

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

OECD ECONOMIC OUTLOOK

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

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The OECD Economic Outlook

provides a periodic assessment of economic trends and prospects in OECD countries, developments which largely determine the course of the world economy. It appears twice a year in June and December.

Each number contains an overall analysis of the latest economic trends and short-term forecasts. This survey is the joint work of members of the Secretariat of the Department of Economics and Statistics. The journal also occasionally contains special studies by members of the Department or other parts of the Organisation designed to assist the interpretation of economic trends. Reference statistics are included. The French version of the OECD Economic Outlook *is entitled* **Perspectives économiques de l'OCDE.**

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CONVENTIONAL SIGNS

$	US dollar	.	Decimal point
c	US cent	I, II	Calendar half-years
£	Pound sterling	Q1, Q4	Calendar quarters
mbd	Millions barrels per day	Billion	Thousand million
. .	Data not available	Trillion	Thousand billion
0	Nil or negligible	s.a.a.r.	Seasonally adjusted at annual rates
–	Irrelevant	n.s.a.	Not seasonally adjusted

In the tables, historical numbers are presented as integers and decimals; estimates and projections are presented as integers and fractions.

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Summary of projections[a]

Seasonally adjusted at annual rates

	1985	1986	1987	1988	1987 I	1987 II	1988 I	1988 II
	Percentage changes from previous period							
Real GNP								
United States	2.7	2.5	2½	2¾	2¾	2¼	2¾	2¾
Japan	4.7	2.5	2	2	1¾	1½	1¾	2½
Germany	2.5	2.4	1½	2	¼	1½	2	2¼
OECD Europe	2.6	2.5	2	2	1¾	2	2¼	2
Total OECD	3.0	2.5	2¼	2¼	2¼	2¼	2½	2½
Real total domestic demand								
United States	3.4	3.5	1½	2	1¼	1¼	2	2¼
Japan	3.8	4.0	2½	2¼	1¾	2	2	2¾
Germany	1.5	3.7	2¾	2¾	1¾	2½	3	2¾
OECD Europe	2.4	3.8	2¾	2½	2¼	2½	2½	2½
Total OECD	3.1	3.6	2¼	2¼	1¾	2	2¼	2¼
Inflation (private consumption deflator)								
United States	3.5	2.1	4	4½	4½	4½	4½	4½
Japan	2.1	0.6	0	1¾	–¼	¼	3	½
Germany	2.1	–0.4	¾	1½	¾	1½	1½	1½
France, United Kingdom, Italy, Canada	6.0	3.8	3¾	3¾	4¼	3¾	3¾	3¾
Other OECD countries	8.4	7.0	6	5	6	5½	5	4¾
Total OECD	4.5	2.8	3½	3¾	3¾	3¾	4	3½
	$ billion							
Current balances								
United States	–117.7	–140.6	–147	–126	–149	–145	–132	–120
Japan	49.2	86.0	95	87	95	95	86	88
Germany	13.2	35.8	37	29	40	34	29	29
Total OECD	–58.9	–19.7	–23	–30	–16	–29	–34	–27
OPEC	3.8	–31.9	–17	–12	–20	–13	–12	–12
Non-oil developing countries	–23.3	–10.9	–9	–11	–7	–10	–11	–12
	Per cent of labour force							
Unemployment								
United States	7.2	7.0	6¾	6½	6¾	6¾	6½	6½
Japan	2.6	2.8	3	3	3	3	3	3
Germany	8.3	8.0	8	8¼	8	8	8¼	8¼
OECD Europe	11.1	11.0	11	11¼	11	11	11¼	11¼
Total OECD	8.4	8.3	8¼	8¼	8¼	8¼	8¼	8¼
	Percentage changes from previous period							
World trade[b]	3.6	4.0	2¼	4	–½	3¾	4	4

a) Assumptions underlying the projections include :
- no change in actual and announced policies;
- unchanged exchange rates from 21st April 1987; in particular $1 = yen 142.1, DM 1.81.
- Dollar price (OECD fob imports) for internationally traded oil of $ 18 per barrel.

b) Arithmetic average of the growth rates of the world import volume and the world export volume.

The cut-off date for other information used in the compilation of the projections was 12th May 1987.

Cooperative Policy Action to Restore Satisfactory Growth

The economic situation has deteriorated in recent months, and OECD projections to the end of 1988 point to little improvement. Slow growth, high unemployment and large payments imbalances are likely to persist. Recent downward movements in the dollar, which occurred despite unprecedented interventions in exchange markets, have led to rising inflation expectations and higher interest rates in the United States. These developments, together with growing tensions in international trade relations and continuing debt problems, have increased the risks of a worsening world economic situation.

At the same time, many of the conditions for faster growth remain favourable: inflation is under control in most countries; corporate financial positions are generally good; interest rates have declined markedly in recent years; budget positions have improved in a number of countries; and labour markets show signs of increased flexibility. The fact that, in spite of this, the outlook is not better is due in large part to an apparent weakening of private-sector confidence, related in particular to recent wide swings in exchange rates and uncertainty about their future evolution. For confidence to be restored, it is important for governments swiftly to implement internationally-agreed commitments in both the macroeconomic and structural policy areas.

The present situation

The economic situation is less favourable than expected last year. The assessment then was that lower oil prices and the associated falls in inflation and interest rates had created an opportunity to achieve faster growth accompanied by both low inflation and an unwinding of major current account imbalances. It now appears that the oil-price fall may have improved performance by somewhat less than originally projected. In addition, investment may have been weakened by uncertainty about the future course of exchange rates.

The falls in oil and non-oil commodity prices early in 1986 did have a favourable impact on OECD economies. In particular, rates of inflation came down and interest rates fell. However, the partial reversal of the fall in oil prices at the turn of the year is eroding these positive developments slightly. (The current projection embodies an oil price assumption of $18 per barrel compared with $15 per barrel in the projections six month ago.) Furthermore, the overall impact on demand of the substantial transfer of income from oil producers to oil consumers may have been slightly negative rather than neutral as expected earlier: oil producers appear to have cut back expenditure by more than originally projected, while somewhat more than expected of the terms-of-trade gains may have been saved. (More detail on these developments is provided in the chapter on Forces Shaping Economic Activity.)

Earlier, more favourable, assessments depended not only on the positive effects of lower oil prices but also on the assumption that private investment decisions would be taken in a climate of relative exchange-rate stability, following the substantial corrections seen during 1985 and in the early part of 1986. In the two previous editions of the *Economic Outlook* the OECD has discussed the case for a period of relative exchange-rate stability, arguing *inter alia* that the reduction of external imbalances should not be made to rely unduly on exchange-rate changes. At the time, it seemed possible that a period of relative exchange-rate stability might go together with a determined implementation of announced policies – especially those holding out the prospect of initiating a sustained process of reducing external imbalances.

In the event, despite periods of calm, exchange markets have remained disturbed. Further appreciation of the exchange rate in Germany and, especially, Japan has adversely affected investment intentions, without an offsetting surge of investment plans in depreciating countries. In addition, growth prospects may have been weakened not only by actual changes in exchange rates but also by the disorderly manner in which they have occurred, especially since late-1986. This has increased uncertainty about future exchange-rate developments, apparently undermining business confidence. While it appears that exporters in a number of sectors in appreciating countries could have adjusted to the recent pattern of exchange rates, investment decisions seem to have been affected by fear of *additional* exchange-rate appreciation. Very recently, fear of accelerating U.S. inflation arising from further dollar depreciation seems to have been an important factor behind the rise in U.S. long-term interest rates and, in consequence, weaker prospects in interest-sensitive sectors in that country. In both appreciating and depreciating countries, therefore, uncertainty about future developments in financial markets seems to be contributing to weakness of investment. At the same time, however, financial positions of enterprises have generally strengthened further and profits are relatively high; the means to invest are there if the prospects encourage it.

The increase in uncertainty and hence the weakening of private-sector confidence appears to have been importantly due to concerns arising from delays by governments in fully implementing internationally-agreed commitments to adjust policies. These concerns may have been heightened by perceived disagreements among major countries.

The outlook

The projections in this issue have been prepared on the customary working assumptions of unchanged policies and exchange rates. However, details of fiscal policy actions agreed in principle by the United States and Japan were not yet known and could not be included. (See country chapters for detail of the interpretation here of the usual OECD assumption of "unchanged policies".) On this basis, the prospects for activity are unsatisfactory. OECD real GNP is estimated to be expanding currently at only 2 to 2½ per cent at an annual rate, and little acceleration is likely over the next eighteen months. Employment growth is projected to continue at a rate of 1 per cent a year, just sufficient to stabilize the unemployment rate at 8¼ per cent for the OECD area as a whole. Unemployment rates may continue to fall in North America and the United Kingdom but are likely to rise in many other countries.

The inflation outlook, while still broadly satisfactory in most countries, has nonetheless worsened slightly. For the OECD area as a whole, inflation may run at some 3½ per cent this year with a marginal acceleration possible in 1988. For the United

States, the effects of the recent dollar decline and the firming of oil prices are likely to move inflation into the 4 to 4½ per cent range. This would appear to bring U.S. inflation to a point where any further acceleration (associated, for example, with continuing dollar weakness) would have to be resisted by the monetary authorities and therefore provoke a rise – possibly sharp – in interest rates.

The exchange-rate changes of the past two years seem likely to have arrested the trend towards ever-wider current account imbalances for the three largest OECD countries. Indeed, in volume terms the Japanese and German surpluses declined by 1½ and 1¼ per cent of GNP respectively in 1986, while the United States deficit, after widening further in 1986, could from now on be declining in real terms at an annual rate of some ¾ per cent of GNP. Nonetheless, the outlook for external imbalances remains disquieting. In dollar terms, the three largest imbalances may be slightly larger in 1987 than in 1986. These prospects are somewhat less favourable than envisaged in *Economic Outlook 40*. This is due largely to J-curve effects stemming from the further exchange-rate movements (which should make for greater adjustment over the longer term). The imbalances should however decline from now on, even in dollar terms, and be noticeably smaller in 1988 than in 1987. Even so, the U.S. deficit next year could still be in the region of $125 billion (2½ per cent of GNP), and the Japanese and German surpluses not far short of $90 billion (3½ per cent of GNP) and $30 billion (2½ per cent of GNP) respectively.

The OECD has done some exploratory work which suggests that, on the basis of existing policy settings and unchanged real exchange rates, the situation would be unlikely to improve significantly in the medium term. In particular, analysis in the Foreign Trade and Current Balances chapter suggests that, on these assumptions, large external imbalances might persist over the medium term. In those circumstances, there could be a risk of a continued fall of the dollar; increased inflationary pressure in the United States; reaction by the U.S. monetary authorities to contain such pressure, necessarily pushing up interest rates; reduction of activity in interest-sensitive and heavily-indebted sectors of the U.S. economy; a deterioration of the international debt situation forcing a further cut-back in debtor-country imports; heightened protectionist pressures; and the international interaction of these negative forces, further weakening prospects for growth and employment.

Policies for a better outcome

Developments of this kind would be at the extreme end of a range of possible outcomes. Conscious of this, governments have agreed at international meetings in recent months on policy action designed to boost confidence and improve the conditions for faster growth and the unwinding of international imbalances. If the risks enumerated above are to be averted, however, it is essential that the agreed action be implemented fully and swiftly. The OECD Ministerial meeting in May elaborated the necessary – and mutually supportive – actions under three broad headings: macroeconomic policies; structural reform; and relations with the developing countries.

Macroeconomic policies

For the three largest OECD countries, it would appear desirable for *fiscal policies* to aim at altering the pattern of domestic demand growth – slowing it in the United States and raising it in Japan and Germany. These directions of change would both promote external adjustment and be consistent with what these countries should

consider doing in their own domestic interest. For the United States, the need, on domestic grounds, for a determined effort to reduce the fiscal deficit is widely accepted. One important effect of deficit reduction could be relatively lower interest rates in the United States (and possibly in other countries), thereby supporting investment and the debt strategy. Fiscal policy action of this kind would reduce the risk of sharp downward pressure on the dollar leading to higher U.S. interest rates. More rapid expansion of domestic demand in Japan and Germany may have a relatively minor role to play in external adjustment – but would provide an offset to the deflationary consequences of external correction on these countries' domestic economies, and help prevent a decline in world demand. For both countries, the increasing risk of inadequate growth of domestic demand and, in consequence, rising unemployment would seem to provide domestic grounds for fiscal support.

Fiscal re-balancing along these lines would not imply that countries that have been pursuing a medium-term approach to the setting of macro-policies over the past few years would now be abandoning it. On the contrary, the present situation provides ample illustration of the problems that can arise when policies are not sustainable over the medium term. A re-balancing of fiscal policy settings, to positions which would be sustainable over the medium term – and which would be seen as such by private agents – would represent a reinforcement of the medium-term approach to policy.

The largest fiscal action required is to ensure the continued reduction beyond FY 1987 of the Federal deficit in the *United States*. Indeed, this is the overriding priority for policy in that country. The reduction in the deficit in FY 1987 now looks likely to be smaller than previously envisaged. Meanwhile, FY 1988 is getting closer with agreement on that year's budget still to be reached. Failure to reach a satisfactory agreement could seriously affect confidence, both in the United States and elsewhere. Hence, it is important that an early agreement be reached between the Administration and Congress on the specific measures to be implemented. To complete action on a budget with substantially reduced deficits, it seems that a wide range of possibilities may need to be considered: cuts in non-defence spending, lower-than-planned defence spending, and increases in taxation.

For *Japan*, policies should be aimed at supporting expansion of domestic demand at a rate more rapid than that of underlying output growth, thereby reducing the unsustainable dependence on export growth. Such an action would be consistent with the longer-term requirement to reorient the Japanese economy, along the lines advocated in the Maekawa Report. Furthermore, relative to the budget position embodied in the present OECD projection for 1987 and 1988, some such fiscal easing could be sustained over the medium term – although the pressure of the ageing population on the budget position will require action at some point in the early 1990s. For example a sustained general government deficit of 1 per cent of GNP would be compatible with a net debt/GNP ratio that was stable or falling slowly. A large package of measures is currently under discussion, but its likely impact is as yet unclear. It is not, however, only a matter of the size of tax receipts and government spending: measures should be designed on both the revenue and expenditure sides to channel savings more towards domestic investment and imports. In particular, action should be taken to promote housing construction together with the deregulation of the use of land in urban areas.

In *Germany* also, domestic demand growth needs to strengthen, and to exceed the growth of potential output. The slow growth of exports and recent uncertainty concerning exchange rates, which triggered a sharp scaling back of investment intentions, underscore the need for greater support for domestic demand to maintain a reasonable rate of expansion and enhance the growth of productive potential, while strengthening the process of external adjustment. Fiscal prudence over recent years in Germany has created scope for a larger budgetary contribution to domestic demand, consistent with sound management of government finances. The Government has announced that DM 5 billion of a broader tax reform will be advanced to 1st January 1988, reinforcing the tax cuts already scheduled for that date. The authorities have also undertaken to consider taking further action in the event that activity fails to strengthen as expected. The medium- to longer-term performance of the German economy could be improved by reduction of subsidies – which would allow relatively lower tax rates.

Other OECD countries are in diverse situations, but most have little room for fiscal relaxation. Some have been following a course of budgetary consolidation, but have further to go; others adopted expansionary fiscal policies during the first half of the 1980s, and now need to restore sound fiscal positions. Many countries also face an external constraint. As to individual cases, France has committed itself to further reduction of the central government deficit, as well as to a programme of tax cuts. Italy and Canada remain committed to further progressive deficit reduction. Although the United Kingdom has gone far towards meeting its medium-term fiscal objectives, its recent budget has probably used as much scope as existed for easing. Denmark, Finland, and Sweden have comfortable fiscal positions, but may nonetheless be constrained – Denmark and Finland by weak external positions, and Sweden by the risk of accelerating wages. Meanwhile, Belgium, the Netherlands and Spain are in current account surplus but have large fiscal deficits. Perhaps only Switzerland among the smaller countries is free of constraints on both budgetary and balance-of-payments grounds; but, with unemployment very low, there is little reason, on domestic grounds, for a change of policy.

Monetary policy has been easier in orientation and pragmatic in implementation over the last year or so. Broad money growth has tended to be close to or above the top end of target ranges in the major countries, and to be stronger than nominal income growth. In view of the low rates of inflation in most countries and the weak growth of activity, as well as uncertainty about the behaviour of the demand for money, the flexible response of the monetary authorities has been appropriate. Given the outlook for activity and inflation, a relatively easy stance remains justified in much of the OECD area. Over the medium term, of course, monetary policy has to be primarily concerned that the rate of increase of nominal demand is consistent with acceptably low inflation rates.

In view of the outlook for a continuation of low inflation, policies seem to be consistent with a further market-led decline in interest rates in a number of countries. However, as noted above, prospects for interest rates in the United States – especially long-term rates – are clouded by uncertainties about the exchange rate, the apparent revival of inflation expectations, and the Federal budget.

Monetary policy has a further role to play in contributing to the orderly evolution of exchange rates, the importance of which was underlined in the Louvre Agreement and reaffirmed at other recent high-level meetings. If the exchange-rate objective is accorded high priority, tensions can arise between the two roles of monetary policy – pursuing a stable medium-term course domestically, and contributing to exchange-rate stability. However, with close cooperation among central banks, it should be possible to ensure that easing of monetary policies in countries with strong exchange rates is broadly balanced by tightening in those with weak exchange rates. In this way, policies can avoid an unintended collective bias towards excessive ease, or excessive restraint, that could arise when central banks respond individually to exchange market pressures: mistakes of this kind contributed to excessive monetary expansion in the 1970s for the major countries as a group. At the same time, monetary policy is not the appropriate instrument for reducing swings in exchange rates that stem from fundamental forces such as major current-account imbalances; in that respect, fiscal re-balancing is the key macroeconomic policy requirement.

Structural reform

An appropriate setting of macroeconomic policies is a necessary but far from sufficient condition of better economic performance: microeconomic policies also have a crucial role to play. Indeed, the limited room for manœuvre in macroeconomic policies in most countries serves to underline the importance of a rapid implementation of structural reforms. Only if structural conditions are progressively improved is growth likely to be sufficiently strong to make substantial inroads into unemployment over the medium to longer term.

OECD Ministers reviewed microeconomic policies on the basis of the Report of the Secretary General on Structural Adjustment and Economic Performance and agreed on a set of necessary reforms. As with macroeconomic policies, agreement needs to be followed by action. This need is particularly urgent in respect of trade and agriculture policies:

- International trade provides, through competition, the most powerful means of promoting economic efficiency and growth. It is therefore disquieting that barriers to an open multilateral trading system have been increasing. Particularly disturbing is the increasingly bilateral nature of trade disputes with, in consequence, resort to specific "solutions" which necessarily introduce distortions into the multilateral trading system. It is of key importance to reverse this recent trend towards *ad hoc* discriminatory trade measures, to strengthen the multilateral approach to trade relations, and to make rapid progress in the Uruguay Round.

- World agricultural markets are currently marked by the financially costly and economically damaging vicious spiral of mounting surpluses, collapsing prices on international markets and further trade restrictions and increasing subsidies. Moreover, policies in most OECD countries are failing in their objective to provide reasonable incomes to all farmers. Ministers agreed on the principles for the reform of agricultural policies. In particular, production and investment decisions should be increasingly guided by market signals. Farm income support should, where appropriate, be provided through direct income support, rather than through price guarantees or other measures linked to production.

Reforms in other areas are also called for, especially as simultaneous actions in several areas of microeconomic reform would be both cumulative and mutually reinforcing in their effects. Action on a wide front may be needed to make a significant macroeconomic impact. Industrial subsidies, frequently a source of domestic and international distortions and an impediment to structural adjustment, should be reduced. The removal of obstacles to labour mobility – notably by improved education, training and retraining opportunities, as well as increased portability of pensions, and reduced rigidity in the housing market – would reduce the likelihood that wage pressures would emerge as lower rates of unemployment are achieved. Wage moderation could also be fostered by reforms like making "capacity to pay" a stronger consideration in public and private sector wage setting, dismantling of mandatory wage indexation and freezing of minimum wages. Price moderation could be promoted directly by strengthened competition, internationally and domestically, deregulation, privatisation or reform of public enterprises, especially in communications and transport sectors; and, as noted above, reduction of domestic price supports in agriculture.

A crucial object of structural reform is to direct investment towards its most productive uses. Current investment decisions, which will affect the pattern of production well into the future, have to be made on the basis of current indications as to policy. Given clear and credible signals, the pattern of investment decisions would soon respond. This underlines the urgent need, in a number of areas of policy, to refrain from further market-distorting measures and to begin the process of dismantling existing ones, notably by reducing trade barriers and opening up regulated domestic markets to create competition. In this respect, the programme of completing the internal market of the European Community and reducing regulation within it would expand opportunities. At the same time, a continuation of recent trends towards more flexible and competitive financial markets would make investment in new and risky ventures easier to finance.

Structural reform would also contribute to bringing down external imbalances. Success here depends in part on production and investment decisions responding effectively to the major changes that have taken place in exchange rates, and more generally to changes in relative prices which reflect economic fundamentals. The required international re-balancing calls for more US investment in its tradeables sectors and more investment by surplus countries in their non-tradeables sectors, as well as disinvestment by many countries in their agricultural sectors. The needed adjustments will be smoother, more rapid and possibly more far-reaching to the extent that price signals are fully received by private investors – and are not masked or muted by structural rigidities or protectionist measures.

Relations with developing countries

The situation of different developing countries varies greatly, but many of them continue to face serious difficulties of external adjustment. In 1986 the oil-exporting countries were especially hard hit by terms-of-trade losses and, as a result, the volume of their imports fell by between 20 and 25 per cent. Other developing countries benefitted from lower oil prices, though weak commodity prices tended to offset this gain for commodity exporters, and a reduced availability of external financing required import compression for these countries as well. The newly-industrialising economies, in aggregate, experienced a substantial improvement in their external earnings in 1986; strong import growth and some terms-of-trade reversals may lead to some decline in their current account surpluses this year and next.

Debt problems continue to be a matter of concern. The debt-export ratios for many developing countries have probably increased further of late despite import compression. Another disquieting feature is the recent increase in U.S. interest rates.

The Baker initiative contains what continue to be the essential elements of a sound strategy for handling the issues of developing-country debt and adjustment problems. At the same time, there is widespread disappointment at the way the debt strategy has been implemented. In part, difficulties have arisen from the policies pursued by some of the heavily indebted countries themselves. Sound adjustment policies can achieve growth and strengthen economic development, but they need to be realistic with respect to the capacity of economies to support rapid consumption growth, and they must take seriously the task of improving the microeconomic functioning of economies. In some cases, policies have not met these requirements. But for countries that are making stronger efforts, there needs to be greater certainty that adequate financing will be forthcoming.

The multilateral development agencies are playing the part that was assigned to them. The IMF is continuing to support adjustment programmes with short-term financing as appropriate; because of the sharp increase in such financing in the early phases of the debt crisis, the Fund has, as foreseen, become a net recipient of funds from developing countries. It will be necessary to ensure that an adequate contribution continues to come from the multilateral agencies as a group. It is the commercial banks that have not been making their expected financial contribution. They have displayed ingenuity in developing new menus of options for rescheduling, but protracted negotiations have slowed the flow of new money. It would be desirable for them to be prepared to accept some reduction of cash flow on problem credits, through measures ranging from provision of larger amounts of new money to the more developed countries to capitalisation of part of interest due from the poorest countries.

Fundamentally, however, export expansion – along with appropriate domestic policies in debtor countries – will be crucial to an easing of debt problems. The shortfall of OECD domestic demand expansion from earlier expectations, if it persists, would undermine the debt strategy, as would a major increase in U.S. interest rates or a failure to provide freer access to OECD markets for the products of developing countries.

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In the absence of timely policy action, both macro and micro, the risk of worsening economic performance could intensify. Internationally-agreed policy commitments therefore need to be implemented fully and rapidly. Action now could help rebuild confidence rather quickly, and improve prospects. Even with appropriate policies in place, however, restoration of stronger underlying growth performance and a substantial unwinding of international imbalances will inevitably take time. Governments will accordingly have a continuing need to nurture private sector confidence, by demonstrating a steady determination to pursue policies that are sustainable and internationally compatible over the medium term.

28th May 1987.

DOMESTIC AND INTERNATIONAL DEVELOPMENTS

FORCES SHAPING ECONOMIC ACTIVITY

Favourable terms-of-trade developments in 1986 resulted in a boost to OECD real income of about 1 per cent. Part of this was saved, not spent, while non-OECD countries reacted to their terms-of-trade losses by reducing imports. Some delayed spending of the 1986 terms-of-trade gains is expected to support OECD domestic demand during 1987, and net exports to non-OECD countries are projected to add to OECD GNP growth over the next eighteen months. Monetary conditions have firmed in the United States, but remain easy elsewhere. Fiscal policy at the OECD area level may turn restrictive this year and remain so next. Nominal wage growth is projected to exceed that of prices, but without eroding profit shares. Reflecting these forces, OECD GNP growth is expected to slow down this year, and to stabilize next, at a 2 to 2½ per cent rate. Growth of total output may be faster in the United States than in the rest of the OECD area, although the expansion of U.S. domestic demand is projected to be slower than elsewhere.

Recent developments and current trends

The growth of domestic demand in the OECD area was particularly buoyant during the summer months of 1986 as falling inflation and nominal interest rates stimulated private consumption and investment. However, there was a sharp deceleration in the growth of these two categories during the fourth quarter in the three largest economies. Business surveys and other evidence indicate that the unexpected weakness of business confidence has resulted in a downward revision of investment spending, at least during the first half of 1987. Consumer confidence has also been adversely affected in some countries.

The buoyancy of domestic demand up to the autumn of 1986 was in large measure a result of the favourable terms-of-trade developments following the fall in oil prices, and the weakness of other primary commodity prices. These terms-of-trade changes also had adverse impacts: investment spending by the energy sectors in OECD countries was cut back very sharply, but the chief adverse effects were felt by OECD exporters. Oil-exporting countries outside the OECD area reduced their import volumes by over 20 per cent in 1986, and the rate of decline quickened in the second half of the year. At the same time, OECD imports from non-OECD countries, especially of oil, rose strongly. In consequence, the growth of OECD real GNP, at 2½ per cent, was ¾ percentage point slower than that of domestic demand during the second half of 1986 (Tables 1 to 5).

The OECD economy is estimated to have grown at a 2 to 2½ per cent rate in the first half of 1987, with real GNP growth being above this average in the United States but markedly slower in Europe and Japan. The main spur to growth in the United States is estimated to have come from stockbuilding (probably involuntary) and the foreign sector, with export volumes rising strongly as competitiveness factors exert their impact. Final domestic demand growth is very subdued, with consumer spending being restrained by sluggish real income growth and business investment still falling. In Europe, the contribution of net exports to GNP growth is estimated to have remained negative, and domestic demand growth to have been markedly lower than in 1986. This largely reflects developments in the two largest European economies: falling business investment in Germany, perhaps arising from uncertainties regarding future exchange rate movements, and weak private consumption growth in France, reflecting low real income growth. Private sector demand growth is estimated to have remained brisk in the United Kingdom and Italy, and in most smaller European countries. The growth of domestic demand in Japan is estimated to have fallen below 2 per cent at an annual rate, reflecting a slow-down in private investment and a drop in government consumption. Import volumes may also have declined, so that despite the appreciation of the yen, the real trade balance may have made a marginally positive contribution to GNP growth. As in Germany, the slowdown in investment spending is related to fears concerning the impact of further exchange rate appreciation on profitability and output in the export sector. (The drop in government consumption and imports is mainly technical, related to large public-sector purchases of gold during 1986.)

Table 1

Growth of real GNP in the OECD area[a]

Percentage changes from previous period, seasonally adjusted at annual rates

	1982 Share in total OECD	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
United States	40.9	6.4	2.7	2.5	2½	2¾	1.8	2¾	2¼	2¾	2¾
Japan	14.0	5.1	4.7	2.5	2	2	3.2	1¾	1½	1¾	2½
Germany	8.5	3.0	2.5	2.4	1½	2	3.9	¼	1½	2	2¼
France[b]	7.0	1.5	1.4	2.0	1¼	2	2.0	½	2¼	2	1¾
United Kingdom[b]	6.3	3.0	3.5	2.7	3¼	2¼	3.5	3½	2¾	2¼	1¾
Italy[b]	4.5	2.8	2.3	2.7	3	2½	2.7	3¼	2½	2½	2¼
Canada[b]	3.9	5.5	4.0	3.1	2½	2¾	1.2	3	3	2¾	2½
Total of above countries	85.1	5.0	3.0	2.5	2¼	2½	2.4	2¼	2¼	2½	2½
Other OECD countries[c]	14.9	3.3	3.1	2.5	2	2	2.1	2	2	2¼	2¼
Total OECD	100.0	4.7	3.0	2.5	2¼	2¼	2.4	2¼	2¼	2½	2½
Four major European countries	26.3	2.6	2.4	2.4	2¼	2	3.1	1¾	2¼	2¼	2
OECD Europe	38.8	2.6	2.6	2.5	2	2	2.9	1¾	2	2¼	2
EEC	33.3	2.5	2.4	2.4	2	2	2.8	1¾	2	2	2
Total OECD *less* the United States	59.1	3.6	3.3	2.5	2¼	2	2.8	2	2	2	2¼
Industrial Production :											
Major seven countries	–	8.9	2.7	0.9	2	3¼	0.9	2¼	3	3¼	3¼
Total OECD	–	8.3	2.7	1.1	2¼	3	1.1	2¼	3	3¼	3¼

a) Aggregates were computed on the basis of 1982 exchange rates.
b) GDP.
c) Half-yearly data must be interpreted with care since for most of these countries, amounting to over 50 per cent of the total GDP of the smaller countries, half-yearly growth rates were obtained by a purely mechanical interpolation. For details on yearly basis, see Table 2.

Table 2

Growth of real GDP in other OECD countries[a]

Percentage changes from previous year

	1982 Share in total OECD	1984	1985	1986	1987	1988
Austria	0.9	2.0	3.0	1.7	¾	1½
Belgium	1.1	1.6	1.5	2.3	1¼	1¾
Denmark	0.7	3.5	4.2	3.4	–¾	0
Finland	0.7	2.8	3.0	1.8	2¾	2½
Greece	0.5	2.8	2.1	1.3	–1	1¼
Iceland	0	3.6	3.4	5.9	3¾	..
Ireland[b]	0.2	1.8	0.2	–0.5	¾	1¼
Luxembourg	0	–4.8	2.9	2.0	2½	2¼
Netherlands	1.8	2.4	1.7	1.9	1½	1
Norway	0.7	5.7	5.4	3.8	2¾	1¼
Portugal	0.3	–1.6	3.3	4.8	3½	2¾
Spain	2.3	1.9	2.2	3.0	3	2¾
Sweden	1.3	4.0	2.2	1.3	1¾	1½
Switzerland	1.2	1.7	4.0	2.8	1¾	2
Turkey[b]	0.7	5.9	5.1	8.0	6½	6¼
Total of above European countries	12.5	2.7	2.8	2.7	2	2
Australia	2.1	7.0	5.1	1.4	2½	2¾
New Zealand	0.3	4.2	0.7	–0.6	¼	2¼
Total of above countries	14.9	3.3	3.1	2.5	2	2
OECD Europe	38.8	2.6	2.6	2.5	2	2
EEC	33.3	2.5	2.4	2.4	2	2

a) Aggregates were computed on the basis of 1982 exchange rates.
b) GNP.

Table 3

Development of real total domestic demand in the OECD area[a]

Percentage changes from previous period, seasonally adjusted at annual rates

	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
United States	8.3	3.4	3.5	1½	2	2.6	1¼	1¼	2	2¼
Japan	3.8	3.8	4.0	2½	2¼	4.7	1¾	2	2	2¾
Germany	1.9	1.5	3.7	2¾	2¾	5.5	1¾	2½	3	2¾
France	0.7	2.1	3.8	1¾	2¼	3.5	¾	2½	2¼	1¾
United Kingdom	2.7	2.8	3.2	3¼	3	3.6	3	3¾	3	2½
Italy	3.3	2.4	3.2	4½	3¼	4.5	4¾	3¾	3¼	3
Canada	4.2	4.6	3.5	2¼	2¾	0.1	3	3	2¾	2½
Total of above countries	5.5	3.1	3.6	2¼	2¼	3.3	1¾	2	2¼	2¼
Other OECD countries[b]	2.5	3.0	3.5	2	2¼	2.4	2	1¾	2¼	2¼
Total OECD	5.0	3.1	3.6	2¼	2¼	3.2	1¾	2	2¼	2¼
Four major European countries	2.0	2.1	3.5	3	2¾	4.3	2¼	3	2¾	2½
OECD Europe	2.0	2.4	3.8	2¾	2½	3.9	2¼	2½	2½	2½
EEC	1.7	2.2	3.6	2¾	2½	3.9	2¼	2¾	2¾	2¼
Total OECD *less* the United States	2.7	2.9	3.6	2½	2½	3.6	2	2½	2½	2½

a) Aggregates were computed on the basis of 1982 values expressed in 1982 US dollars.
b) Half-yearly data must be interpreted with care since for most of these countries, amounting to over 50 per cent of the total GDP of the smaller countries, half-yearly growth rates were obtained by a purely mechanical interpolation.

The projections

The effects of the changes in terms of trade during 1986 on global economic activity that year are described and analysed below. Two conclusions of the analysis are that within OECD countries, much of the terms-of-trade gains that accrued last year have already been spent, while the bulk of the adjustment by oil-exporting countries may by now be over. It was expected earlier that the legacy of higher real disposable incomes and a greatly improved profit position would create a sustained domestic-demand-led expansion of output, especially in countries whose currencies had appreciated the most against the dollar. However, the loss of competitiveness in export markets of these countries, and the fear that their exchange rates might appreciate further, seem to have led to a weakening of business confidence, and investment spending plans have been cut. The outlook for these countries may thus depend on when and to what extent confidence is restored. The projections assume a moderate pick-up of investment in Germany, where the profit situation appears to be healthy, but a rather sluggish trend in Japan, where profits were reduced last year for the sake of retaining competitiveness. In other countries, the prospects for business investment growth appear relatively good,

Table 4

Growth of nominal GNP in the OECD area[a]

Percentage changes from previous period, seasonally adjusted at annual rates

	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
United States	10.5	6.2	5.2	6	7	4.3	6¾	6¼	7	7
Japan	6.4	6.3	4.3	2¼	3¼	4.4	1½	2	4	3¼
Germany	5.0	4.7	5.5	3¼	3¾	6.7	1¾	3	4	4¼
France[b]	8.8	7.3	7.4	4½	4½	6.6	3¼	4¾	4½	4½
United Kingdom[b]	7.2	9.8	6.5	8	7¾	7.3	8¼	8¼	7¾	7¼
Italy[b]	13.9	11.3	11.2	8¾	6¾	9.8	8¾	7¾	7	6
Canada[b]	9.3	7.5	6.1	7	6½	4.6	8¼	6¾	6½	6¼
Total of above countries	9.1	6.8	5.8	5½	6	5.3	5½	5½	6	6
Other OECD countries[c]	13.6	13.2	12.6	10¾	10¾	11.6	10½	10½	10¾	10¾
Total OECD	9.8	7.8	6.9	6¼	6¾	6.4	6¼	6½	7	6¾
Four major European countries	8.2	7.9	7.4	5¾	5½	7.5	5	5¾	5½	5¼
OECD Europe	9.9	9.8	9.4	7½	7½	9.1	7	7½	7¾	7½
EEC	8.7	8.4	8.2	6	5¾	7.7	5¼	5¾	5¾	5½
Total OECD *less* the United States	9.2	8.9	8.1	6½	6¾	7.8	6	6½	7	6¾

a) Aggregates were computed on the basis of 1982 exchange rates.
b) GDP.
c) Half-yearly data must be interpreted with care since for most of these countries, amounting to over 50 per cent of the total GDP of the smaller countries, half-yearly growth rates were obtained by a purely mechanical interpolation.

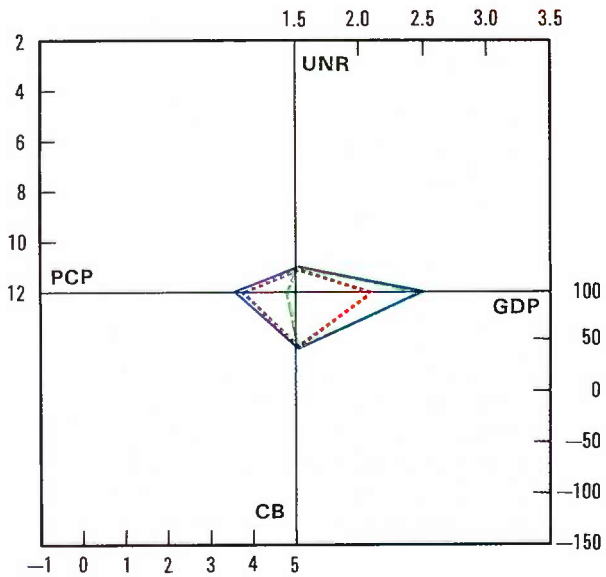
CHART A

REVISIONS TO THE 1987 PROJECTIONS

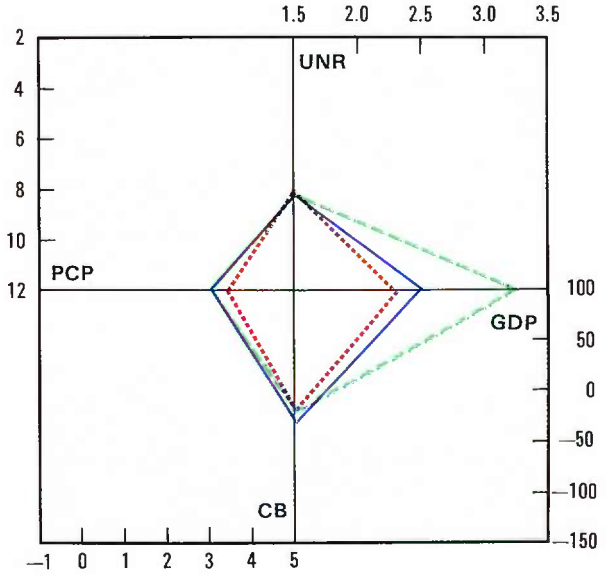
GDP Gross domestic product
UNR Unemployment rate
PCP Consumer prices
CB Current balance

June 1986
December 1986
June 1987

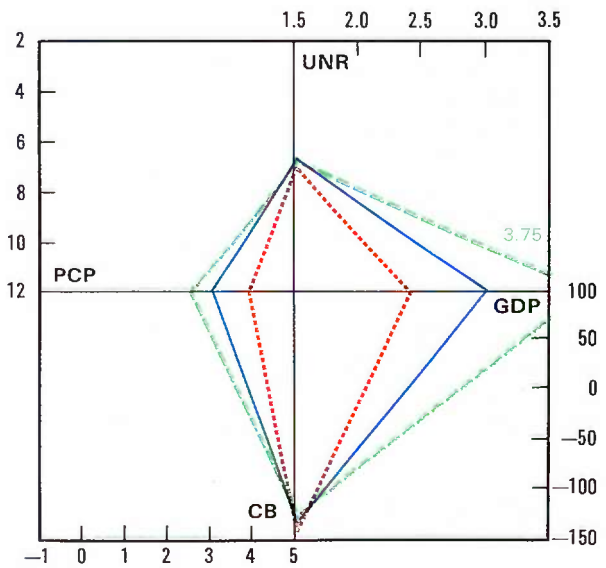
OECD-Europe



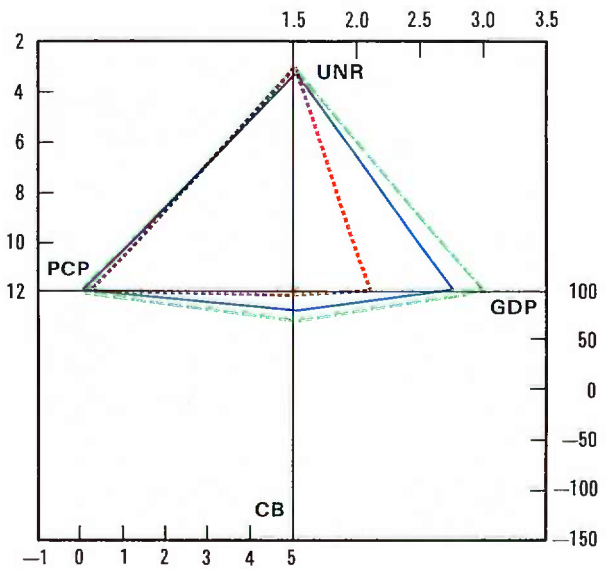
Total-OECD



United States



Japan



Note: The more symmetric the "diamond", the better balanced the projected macro-economic performance in terms of the usual objectives of real growth, unemployment, inflation and current account equilibrium. Within the limits set by the current account equilibrium goal, the bigger the diamond, the "better" the projected performance.

perhaps because loss of competitiveness has been less marked, while corporate finances remain healthy.

Other major forces operating on OECD economies include fiscal and monetary policies, wage developments, and non-OECD demand. The geographic pattern of fiscal impulses to demand continues to change, with a major deficit-reduction expected to occur in the United States in 1987, and expansionary policies expected in some other countries. Nevertheless, the stance of fiscal policy in Europe is expected to swing from expansion to neutrality in 1987, and remain neutral next year. The fiscal policy assumption underlying the projections for Japan does not take into account the Supplementary Budget as details of the proposed measures were not available at the time the projections were prepared. On the basis of the Initial FY 1987 Budget and medium-term consolidation goals, the stance of fiscal policy in Japan would be slightly restrictive this year and next. Monetary conditions continue to ease outside the United States, with short-term interest rates projected to continue declining. Long-term rates in the United States have firmed recently, perhaps in response to concerns both about the possibility of higher future inflation consequent upon the fall of the dollar and difficulties in financing the external deficit at current exchange rates. More details of monetary and fiscal policy in the OECD area and in individual countries is to be found in the next chapter, and in the notes on individual countries.

It is difficult to typify actual and expected wage developments. Nominal wage rate increases in 1986 comfortably outpaced the actual rate of inflation, and were higher than historical experience would have suggested, given the prevailing levels of unemployment and inflation. Nevertheless, profit shares and rates of return on capital in the business sector both rose. The wage projections suggest that the long period of wage disinflation in the OECD area may be coming to an end, with nominal increases averaging 5 per cent in 1987 and 1988, and real increases of 1 to 2 per cent. However, the expected evolution of labour productivity may offset much of this growth in wage costs, and result in profit shares and returns on capital remaining broadly unchanged at their relatively high 1986 levels. A detailed analysis of recent developments in cost and price trends, and their projected evolution over the next eighteen months, is given in the chapter "Costs, Prices and Profits".

Non-OECD demand for OECD exports is projected to remain weak, as heavily indebted countries struggle to adjust to financing constraints. In particular, imports by oil-exporting countries may continue to fall, albeit at a slowing rate, for another year. The financial position of newly-industrialising countries as a group is very sound, however, and OECD export volumes to these countries are projected to expand briskly. Overall, OECD exports to non-OECD countries may recover this year and continue to grow in 1988, perhaps at rates exceeding those of OECD imports from the non-OECD area. Nevertheless, the positive contribution to OECD GNP growth from net exports to non-OECD countries over the next eighteen months is likely to be much smaller than the negative contribution during 1986. The "Foreign Trade and Current Balances" chapter discusses in more detail the projections for OECD trade, including trade between OECD countries.

Overall, the forces outlined above are projected to result in OECD area GNP and domestic demand both expanding at an average rate of 2 to 2½ per cent during 1987 and 1988, significantly lower than projected six months ago. The lowering of projected growth rates reflects the nature of the global adjustment process so far, which has relied mainly on market-induced exchange rate changes. The impact of these on external account positions measured in dollars manifests itself slowly, and is even perverse in the short-run, whereas the impact of actual and possible future exchange rate changes on business confidence in appreciating countries seems to be coming through more quickly. The rise in the dollar price of oil, compared with the technical assumption embedded in the *Economic Outlook 40* projections, also has a slight damping impact on activity as well as raising projected inflation rates. For these reasons, the current set of projections points to a less satisfactory development of growth, inflation, current balances and unemployment than envisaged in recent *Economic Outlooks* (Chart A).

Growth differentials between major OECD regions are expected to widen again, with real GNP growing faster than average in the United States and slower than average in Japan and in Europe, particularly in Germany. These differentials reflect a strong contribution from the real trade balance to U.S. growth, and negative contributions elsewhere. For the first time since 1983, domestic demand growth in the United States is expected to be significantly slower than on average elsewhere.

