in labor market conditions

The exceptionally strong fall in employment will lead to an equally strong rise in unemployment in the Community, which may peak at over 12 percent of the civilian labor force in mid-1994, before stabilizing and coming down very moderately thereafter. The latter figure compares with an unemployment rate of 8.3 percent in 1990, i.e. at the start of the present downturn.

Disappointingly slow edging down of inflation

Inflation, measured by the private consumption deflator, is expected to fall from a rate of 4 1/2 percent in 1992 to 4 1/4 percent in 1993, with a further decline to 3 3/4 percent anticipated for next year. An expected certain moderation in wage and unit labor cost increases are the single most important factors behind the reduction in inflationary pressures as weak economic conditions in virtually all member countries are expected to continue to bear down on wage increases. On the other hand, a forecast sharp increase in the price deflator of imported goods and services (from a decline of 0.5 percent in 1992 to an increase of 5 1/4 percent in 1993), reflecting recent currency changes, precludes a more pronounced reduction in inflation this year. All in all, given the variety and strength of disinflationary influences of the recession in the Community economy, an overall rate of inflation of the order of 4 1/4 percent does not represent a very good performance. Although desirable, the forecasts do not suggest a further edging down in internal cost factors in 1994 so that the projected further additional reduction in the rate of inflation crucially depends on an anticipated normalization of import price increases.

Swelling budget deficits

The Community's budgetary position, already in a precarious state, is also forecast to suffer badly from the difficult economic conditions. The general government net borrowing requirement in the Community as a whole is expected to increase to an amount equal to 6 1/4 percent of GDP in 1993 from 5.1 percent in 1992. The current level easily exceeds the previous highest figure recorded in the Community (5.2 percent in 1982). A significant part of the increase is due to the adverse effects of the economic cycle on public finances. Attempts in several countries, particularly Denmark, France and the United Kingdom, to support economic activity through fiscal measures have also led to a deterioration in budget balances. Finally, in some countries, slippages in control over public expenditure bear a significant responsibility. On the other side, fiscal consolidation efforts in a number of countries are reducing the structural components of the budget deficits. The situation is expected to improve slightly in 1994 under the combined impact of moderately improved output growth and some fiscal consolidation measures.

No improvement in external imbalances

Generally, a downturn in economic activity is accompanied by some improvement in external positions. Unfortunately, notwithstanding the recessionary phase, the Community's trade and current account balances are not expected to improve over the forecasting horizon. The trade deficit is forecast to remain around 1/4 percent of GDP with the current account deficit remaining at around 1 percent of GDP in both years.

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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).

SUMMER 1993 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	.7	-1 1/4	1
DK	2.0	1.2	1.1	0	2 1/2
D	5.1	3.7	1.5	-2 1/2	-0
D+	-	-	2.0	-2	1/2
GR	-1	1.8	1.3	3/4	1 1/2
E	3.7	2.3	1.0	-1/2	1 1/4
F	2.2	1.1	1.3	-3/4	3/4
IRL	8.3	2.5	3.5	2 1/4	2 1/2
I	2.1	1.3	.9	0	1 1/2
L	3.2	3.1	1.8	1	2
NL	3.9	2.2	1.7	-1/2	1
P	4.4	1.9	1.1	1/2	1 1/2
UK	.5	-2.2	-6	1 1/2	2 1/2
EC	2.8	1.4	.9	-1/2	1 1/4
EC+	-	-	1.1	-1/2	1 1/4
USA	.7	-1.3	2.1	2 1/2	2 1/2
JAP	5.2	4.4	1.3	3/4	2

