

EC REVISES ANNUAL ECONOMIC REPORT 1990/91

The temporary cooling off in Community growth to 1 1/4 percent does not require any significant change of policies said Vice-President Henning Christophersen responsible for Economic and Financial Affairs as he introduced the Annual Economic Report adopted today by the EC Commission. He underlined that prospects for a resumption of stronger growth are good. For 1992, growth is again expected to pick up to reach almost 2 1/2 percent.

The Vice-President however highlighted two major areas of policy concern: high wage demands and lack of improvement in the budget situation in a number of member countries. Those are areas where the medium-term outlook could be undermined and where convergence towards Economic and Monetary Union (EMU) is at stake. Fiscal policy must be very restrictive in countries with excessive budget deficits such as Greece and Italy, Mr. Christophersen said. He also pointed at high depth levels in Belgium, Ireland, the Netherlands and Portugal. In Germany the recent tightening of fiscal policy was welcomed by the Vice-President. However, more might be needed to support monetary policy.

Vice-President Christophersen saw no room for relaxation of monetary policy unless inflationary pressures subside. It is crucial now in Stage One of EMU to strengthen policy coordination in the process of multilateral surveillance, the Vice-President said.

THE ECONOMIC OUTLOOK

The economic outlook for the Community in the current year is much less favorable than it appeared in autumn last year. In the Community, output is expected to increase by 1 1/4 percent in 1991, half the rate recorded in 1990. As a result, growth in employment is likely to slow down significantly to less than 1/2 percent. This small increase in employment will, however, be largely offset by the expected increase in the labor force leading to a consequent rise in the unemployment rate to 8.8 percent in 1991. Despite the slowdown in activity, inflation is expected to remain broadly stable, but at a relatively high level of 5 percent and 4 3/4 percent in 1992.

The deterioration in the Community's economic performance expected in 1991 is only partly explained by events in the Gulf region. The increase in oil prices in the second half of 1990 and the erosion of business and consumer confidence that followed are, without doubt, a direct result of the Gulf crisis. Some Community countries were, however, already experiencing difficulties well before August 1990. External demand was slowing down under the influence of the recession in the U.S. and the strong depreciation of the dollar, with negative effects on investment growth, and the necessary correction of macroeconomic imbalances was dampening internal demand in some countries.

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Although consumer price rises have come down after the end of the Gulf crisis, inflation remains worryingly high for a period of slowing growth. At 5 percent for the year 1991, the expected average rate of inflation in the Community seems to suggest the existence of underlying cost-push pressures. Between 1988 and 1990 price developments diverged within the Community which is worrying from the point of view of EMU.

Despite the current slowdown of activity in the world economy, prospects for a resumption of stronger growth are good. The Gulf crisis now seems to have had smaller and probably more transitory effects on confidence, inflation and growth than initially feared. And there are incipient signs that the relatively pronounced cyclical downturn in some industrial countries - including the United States and the United Kingdom - is bottoming out.

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MAIN ECONOMIC INDICATORS 1988-1992
Community, USA, and Japan

(a)	GDP at constant prices (1) (annual % change)				
	1988	1989	1990*	1991*	1992*
B	4.8	3.8	3.7	2 1/4	2 1/2
DK	.5	1.2	7.6	1 1/2	2 1/4
D	3.7	3.3	4.7	2 3/4	1 3/4
GR	4.1	2.8	.1	3/4	1 1/2
E	5.2	4.8	3.7	3	3 1/2
F	3.6	3.6	2.8	1 1/2	2 1/2
IRL	3.9	5.9	5.2	1 3/4	2 1/4
I	4.2	3.2	2.0	1 3/4	2 1/2
L	5.5	6.1	3.7	3	3 1/4
NL	2.7	4.0	3.3	2 3/4	1 3/4
P	3.8	5.4	4.0	2 3/4	2 3/4
UK	4.6	2.2	.8	-2 1/4	2 1/4
EC	4.0	3.3	2.7	1 1/4	2 1/4
USA	4.9	2.8	1.0	0	1 1/2
JAP	5.7	4.8	5.6	3 3/4	4

	Domestic demand at constant prices (annual % change)				
	1988	1989	1990*	1991*	1992*
B	4.1	4.9	3.8	2 1/4	2 1/2
DK	-1.7	-.3	-.8	1/4	1 1/2
D	3.8	2.7	5.1	3	2 1/2
GR	7.0	3.3	2.5	3/4	2
E	7.1	7.8	4.6	3 1/2	4 1/4
F	3.8	3.2	3.2	1 3/4	2 3/4
IRL	.4	6.0	5.5	1 1/2	1 3/4
I	5.0	3.6	1.9	2	3
L	3.6	7.8	3.7	4 1/4	3 3/4
NL	1.6	4.9	3.8	2 1/4	1
P	7.4	4.0	5.8	8 1/4	4 1/2
UK	6.0	3.1	-.1	-3	2 1/2
EC	5.0	3.7	2.8	1 1/2	2 3/4
USA	3.3	2.2	.9	-1/2	1 1/2
JAP	7.3	5.7	5.8	4	4 1/2

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 United Kingdom (UK).