Sluggish growth of total output will entail a continued depressed labour market, with total employment rising at a 1 per cent rate, insufficient to produce any drop in the OECD average unemployment rate. Details of the labour market projections are given in the Chapter "Employment and Unemployment". Reflecting slow expansion of domestic demand, trade between OECD countries may be less buoyant than in 1986. Within the OECD area, the large movements in key exchange rates over the past two years are projected to result in substantial market share gains for U.S. exporters and losses for others. On the assumption that exchange rates remain at their late April 1987 levels, imbalances on current external account of the three largest OECD economies are projected to start narrowing during 1987. More detail on the foreign trade projections is given in the "Foreign Trade and Current Balances" section. The projections for inflation have been revised upwards slightly, with the growth of the private consumption deflator now expected to increase to a 3½ per cent rate this year, and 3¾ per cent in 1988. This outcome is based partly on the somewhat higher price assumption for

Table 5

Contributions to changes in real GNP/GDP

As a per cent of real GNP/GDP in the previous period, seasonally adjusted at annual rates

	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
United States										
Private consumption	3.1	2.2	2.6	1¼	1½	3.1	¼	1¼	1¼	1¾
Public expenditure	0.8	1.3	0.7	½	¼	1.4	¼	¼	¼	¼
Private residential construction	0.7	0.2	0.5	0	0	0.5	–¼	–¼	0	0
Other private investment	1.9	1.1	–0.1	–¼	¼	–0.1	–½	¼	¼	¼
Stockbuilding	2.0	–1.4	–0.1	0	0	–2.3	1½	–½	¼	¼
Exports	0.7	–0.2	0.3	¾	1¼	0.8	½	1¼	1	1
Imports	–2.6	–0.5	–1.4	0	–½	–1.6	1	–¼	–½	–½
GNP	6.4	2.7	2.5	2½	2¾	1.8	2¾	2¼	2¾	2¾
Japan										
Private consumption	1.6	1.5	1.5	1¾	1½	1.7	1½	1¾	1¼	1½
Public expenditure	0	–0.3	0.9	¼	¼	2.2	–½	–½	¼	¼
Private residential construction	–0.1	0.1	0.5	½	¼	1.1	¼	¼	¼	¼
Other private investment	1.8	2.1	1.2	¼	¼	0.6	0	0	¼	½
Stockbuilding	0.4	0.4	–0.2	0	0	–1.2	½	¼	–¼	0
Exports	2.9	1.0	–0.9	–¼	¼	–0.2	–½	–¼	¼	½
Imports	–1.6	0	–0.5	0	–½	–1.1	½	–½	–½	–½
GNP	5.1	4.7	2.5	2	2	3.2	1¾	1½	1¾	2½
Germany										
Private consumption	0.8	1.0	2.3	1¾	1¾	2.0	1¾	1¾	2	1¾
Public expenditure	0.4	0.4	0.7	½	½	1.4	¼	½	½	½
Private residential construction	0.1	–0.7	–0.1	0	0	0.4	–¼	0	0	0
Other private investment	0.1	0.6	0.6	¼	½	0.5	–¼	½	½	½
Stockbuilding	0.4	0.1	0	¼	0	0.8	0	–¼	0	0
Exports	2.7	2.4	–0.2	–¼	¼	–0.4	–½	0	¼	¾
Imports	–1.5	–1.3	–0.9	–1	–1	–0.9	–¾	–1	–1¼	–1¼
GNP	3.0	2.5	2.4	1½	2	3.9	¼	1½	2	2¼
France										
Private consumption	0.7	1.6	2.1	1	1¼	1.2	1	1	1¼	1
Public expenditure [a, b]	0.2	0.2	0.3	¼	¼	0.2	¼	¼	0	0
Residential construction	–0.2	–0.1	–0.1	0	0	0	0	0	0	0
Other investment	–0.1	0.7	0.9	½	¾	0.5	½	¾	¾	¾
Stockbuilding	0.1	–0.3	0.7	0	¼	1.6	–1	½	¼	0
Exports	1.7	0.6	0	¾	1	0.9	½	1	1	1
Imports	–0.9	–1.3	–1.9	–1	–1	–2.4	–½	–1¼	–1	–1
GDP	1.5	1.4	2.0	1¼	2	2.0	½	2¼	2	1¾
United Kingdom										
Private consumption	1.3	2.2	2.8	2¼	2¼	3.1	2	2½	2	1¾
Public expenditure	0.2	–0.6	0.3	¼	¼	0.4	¼	¼	¼	¼
Private residential construction	0.2	–0.1	0.3	¼	0	0.7	0	0	0	0
Other private investment	1.3	1.1	–0.3	¼	½	–0.2	¼	¾	½	¼
Stockbuilding	–0.3	0.3	0	0	0	–0.3	¼	¼	0	0
Exports	1.9	1.6	0.9	1¼	½	3.1	¾	½	½	½
Imports	–2.4	–0.9	–1.6	–1¼	–1¼	–4.8	½	–1½	–1¼	–1
Compromise adjustment	0.8	–0.1	0.3	0	0	1.7	–¾	0	0	0
GDP	3.0	3.5	2.7	3¼	2¼	3.5	3½	2¾	2¼	1¾
Italy										
Private consumption	1.2	1.2	2.0	2¾	2	2.5	3	2¼	2	2
Public consumption	0.4	0.4	0.5	½	½	0.7	½	½	½	½
Residential construction	0	0	–0.1	0	0	–0.1	0	0	0	0
Other investment	1.0	0.7	0.2	½	½	0.3	¾	¾	¼	¼
Stockbuilding	0.6	0	0.5	¼	¼	0.8	¼	0	¼	¼
Exports	1.6	2.1	0.8	¼	1	–1.3	1	1	1	1
Imports	–1.9	–2.1	–1.2	–1¾	–1¾	–0.3	–2¼	–2	–1¾	–1¾
GDP	2.8	2.3	2.7	3	2½	2.7	3¼	2½	2½	2¼
Canada										
Private consumption	2.0	2.7	2.2	1¾	1½	2.6	1¼	1½	1½	1¼
Public expenditure	0.7	0.4	0.1	¼	¼	0.1	¼	¼	¼	¼
Private residential construction	0	0.7	0.8	½	¼	1.0	¼	¼	¼	¼
Other private investment	0.1	0.5	–0.1	¼	½	–0.8	½	½	½	½
Stockbuilding	1.2	0	0.4	–½	0	–2.7	½	0	0	0
Exports	5.0	1.8	1.0	1¾	1½	2.1	1½	1½	1¼	1¼
Imports	–3.9	–2.1	–1.4	–1¼	–1¼	–1.5	–1¼	–1¼	–1¼	–1
Error of estimate	0.5	–0.1	0.2	0	0	0.5	0	0	0	0
GNP	5.5	4.0	3.1	2½	2¾	1.2	3	3	2¾	2½
Total of above countries [c]										
Private consumption	2.1	1.9	2.3	1½	1½	2.6	1	1½	1½	1½
Public expenditure [a, d]	0.5	0.6	0.6	½	¼	1.3	0	¼	¼	¼
Private residential construction [a, d]	0.3	0.1	0.4	0	0	0.6	0	0	0	0
Other private investment [b, d]	1.4	1.1	0.2	0	½	0.1	0	¼	½	½
Stockbuilding	1.1	–0.6	0	0	0	–1.2	¾	–¼	0	0
Exports	1.7	0.7	0.1	½	¾	0.6	¼	¾	¾	1
Imports	–2.2	–0.7	–1.2	–½	–¾	–1.7	¼	–¾	–¾	–¾
GNP/GDP	5.0	3.0	2.5	2¼	2½	2.4	2¼	2¼	2½	2½

Note: Components may not add to GNP/GDP growth due to rounding.

a) Public expenditure on housing in France is included under *Residential construction.*

b) Public enterprises in France are included under *Other investment.*

c) Computed on the basis of 1982 values expressed in 1982 US dollars.

d) Government fixed asset formation for Italy is included in private investment.

imported oil ($18 per barrel, as against $15 per barrel in *Economic Outlook 40*), but also the assessment that while the lower dollar may translate into rising domestic inflation rates in the United States, the offset in appreciating countries will be limited because of inertia in the nominal wage-bargaining process, despite still-high unemployment rates.

Main assumptions underlying the projections

Policies. The customary assumption underlying the OECD projections is no change in actual or announced policies. In the United States a tightening of fiscal policy stance is assumed in FY 1987, with a decline in the federal government deficit to about $190 billion, but very little change in the deficit is projected for 1988, given the absence, at the time of writing, of specific agreed new measures to reduce the FY 1988 Federal deficit. Outside the United States, fiscal policy is less restrictive in 1987 but more so in 1988 when a further assumed tightening in Japan more than offsets a moderate easing in Germany. As noted above, the projections for Japan do not take into account the additional fiscal stimulus measures announced since February this year. Nominal interest rates are projected to decline somewhat over the projection period in most countries. In the United States, however, a moderate rise in short-term rates is expected, and long-term rates are projected to remain at their present levels.

Oil prices. Import prices (fob) for crude oil are assumed to remain at $18 per barrel throughout the projection period. This assumption is three dollars higher than that in *Economic Outlook 40*.

Exchange rates. The customary OECD assumption is for unchanged nominal exchange rates from a period shortly before the projections are made – in this case spot rates obtaining on 21st April 1987. The fixed rate assumption is modified for those countries which have an established policy or practice of continual nominal exchange rate changes (Greece, Portugal, Turkey). As compared with *Economic Outlook 40*, the main changes include a further effective depreciation of the United States dollar by 10 per cent, and effective appreciation of most other currencies, notably the yen (9¼ per cent) and the DM (2¼ per cent). Details of effective rates are given in Tables 38 and 39.

Elements of uncertainty

Private sector spending in most OECD countries continues to be relatively buoyant, and the combination of low inflation, satisfactory profits, a less restrictive fiscal policy stance outside the United States and a possible further "pass-through" of lower oil prices into domestic OECD economies might lend extra support to OECD activity in the current year. On the other hand, the depressed private investment outlook in the United States, and the weakening of business confidence and investment in Germany and in Japan could point to a more sluggish trend. The present projections are based on the assumption of a limited recovery of confidence in the two latter countries. This assessment is based indirectly on the usual OECD technical assumption of unchanged nominal exchange rates. On this assumption, export volumes in Japan and Germany are projected to recover towards the end of 1987, with private investment following. (The relatively good profitability situation in Germany also plays a role.) But if the dollar were to depreciate much further against other key currencies, or even if there were persistent fears that it might do so, the projected recovery of business investment might be postponed.

In this sense, the assessment of risks and uncertainties has changed since *Economic Outlook 40*. Last December, the potentially negative impact of currency appreciation on investment spending was noted as an uncertainty in the cases of both Japan and Germany. Now it is an actuality, and the uncertainty now resides in how long the negative impact will persist. This in turn gives rise to a new risk. If business confidence and spending continue depressed in the appreciating countries, this, combined with a weakened stimulus from exports, might lead to even more subdued growth in domestic demand and imports. In this case the international payments imbalances between the three biggest OECD countries could remain at present levels or even grow again. Increasing tensions in trade relations, together with third-world debt problems, would then risk leading to a cumulative and serious weakening in economic activity worldwide.

The outlook for oil prices is dominated by the desire of OPEC countries to keep prices close to $18 per barrel on the one hand, and the excess global capacity for crude oil production with its damping effects on prices on the other. The present projections are based on the technical assumption that crude prices will remain at $18 per barrel over the next eighteen months, slightly less than current spot prices, but not so much different as to have a marked effect on the projections.

The impact of terms-of-trade changes on OECD activity in 1986

In 1986, the OECD area's terms of trade[1] improved substantially, resulting in a real income gain of about 1 per cent of aggregate GNP. This arose because of the fall in the dollar prices of crude oil and of other primary commodities, the depreciation of the dollar itself against other OECD currencies, and the fact that OECD countries (particularly outside North America) are major net importers of crude oil and other primary commodities. For the area, and most OECD countries individually, import prices in local currency terms

Table 6

Income terms-of-trade gains and losses

Percentage of GNP/GDP in the previous year[a]

	1986	1987[b]	1988[b]
United States	0.3	–1.0	–0.4
Japan	2.0	0.2	–0.1
Germany	2.9	0.5	0.1
France	2.4	0.2	–0.2
United Kingdom	–1.1	–0.1	0.3
Italy	2.9	0.4	0.0
Canada	–0.9	0.6	0.0
Small European countries	1.5	0.1	0.0
of which: Norway	–8.4	–2.5	–0.5
Australia	–2.1	–0.9	–0.2
New Zealand	–0.2	–0.2	–0.2
OECD total	0.9	–0.3	–0.2
OECD Europe	1.7	0.1	0.0
OECD Europe *less:* United Kingdom and Norway	2.5	0.2	0.0
Memorandum item			
OECD total including valuation effects[b]	1.5	0.1	0.0

a) See footnote (1) to this section.
b) OECD projections.

actually fell. But export prices for many countries also fell, partly because of the commodity composition of their exports, and partly because exporters in countries whose currencies had appreciated significantly against the dollar cut their margins in order to remain competitive. Table 6 lists the estimated and projected income terms-of-trade gains and losses for selected OECD countries and zones.

There are substantial differences as between OECD countries in the size of terms-of-trade changes last year. Not all countries were gainers: the net oil-exporting countries – United Kingdom, Canada and especially Norway – suffered terms-of-trade related losses in real incomes, as did Australia and New Zealand. Nevertheless, Europe on average was as big a gainer as Japan, whereas the United States registered only a modest gain. The size of trade imbalances and the extent to which export prices adjusted also played a role. Although Japanese export prices fell far less than import prices (12 to 13 per cent as opposed to 30 per cent), the much larger size of exports compared with imports resulted in Japan's terms-of-trade gains being less than might have been expected, given the appreciation of the yen. The comparison with Germany is instructive. For both countries, falling import prices in 1986 resulted in gross purchasing power gains of 3½ to 4 per cent of 1985 GNP. These were offset through falling export prices by the equivalent of only ½ per cent of GNP in Germany but as much as 2 per cent for Japan.

Although terms-of-trade gains result in higher real national income, the extent to which the volume of domestic spending increases will depend on the distribution of the gains, the extent to which the various beneficiary groups spend or save – and on the way that saving behaviour reacts. Even if there is no immediate increase in spending, higher saving or lower borrowing by the household, public or corporate sectors may lead to higher spending at a later period as portfolios adjust, and interest rates come under downward pressure. If it is assumed that households are more likely to spend extra income, the impact on domestic demand growth is likely to be stronger the greater the "pass-through" of lower import prices to consumer prices. In practice, part of the terms-of-trade gains may be absorbed by the public sector in the form of higher taxes, and part is likely to be absorbed by the corporate sector in the form of higher profit margins. It may be also that part of the *potential* terms-of-trade gains are passed on to other countries if enterprises raise their domestic margins while lowering those on exports. It is not possible to determine the precise channels through which the income terms-of-trade change flowed in 1986 in individual OECD countries, but some broad indicators are available.

First, it is of interest to see how profit shares and the financial balances of the corporate sector have evolved over the recent past. These data are given in Tables 7 and 8. The data seem reasonably conclusive. Overall, the financial position of the corporate sector improved in 1986 compared with 1985, but that year in turn saw a considerable improvement on the average of the first few years of the decade. There is some tendency for corporate financial positions to have improved most in countries which enjoyed the largest terms-of-trade gains, but there were exceptions. A somewhat clearer picture emerges on examining trends in non-wage income shares. Energy-importing countries whose currencies appreciated saw profit shares rising significantly (see also Chart J). Japan, where productivity was depressed and which experienced a serious squeeze on profit margins in the export sector, was an exception. At the level of the OECD area, the share of business-sector profits stabilized at the relatively high level reached in 1985.

Table 7

Business net lending[a]

Per cent of nominal GNP/GDP

	1980-84 average	1985	1986[b]	1987[b]	1988[b]
United States	–1.2	–0.5	0.1	–½	–1
Japan	–5.1	–5.5	–5.1	–5½	–6¼
Germany	–4.4	–3.1	–1.7	–2	–2
France	–3.8	–1.4	–0.2	–¼	–½
United Kingdom	1.0	1.0	0.2	½	¼
Italy	–2.7	–2.4	–3.1	–3½	–4
Canada	–3.7	–0.9	–1.0	1	1

Sources: OECD National Accounts.
a) The business sector includes financial and non-financial enterprises. Historical data and projections of business net lending are subject to considerable margins of error.
b) OECD estimates.

Table 8

Profit share of the private business sector

At factor cost, per cent

	1980-84 average	1985	1986[a]	1987[a]	1988[a]
United States	40.0	40.2	40.0	40	40½
Japan	45.1	45.3	44.6	43¾	43
Germany	42.5	45.5	45.9	45½	45½
France	42.2	44.0	46.0	46½	47¼
United Kingdom	38.9	41.8	41.1	41¼	41½
Italy	45.8	46.7	48.3	48½	48½
Canada	45.6	47.2	46.9	47½	47¾
Total of above countries	41.8	42.7	42.7	42½	42¾

a) OECD estimates and projections.

In some countries, tax rates on energy products were raised, thus diverting part of the income terms-of-trade gains to the public sector. Comparative data on *receipts* of taxes levied on energy products are sparse, but it is known that tax *rates* on products such as gasoline, domestic heating fuel and heavy fuel oil for industry were raised substantially in Denmark, Greece, Italy and Spain. In other countries, specific taxes were changed only little, and the maintenance of constant *ad valorem* rates on certain fuels led to actual falls in tax receipts from energy products in some countries.

At this aggregate level of analysis, therefore, it seems reasonable to conclude that in countries where income terms-of-trade gains were exceptionally large (most European countries), a significant proportion of the gains was absorbed by the corporate sector via higher margins. In a few countries, the public sector absorbed a substantial proportion. But for the most part, the gains found their way into the household sector via lower prices. Indeed, real household disposable income rose by 3¼ per cent on average in OECD countries in 1986, a rate that compares favourably with preceding years, especially given the relatively low rate of GNP growth in 1986.

Table 9

Disposable income and GNP

Percentage changes from previous period

	1980	1981	1982	1983	1984	1985	1986
GNP	1.2	1.6	–0.6	2.7	4.7	3.0	2.5
Real disposable household income	0.8	1.2	0.6	2.3	3.4	1.8	3.2

The effect of this unexpected boost to household real incomes on actual spending is not easy to ascertain. It seems, however, that the volume of private consumption expenditure in 1986 rose faster than would otherwise have been the case. In December 1985 (i.e. before the fall in oil prices) the OECD projected an average growth rate of 2½ per cent for private consumption. It is currently estimated to have risen by 3.8 per cent. Most studies of household consumption behaviour, however, conclude that faced with a windfall gain of income, households' savings ratios typically rise, so that a less-than-normal proportion of the extra income is spent. Evidence for such behaviour in 1986 is mixed. On average, the household savings ratio in OECD countries actually fell between 1985 and 1986. On the other hand, the fall in savings ratios was less marked on average in Europe (where income terms-of-trade gains were highest), and the ratio rose in Japan. Furthermore, the overall fall between 1985 and 1986 must be seen in the context of a medium-term downward trend, associated with disinflation and wealth effects. In this light, the fall in the savings ratio in 1986 was possibly smaller than otherwise would have been the case.

Table 10

Household savings ratios

	1980	1981	1982	1983	1984	1985	1986
United States	7.3	7.7	7.0	5.5	6.5	5.2	4.0
Japan	17.9	18.3	16.5	16.3	16.0	16.0	16.8
Europe	12.8	13.0	12.9	11.8	11.8	11.5	11.5
OECD	11.4	11.7	11.2	10.0	10.4	9.7	9.2

Losers and gainers

Within the OECD, some countries recorded terms-of-trade losses, and even in countries where the terms of trade improved, there were sectors which suffered losses, chiefly the primary energy sectors. Other primary extractive industries were also hit by falling world prices for minerals. The agricultural sector, too, experienced a certain erosion of producer incomes despite the generally high level of price support in OECD countries. It is not yet possible to compile detailed comparative statistics, but in the United States, for example, investment in oil and gas drilling fell by almost 40 per cent, in mining by some 20 per cent, and spending on agricultural equipment by 4 to 5 per cent. Similarly, in countries where the terms of trade deteriorated, there were nevertheless sectors that benefited. Households and non-energy corporate sectors in Norway, the United Kingdom and Canada experienced a significant boost to their real incomes. Even in Norway, which suffered an income terms-of-trade loss equivalent to 8½ per cent of 1985 GNP, real household disposable income nevertheless rose by about 2 per cent, and private consumption by a brisk 5½ per cent.

The main losers from the terms-of-trade changes were, of course, the oil-exporting countries outside the OECD area. These countries, faced with declining export volumes and declining dollar prices for oil, have

been steadily reducing the volume of their imports since the early 1980s. In December 1985, before the abrupt fall in oil prices, the OECD projected a further decline of import volumes by some 10 per cent for OPEC in 1986, and a modest 2 per cent increase in the import volumes of non-OPEC oil-exporting countries. Latest estimates suggest that OPEC import volumes declined by 25 per cent and those of other oil-exporting countries by 18 per cent. Other primary commodity producing countries were also obliged to restrain their imports because of weak primary product prices, although imports by newly-industrializing countries rose briskly. Overall, imports by non-OECD countries (which collectively represent about one-third of the total OECD export market) fell by 6 per cent by volume in 1986, rather than rising by 1 per cent as projected in December 1985.

The resulting decline in export market growth for OECD countries offset some of the boost to output stemming from the terms-of-trade improvement. The depressive effect on export volumes of shrinking non-OECD markets was further exacerbated by a significant loss of market shares by OECD countries generally. For many years now, the OECD has collectively lost market shares in the world as exports from newly-industrializing countries penetrate OECD and third-country markets. Over the 1981-85 period, the loss has averaged 1 percentage point per year. In 1986, the rate of loss doubled to 2 percentage points.

The OECD collectively is estimated to have incurred a decline in its net exports in volume terms equivalent to 1 per cent of area GNP, a relatively large fall by historical standards, although part, at least, resulted from large imports of oil at the very low prices obtaining during the summer months of 1986. Nevertheless, the decline in net exports was of the same order of magnitude, relative to GNP, as the income terms-of-trade gain (excluding valuation effects) itself. As the latter was not completely spent during 1986, as seen above, the net effect of the two factors combined on the growth of real GNP was small.

The weakness of export markets was not felt equally by all OECD countries, since there were major movements in key exchange rates which had powerful effects on international competitiveness. The appreciating countries for the most part lost market shares even though exporters accepted reduced profit margins. A few countries, notably Germany, fared worse than historical experience would have suggested, whereas France and Italy did better. Japan lost market shares at about the rate that would have been expected, given actual developments in Japanese export prices. The foreign trade projections described below assume that future developments will adhere more closely to historical experience, entailing, in particular, large market share gains for the United States and losses for most other countries.

NOTE

1. Strictly speaking, the term "terms-of-trade change" refers to a change in the index formed by dividing export prices by import prices. An increase in the index implies an increase in the purchasing power over imported goods for a given volume of exports. Thus, although real output need not necessarily be affected, real national income rises, to an extent depending upon the size of the change in trade prices and the weight of exports and imports in GNP. One widely used measure of the change in national income is to multiply the percentage change in export prices by the base-period value of exports, subtract from this the percentage change in import prices multiplied by base-period imports, and express the result as a percentage of base-period GNP. This is the method used in calculating the data in Table 6. If the series used are in local currency, valuation effects are not taken into account. Significant valuation effects arise when base period trade was not in balance, and exchange rates change substantially. Thus the purchasing power of an external surplus will rise if the currency appreciates, even if the country's terms of trade do not change, and the external balance remains unchanged in local currency terms. If the calculations are made using a common currency (e.g. the U.S. dollar), valuation effects are included in the terms-of-trade calculation. There are no compelling theoretical reasons why valuation effects should be included or excluded from terms-of-trade calculations. The calculations underlying the data presented in Table 6 were made in local currency terms, and thus exclude valuation effects, and the *potential* income gains or losses associated with them. In the particular circumstances of 1986, when OECD countries other than the United States were on average in surplus, and when most OECD currencies appreciated against the dollar, valuation gains were significant, amounting to about a ½ per cent of area GNP on average, and as much as 2 per cent of GNP for countries which had large surpluses and whose currencies appreciated the most.

MONETARY AND FISCAL POLICIES

This chapter briefly reviews macro-economic policy developments since late 1986. Main features are that monetary conditions continue to be easy in much of the OECD area, while the fiscal stance has been tightened in 1987 and, on the basis of OECD projections, will tighten further in 1988 (see Chart B). Two special sections deal respectively with the implications of recent high money growth rates and with tax reform in OECD countries.

MONETARY POLICY

The stance of policies and the outlook for interest rates

Monetary conditions have remained relatively easy in many OECD countries. This reflects policy responses both to weaker-than-expected economic activity and, outside the United States, to the steep decline in the dollar. Since Spring 1986, however, it has proved difficult to sustain coordinated policies that might promote a smoother exchange rate adjustment. Until recently, monetary authorities in many smaller countries, where the exchange rate is the main gauge for short-run monetary action, have responded more promptly to exchange market pressures than those in the three largest economies.

Against this background of exchange market developments, the past few months have seen some important policy decisions in a number of countries with respect to monetary targets and short-term interest rates. In the United States, the Federal Reserve announced no targets for the narrow aggregate M1 and lowered the target range for the broad aggregates M2 and M3 to 5.5–8.5 per cent for the period from the fourth quarter 1986 to the fourth quarter 1987. In Germany, on the other hand, the Bundesbank widened its target range for central bank money to 3–6 per cent for the same period. Japan continues to operate with a "projection" for M2+CD, typically of around 8 or 9 per cent per annum, announced one quarter at a time. France has set official target ranges for 1987 of 4–6 per cent for M2 and 3–5 per cent for M3. The United Kingdom abandoned an explicit objective for £M3, which for a long time had been the lynchpin of its medium-term financial strategy,

Table 11

Monetary aggregates[a]: Recent trends and targets

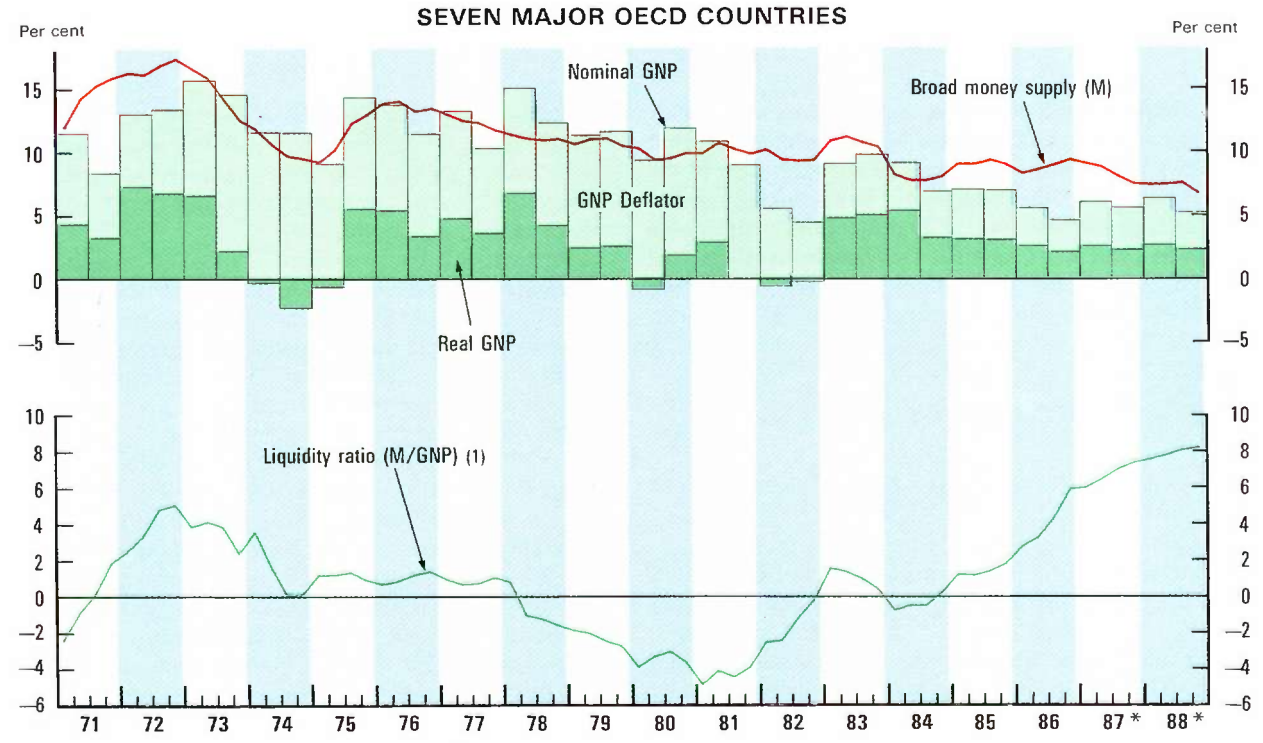
Percentage changes, seasonally adjusted at annual rates

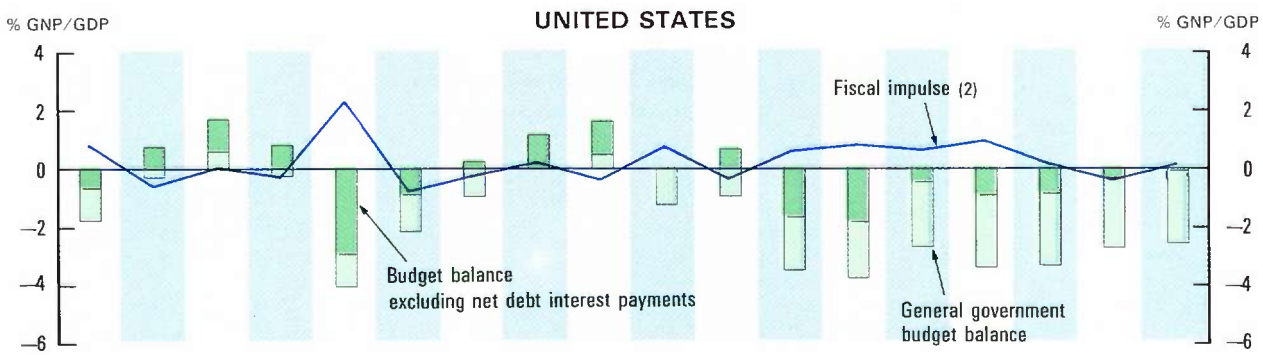
		Last observation	Last 12 months[b]	Last 6 months[b]	Last 3 months[b]	Average of last three monthly changes[c]	From target base period[d]	Current official target[e]
United States	M1	Mar. 1987	16.4	15.9	13.6	4.9		
	M2	Mar. 1987	9.2	8.0	6.5	3.7	5.2	5.5-8.5
	M3	Mar. 1987	8.5	7.5	6.8	4.2	5.5	5.5-8.5
Japan	M1	Mar. 1987	9.6	9.8	9.6	9.6		
	M2+CD	Mar. 1987	8.7	9.2	10.1	10.8	8.8	8
Germany	M1	Feb. 1987	8.6	7.2	6.3	4.5		
	M3	Feb. 1987	7.2	8.9	8.3	6.2		
	CBM	Mar. 1987	7.7	8.7	7.3	6.9	7.3	3-6
France	M2	Mar. 1987	2.5	1.3	1.7	2.0	0.8	4-6
	M3	Mar. 1987	4.6	4.4	5.9	7.5	5.4	3-5
	L	Mar. 1987	7.2	6.7	7.8	11.3		
United Kingdom	M0	Mar. 1987	4.4	4.4	1.2	–3.8	4.0	2-6
	£M3	Mar. 1987	19.0	16.8	19.6	28.9		
	PSL2	Mar. 1987	13.2	10.8	10.9	14.6		
Italy	TDC	Feb. 1987	15.7	15.7	14.5	13.9	15.3	11
	M2	Feb. 1987	9.6	10.4	7.0	4.5	8.3	6-9
Canada	M1A	Apr. 1987	21.8	22.1	30.4	33.2		
	M2	Apr. 1987	11.7	13.6	12.2	14.7		

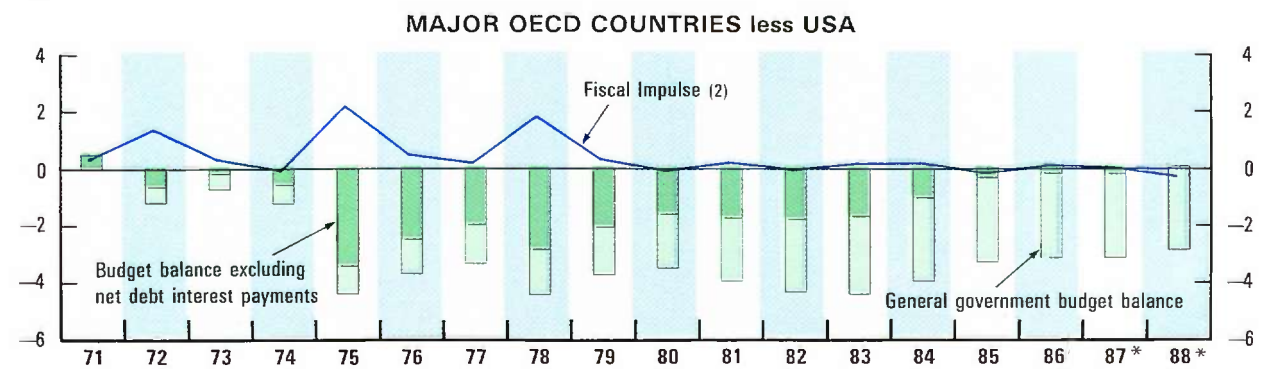
a) For details, see *Sources and Methods*.
b) Most recent 3-month average over the 3-month average ending 12, 6 and 3 months earlier.
c) Average of monthly increases (at an annual rate) in the most recent three months.
d) Most recent monthly observation relative to target base period, at an annual rate; for the United Kingdom, changes over the previous twelve months.
e) For the United States targets are for the period 1987.Q4/1986.Q4; for Japan, the projection is for 1987.Q1/1986.Q1; for Germany the target is for 1987.Q4/1986.Q4; for France the targets are for the period 1987.Q4/1986.Q4; for the United Kingdom the current target is expressed in terms of changes over the previous twelve months; for Italy the targets are for calendar year 1987.

CHART B

MONETARY AND FISCAL POLICY INDICATORS







Note: For definitions and calculations, see *Sources and Methods*.
* Figures for 1987 and 1988 are OECD projections.
1. Deviation from trend calculated from first quarter 1970 to fourth quarter 1986.

2. Defined as the change from the previous year in the structural general government budget deficit as a percentage of potential GNP/GDP. A positive sign corresponds to an increase in the structural deficit and thus an expansionary impulse, while a negative sign represents a restrictive one.

but maintained the existing target range of 2–6 per cent for the very narrow aggregate M0. In Italy, new credit targets have been announced, but the central bank is also now paying increasing attention to the broad monetary aggregate M2, for which a growth range of 6–9 per cent has been fixed for 1987. Overall, it is still too early in the year to assess the actual growth rates of money relative to these official announcements, but the most recent data indicate some slowing from the second half of 1986 (Table 11), especially in the United States. The implications of the strong monetary expansion over the preceding year or so are discussed in the next section.

In support of their exchange market intervention to reduce the rise in the dollar value of their currencies, the Japanese and German authorities reduced their discount rates again by half a point to 2.5 per cent and 3 per cent respectively in the first quarter; these cuts were followed by declines in short-term market rates. Credit costs were thus allowed to fall during the first half of 1987 even though the authorities in Japan and Germany had misgivings about the high degree of liquidity already in the system. In the United States money market rates rose through April and May confronted by the weakening of the dollar and some evidence of increased inflation. Short-term interest rates in France rose sharply at the turn of the year as the French authorities attempted to defend existing EMS currency parities. Even after the EMS realignment, three-month rates have remained around 8 per cent – about twice as high as those in Germany. Coupled with relatively low targets for money growth, this suggests that monetary policy in France is at present relatively tight compared with other major OECD countries.

Due to the strengthening of the pound, short-term interest rates in the United Kingdom have fallen to below 9 per cent. Short rates in Italy have likewise declined to about 10 per cent. Interest rates in these two countries remain however relatively high, perhaps in part because their activity has recently been more buoyant than the OECD average. Even though the U.K. and Italian monetary authorities are following a roughly neutral stance, it may also be that the public nevertheless remains uncertain that the reductions in inflation rates in the last few years can be maintained. In Canada, the strength of the currency early in the year against the U.S. dollar permitted a decrease in interest rates, which reached their lowest levels since the 1970s. Broad money growth accelerated in the second half of 1986, and in early 1987 was still in excess of 10 per cent at an annual rate. However, this easing of monetary conditions was interrupted when the Canadian dollar weakened in the second quarter.

Short-term interest rates have also declined in smaller European countries with close financial ties to Germany. On the other hand, fears about inflation and/or about currency depreciation have limited or prevented any such movement in the Scandinavian countries, Australia and New Zealand, where credit costs have remained relatively high, at least in nominal terms. In Spain interest rates have even had to be increased as the central bank attempted to regain control of money growth which has accelerated strongly in recent months.

Long-term interest rates have shown less tendency to decline than short rates (except in Japan) and, in real terms, still appear to be relatively high in a number of countries. The steep yield curve in the United States, where bond rates rose sharply in the second quarter, may suggest that financial markets expect further increases in short-term rates. High grade corporate bonds were yielding around 9.5 per cent in May, the highest level for

Table 12

Interest rate developments[a]

	1984	1985	1986	1987[b]	1988[b]	1986 II	1987[b] I	1987[b] II	1988[b] I	1988[b] II
Short term rates										
United States	9.5	7.5	6.0	6.1	6.8	5.4	5.7	6.5	6.7	6.9
Japan	6.1	6.5	4.8	3.5	3.1	4.3	3.7	3.3	3.2	3.0
Germany	6.0	5.4	4.6	3.7	3.4	4.6	3.8	3.5	3.4	3.4
France	11.7	9.9	7.7	7.5	5.9	7.3	8.0	7.0	6.0	5.8
United Kingdom	9.3	11.6	10.3	9.4	9.9	10.1	9.3	9.5	9.7	10.0
Italy	17.3	15.3	13.4	11.1	9.9	11.7	11.5	10.7	10.0	9.8
Canada	11.2	9.6	9.2	7.0	7.0	8.4	7.1	6.9	6.9	7.0
Long term rates										
United States	12.7	11.4	9.0	9.3	9.3	8.8	9.0	9.5	9.4	9.3
Japan	7.1	6.8	5.6	4.0	3.8	5.2	4.2	3.8	3.8	3.8
Germany	7.8	6.9	6.0	5.6	5.3	6.0	5.7	5.4	5.3	5.3
France	13.4	11.9	9.1	9.0	7.1	8.9	9.5	8.5	7.2	7.0
United Kingdom	10.7	10.6	9.9	9.2	9.9	10.1	9.0	9.3	9.7	10.0
Italy	15.1	13.1	10.7	9.1	8.0	9.6	9.3	8.9	8.2	7.8
Canada	12.8	11.0	9.5	9.3	9.3	9.3	9.2	9.3	9.3	9.3

a) For details, see *Sources and Methods*.
b) OECD projections.

over a year. Uncertainties about the implications of the depreciation of the dollar for inflation and about the federal budget deficit underlie this expectation. In Japan long-term interest rates have declined steeply, with bonds trading now at rates of less than 4 per cent. By contrast, in view of the equally good inflation outlook in Germany, the strength of the mark and the sound fiscal position, it is perhaps surprising that bond rates have remained at nearly 6 per cent.

Interest rate developments are likely to continue to be much influenced by exchange rate pressures in the near future. The projections summarised in Table 12, based on the technical assumption of constant exchange rates, abstract from this factor. Under this assumption, it is envisaged that interest rates will fall modestly from current levels in most of the OECD area. In the United States, however, where government demands on capital markets remain large and where the rate of inflation is expected to increase somewhat, treasury bill yields are projected to rise above 6 per cent. Likewise, the relatively high inflation rates projected for the United Kingdom and Italy hold short rates above 9 per cent through the projection period.

Recent high money growth rates: meaning and possible consequences

Monetary aggregates in most major countries have been growing at rates well in excess of nominal income since 1985, as is evident in the increase in the liquidity ratio shown in Chart B. Although inflation rates have, on the whole, remained relatively low in these countries, some analysts have nevertheless seen high rates of monetary expansion as a potentially inflationary threat. Such concerns have been most strongly expressed in countries that use targets for money growth in the implementation of monetary policy. In the United States, Germany and the United Kingdom, there were clear overshoots of at least one targeted money aggregate (see Chart C). In Japan, the growth of the broad aggregate M2+CD, while remaining within the projected range announced on a quarterly basis, kept up a pace of 8 to 9 per cent. More generally, broadly defined monetary aggregates tended to grow near or above the upper limit of the official target ranges in all the large countries where such targets exist.

It is evident that, because of portfolio shifts in financial markets that have distorted the money aggregates, some of these developments do not on their own reveal much about monetary conditions. This, for example, would be true for the narrow aggregate M1 in the United States and the broad aggregate £M3 in the United Kingdom. The difficulties that have been evident for some years in interpreting movements in money on these definitions came to a head in 1986, and the authorities in these two countries have chosen recently to discontinue announced targets for them. More generally, stable money demand functions identified earlier in various countries have often subsequently broken down.

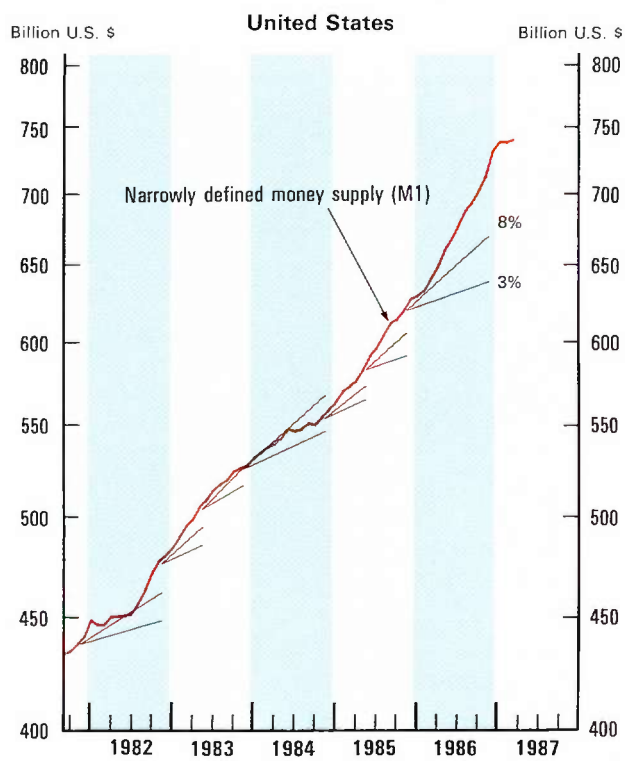
Nevertheless, it is also true that in the three largest countries it is possible to identify one officially targeted monetary aggregate that has behaved in a stable way in recent years. Indeed, a conventional explanation exists for the recent behaviour of the money velocity of the broad aggregates in the United States and Japan, and of CBM in Germany. To illustrate this, Chart D shows indexes of money velocity for these countries[1], plotted against trend values. It appears that in 1986 M2 velocity in the United States was somewhat below trend, whereas that of M2+CD in Japan and CBM[2] in Germany was close to trend. More importantly for all three countries, the movements in velocity are well explained by standard money demand equations, given the values of real income, the price level and interest rates[3]; this is true for most aggregates shown in 1985 and 1986. The only exception is M1 in the United States, for which the sharp decline in velocity, reflecting large transfers of funds into interest-bearing chequable deposits such as NOW accounts, illustrates why the Federal Reserve felt constrained to suspend this aggregate as an official target in 1987. The stability of the M2 equation would suggest, on the other hand, that these transfers came largely out of other components of broad money.

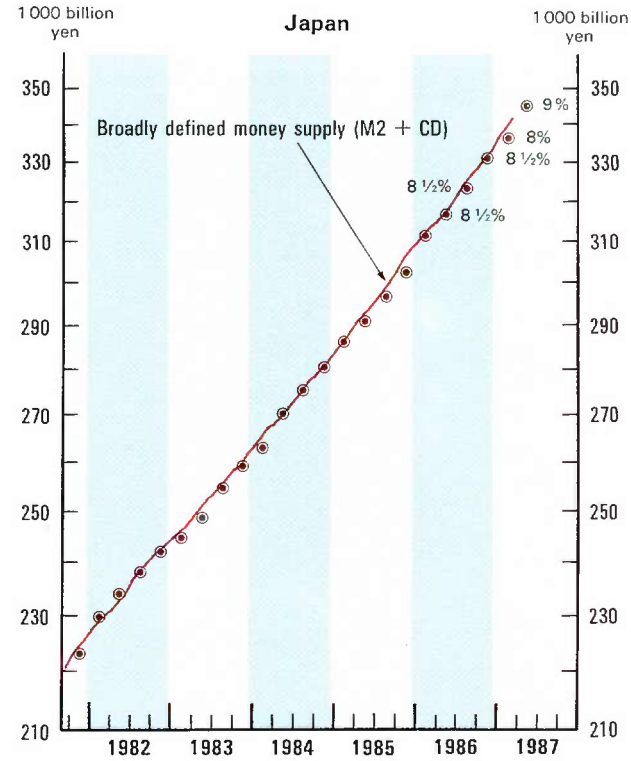
Moreover, in each case, the cycles in velocity around trend would be attributed mainly to current and lagged interest rate changes, as holdings of money tend to be increased (velocity to fall) when returns available on other financial assets decrease, and *vice versa*[4]. It would appear from Chart D that the responsiveness of money velocity to current interest rates has been much greater in the United States than in Japan and Germany. In any event, the trend towards lower interest rates in 1985 and afterwards substantially accounts for recent high rates of money growth in all three countries, and for the movement below trend in U.S. and Japanese broad money velocity. In Germany, where nominal income expanded quite strongly, velocity remained on trend through 1986.