(b) Domestic demand at constant prices (annual % change)					
	1990	1991	1992	1993*	1994*
B	3.5	1.6	1.6	-3/4	1 1/4
DK	-5	-4	-6	1/2	2 3/4
D	4.9	3.1	1.8	-2	-1/2
D+	-	-	2.8	-1 1/2	1/4
GR	.9	2.7	1.1	3/4	1 3/4
E	4.7	3.1	1.4	-1 3/4	3/4
F	2.6	.8	.5	-1/2	1/2
IRL	6.3	-7	-1.5	3 1/4	2 3/4
I	2.8	1.8	1.0	-1 1/2	3/4
L	5.1	8.0	.5	2	1 1/2
NL	3.5	1.7	1.3	-1/4	3/4
P	5.4	4.1	3.6	2 1/2	3
UK	-5	-3.2	.5	1 1/2	2 1/2
EC	2.8	1.1	1.0	-3/4	1
EC+	-	-	1.3	-1/2	1
USA	.1	-2.1	2.5	3	2 1/2
JAP	5.4	3.0	.6	1/2	2

(c) (Inflation) Deflator of private consumption (annual % change)					
	1990	1991	1992	1993*	1994*
B	3.1	2.9	2.4	2 3/4	2 3/4
DK	2.6	2.5	1.9	1	2 1/2
D	2.7	3.9	4.1	4	3
D+	-	-	4.6	4 1/2	3 1/4
GR	19.7	18.4	14.9	13 3/4	9 1/2
E	6.4	6.2	6.2	5	5
F	3.2	3.2	2.4	2 1/2	2 1/2
IRL	1.7	3.2	2.6	3 1/2	3 1/4
I	5.2	6.9	5.4	5 1/4	5
L	3.6	2.9	2.8	3 3/4	3 1/2
NL	2.3	3.3	3.3	2 1/4	2 1/2
P	12.6	11.9	9.7	6 3/4	5 1/2
UK	5.3	7.2	4.8	4 1/4	4
EC	4.6	6.4	4.6	4	3 3/4
EC+	-	-	4.6	4 1/4	3 3/4
USA	5.0	4.2	3.0	2 3/4	3 1/4
JAP	2.6	2.6	2.0	1 1/4	1 3/4

(d) Balance on current transactions (as a % of GDP)					
	1990	1991	1992	1993*	1994*
B	.9	1.7	1.8	1 1/2	1 1/4
DK	.5	1.4	2.9	2 3/4	2 1/2
D	3.5	1.2	.3	-1/4	-1/4
D+	-	-9	-1.4	-1 1/2	-1 1/2
GR	-6.1	-5.1	-4.4	-3 3/4	-3 1/2
E	-3.7	-3.8	-3.9	-3 1/4	-3
F	-8	-5	.1	-0	-0
IRL	1.3	4.6	5.9	4 3/4	5
I	-1.4	-1.8	-2.1	-1 1/4	-1/2
L	34.3	28.0	27.7	25 3/4	25 1/4
NL	4.0	3.9	3.4	3	3
P (1)	-2.5	-3.5	-3	-3	-3 1/4
UK	-4.2	-1.8	-2.0	-2 1/2	-2 1/4
EC	-3	-5	-8	-3/4	-1/2
EC+	-	-1.0	-1.1	-1	-3/4
USA	-1.4	.2	-.8	-1	-1 1/4
JAP	1.3	2.5	3.2	3 1/2	3 1/2

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

(*) Based on the forecasts of June 1993.

(1) Break in series 1991-92; - until 1991 : national accounts figures;
- from 1992 onwards : balance of payments.

Source : Commission services.

SUMMER 1993 FORECASTS

(e) Number of unemployed as % of the civilian labour force					
	1990	1991	1992	1993*	1994*
B	7.6	7.5	8.2	10	10 1/2
DK	8.1	8.9	9.5	10 3/4	10 1/4
D	4.8	4.2	4.5	6 1/2	7 3/4
D+	-	-	7.5	9 1/4	10 1/4
GR	7.0	7.7	7.7	8 1/4	8 3/4
E	16.1	16.3	18.0	21 3/4	23
F	9.0	9.5	10.0	11 1/2	12
IRL	14.5	16.2	17.8	19	19 1/4
I	10.0	10.0	10.2	10 3/4	10 3/4
L	1.7	1.6	1.9	2 1/4	2
NL	7.5	7.0	6.7	8	9
P	4.6	4.1	4.8	6	6 3/4
UK	7.0	9.1	10.8	11 1/2	10 3/4
EC	8.3	8.7	9.5	11	11 1/2
EC+	-	-	10.1	11 1/2	12
USA	5.5	6.7	7.3	6 3/4	6
JAP	2.1	2.1	2.2	2 1/2	2 1/2