Deflator of private consumption (annual % change) (inflation)					
	1988	1989	1990*	1991*	1992*
B	1.6	3.5	3.5	3 1/4	3 1/2
DK	4.9	5.1	2.8	2 1/2	2 1/2
D	1.3	3.1	2.5	3 1/2	4 1/4
GR	14.2	14.7	20.5	18	13
E	5.1	6.6	6.4	6	5 1/4
F	2.9	3.5	3.0	3	3 1/4
IRL	2.5	3.9	2.6	3	3
I	5.2	5.8	6.2	6 1/4	5 1/2
L	2.8	3.4	3.8	3 1/2	3 1/2
NL	.4	2.9	2.8	2 3/4	3
P	10.0	12.8	13.6	11 1/2	9 3/4
UK	4.8	5.9	7.2	6 1/2	5
EC	3.7	4.9	5.0	5	4 3/4
USA	4.0	4.5	5.0	4 1/2	5
JAP	-1	1.7	2.4	2 3/4	2 1/2

Balance on current transactions (as a % of GDP)					
	1988	1989	1990*	1991*	1992*
B	1.5	1.1	.7	1	1
DK	-1.2	-1.2	.8	1 1/2	2 1/2
D	4.2	4.7	3.0	0	-1/4
GR	-2.0	-4.8	-5.7	-5	-4
E	-1.1	-3.2	-3.5	-3	-3 1/4
F	-3	-.1	-1.0	-3/4	-1
IRL	1.7	1.3	2.7	2 1/4	1 3/4
I	-.8	-1.4	-1.4	-1 1/4	-1 1/2
L	33.5	34.4	28.3	26 1/2	24 3/4
NL	2.5	3.3	3.8	3 1/2	3 1/2
P	-4.4	-2.9	-.1	-1 1/4	-2 1/4
UK	-4.6	-4.8	-2.3	-1	-1 1/4
EC	.1	-.1	-.2	-1/2	-3/4
USA	-2.5	-1.9	-1.8	-1/4	-1
JAP	2.8	2.1	1.2	1	1

Number of unemployed as % of the civilian labour force					
	1988	1989	1990*	1991*	1992*
B	10.0	8.5	8.1	8 1/2	8 1/4
DK	6.8	7.7	8.6	9	8 3/4
D	6.1	5.5	5.1	4 1/2	4 3/4
GR	7.8	7.5	7.3	8 3/4	9 1/4
E	19.3	17.1	16.1	16	15 1/2
F	8.9	9.1	9.0	9 1/4	9 1/2
IRL	17.4	16.0	15.1	16	15 3/4
I	10.8	10.7	9.8	9 3/4	9 1/2
L	2.1	1.6	1.7	1 1/2	1 1/2
NL	8.3	8.7	8.1	7 3/4	7 3/4
P	5.6	4.8	4.5	4 3/4	5 1/4
UK	6.5	7.0	5.7	6 1/2	7 3/4
EC	8.7	8.9	8.2	8 3/4	9 1/8
USA	5.5	5.3	5.1	6 1/2	6 1/2
JAP	2.5	2.3	2.1	2 1/4	2 1/4

General government lending and borrowing (as a % of GDP)					
	1988	1989	1990*	1991*	1992*
B	-6.8	-5.7	-5.0	-5 1/4	-6
DK	.5	.5	-1.5	-1 1/4	-1
D	-2.1	.3	-2.2	-4 3/4	-4
GR	-18.5	-19.2	-18.9	-15 1/2	-10 3/4
E	-3.3	-2.7	-3.7	-2 3/4	-2
F	-1.8	-1.2	-1.6	-1 1/2	-1 1/2
IRL	-3.2	-3.5	-3.4	-3 3/4	-3 1/2
I	-10.8	-10.1	-10.8	-10	-10
L	2.1	3.3	4.2	1 3/4	1 1/2
NL	-5.2	-5.0	-5.7	-4 3/4	-5
P	-5.4	-3.4	-5.8	-5 1/2	-5
UK	1.1	1.0	-.5	-2 1/4	-3 1/4
EC	-3.7	-2.9	-4.1	-4 1/2	-4 1/2
USA	-2.0	-1.7	-2.4	-1 3/4	-2 1/2
JAP	2.1	1.8	2.2	1 3/4	2

Total employment (annual % change)					
	1988	1989	1990*	1991*	1992*
B	1.5	1.1	1.0	0	0
DK	-.9	-.8	-.7	-1/4	1/4
D	.8	1.4	2.6	1 3/4	3/4
GR	1.8	1.5	.4	-1/4	0
E	3.5	3.6	2.6	1 1/2	1 3/4
F	.7	1.2	1.2	1/2	1/2
IRL	.4	-.1	2.1	1/4	1/2
I	.9	.2	1.4	1/2	1/2
L	3.1	4.0	2.4	1 1/4	1 1/2
NL	1.4	1.6	1.9	1	1/2
P	.1	1.0	2.5	1	1/2
UK	3.3	2.8	.8	-2 1/2	-2
EC	1.8	1.8	1.8	1/4	1/4
USA	2.8	2.3	.4	-1	1
JAP	1.6	1.9	2.0	1 1/2	1 1/2

Real compensation of employees per head (annual % change) (2)					
	1988	1989	1990*	1991*	1992*
B	.8	.6	2.3	2 1/2	2 1/2
DK	-.9	-1.6	1.0	1	1
D	1.7	-.2	1.3	2 3/4	1 1/4
GR	3.7	4.1	.6	-2	-1/4
E	1.1	-.5	1.2	1 1/4	1
F	1.2	1.2	1.8	1 1/2	1
IRL	2.8	2.2	3.0	3 1/4	2 1/2
I	4.0	3.1	3.9	1 3/4	2
L	.5	3.0	1.8	2 1/2	2 1/4
NL	1.1	-2.4	1.6	2	1 3/4
P	3.1	.8	3.7	5 1/4	4 3/4
UK	2.9	2.8	3.4	2	1 3/4
EC	2.1	1.2	2.4	2	1 1/2
USA	1.9	-.7	-.1	0	1/2
JAP	3.4	2.2	1.7	1 1/4	1 1/2

- (*) Based on the forecasts of May 1991
 (1) GNP for USA and Japan from 1989 onwards
 (2) Deflated by the deflator of private consumption

Source: Commission services