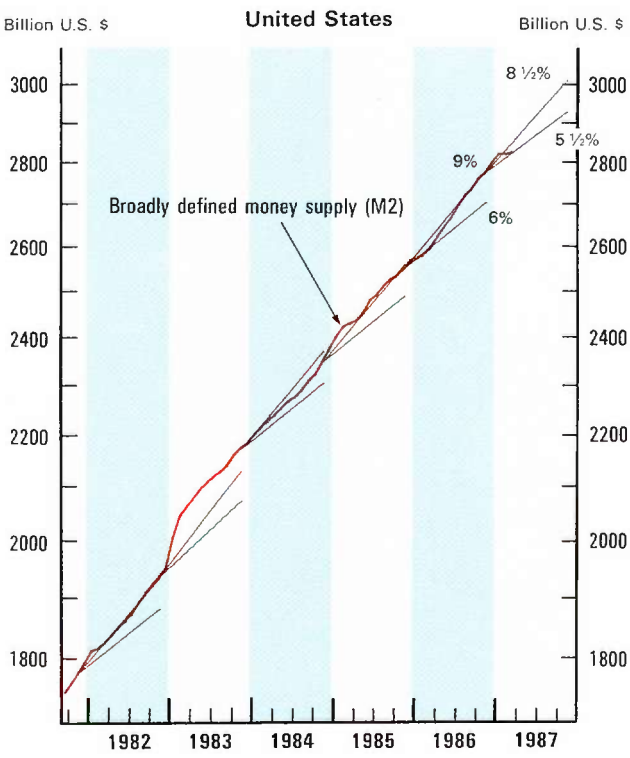
In this context, no large part of recent money growth can be attributed to a renewed bout of disinflation. While it is true that lower inflation does increase the demand for liquid assets, the evidence does not suggest that in the past couple of years this effect can have been very significant. In the United States, for example, where it would in principle be relatively strong owing to the greater sensitivity of the demand for money to returns on other assets, the reductions in interest rates since 1984 have not been accompanied by declines in inflation of the same proportions. By contrast, in the 1982-83 period, there was clear evidence in the United States of an effect of disinflation on velocity, which was not only below trend, but also well below the value implied on the basis of past empirical evidence. It can be seen from Chart D that this corresponded to a steep

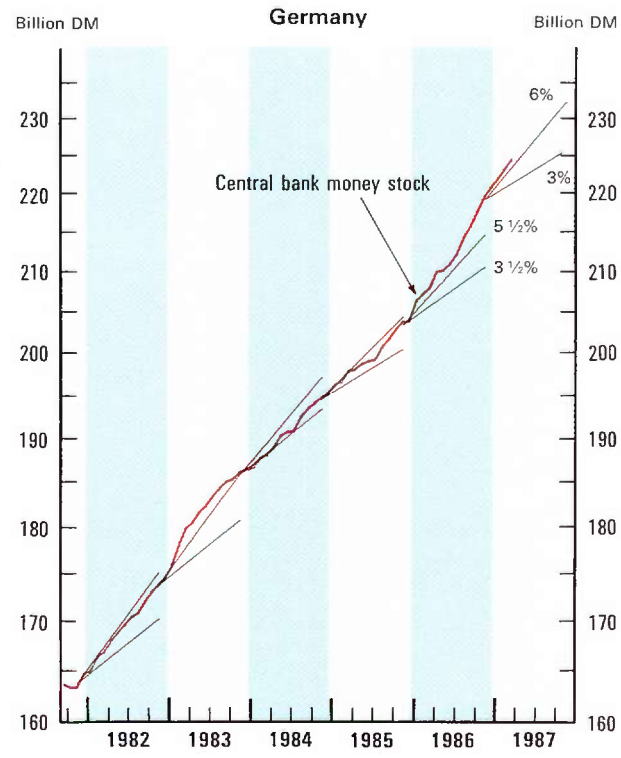
CHART C

TRENDS IN MONETARY GROWTH (1)





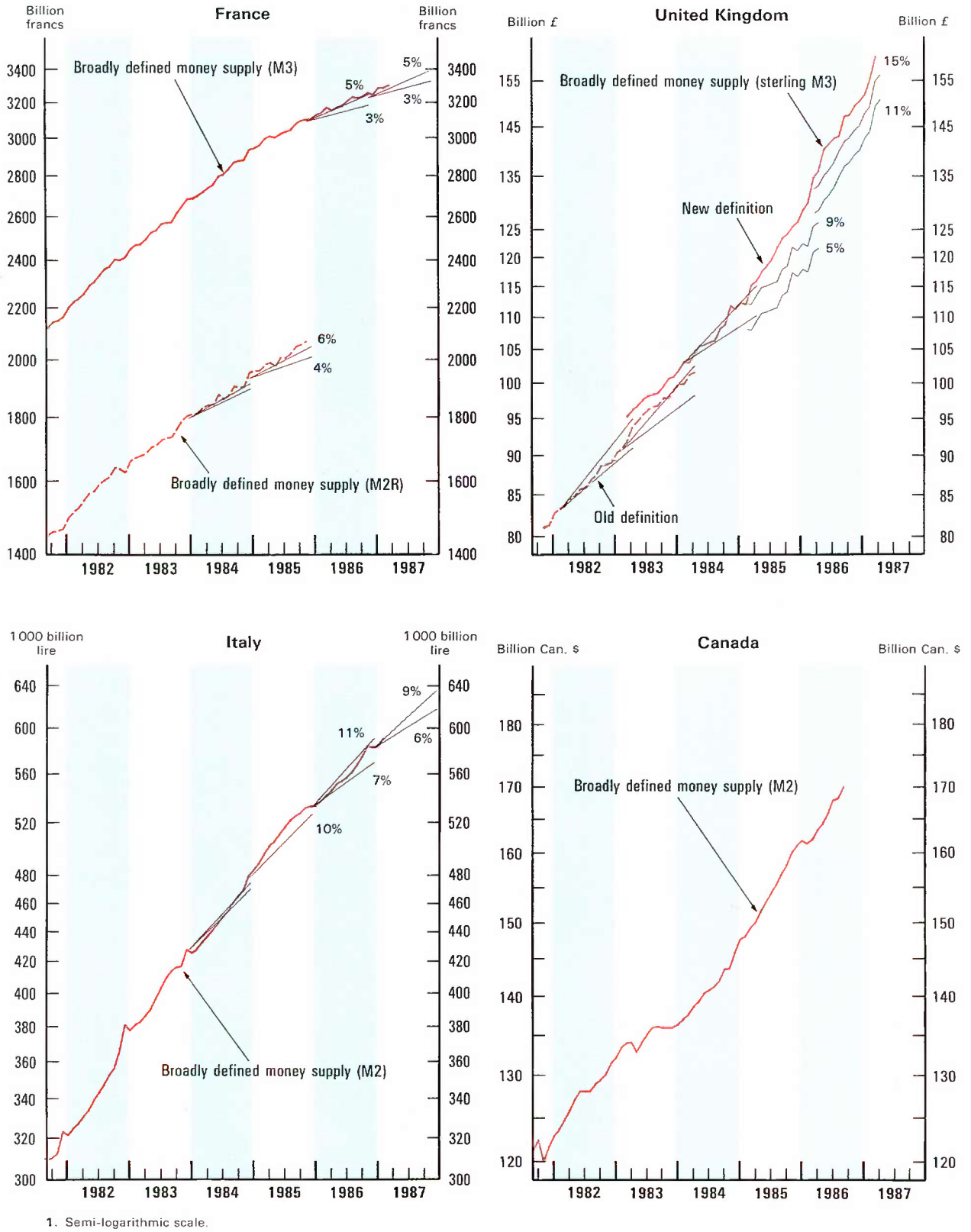




1. Semi-logarithmic scale.

CHART C (continued)

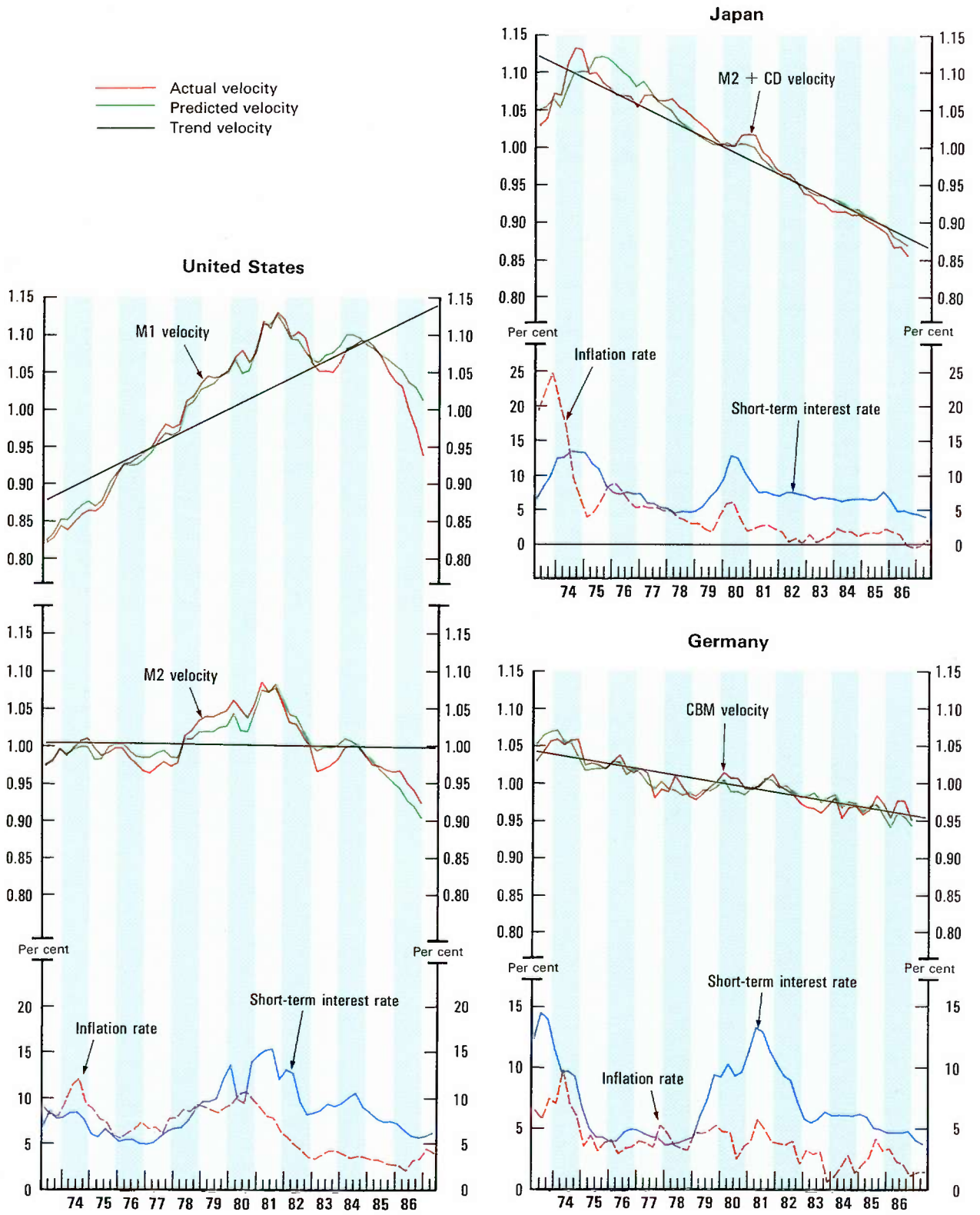
TRENDS IN MONETARY GROWTH (1)



1. Semi-logarithmic scale.

CHART D

TRENDS IN MONEY VELOCITY*, INTEREST RATES AND INFLATION



* Velocity is the ratio of GNP or GDP to the monetary aggregate considered.

Note: For definitions and calculations, see *Sources and Methods.*

decline in both the inflation rate and the short-term interest rate; the return to a more stable price level apparently encouraged the accumulation of money balances – a phenomenon that was labelled "re-entry". In Japan and Germany there is also little evidence of such an effect in the more recent period. Some price indices in these countries have shown declines over the past year and a half, but their inflation rates were already quite low, the declines corresponded to falls in import prices which could not be expected to continue, and value-added deflators such as those shown in the chart did keep increasing.

In sum, it appears that there have been no very important special factors distorting the velocity of the broad money aggregates in the three largest countries over the past two years. Therefore, the relatively high money growth rates seem to reflect a broadly easy monetary stance. This does not necessarily imply that any strong inflation impulse has been injected into the economy. Indeed, given the evident weakness of demand, a relaxation of policies has been quite appropriate, especially in Japan and Germany, where the short-term inflation risks are probably not very great. On the other hand, such a risk looks higher for the United States where the fall in the exchange rate is currently exerting an upward influence on domestic prices – a situation which contrasts with the 1982-83 period when the rapid increase in U.S. money stock coincided with a strong international demand for dollar assets, reflected in a large appreciation of the dollar. More generally, there is a longer-term risk that if money growth were to continue at currently-observed rates, credibility in monetary policies could be eroded and the medium-term objective of price stability compromised[5]. It is no doubt this sort of concern that underlies the cautious response of monetary authorities to calls for more expansionary policies.

FISCAL POLICY

Indicators of fiscal stance and the outlook for public debt

Fiscal policy in most OECD countries is expected to continue on the broadly restrictive course adopted several years ago. However, while improvement in the United States Federal budget deficit is expected for the present fiscal year, uncertainty remains over the extent and form of fiscal tightening that will be achieved thereafter.

The internationally comparable budget indicators shown in Tables 13 and 14 and in Chart B suggest that the slight improvement in the budget balances of OECD countries in 1986 will continue in 1987 and 1988, assuming no additional changes in currently announced policies. Most of the improvement in 1987 is in the United States, where the general government deficit is expected to fall by 0.6 per cent of GNP. The other major countries except Germany are expected to show

Table 13

General government financial balances[a]

Surplus (+) or deficit (-) as a percentage of nominal GNP/GDP

	1981	1982	1983	1984	1985	1986	1987[b]	1988[b]
United States	–1.0	–3.5	–3.8	–2.7	–3.4	–3.3	–2.7	–2.6
Japan	–3.8	–3.6	–3.7	–2.1	–0.8	–0.9	–0.9	–0.2
Germany	–3.7	–3.3	–2.4	–1.9	–1.1	–1.2	–1.5	–2.0
France	–1.8	–2.7	–3.1	–2.9	–2.6	–2.9	–2.7	–2.5
United Kingdom	–2.8	–2.3	–3.6	–3.9	–2.7	–2.9	–2.7	–2.7
Italy	–11.9	–12.6	–11.7	–13.0	–14.0	–12.6	–12.6	–12.2
Canada	–1.5	–5.7	–6.6	–6.6	–6.6	–5.4	–4.9	–4.6
Total of above countries[c]	–2.5	–3.9	–4.1	–3.3	–3.3	–3.2	–2.9	–2.7
Australia	–0.4	–0.3	–3.8	–2.9	–2.7	–2.8	–2.4	–2.0
Austria	–1.7	–3.2	–4.1	–2.7	–2.1	–2.6	–3.4	–3.6
Belgium	–13.4	–11.3	–11.8	–9.8	–8.8	–8.9	–7.5	–6.9
Denmark	–6.9	–9.1	–7.2	–4.1	–1.8	+3.4	+1.5	+0.9
Finland	+1.3	–0.4	–1.6	+0.4	+0.2	+1.3	–0.4	0.0
Greece	–11.0	–7.8	–8.3	–10.2	–13.9	–11.3	–10.7	–10.1
Netherlands	–5.5	–7.1	–6.4	–6.3	–5.1	–6.7	–6.4	–6.2
Norway	+4.7	+4.4	+4.2	+7.4	+7.8	+2.4	+1.2	+1.1
Spain	–3.9	–5.6	–4.8	–5.6	–6.3	–6.0	–5.4	–4.8
Sweden	–4.9	–6.3	–5.0	–2.6	–3.9	–1.4	+0.6	–0.1
Total of smaller countries[c]	–4.1	–4.8	–5.1	–4.2	–4.1	–3.9	–3.6	–3.4
Total of European countries[c]	–4.5	–4.9	–4.7	–4.5	–4.2	–4.1	–4.0	–4.0
Total of above countries[c]	–2.7	–4.0	–4.2	–3.4	–3.4	–3.3	–3.0	–2.8

a) On a SNA basis except for the United States, the United Kingdom, Greece and the Netherlands which are on a national income account basis.
b) OECD estimates and forecasts.
c) 1982 GNP/GDP weights and exchange rates.

improved budget balances between 1986 and 1988. The combined deficit of the smaller countries should be reduced by around ¼ per cent of GNP in each of 1987 and 1988. The budget balances of Australia, Belgium, Greece, the Netherlands and Spain are expected to improve throughout the forecast period, while those of Austria, Denmark and Norway are expected to deteriorate.

Measures of the structural (i.e. cyclically-adjusted) budget deficit[6] – changes in which give an indication of the discretionary impulse of fiscal policies – suggest that fiscal policy in the OECD area as a whole, after moving from a slightly expansionary stance to broad neutrality in 1986, will become somewhat restrictive in 1987 and 1988 on the basis of the policy assumptions adopted in the projections (see Table 14). Among major countries,

Table 14

Cyclical and structural changes in general government financial balances[a,b]

As a percentage of nominal GNP/GDP

		Change in actual balance	Change in built-in stabilisers[c]	Change in structural budget balance[d]	Change in inflation-adjusted structural budget balance[e]
United States	1985	–0.7	+0.1	–0.8	–0.8
	1986	+0.1	0	0	–0.2
	1987	+0.6	0	+0.6	+1.0
	1988	+0.1	+0.1	0	+0.2
Japan	1985	+1.2	+0.3	+0.9	+0.9
	1986	0	–0.4	+0.4	–0.1
	1987	–0.1	–0.5	+0.4	+0.2
	1988	+0.8	–0.6	+1.3	+1.8
Germany	1985	+0.8	+0.2	+0.6	+0.5
	1986	–0.2	+0.2	–0.3	–0.8
	1987	–0.3	–0.3	0	+0.2
	1988	–0.4	–0.1	–0.4	–0.2
France	1985	+0.3	–0.3	+0.6	+0.5
	1986	–0.3	0	–0.4	–0.7
	1987	+0.2	–0.3	+0.5	+0.7
	1988	+0.2	0	+0.2	+0.1
United Kingdom	1985	+1.2	+0.8	+0.4	+0.6
	1986	–0.2	+0.4	–0.5	–1.2
	1987	+0.2	+0.7	–0.5	–0.4
	1988	+0.1	+0.2	–0.1	+0.1
Italy	1985	–1.0	+0.2	–1.2	–1.7
	1986	+1.4	+0.5	+0.9	–1.5
	1987	0	+0.6	–0.6	–1.6
	1988	+0.4	+0.3	+0.1	+0.5
Canada	1985	0	+0.6	–0.6	–0.5
	1986	+1.2	+0.2	+0.9	+1.0
	1987	+0.5	0	+0.5	+0.5
	1988	+0.4	+0.1	+0.3	+0.3
Average of major six (excluding United States)[f]	1985	+0.7	+0.3	+0.4	+0.4
	1986	+0.1	0	+0.1	–0.5
	1987	0	–0.1	+0.1	+0.1
	1988	+0.3	–0.1	+0.4	+0.6
Average of major seven countries[f]	1985	0	+0.2	–0.2	–0.2
	1986	+0.1	0	+0.1	–0.4
	1987	+0.3	0	+0.3	+0.5
	1988	+0.2	0	+0.2	+0.4
Average of European countries[f,g]	1985	+0.3	+0.2	+0.1	0
	1986	+0.1	+0.2	–0.1	–0.8
	1987	+0.1	0	+0.1	0
	1988	0	0	0	+0.2
Average of total OECD countries[f,g]	1985	0	+0.2	–0.2	–0.2
	1986	+0.1	0	+0.1	–0.3
	1987	+0.3	–0.1	+0.4	+0.5
	1988	+0.2	0	+0.2	+0.4
Australia	1985	+0.2	+0.9	–0.8	–0.6
	1986	0	–0.7	+0.7	+1.1
	1987	+0.4	–0.2	+0.5	+0.3
	1988	+0.5	–0.1	+0.5	0
Austria	1985	+0.6	+0.5	+0.1	–0.7
	1986	–0.5	–0.2	–0.3	–1.0
	1987	–0.8	–0.7	–0.1	0
	1988	–0.1	–0.3	+0.1	+0.4
Belgium	1985	+1.1	0	+1.1	0
	1986	–0.1	+0.5	–0.7	–3.3
	1987	+1.4	–0.1	+1.5	+1.6
	1988	+0.6	+0.1	+0.5	+0.8
Denmark	1985	+2.3	+1.4	+0.9	+0.8
	1986	+5.2	+0.8	+4.4	+4.0
	1987	–1.9	–1.8	–0.1	–0.3
	1988	–0.7	–1.2	+0.5	+0.3
Finland	1985	–0.2	+0.1	–0.3	–0.3
	1986	+1.1	–0.3	+1.4	+1.6
	1987	–1.7	+0.1	–1.7	–1.8
	1988	+0.4	–0.1	+0.4	+0.4
Greece	1985	–3.7	+0.5	–4.3	–3.5
	1986	+2.6	–0.3	+2.9	+4.2
	1987	+0.6	–1.4	+2.1	–0.3
	1988	+0.7	–0.3	+1.0	0
Netherlands	1985	+1.2	+0.2	+1.0	+1.1
	1986	–1.6	+0.2	–1.8	–2.8
	1987	+0.2	0	+0.2	–0.1
	1988	+0.2	–0.3	+0.5	+0.9
Norway	1985	+0.4	+1.0	–0.6	–0.9
	1986	–5.5	+0.2	–5.7	–6.3
	1987	–1.1	+0.1	–1.3	–1.5
	1988	–0.1	–0.7	+0.6	+1.3
Spain	1985	–0.7	–0.2	–0.6	–0.6
	1986	+0.3	+0.2	+0.1	+0.4
	1987	+0.7	+0.2	+0.5	–0.1
	1988	+0.6	+0.2	+0.4	+0.2
Sweden	1985	–1.3	+0.4	–1.6	–1.4
	1986	+2.5	–0.3	+2.8	+2.9
	1987	+2.0	–0.2	+2.3	+2.2
	1988	–0.8	–0.4	–0.4	–0.4
Total of smaller countries[f]	1985	+0.1	+0.4	–0.3	–0.4
	1986	+0.2	0	+0.2	–0.1
	1987	+0.3	–0.2	+0.5	+0.2
	1988	+0.2	–0.2	+0.4	+0.4

a) OECD estimates and forecasts.
b) A positive sign indicates a move towards restriction (surplus); a negative sign indicates expansion (deficit). A plus sign therefore indicates public expenditure *cuts* and tax *increases*. Column 1 corresponds to the year-to-year changes in financial balances shown in Table 13.
c) "Built-in-stabilisers" represent the cyclical component of the budget deficit or surplus, estimated as the reaction of the budget to differences between real GDP growth and its trend rate.
d) Reflects deliberate policy actions, fiscal drag, changes to debt service costs and variations in resource revenues.
e) Adjusted for the impact of price increases on net outstanding government debt.
f) 1982 GNP/GDP weights and exchange rates.
g) For the countries shown in the Table.

the fiscal stance in 1987 is expected to be expansionary in the United Kingdom and Italy, neutral in Germany, and restrictive in the others. These trends are projected to continue in 1988 except in the United States where the structural budget balance (on the assumptions adopted) remains unchanged, in Italy where it shows a modest improvement, and in Germany where fiscal policy is set to become slightly expansionary. As for the smaller countries, worsening structural budget balances in 1987 in Finland and Norway are more than offset by improvements elsewhere.

Adjusting the projected structural budget balances for the effects of price changes[7] does not modify fundamentally the assessment of the stance of fiscal policy in most countries. Some differences appear, however. In particular, fiscal policy in Italy is projected to be significantly more expansionary in 1987, on this inflation-adjusted basis, than suggested by the structural balances alone. On the other hand, fiscal policy appears slightly restrictive in Germany in 1987 taking into account the low rate of price increase. The adjusted indicators also suggest that the policy stance will be broadly neutral in Greece and Spain over 1987 and 1988 rather than restrictive as indicated by the changes to the structural balance.

In many countries, the present stance of fiscal policy reflects in part the concern of governments to limit and ultimately stop the growth in government debt. As can be seen from Table 15[8] general government gross and net debt/GNP ratios are expected to keep rising in France, Canada and Italy over the projection period, albeit at a slower pace in the first two countries. A significant slowdown in the growth of the ratio is projected for the United States in 1988, while in the United Kingdom the ratio should decline slightly. The Japanese debt ratio, which had stabilized after 1983, is projected to decline in 1988 on the basis of the policy assumptions adopted. By contrast, it is expected to rise in Germany this year and next. It is of course important to remember, particularly in the case of the last two countries, that rising pension costs associated with ageing populations stand to affect the debt outlook substantially over the medium term[9].

Major developments in individual countries

In the United States the extent to which the Federal budget deficit for fiscal year (FY) 1988 – which begins 1st October 1987 – will be reduced from its projected FY 1987 level of about $190 billion is uncertain. The Administration's January budget proposal seeks to meet the Gramm-Rudman-Hollings deficit target of $108 billion by means of substantial expenditure reductions, asset sales, and some minor revenue increases. While they have not reached an agreement, the House and Senate have approved deficit-reducing proposals which would combine tax increases of about $18 billion with expenditure cuts of the same magnitude, relatively equally divided between domestic and military spending. The size of the required policy changes depends on the estimate of the "current services" (i.e. with no policy changes). The Administration forecasts an FY 1988

Table 15
Gross and net public debt
Percentage of nominal GNP/GDP

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986[a]	1987[b]	1988[b]
Gross debt of general government																
United States	40.6	39.6	42.6	42.5	40.8	39.0	37.2	37.7	37.1	41.1	44.0	45.1	48.5	50.5	51.6	52.2
Japan	17.0	18.0	22.4	28.0	33.4	41.9	46.9	52.0	57.0	61.1	66.9	68.4	69.4	69.1	69.5	68.8
Germany	18.6	19.6	25.0	27.0	28.5	29.9	30.7	32.5	36.3	39.5	40.9	41.7	42.3	42.4	43.2	44.4
France	25.1	24.7	25.8	24.7	25.2	26.3	26.2	25.0	25.9	28.3	29.8	32.6	34.6	36.4	38.3	39.9
United Kingdom	69.7	69.6	65.3	64.1	62.5	59.6	55.6	54.9	54.9	53.6	54.0	55.3	53.7	53.8	53.0	52.4
Italy	60.6	57.7	66.8	65.4	65.2	71.2	70.6	67.4	70.5	76.8	84.4	91.1	99.6	102.4	107.1	112.7
Canada	46.7	44.5	44.8	42.5	44.8	48.7	43.6	44.7	45.1	50.5	54.5	58.2	63.7	67.4	70.2	72.5
Total of above countries	36.8	36.3	39.2	39.9	40.2	41.2	40.7	41.7	42.9	46.5	49.7	51.4	54.0	55.4	56.6	57.4
Net debt of general government																
United States	22.9	22.0	24.4	24.1	23.0	21.0	19.4	19.5	18.8	21.4	24.0	25.1	26.8	28.8	29.9	30.6
Japan	−6.1	−5.4	−2.1	1.9	5.5	11.3	14.9	17.3	20.7	23.2	26.2	26.9	26.5	26.2	26.6	25.9
Germany	−6.7	−4.7	1.0	4.6	7.0	9.4	11.5	14.3	17.4	19.8	21.4	21.7	22.1	22.2	23.0	24.1
France	8.3	8.8	11.1	10.9	10.2	10.2	9.8	9.1	9.9	11.3	13.4	15.2	16.7	18.5	20.4	22.0
United Kingdom	57.5	54.9	57.4	56.8	55.8	53.3	48.6	48.0	47.2	46.4	47.1	48.5	46.9	46.9	46.1	45.5
Italy	52.1	49.2	59.9	60.9	60.7	63.9	63.7	61.8	66.8	73.4	80.6	87.8	96.3	99.2	103.9	109.5
Canada	2.7	1.1	4.4	5.3	7.7	10.6	10.7	11.5	10.7	16.9	20.4	24.7	30.3	34.0	36.7	39.0
Total of above countries	17.2	16.8	20.1	21.0	21.2	21.6	21.2	21.8	22.5	25.1	27.8	29.3	30.8	32.2	33.3	34.1

a) Partly estimated.
b) Forecasts.
Source: OECD.

"current services" deficit of $150 billion, while the Congressional Budget Office (CBO) has estimated it to be $169 billion. The difference is due in part to an assumption of lower economic growth by CBO. The OECD's calendar year projections are based on assumptions similar to those of the CBO.

In Japan, the government's FY 1987 budget (starting 1st April) calls for an essentially unchanged central government deficit of Y 10.5 trillion, or 3.1 per cent of GNP. Local government deficits would increase, however, by about Y 1 trillion (0.3 per cent of GNP) relative to their level in the initial FY 1986 budget. The budget outlook will be affected by the expected implementation, during the summer, of the recently announced Supplementary Budget aimed at stimulating domestic demand and expected to amount to some Y 5 trillion (1.5 per cent of GNP). The estimated budget indicators shown in Tables 13 and 14 do not take into account these additional measures, because of the absence so far of the requisite details of the package. (See the Japan country note for the results of a simulation of a policy change that would leave the structural budget balance roughly unchanged in 1988). The central government's original budget also included a revenue-neutral tax reform which would lower personal and corporate tax rates, broaden the tax base (particularly by including most of the currently exempt interest income), and introduce a relatively broad-based sales tax. Opposition to its specific proposal on indirect taxation has delayed its implementation (see below).

In Germany, the 1987 federal budget projects a slight fall in the deficit to DM 22.8 billion (1.1 per cent of GNP). The major fiscal policy development is the tax reform, to be implemented in 1990. It will provide tax cuts of DM 44.4 billion with a net fiscal stimulus of DM 25.4 billion, in part through reductions in the maximum tax rate on personal incomes from 56 to 53 per cent, and in the corporate income tax rate from 56 to 50 per cent. Combined with the tax cuts already scheduled for 1988 (representing essentially an *ad hoc* offset to fiscal drag), the decision to bring forward DM 5.2 billion of the tax reductions planned for 1990 will lower total taxes overall by DM 13.7 billion in 1988, when the federal deficit is expected to rise to DM 28 billion.

Fiscal policy in France continues to be aimed at improving the central government budget balance. At the time of the Louvre Agreement, the government pledged to reduce the deficit by 1 per cent of GDP by 1988, compared with an estimated 1986 outturn of 2.8 per cent. More recently, it has also made a commitment to cut personal and corporate taxes further in 1988 but is considering ways to increase revenues for the social security system. Proceeds from sales of public enterprises, which are currently estimated at about FF 40 billion, have exceeded expectations. The government is committed to applying the receipts to both reducing public debt and providing capital assistance to public enterprises.

In the United Kingdom, the public-sector borrowing requirement (PSBR) for FY 1986/87 was £3.3 billion, substantially below the planned £7 billion (1¾ per cent of GDP), mainly as a result of higher-than-expected revenues, particularly from company tax. The FY 1987/88 budget assumes continued asset sales and buoyant revenues. It proposes both a reduction in the PSBR to £4 billion (1 per cent of GDP) and a cut in the basic tax rate on personal income from 29 per cent to 27 per cent. The small company rate is also to be reduced to 27 per cent.

The Italian budget for 1987 calls for a central government deficit of L 100 000 billion (12 per cent of GDP), down from the 1986 deficit of L 108 900 billion (14 per cent of GDP), although this would require L 2 500 billion in spending cuts or revenue increases through measures yet to be announced. It is not clear to what extent such a deficit reduction will be realized, since growth in public sector salaries and health care costs could exceed expectations. In Canada the government's budget plan for FY 1987/88 foresees a reduction of the federal deficit to C$ 29.3 billion (5.4 per cent of GDP) from C$ 32 billion in the previous year. This is to be achieved by holding spending to C$ 116.6 billion despite increases in farm subsidies, while increasing excise taxes and changing the collections procedures by the adoption of a pay-as-you-earn system.

Among the smaller economies, Australia recently announced austerity measures for financial year 1987-88 (beginning 1st July), including central government spending reductions of A$ 3 billion (1.0 per cent of GDP) and asset sales of A$ 1 billion, the proceeds from which are to be used to reduce government debt. Additional measures totalling A$ 2.8 billion are expected in the subsequent financial year (not included in the projection). In Belgium the government's consolidation programme continues in 1987, with the objective of reducing the central government deficit to 8 per cent of GDP, principally via spending cuts. Fiscal policy in Sweden should also be restrictive in 1987, although most of the reduction in the budget deficit is from a one-time revenue increase from a special tax on the capital of insurance companies. Deficit reductions in Greece, Portugal and Spain have been the result of lower oil prices as well as greater-than-anticipated revenues from indirect taxes. Uncertainty about gas revenues makes it unclear how restrictive fiscal policy will be in the Netherlands, but the government's objective is to maintain the central government deficit at 8 per cent of GDP in 1987. Following a substantial improvement in 1986, the general government surplus in Denmark should decline somewhat in 1987 (to 1.6 per cent of GDP), in response to lower economic activity and in particular to reduced company tax receipts because of smaller profits in the banking sector after the rise in interest rates during 1986. In Finland, fiscal policy is expansionary in 1986 and 1987 taken together, but movements in budget balances have been affected by a postponement of tax refunds from 1986 to 1987.

Tax reform in OECD countries

There has been a broad interest in tax reform in the OECD area in recent years[10]. Several countries have undertaken or are considering major reforms, while most others have made some changes to their tax systems. This attitude reflects concern that the existing tax structure not only imposes large costs on society by distorting economic decisions, but also that it is unfair and unnecessarily complex. The sense of unfairness is twofold: individuals in similar circumstances are treated differently (horizontal inequity); and there is a strong belief that, despite appearances of progressivity as exemplified by rising marginal personal tax rates, very little redistribution actually occurs (insufficient vertical equity). The increase in total tax revenues relative to output since 1970[11] has heightened these concerns. Moreover, a combination of already large tax burdens and distorting tax systems has made it difficult to increase taxes where necessary to lower deficits. Finally, tax systems have been seen as a significant source of structural rigidities in the economy. Of all of these concerns, those related to horizontal inequity and complexity have probably been the major forces pushing governments to undertake tax reform.

Table 16

Recent and proposed changes in personal taxation systems

	Overall taxation	Income tax		
	Marginal tax rates on average wages under present tax systems[a]	Top marginal rate[b]		
		Previous	Present	Proposed
Australia	47.3	60.0	55.0	49.0
Austria	54.5		62.0	
Belgium	62.7		86.7	
Canada	33.7	63.6	51.3	
Denmark	62.4	73.0	68.0	
Finland	53.2		68.5	
France	51.2	65.0	58.0	50.0
Germany	62.7		56.0	53.0
Greece	40.1	60.0	63.0	
Iceland	n.a.		55.6	
Ireland	61.3	65.0	58.0	
Italy	57.8	76.0	65.0	56.0
Japan	31.5	88.0	76.5	65.0
Luxembourg	53.6	57.0	56.0	
Netherlands	61.9	60.0	72.0	
New Zealand	30.0	66.0	48.0	
Norway	60.1	71.0	57.6	
Portugal	35.9	84.4	68.8	
Spain	52.8	68.5	66.0	
Sweden	62.0	87.7	77.4	
Switzerland	39.4		45.8	
Turkey	n.a.	78.0	50.0	
United Kingdom	43.9	83.0	60.0	
United States	40.9	75.0	38.0	

a) Overall marginal tax rate for an average (unmarried) production worker, allowing for direct taxes at all levels of government, social security contributions by both employers and employees, and relevant tax concessions. The major data source is OECD (1986), *The Tax/Benefit Position of Production Workers 1981-1985*. The figures shown are estimates for 1986.

b) Global effective rate (excluding social security contributions) but allowing for deductibility of taxes paid to lower levels of government.

Reform of *personal income tax* systems has often been directed at reducing the substantial leakages from both labour and capital income in defining the tax base. Such leakages can take the form of exempt income, deductions in calculating taxable income, and tax credits. Several countries (including Canada, Australia, Finland and New Zealand) have moved to tax a range of previously exempt fringe benefits[12]. In addition, some governments have reduced the preferential treatment of capital gains, which can be a major source of tax avoidance. However, difficult problems arise in deciding on the appropriate extent of taxation of capital income since it is necessary to weigh up the expected benefits from a broader base and lower tax rates against possible disincentives to saving and capital formation. In practice, some countries have increased saving incentives by extending the preferential tax treatment of capital income (notably the United Kingdom, Canada, France, Denmark), while others (for instance, the United States and Japan) have lessened such incentives or propose to do so.

Most governments considering tax reform have also scrutinized existing tax deductions and credits. Some have tightened deductible limits for costs incurred in earning income, such as entertainment allowances and other self-employed business expenses. Although several countries are restricting or eliminating the deductibility of consumer interest, there is still a deduction or a tax credit for mortgage interest on owner-occupied dwellings in all but a few cases (Canada, Australia, New Zealand and Turkey). Other uses of income that receive favourable tax treatment include, for example, spending on medical care, education and energy conservation. In addition, a portion of income set aside for retirement saving can be deducted in a number of countries.

In many cases, rate reductions for personal income tax have concentrated on the highest marginal rates, so that the rate schedule is flattened[13]. As shown in Table 16, the actual and planned reductions in the top marginal rate (the effective rate, allowing for income taxes levied by all levels of government) are particularly large for the United States (from about 75 per cent in 1981 to 38 per cent), the United Kingdom (from 83 to 60 per cent in 1979), Japan (as proposed, from about 88 to 65 per cent), Italy (as proposed, from 76 to 56 per cent), Turkey (from 78 to 50 per cent) and New Zealand (from 66 to 48 per cent). In many countries, however, marginal tax rates remain high. Moreover, as can be seen from the table, when social security contributions are taken into account the marginal rate of taxation on labour income is very high in many countries even for the average worker (and even higher if payroll tax and consumption taxes are taken into account).

Many existing *corporate tax* systems produce very large dispersions in effective marginal tax rates because

of their treatment of depreciation and inflation as well as specific incentives for certain activities, sectors or regions. The resulting distortion of after-tax returns leads to a misallocation of resources, a less productive capital stock and hence substantial welfare costs. In the light of this, reform of corporate taxation has generally concentrated on base broadening and the reduction of rate dispersion through changes to the treatment of capital costs. For example, the United States, France, the United Kingdom, Canada and Australia have abolished investment tax credits and/or accelerated depreciation and brought capital recovery allowances more into line with real economic depreciation. However, about half of OECD countries still have such general investment tax incentives and most have a range of specific incentives. Moreover, few countries have attempted to adjust taxable profits for the distortions caused by inflation. Thus, a substantial dispersion in effective tax rates remains.

The combination of personal and company taxation can, by taxing some forms of capital income twice, lead to very high effective tax rates. Most OECD countries achieve some degree of alleviation of the tax-induced bias[14] against the corporate form of organisation and equity financing (resulting from the double taxation of dividends), and in favour of profit retention using a variety of methods (dividend tax credits, lower company tax rates on distributed income and exemption of capital gains). However, concern about the revenue cost, the international implications and administrative problems have made governments reluctant to go further. In recent years, Australia and New Zealand have strengthened the integration of their personal and corporate tax systems (using dividend tax credits), but the United States decided not to integrate, and Japan is considering a proposal to reduce integration by abolishing the preferential corporate tax rate on distributed income.

The main reform of *indirect taxation* has been the introduction of VAT-type taxes in Greece, New Zealand, Portugal, Spain and Turkey. All OECD countries except Japan and Australia (which was unable to obtain public acceptance for a retail sales tax) now have some form of broad-based consumption tax. Canada is also considering a national VAT-type tax to replace an existing very distorting manufacturers' sales tax. There have been relatively few moves to simplify rate structures within VATs even though there is little evidence that multiple rate systems significantly improve progressivity, and then at substantial administrative and efficiency cost[15]. There has also been some interest in shifting the tax base towards consumption, particularly via increased indirect taxation. (Chart E compares the relative importance of various types of taxes in 1965 and 1985.) The countries which have made such a change or envisage doing so (the United Kingdom, Canada, Australia and New Zealand) appear to be less concerned with reducing the tax penalty on savings than with easing pressure on personal income tax rates and lessening tax evasion and avoidance. Such a tendency has been limited elsewhere by concerns about VAT's perceived regressiveness and its effect on measured price indices, as well as a fear that it might prove too efficient a revenue raiser (and lead to an increase in the size of government). A recent example of the difficulties of a shift in the tax base towards consumption was provided by the strong opposition in Japan to the government proposal to introduce a VAT-type tax, although there appears to be a consensus on the need for greater reliance on indirect taxation[16].

Despite the progress made so far, as described above, tax reform remains quite limited overall. This generally reflects certain constraints faced by governments in formulating reform proposals, in particular:

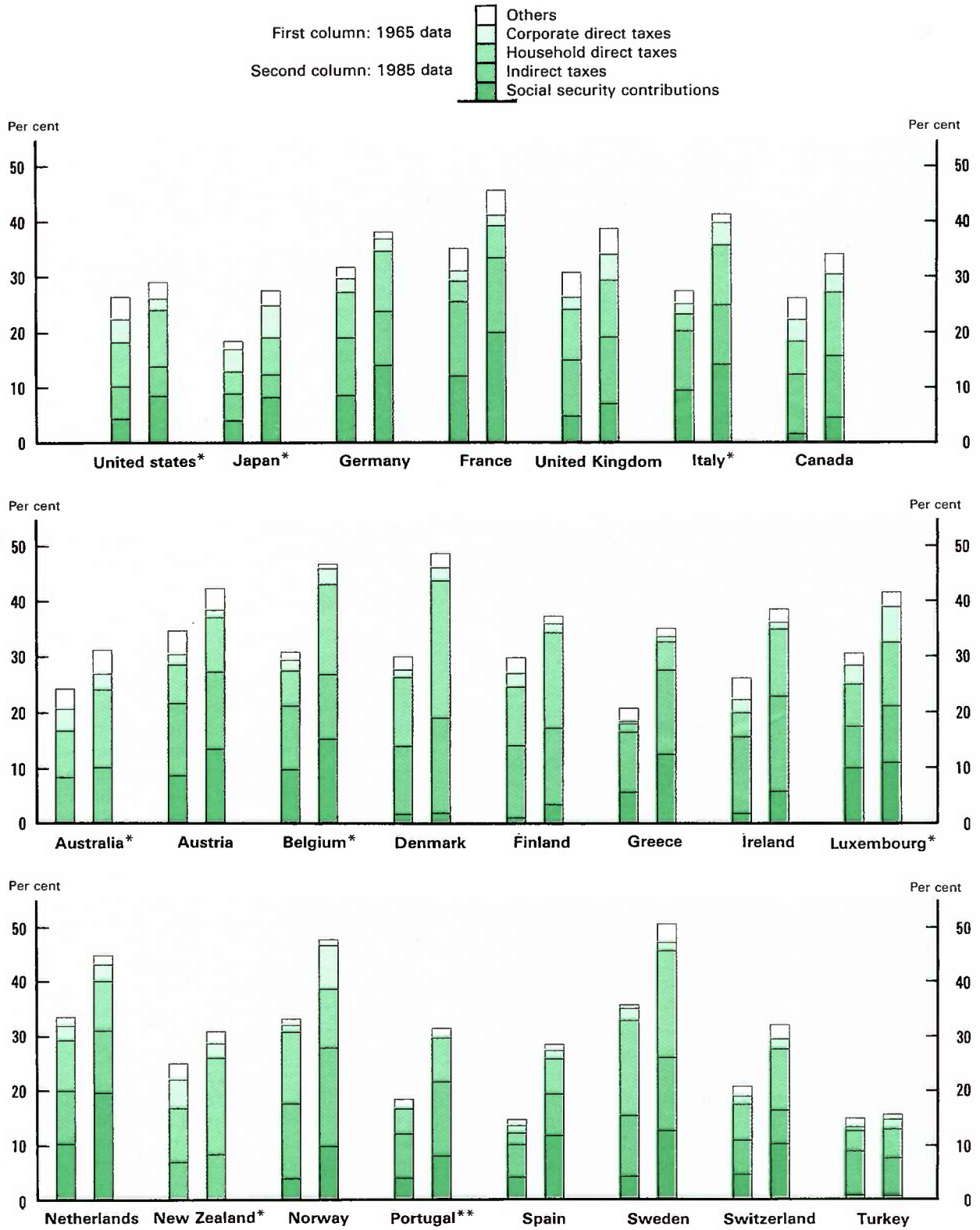
i) The conflict between efficiency and equity. The tax system is often regarded as one of the main instruments for achieving a government's income redistribution objectives (via progressive income tax schedules, multiple-rate VAT structures, etc.). In fact, for many OECD countries the overall tax system by itself appears to redistribute very little, so that substantial distortions and welfare costs are incurred for uncertain and possibly slight benefits. There is thus a need for a careful reassessment of the relative merits of the alternative means of redistributing income (the tax system, direct expenditure and transfers). It may be possible to design tax reforms that improve horizontal equity, are distributionally neutral, and still achieve significant efficiency gains.

ii) The use of "tax expenditures". These usually arise from the provision of favourable tax treatment of particular types of activities or groups of taxpayers as a substitute for government expenditures[16]. Although they may sometimes be useful, many "tax expenditures" serve to undermine the tax base without significant benefits. Moreover, they are an important source of the complexity of existing tax systems, of the dispersion in effective tax rates and of avenues for tax avoidance.

iii) The political and practical difficulties associated with tax reform. As losses tend to be concentrated, losers are usually better organised and more vocal than those who benefit from lower tax rates. The presentation of reform proposals can thus be crucial in creating political support for change. A more comprehensive reform, by eliminating most tax preferences, would allow larger reductions in tax rates and is more likely to be seen as fair (because everyone's tax preferences are given up at the same time). However, major changes to the tax system can have substantial and sudden effects on the income and wealth of individuals. Transition rules are, therefore, likely to be needed to minimize unfair losses or undeserved windfalls to individuals whose investment decisions were influenced by the provisions of the existing tax code.

CHART E

RELATIVE IMPORTANCE OF DIFFERENT TYPES OF TAXATION IN 1965 AND 1985



Source: Revenue Statistics of OECD Member Countries (1965-1985).

* 1984.

** It is not possible to distinguish between household and corporate tax revenues in Portugal.

In addition, international linkages may limit the ability of the authorities in one country to change their own tax system or force them to react to reforms elsewhere. Large differences in tax rates between countries can have various adverse consequences (such as emigration of skilled labour) which can generate political and economic pressures for lower taxes in high-rate countries. Governments may also worry about short-run macro-economic consequences of tax reform. In principle, the effects of a revenue-neutral tax reform on aggregate activity, inflation or the balance of payments should not be of major concern, although it is important to prevent any shift to indirect taxation from creating a wage-price spiral or aggravating an existing one.

Given these constraints, a clear strategy is required in designing tax reform. Key choices that need to be made include: the extent to which governments wish to continue using the tax system for non-revenue purposes, the amount of progressivity they wish to have in the tax system as a whole and the appropriate mix of income and consumption taxation. This last may depend on the adequacy of national savings as well as on judgements about the extent to which savings are sensitive to the rate of return. Once the decision to proceed with reform has been made, the presentation of the proposals becomes vital. In this respect, as noted above, comprehensive reform may be easier to "sell" than a piecemeal approach and offers a greater chance of future stability of the tax system, which is obviously very important for private sector planning. Conversely, step-by-step reform does allow governments to have a better idea of the economic effects of the measures undertaken than when a large number of changes are made simultaneously. Finally, an interesting feature of the personal tax reforms to date is that in many cases only part of the rate reduction was achieved via base broadening – either total tax revenue was reduced, or there was a shift to indirect tax or company tax. This suggests that it may be difficult to obtain public acceptance for a pure revenue-neutral "base-broadening, rate-reducing" reform of personal income tax.

NOTES

1. The measures of velocity, as well as the equations described later in this paragraph, are defined more precisely in the notes to Chart D.
2. It should be noted that the CBM aggregate in Germany exhibits similar behaviour over time to that of the broad definition of money M3, due to the fact that central bank money is comprised largely of the reserves required against the deposits included in M3. Thus, CBM growth in Germany can be analysed in an analagous fashion to that of M2 in the United States and M2+CD in Japan.
3. The predicted values in Chart D are derived from conventional money demand functions, estimates of which are presented in the notes to the chart. A dynamic simulation, with the explanatory variables taking their actual historical values is used. It must be stressed of course that it is by no means certain that such relationships will continue to be stable in the future.
4. While an increasing proportion of broad money stocks consists of deposits with competitive interest rates, it would appear that adjustments in rates on these deposits, which are highly substitutable for other financial assets of similar term to maturity, respond with some delay to changes in market conditions.
5. This issue is discussed in more detail in K. Clinton and J.C. Chouraqui, "Monetary policy in the second half of the 1980s: how much room for manœuvre", *Department of Economics and Statistics Working Paper* No. 39, February 1987.
6. The interpretation of cyclically-adjusted budget balances was discussed in *Economic Outlook 31*, July 1982. Such a measure gives a rather wide definition of "discretionary" fiscal action because it includes components (such as debt service, fiscal drag and resources revenues) that are not directly under government control.
7. Inflation-adjusted estimates of structural budget balances were discussed in *Economic Outlook 34*, December 1983, pp. 40-41.
8. The debt projections are based on the assumption that net financial liabilities increase by the amount of the general government financial deficit, while financial assets of the government sector are assumed to grow with nominal GNP/GDP.
9. For a more detailed discussion of this problem see *Economic Outlook 39*, pp. 41-45, and J.C. Chouraqui, B. Jones and R.B. Montador "Public debt in a medium-term perspective," *OECD Economic Studies* No. 7, Autumn 1986.
10. See, in this respect, *Economic Outlook 38* (pp. 6-9); R.P. Hagemann, B.R. Jones and R.B. Montador, "Tax reform in OECD countries: economic rationale and consequences", *Department of Economics and Statistics Working Paper* No. 40, forthcoming; OECD (1986), *Personal Income Tax Systems Under Changing Economic Conditions*; and OECD (1987) *Taxation in Developed Countries*.

11. Total tax revenues (based on national accounts data) are estimated to have increased from about 30.5 to 35.6 per cent of GNP/GDP for OECD countries between 1970 and 1985.

12. Fringe benefits, which are often fully or partly exempt from taxation, have been increasingly used as a form of compensation in many countries, in part as a response to high marginal tax rates. For an extensive discussion see OECD (1987, forthcoming), *Taxation of Fringe Benefits*.

13. The emphasis on reducing top marginal rates reflects two main factors: first, a view that high marginal rates are the major source of disincentives and welfare losses, and are a major factor contributing to tax avoidance and evasion; and second, that steeply progressive tax systems have not proved an effective instrument for redistributing income. On the other hand, some countries have emphasized a lowering of the standard tax rate applicable to most taxpayers – for instance, to 25 per cent in Japan (as proposed) and to 27 per cent in the United Kingdom. See OECD (1986), *Personal Income Tax Systems Under Changing Economic Conditions* for a further discussion of this issue.

14. Germany and Greece fully offset this bias (for both distributed and undistributed profits), but the United States, Luxembourg, the Netherlands, Spain and Switzerland have taken no measures to do so.

15. Only New Zealand, Denmark, Finland and Norway have a single VAT rate and half of the countries have 3 or more rates (including France and Italy with 4, and Belgium 6). Standard VAT rates range from 10 to 25 per cent, while most countries have a luxury rate (in excess of 30 per cent) and/or a range of preferential rates.

16. In Japan, a tax reform package (which included a proposal to lower personal taxes, financed by base broadening and the introduction of a VAT) proved very controversial and was referred to a special Parliamentary Committee for consideration.

17. See OECD (1984) *Tax Expenditures, A Review of the Issues and Country Practices*.

EMPLOYMENT AND UNEMPLOYMENT

Total unemployment in the OECD area remained unchanged last year at around 31 million. Over the next eighteen months, employment and labour force growth are both likely to decelerate slightly to annual rates of around 1 per cent; the unemployment rate may show little change at 8¼ per cent. Unemployment rates in North America may continue to fall but further rises are expected in Japan and most European countries. Youth unemployment rates may continue to decline slowly in most countries.

Recent trends

Employment in the OECD area grew by a relatively buoyant 1.4 per cent in 1986, although there appears to have been some deceleration in the first half of 1987 (Tables 17 and 18). In Europe, employment growth of nearly 1 per cent was the best performance since 1973. In several European countries, employment in industry stopped falling, while in others the labour shake-out eased. The expansion of government-sponsored employment and training programmes may have played a role in this improvement. Nonetheless, increases in job vacancies in countries such as Germany and the United Kingdom are indicative of a slow improvement in the underlying employment situation. In contrast, labour market conditions have been weakening in Japan, although this is not very apparent from employment data, since employers tend to hoard workers during a cyclical downswing. In North America, employment growth held up well relative to weaker output growth as productivity growth slowed.

