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SLOWER GROWTH IN EUROPE FORECAST FOR 1980

In its annual economic report 1979-80 the European Commission predicts an average gross domestic product rise in the nine member nations of approximately 2 per cent during this period, compared with an average growth rate of a little over 3 per cent which was experienced, or is now forecast, for both 1978 and 1979.

The report is mainly concerned with policies the European Community will require to cope with the unfavorable economic climate worldwide. Taking into account the oil price rises in the past twelve months and the current recession in North America, the EC's expectations for 1980 inevitably have to be modest, the Commission says.

The Community is faced with two difficult structural economic problems. First is the complex of issues linking productivity trends, employment policy and industrial policy. Second concerns energy. Together the handling of these issues will be quite as fundamental to future performance of the Community economy in terms of price stability and growth as issues of short-term economic strategy, EC officials state.

A number of factors suggest that past long-run productivity trends, for example the 4.3 per cent annual average experienced in the Community in 1960-73, will not be restored in the foreseeable future. While on balance average productivity growth is likely to be lower, the contributing factors are not helpful to employment. The quantity of work available is in no way fixed and increasing productivity is required to dampen the rise of costs and inflation.

Greater indigenous energy production and conservation is now vital - without which the prospects for non-inflationary growth are poor indeed. For the short-run and medium term, oil ceilings have been set by the Community (500 million tons for consumption in 1979, and 472 million tons of imports until 1985). The Commission suggests these objectives can be achieved by breaking the past association between the growth of domestic product and oil use, although the extent of this change in trend is still uncertain.

Unavoidably, because of the oil price rise, the year-on-year rate of inflation is increased in 1979 and 1980 to about 9 per cent, compared to the low point of just under 7 per cent achieved in 1978. The objective should limit the temporary rise in the average inflation rate to no more than 2 per cent and to reestablish a slowing down during 1980.

The current account of the balance of payments of the Community is at present deteriorating, and the outcome for 1979 and 1980 is likely to be deficits of the order of 3 1/4 to 5 1/4 billion European Units of Account (EUA)*; by comparison with the substantial surplus of 14 billion EUA recorded in 1978. The balance of payments deterioration has for the time being to be accepted, subject to the special position of certain Member States, and to recognition of the priority to strengthen energy policy to reduce dependence on imported oil.

EUROPEAN MONETARY SYSTEM

The Commission says, however, that the European Monetary System has provided over the last half-year a much needed stability in intra-Community exchange-rates, as well as in September an efficient procedure for a limited adjustment to central parities.

The exchange-rate stability provided by the system needs to be extended beyond the currently participating countries, for example by developing a concerted policy along with the United States towards the dollar.

In the period ahead in which balance of payments effects of the new oil price rise have to be absorbed the credit mechanisms of the Community, augmented by the European Monetary System, provide the means of assuring solidarity between Member States.

Without pretending that allegiance to a system of exchange-rate stability, itself subject to all the tensions that divergence in economic performance can create, is an adequate solution to the Community's economic policies, the European Monetary System provides a framework for the construction of a set of short and medium-term policies, which present together a coordinated approach to tackling these problems, the Commission adds.

CONCLUSION

Economic prospects for 1980 have been made more difficult because of the oil price rise and recessionary trends elsewhere in the industrialized world.

However, the situation of the European Community has some favorable features:

* On October 17, 1979, one EUA = approximately \$1.39.

a business upswing has been achieved in 1979, together with improved exchange-rate stability in the European Monetary System, and relatively sound balance of payments in most Member States.

The new adverse factors present the Community with three major problems: the inflation-growth combination will be worse for some time, there is a danger of a renewed divergence of price performance between Member States, and there is much to be done to improve the EC's energy policy.

The following three-pronged Community policy response is required:

- 1) in a first phase incomes have to be constrained so that consumers absorb the increased cost of energy and secondary increases in inflation are avoided; meanwhile monetary policy should be kept strict, and budgetary policy should at this stage provide only very limited compensation for the effects of the oil price rise;
- 2) as, and when, there are positive results in the fight against inflation, then policy during 1980 could be adjusted to have a more supportive posture, especially if investment and consumption were also found to be weakening significantly;
- 3) energy policy must in any case be strengthened in all aspects. Without achieving a deep change in past relationships between oil imports and economic growth, there is little prospect for the latter to progress.

This policy approach does not, in the judgement of the Commission, change the objectives of policy - to give priority to the fight against inflation without stopping growth. Nor should there be fundamental changes in policies defined in the course of recent months. These policies do, however, require strong and urgent implementation.

EC - chart on the economy, 1973 - 1980 on page 4.

The Community economy 1973-80

	GDP volume growth	Rise in consumer prices	Current account balance of payments '000 million EUA	General government financial deficits % GDP	Money supply growth M ₂ /M ₃	Unemployed in labour force
	%	%			%	%
1973	6,0	8,4	1,1	-0,7	16,5	2,5
1974	1,6	13,4	-9,5	-1,7	12,8	2,9
1975	-1,6	12,8	0,8	-5,6	12,7	4,3
1976	5,0	11,1	-6,2	-3,8	12,5	4,9
1977	2,3	10,5	1,2	-3,3	12,3	5,3
1978	3,1	6,8	14,0	-4,0	12,7	5,5
1979 (1)	3,1	8,9	-3,3	-4,0	10,9	5,6
1980 (1)	2	9	-5 1/4	-3,9	10 1/2	6,2

(1) forecasts of the Commission staff on the basis of present or anticipated policies

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