(f) General government lending and borrowing (as a % of GDP)					
	1990	1991	1992	1993*	1994*
B	-5.8	-6.6	-6.9	-7	-8
DK	-1.5	-2.2	-2.4	-4 1/2	-4 3/4
D	-2.0	-3.6	-2.4	-4	-3 3/4
D+	-	-3.2	-2.8	-4 1/2	-4 1/2
GR	-16.6	-15.2	-13.8	-13 1/4	-11
E	-3.9	-5.0	-4.5	-4 3/4	-4 1/2
F	-1.5	-2.1	-3.9	-5 3/4	-6
IRL	-2.5	-2.3	-2.4	-3 1/4	-4
I	-10.9	-10.2	-9.5	-10 1/4	-9
L	.0	-1.3	-1.6	-2	-1 3/4
NL	-4.9	-2.5	-3.3	-3 3/4	-3
P	-5.5	-6.4	-5.4	-5 3/4	-4 3/4
UK	-1.3	-2.9	-6.2	-7 3/4	-6 3/4
EC	-4.0	-4.7	-5.1	-6 1/4	-5 3/4
EC+	-	-4.6	-5.1	-6 1/4	-6
USA	-2.5	-3.4	-4.7	-4	-3
JAP	2.9	2.9	2.6	1 1/2	3/4

(g) Total employment (annual % change)					
	1990	1991	1992	1993*	1994*
B	1.4	.1	-.6	-1 1/4	-1/4
DK	-.5	-.9	-.1	-1 1/4	3/4
D	3.0	2.6	.8	-2	-1
D+	-	-	-1.7	-2 1/2	-1
GR	1.1	-1.6	2.1	0	1/2
E	3.2	-.5	-1.8	-4 1/2	-1 1/4
F	1.0	.4	-.5	-1 1/2	-1/2
IRL	3.3	-.1	.0	0	1/2
I	.8	.8	-.9	-1/2	0
L	4.3	4.3	2.0	3/4	3/4
NL	2.3	1.3	.9	-1/2	-1/2
P	.9	.9	-.6	-1 1/2	-3/4
UK	.7	-3.1	-2.7	-1	1
EC	1.6	.2	-.7	-1 1/2	-1/4
EC+	-	-	-1.3	-1 3/4	-1/4
USA	1.2	-1.6	.6	1 1/2	2
JAP	2.1	1.9	1.1	-1/4	1/4

(h) Compensation of employees per head (annual % change)					
	1990	1991	1992	1993*	1994*
B	7.3	6.6	5.6	4 1/2	4 1/2
DK	3.6	3.6	3.1	2 1/2	2 1/2
D	4.7	5.8	5.4	3 1/4	3 1/2
D+	-	-	-	-	-
GR	19.7	15.1	11.7	11	10 1/4
E	8.8	7.9	9.0	6 3/4	6
F	5.0	4.2	3.6	3	3
IRL	4.4	4.4	6.4	5 3/4	4 1/2
I	11.0	8.7	5.7	4 1/4	5
L	6.8	4.4	4.5	6	5 1/2
NL	4.1	4.3	4.7	3	2 3/4
P	16.7	19.0	14.8	10 1/4	8 1/4
UK	9.5	8.9	6.9	4	4
EC	7.6	7.0	5.9	4	4
EC+	-	-	-	-	-
USA	4.9	5.1	3.0	3 1/4	3 1/2
JAP	5.3	4.4	1.9	1	1 1/4

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

Source: Commission services.