In many OECD countries, participation rates rose in 1986, partly due to the return of some discouraged workers to the labour force as the employment situation improved. In Europe there was a generalised acceleration of labour force growth (Tables 33 and 34 of the Technical Annex) despite further weakening of demographic pressures. Last year the number of persons of working-age (the age group 15-64) in OECD Europe is estimated to have increased by only 0.7 per cent compared with an annual growth rate of 1.3 per cent between 1980 and 1984. Labour force growth in Japan also accelerated slightly to 1 per cent.

Stability in the area-wide unemployment rate last year masked a continuation of divergent trends in the major OECD zones. The unemployment rate in North America continued to fall; the U.S. and Canadian unemployment rates in the first quarter of this year were 3.9 and 3.1 percentage points, respectively, lower than the rates recorded at the recession trough in the final quarter of 1982. In Europe, on the other hand, the unemployment rate has remained broadly unchanged for the past three years at around 11 per cent (Tables 19 and 20)[1]. While unemployment continued to rise in some of the larger countries such as France and Italy, most other European countries recorded small declines. In Japan, the sharp decline in the competitiveness of

Table 17

Growth of employment in the OECD area[a]

Total economy, percentage changes from previous period, seasonally adjusted at annual rates

	1985 Employment (thousands)	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
United States	107 154	4.1	2.0	2.3	2	2	2.2	2	1¾	2	2
Japan	58 070	0.6	0.7	0.8	½	½	0.8	½	¼	½	½
Germany	25 534	0.1	0.7	1.0	½	¼	1.1	¼	¼	½	½
France	21 424	–1.0	–0.1	0	–¼	0	–0.2	–¼	0	0	¼
United Kingdom	24 422	1.7	1.4	0.5	1	1	0.9	1¼	1	1	¾
Italy	20 934	0.3	0.5	0.6	½	¼	0.9	¼	¼	¼	½
Canada	11 311	2.5	2.8	2.9	1¾	2	0.4	2½	2¼	2	2
Total of above countries	268 849	1.9	1.3	1.4	1¼	1¼	1.3	1¼	1	1¼	1¼
Other OECD countries[b]	69 366	0.3	0.8	1.6	1	¾	1.3	1	¾	¾	¾
Total OECD	338 216	1.6	1.2	1.4	1¼	1	1.3	1¼	1	1	1
Four major European countries	92 314	0.3	0.6	0.6	½	½	0.7	½	½	½	½
OECD Europe	153 544	0.1	0.6	0.9	¾	½	1.0	½	½	½	½
EEC	122 512	–0.1	0.5	0.8	½	½	0.8	½	½	½	½
Total OECD *less* the United States	231 061	0.5	0.8	1.1	¾	¾	0.9	¾	½	¾	¾

a) For sources and definitions, see *Sources and Methods*.
b) Half-yearly data must be interpreted with care since for most of these countries, half-yearly growth rates were obtained by a purely mechanical interpolation. For details on a yearly basis, see Table 18.

Table 18

Growth of employment in other OECD countries[a]

Total economy, percentage changes from previous year

	1985 Employment (thousands)	1984	1985	1986	1987	1988
Austria	3 235	0.9	0	0.9	–¼	0
Belgium	3 696	0	0.7	0.7	–¼	0
Denmark	2 533	1.5	2.8	2.1	0	–¾
Finland	2 428	1.0	1.0	–0.2	¼	¼
Greece	3 556	0.5	0.9	0.2	–¼	–½
Iceland	106	0.9	–6.9	1.0	¾	..
Ireland	1 074	–1.3	–3.2	–1.6	–1½	–½
Luxembourg	160	0.6	1.5	1.5	1½	1½
Netherlands	4 561	–0.4	1.1	1.4	¾	¼
Norway	2 012	0.7	2.1	2.9	1½	–½
Portugal	4 048	–1.9	–0.5	0.5	½	½
Spain	10 570	–2.9	–0.9	2.4	2	1¾
Sweden	4 299	0.7	1.1	0.9	½	¼
Switzerland	3 162	–0.3	0.8	1.0	1	½
Turkey	15 790	1.5	1.1	2.2	1¾	1½
Total of above European countries	61 230	–0.1	0.5	1.5	1	¾
Australia	6 780	3.3	3.0	3.6	1¾	1¼
New Zealand	1 356	3.1	2.4	–0.4	0	½
Total of above countries	69 366	0.3	0.8	1.6	1	¾
OECD Europe	153 544	0.1	0.6	0.9	¾	½
EEC	122 512	–0.1	0.5	0.8	½	½

a) For sources and definitions, see *Sources and Methods*.

Table 19

Unemployment in the OECD area[a]

	1985 Unemployment (thousands)	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Unemployment rates											
United States	8 310	7.5	7.2	7.0	6¾	6½	6.9	6¾	6¾	6½	6½
Japan	1 560	2.7	2.6	2.8	3	3	2.8	3	3	3	3
Germany	2 304	8.2	8.3	8.0	8	8¼	7.8	8	8	8¼	8¼
France	2 440	10.0	10.2	10.5	11¼	12	10.6	11	11½	11¾	12
United Kingdom	3 223	11.5	11.7	11.8	11¼	10¾	11.7	11½	11	11	10¾
Italy	2 340	9.8	10.1	10.9	11½	11¾	11.0	11¼	11½	11¾	11¾
Canada	1 328	11.3	10.5	9.6	9¼	9	9.5	9½	9¼	9	9
Total of above countries	21 505	7.5	7.4	7.4	7¼	7¼	7.4	7¼	7½	7¼	7¼
Other OECD countries[b]	9 517	12.1	12.1	11.6	11½	11¾	11.6	11½	11½	11½	11¾
Total OECD	31 022	8.5	8.4	8.3	8¼	8¼	8.3	8¼	8¼	8¼	8¼
Four major European countries	10 307	9.8	10.0	10.3	10½	10½	10.2	10¼	10½	10½	10½
OECD Europe	19 176	10.9	11.1	11.0	11	11¼	11.0	11	11	11¼	11¼
EEC	15 762	11.2	11.4	11.4	11½	11¾	11.4	11½	11½	11½	11¾
Total OECD *less* the United States	22 712	8.9	8.9	8.9	9	9	8.9	9	9	9	9
Unemployment levels (millions)											
North America		9.9	9.6	9.5	9¼	9¼	9.4	9¼	9¼	9¼	9
OECD Europe		18.8	19.2	19.2	19½	19¾	19.2	19¼	19½	19¾	19¾
Total OECD		31.0	31.0	31.1	31¼	31½	31.0	31	31½	31½	31½

a) For sources and definitions, see *Sources and Methods*. For unemployment rates standardized by OECD facilitating cross-country comparisons, see table R12 in *Reference Statistics*.
b) For details on a yearly basis, see table 20.

Table 20

Unemployment rates in other OECD countries[a]

	1985 Unemployment (thousands)	1984	1985	1986	1987	1988
Austria	120	3.8	3.6	3.4	4	4½
Belgium	506	12.9	12.0	11.4	11¾	12
Denmark	252	10.1	9.0	7.8	8½	10
Finland	128	5.2	5.0	5.5	5¼	5½
Greece	336	8.9	8.6	8.1	8¾	9½
Iceland	1	1.3	0.9	0.7	¾	..
Ireland	225	15.5	17.3	17.9	18¾	18¾
Luxembourg	3	1.7	1.6	1.5	1¼	1¼
Netherlands	761	15.4	14.3	13.3	12¾	12¾
Norway	52	3.0	2.5	1.9	2¼	3
Portugal	401	9.0	9.0	8.7	8¾	8½
Spain	2 971	20.6	21.9	21.5	21	20½
Sweden	101	2.5	2.3	2.2	2¼	2½
Switzerland	33	1.2	1.0	0.8	1	1
Turkey	2 979	15.7	15.9	15.1	14¾	14½
Total of above European countries	8 869	12.6	12.7	12.2	12	12
Australia	596	8.8	8.1	8.0	8	8½
New Zealand	52	4.5	3.7	4.9	5¾	6¼
Total of above countries	9 517	12.1	12.1	11.6	11½	11¾
OECD Europe	19 176	10.9	11.1	11.0	11	11¼
EEC	15 762	11.2	11.4	11.4	11½	11¾

a) For sources and definitions, see *Sources and Methods*.

export industries contributed to a record high unemployment rate of 3 per cent at the beginning of 1987. The unemployment rate in Australia fell until the first half of 1986, but has risen since.

One favourable aspect of the present situation has been a continued slow reduction in youth unemployment. In the twelve Member countries for which relatively comparable data are available, the unemployment rate for persons aged less than 25 fell again in 1986 to just above 16 per cent, 1½ percentage points less than the record high in 1983. In 1986 the youth unemployment rate in the four major European countries fell for the first time in almost a decade, largely due to special employment measures together with a weakening of demographic pressures. However, the improving outlook for youth unemployment has coincided with an increase in unemployment rates for prime-age workers in some countries, suggesting that the special measures may have partly shifted the burden of unemployment.

Prospects

Employment growth may decelerate slightly in the major OECD zones over the next eighteen months. In North America, employment is expected to expand by 2 per cent at an annual rate, accompanied by a pick-up in labour productivity growth (Tables 35 and 36 of the Technical Annex) to a more normal rate. European employment growth may decelerate to a modest ½ per cent, with the slowdown being more pronounced in Germany and some of the smaller countries. In line with trends since 1973, the gains are likely to be concentrated in part-time jobs (see below). In Japan, adjustment of working hours and additional redeployment of employees within large enterprises may contribute to minimizing the effects of slower output growth on employment growth.

While growth of the working-age population is likely to continue to decelerate in most countries, participation rates in North America and Europe are projected to increase further. In contrast to other countries, Japan may record slight falls in its female participation rate; women are especially prone to leave the Japanese labour force when economic activity weakens. Overall, the total OECD labour force is expected to grow at the same rate as employment, so that the area's unemployment rate may show little change at 8¼ per cent.

Within this total, unemployment rates may fall in North America and a few European countries with above-average unemployment rates, notably the United Kingdom, Spain, Turkey and the Netherlands, while increasing in most other European countries. In all, the numbers unemployed in OECD Europe may increase by ½ million people over the next eighteen months, to reach nearly 20 million in the second half of 1988. With fewer younger people available to join the labour force, the problem of youth unemployment should continue to recede slowly in many countries. The increase in unemployment in Japan may be modest: given the special features of its labour market, unemployment is unlikely to reach 2 million by end-1988.

NOMINAL WAGE MODERATION AND EMPLOYMENT GROWTH OVER THE MEDIUM TERM

The recovery in employment growth during the current expansion has been assisted, in part at least, by a sustained bout of disinflation and nominal wage moderation. Even so, an extrapolation of current trends suggests that total OECD employment growth over the next five years may be only slightly more rapid than that of the labour force. Hence, unemployment could well remain a major problem in many OECD countries, especially in Europe. Given this unfavourable outlook, it is important to assess the role that further nominal wage moderation, combined with alternative assumptions about the stance of macroeconomic policies, could play in contributing to faster employment growth over the medium term.

Nominal wage moderation might affect employment through four main channels. First, there are negative direct demand effects associated with changes in private consumption. Wages and salaries account for the bulk of the household sector's disposable income. Second, there

STANDARDIZED UNEMPLOYMENT RATES

With persistently high unemployment in many OECD countries, there is widespread interest in international comparisons of unemployment rates. For a number of years the OECD has been publishing "standardized unemployment rates" (SURs, see Table R12 in Reference Statistics), which are based on national unemployment statistics adjusted by the OECD Secretariat where necessary, and to the extent that the data available permit, to facilitate international comparisons. This note describes the SURs and outlines some recent changes.

International guidelines for measuring employment and unemployment

In order to improve international comparability in the field of labour force statistics, the International Labour Organisation (ILO) adopted new guidelines in 1982 for measuring the labour force, employment and unemployment. According to the new guidelines, the *labour force* consists of civilian employees, the self-employed, unpaid family workers, professional and conscripted members of the armed forces, and the unemployed. The ILO definition of the *unemployed* refers to persons of working age who, in a specified period, are without work, are currently available for work and are seeking work in the sense of having taken specific action to find work within a recent period. Unemployment defined this way often differs from the corresponding national measure, especially when the latter refers to the unemployed registered at employment offices.

One key point, not fully specified in the new ILO guidelines, relates to the length of the period in the course of which a person must have made an active job search in order to be counted as unemployed. The OECD Working Party on Employment and Unemployment Statistics has concluded that, for purposes of international comparisons between OECD countries, this ought to be the previous month.

Registration data refer either to the number of persons on some official register kept for administrative purposes or to the number claiming unemployment benefits. Consequently, the number of people recorded as unemployed depends upon the way in which the registration system is organised, on the extent to which persons are accustomed to register, and on the inducements to do so. Thus, the coverage of the registered unemployed differs from country to country because of differences in national legislation and administrative procedures. For this reason, administrative records are a less suitable source of data than household surveys for the purpose of international comparisons of unemployment.

Household surveys of labour force activity are an alternative source for unemployment statistics. Such surveys are designed to cover the entire population and can thus provide comprehensive statistics of unemployment[1]. In principle, data derived from labour force surveys can approximate the ILO measure of unemployment very closely, but survey results are liable to be affected by questionnaire design and the precise way in which questions are asked. These are not always the same from country to country. Survey results are also, of course, subject to sampling and response errors.

For several OECD countries, the national measure of unemployment already corresponds closely to the ILO

are relative price effects in the form of changes in the price of labour relative to capital and other inputs, giving rise to substitution in favour of labour. This may also lead to changes in the prices of traded goods and services relative to competitors' prices. Third, cuts in nominal wages and prices may generate positive wealth (or real balance) effects on demand. Finally, to the extent that profitability improves as a result of wage moderation and this is translated into higher business investment, there will be favourable effects on real output and employment.

The impact of nominal wage moderation will also depend importantly on whether and how macroeconomic policies react. If, for example, neither the money supply nor nominal government spending are changed in the face of the lower inflation induced by a slowdown in nominal wage growth, this would amount to an induced easing of macroeconomic policies. In this case, macroeconomic policies could be described as "supportive". On the other hand, nominal wage moderation might not be accompanied by a relaxation in the policy stance if, for example, both money supply growth and nominal government spending were reduced in line with lower inflation.

The OECD's INTERLINK model was used to obtain an impression of the possible effects of further wage moderation. Specifically, the impact was examined of lower nominal wage growth of one percentage point per annum in all OECD countries over a five-year period with either supportive or unchanged policies. In the case of supportive policies, the simulation results suggest that OECD employment could be 1 per cent higher after five years than would have been the case without additional nominal wage moderation. Employment rises because of both higher investment in response to improved profitability and labour-for-capital substitution. This rise in employment, combined with real balance effects, prevents a fall in the level of private consumption. Given the

definition, and few or no adjustments are made by the OECD to calculate the SUR. In addition, the Statistical Office of the European Community has recently been able to achieve a substantial degree of harmonization between the labour force surveys in its Member countries. This involves not only the adoption of the new ILO guidelines, together with a four-week reference period for job search, but also some harmonization of the questionnaires. As a result, the availability from household surveys of data which meet the ILO guidelines reasonably well has improved considerably in recent years.

It has been decided that in future the OECD SURs should always be based on surveys allowing for the application of a specific test for job search, with the agreed reference period being the past four weeks. However, the survey data underlying the SURs for most EEC countries are available only infrequently and after a relatively long delay. For these countries, registration data are therefore used to extrapolate the benchmark survey data to the most recent period. As a result, the SURs for some countries are liable to be revised when new survey results become available.

Recent changes to the SURs

The adoption of a more precise "standard" for the SURs in line with the ILO guidelines, as amplified by the OECD Working Party, together with new sources of information provided by the EEC labour force surveys, has led inevitably to some important changes both as to country coverage and specific figures. First, as a result of a re-examination of the basic data and sources, the OECD has been obliged to suspend temporarily the updating and publication of SURs for several European countries, both inside and outside the EEC.

Second, major revisions have been introduced for the SURs for four EEC countries, namely Belgium, Germany, the Netherlands and the United Kingdom, as a result of switching over from estimates derived mainly from registration data to estimates derived from new labour force survey data. The harmonized EEC labour force surveys are now providing new benchmark data since 1983 for these countries. The extent of the revisions are shown in Chart G. In each case the new values of the SURs are lower than the old ones. The downward adjustments range from over 2 percentage points in the Netherlands to almost 2 percentage points in the United Kingdom, 1½ percentage points in Belgium and 1 percentage point in Germany.

This illustrates that the unemployment totals from registration sources and household surveys can be expected to differ because of the different concepts of unemployment used, although there is generally a large overlap between the two measures. On the one hand, there are those who are unemployed in line with the guidelines but who are not registered as unemployed. On the other hand, there are those who are registered but who are not actively seeking work or who have a paid job. In these four countries, the size of the latter group was larger than the former, hence the decline in the SURs.

Finally, it is expected that new estimates for the SUR for Italy will be published in the near future, based on data from the EEC surveys. The OECD Secretariat is also exploring the possibility of adding the remaining EEC countries and New Zealand which have not been included in the SURs series up to now.

NOTE

1. For a comparison of the two separate but overlapping populations of the registered and the survey unemployed, see OECD (1985), *Standardized Unemployment Rates, Sources and Methods.*

induced fall in inflation, real compensation per employee declines much less than nominal wages.

With unchanged policies, implying higher real interest rates and unchanged real government spending in the case chosen, the rise in OECD employment after five years of nominal wage moderation is much smaller (¼ per cent). Substitution of labour for capital accounts entirely for the slight increase in employment. The capital/labour ratio falls in response to a sharp decline in the relative price of labour, and labour productivity is lower compared with a situation of no additional nominal wage moderation. Given the assumed simultaneous fall in both the money supply and nominal government spending, disinflation is pronounced.

Summing up, these two reported simulations suggest that a sustained period of nominal wage moderation in OECD countries could lead to somewhat higher employment over the medium term – but the size of the gains would depend importantly on the stance of monetary and fiscal policies[2]. In each simulation, Europe records the smallest and the United States the largest employment gains. The main reason for this difference is that in the United States, employment is assumed to adjust much more quickly to changes in expected output and relative factor prices than in Europe. While the results are obviously dependent on the structure of INTERLINK and its key behavioural parameters, they are in line with the findings from similar simulations with other macroeconometric models[3].

These simulations, however, do not address the central policy question: if, as seems likely, further nominal wage moderation could help improve OECD employment prospects, how could this be brought about? This question is all the more pertinent since recent indicators suggest that the sustained bout of nominal wage disinflation since 1981 is coming to an end in most countries (see the discussion in the Costs, Prices and Profits chapter).

TRENDS IN "FLEXIBLE" EMPLOYMENT

Concern has been expressed that the slow improvement in the employment situation in recent years masks a rapid growth in more "flexible", less stable forms of employment, coinciding with little or no growth in "core", full-time jobs[4]. Further, it is argued that this shift in the structure of employment reflects the emergence in many OECD countries of a new balance between workers' desire for greater job security and employers' interest in securing greater work-force flexibility.

While this debate is hampered by the lack of an agreed definition of the "flexible" work force, part-time employment and temporary work are usually cited as important elements. This section examines the available evidence on trends in these two forms of employment and assesses some of the key forces at work.

Part-time employment

During the present recovery, the rise in the relative importance of part-time jobs has been much more marked in Europe than in North America. Between 1973 and 1979, part-time employment in Europe grew by 2 per cent a year, compared with an annual growth rate of 0.5 per cent for those in full-time jobs (Table 21). The growth in the number of part-time jobs accelerated further between 1979 and 1985 to 3 per cent at an annual rate, whereas the number of full-time jobs remained virtually static. In France and the United Kingdom, the acceleration in part-time employment growth was accompanied by persistent declines in full-time jobs. In sharp contrast, nearly three-quarters of the 12 million additional jobs created in North America between 1979 and 1986 were full-time positions. There has also been an acceleration of full-time employment growth in the 1980s in Japan, Finland, Sweden and Australia.

Almost without exception, the share of part-time employment in total employment has tended to rise in OECD countries since 1973. However, there are still very wide divergences between countries, with the share ranging from 5 per cent in Italy to almost 25 per cent in Denmark and Sweden, and over 28 per cent in Norway. These diverse trends, and the wide variation in the relative share of part-time employment across OECD countries, suggest that no single factor can explain the growth of part-time work. A variety of supply- and demand-side influences seems to have been important.

Table 21

Full- and part-time employment growth in selected OECD countries[a]

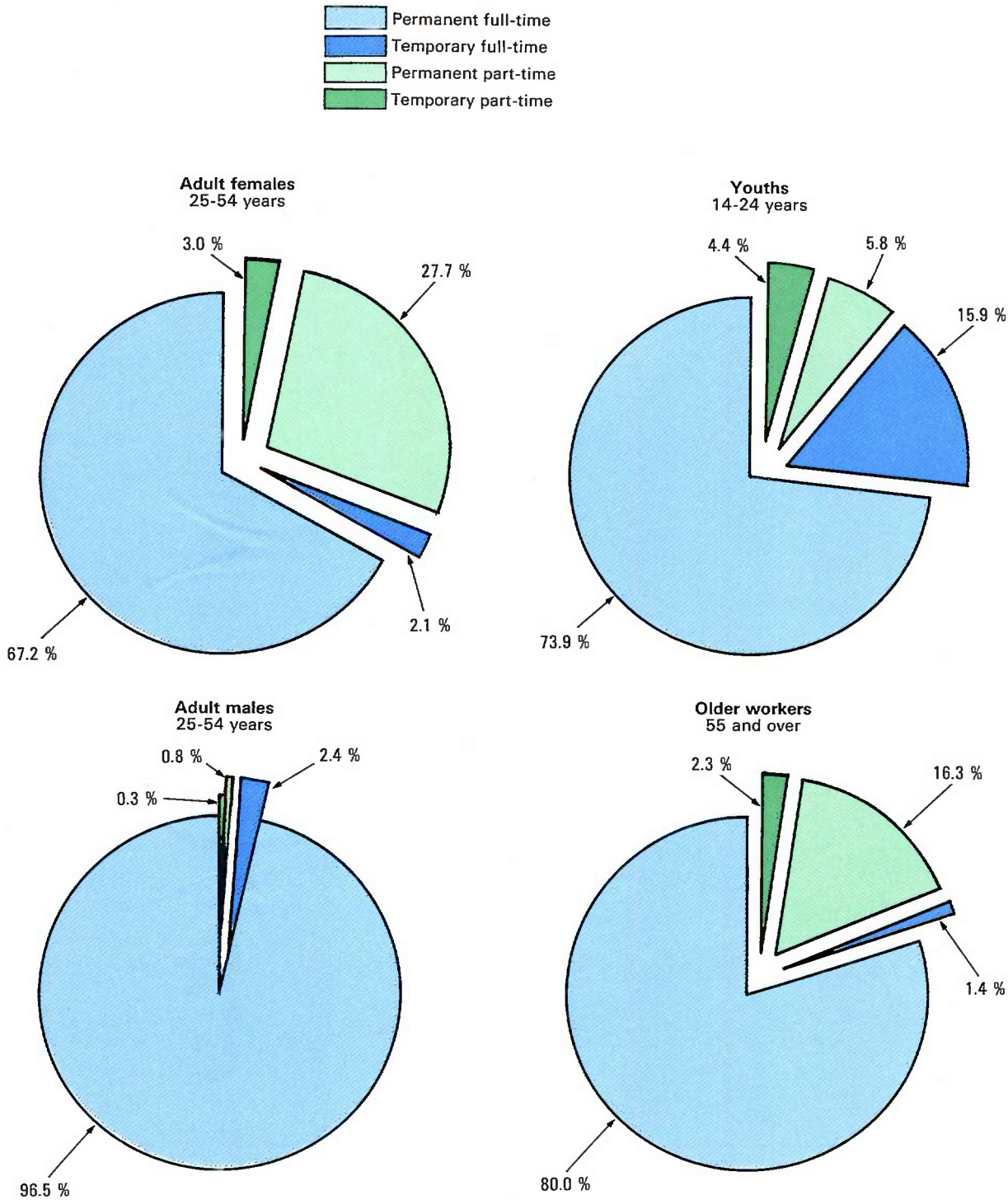
	Average annual percentage growth				Share of part-time employment in total employment 1985 (per cent)
	1973/79[b]		1979/85[b]		
	Full-time	Part-time	Full-time	Part-time	
United States	2.4	3.4	1.2	2.4	17.4
Japan	0.5	2.5	0.8	2.1	16.5
Germany	–0.6	1.7	1.1	1.1	12.0
France	0.4	2.9	–0.6	3.2	11.0
United Kingdom	0.4	1.0	–1.2	5.0	21.2
Italy	1.9	–1.5	0.4	2.9	5.3
Canada	2.7	4.2	0.8	5.1	15.5
Austria	1.6	4.8	–0.2	2.2	8.3
Belgium	–0.3	8.0	–0.6	2.7	8.6
Denmark	1.7	4.0	0.2	2.2	24.3
Finland	–0.3	–0.4	1.0	5.1	8.4
Ireland	2.8	–4.2	–1.1	–2.1	6.5
Luxembourg	0.1	0	0.4	1.7	7.3
Netherlands	0.4	5.1	–1.3	5.9	23.5
Norway	1.0	6.2	0.8	1.9	28.6
Sweden	–0.1	6.3	0.4	0.7	24.5
Australia	0.4	8.3	1.1	4.0	18.0
New Zealand	1.5	5.7	0.7	4.0	15.6
Total of European countries above	0.5	2.0	–0.1	3.1	13.7
North America	2.4	3.4	1.1	2.6	17.2
Total of above countries	1.1	2.8	0.6	2.7	15.7

a) The definition of part-time work is not consistent across countries. See OECD *Employment Outlook*, September 1985, Note A of the Technical Annex for details on the definitions and Table 10 for the sources of the data. The U.S. definition is based on the concept of "usual" activity status. Except for the Netherlands, estimates include the self-employed; agriculture is therefore included. (In *Employment Outlook*, the Japanese data exclude agriculture).

b) Due to non-availability of data or breaks in series, the time periods differ as follows: Australia 1973-77; Denmark, Norway, Ireland all 1975-79, Finland 1976-79. Austria 1979-83; Netherlands 1981-85; other EEC countries: average of 1979-81 and 1983-85, except Ireland (1980-81) for the former period.

CHART F

COMPOSITION OF PERMANENT AND TEMPORARY EMPLOYMENT IN EEC COUNTRIES (1)

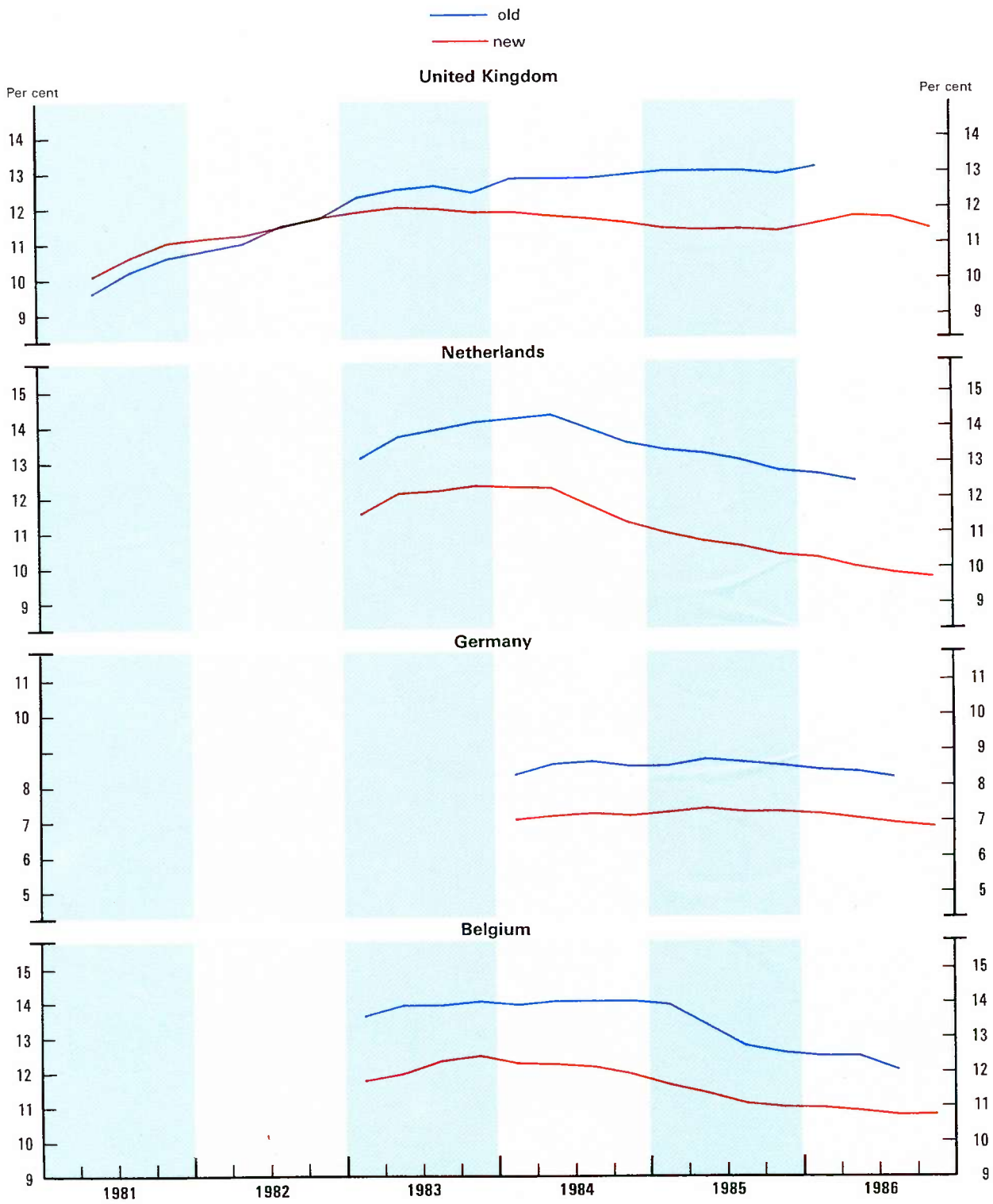


Source: Eurostat, *Labour Force Sample Survey.*

1. EEC-10 excluding the Netherlands.
Employees only, for 1985 except for Germany and Greece where the data relate to 1984.

CHART G

STANDARDIZED UNEMPLOYMENT RATES



For details of the method of calculation of the old and new series, see *Quarterly Labour Force Statistics*, OECD. The data corresponding to the new series for the years prior to 1984 for the United Kingdom, are estimates based on information provided by the national authorities linking the 1981 and 1983 labour force survey results. The new series for Germany was provided by the national authorities.

First, on the supply side, available evidence from household surveys of labour force activity suggests that the bulk of part-time employment is *voluntary*. For example, in the 1986 U.K. labour force survey, only 10 per cent of part-time employees stated that they had accepted part-time employment because they could not find a full-time job; two-thirds stated they did not want full-time employment, and nearly one quarter gave some other reason for working part-time, such as attending school. More generally, it could be supposed that married women, who hold a large proportion of part-time jobs, find that such employment allows them to have flexible work hours and to supplement family income, while simultaneously attending to other responsibilities.

Second, household survey data from a few OECD countries show that the average current tenure of part-time jobs is not significantly shorter than that of full-time jobs held by comparable members of the workforce. Indeed, labour force surveys in the EEC countries suggest that most part-timers, with the exception of youths, consider their jobs to be *permanent* (Chart F). Thus, many part-time jobs are relatively stable and are perceived as such. This may partly be due to part-timers in most European countries being given the same rights under employment protection legislation as full-timers[5].

Third, the secular change in the structure of employment in all OECD countries towards services, where most part-time jobs are concentrated, has facilitated the entry into the labour force of employees who do not wish to work a full-time schedule. This applies particularly to the distributive trades and private personal services. In addition, some European countries have actively sought to expand opportunities for part-time work in the public sector.

On the demand side, it is unclear whether basic hourly wage rates are systematically lower for part-timers doing identical jobs to full-timers. In any case, employers have a strong incentive to hire relatively more part-timers due to the lower *non-wage* labour costs associated with many part-time jobs. These cost savings can take several forms. First, part-time workers in many countries are often excluded from various social security arrangements, especially occupational health and pension schemes. In several cases there are thresholds in terms of hours or earnings below which such fringe benefits are minimal or non-existent. In some countries, employers have resisted establishing fringe benefits for part-time employees on a *pro rata* basis with full-time workers. Small enterprises may be excluded from the coverage of social security schemes and often part-time employment is concentrated in such businesses. Nonetheless, in around one-third of all OECD countries, part-time employees enjoy the same coverage of social security benefits as full-time employees on a *pro rata* basis.

Another area of cost savings for employers relates to the scheduling of hours. Part-timers may be brought in at peak times, thereby avoiding underemployment of full-time staff during off-peak periods, or overtime payments in busy periods. This is particularly important in many service industries.

For these reasons, there appears to have been some shift in employer preferences towards more reliance on part-time work as a means of providing greater employment flexibility, while still permitting them to retain a core group of experienced, long-tenure workers. This may have been compounded in recent years, to the extent that business uncertainty about future output prospects has increased.

Temporary work

Within the "flexible" labour force, attention has also focussed on temporary jobs. These jobs, which are not defined consistently across countries, cover a wide spectrum, ranging from fixed-term contracts to more casual employment arrangements including seasonal work. Data on temporary work are available from the EEC labour force surveys since 1983[6]. As with part-time employment, the share of temporary work in total employment varies widely across EEC countries, ranging from 4 per cent in Italy to 12 per cent or more in Denmark and Greece. However, temporary workers still account for a relatively small proportion of all employees, increasing on average in five EEC countries from 4.6 per cent in 1983 to 5.4 per cent in 1985[7].

Data for the EEC countries suggest that, in contrast with part-time work, temporary employment is concentrated among young people aged less than 25 years: 50 per cent of all temporary jobs in 1985 were occupied by young people, compared with only 17 per cent for permanent jobs. Fixed-term contracts are generally of rather short duration. For example, in France, where this form of employment has increased in importance in recent years, 44 per cent of these jobs in 1985 were for one month or less, and fewer than 20 per cent exceeded three months' duration[8]. In these circumstances, it may be asked whether or not temporary jobs are a step towards entering the labour force on a permanent basis.

Unfortunately, there are insufficient data available for tracing over time the inflows and outflows of workers with temporary jobs. However, in contrast with permanent employees, data from the EEC labour force surveys show that 20-30 per cent of temporary workers over the period 1983-85 were typically not in the labour force one year earlier and 10–20 per cent were unemployed twelve months prior[9].

The increasing use of temporary employment confers benefits to employers. First, it allows them to match labour input with product demand far more closely. Second, it enables employers to monitor on-the-job performance of new recruits for a limited period before deciding whether or not to hire them on a more permanent basis. Third, as with part-time workers,

savings of non-wage labour costs can be made. For example, in Japan, temporary help service employees may earn twice as much as ordinary part-time workers, but they do not receive twice-yearly bonus payments or social security coverage[10].

To summarise, a wide definition of "flexible" employment would include all jobs which are part-time and/or temporary or non-permanent. In this case, the size of the "flexible" labour force in the European countries shown in Chart F amounts to almost 20 per cent of all employees in 1985. The evidence also suggests that there has been some increase in its relative size in many countries, especially in Europe, in recent years. The growth of flexible employment represents one strategy whereby employers can achieve greater work-force flexibility in response to output fluctuations. Growth in more flexible forms of employment has also been facilitated by high unemployment rates and, in some European countries, by changes in legislation making it easier to hire and lay-off such workers. At the same time, such jobs appear to match many employees' needs for more flexible working-time schedules.

NOTES

1. The unemployment totals for OECD Europe and the area as a whole have been raised by about half a million persons compared with previous issues of the *Economic Outlook*. This reflects a change in the definition of unemployment in Turkey to bring the series into line with *Labour Force Statistics*. For further details, see Sources and Methods.
2. Both simulations incorporate nominal wage moderation in all OECD countries simultaneously. Greater wage moderation in a single country would be expected to have a larger positive effect on that country's employment on account of effects stemming from an improved international competitive position.
3. See, for example, the simulation results reported in H.M. Treasury (1985), "The relationship between employment and wages", London, January; and *European Economy, Annual Economic Report,* (1984), No. 22, November, pp. 179-189.
4. See OECD (1986), *Labour Market Flexibility*, A Report by a High-Level Group of Experts to the Secretary-General, May, p. 11.
5. A survey of fifteen European countries showed that only the United Kingdom and Ireland had different dismissal rules for part-timers and full-timers. See *European Industrial Relations Review* (1985), No. 137, June, pp. 21-28.
6. In the regular EEC labour force surveys, the questions posed in each country are not identical. In some, respondents declare whether their job is temporary or permanent. In others, "temporary" jobs are described as temporary, seasonal, casual or of fixed duration.
7. Data refer to France, Belgium, Ireland, Luxembourg and the United Kingdom.
8. See Corbel, P., J-C. Guergoat and M-C. Laulhé (1986), "Les mouvements de main-d'œuvre en 1985: nouvelle progression des contrats à durée déterminée", *Économie et Statistique*, November-December, pp. 17-26.
9. See OECD (1987), *Employment Outlook*, forthcoming, Chapter 1.
10. See Kuwahara, Y. (1985), "What does the increase of temporary workers bring to the Japanese employment system?", *Japan Labor Bulletin*, (February), pp. 5-8.

COSTS, PRICES AND PROFITS

Recorded inflation in the OECD area decelerated substantially in 1986: average consumer prices increased by 2.6 per cent on a year-on-year basis compared with 4.5 per cent in 1985. Underlying rates of inflation have also fallen, but less sharply. Nominal wage moderation continued to contribute to reduced inflation in 1986; recent indicators, however, suggest that further significant declines are unlikely. Inflation is projected to increase slightly, but remain relatively low, around 3½ per cent, over the projection period. Little change is foreseen in profit margins.

Oil and non-oil commodity prices

After the sharp decline in oil prices in mid-1986, both spot-market product prices and OECD oil import prices rebounded to around $15 per barrel at the end of 1986, and about $18 per barrel in March 1987, reflecting the most recent OPEC agreement on production quotas. Relative to OECD manufactures export prices, however, the price of oil fell by more than 50 per cent from the second quarter of 1985 to the first quarter of 1987 (Chart H). Real oil prices increased in the first half of 1987, but the technical assumption of unchanged OECD oil import prices from present levels of around $18 per barrel implies continued small declines in real terms in 1988.

Non-oil commodity prices were on average somewhat higher in dollar terms in 1986 than in 1985. But in real terms, i.e. relative to OECD manufactures export prices, they continued the downward trend in evidence since 1980, reaching their lowest level in the post-World War II period during the first quarter of 1987. Some individual commodities were exceptions to this rule: there were sharp increases in coffee prices in late 1985 and early 1986, all of which has since been reversed; and sugar prices have continued the upward trend started in mid-1985, with particularly large increases in early 1987. However, most food prices fell significantly and the price of cereals, in particular, remained under downward pressure, reflecting another year of good harvests and weak demand growth. Despite the fall in the dollar exchange rate, dollar prices of minerals and metals declined further in 1986, largely reflecting the sharp drop in tin prices following the collapse of the buffer stock scheme. The longer-term reasons for the weakness of raw material prices have been discussed in previous editions of *Economic Outlook*. Particularly important factors appear to be the low level of demand in Western Europe, the largest importer of such commodities, and substantial over-capacity in many producer countries.

Nominal dollar prices of non-oil commodities are projected to increase somewhat this year and next from the particularly depressed levels at the beginning of 1987. Some cut-back in both production and capacity should allow a modest recovery in food, agricultural raw materials and minerals and metals prices. However, the fundamental supply and demand forces would suggest continued weakness of real commodity prices, and another real decline of 2 per cent on average is projected for 1988. Normally, a depreciation of the dollar is reflected in an increase in dollar-denominated non-oil commodity prices. However, the direct effects of recent changes in the dollar exchange rate on dollar-denominated commodity prices have not yet been apparent; this is an important source of uncertainty in these projections.

Labour cost developments

Hourly earnings in manufacturing in the OECD area increased by only 3.3 per cent in 1986, continuing the deceleration which began in 1980 (Table 22). There were declines in the growth of hourly earnings in manufacturing in all of the seven major economies, with particularly impressive reductions in Italy. Aggregate nominal wage growth for the private sector was even more moderate than for hourly earnings manufacturing in the major seven economies. The smaller OECD countries as a group did not make much additional progress in terms of wage disinflation. Given the levels of unemployment and declining price inflation, wage growth in most OECD countries did not seem particularly modest relative to historical relationships; indeed, significantly lower rates of increase could have been expected in a number of countries. The downward pressure on consumer prices arising from oil and non-oil commodity price developments resulted in real wages in the private sector increasing by about 2 per cent in 1986 for the OECD area as a whole. In Japan and Germany, exchange-rate appreciation, by reducing inflation further, added to the strength of real wage growth.

In some countries, movements in labour costs and take-home pay were importantly affected by changes in non-wage labour costs and working time. In Germany and Denmark both weekly hours and employers' social-security contributions were reduced in 1986. During the 1960s and 1970s there was an OECD-wide trend for total compensation (i.e. labour costs to employers) to rise faster than wages and salaries because of the faster

Table 22

Hourly earnings in manufacturing

Percentage changes not seasonally adjusted

	At average annual rate		From previous year						
						1986			
	1965-74	1974-83	1984	1985	1986	Q1	Q2	Q3	Q4
United States	6.0	8.0	4.1	3.8	2.0	2.7	2.1	1.9	1.4
Japan[a]	16.9	7.4	4.7	3.9	2.4	4.1	2.5	2.2	1.4
Germany	8.8	5.8	2.3	4.5	3.6	4.7	1.7	4.0	4.0
France[b]	11.1	14.1	8.1	6.0	4.4	5.1	4.6	4.1	3.7
United Kingdom[c]	10.2	14.9	8.7	9.1	7.6	7.9	7.5	7.2	8.0
Italy[b]	12.2	20.9	11.6	11.3	4.8	6.4	5.3	3.6	4.1
Canada	8.4	10.3	5.2	3.9	3.1	3.7	2.9	2.9	3.0
Total of above countries[f]	8.3	9.5	4.9	4.7	2.9	3.8	2.8	2.7	2.3
Austria[a]	10.5	7.4	5.0	6.1	4.5	5.4	4.9	4.5	3.3
Belgium	11.5	9.3	5.1	3.6	2.8	5.6	3.0	1.5	1.4
Denmark	..	11.2	4.7	4.8	4.7	4.8	5.1	4.1	5.0
Finland	12.9	12.1	10.1	8.4	6.1	6.5	4.9	6.5	6.5
Greece	11.9	25.0	26.3	19.8	14.3	16.2	12.4	14.4	14.4
Ireland	13.8	17.4	10.6	7.2	6.9	7.1	6.7	6.9	6.9
Netherlands[b]	..	6.3	1.2	4.9	1.6	1.8	1.3	1.4	1.9
Norway	10.5	10.8	8.3	7.6	..	8.0	8.8	12.5	..
Spain	16.1	23.5	9.4	12.3	11.4	15.5	8.2	11.2	11.1
Sweden	..	10.0	9.6	7.5	7.4	8.2	6.7	7.2	7.6
Australia[d]	..	..	7.5	4.0	5.1	6.5	3.9	6.3	3.7
New Zealand[e]	9.7	12.9	2.3	11.2	..	19.2	18.2	18.3	..
Total of above OECD countries[f]	8.6	10.0	5.2	5.0	3.3	4.2	3.1	3.1	2.7
Total of above European countries[f]	10.9	12.9	7.3	7.4	5.5	6.5	4.9	5.2	5.4
Total of above EEC countries[f]	10.9	13.2	7.3	7.4	5.3	6.4	4.7	5.0	5.2

a) Monthly earnings.
b) Hourly rates.
c) Weekly earnings.
d) Hourly rates,all activities.
e) Weekly rates,all activities.
f) The country weights used in the aggregate indices are based on the private consumption and exchange rates of the preceding year.

rise of non-wage labour costs. Since the early 1980s, this trend appears to have been halted or even reversed in many countries[1]. In 1986, total compensation in the OECD area rose slightly less than wages and salaries.

The growth of labour productivity declined in 1986, in part reflecting weak output growth in Japan and Germany. For the OECD area, labour productivity in the private sector improved by less than 1 per cent in 1986 – an average of about zero growth in the United States and Canada and about 1½ per cent in Europe and Japan (Table 35). The increase in unit labour costs in the private sector, an important measure of domestic inflation, declined from 3½ per cent in 1985 to 3 per cent in 1986 in the seven largest economies (Table 24). Within this average, there were diverse movements for individual countries. In Japan and Germany unit labour costs hardly increased in 1985 but picked up somewhat in 1986 because of cyclical productivity weakness in the export sectors in both countries, and also because of the cost effects associated with the reduction in working time in Germany. In the United Kingdom, increases in unit labour costs rose slightly to a relatively high rate (5¾ per cent), and in Italy also they rose by close to 6 per cent, although slowing down markedly.

Recent inflation trends

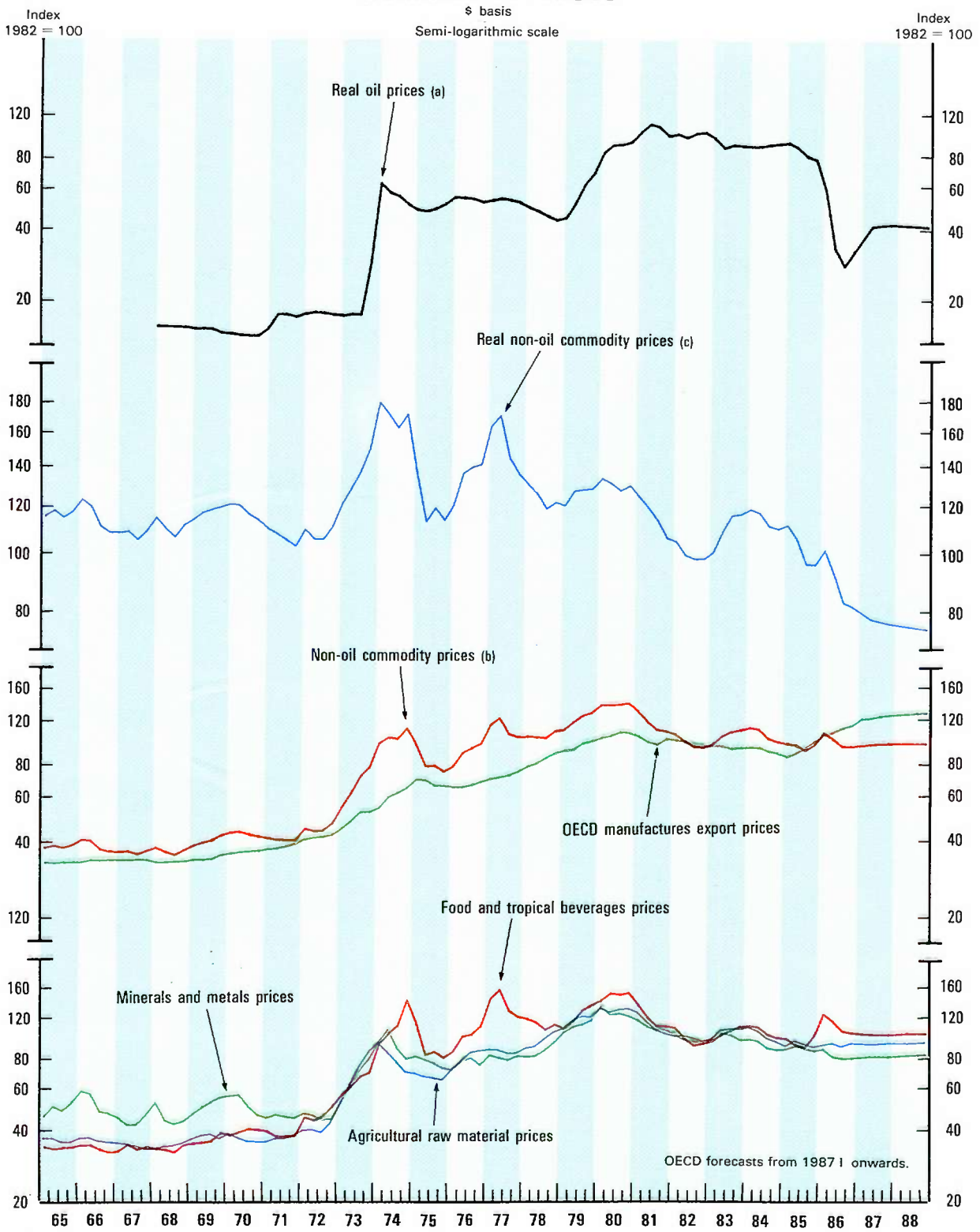
In most countries, consumer price increases continued to decline in the course of 1986 (Table 23). Much of this was due to the downward trend of energy and other commodity prices, and hence underlying rates of inflation, as measured by consumer prices excluding food and energy, declined less (Chart I). In countries where currencies appreciated, import prices had a particularly important disinflationary impact.

On a year-over-year basis, consumer price inflation probably reached a trough in 1986: as measured by either the consumer price index or the private consumption deflator, the annual rate of increase fell to about 2¾ per cent in the OECD area and to 2 per cent in the seven major economies (Tables 23 and 26). In Japan, Germany, Luxembourg, the Netherlands and Switzerland consumer price inflation was 1 per cent or less in 1986, and between 1 and 2 per cent in the United States, Austria, Belgium and for the seven largest economies taken together.

Because of the downward influences of oil and non-oil commodity prices, OECD consumer prices increased by

CHART H

COMMODITY PRICES



(a) OECD import price index deflated by OECD manufactures export prices.
(b) Weighted average of food, tropical beverages, vegetable oilseeds and oils, agricultural raw materials, minerals, ores and metals prices.
(c) Total index as in (b) deflated by OECD manufactures export prices.

Sources: UNCTAD, IEA, OECD. For the forecasts, see tables 28, 64 and 66.

CHART I

CHANGES IN CONSUMER PRICES

Percentage changes, at annual rates, seasonally adjusted

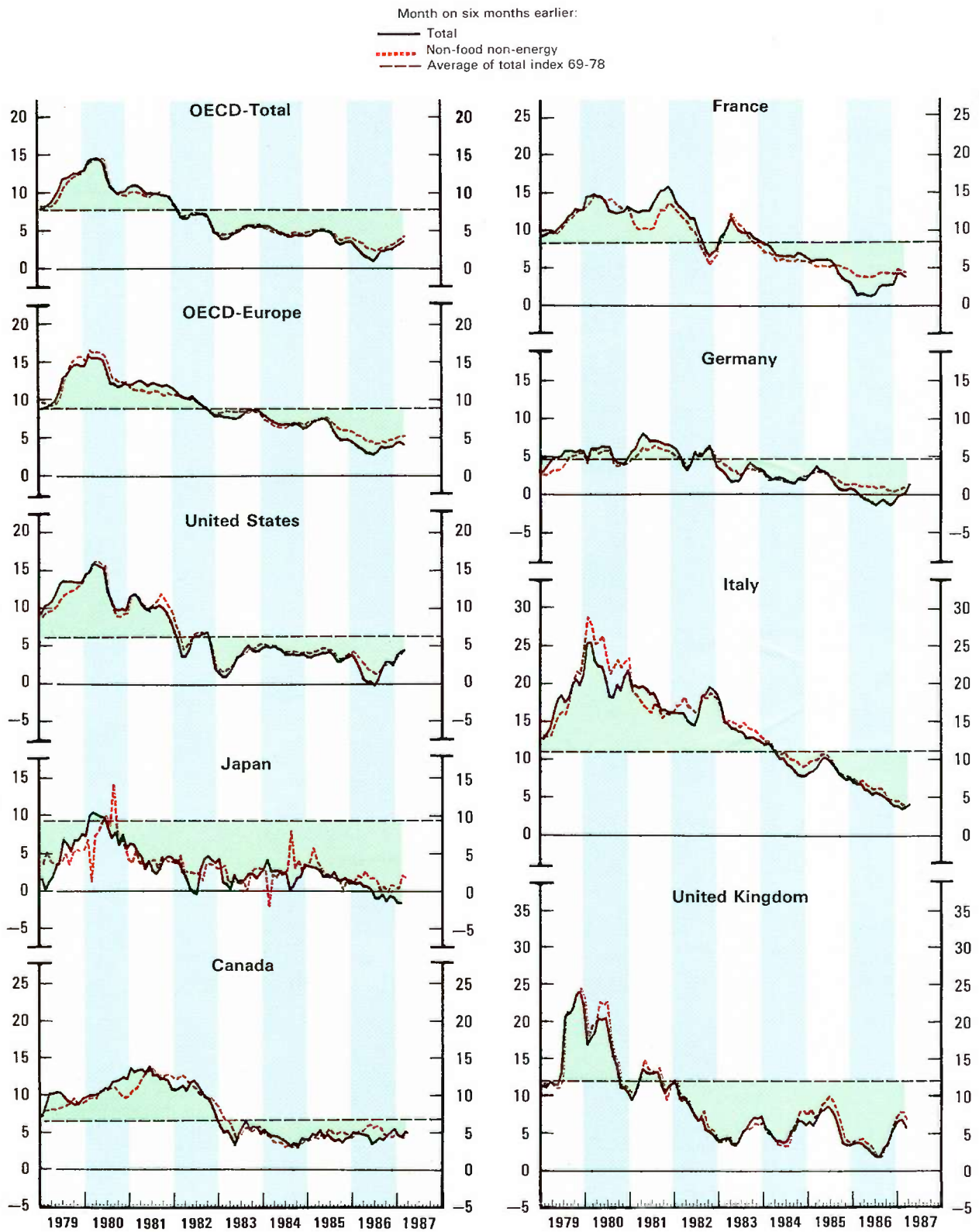


Table 23

Consumer prices

Percentage changes from previous period, not seasonally adjusted

	At average annual rate					At actual rate					
	Average 1965-74	Average 1974-83	1984	1985	1986	12 months to March1987	6 months to March1987	Dec.	Jan.	Feb.	March
United States	5.1	8.1	4.3	3.5	2.0	3.0	1.7	0.1	0.6	0.4	0.4
Japan	8.1	6.0	2.2	2.1	0.4	–0.8	–0.7	–0.2	–0.5	–0.1	0.5
Germany	4.2	4.6	2.4	2.2	–0.2	–0.2	0.2	0.2	0.4	0.1	0
France	6.0	11.0	7.4	5.8	2.7	3.3	1.7	0.1	0.9	0.2	0.1
United Kingdom	7.1	13.3	5.0	6.1	3.4	4.0	2.3	0.3	0.4	0.4	0.2
Italy[a]	5.8	16.8	10.6	8.6	6.1	4.2	2.6	0.3	0.6	0.4	0.4
Canada	5.0	9.3	4.3	4.0	4.2	4.2	2.3	0.1	0.2	0.4	0.4
Total of above countries[b]	5.6	8.5	4.4	3.8	2.0	2.3	1.3	0.1	0.4	0.3	0.4
Austria	4.9	5.6	5.6	3.2	1.7	0.9	0.5	0.1	0.2	0.3	0.2
Belgium	5.2	7.6	6.3	4.9	1.3	1.3	0.6	0.1	0.4	0.2	0.1
Denmark	7.6	10.0	6.3	4.7	3.6	5.3	1.4	–0.1	0.2	–0.1	0.9
Finland	7.1	11.2	7.1	5.9	3.6	3.8	2.3	0.1	1.0	0.4	0.5
Greece	6.6	17.8	18.5	19.3	23.0	16.8	9.0	0.9	1.1	0.4	3.2
Iceland[e]	15.6	48.8	30.9	31.9	22.2	15.8	9.1	1.1	2.2	1.6	1.6
Ireland	8.0	15.4	8.6	5.4	3.8	3.4[c]	2.0[c]	-	-	0.6[d]	-
Luxembourg[e,f]	4.5	7.4	4.6	4.1	0.3	0	0.4	–0.1	0.2	0.2	0
Netherlands	6.3	6.2	3.3	2.3	0.2	–1.1	–0.6	–0.2	–1.5	0.2	0.2
Norway	6.1	9.7	6.2	5.7	7.2	10.4	4.7	0.5	1.6	0.9	1.0
Portugal[e]	9.3	21.9	29.3	19.3	11.7	9.8	7.1	1.7	1.2	1.0	1.4
Spain	7.6	16.8	11.3	8.8	8.8	6.2	2.3	0.4	0.7	0.4	0.6
Sweden	5.8	10.2	8.0	7.4	4.3	3.8	2.1	0.2	1.3	0	0.2
Switzerland	5.4	3.7	3.0	3.4	0.7	0.9	1.5	0.2	0.6	0.3	0.1
Turkey	12.4	40.8	45.6	45.0	34.5	42.4	25.3	3.1	3.1	3.1	3.5
Australia	5.7	11.0	3.9	6.8	9.1	9.3[c]	4.8[c]	—	—	0.6[d,g]	—
New Zealand	6.8	14.2	6.2	15.4	13.2	18.3[c]	11.5[c]	—	—	0.8[d]	—
Total OECD[b]	5.8	9.2	5.2	4.5	2.6	3.0	1.7	0.1	0.4	0.3	0.5
OECD Europe[b]	6.1	11.1	7.4	6.5	4.0	4.0	2.4	0.3	0.6	0.4	0.4
EEC[b]	5.9	10.6	6.7	5.8	3.3	3.0	1.7	0.2	0.5	0.3	0.3

a) Index for households of wage and salary earners.
b) The country weights used in the aggregate indices are based on the private consumption and exchange rates of the preceding year.
c) Since consumer prices are available only on a quarterly basis, the figures shown for the rates of change over 12 and 6 months are calculated as the rate of change over 4 and 2 quarters respectively to the latest quarter available.
d) The monthly rate is calculated as the change between the two most recent quarterly indices, expressed at a monthly rate and centered at the mid-month of the quarter.
e) Excluding rent.
f) From 1985, new index.
g) Excluding Sydney.

about 1 per cent less in 1986 than the GNP deflator, the latter increasing on average by 3.8 per cent (Tables 25 and 26). In most European countries and Japan, part of the reduction in import costs was absorbed by higher profit margins of domestic producers and retailers. As a consequence, the increase in the GNP deflator, which excludes import costs but includes profit margins, accelerated in a number of countries. The pass-through of import cost reductions to final consumers was discussed in *Economic Outlook 40* and the distribution of the terms-of-trade gains is reviewed in the chapter entitled "Forces Shaping Economic Activity".

Wage, price and profit projections

For the OECD area, wages may increase at relatively steady annual rates of about 5¼ per cent to the end of 1988. Total labour costs, including employers' social-security contributions, might rise slightly less than wages, perhaps by about 5 per cent in the OECD area and by 4 to 4½ per cent in the seven largest economies (Table 24). An increase in nominal wage growth is expected in North America where labour markets seem relatively tight and the sharp depreciation of the U.S. dollar may affect inflation expectations and wage demands. In Japan the relative weakness of output, profits and employment in the tradeable goods sector is expected to contribute to continued wage moderation. Further declines in pay increases are also expected in those small countries where inflation rates are still high.

The projections thus incorporate an apparent end to the long period of wage disinflation. This might be thought to be inconsistent with a level of unemployment

Table 24

Labour costs in the private sector

Percentage changes from previous period

	Average 1974-83	1984	1985	1986	1987	1988
A. Compensation per employee						
United States	7.9	4.9	4.5	2.8	3½	4½
Japan	7.6	4.0	3.4	3.5	2½	3¼
Germany	6.2	3.8	3.0	3.9	3¾	3½
France	13.8	8.1	6.7	4.2	3¾	3¼
United Kingdom	15.1	5.2	7.8	7.8	7½	7
Italy	19.3	11.3	10.1	7.8	7¾	7
Canada	9.5	5.3	4.8	2.0	3¾	4
Total of above countries[a]	9.4	5.3	4.9	3.7	4	4½
B. Unit labour costs[b]						
United States	7.2	3.1	4.1	2.7	2¾	3¾
Japan	4.8	0.5	0	3.0	1½	3¼
Germany	3.6	0.4	0.7	2.3	2½	1½
France	11.4	5.0	4.6	1.5	2¼	1½
United Kingdom	12.8	2.1	5.0	5.8	5	5½
Italy	17.6	6.7	8.0	5.8	4½	4¾
Canada	7.8	1.3	3.7	3.2	3½	3¼
Total of above countries[a]	7.8	2.6	3.4	3.0	2¾	3½

a) 1982 GDP weights and exchange rates.
b) The productivity concept underlying these unit labour cost data is defined as output at factor costs divided by dependent employment.

which in the majority of countries exceeds most estimates of the "natural" or equilibrium unemployment rate. The projections are, however, in line with current information about likely wage settlements in the coming months. If they are realised, this would add support to the view that the disinflationary impact of constant, high unemployment diminishes over time as the actual level of unemployment is increasingly perceived to be "normal", and, accordingly, exerts less influence on wage negotiations. If so, this phenomenon, sometimes described as "hysteresis", might be more important than hitherto thought[2]. There have also been indications in the recent pattern of wage claims and settlements in countries with very low or negative rates of inflation that the decline in nominal wage growth may have reached a floor, perhaps related to the expectation that actual falls in price levels could only be temporary.

Recent labour productivity growth in the OECD area has been weak, particularly in the first half of 1986, reflecting, in part, weak growth of output and sales.

Table 25

GNP deflators in the OECD area[a]

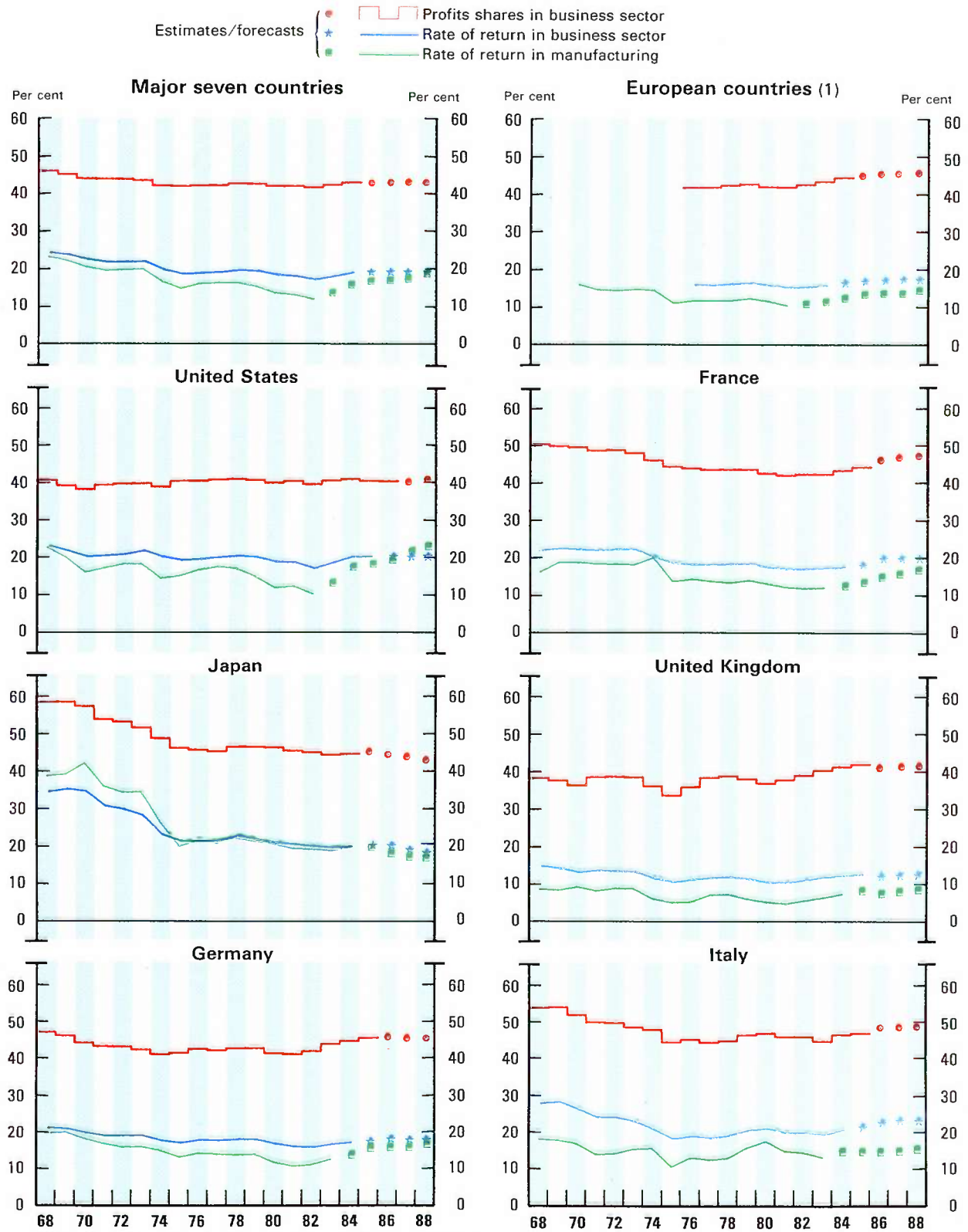
Percentage changes from previous period, seasonally adjusted at annual rates

	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
United States	3.9	3.4	2.6	3½	4	2.4	3¾	4	4	4¼
Japan	1.2	1.5	1.8	¼	1¼	1.2	–½	½	2¼	½
Germany	1.9	2.2	3.1	1¾	1¾	2.7	1¼	1½	2	2
France[b]	7.2	5.8	5.3	3	2½	4.5	2¾	2½	2¼	2½
United Kingdom[b]	4.1	6.1	3.7	4½	5¼	3.7	4¾	5¼	5½	5¼
Italy[b]	10.8	8.8	8.3	5½	4¼	7.0	5¼	5	4¼	3½
Canada[b]	3.6	3.3	2.8	4¼	3½	3.4	5	3¾	3½	3½
Total of above countries	3.9	3.6	3.1	3	3¼	2.8	3	3¼	3½	3¼
Other OECD countries[c]	9.3	8.2	7.5	5½	5	6.8	5¼	5¼	5	4¾
Total OECD	4.7	4.3	3.8	3¼	3½	3.4	3¼	3½	3¾	3½
Four major European countries	5.4	5.2	4.7	3½	3¼	4.1	3¼	3¼	3¼	3¼
OECD Europe	6.8	6.2	5.6	4	3¾	4.9	3¾	3¾	3¾	3¾
EEC	6.0	5.6	5.3	3½	3¼	4.6	3¼	3¼	3¼	3¼
Total OECD *less* the United States	5.3	5.0	4.6	3¼	3¼	4.1	3	3¼	3½	3

a) Aggregates were computed on the basis of 1982 GNP/GDP weights expressed in 1982 US dollars.
b) GDP deflator.
c) Half-yearly data must be interpreted with care since for most of these countries, amounting to over 50 per cent of the total GDP of the smaller countries, half-yearly growth rates were obtained by a purely mechanical interpolation.

CHART J

PROFITS AND RATES OF RETURN



1. Germany, France, United Kingdom, Italy, Belgium, Finland, Norway, Sweden and Denmark for business sector data. Excludes Denmark for manufacturing data.

CHART J (continued)

PROFITS AND RATES OF RETURN

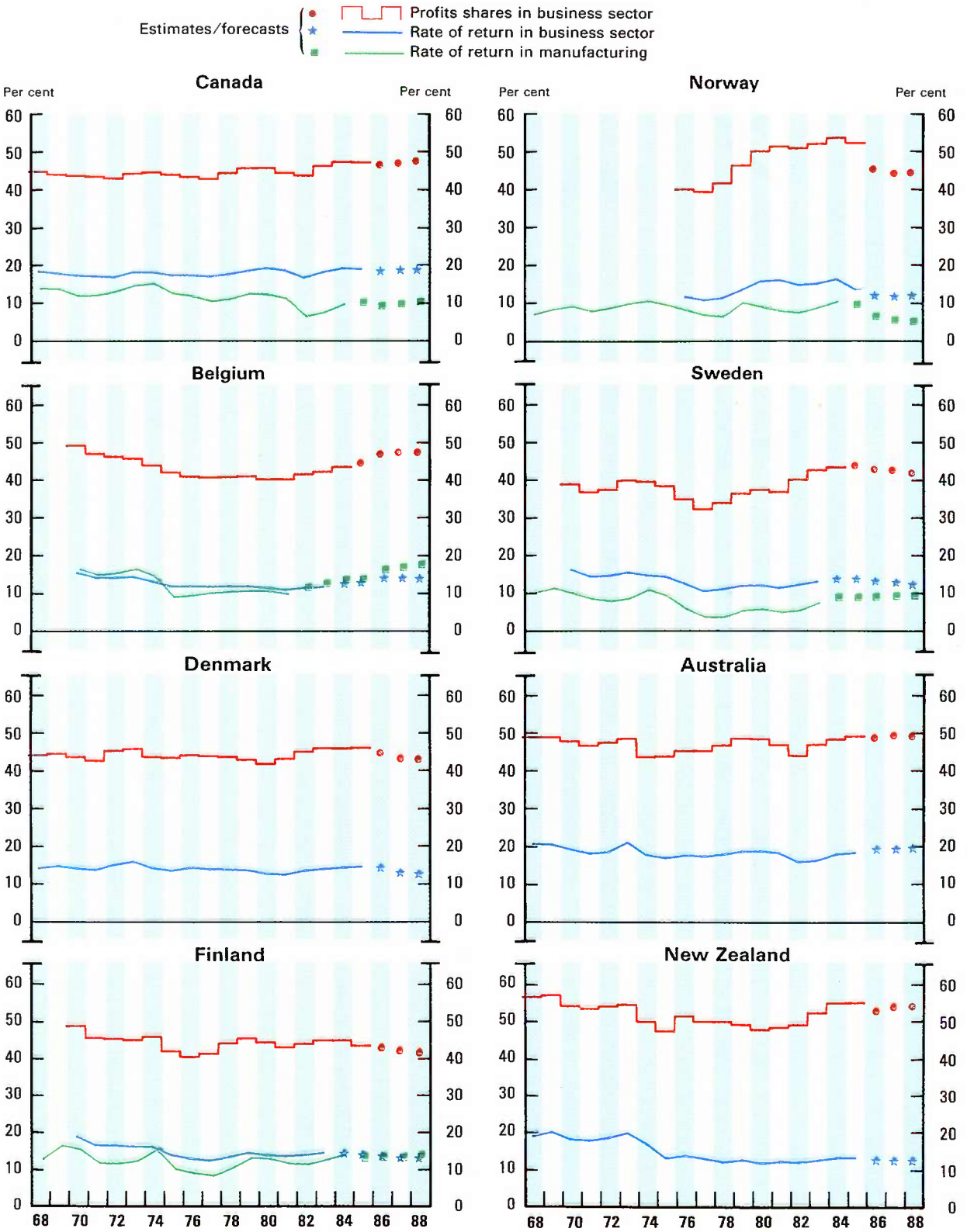


Table 26

Private consumption deflators in the OECD area[a]

Percentage changes from previous period, seasonally adjusted at annual rates

	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
United States	3.8	3.5	2.1	4	4½	2.3	4½	4½	4½	4½
Japan	2.1	2.1	0.6	0	1¾	–0.3	–¼	¼	3	½
Germany	2.5	2.1	–0.4	¾	1½	0.1	¾	1½	1½	1½
France	7.2	5.5	2.2	3¼	2½	2.6	3¾	2¾	2¼	2¾
United Kingdom	4.7	5.4	3.7	4	4¼	2.9	4¼	4¼	4½	4½
Italy	11.1	9.4	6.1	4¾	5	4.6	5	4¾	5¼	4½
Canada	4.4	4.1	4.1	3¾	3½	4.0	3¾	3¾	3½	3½
Total of above countries	4.2	3.8	2.0	3	3½	1.9	3¼	3¼	3¾	3¼
Other OECD countries[b]	9.7	8.4	7.0	6	5	6.6	5¾	5½	5	4¾
Total OECD	5.0	4.5	2.8	3½	3¾	2.6	3¾	3¾	4	3½
Four major European countries	5.7	5.0	2.4	2¾	3	2.2	3	3	3	3
OECD Europe	7.2	6.1	3.7	3¾	3½	3.4	3¾	3¾	3½	3½
EEC	6.4	5.4	3.1	3	3	2.8	3¼	3	3	3
Total OECD *less* the United States	5.8	5.1	3.2	3	3¼	2.8	3	3	3½	3

a) Aggregates were computed on the basis of 1982 GNP/GDP weights expressed in 1982 US dollars.
b) Half-yearly data must be interpreted with care since for most of these countries, amounting to over 50 per cent of the total GDP of the smaller countries, half-yearly growth rates were obtained by a purely mechanical interpolation.

During the projection period, productivity growth in the private sector is expected to recover somewhat to almost 1½ per cent, close to its longer-run average. Unit labour costs in the OECD area are thus expected to rise at approximately 3½ per cent rates during the projection period, a slight decline from recent rates of growth. In the seven major economies, significant differences in annual unit labour cost increases are projected for 1988, however, ranging from 1½ per cent in Germany and France to 5½ per cent in the United Kingdom.

Given the technical assumptions of unchanged oil prices and exchange rates, the evolution of OECD inflation over the projection period will largely depend on labour-cost developments. OECD inflation, as measured by the GNP deflator, is projected at around 3½ per cent in 1987-88, with a slight increase through the period. Consumer price increases are projected to return gradually to rates similar to the GNP deflator and unit labour cost trends. This implies an acceleration of the private consumption deflator in 1987 to rates that reflect underlying rates of inflation more closely; in 1988, growth in the consumption deflator is expected to stabilize at 3½ to 4 per cent. In Japan, the discrete increase in 1988I in the price level reflects the introduction of a value-added tax which has been embodied in these projections.

Any tendency towards a more broadly-based acceleration of inflation would seem limited to the United States and the United Kingdom. In the United States labour markets appear to be relatively tight and import price pressures stemming from earlier exchange-rate depreciation appear strong. In the United Kingdom, inflation is expected to increase due to persistently high wage growth in recent years, weaker productivity growth over the projection period and the effects of earlier exchange-rate depreciation. In both countries the room to absorb additional cost pressures in profit margins appears relatively limited given that the terms of trade have been developing less favourably than elsewhere.

Real wages in the OECD may increase at annual rates of about 1½ per cent, slightly less than in 1986 when the terms of trade showed an unusually large improvement. The terms of trade are expected to continue to have a positive impact on real wage growth in 1987, notably in countries where the exchange rate has appreciated markedly. Productivity growth is also likely to pick up slightly during the forecast period. Relative to longer-term productivity performance, real wage growth is projected to be quite high in the United Kingdom. In Japan and Germany, the growth of real wages is expected to decelerate in 1988.

The implications of these wage and price forecasts for overall profitability seem favourable. Current high levels of both the profit share and the rate of return on capital are likely to be broadly maintained[3] (Chart J). Recent evidence suggests that most of the increase in profit margins in response to falling energy and commodity prices was not temporary. After a small reduction of profit margins in 1987, increased productivity growth should prevent any further reduction, and perhaps allow another increase in margins in 1988. In Japan and Germany, rates of return are likely to decline slightly due to exchange-rate appreciation; profitability prospects in these two countries thus differ somewhat from the rest of the OECD although it should be noted that these are also the two countries with the strongest recovery of profitability in the 1983-85 period.

Risks and uncertainties

With the exception of the United States, the balance of risks is probably towards lower inflation given the likely persistence of continued excess supply in labour, commodity and oil markets. The downside risk may be particularly important with regard to the nominal wage projections which, on the basis of past relationships, do not appear fully to reflect the downward pressures of continued high, and in many countries increasing, rates of unemployment. The United States is an important exception in this regard: the unemployment rate is expected to continue to decline towards levels consistent with most estimates of the natural rate of unemployment; inflation, and perhaps inflation expectations, have accelerated recently as a result of the dollar weakness and further exchange-rate depreciation – with associated pressure on inflation – cannot be excluded.

The growth of the monetary aggregates in excess of stated targets in a number of countries has raised concerns about the possibility of a future increase in inflation. In the present circumstances, however, these risks are probably not high in the short run, at least outside the United States. For the most part, markets appear to be interpreting the strong increases in some of the monetary aggregates as a by-product of the unprecedented degree of financial innovation of the past few years. Current inflation expectations are probably based primarily on actual price changes rather than on the growth of the monetary aggregates.

NOTES

1. See Chan-Lee, Coe and Prywes (1987), "Microeconomic changes and macroeconomic wage disinflation in the 1980s", *OECD Economic Studies* (Spring), pp. 121-157.
2. See the discussion of hysteresis in the "Employment and Unemployment" chapter of *Economic Outlook 40*.
3. The definitions of the profit share and the rate of return used in Chart J have been changed slightly from previous *Economic Outlooks*: value added and profits in the private sector are now expressed at factor costs whereas previously they were at market prices. This change primarily affects the level of, rather than changes in, the calculated profit shares and profitability. All of the income of the self-employed is included in profits.

FOREIGN TRADE AND CURRENT BALANCES

During the past year, the global pattern of trade has been profoundly affected by massive changes in relative prices – particularly the sharp decline in the price of oil – and by very large changes in exchange rates among OECD countries. This section first reviews global developments in 1986, with a particular focus on how the interactions between price and volume movements have shaped both the overall pattern of international adjustment, and the process of intra-OECD adjustment. It then presents the main features of the projections for 1987 and 1988; and concludes with a discussion of possible trends beyond that.

Developments in 1986: global trends

World trade in 1986 was dominated by three features. First, while trade prices fell generally in local-currency terms, the prices of OECD imports (especially oil) fell much further than OECD export prices; as a result there was a large terms-of-trade gain to real incomes in the OECD and a corresponding loss to non-OECD regions. Second, and partly in response, exports from the OECD to non-OECD regions fell, while import volumes into the OECD area accelerated sharply. These volume shifts were a negative influence on OECD growth. Finally, as the net result of these two elements, the OECD current account strengthened substantially, with the counterpart weakening in the non-OECD more than fully accounted for by the oil-exporting countries (Table 27).

The volume of world trade grew by 4 per cent in 1986, about the same rate as in the previous year, with an acceleration in the second half. However, this average masks large differences in the evolution of trade across different commodity groups and different zones of the world economy. In the OECD area there was a marked acceleration in import growth, concentrated on imports of energy products which, in response to falling prices, rose after having been broadly stable for the three previous years. Growth of manufactured imports in the OECD area also accelerated slightly, continuing a prolonged upturn whose duration is now without precedent in the past fifteen years (Chart M). Against this relatively buoyant picture, the non-OECD's imports fell, especially in those countries whose export revenues depend on oil. The acceleration of trade growth in the second half was due both to stronger demand growth in the OECD – the growth of European manufactured imports almost doubled – and to a slower rate of decline of non-OECD imports.

With the acceleration in OECD countries' imports being concentrated in products exported by non-OECD countries, and with the imports by non-OECD countries of OECD goods continuing to fall, there was in 1986 a marked increase in the gap between the growth of OECD countries' imports and exports. For the year as a whole, the gap rose by nearly 5 points to 7 percentage points. The resulting damping of OECD activity amounted to over 1 per cent of OECD GNP compared with 0.3 per cent in both 1984 and 1985 (Table 28). This negative impulse was strongest in the first half of 1986 but persisted in the second.

Foreign trade prices fell markedly in 1986; in average local currency terms, the price of nearly every category of international trade declined. The fall was particularly marked for energy products, where the average OECD import price halved in 1986. The prices of non-oil commodity imports were also weak, raw materials more so than food. Local-currency prices of exports of manufactured goods were weaker than a consideration of domestic costs might have implied. This reflects the asymmetric impact of exchange-rate changes, with exporters in countries with appreciating currencies cutting their profit margins to maintain market shares, thereby also limiting the scope for exporters in countries with depreciating currencies to raise their prices.

These trade-price movements, taken together, generated a terms-of-trade gain for the OECD area – largely *vis-à-vis* non-OECD oil producers – amounting to between 1 and 1½ per cent of area GNP (the precise magnitude of the gain depends on the method of calculation; see Note 1 in the chapter on Forces Shaping Economic Activity). The larger of these two measures of terms-of-trade gain (a measure which includes valuation effects) exceeded the adverse volume movements noted above by almost $40 billion (0.3 per cent of area GNP), the amount by which the OECD current account deficit narrowed in 1986.

The various non-OECD zones experienced considerable differences in the movement of their terms of trade in 1986. Oil exporters suffered a substantial deterioration while newly industrialised countries (NICs) benefited from falls in both oil and commodity prices relative to the prices of their manufactured exports. Raw materials exporting countries, on average, gained somewhat more from oil price falls than they lost from continuing falls in the already low level of commodity prices relative to manufactured goods prices. These differential movements in terms of trade were largely reflected in import volumes. Thus, import volumes for oil exporters are estimated to have fallen by about 25 per

Table 27

World trade and payments summary

Seasonally adjusted data at annual rates; percentage changes from the previous period for volumes and prices; $ billion for current balances

	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
A. Merchandise trade volumes									
OECD exports	4	1¼	3¼	4	3¾	3	3½	4¼	4¼
of which: Manufactures	5	1½	3	4½	2¾	2¾	3¾	4¾	4¾
OECD imports	6	8¼	2¼	4	9½	–2	3¾	4	3¾
of which: Manufactures	8¼	8½	3¾	4½	9¾	½	4½	4½	4¼
Oil	–1¾	9¼	–1½	2¾	13	–9½	2½	2¾	2¾
Non-oil commodities	5	4¼	2¼	2	4½	1	2	2¼	2
Non-OECD exports[a]	–½	8	¼	4	11¼	–6¾	4½	4	3
of which: OPEC	–7	10¼	–9¾	4½	9¾	–24¼	5½	4¼	4¼
NODC	5	6½	5½	4	13	2½	5	4¼	3
Other	–4½	9½	1¼	1¾	8¼	–2	1¾	1¾	1½
Non-OECD imports[a]	1	–5¾	2½	4	–2	4	4	4	4¼
of which: OPEC	–14¾	–24¾	–15	–1	–35¾	–6½	–4	–1¼	2¾
NODC	5	–1	5½	5	6	5½	5½	5	4¾
Other	8¾	–1½	5½	3½	6	6	4	3½	3½
Memorandum items									
Real GDP (import weighted)	3	2½	2	2¼	2½	2	2	2¼	2¼
OECD exports to non-OECD[b]	–1	–7	2	4	–2	3¼	4	4	4
OECD imports from non-OECD[b]	3¼	8	1½	3½	10¼	–3½	3¼	3½	3¼
Intra-OECD trade[c]	6½	6	3	4¼	7¼	¾	3¾	4½	4¼
World trade[d]	3½	4	2¼	4	6½	–½	3¾	4	4
of which: Manufactures	5	3	3½	4½	6	2	4¼	4½	4½
Oil	–1¼	8½	–1¼	3¼	10½	–8¾	3½	3¼	3
B. Trade Prices *(average values)*									
Trade Prices, in local currency									
OECD exports	4	–5¼	¾	3¼	–4	1½	3½	3½	3
of which: Manufactures	3¾	–2½	1	3½	–1	½	3½	3¾	3
OECD imports	2½	–11	3¼	4	–8¾	8½	6	3¼	3
of which: Manufactures	3¾	0	4	3¾	3½	3¾	4½	3½	3½
Oil	2¾	–46½	9	5¾	–54	63	20½	1½	¾
Non-oil commodities	–½	–8¾	–6	2	–7	–8¾	¼	2½	2½
Trade prices in dollars									
OECD exports	–¼	14½	11¼	2¾	8½	16½	4½	2¼	1¾
of which: Manufactures	¼	19½	12¼	2¾	13½	16	4¾	2½	2
OECD imports	–1¾	4	12¼	3½	–¼	22	7	2½	2½
of which: Manufactures	–¼	15½	13	3½	13	17	5¾	3	2¾
Oil	–2¾	–37	16½	4½	–51½	81½	20	0	–¼
Non-oil commodities	–4¾	10¾	4	1¾	5	4½	2	1¾	2
Memorandum items									
GDP deflator (Export weighted)	4¾	4½	3½	3¾	4	3½	3½	3¾	3½
Dollar prices of OECD exports to non-OECD[e]	–½	16¾	11¼	2½	10¾	15¼	4½	2¼	1¾
Dollar prices of OECD imports from non-OECD[e]	–4½	–13½	11	3¼	–12½	27½	6½	2¼	2
OECD terms-of-trade with rest of world[f]	4	35	¼	–½	26½	–9¾	–2	0	0
C. World current balances									
OECD	–59	–20	–23	–30	–6	–16	–29	–34	–27
OPEC	4	–32	–17	–12	–33	–20	–13	–12	–12
Non-oil developing countries	–23	–11	–9	–11	–8	–7	–11	–11	–12
Other non-OECD countries	4	–1	1	0	–2	1	1	1	–1
Total	–74	–63	–47	–54	–48	–43	–52	–55	–52

a) These represent total exports and imports of the country groups listed, rather than OECD exports to and imports from these regions.

b) OECD exports to a non-OECD region are estimated as a weighted average of the region's imports of four broad categories of goods (food, energy, raw materials and manufactures), weights being the commodity shares of OECD exports directed to the region. An average transportation lag of one month is assumed. OECD imports from a non-OECD region are estimated as weighted average of OECD imports of four groups of merchandise using the commodity shares of OECD imports from this region as weights. In both cases, the calculations are first made for each of the three non-OECD regions. The results are then aggregated for the total non-OECD area. Historical figures are recorded as inter-regional flows deflated by corresponding price indices shown below.

c) This is a simple arithmetic average of the intra-OECD export and import volumes implied by the total OECD trade volumes and the estimated trade flows between OECD and the non-OECD areas. Historical figures are actual intra-OECD trade flows deflated by total OECD export prices.

d) Arithmetic average of the growth rates of the world import volume and the world export volume.

e) These prices are calculated in the same way as in the case of volumes explained in *(b)* above, except that OECD export prices to the non-OECD are estimated directly from OECD export prices of the four commodity groups.

f) Ratio of OECD export prices to the non-OECD and OECD import prices from the non-OECD.

CHART K

MEASURES OF RELATIVE COMPETITIVE POSITION

Indices in US $ terms; 1980 = 100

Relative unit labour costs in manufacturing
Relative average value of manufactured exports
Relative consumer prices
Forecasts

Fall indicates improvement in competitive position

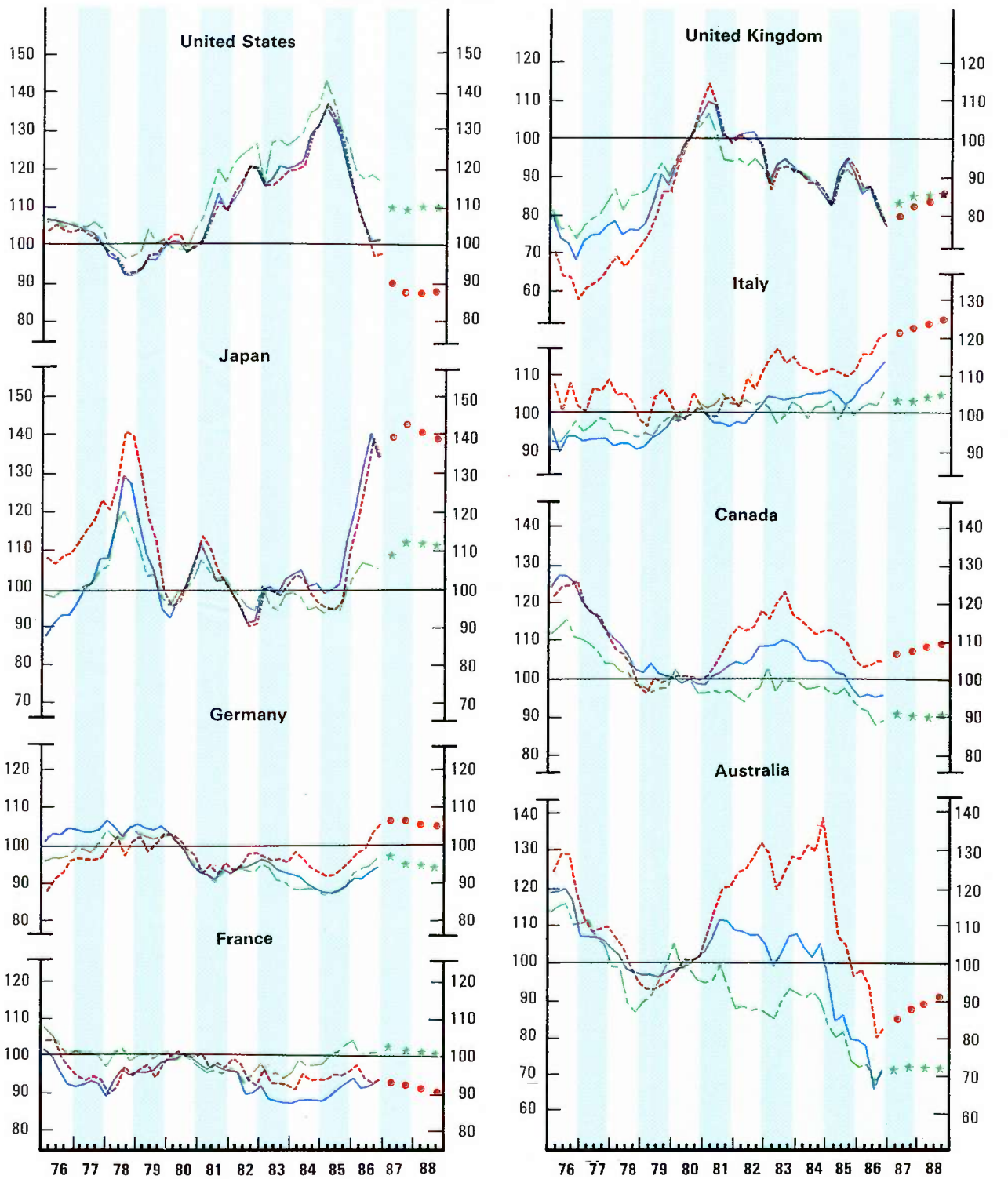


CHART K (cont.)

MEASURES OF RELATIVE COMPETITIVE POSITION

Indices in US $ terms; 1980 = 100

Relative unit labour costs in manufacturing
Relative average value of manufactured exports
Relative consumer prices
Forecasts

Fall indicates improvement in competitive position

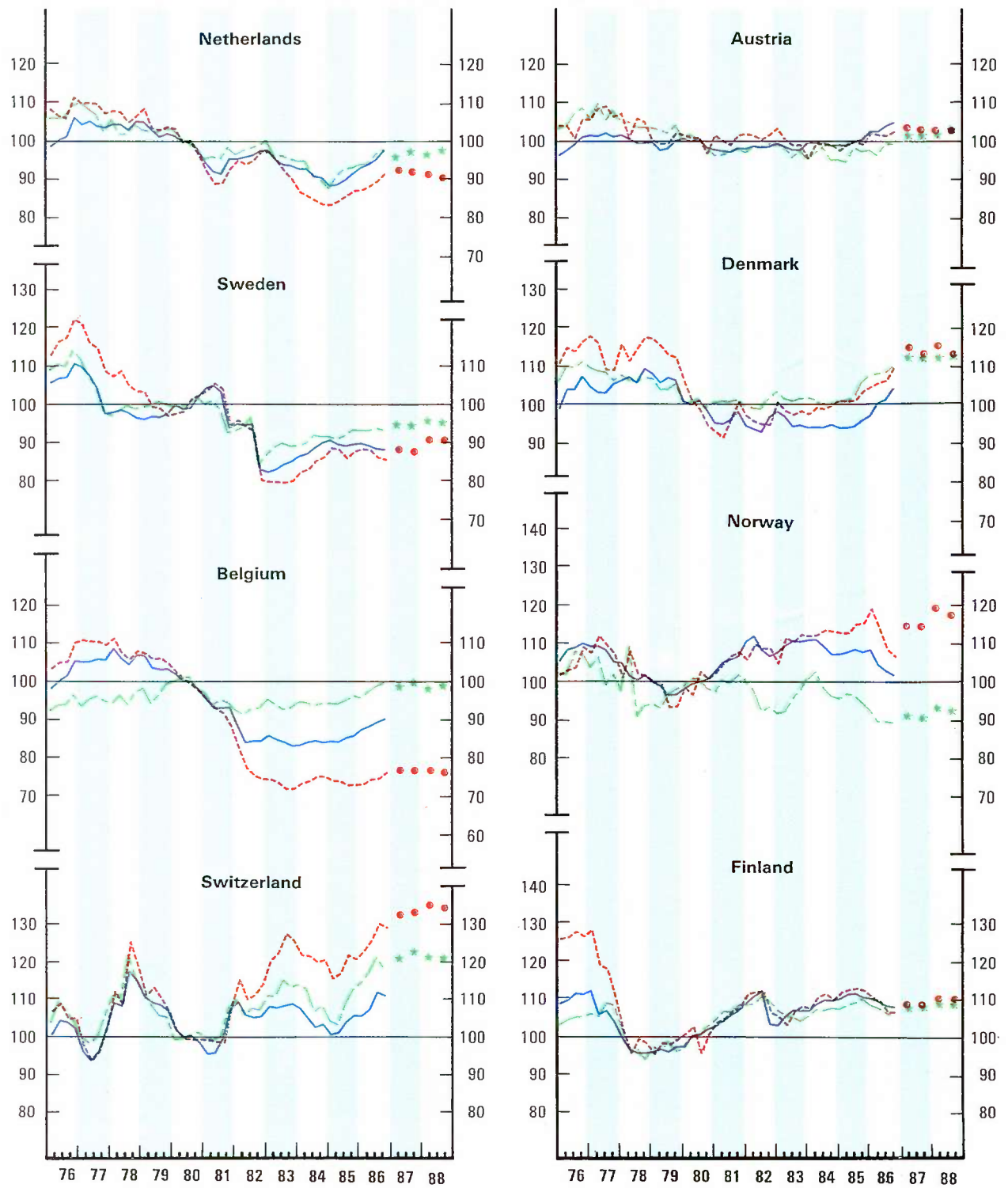


Table 28

Contribution of foreign trade to OECD growth

Percentage changes from previous period

OECD area	1984	1985	1986	1985 I	1985 II	1986 I	1986 II
Exports	9.6	4.1	1.3	1.8	2.5	–0.4	3.7
Imports	11.1	6.1	8.2	5.0	6.1	8.6	9.5
Contribution to GDP growth	–0.2	–0.3	–1.1	–0.4	–0.6	–1.4	–1.1

cent, whereas NICs import volumes grew by around 6 per cent. Estimates for the other non-OECD countries (excluding the Soviet bloc countries) suggest a fall of about 4 per cent despite a gain in their terms of trade.

The narrowing in the OECD current account deficit was matched by a broadly equivalent negative swing in the non-OECD position, though there was a continued reduction in the world discrepancy on current account. The current account of OPEC and other oil-producing countries deteriorated by about $40 billion; the surplus of the NICs rose from $12 to over $20 billion; and the low- and middle-income countries in aggregate reduced their deficit from $30 billion to just under $25 billion, reflecting both difficulty in obtaining finance and an apparent desire not to let debt financing ratios deteriorate too much.