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(i) Investment in construction at constant prices (annual % change)					
	1990	1991	1992	1993*	1994*
B	7.1	2.0	2.8	-2 1/2	2 1/4
DK	-4.6	-10.8	-2.0	-1 1/4	4
D	5.3	4.1	5.8	3/4	1/2
D+	-	-	8.1	2 3/4	2
GR	2.2	-6.4	-4.0	4 1/2	4 1/2
E	10.8	4.3	-4.0	-4 3/4	1
F	2.7	-1.0	.8	-1	3/4
IRL	11.7	-1.4	.7	1/4	3 1/2
I	2.5	1.4	-1.8	-2 1/4	1/4
L	8.0	9.0	1.0	3	1/2
NL	.6	-3.6	2.1	-1 1/4	-0
P	5.3	4.5	3.5	3 1/4	6
UK	-6	-8.3	-1.8	-2	4 1/2
EC	3.7	-0	.8	-1 1/4	1 1/4
EC+	-	-	1.7	-1/2	1 3/4
USA	-	-	4.7	5	4
JAP	-	-	3.4	4 1/4	6

(j) Investment in equipment at constant prices (annual % change)					
	1990	1991	1992	1993*	1994*
B	10.8	-1.8	-3.4	-8	3 3/4
DK	3.7	2.5	-17.8	-7 1/2	2 1/2
D	13.3	8.1	-2.7	-8	-1
D+	-	-	-6	-5 1/4	3/4
GR	7.8	3.3	7.0	1	2 3/4
E	1.4	-2.6	-1.3	-6 1/2	3/4
F	4.1	-1.8	-4.5	-4	1/4
IRL	7.2	-11.6	-3.8	-1/2	2
I	3.5	-1	-1.1	-4 3/4	1 3/4
L	10.8	10.7	-5.8	8 1/2	-3 3/4
NL	7.6	4.4	1.0	-3 1/4	3 3/4
P	5.8	1.0	5.6	2 1/2	4 1/4
UK	-3.6	-11.5	.8	4 3/4	4 3/4
EC	4.9	-0	-2.1	-4	1 1/4
EC+	-	-	-1.8	-3 1/2	1 3/4
USA	-	-	7.0	7 1/2	7
JAP	-	-	-2.6	-2 1/2	1 3/4

(k) Gross fixed capital formation at constant prices (annual % change)					
	1990	1991	1992	1993*	1994*
B	8.4	.3	.0	-5 1/4	2 3/4
DK	-9	-4.2	-10.4	-4 1/2	3 1/4
D	8.7	6.5	1.5	-3 1/2	-1/4
D+	-	-	4.8	-3/4	1 1/2
GR	5.7	-2.0	1.1	2 3/4	3 3/4
E	6.8	1.6	-3.0	-5 1/4	3/4
F	3.1	-1.3	-2.3	-2 3/4	1/2
IRL	10.2	-7.2	-1.4	-0	2 3/4
I	3.8	.8	-1.4	-3 1/2	1
L	2.5	9.8	-2.1	5 3/4	-1 1/2
NL	3.8	.1	1.8	-2 1/4	1 3/4
P	5.9	2.8	4.5	2 3/4	5 1/4
UK	-3.1	-8.8	-8	1 1/4	4 1/2
EC	4.0	-2	-8	-2 1/2	1 1/4
EC+	-	-	.1	-2	1 3/4
USA	-2.8	-5.5	5.8	6 1/4	5 1/2
JAP	9.5	3.4	-8	-1/2	3 1/4

(l) GDP per head (EC=100) at current prices and current PPS					
	1990	1993	1993*	1994*	
B	97.2	103.2	102.8	106.7	108.1
DK	115.8	110.7	114.8	111.7	113.8
D	123.8	118.3	118.8	119.8	118.4
D+	-	-	-	-	-
GR	34.7	51.0	50.5	49.8	50.0
E	58.1	76.2	70.4	79.5	80.1
F	107.4	112.4	111.8	115.8	115.8
IRL	57.1	55.3	60.0	75.2	76.6
I	86.4	83.2	102.4	107.5	108.5
L	153.2	138.6	124.6	134.4	138.2
NL	118.4	111.0	104.3	106.0	105.8
P	37.1	53.9	50.5	60.0	60.6
UK	123.9	104.6	102.4	101.3	103.0
EC	100.0	100.0	100.0	100.0	100.0
EC+	-	-	-	-	-
USA	182.6	155.7	148.5	138.7	140.0
JAP	54.1	83.0	105.5	118.7	120.1

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

Source: Commission services.