Developments in 1986: intra-OECD adjustment

Within the OECD area, imbalances continued to widen in 1986. For Europe as a whole, excluding the energy-exporting countries (United Kingdom, Norway and Netherlands), the current-account surplus increased by 1.3 per cent of GNP. The Japanese surplus rose by 0.7 per cent of GNP and that of Germany by 1.9 per cent of GNP. The United States current-account deficit widened by 0.4 per cent of GNP. These are disappointing results, in view of the large exchange-rate movements that had occurred. The two large surpluses did decline in constant-price terms, with both German and Japanese imports growing faster than exports in volume terms. But the movements in the terms of trade for these two countries outweighed these volume movements and resulted in increases in their current-account surpluses, even when measured in local-currency terms. The improvement in the terms of trade of these two countries had different origins and may have different implications for future adjustment. For Germany, there was a substantial element of the classic J-curve effect: export prices rose substantially in dollar terms, with negative implications for future volume growth. In the case of Japan, there was less of a J-curve effect, as the growth of dollar export prices was moderated by a significant fall in local-currency export prices. But the Japanese current account benefited more from the fall in oil and commodity prices because of Japan's greater dependence on commodity imports.

For the United States, trade volume developments in 1986 did not contribute to external adjustment. Imports of manufactured goods grew buoyantly, partly because of the relatively high growth of domestic demand and partly because import prices changed by far less than would normally have been implied by the depreciation of the dollar. United States manufactured import prices rose by only 6 per cent compared with an 18 per cent rise in world export prices in dollars, indicating a substantial fall in profit margins on exports to the United States. Energy import volumes were also extremely high because of increased consumption of oil, lower domestic production and a large swing in stockbuilding. Exports of goods, as measured by census data, changed little for the year as a whole, but this masks a continued fall in the first half of the year and a very marked acceleration in the second half[1].

While overall movements in current accounts suggest that little adjustment took place in 1986, a more detailed examination of export performance in manufactured goods in volume terms yields somewhat more hopeful results. Table 29 presents, for selected countries, the change from 1985 to 1986 in the growth rates of their manufactured exports relative to the change in the

Table 29

Exports of manufactured products

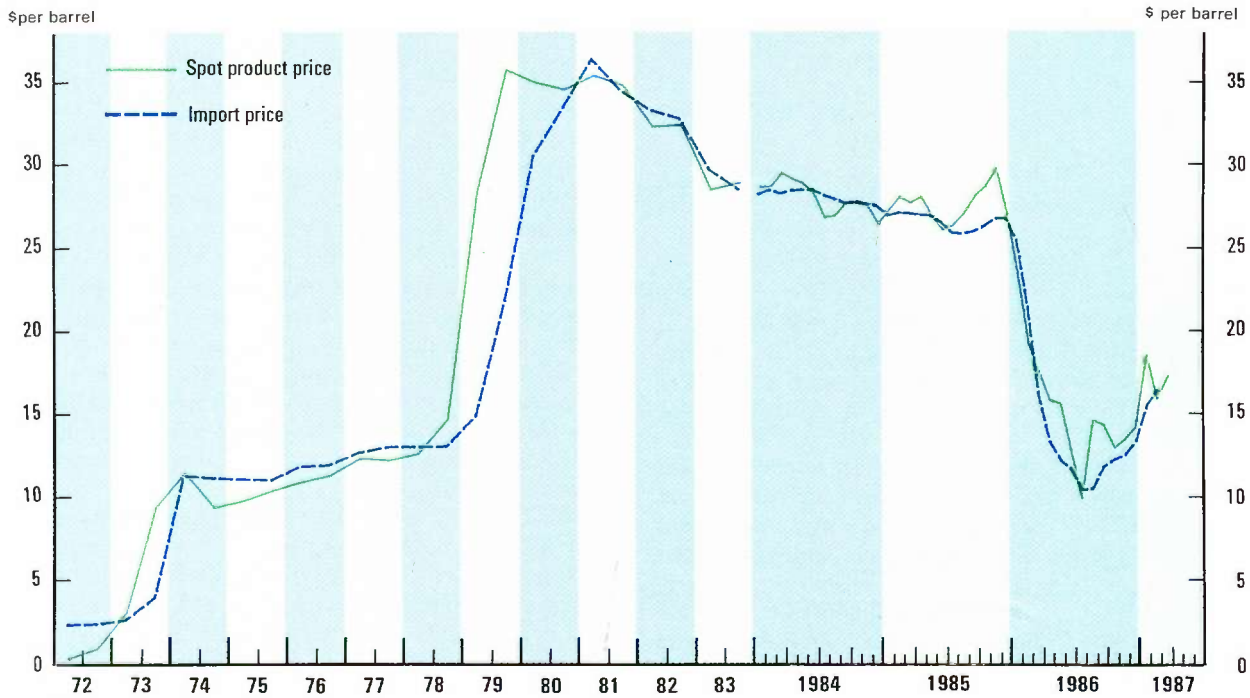
Changes in volume growth rates
1986 compared to 1985

Country	Exports	Market growth	Export performance	Relative Export Prices[a]
	Change in growth rates			Change in levels
NCI's	2.8	–2.5	5.0	–4.8
Canada	1.8	–2.7	3.9	–16.7
United States	0.0	–1.2	1.0	–16.2
United Kingdom	–6.3	–1.4	–4.6	–3.5
France	–0.5	–2.1	1.5	4.7
Sweden	–1.0	–0.8	–0.2	2.9
Denmark	–2.5	–2.6	0.6	8.2
Switzerland	–6.2	–0.2	–5.6	13.8
Japan	–6.4	–3.0	–3.3	4.6
Germany	–6.0	–1.4	–4.5	11.2
Netherlands	–2.3	0.1	–2.2	5.1
Italy	–3.6	–1.9	–2.5	5.6
Belgium	–1.0	–0.4	–0.6	5.4
Spain	–9.2	–3.2	–6.0	5.3
Austria	–8.7	–1.4	–6.0	7.6

a) In this table a given exporter's prices are compared to a weighted average of other exporters' prices in the same currency. This measure is relevant to the determination of market shares. This measure differs from that shown in Table 56 because the latter measures competitiveness jointly on both export and import markets.

CHART L

OIL: IMPORT AND SPOT PRODUCT PRICES (1)

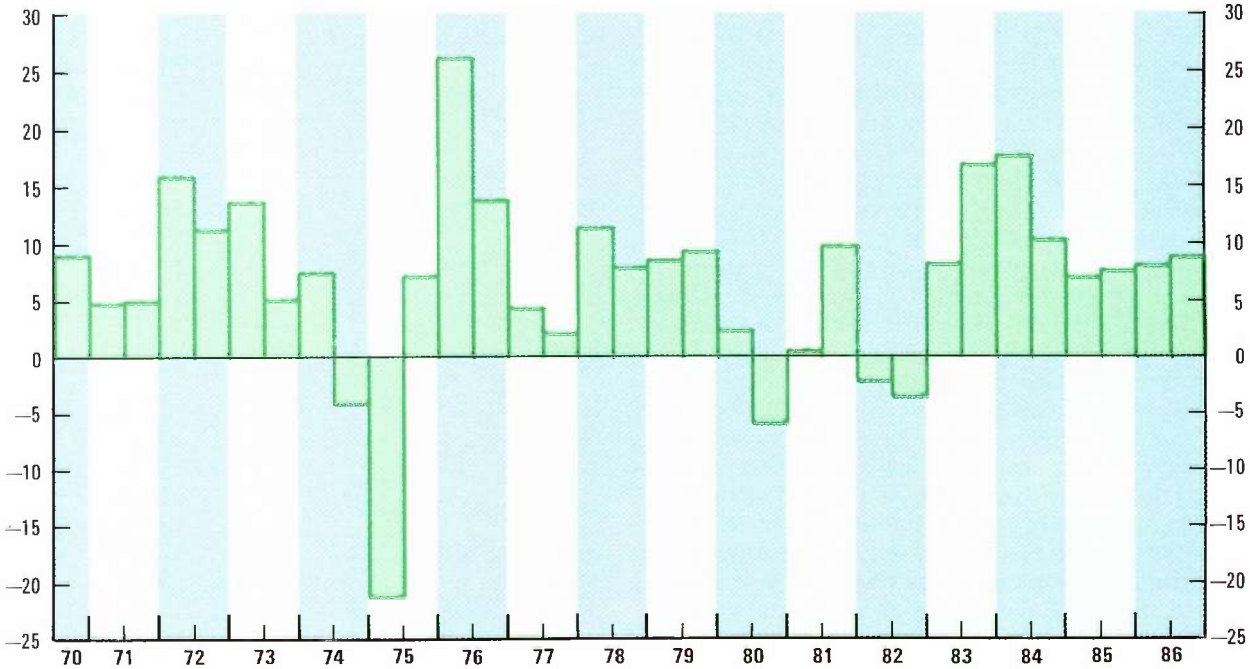


1. The spot product price is defined as the average yield of three products in the European market from which 2.5 dollars have been subtracted.

CHART M

OECD IMPORTS OF MANUFACTURED GOODS, 1982 PRICES

Percentage changes, at annual rates



growth of their markets; and relates these to the change in the level of export price competitiveness. On this basis, it is generally the case that countries whose relative competitive position improved in 1986 also experienced an acceleration of their export growth relative to their export markets, and conversely for countries losing competitiveness. The only exceptions are the United Kingdom, where export growth decelerated despite a gain in competitiveness and France, where a slight deterioration of competitive position was associated with a slowdown in the rate of loss of export market shares.

One particularly noteworthy feature of the table is the large positive swing in the degree of market penetration of the newly industrialising countries; another is the very marked deceleration of export growth for both Japan and Germany. Relative to market growth, the deceleration was somewhat greater for Germany than for Japan, in line with the larger German loss in export competitiveness. While disaggregated comparisons are difficult to make, it appears that, within Europe, there was a reallocation of markets away from Germany and the United Kingdom in favour of France and Italy: Japan's loss of market share may primarily have been taken up by other Asian exporters. Although the United States witnessed a significant slowing in the rate of loss of export-market shares, this improvement is much less than might have been expected on the basis of past relationships between changes in relative export prices and export performance. It is possible that U.S. entrepreneurs have been taking longer to respond than in the past to improved price competitiveness, perhaps reflecting export capacity taken out of operation in the period of the appreciating dollar. Given the speed with which exchange rates have changed, such a development would have depressed exports in 1986 but might be expected to raise exports in later years. Changes in the location of productive capacity may also begin to affect U.S. trade flows as non-U.S.producers have been establishing facilities in the U.S. at an accelerating pace.

Projected developments in 1987 and 1988

World trade in manufactured products seems to have decelerated significantly in the first half of 1987, reflecting a marked slowdown in OECD area growth and a series of temporary factors, such as a likely run-down of stocks of imported products in the United States, and the termination of official gold imports into Japan. Although OECD economic growth is projected to accelerate only marginally, the growth of manufactured trade should pick up somewhat as the impact of these temporary factors abates. Overall the growth in world trade in manufactures should slacken by about half a point in 1987 (using an import-based measure). The slackening in the growth of total world trade will be somewhat greater as trade in energy products is likely to drop, reflecting production cutbacks in OPEC countries. With energy production likely to rise once again and trade in other commodities continuing to expand in 1988, world trade growth should rebound.

The terms of trade of the OECD are expected to deteriorate significantly on average from 1986 to 1987, as a result of higher oil prices, reducing by almost half the gains recorded in 1986. A further slight fall is likely in 1988. The counterpart gains in the terms of trade of the non-OECD area, especially OPEC, should allow some easing of import adjustment in these countries, so that the depressive influence on OECD growth rates from non-OECD countries' adjustment may cease in 1987. Net exports could make a slight positive contribution to OECD growth in both 1987 and 1988.

The OECD current-account deficit is projected to be broadly stable in 1987, and to widen somewhat in 1988. This widening may be more than matched by a smaller deficit for the non-OECD area as the world current-account discrepancy is projected to continue its recent trend towards diminution. This trend is concentrated on non-factor services where a significant improvement in recording appears to be occurring.

Within the overall outlook for the non-OECD area, the prospects of different groups of countries are diverse. With oil prices recovering and commodity prices remaining weak, no further improvement from stronger terms of trade can be expected for lower- and middle-income developing countries. Hence the flow of funds to these countries from the developed countries is likely to be a key determinant of their import growth. Private capital is unlikely to be available in large quantities – and, to the extent financing is available, it may not be on terms that these countries can afford. Budgetary restraint in OECD countries may limit increases of Official Development Assistance. The import volume growth of this group of countries is therefore likely to remain weak in 1987-88; their current-account position may stabilize in 1987, with only a very small improvement for 1988.

Import growth is likely to pick up in NICs. The rapidity with which Brazil's surplus disappeared may serve as a caution against over-expansion, but various pressures, not least from some OECD countries, are likely to encourage Asian countries to import more, in order to protect their own export markets. Hence, the NICs' imports of manufactured goods may grow at 10 per cent per annum in 1987-88, and their current-account surplus may edge downward; their trade surplus is projected to dip below $25 billion in 1988, from $34 billion in 1986.

Prospects for the oil-exporting countries depend primarily on developments in the oil market. OECD oil consumption is likely to grow by less than 1 per cent in 1987, compared to 2.6 per cent last year, reflecting some de-stocking by end-users, a regain of market share by natural gas relative to heavy fuel oil, and some slackening of demand for transport fuels. Some rundown of stocks is also expected. With OECD oil production likely

Table 30

Current balances of major OECD countries and country groups

$ billion, seasonally adjusted, at annual rates

	1984	1985	1986	1987	1988	1986	1987		1988	
						II	I	II	I	II
United States	–106.5	–117.7	–140.6	–147	–126	–144.3	–149	–145	–132	–120
Japan	35.0	49.2	86.0	95	87	96.5	95	95	86	88
Germany	7.0	13.2	35.8	37	29	41.0	40	34	29	29
France	–0.8	–0.2	3.5	2	–1	3.7	4	1	0	–1
United Kingdom	1.7	3.8	–1.6	–3	–6	–4.9	–1	–4	–5	–7
Italy	–2.9	–4.2	5.1	3	–1	10.3	5	1	0	–2
Canada	2.6	–0.4	–6.3	–4	–4	–6.1	–4	–4	–4	–5
Total of above countries	–63.9	–56.3	–18.2	–17	–22	–3.7	–11	–22	–26	–18
Other OECD countries	–2.3	–2.6	–1.5	–6	–8	–1.9	–5	–7	–7	–9
Total OECD	–66.2	–58.9	–19.7	–23	–30	–5.7	–16	–29	–34	–27
Four major European countries	5.0	12.6	42.8	40	21	50.2	47	32	23	19
OECD Europe	12.7	20.0	52.0	44	23	57.6	52	35	26	20
EEC	6.7	15.1	50.4	45	25	54.7	52	37	28	22
Total OECD *less* the United States	40.2	58.8	120.9	124	96	138.6	133	116	98	93

to be unchanged in 1987 (a prospective further fall in the United States being offset by increased production in Norway), OECD oil imports thus seem likely to fall this year, recovering in 1988 as destocking ends. Given the assumption of unchanged oil prices, the reduction in export revenues from smaller shipments of oil means that oil-exporting countries will need continued reductions in imports if current-account improvement is to be sustained. Import compression could, however, taper off in 1988 as export revenues pick up.

While the adjustment of the non-OECD area may almost have run its course, intra-OECD adjustment is projected to gain momentum in 1987. Import volumes of the OECD area excluding the United States are projected to grow over 1½ points faster than exports in 1987 and some 2 points faster in 1988, implying a negative influence on OECD growth outside the United States averaging about ½ per cent per annum. For the United States, on the other hand, there may be a boost to activity of about ¾ per cent per annum from the foreign sector. While U.S. exports may expand substantially more rapidly than markets, most other OECD countries are expected to lose export market shares in 1987 and 1988. Exceptions are the United Kingdom and Australia, where effective exchange rates have fallen; and Canada, where exporters are also expected to benefit from the relative stability of their currency against the U.S. dollar.

In 1987, U.S. real exports of goods may grow more than 12 percentage points more rapidly than imports. The terms of trade, however, are projected to worsen by 8 percentage points, due partially to higher oil import prices but also to the likelihood that manufactured import prices will rise more in line with the movement of the effective dollar exchange rate than in previous years. The negative initial J-curve effects will consequently be substantial in 1987 in contrast to 1986 when, despite a larger fall in the effective exchange rate, negative J-curve effects were much smaller. Because of the size of the initial imbalance, the net effect of these projected price and volume movements is a further deterioration of the U.S. trade balance in 1987. In 1988, the U.S. trade deficit may begin to narrow, reflecting slower growth of total domestic demand in the United States than in the rest of the OECD area, and the very positive impact of exchange-rate movements on trade volumes. The U.S. service account, excluding investment income, is likely to improve more than the trade account over the projection period, and this improvement may be only partially offset by a deterioration in net investment income. Overall, the current-account deficit is projected to decline by some ¾ per cent of GNP between 1986 and 1988, to just over 2½ per cent (Table 30).

Table 31

Current balances of other OECD countries

$ billion

	1984	1985	1986	1987	1988
Austria	–0.2	–0.1	0.1	–½	–1
Belgium-Luxembourg	0	0.7	3.8	4½	4½
Denmark	–1.6	–2.7	–4.3	–3¼	–3¼
Finland	0	–0.8	–0.8	–1½	–1¾
Greece	–2.1	–3.3	–1.7	–1½	–1¼
Iceland	–0.1	–0.1	0	0	0
Ireland	–0.9	–0.6	–0.4	–½	–½
Netherlands	5.0	5.2	4.8	2¾	2½
Norway	3.0	3.0	–4.5	–5	–4½
Portugal	–0.6	0.4	1.3	½	0
Spain	2.0	2.7	4.2	2¼	1½
Sweden	0.4	–1.2	0.8	0	–¾
Switzerland	4.4	5.2	7.5	7½	7¼
Turkey	–1.4	–1.0	–1.5	–1¾	–1½
Total of above European countries	7.7	7.4	9.2	4	1½
Australia	–8.5	–8.7	–9.3	–8¾	–8½
New Zealand	–1.6	–1.3	–1.4	–1¼	–1¼
Total of above countries	–2.3	–2.6	–1.5	–6¼	–8¼
OECD Europe	12.7	20.0	52.0	43½	22¾
EEC	6.7	15.1	50.4	44¾	24¾

For Japan, the trade surplus may increase in 1987 but decline slightly in 1988. In 1987, the terms-of-trade gains arising from yen appreciation may be particularly marked, more than offsetting the combined effects of the increase in oil prices and trade volume adjustments. However, by 1988 these latter are projected to overcome the terms-of-trade effects, therefore reducing the trade surplus. The increase in the current account surplus in 1987 is somewhat less than the trade account alone; a widening of the deficit on non-factor services may exceed the projected increase in investment income. As a percentage of GNP the current-account surplus declines in 1987 and continues to decline in 1988 reaching around 3½ per cent. The German current surplus may adjust more in relative terms, perhaps falling to just over 2½ per cent of GNP in 1988 (Chart N). The difference in the adjustment projected for the German and Japanese current accounts this year and next despite the greater effective appreciation of the Japanese currency stems from several factors. Japanese exporters have cut prices to a greater extent than German exporters, so that the loss of export market share is only slightly greater for Japan than for Germany. Import demand in Japan is also restrained by projected lower domestic demand growth than in Germany. The absolute impact of this demand differential on the current account is amplified as German imports are considerably greater than Japanese imports. In addition, Japanese gold imports are expected to fall significantly in 1987 after having been temporarily high in 1986.

The longer-term outlook

Despite the adjustments in external positions projected over the next eighteen months, the imbalances at the end of the projection period seem likely to remain very large (Chart N). Longer-term prospects are of course uncertain, but OECD analysis would suggest that on an extrapolation of present policies and exchange rates, with the United States growing at much the same rate as the rest of the OECD, the U.S. current-account deficit and Japanese surplus could both widen again in the years beyond 1988, leading to an unprecedented accumulation of net external liabilities and assets by these two countries.

This assessment does not imply that the exchange-rate changes that have taken place since 1985 are powerless to correct external imbalances. On the contrary, in the absence of these exchange-rate changes, prospective imbalances would have been substantially larger than those that the OECD now projects. But the effects of exchange-rate changes on trade flows decrease over time, so that the exchange-rate changes to date will have a diminishing effect in promoting additional external adjustment over the period beyond 1988. It should be noted, however, that in view of the exceptional magnitude of changes in nominal and real exchange rates since 1980, it is particularly difficult to assess how trade flows will react. Hence the margin of error attached to projections of current-account positions is unusually large.

Considerations of a structural nature may reinforce the margins of uncertainty surrounding longer-term projections of current accounts. In the case of Japan, the persistence of large surpluses may be aggravated by the shift in industrial structure away from energy- and raw-materials-intensive sectors, so that the large decline in the prices of these commodities will not generate significant offsetting increases in volumes. On the other hand, more encouraging structural trends could emerge: a continued rapid growth of Japanese foreign direct investment may imply a progressive transfer of production abroad; a weakening of traditional supplier links could open up the domestic market to imports; and a sharp expected reduction in capacity in certain less competitive sectors could further promote imports. These trends would all serve to encourage greater Japanese participation in intra-industry trade.

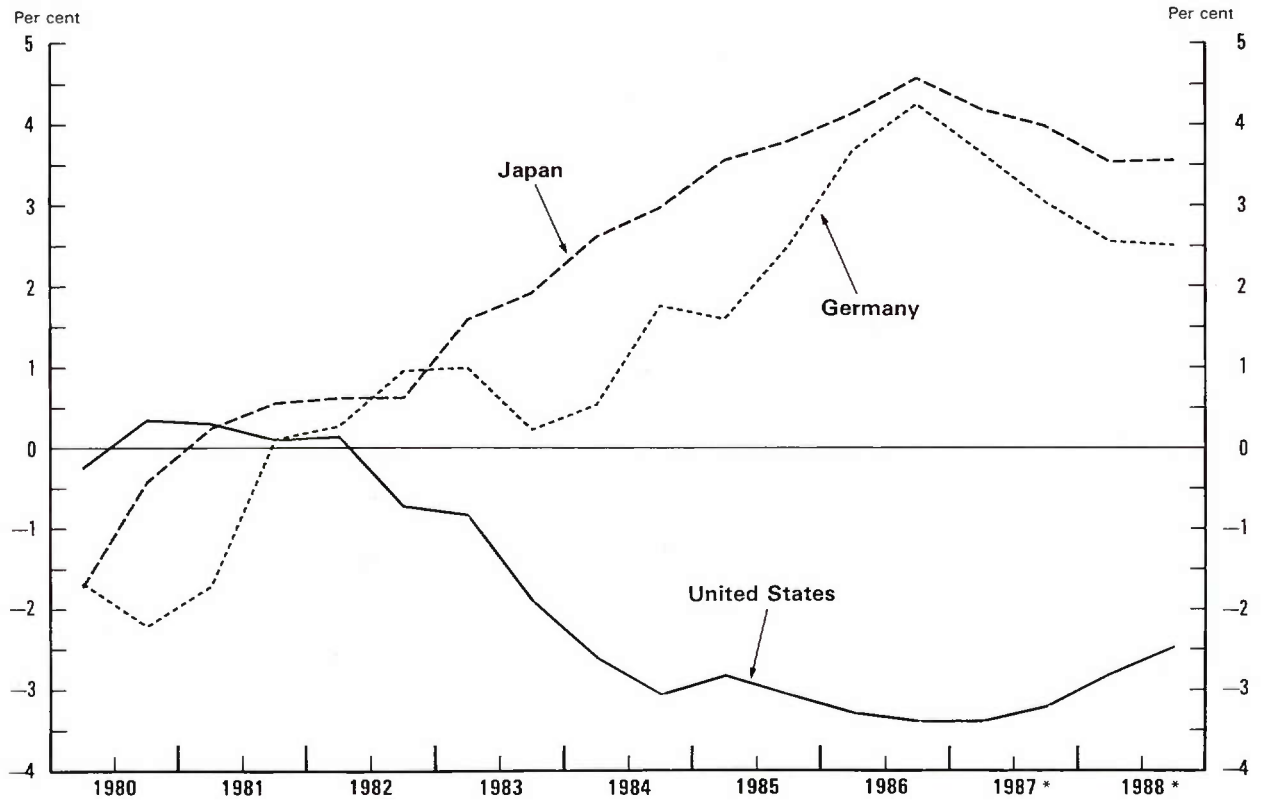
In the case of the United States, there are similar countervailing considerations. According to one view, the strong over-valuation of the dollar in the early 1980s has significantly impaired the competitiveness of the U.S. economy, at least for a time, as some exporters have completely withdrawn from foreign markets and dismantled their networks of dealers and distributors, while foreign exporters have penetrated the U.S. market and set up the necessary infrastructure. In addition, many U.S. companies shifted part of their production abroad. It is argued that these changes will not be reversed just because exchange rates have returned to levels that were thought appropriate in the past, but that a period of an even weaker dollar is necessary to create the incentives for rebuilding the U.S. export base. On the other hand, it is argued that the period of the strong dollar also forced firms to become more efficient to survive, with resulting gains in productivity that will sustain a stronger trend for exports at any given level of competitiveness.

On balance, the OECD's assessment is that despite the fact that the real exchange rate of the dollar is now practically back to the level of 1980 – a year of approximate external equilibrium – the U.S. current-account deficit is likely to remain at unprecedented levels for a number of years unless either relative rates of growth of domestic demand are more skewed in favour of non-U.S. countries, or U.S. competitiveness improves substantially further (Chart O). Several factors account for this assessment. First, and perhaps most important, while the large growth differential – notably in terms of domestic demand – between the United States and the rest of the OECD during the early stage of the present recovery has now been broadly eliminated, it has not been reversed, and the gap that emerged between the level of income – and associated imports – in the United States and abroad is not projected to be eroded. Second, owing to the recent string of current-account deficits, the United States has moved from a position of net

CHART N

CURRENT-ACCOUNT IMBALANCES

As per cent of GNP



* Data for 1987 and 1988 are OECD forecasts.

external creditor to one of net debtor: a swing, in terms of recorded and unrecorded transactions, of the order of $400 billion over the past six years implies a permanent loss of investment income, which will be exacerbated by the projected future current-account deficits. Third, the United States has recorded a major deterioration of its current-account position *vis-à-vis* non-OECD countries as a group. Largely as a result of the debt crisis, the U.S. trade balance with Latin America has worsened by some $13 billion since 1980. The emergence of Taiwan, South Korea and other South-East Asian countries as strong exporters of manufactured goods has also caused a significant deterioration of the U.S. trade position. Finally, because of increased production in many non-OECD countries and other factors, the United States has suffered a large deterioration of its balance on agricultural products. A further substantial deterioration of the U.S. current-account position *vis-à-vis* non-OECD countries in coming years appears unlikely. But owing to the international debt crisis, the dependence of newly-industrialising countries on exports and the prospects for trade in agricultural goods, a major reversal of recent trends is also improbable. Hence, until the pattern of growth rates of domestic demand in the United States and the rest of the OECD becomes more conducive to adjustment, the U.S. external deficit may remain large and tend to feed on itself through the interaction with the growing stock of net external liabilities. For all these negative developments to be overcome by an improvement of price-elastic trade, U.S. price competitiveness would need to be much stronger than in 1980.

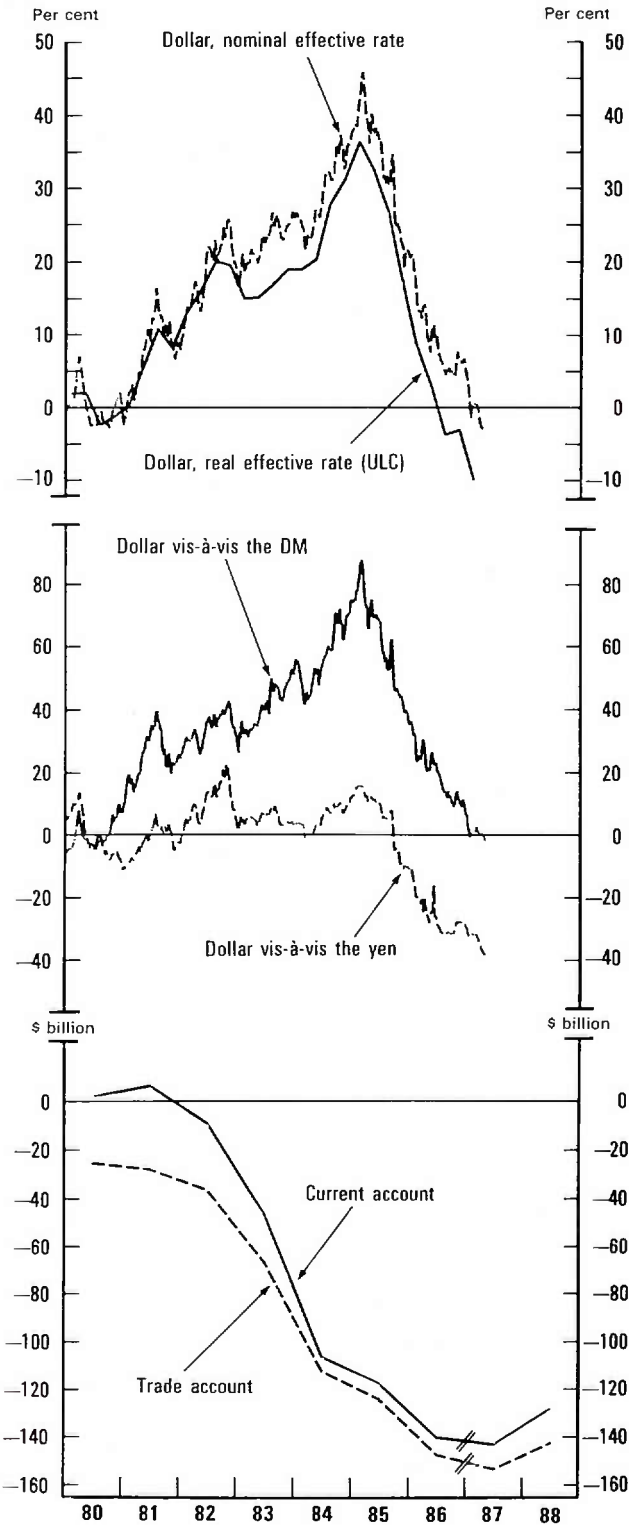
The above review of the factors impinging on the major imbalances suggests that they will not go away easily and, on present conditions and policies, might even widen. But the build-up of external positions and their financing (considered in the next section) argues that such imbalances are unlikely to be sustained. In such circumstances, how might conditions change in order to bring greater adjustment of the imbalances?

In the absence of other changes, the most likely reaction to sustained imbalances would seem to be further downward pressure on the dollar and upward pressure on the currencies of surplus countries, as witnessed in recent months despite the Louvre Agreement. Such an eventuality would further improve U.S. competitiveness and would lead to a switch of resources into the external sector, though the extent of such a shift would critically depend on the accompanying policy stance[2]. It is assumed that profit margins have little further scope to absorb exchange rate changes, so that depreciation would be passed through rather fully into U.S. import prices, raising inflationary pressures in that country, but also increasing the strength of volume adjustment. The risk in this type of "enforced" adjustment, apart from the uncertainty generated by its unknown extent and timing, is the probable boost to inflation in the United States and the weakening of growth elsewhere arising both from a reduction of net exports, and from induced weakening of investment. In response to higher inflation, there might also be a tightening of U.S. monetary policy with short-term interest rates being driven up substantially. Various possibilities might be opened up by such a chain of events – many of them unpleasant to contemplate: at a minimum, a slowing of world growth and the exacerbation of the problems of developing countries would seem to be implied.

The risks associated with such an outcome suggests that a more "managed" correction of imbalances might be preferred. At root, the problem of international imbalances rests with domestic imbalances in the major countries. Policy measures which sought to correct savings-investment imbalances would reduce the degree of adjustment that might be required to operate via large changes in relative prices. This is not just a question of reducing the U.S. fiscal deficit, a move that is generally agreed as likely to involve a net switch of resources into the external sector, especially if associated with some further fall in the exchange rate. It also requires action elsewhere if the necessary switch of resources is to be encouraged and if world growth is to be maintained. In particular this would involve efforts in Japan and Germany, through both fiscal and structural polices, to encourage a greater switch of resources into the domestic sector in an attempt to sustain a rather greater growth of domestic demand than at present. This "rebalancing" of fiscal stance, in the spirit of the Louvre Agreement, would support the adjustment process. For the OECD as a whole, the effects could in principle be roughly "growth neutral" while introducing the necessary "twist" in demand and output growth in different countries – domestic demand being restrained relative to output growth in the United States with the reverse occurring elsewhere. Such an outcome might bring roughly the same degree of current balance correction as in the case of "enforced" adjustment, but at substantially higher levels of world activity and therefore with less serious risk of major economic dislocation.

CHART O

UNITED STATES: EXCHANGE RATES (1) AND EXTERNAL BALANCES



1. Percentage changes from average 1980 levels.

NOTES

1. The split of U.S. exports between volumes and prices is particularly uncertain at the moment. The historical data and projections published here utilise the Census Bureau's unit value data, which differ markedly from the export price series used in the compilation of the U.S. national accounts. This is particularly the case for exports of manufactured products. The national accounts measure indicates that during 1986 export prices of manufactured goods rose by 6 per cent less than what is shown in the census numbers; as a counterpart, the national accounts data imply a correspondingly stronger growth in the volume of manufactured exports over this period.
2. The adjustment issue is discussed and quantified in A. Dean and V. Koromzay, "Current account imbalances and adjustment mechanisms", *OECD Economic Studies* No. 8, Spring 1987.

INTERNATIONAL MONETARY DEVELOPMENTS

This Section first examines the February Louvre Agreement among six major countries on policies to promote adjustment and to stabilize exchange rates. It then considers recent international monetary developments, particularly with respect to exchange rates and current-account financing.

The Louvre Agreement

The Louvre meeting of 22nd February, 1987 took place against the background of increasing tensions and uncertainties in international financial markets. After a few months of relative stability, heavy foreign-exchange pressure had resumed in January, and the dollar had fallen sharply against practically all currencies despite the economic policy accord between the United States and Japan of October 1986, which included an understanding that the yen-dollar rate was broadly consistent with existing underlying "fundamentals". Combined with doubts about the pace of adjustment and unusually strong and contrasting official statements, this had raised fears that the nearly two-year-long decline of the dollar might become disorderly, with serious consequences for U.S. inflation and global economic growth. Pressure on the dollar had also contributed to the flare-up of tension within the European Monetary System and the realignment of its parities at mid-January which, unlike other such realignments, had seemed motivated more by financial considerations than by fundamentals such as inflation differentials, relative competitiveness, and trade disequilibria between Member countries.

The six major industrialised countries meeting at the Louvre announced a set of agreements covering both the conduct of economic policy and exchange rates. The Agreement reflected a shared analysis of the economic situation and the problems it posed: on the one hand, that the present very large external imbalances are unsustainable over the medium term for economic, financial, and political reasons; on the other, that further substantial changes in exchange rates can have adverse effects on confidence and economic performance more generally and might therefore be counter-productive, at least in the short run. Therefore, the emphasis henceforth needed to be placed on changes in economic policy and domestic demand that would promote continued external adjustment.

In line with this view, the United States undertook two commitments: to continue to resist protectionism and persist in its efforts to reduce the deficit in the Federal budget (from an estimated 3.9 per cent of GNP in fiscal 1987 to 2.3 per cent in fiscal 1988). In Japan and Germany reductions in short-term interest rates had taken place shortly before the meeting or were announced at the meeting. In addition, Japan pledged to follow monetary and fiscal policies which would help to expand domestic demand and thereby contribute to reducing the external surplus. Germany agreed to introduce a comprehensive tax reform and to increase the size of the tax reductions already enacted for 1988. More generally, surplus countries "committed themselves to follow policies designed to strengthen domestic demand and to reduce their external surpluses while maintaining price stability"[1].

On the basis of this analysis and of these commitments, the six countries shared the view that exchange-rate changes which had taken place since the Plaza Agreement in September 1985 had brought their currencies "... within ranges broadly consistent with underlying economic fundamentals", and that would increasingly contribute to reducing external imbalances. Hence, under current circumstances, "they agreed to co-operate closely to foster stability of exchange rates around current levels". The communiqué said almost nothing on official intervention but various reports suggest that there was a clear understanding between central banks on concerted action, combined with the view that secrecy was the best guarantee of efficacy.

The view that a period of greater exchange-rate stability was desirable did not imply a judgement that the existing configuration of exchange rates and policy settings would produce a full correction of external imbalances. As discussed above, this is indeed doubtful. But a period of stability nevertheless appeared desirable in order to allow a better assessment of the situation – notably the response of economies and trade flows to the exchange-rate changes of the preceding two years; to provide time for national authorities to implement the agreed policy measures; and to restore confidence and prevent extrapolative expectations from creating a dangerous degree of instability in financial markets. Yet, given the size of imbalances and their intractability, the appropriateness and feasibility of such an approach can be judged only in the context of the further policy action that might be agreed, and implemented, in the future. The Louvre Agreement should be seen as the first step on a long path. Rather than a static achievement freezing the *status quo*, this Agreement has to be seen as a commitment to a continuing process of co-operation which will regularly review results and conditions, and in consequence lead to policy adjustments.

Exchange rates and current-account financing

The market reaction to the Louvre Agreement has, so far, had two distinct phases. In the month or so following the Agreement, the reaction was rather circumspect, investors apparently being unclear about the importance of the commitments accepted by Japan and Germany, and the resolve of central banks to defend exhange rates at prevailing levels. The dollar firmed slightly, until it prompted a reaction from the authorities that the market accepted, without a major test, as establishing the upper boundary of the desired fluctuation band. Despite the announcement by Brazil that it was suspending interest payments on its debt to commercial banks, which normally could have been expected to create some tension, exchange markets remained very calm, with a reduction in day-to-day and intra-day variations, combined with a smaller volume. While the

Table 32

Exchange rate changes of selected currencies

		Early May 1987[a] Percentage changes from:							
		G.6[b]	One year ago	G.5[c]	$ Peak[d]	1984 (average)	1983 (average)	1980[e]	1980 (average)
Dollar	effective	–4.67	–11.56	–28.50	–34.33	–26.27	–21.94	–4.67	–4.38
	vis-à-vis yen	*–9.70*	*–15.64*	*–42.67*	*–46.79*	*–41.54*	*–41.52*	*–32.20*	*–37.36*
	vis-à-vis DM	*–2.77*	*–19.21*	*–38.78*	*–47.81*	*–37.62*	*–30.46*	*–9.42*	*–2.29*
	vis-à-vis FF	*–2.25*	*–15.55*	*–32.92*	*–43.11*	*–32.14*	*–22.18*	*30.68*	*40.33*
	vis-à-vis £	*–9.01*	*–8.51*	*–19.77*	*–36.52*	*–20.76*	*–9.75*	*41.92*	*38.42*
Yen	effective	8.87	12.19	51.62	54.34	51.84	59.60	65.49	85.10
	vis-à-vis $	*10.74*	*18.53*	*74.41*	*87.95*	*71.05*	*71.00*	*47.49*	*59.63*
	vis-à-vis DM	*7.67*	*–4.23*	*6.77*	*–1.92*	*6.69*	*18.91*	*33.60*	*55.97*
	vis-à-vis FF	*8.26*	*0.10*	*17.01*	*6.92*	*16.07*	*33.06*	*92.74*	*124.02*
	vis-à-vis £	*0.76*	*8.45*	*39.94*	*19.31*	*35.54*	*54.33*	*109.33*	*120.97*
DM	effective	–0.76	7.25	14.12	17.89	16.84	16.84	29.37	25.84
	vis-à-vis $	*2.85*	*23.77*	*63.36*	*91.62*	*60.32*	*43.81*	*10.40*	*2.35*
	vis-à-vis yen	*–7.13*	*4.42*	*–6.34*	*1.96*	*–6.27*	*–15.90*	*–25.15*	*–35.89*
	vis-à-vis FF	*0.54*	*4.53*	*9.59*	*9.01*	*8.79*	*11.90*	*44.27*	*43.63*
	vis-à-vis £	*–6.42*	*13.24*	*31.07*	*21.64*	*27.04*	*29.79*	*56.68*	*41.68*
FF	effective	–1.23	0.95	1.59	5.26	4.23	1.91	–14.21	–15.57
	vis-à-vis $	*2.30*	*18.41*	*49.07*	*75.79*	*47.36*	*28.51*	*–23.48*	*–28.74*
	vis-à-vis yen	*–7.63*	*–0.10*	*–14.53*	*–6.47*	*–13.85*	*–24.85*	*–48.12*	*–55.36*
	vis-à-vis DM	*–0.54*	*–4.33*	*–8.75*	*–8.27*	*–8.08*	*–10.64*	*–30.69*	*–30.37*
Sterling	effective	6.70	–4.78	–12.13	–0.83	–7.36	–11.15	–23.15	–17.59
	vis-à-vis $	*9.91*	*9.30*	*24.63*	*57.53*	*26.20*	*10.80*	*–29.54*	*–27.76*
	vis-à-vis yen	*–0.75*	*–7.79*	*–28.54*	*–16.18*	*–26.22*	*–35.20*	*–52.23*	*–54.75*
	vis-à-vis DM	*6.86*	*–11.69*	*–23.70*	*–17.79*	*–21.28*	*–22.95*	*–36.18*	*–29.42*
Lira	effective	–1.24	1.92	6.00	1.27	–1.24	–4.68	–17.19	–19.70
	vis-à-vis $	*1.87*	*18.28*	*52.55*	*66.59*	*37.73*	*19.08*	*–27.07*	*–32.86*
	vis-à-vis yen	*–8.01*	*–0.22*	*–12.54*	*–11.36*	*–19.48*	*–30.36*	*–50.56*	*–57.94*
	vis-à-vis DM	*–0.95*	*–4.44*	*–6.62*	*–13.07*	*–14.09*	*–17.19*	*–33.94*	*–34.40*
Can $	effective	–1.98	–0.34	–6.60	–7.48	–11.34	–14.90	–12.13	–13.41
	vis-à-vis $	*–0.63*	*2.95*	*2.89*	*4.44*	*–3.28*	*–7.95*	*–11.00*	*–12.67*
	vis-à-vis yen	*–10.27*	*–13.15*	*–41.01*	*–44.43*	*–43.45*	*–46.17*	*–39.66*	*–45.29*
	vis-à-vis DM	*–3.38*	*–16.82*	*–37.01*	*–45.50*	*–39.67*	*–35.99*	*–19.39*	*–14.67*
BF	effective	–0.90	4.26	9.70	11.36	11.65	9.43	–4.13	–6.37
	vis-à-vis $	*2.60*	*21.74*	*59.27*	*85.99*	*56.65*	*41.38*	*–14.33*	*–20.66*
Guilder	effective	–0.49	6.67	13.22	17.37	14.93	13.22	20.40	18.06
	vis-à-vis $	*3.03*	*23.75*	*62.80*	*92.71*	*60.23*	*42.50*	*6.20*	*–0.75*
SF	effective	2.34	7.26	11.18	18.96	14.35	13.96	34.05	33.16
	vis-à-vis $	*5.77*	*25.93*	*62.98*	*98.84*	*60.95*	*43.80*	*20.90*	*14.81*
SKR	effective	0.36	–1.41	–4.11	–5.41	–4.44	–2.10	–21.79	–21.35
	vis-à-vis $	*4.56*	*13.46*	*36.97*	*54.88*	*33.07*	*23.32*	*–29.54*	*–31.98*
ECU									
	vis-à-vis $	*2.43*	*19.54*	*52.12*	*79.32*	*48.71*	*31.57*	*–10.58*	*–15.84*
	vis-à-vis yen	*–7.50*	*0.85*	*–12.78*	*–4.59*	*–13.06*	*–23.06*	*–39.38*	*–47.28*

a) 4th-8th May,1987.
b) Paris(Louvre)Agreement:16-20th February,1987.
c) Plaza Agreement:16th-20th September,1985.
d) 4th-8th March,1985.
e) Last week of the year.

prevalent attitude with respect to the dollar was one of "wait and see", there were large reflows of funds during this period from Germany to France and other European countries as DM positions which had been opened in expectation of the EMS realignment of mid-January were finally unwound. The Louvre Agreement had thus lent credibility to the new EMS parities. Towards the end of March, however, the dollar came under heavy pressure and began to lose ground rapidly *vis-à-vis* the yen and, to a lesser extent, *vis-à-vis* European currencies. By early May, it had fallen, in effective terms, to nearly 5 per cent below the level prevailing at the time of the Louvre meeting (see Table 32). This happened despite large joint official intervention, notably by the Bank of Japan but also by other central banks including the United States (see below). Also, U.S. monetary policy was somewhat tightened in April and U.S. interest rates rose sharply, especially at the long end of the market, causing the positive interest differential *vis-à-vis* Japan on long-term government securities to widen to over 5 percentage points and approach the record levels of 1984 and 1981/82. Several factors seem to have been responsible for this new outbreak of exchange-rate pressure, including growing trade frictions between the United States and Japan; figures showing that trade and current account imbalances had remained large in the first months of the year; and, possibly, somewhat divergent official statements.

In considering the size and intractability of external disequilibria, and the risk that they will be unsustainable over the medium term, the question of their financing is of crucial importance. This aspect of the problem was considered in some detail in *Economic Outlook 40*[2]. Recent developments have confirmed one of the trends detected in that analysis, namely the growing role of official transactions in the financing of external imbalances. In the case of the United States, "net transactions of monetary authorities" represented a negligible proportion of the current-account deficit in 1984 and 1985, but in 1986, at some $33 billion, they approached 25 per cent of the deficit. This official financing was practically all accounted for by an increase of U.S. liabilities towards foreign monetary authorities, and especially monetary authorities of OECD countries (some $25 billion). The more modest increase in liabilities towards non-OECD countries ($8 billion), was made up of a very large accumulation of official reserves and dollars by Taiwan, partly offset by a run-down of reserves and dollars by OPEC countries as a group, and several other developing countries with acute external debt and financing problems. This trend seems to have greatly accelerated in the first four months of 1987. As a result of stepped-up intervention, mainly by the Bank of Japan, U.S. liabilities towards foreign monetary institutions may have increased by over $25 billion in the first quarter, representing the financing of a large proportion of the U.S. current-account deficit. At the same time Japanese investors, including institutional ones, are reported to have diversified their holdings and actually liquidated dollar-denominated securities to acquire domestic assets and foreign assets denominated in currencies other than the dollar. Hence, net transactions of Japanese monetary authorities seem to have financed nearly the whole of the Japanese current-account surplus in the first quarter. In April, the Bank of Japan recorded an unprecedented increase in official reserves of $10.3 billion and the Bank of England and other central banks also recorded sizeable increases pointing to net capital *inflows* in Japan and possible net *outflows* in the United States. Although not too much should be made of monthly figures because of the volatility of private capital flows, and there may well be a revival of private financing in the coming months if the Louvre Agreement is seen by the market as being respected, recent developments are suggestive of the risk that over the medium-term the financing of the U.S. current-account deficit may become increasingly difficult to achieve spontaneously.

NOTES

1. This and other quotes in this Section are from the communiqué issued after the Louvre meeting.
2. pp. 61-64.

DEVELOPMENTS IN INDIVIDUAL COUNTRIES

THE UNITED STATES

Key features

Economic growth in 1986 followed the pattern recorded since mid-1984. Domestic demand expanded relatively rapidly, by 3½ per cent, but declining net exports meant that real GNP grew by only 2½ per cent. This profile changed towards the end of the year. In the fourth quarter, final domestic demand decelerated sharply as private consumption fell. This weakness spread to other elements of demand in the first quarter of 1987. Stockbuilding (much of it involuntary) was the only source of domestic demand strength. Temporary factors may have been partly responsible (particularly the impact of the Tax Reform Act and the phasing of auto financing incentives). But more pessimistic survey data on investment intentions and consumer sentiment suggest the start of a more lasting slowdown in the growth of domestic demand. On the other hand, net export volumes have increased since the end of last year and manufacturing output has shown signs of greater strength with manufacturing employment also expanding. These developments suggest the return to a more balanced growth pattern, with the real foreign balance progressively exerting a positive impact on growth.

Until early 1987 the depreciation of the dollar remained compatible with a steady decline in interest rates. Official financing, insignificant in 1985, accounted for about one quarter only of the total financing of the U.S. current account deficit in 1986 (for more details see the International Monetary Developments section). The impact of dollar depreciation on domestic prices was initially cushioned both by lower profit margins on imports and by falling oil prices; together with the adoption of the Balanced Budget Act, good inflation performance contributed to an improvement in the bond market from late 1985. Since April 1987, however, the situation has worsened. Data for the first quarter have shown signs of accelerating inflation, while the current account deficit is estimated to have persisted at a $140 to $150 billion annual rate;

UNITED STATES

Demand, output and prices

Percentage changes from previous period, seasonally adjusted at annual rates, volume (1982 prices)

	1982 current prices billion $	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Private consumption	2 050.7	4.7	3.5	4.1	2	2	4.8	½	2	2	2
Government consumption	641.7	4.0	6.8	3.5	2½	1¼	7.3	¾	1½	1	1
Private fixed investment	471.8	16.1	7.7	1.9	–1¼	2¼	2.4	–3¾	¾	2½	2¾
Residential	105.1	14.3	3.9	9.4	–½	¾	9.7	–4	–3¼	2	2
Non-residential	366.7	16.9	9.3	–1.0	–1½	2¾	–0.5	–3¾	2½	2¾	3
Final domestic demand	3 164.2	6.3	4.8	3.6	1½	2	4.8	–¼	1¾	2	2
* change in stockbuilding	–24.5[a]	2.0	–1.4	–0.1	0	0	–2.3	1½	–½	¼	¼
Total domestic demand	3 139.7	8.3	3.4	3.5	1½	2	2.6	1¼	1¼	2	2¼
Exports of goods and services	361.9	6.2	–2.0	2.5	8¼	11	7.8	6	13	10½	9¾
Imports of goods and services	335.6	23.2	3.8	10.4	¼	3¼	12.2	–6	2¼	3½	3½
* change in foreign balance	26.3[a]	–1.9	–0.7	–1.1	¾	¾	–0.9	1½	1	¾	½
GNP at market prices	3 166.0	6.4	2.7	2.5	2½	2¾	1.8	2¾	2¼	2¾	2¾
GNP implicit price deflator	–	3.9	3.4	2.6	3½	4	2.4	3¾	4	4	4¼
Memorandum items											
Consumer prices[b]	–	3.8	3.5	2.1	4	4½	2.3	4½	4½	4½	4½
Industrial production	–	11.6	1.7	1.0	2¾	3½	1.3	3¼	3¼	3½	3½
Unemployment rate	–	7.5	7.2	7.0	6¾	6½	6.9	6¾	6¾	6½	6½

* As a percentage of GNP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts private consumption deflator.

official financing increased sharply and, despite large-scale intervention, the dollar weakened further as exchange markets were apparently unconvinced that the existing international configuration of monetary and fiscal policies was consistent with longer-run currency stability. Long-term interest rates have risen, probably reflecting both anticipations of higher inflation and difficulties in attracting foreign finance at current exchange rates. The financial markets seem to have been expecting further downward pressure on the dollar and/or a somewhat tighter monetary stance to support the Louvre Agreement. Some tightening of monetary policy has in fact occurred, but in the light of slowing domestic demand growth, the Federal Reserve has been cautious about raising short-term rates; the main impact of unsettled financial market conditions has been to steepen the yield curve.

On the technical assumption of unchanged exchange rates at their level of 21st April, GNP may grow by between 2¼ and 2½ per cent in 1987, perhaps accelerating to 2¾ per cent per annum in 1988. Whereas domestic demand growth is likely to remain relatively weak, the external sector should make a steady positive contribution to growth and employment. However, the economy may remain beset by large imbalances. The current external deficit may still be some $125 billion in 1988 (2.6 per cent of GNP) and the Federal budget deficit may well exceed the Gramm-Rudman target of $108 billion by a significant margin, even if further budgetary action is taken. These imbalances will maintain pressure on long-term interest rates, which are assumed to remain sufficiently high to finance the external deficit at the existing exchange rate. But the slowness and uncertainty of the adjustment process poses greater risks for interest rates, inflation and the durability of the recovery than are apparent in the central projection. Monetary policy may face the dilemma of choosing between further tightening to support the dollar, which could bring domestic growth to a halt, or supporting growth at the cost of accommodating emerging inflationary pressures. In such circumstances, the risk that the recovery will be aborted by sustained upward pressure on interest rates is quite significant. On the other hand, increased recourse to protectionism would contain dangers of even greater financial and commercial disruption, through higher inflation expectations and interest rates and slower growth.

Recent trends

The civilian unemployment rate fell by ½ per cent during 1986, ending the year at 6.7 per cent. The economy continued to create a substantial number of new jobs – 2½ million in the course of the year – with the labour force expanding almost as strongly. Growth of employment continued to be concentrated in the service sector, the weakness in the goods sector being partly explained by major layoffs by oil companies and other energy-related firms. Manufacturing employment remained affected by sluggish export growth and continued import penetration; with productivity increasing by nearly 3 per cent, the rise in output was not sufficient to generate an increase in employment. However, factory employment did begin to increase from November, reversing a year-long trend, and this improvement was sustained in the first months of 1987. The overall unemployment rate stabilized at 6.7 per cent in the first quarter before falling to 6.3 per cent in April.

Wage pressures have been absent so far. Affected, in part, by the slow and partial recovery in manufacturing employment since late 1986, effective wage adjustments under collective bargaining agreements have continued to register record lows. Hourly compensation in the non-farm business sector as a whole increased by 3 per cent in 1986. With productivity increases remaining modest, unit labour costs rose by 2½ per cent.

The consumer price deflator rose by 2 per cent in 1986. In addition to the oil price decline, two factors contributed to this favourable outcome: lower profit margins on imports from appreciating countries and the fact that the depreciation of the U.S. currency has been much less marked against the Canadian dollar, sterling and the newly-industrialised Asian economies. However, from the second half of 1986 major price increases began to be recorded for a variety of imports, including cars, industrial machinery and office equipment, suggesting that the extent to which exporters to the U.S. can absorb depreciation into their profit margins is now exhausted. This was reflected in an acceleration of inflation in the first quarter of 1987, the Consumer Price Index rising at a 5¼ per cent annual rate, with increases quite widespread.

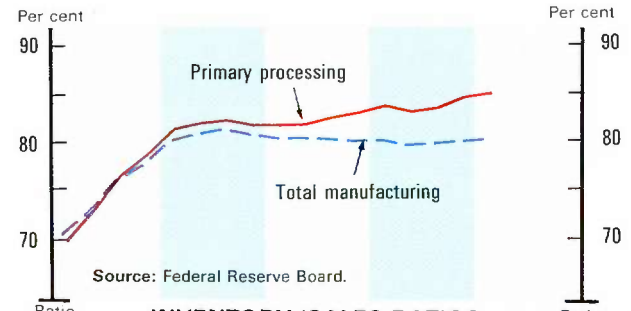
Partly because of the slowness of import prices to adjust, import volumes have been more buoyant than expected, and this was the major factor behind the increase in the external deficit in 1986. Whereas total domestic demand grew by 3½ per cent in 1986, import volumes rose by nearly 11 per cent. If oil imports, which were up by about a quarter, are excluded, the increase in imports was somewhat slower, but the implied import "elasticity" is still very high. Export volumes, by contrast, continued to expand at a rather sluggish rate of 2½ per cent, and this weakness, with falling export prices, also accounts for a significant part of the deterioration in the U.S. external position. There were signs of a pick-up in export volume growth in the second half of 1986 (a rise of nearly 8 per cent at annual rates), and this continued into the first quarter of 1987, when the increase in net exports contributed 1¾ per cent to GNP growth.

Policies

The Federal deficit is likely to exceed the Balanced Budget Act's target of $144 billion by a significant amount in FY 1987 (October 1986 to September 1987). Official estimates made at the time of the FY 1988

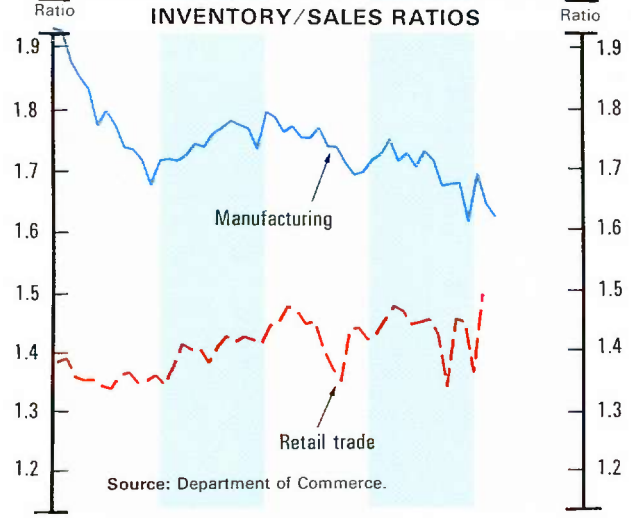
UNITED STATES

CAPACITY UTILISATION RATES



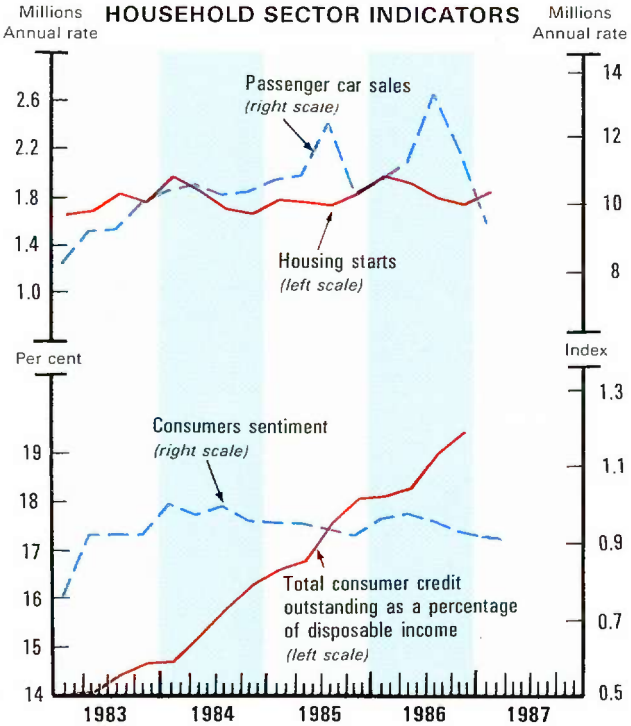
Source: Federal Reserve Board.

INVENTORY/SALES RATIOS



Source: Department of Commerce.

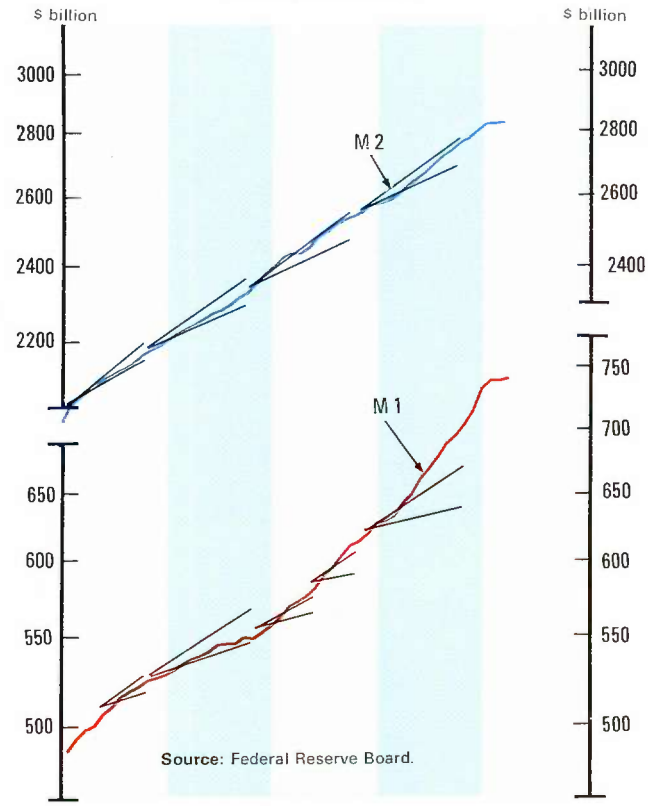
HOUSEHOLD SECTOR INDICATORS



Source: Department of Commerce, Federal Reserve Board, University of Michigan Consumer Survey.

MONETARY AGGREGATES: TARGET RANGES AND ACTUAL DEVELOPMENT

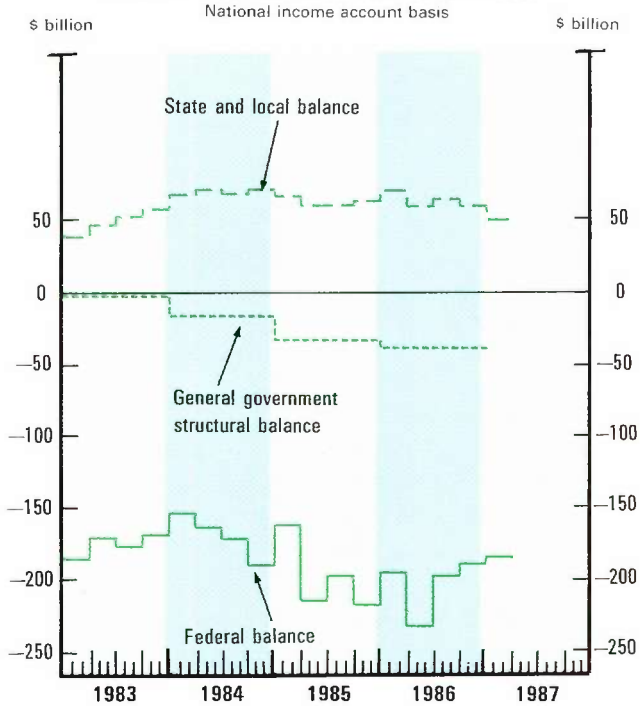
Semi-logarithmic scale



Source: Federal Reserve Board.

PUBLIC SECTOR BUDGET BALANCES

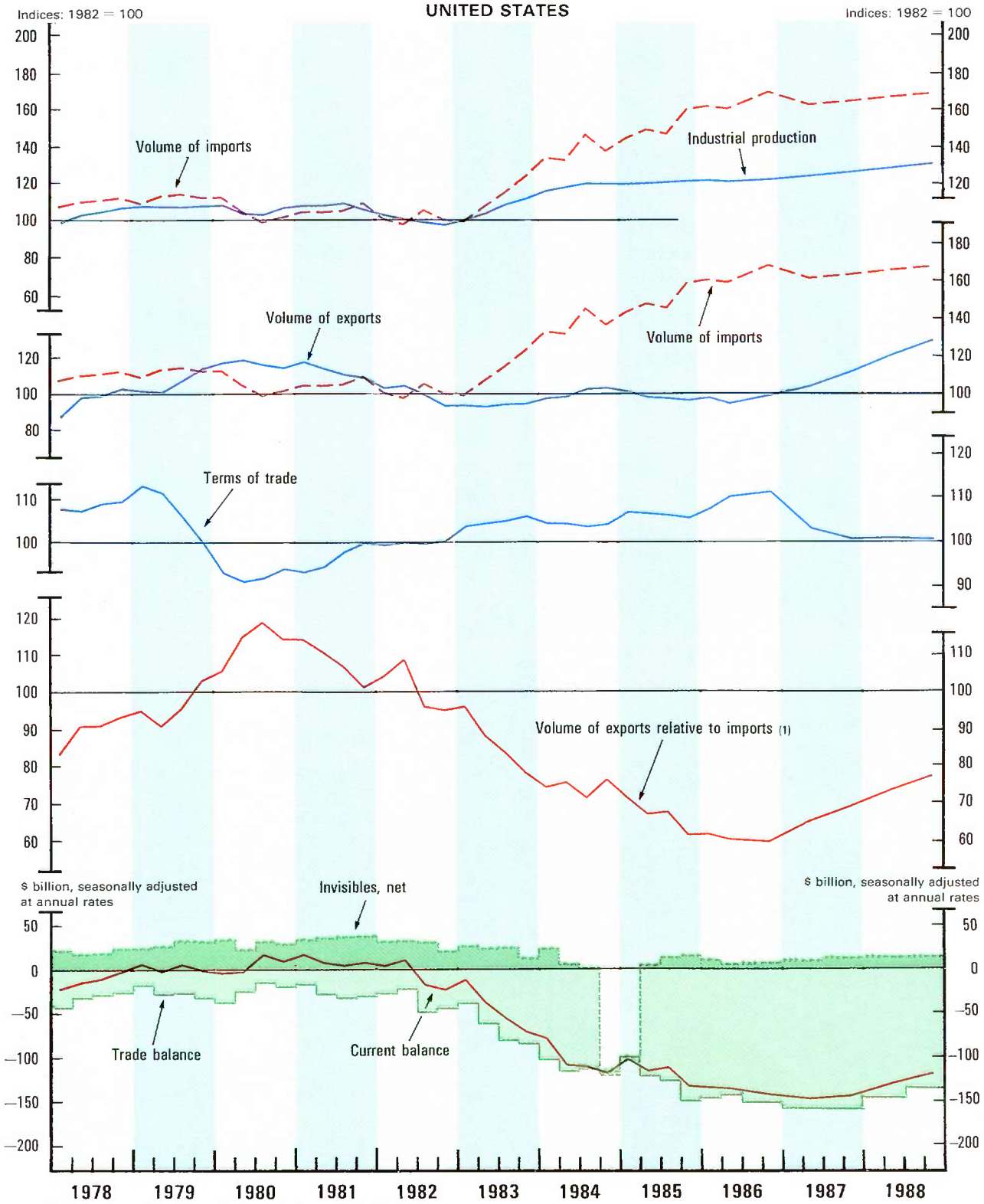
National income account basis



Sources: Department of Commerce, OECD.

INDUSTRIAL OUTPUT, FOREIGN TRADE AND CURRENT BALANCE

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1. Ratio of export and import volume index multiplied by 100.

Note: OECD forecasts from 1987 I onwards.

Budget deficit projections

	1986	1987	1988	1989
	Fiscal year, $billion [deficit = +; reduction in deficit = –]			
A. CBO Baseline projections				
Deficit projection, February 1987	221	174	169	162
Balanced Budget Act Target	(172)	(144)	(108)	(72)
	Percent of GNP			
Receipts	18.5	19.0	19.2	19.1
Expenditures	23.8	22.9	22.8	22.3
Budget deficit	5.3	4.0	3.6	3.2
Debt held by public	41.9	43.4	44.2	44.4
	Calendar years; national accounts, $ billion			
B. OECD projections				
Federal Government	–203	–178	–183	..
General Government	–140	–122	–123	..

Sources: Congressional Budget Office; OECD estimates.

Budget submissions in February put the likely deficit at about $175 billion. The OECD projection, which is based on assumptions of slower growth, higher interest rates and actual data for the first half of the financial year, is for a deficit of about $190 billion. This outcome would represent a cut of $30 billion compared with FY 1986, and a reduction in the structural deficit of about ½ per cent of GNP. However, $19 billion of this improvement is temporary, reflecting the fact that under the Tax Reform Act the increase in corporate taxes is being phased in before the cuts in income tax take full effect.

Both the Administration and the Congressional Budget Office (CBO) project a continued decline in the deficit to just over $100 billion in FY 1991, even if no further budgetary measures are taken (see Table). This is partly because of an increasing social security surplus. However, without additional action, the improvement expected for FY 1988 is small, partly because the phasing in of income-tax cuts will have a negative impact on revenues. The CBO's estimate is for the deficit to remain at about $170 billion, which is more pessimistic than the Administration's $150 billion projection. Even the lower figure would imply a need for substantial budget cuts if the target of $108 billion were to be retained. To reach the target, the Administration has proposed cuts in Medicare, Medicaid, farm subsidies, mass transit and other domestic programmes, as well as an increase of $23 billion in user fees and asset sales. Many of these proposals have been rejected by Congress in the past, and in the absence of legislative agreement on the means of achieving reductions in FY 1988, the CBO's "current service" spending assumptions have been incorporated in the OECD forecast. On this basis, and allowing for lower growth and higher interest rate assumptions (a sustained 1 point rise in interest rates increases the deficit by $11 billion in the second year and by up to $25 billion over five years) the Federal deficit would remain at about $190 billion in FY 1988. This implies that the Gramm-Rudman target for that year is effectively out of reach.

The stance of monetary policy has been increasingly influenced by the conflicting objectives of supporting domestic activity and the dollar in the face of weakness in both. As long as inflation remained subdued, the Federal Reserve followed a moderately easy monetary policy associated with a steady dollar decline. The overshooting of M1 in 1986 has been discounted (M1 growth was outside the target range all year), since this was taken as reflecting the normal increase in the demand for money to be expected from falling interest

Federal reserve target ranges

Date set	Target period (Year to)	Target ranges (% p.a.)		
		M1	M2	M3
July 1985	1985 Q4	3-8[a]	6-9	6-9½
Outturn		12.7[a]	8.8	7.7
July 1985	1984 Q4	4-7	6-9	6-9
February 1986		3-8	6-9	6-9
July 1986		(3-8)[b]	6-9	6-9
Outturn		15.2	8.9	8.8
July 1986	1987 Q4	(3-8)[b]	5½-8½	5½-8½
February 1987		(–)[c]	5½-8½	5½-8½

a) 1985 Q2-1985 Q4 (annual rate).
b) Growth in excess of established range should be acceptable in 1986. The range for 1987 is that which would be likely if more stable velocity behaviour showed signs of re-emerging.
c) M1 targeting dropped because of uncertainty about its underlying relationship to the behaviour of the economy.

rates and inflation. Overshooting was seen as having few implications for nominal GNP. The broader aggregates are regarded as giving more accurate signals, and these were at, or slightly below, the upper limit of their target ranges in 1986. Consistent with this growth, short-term interest rates declined up to October, partly because the oil price fall lowered inflation expectations and caused rates to ease, partly because the Federal Reserve Board cut the discount rate twice in moves widely seen as actively pushing the market down. Short-term rates remained fairly steady from December 1986 to April 1987, when deteriorating inflation news and diminishing confidence in the dollar led to a sharp bond market correction. Reserve provision was then tightened somewhat, and short-term rates edged up ½ percentage point.

Since the completion of the projection presented in *Economic Outlook 40*, in early November, the dollar has depreciated a further 10 per cent in effective terms, including a 3 per cent decline since the Louvre Agreement in February. The bond market was apparently unaffected by the dollar's fall up to that time (although it did not share in the stock market's rise), with corporate bond yields (AAA) steady at to 8¼ to 8½ per cent and the Treasury long bond at 7½ per cent. Yields have since risen 1½ points, implying differentials of over 500 basis points compared with Japanese bond rates. Part of this shift has been a response to increased inflation expectations. However, real rates may have also risen. Measured by the difference between a nominal yield of 9½ per cent on AAA bonds and the OECD "core" inflation projection, real rates may be as high as 5 to 6 per cent. In the context of a relatively steep term structure, such rates probably imply an increase in the risk premium on dollar assets. However, the weakening of the bond market might also be attributable, in part, to diminishing confidence in the budgetary correction process.

Prospects

In *Economic Outlook 40* the OECD projected real GNP growth of around 3 per cent in both 1987 and 1988, with slowing domestic demand offset by a turnround in net exports. Both the fall in final domestic demand in the first quarter and the rise in interest rates indicate that domestic demand growth is likely to be even weaker than expected. However, current and leading indicators have continued to trend upwards, and the stock market has remained at a record high, so that demand should recover from its first quarter low. On the output side, manufacturing production is expanding and the underlying movement in durables orders is upwards. (Order data have been distorted in recent months by the phasing in of the Tax Reform provisions.) Employment news has also been generally satisfactory. These factors are taken as a reflection of improving net export performance; if confirmed, output growth should accelerate somewhat.

The prospect that domestic demand will continue to grow rather slowly hinges on the likelihood of an

UNITED STATES

Balance of payments

Value, $ million

	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Seasonally adjusted									
Exports	214 430	221 750	249 750	298 000	113 090	119 000	130 750	143 500	154 500
Imports	338 860	369 460	407 500	437 750	188 610	197 750	209 750	216 000	221 500
Trade balance	–124 430	–147 710	–157 750	–139 750	–75 520	–79 000	–79 000	–72 500	–67 250
Services and private transfers, net	20 120	21 060	25 250	29 000	10 930	11 750	13 500	14 250	14 750
Official transfers, net	–13 370	–13 920	–14 500	–15 000	–7 550	–7 250	–7 250	–7 500	–7 500
Current balance	–117 680	–140 570	–147 250	–125 750	–72 140	–74 500	–72 750	–65 750	–60 000
Unadjusted									
Current balance	–117 680	–140 570			–74 090				
Long-term capital	61 010	69 240			39 130				
Short-term capital and unrecorded	22 600	18 570			2 240				
Balance on non-monetary transactions	–34 070	–52 760			–32 720				
Net transactions of monetary authorities[a]	5 640	–32 640			–16 530				
Memorandum items (Seasonally adjusted)									
Per cent changes in volume[b]									
Exports	–2.0	–0.6	10½	15¼	6.5	10¼	15½	16¼	13¼
Imports	9.1	10.4	–1¼	2½	10.1	–8	2½	3	2¼

Note: Detail may not add, due to rounding.

a) Previously *Balance on official settlements.*

b) Over previous period at annual rates. Derived from values and unit values on a Bureau of the Census basis. Certain adjustments to balance of payments basis are therefore excluded, the most important being the omission of foreign trade of the Virgin Islands.

increase in the rather low household savings ratio, the negative effects of tax reform and overcapacity on investment in some sectors, and tightening fiscal policy. Following a period when personal consumption has grown much faster than real incomes, the scope for a further fall in the savings ratio is limited, despite the wealth effects associated with the boom in stock market values. Gross household debt remains high, and the phasing out of income tax relief on consumption-related interest payments may discourage further borrowing (though the effect of this may be to substitute mortgage for other types of debt). According to intentions surveys, investment growth may also remain sluggish. High office-vacancy rates and the impact of tax reform are holding back construction investment in particular. However, despite the elimination of the investment tax credit, manufacturing investment should be boosted by improving profitability in the export- and import-competing sectors. Even so, taking account of the restraint in Federal spending, real final domestic demand appears unlikely to grow faster than 1½ per cent this year and 2 per cent next.

In contrast to the last two years, net exports should exert a positive influence on GNP growth, adding perhaps ¾ per cent in both 1987 and 1988. Import volume growth is expected to slow, while improved external competitiveness should lead to gains in export market shares, perhaps adding 4 to 5 percentage points per annum to export volume growth. However, these projections are based on empirical relationships which recently have tended to overestimate the impact of the dollar depreciation on U.S. trade flows. On the import side, this has been due to overestimation of the initial price pass-through, which recent data show is being corrected. On the export side a shift in competitiveness appears to have taken place, but equations for manufactures have been seriously overpredicting. Export projections are based on the presumption that export equation errors will diminish in 1987. On the usual technical assumption of unchanged exchange rates, the trade deficit (fob/fob) may widen to around $155 billion in 1987, before falling back to about $140 billion in 1988. Although a reduction in net investment income is expected to be more than offset by an improvement in the non-factor services account, the current external balance may still be in deficit by some $125 billion in 1988.

Dollar depreciation is likely to induce a limited pick-up in inflation. With the CPI having already shown signs of incorporating import price increases in recent months, the consumption deflator is expected to rise quite quickly towards its "core" rate of 4½ per cent, steadying thereafter. However, higher inflation and the persistence of a large current external deficit pose increasing risks to the projection. Given high personal and company sector indebtedness, the economy appears particularly vulnerable to a more marked slowdown in domestic spending if bond market confidence is further eroded and the stock market begins to be affected.

Appropriation account for households

Percentage changes from previous year

	1982 billion $	1986	1987	1988
Compensation of employees	1 907.0	5.5	5¾	6¾
Income from property and other	622.7	4.3	5	9
Current transfers received	410.6	5.5	5¾	6¾
Less: interest on consumer debt	55.6	13.2	6¼	6½
Total income	2 884.8	5.0	5½	7¼
Less: direct taxes	409.3	5.7	4½	5½
current transfers paid	270.8	5.6	5¼	6½
Disposable income	2 204.6	4.9	5¾	7½
Consumers' expenditure	2 050.7	6.2	6	6¾
Savings ratio (as a percentage of disposable income)	–	4.0	3¾	4½

Monetary and fiscal policy appear to be the key factors behind the avoidance of recession. If inflation should accelerate beyond rates indicated in the forecast, monetary restraint could be called for. It might be prompted sooner if there were a further rise in inflation *expectations*, brought about by sharp downward pressure on the dollar. A monetary squeeze would probably lead to a cut in private spending which could be all the greater because of the debt imbalances which have been building up. Risks for the sustainability of the recovery would be exacerbated if there were a failure to achieve the significant cuts in the Federal deficit already included in the projection, or if the projected rise in net exports were not to occur. Either of these developments could result in domestic demand continuing to grow faster than output, and make a loss of confidence in the dollar more likely. If further rapid depreciation were to take place, monetary policy would probably need to reduce domestic absorption to counter the potential increase in inflationary pressures and allow the transfer of resources to the external sector.

On the other hand, the prospects for continued growth would be enhanced if significant cuts in the Federal deficit were actually made, particularly in the context of the international strategy of fiscal rebalancing set out in the Louvre Agreement. In this case, the constraints currently attaching to monetary policy would be alleviated.

JAPAN

Key features

Domestic demand grew by 4 per cent in 1986, while foreign demand expanded sluggishly: export markets rose by only 2 per cent. This, together with a substantial exchange rate appreciation, led to a sizeable reduction in Japan's external surplus in volume terms last year. However, OECD projections – which do not incorporate the "package" of stimulatory measures to be announced by early June – suggest that this differential between the growth of domestic and foreign demand would reverse in 1987 and 1988, thus weakening the international adjustment process. With private non-residential investment likely to be virtually flat, total domestic demand growth is projected at only 2 to 2½ per cent throughout the projection period. But foreign demand should pick up somewhat: export market growth is likely to be around 3½ per cent in both 1987 and 1988. On technical assumptions of unchanged exchange rates and oil prices at $18 a barrel, a current surplus of $95 billion is projected for this year, coming down to $85-90 billion next.

Continued large current account surpluses and the further build-up of an already-substantial net external asset position could well lead to upward pressure on the yen. This risk of further appreciation may lead manufacturers to postpone – and subsequently possibly cancel – investment plans, thus weakening the growth of domestic demand. Significant downside risks also attach to private consumption. In the year to the fourth quarter of 1986, private consumption rose by a modest 2.2 per cent despite large terms-of-trade gains. Uncertainty about future employment and real income prospects could lead to a precautionary increase in household saving.

Monetary policy remains easy. The future stance of fiscal policy will depend on the size and nature of the *Supplementary* 1987 Budget and other measures to be proposed by the authorities. The *Initial* 1987 Budget (published in early 1987) sought to reduce the central government's budget deficit, and – in the absence of details of the Supplementary Budget – OECD projections embody the purely technical assumption that the medium-term orientation of fiscal policy towards budgetary consolidation will be maintained in 1988. On this assumption and with net debt/GNP ratios and interest rates both declining, government net interest payments should fall substantially as a percentage of GNP (from

JAPAN

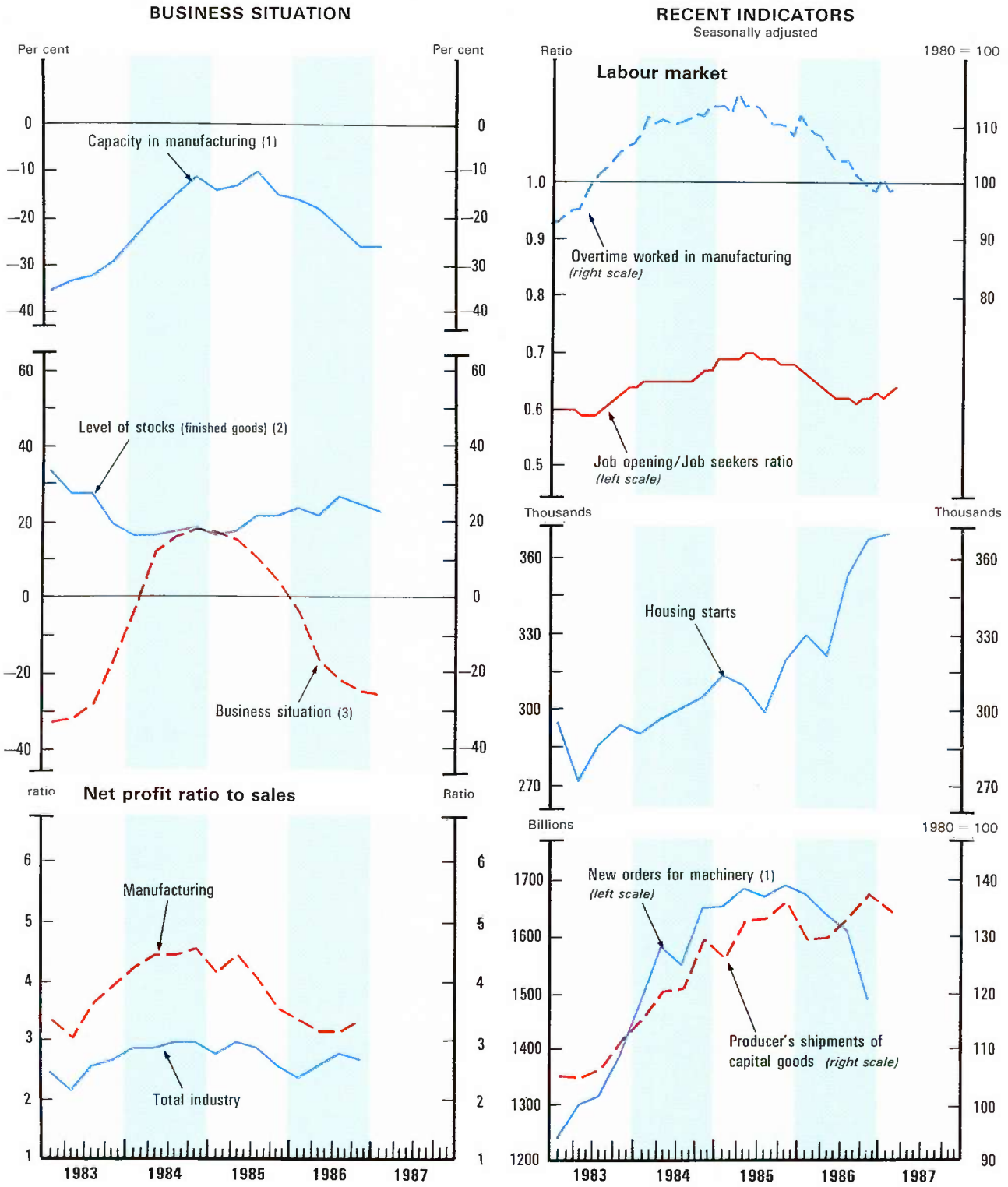
Demand, output and prices

Percentage changes from previous period, seasonally adjusted at annual rates, volume (1980 prices)

	1982 current prices trillion Y	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Private consumption	159.6	2.7	2.6	2.7	3	2¾	3.1	2¾	3¼	2½	2¾
Government consumption	26.8	2.8	2.0	6.6	–¼	2¼	18.3	–8¾	1¼	2½	2½
Gross fixed investment	79.9	4.9	5.6	6.5	2¾	1¼	7.7	2	–½	1½	2½
Public[a]	24.1	–2.8	–6.6	4.4	2	–1	8.3	4	–7¼	1	1¾
Private residential	15.0	–2.0	2.6	10.1	9½	3½	24.2	5	6	2½	3
Private non-residential	40.8	11.5	12.3	6.4	1	1½	3.4	¼	¼	1½	2½
Final domestic demand	266.3	3.4	3.5	4.3	2½	2¼	6.0	1¼	1¾	2¼	2¾
* change in stockbuilding	1.2[b]	0.4	0.4	–0.2	0	0	–1.2	½	¼	–¼	0
Total domestic demand	267.5	3.8	3.8	4.0	2½	2¼	4.7	1¾	2	2	2¾
Exports of goods and services	44.5	17.5	5.3	–4.8	–2	1¼	–1.2	–2¾	–1	1½	3
Imports of goods and services	42.4	11.1	–0.1	3.3	½	3	7.6	–4	2¾	3	3¼
* change in foreign balance	2.1[b]	1.3	1.0	–1.4	–½	–¼	–1.3	0	–½	–¼	0
GNP at market prices	269.6	5.1	4.7	2.5	2	2	3.2	1¾	1½	1¾	2½
GNP implicit price deflator	–	1.2	1.5	1.8	¼	1¼	1.2	–½	½	2¼	½
Memorandum items											
Consumer prices[c]	–	2.1	2.1	0.6	0	1¾	–0.3	–¼	¼	3	½
Industrial production[d]	–	11.2	4.5	–0.3	–¼	3	–1.4	–¾	2	3	4
Unemployment rate	–	2.7	2.6	2.8	3	3	2.8	3	3	3	3

* As a percentage of GNP in the previous period.
a) Including public corporations.
b) Actual amount of stockbuilding and foreign balance.
c) National accounts private consumption deflator.
d) Mining and manufacturing.

JAPAN



— Forecasts: values referring to the expected situation are attributed to the end of the 4-month period.

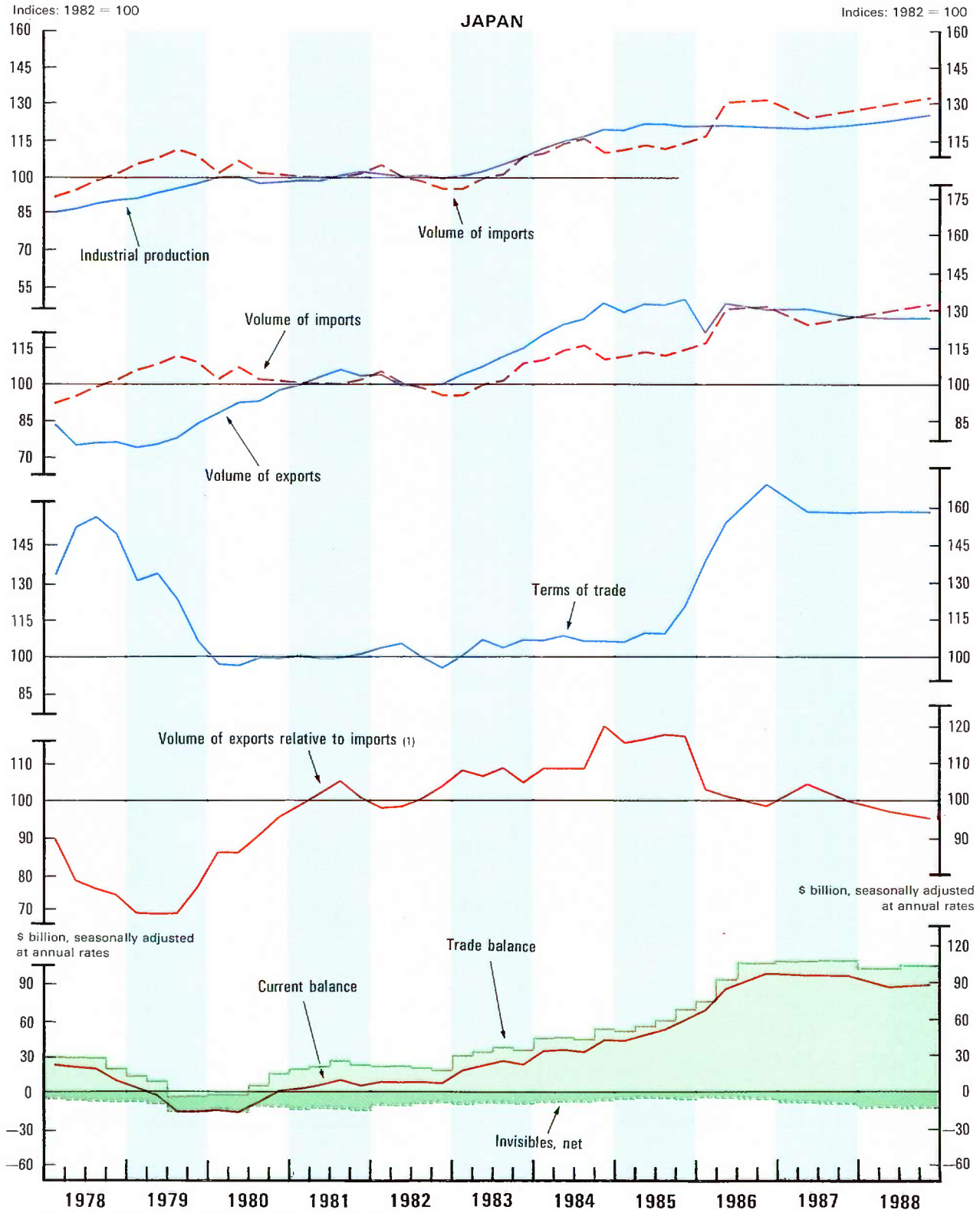
1. Per cent of firms with insufficient capacity *minus* per cent of firms with excessive capacity.
2. Per cent of replies "too high" *minus* per cent of replies "too low".
3. Per cent of replies "good" *minus* per cent of replies "bad".

Sources: Bank of Japan, *Short-Term Economic Survey of Principal Enterprises in Japan.*

1. Excluding vessels and electric power.

Source : EPA, Japanese Economic Indicators.

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1. Ratio of export and import volume index multiplied by 100.

Note: OECD forecasts from 1987 I onwards.

2.1 per cent of GNP in 1985 to 1.7 per cent by 1988). Accordingly, the general government budget deficit (0.8 per cent of GNP in 1985) would fall further by 1988.

Since proposing the Initial Budget, however, the Japanese authorities have indicated their intention to adopt additional fiscal measures: as the effects of front-loaded public investment wear off during the fiscal year, further measures are to be taken. Such steps would obviously imply a higher budget deficit than envisaged in the OECD projections at present. Also, the rapid implementation of the reforms proposed by the New Mayekawa Report (see below) would considerably enhance prospects for domestic demand-led growth.

Recent trends

GNP growth in 1986 (2.5 per cent) was the lowest for twelve years. Total domestic demand expanded by 4 per cent, led largely by strong residential and public investment. But private consumption remained weak, actually falling in the fourth quarter. As a result of a sizeable real appreciation of the yen (relative unit labour costs measured in a common currency are estimated to have risen by over 40 per cent since 1985), net export volumes fell, reducing GNP growth by 1.4 per cent. In addition to competitiveness effects, however, this significant external adjustment in volume terms partly reflected two special factors. First, government imports of gold for the Emperor's coin added 3½ per cent to the volume growth of imports in 1986 (SNA basis). Secondly, a very steep decline in sales to China depressed aggregate exports. With the volume of exports falling, manufacturing production was virtually flat. MITI's index of capacity utilisation stood at 94.9 in the fourth quarter of 1986, down from 101.2 a year earlier (1980=100). The unemployment rate continued to edge up, reaching almost 3 per cent by the end of the year. Inflation, measured by consumer prices, decelerated steadily during 1986, and the price level started to decline towards the end of the year.

Policies

The *central government's* general account draft budget for FY 1987 continued fiscal consolidation, foreshadowing a deficit of 3 per cent of GNP, down from 3.4 per cent of GNP in FY 1986. Total expenditure was virtually frozen with public works expenditure being cut (comparing the initial budget for FY 1987 with the revised budget for FY 1986). Part of this reflects a reduction in the share of *local government* capital spending that is financed by the central government. Local governments are to be encouraged to increase investment spending via higher borrowing. According to initial plans, local government investment spending will rise by 3.1 per cent, with bond issues to increase by 21.7 per cent. Finally, investment under the central government's *Fiscal Investment and Loan Programme* (FILP) will increase: total FILP expenditure is to rise by 6.8 per cent (excluding direct purchases of government bonds). On a consolidated basis, the official projection implies that total public works expenditure will rise by 3.4 per cent in FY 1987 (both comparisons are initial budget for FY 1987 on revised budget for FY 1986).

Further measures to stimulate domestic demand were foreshadowed in the Louvre Agreement in February. While measures to "front load" public investment have been decided, no additional appropriations have yet been proposed. As a working assumption, the present projections incorporate increased "disaster relief" expenditure towards the end of the fiscal year, but do not incorporate further appropriations since the size, nature and timing of the promised measures have not been announced. On purely illustrative and hypothetical assumptions, OECD Interlink simulations suggest that an increase of government investment in 1988 amounting to ¾ per cent of GNP would, in that year, add 1.1 per cent to total domestic demand, about 1 per cent to GNP and reduce the current external surplus by about $2 billion. Any net tax cuts would add further support to demand. If such measures improved business and consumer confidence, significant multiplier and accelerator could imply further effects in later years.

Projections of tax revenue are based on the Government's original tax reform proposals. Lower income taxes (from 1st April 1987) offset by more comprehensive taxation of household interest income (from 1st October 1987) and a broadly-based indirect tax (from 1st January 1988) would have had the effect of depressing tax revenue in 1987, and boosting it in 1988[1]. However, these particular proposals were not approved by the Diet; none the less, the possibility of introducing some kind of indirect tax is currently under review. In addition, government consumption in 1986 was inflated by the purchase of gold for commemorative coins. Overall, the general government deficit is projected to remain broadly unchanged in 1987, and then fall sharply in 1988. This pattern, however, reflects gold purchases and the timing of tax measures: adjusted for these special factors, the deficit is projected to decline steadily from about 0.7 per cent of GNP in 1986 to 0.6 per cent in 1987 and to 0.3 per cent in 1988[2].

Monetary policy has remained expansionary. The discount rate was reduced by ½ percentage point in November and a further ½ percentage point in February. Broad money supply growth has remained in the 8 to 9 per cent range since early 1986. Indeed, the high degree of liquidity is causing the authorities some concern: land prices in Tokyo rose steeply last year and this now appears to be spreading to suburban areas. Share prices have risen substantially since the beginning of the year, taking price/earnings ratios to levels widely regarded as unsustainable. Long-term interest rates are now at historic lows with the rate on a key government bond falling to 2¾ per cent by mid-May. This sharp decline appears to have been triggered by a major move

by Japanese institutional investors from foreign to domestic markets.

The authorities are pursuing medium-term policies of reform aimed at achieving strong growth of the domestic non-tradeable sector. In January, the Government proposed a far-reaching tax reform which – if passed by the Diet – would broaden the tax base considerably and increase the scope for fiscal flexibility. The privatisation (and subsequent rationalisation) of Japan National Railways from 1st April 1987 should increase efficiency and reduce one significant burden on the State's finances. The New Mayekawa Report[3] advocated increased public investment to improve Japan's social infrastructure. Steps to be taken to encourage private sector participation in large infrastructural projects should help to sustain aggregate investment at a time when manufacturing investment is being curtailed. The Report also suggested radical reform of land policy. In particular, measures to reduce substantial tax privileges currently enjoyed by those holding agricultural land in urban areas were suggested in order to increase the effective supply of land for housing. Far-reaching deregulation in distribution, financial services, construction, agriculture, transport and telecommunications was also proposed.

Prospects

OECD projections for domestic demand have been revised down from *Economic Outlook 40* because of evidence that private non-residential investment in 1987 will be much weaker than previously projected. In addition, there are signs that greater uncertainty is damaging consumers' confidence and lowering their propensity to spend. On the purely technical assumption of unchanged fiscal policy, domestic demand is projected to expand by a little over 2 per cent over the period to the end of 1988. As the effects of further yen appreciation are felt, net exports are expected to exert a small negative influence on growth.

With consumer prices flat, and given a weakening of labour market conditions, average cash earnings are projected to rise by 2½ to 3 per cent in 1987 and 1988, down from 3½ per cent in 1986. None the less, real household disposable income should again expand by about 3½ per cent in 1987 – as tax cuts reverse fiscal drag – and by almost 2½ per cent in 1988. Assuming that the upward movement of the savings rate during most of 1986 stops, real private consumption could accelerate somewhat this year: indeed, preliminary data for early 1987 suggest some strength in private consumption. Sustained real income growth, lower interest rates and expectations of further rises in house prices should stimulate residential construction, a trend supported by the recent measures taken under the FILP.

The latest surveys foreshadow a weaker outlook for business investment. During 1986, initial investment plans were scaled back in the wake of the stronger yen; and some surveys suggest investment in FY 1987 may actually decline (per cent change in total investment in nominal terms):

	FY 1986		FY 1987
	(Plan)	(Estimated outcome)	(Plan)
Bank of Japan	4.7	1.9	–1.9
Nikkei	3.8	1.8	–2.0
Japan Development Bank	1.6	3.1	0.1
Economic Planning Agency	1.0	1.3	0.5

Translation of these nominal changes into real investment on a national accounts basis is made particularly uncertain by higher land prices, since land purchase is included in the surveys but excluded from the national accounts. Even assuming a fall in the investment deflator, however, real investment growth seems likely to be rather low.

Merchandise export volumes have been rising sharply in recent months. Latest OECD estimates are that Japanese export markets expanded by 2.0 per cent in 1986, but will expand by 3.3 per cent in 1987 and 3.6 per cent in 1988. This acceleration largely reflects a pick-up in non-OECD demand. Relative unit labour costs (in a common currency) rose at an actual rate of close to 20 per cent in the first half of 1986, and at over 10 per cent in the second half. The consequence of the technical assumption of unchanged exchange rates (at Y 142.10 per dollar, the rate prevailing on 21st April) and of relatively low wage inflation in Japan is that relative unit labour costs remain broadly stable over the projection period. Accordingly, these projections imply a cumulative loss of market share of 13.8 per cent over the period from 1985 to 1988, compared with a loss of 10.6 per cent for Germany, and a gain of 17.8 per cent for the United States.

Merchandise import volumes rose by 13.5 per cent in 1986. The dollar value of imports from Western Europe expanded by 57.3 per cent, whereas the value of imports from the United States rose by 12.6 per cent (volume data by area are not available). Imports of manufactured goods grew by 24 per cent in volume terms, mainly

Appropriation account for households

Percentage changes from previous year

	1982 trillion yen	1986	1987	1988
Compensation of employees	149.0	5.2	3½	3¾
Income from property and other	50.7	3.0	3	3
Current transfers received	46.1	5.8	4½	4¾
Total income	245.9	4.9	3½	3¾
Less: direct taxes	18.0	6.4	1¾	2¼
current transfers paid	39.0	7.5	4	5
Disposable income	188.8	4.2	3½	3¾
Consumers' expenditure	159.6	3.3	3	4½
Savings ratio (as a percentage of disposable income)	–	16.8	17¼	16¾

JAPAN

Balance of payments

Value, $ million

	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Seasonally adjusted									
Exports	174 016	205 558	228 250	234 500	106 077	111 750	116 500	115 500	119 000
Imports	118 029	112 899	123 000	133 750	54 236	59 250	63 750	65 750	68 000
Trade balance	55 987	92 659	105 500	100 500	51 841	52 500	52 750	49 750	51 000
Services and private transfers, net	–5 443	–5 254	–8 750	–12 000	–2 971	–4 250	–4 750	–6 000	–6 250
Official transfers, net	–1 375	–1 442	–1 500	–1 750	– 641	– 750	– 750	– 750	– 750
Current balance	49 169	85 963	95 000	87 000	48 229	47 500	47 500	43 000	44 000
Unadjusted									
Current balance	49 169	85 963			50 199				
Long-term capital	–64 542	–131 814			–83 942				
Short-term capital and unrecorded	3 055	1 083			– 700				
Balance on non-monetary transactions	–12 318	–44 767			–34 445				
Net transactions of monetary authorities[a]	–1 470	13 739			6 829				
Memorandum items (Seasonally adjusted)									
Per cent changes in volume[b]									
Exports	4.9	–1.4	–1	–1¾	–0.2	¼	–4½	–1½	¼
Imports	0.1	13.5	–1¾	4¼	12.2	–10¾	4¼	4½	4

Note: Detail may not add, due to rounding.
a) Previously *Balance on official settlements.*
b) Over previous period at annual rates, customs basis.

because of a substantial rise in gold imports. Excluding gold, the volume of imports of manufactures rose by 9.4 per cent. Food imports also rose strongly, while imports of oil and other raw materials were virtually flat. Both import and export prices fell: but the steeper drop of import prices implied a net real income gain due to improved terms of trade worth close to 2 per cent of GNP in 1986. This terms-of-trade gain outweighed the effect of lower net export volumes on the current balance. Indeed, the current external surplus has been running at an annual rate of around $100 billion in recent months, up from about $75 billion in the first half of 1986: this large current external surplus is likely to fall only slowly over the projection horizon. On these projections, Japan's net external assets may reach $400 billion (18 per cent of GNP) by the end of 1988.

Even on the technical assumption of higher oil prices, inflation is likely to remain very low, although the proposed introduction of wider indirect taxes would lead to one-time increase in the price level in early 1988. Labour market conditions seem likely to worsen appreciably, with overtime being curtailed, the number of regular workers declining and with unemployment rising to over 3 per cent.

NOTES

1. The official estimates of the revenue effects of proposed central government tax changes in FY 1987 [local taxes were also to change, but estimates of the revenue effects for FY 1987 were not published] are (in trillion yen):

	Decreases	Increases
Personal income tax	1.018	
Corporate tax	0.403	
Interest-income taxation		0.045
Indirect tax		0.714
Others		0.662

2. These projections do not include proceeds from the sale of shares in former public sector companies. For instance, the Government sold 1.95 million Nippon Telephone and Telegraph (NTT) shares in January 1987 yielding an estimated Y 2.3 trillion. Three further sales of similar size are planned for the next three years, so that 7.8 million shares will have been sold to the private sector, with 7.8 million shares remaining with the Government.

3. The final Report to the Government of the Economic Council's Committee on Economic Restructuring (chaired by Mr. Haruo Mayekawa) was published on 23rd April 1987.

GERMANY

Key features

Since the middle of 1986 the nearly four year old upswing of economic activity has progressively run out of steam. Production stagnated in the last quarter of 1986 and declined in the early months of 1987. The rapid deterioration of the business situation has taken most observers by surprise; sluggish export developments and sharply increased import penetration point to an unexpectedly quick response to exchange-rate-induced losses in competitiveness. Moreover, business confidence seems to have been adversely affected not only by the cumulative rise of the Deutschemark since early 1985 but also by fears of continuing unrest in foreign exchange markets.

Some recovery of business fixed investment is expected in the course of 1987 which, combined with a gradual reduction in the negative contribution from net exports, should prevent a cumulative downturn of economic activity. On these assumptions, real GDP in 1987 is projected to expand by 1½ per cent, despite negative growth in the first quarter. In 1988, total production may grow by a modest 2 per cent. Tax relief, boosted along the lines of the Louvre Agreement, should provide some support to demand. With little or no further decline in interest rates and continuing relatively subdued demand prospects, the rise in business fixed investment is likely to be moderate. The negative contribution from net exports may continue to decline despite a further increase in import penetration. All in all, growth is unlikely to be sufficient to prevent a renewed rise in unemployment. The outlook for inflation continues to be favourable. Consumer prices are likely to increase less than 1 per cent in 1987 and by no more than 1½ per cent in 1988. The process of external adjustment is foreseen to continue in volume terms throughout the projection period, though at a diminishing rate. However, terms-of-trade developments are likely to make for a further rise in the current external account surplus in dollar terms in 1987, followed by a moderate decline in 1988.

The outlook is surrounded by an unusually high degree of uncertainty. While forward-looking indicators for the next three to six months suggest further declines in exports and industrial production, underlying conditions for growth have remained favourable. Business

GERMANY

Demand, output and prices

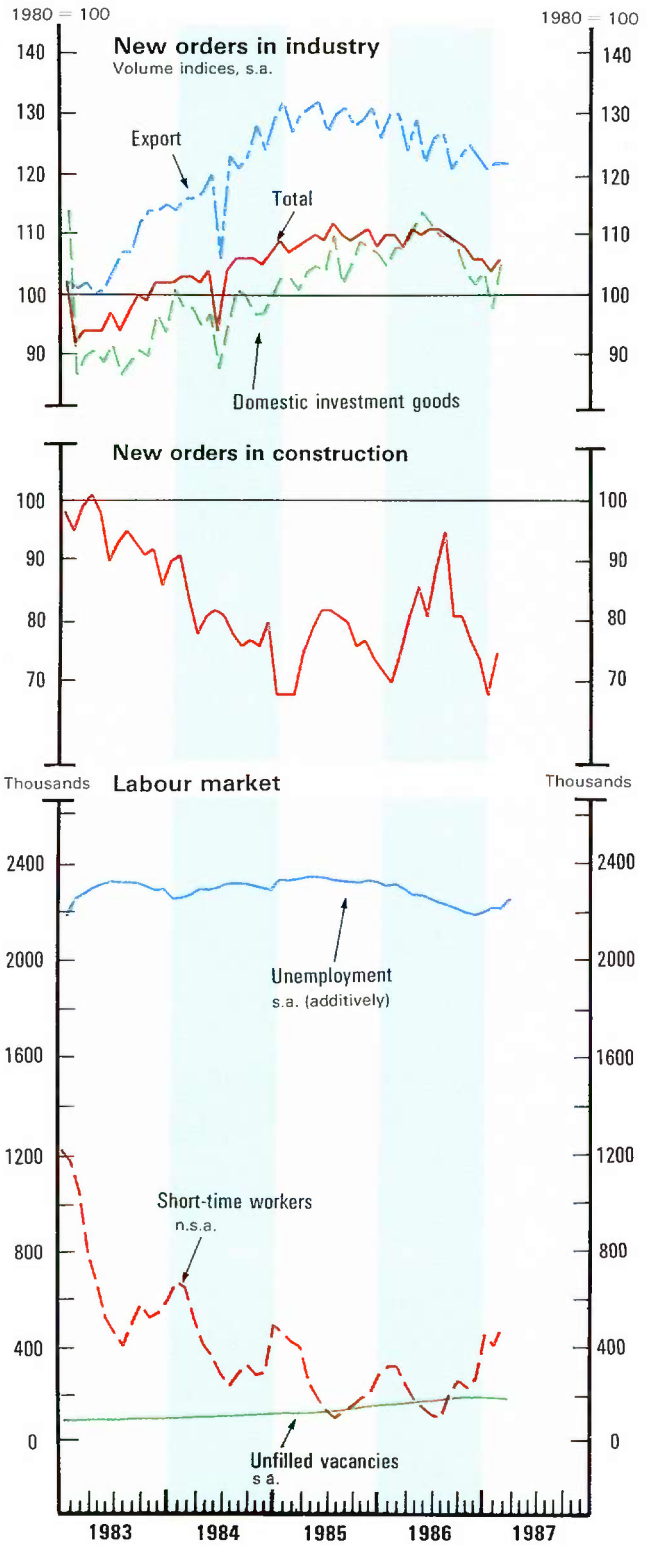
Percentage changes from previous period, seasonally adjusted at annual rates, volume (1980 prices)

	1982 current prices billion DM	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Private consumption	918.1	1.5	1.8	4.2	3¼	3¼	3.7	3¼	3	3½	3
Government consumption	326.2	2.5	2.2	2.5	2¼	2	4.9	1¼	1½	2	2
Gross fixed investment	326.9	0.8	–0.4	3.3	1¼	2¾	6.9	–2½	3¼	2¾	2½
Public	45.2	–2.1	–0.4	6.2	5	3	19.9	–¾	3	3	3
Private residential	99.2	2.1	–10.7	–1.2	–¾	1¼	8.3	–6	1¾	1¼	1
Private non-residential	182.5	0.8	5.3	4.8	1¼	3½	3.8	–1	4	3¼	3¼
Final domestic demand	1 571.2	1.5	1.4	3.7	2½	2¾	4.6	1½	2¾	3	2¾
* change in stockbuilding	–11.5[a]	0.4	0.1	0	¼	0	0.8	0	–¼	0	0
Total domestic demand	1 559.7	1.9	1.5	3.7	2¾	2¾	5.5	1¾	2½	3	2¾
Exports of goods and services	517.5	8.5	7.3	–0.5	–1	1	–1.1	–1½	0	¾	2½
Imports of goods and services	480.1	5.5	4.7	3.2	3	3¾	3.0	2¾	3¼	3¾	4
* change in foreign balance	37.4[a]	1.1	1.0	–1.1	–1¼	–¾	–1.3	–1¼	–1	–1	–½
GNP at market prices	1 597.1	3.0	2.5	2.4	1½	2	3.9	¼	1½	2	2¼
GNP implicit price deflator	–	1.9	2.2	3.1	1¾	1¾	2.7	1¼	1½	2	2
Memorandum items											
Consumer prices[b]	–	2.5	2.1	–0.4	¾	1½	0.1	¾	1½	1½	1½
Industrial production	–	3.4	5.3	2.0	¾	1¾	1.1	0	1½	1¾	2
Unemployment rate	–	8.2	8.3	8.0	8	8¼	7.8	8	8	8¼	8¼

* As a percentage of GNP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts private consumption deflator.

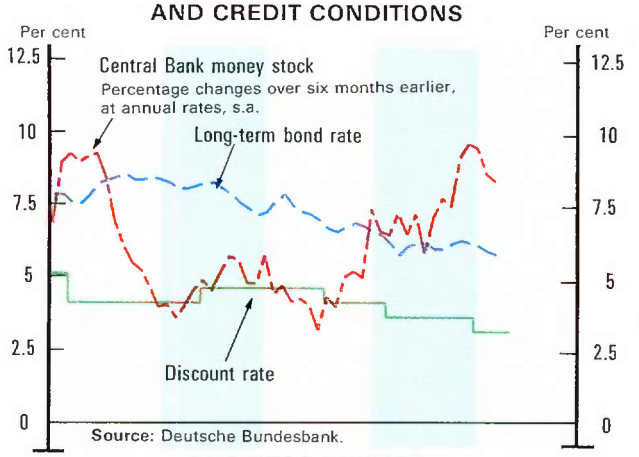
GERMANY

RECENT INDICATORS



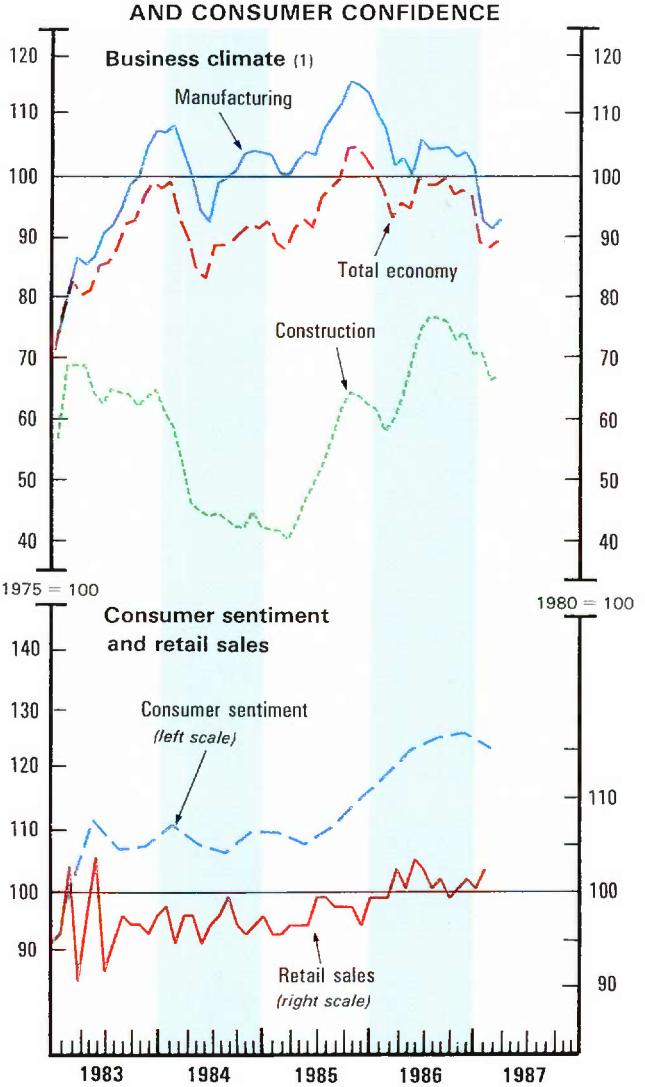
Source: Deutsche Bundesbank.

MONETARY POLICY AND CREDIT CONDITIONS



Source: Deutsche Bundesbank.

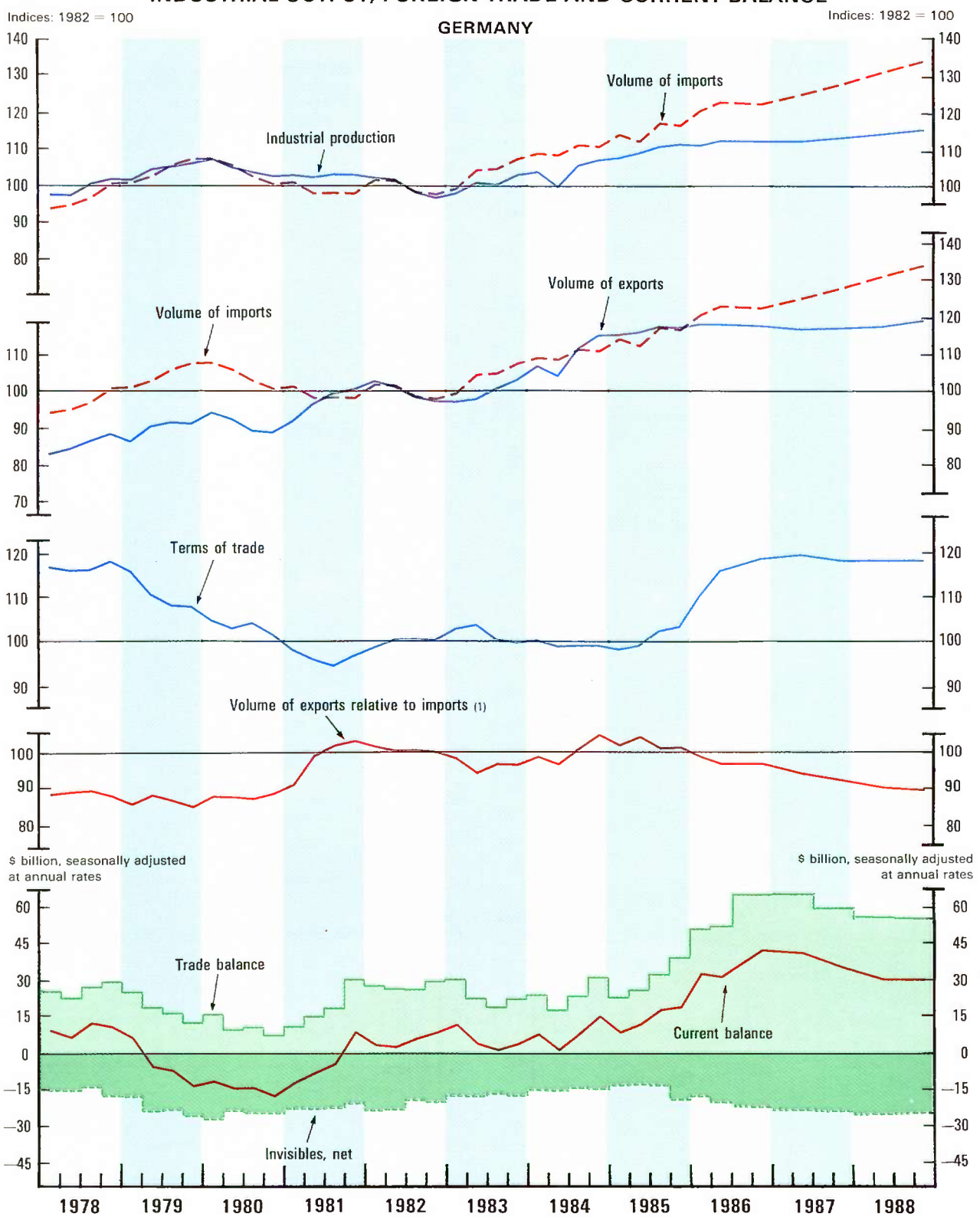
BUSINESS CLIMATE AND CONSUMER CONFIDENCE



Source: Deutsche Bundesbank, IFO.

1. Weighted average of present and future (6 months ahead) business situation. A level of 100 corresponds to "normality".

INDUSTRIAL OUTPUT, FOREIGN TRADE AND CURRENT BALANCE



1. Ratio of export and import volume index multiplied by 100.

Note: OECD forecasts from 1987 I onwards.

profits have increased markedly in recent years and a high degree of price stability is expected to persist. Nominal, if not real, interest rates are at historical lows and German markets abroad may expand somewhat faster than in 1986. An early improvement of the business climate seems to depend crucially on the future course of exchange rates and exchange rate expectations. Given the prospect of little decline in international payments imbalances, there is obviously a risk of renewed upward pressure on the Deutschemark. On the other hand, closer international co-operation as announced by the Louvre Agreement may help to restore more orderly conditions in foreign exchange markets.

Recent trends

Domestic demand growth in 1986, though attaining 3.7 per cent, fell short of estimates in *Economic Outlook 40*. Weaker-than-expected growth of private non-residential investment, reflecting a strong reaction to deteriorating order stock positions has mainly been responsible. Consumer demand rose broadly as expected. The depressive influence on production from falling real net exports was only marginally smaller than anticipated, as both total exports and imports grew less than projected. With continuing low productivity growth, employment rose by some 1 per cent, and for the first time in the post-1982 recovery, the rate of unemployment declined. Under the impact of sharply falling import prices, the private consumption deflator declined by almost ½ per cent. However, only a part of the "oil rent" was passed on to final users, the counterpart being a rise in profits. J-curve effects arising from the DM appreciation continued to mask the underlying real adjustment of the foreign balance and merchandise trade showed a huge surplus of $57¼ billion. Despite a continuing rise in the deficit on the service and transfer accounts, the current external surplus attained an all-time high in 1986 of $35¾ billion or 4 per cent of GNP, somewhat exceeding anticipations.

At the time of writing, virtually all short-term business cycle indicators point to a continuation of the present "growth pause", if not a further weakening. Foreign order inflows have declined steadily for more than two years, and domestic orders have been on a down-trend since last autumn. Total order stocks now correspond to less than three months of production. Firms have become increasingly pessimistic concerning prospects for capacity utilisation a year ahead. According to the Business Tendency Survey of March 1987, business confidence has stopped falling, though for the coming three to six months, expectations as regards export demand, production and employment have been revised down further. Activity in the construction sector has been depressed by particularly severe weather conditions in the first quarter of the year. Consumer confidence has started to deteriorate more recently. Retail sales have grown moderately relative to continuing large real household income gains. Measured on a year-to-year basis, consumer prices have stopped falling, and unemployment, which lags the business cycle, has shown a tendency to rise since the beginning of the year.

Policies

After four years of consolidation, the *general government deficit* amounted to 1¼ per cent of GNP in 1986. Led by relatively strong growth in investment expenditure by Länder and Communes, total outlays expanded by some 4 per cent. Current transfer expenditure grew more moderately, reflecting in part improved labour market trends. The ratio of total outlays to GNP dropped further, in line with the medium-term fiscal strategy. Tax cuts implemented at the start of 1986 held the rate of growth of income tax receipts below that of household incomes. On the other hand, government revenues were boosted by accelerating receipts from indirect taxes, strongly increasing social security contributions, and large profits transferred from the Bundesbank.

The general government's net borrowing requirements are projected to rise in both 1987 and 1988. The growth of Federal outlays in 1987 is planned to be restricted to 2 per cent, offsetting downward revision of expected revenue growth and reduced transfers from the Bundesbank. Cyclically adjusted, the general government balance may change little in 1987 after a small expansionary move of ¼ per cent of GNP in 1986. In 1988, growth of Federal outlays is assumed to expand at the 3 per cent growth ceiling imposed by the medium-term fiscal strategy. Even so, the general government deficit may widen to around 2 per cent of GNP and the cyclically-adjusted balance might move towards deficit, largely because of tax cuts: the second part of the 1986/88 Tax Cut, involving tax reliefs of DM 9 billion, will be implemented in 1988 and part of the 1990 Tax Reform – some DM 5 billion – will be brought forward to 1988 to fulfill international commitments to strengthen domestic demand.

Throughout most of 1986, internal and external constraints posed a dilemma for the implementation of *monetary policy*. On the one hand, the continued overshooting of the Central Bank Money stock target called for a tightening of policy. On the other, the sharp rise in the external value of the Deutschemark, associated with large inflows from abroad, suggested the need for lower interest rates. The realignment within the EMS in mid-January 1987 (involving a 2 per cent appreciation of the Deutschemark relative to the ECU) contributed – at least temporarily – to calming exchange markets and reducing persistently large capital inflows. As it became clearer also that economic activity was faltering, the discount and Lombard rates were lowered in late January 1987. This measure was combined with a

tightening of bank reserve requirements in order to offset the effects on bank liquidity of heavy exchange market intervention. In December 1986, the target ranges for Central Bank Money stock (CBM) had been fixed at 3 to 6 per cent (fourth quarter 1986 to fourth quarter 1987), thereby acquiescing to the base drift which had occurred during the preceeding twelve months. In the early part of 1986, the overshooting of the CBM target (3½ to 5½ per cent) was associated with moderate rates of expansion of the broadly defined money stock, as domestic investors preferred short-term deposits over financial assets with longer maturities. To some extent this reflected the perception, also promulgated by the Bundesbank, that interest rates had reached an historical low. Later in the year, despite weakening economic activity, a more rapid expansion of time deposits also resulted in an acceleration of the broad money supply.

Short-term money market rates responded to the reduction in policy-controlled interest rates in early 1987. But domestic investors remained reluctant to enter the bond market. Despite continued strong foreign demand for German securities, long-term interest rates have remained virtually unchanged resulting in a steepening of the yield curve. More recently, the entire interest rate structure has started to adjust to the new lower level of money market interest rates. For the projection period it is assumed that the Bundesbank will maintain a pragmatic approach to monetary policy. This may allow some further easing of money and capital market rates. At the same time, as the demand for money will adjust only with a lag to the lower levels of interest rates, the growth of the money stock in 1987 may well exceed the upper target rate of 6 per cent. However, it is to be expected that the rate of expansion will moderate in 1988 if nominal GNP growth remains as modest as projected.

Prospects

The projection here is crucially dependent on the assumption that the German economy is currently living through a period of *temporary* weakness and that there will be some recovery in the near future of business confidence. Hence, the current dip in business investment activity may be more short-lived than past cyclical experience would suggest. Lower interest rates, improved profitability and somewhat better export market prospects may support a pick-up in business gross fixed investment in the second half of 1987. Nonetheless, the main stimulus to growth should come from private consumption. Real incomes are expected to grow at a robust rate (though less fast than in 1986) and the household savings ratio may resume its downward trend after a temporary rise in 1986. The foreign balance may continue to damp output growth, as German exports only gradually recover from the exchange rate shock of late 1986 and early 1987. At the same time, import-competing industries may be meeting tougher foreign competition, and the recently observed surge in import substitution should proceed further. Given the

GERMANY

Balance of payments

Value, $ million

	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Seasonally adjusted									
Exports	173 395	232 587	267 000	274 500	122 142	132 750	134 250	135 750	138 500
Imports	144 533	175 256	205 750	219 750	90 126	100 750	105 000	108 250	111 500
Trade balance	28 861	57 331	61 500	54 750	32 016	32 000	29 250	27 500	27 250
Services and private transfers, net	–9 532	–13 983	–16 250	–17 000	–7 533	–8 000	–8 250	–8 750	–8 500
Official transfers, net	–6 128	–7 515	–8 250	–8 500	–3 965	–4 000	–4 250	–4 250	–4 250
Current balance	13 201	35 834	37 000	29 000	20 518	20 000	17 000	14 500	14 500
Unadjusted									
Current balance	13 201	35 834			20 937				
Long-term capital	–2 197	18 978			9 527				
Short-term capital and unrecorded	– 970	–24 844			–6 749				
Balance on non-monetary transactions	10 036	29 967			23 715				
Net transactions of monetary authorities[a]	627	2 747			5 579				
Memorandum items (Seasonally adjusted)									
Per cent changes in volume[b]									
Exports	6.4	1.3	–¾	1¼	–0.7	–1½	½	¾	2¾
Imports	4.6	6.1	3½	4¾	1.0	4¼	4½	5	4½

Note: Detail may not add, due to rounding.
a) Previously *Balance on official settlements.*
b) Over previous period at annual rates, customs basis.

weakness of demand and output growth projected for the first half of 1987, real GNP may grow by 1½ per cent in 1987 as a whole.

Boosted by tax cuts, the growth of real private consumption may accelerate in early 1988, moderating later in the year in line with real income developments. Business fixed investment is forecast to continue to grow through 1988, though at relatively subdued rates given the modest domestic and foreign demand prospects. Domestic demand may grow by less than 3 per cent. However, German exporters can be expected to incur further – though declining – market share losses in 1988. With import volumes continuing to grow strongly, the expansion of total output may barely reach 2 per cent. Against this background the observed improvement in the labour market in 1986 may be reversed. Unemployment may start rising again, despite moderate increases in the labour supply.

The inflation outlook remains favourable. In 1987 disinflationary pressures should be exerted by import prices and possibly a delayed passthrough of some of the 1986 oil price fall. In 1988, increases in unit labour costs should moderate. Labour productivity can be expected to resume faster growth and, given low labour market pressure, nominal wages are unlikely to accelerate along with consumer prices.

J-curve effects and terms-of-trade gains will continue to dominate the projected adjustment in the real foreign balance. Following a 2¼ per cent decline in 1987, export prices in local currency are assumed to increase by 1¼ per cent in 1988, while import prices after a 4½ per cent drop in 1987, are forecast to rise 1 per cent. As a result the current external surplus in dollar terms may remain unchanged in 1987 giving way to a decline to 2½ per cent of GNP in 1988.

Appropriation account for households

Percentage changes from previous year

	1982 billion DM	1986	1987	1988
Compensation of employees	902.5	5.0	4¼	3¾
Income from property and other[a]	350.9	5.7	5	4½
Current transfers received[b]	348.2	2.6	3	3
Less: interest on consumer debt	19.4	–1.0	¼	1
Total income	1 582.2	4.7	4¼	4
Less: direct taxes	166.1	4.0	5	1
current transfers paid	364.6	6.0	5	3¾
Disposable income	1 051.5	4.4	3¾	4½
Consumers' expenditure	918.2	3.8	4	4¾
Savings ratio (as a percentage of disposable income)	–	12.0	11¾	11½

a) Excluding retained earnings of unincorporated business.
b) Public and private.

FRANCE

Key features

The economic situation has deteriorated somewhat during the early months of 1987: activity has slowed, primarily reflecting an inventory adjustment, while unemployment has risen rapidly and inflation has reaccelerated. However, a number of underlying trends still point in the right direction. Wage growth is expected to remain moderate, and the rise in unit labour costs should be one of the lowest among the major OECD countries. Improving external competitiveness, at least in European markets, should allow losses of export market shares to be checked. Strong growth in profits in 1986 should prompt firms to step up their investment. After a poor first half of 1987, demand should pick up and inflation should slow, but the results on both counts are likely to be less good than those recorded in 1986. Given this slow growth, unemployment will probably continue to worsen; existing training programmes might stabilize the level of employment, but will not be able to absorb the continuing rapid growth in labour supply. On the external side, the improvement in competitiveness is likely to be offset by the deterioration in the terms of trade with, in particular, an increase in the oil bill, so that the current balance could move into a small deficit by the end of 1988.

While conditions seem propitious for continued restructuring of the French economy, major uncertainties remain, especially as regards corporate behaviour. In the light of recent developments, firms might continue to increase their profit margins, with the risk of a fresh round of wage claims: competitive pressures are still insufficient in many sectors. Continuing recovery requires more efficient production and sustained investment. But in an uncertain climate, nationally and internationally, firms may adopt a wait-and-see attitude towards fixed investment – all the more likely since returns on financial investments are likely to remain high. The decision to devote part of the proceeds of privatisation to equity funding for public enterprises should help the restructuring. However, the government's room for manœuvre remains limited by external

FRANCE

Demand, output and prices

Percentage changes from previous period, seasonally adjusted at annual rates, volume (1970 prices)

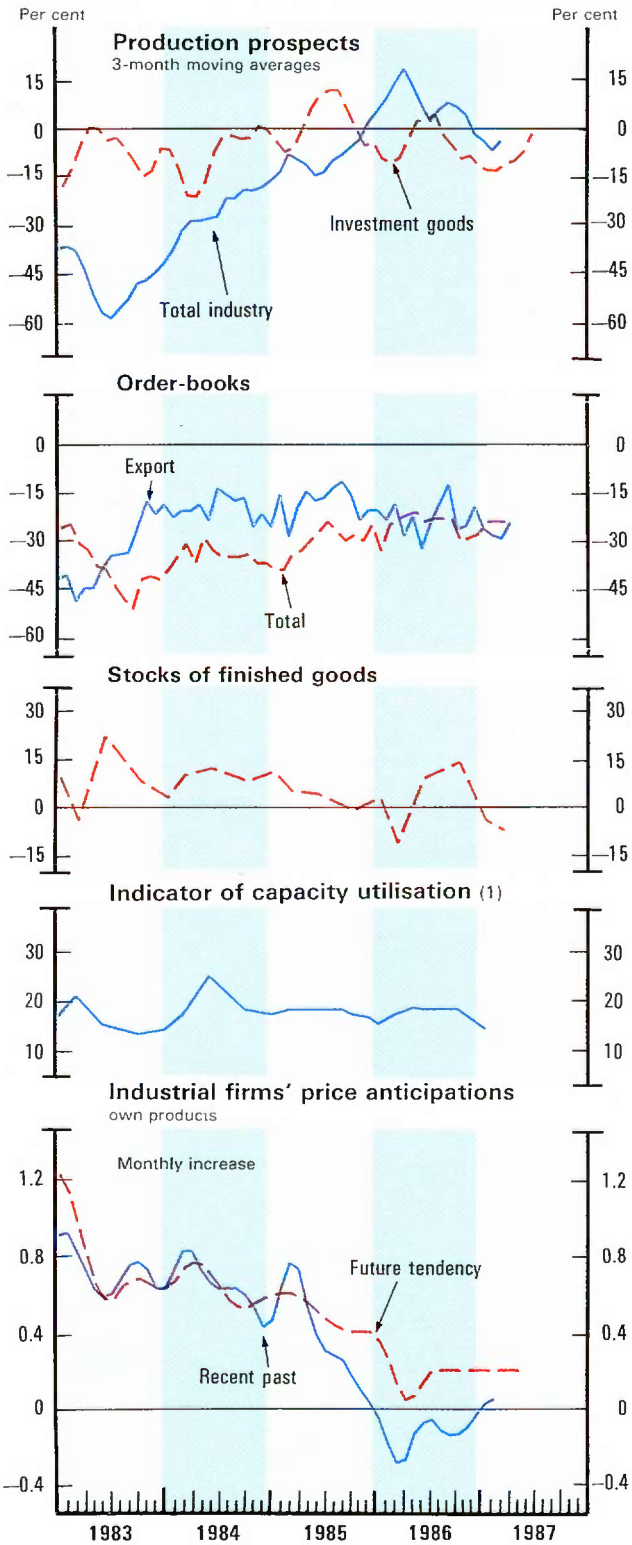
	1982 current prices billion FF	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Private consumption	2 306.2	1.1	2.4	3.1	1½	1¾	1.8	1½	1¾	1¾	1½
Government consumption	587.8	1.1	1.3	1.5	¾	½	1.0	½	1	½	½
Gross fixed investment	742.2	–1.3	3.2	4.2	3	3¾	2.6	3	3½	3¾	4
Public[a]	109.1	2.1	2.3	2.7	2	1¾	2.0	2¼	1½	2	2
Residential[b]	178.5	–4.6	–2.5	–2.2	½	1¼	–0.1	½	¾	1¼	1½
Non-residential	454.6	–1.0	5.2	6.4	4	4¾	3.5	4	4¾	4¾	5
Final domestic demand	3 636.2	0.6	2.4	3.1	1¾	2	1.9	1¾	2	2	2
* change in stockbuilding	31.2[c]	0.1	–0.3	0.7	0	¼	1.6	–1	½	¼	0
Total domestic demand	3 667.4	0.7	2.1	3.8	1¾	2¼	3.5	¾	2½	2¼	1¾
Exports of goods and services	772.1	7.2	2.4	0.1	2½	3¾	3.5	1½	3½	3¾	4
Imports of goods and services	872.6	3.6	5.2	7.1	4	4	9.0	1¾	4	4	3¾
* change in foreign balance	– 100.5[c]	0.9	–0.7	–1.8	–½	–¼	–1.5	0	–¼	–¼	0
GDP at market prices	3 566.9	1.5	1.4	2.0	1¼	2	2.0	½	2¼	2	1¾
GDP implicit price deflator	–	7.2	5.8	5.3	3	2½	4.5	2¾	2½	2¼	2½
Memorandum items											
Consumer prices[d]	–	7.2	5.5	2.2	3¼	2½	2.6	3¾	2¾	2¼	2¾
Industrial production[e]	–	1.7	0.9	1.0	2	3	4.0	1	2¾	3	2¾
Unemployment rate	–	10.0	10.2	10.5	11¼	12	10.6	11	11½	11¾	12

* As a percentage of GDP in the previous period.
a) Excluding public enterprises.
b) Including public housing.
c) Actual amount of stockbuilding and foreign balance.
d) National accounts private consumption deflator.
e) Quarterly index.

FRANCE

BUSINESS SURVEYS IN INDUSTRY

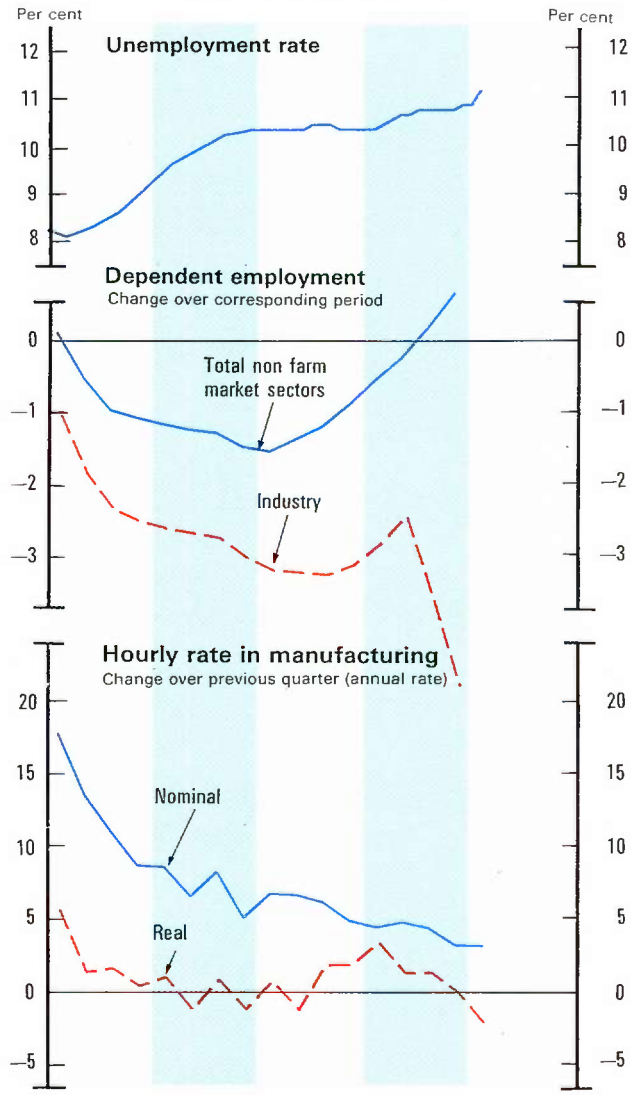
Balance between businessmen's optimistic (+) and pessimistic (—) answers



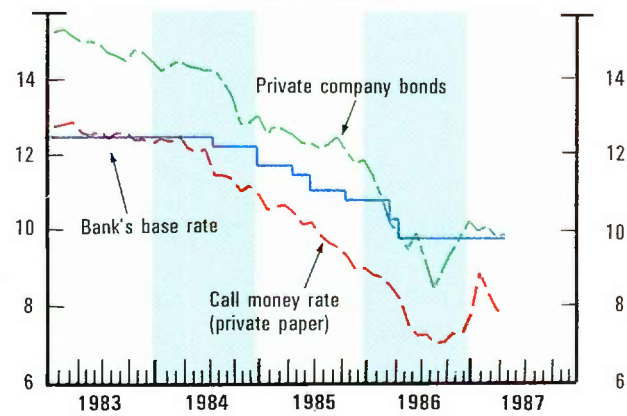
1. This series gives the percentage of firms currently unable to increase production for various reasons (shortage of materials, insufficient equipment or shortage of labour).

THE LABOUR MARKET

Adjusted for seasonal variations

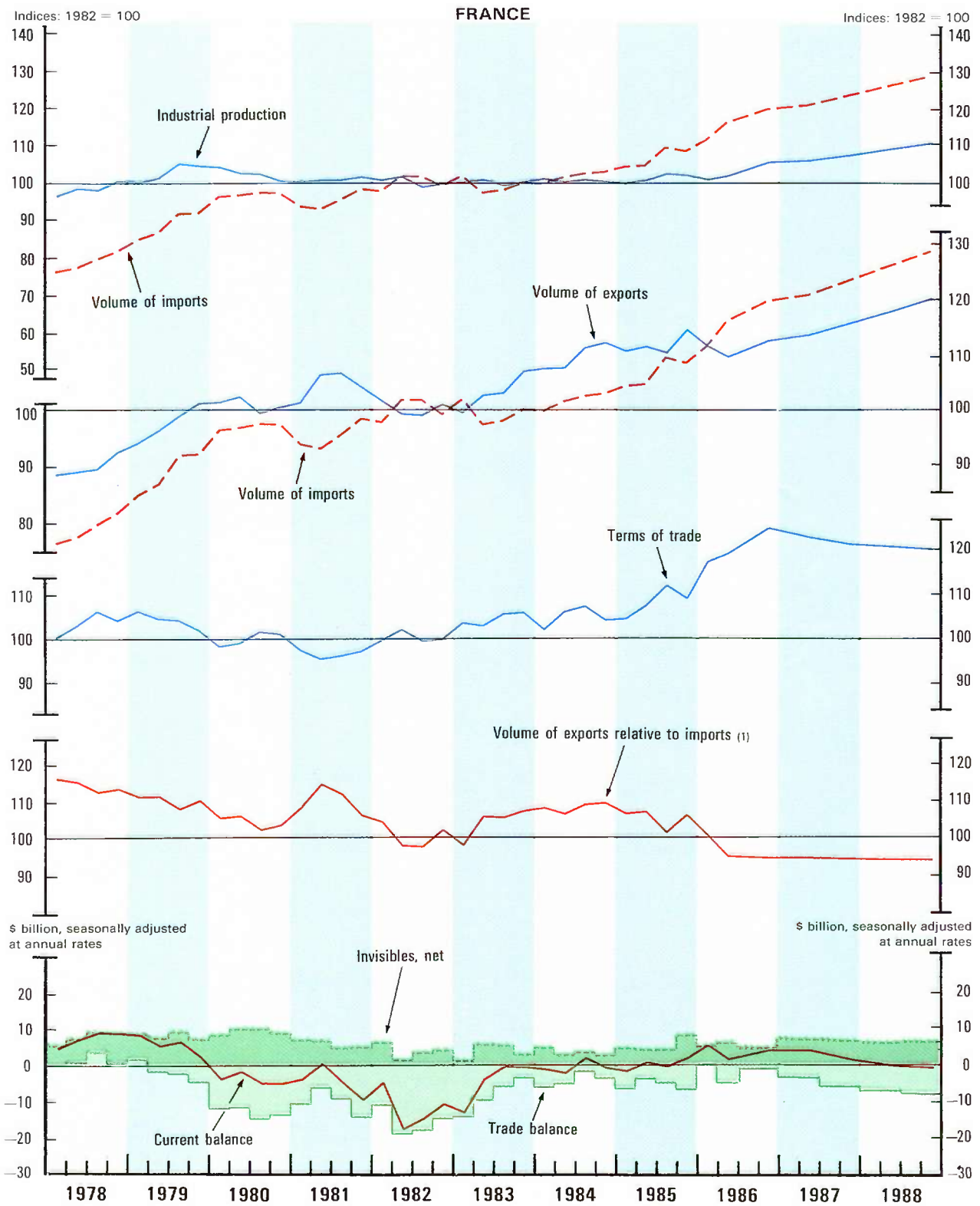


INTEREST RATES



Source: INSEE, tendances de la conjoncture; OECD, Financial statistics.

INDUSTRIAL OUTPUT, FOREIGN TRADE AND CURRENT BALANCE



1. Ratio of export and import volume index multiplied by 100.

Note: OECD forecasts from 1987 I onwards.

and public finance constraints. While the 1987 budget will benefit from the exceptional growth in taxable income in 1986, it will be more difficult to reconcile the twin objectives of reducing the deficit and lowering taxes thereafter. On the other hand, the expected gradual fall in interest rates should favourably affect fixed investment and public finances.

Recent trends[1]

After eighteen months of brisk expansion (at an annual rate of 3¼ per cent), final domestic demand weakened in the second half of 1986. Given a slowdown in wage increases and higher social insurance contributions, households' purchasing power barely rose, while growth in non-residential private investment decelerated. A moderate pickup in exports was more than offset by a strong acceleration in imports and the contribution of foreign trade to growth remained markedly negative. However, firms did not fully anticipate the slowdown in final demand and continued to expand their output. As a result, there was a heavy build-up of stocks in the second half of 1986, much of it probably unintended. This development now seems to be reversing itself, given weaker prospects for demand and output reported by business surveys. Youth employment measures have helped to stabilize the level of employment, but continuing rapid growth in labour supply has pushed up unemployment which stood at over 11 per cent of the labour force in March, compared with 10.3 per cent a year earlier.

High unemployment has continued to damp wage claims: hourly wage rate increases were brought down to a quarterly rate of 0.6 per cent at end-1986, the lowest for thirty years, and the first private sector agreements signed in 1987 generally provided for wage increases of less than 2½ per cent. In contrast, consumer-price inflation, which had stabilised at a quarterly rate of 0.7 per cent since the second quarter of 1986, accelerated markedly at the beginning of 1987 (1.2 per cent for the first three months of the year), pushing up the year-on-year rate of increase to 3.3 per cent. This surge was largely accounted for by higher oil prices and, especially, by a steep rise in the price of private services. In fact, profit margins in the service sector had started to widen even before price controls were entirely lifted at the turn of 1986: on INSEE calculations, the rise in producer prices of services between the first half of 1985 and the second half of 1986 was twice the increase implied by the trend of costs (5.6 per cent and 2.7 per cent respectively); at the retail stage, the prices of private services have been rising at an annual rate of 10 per cent for the past six months.

Although market share losses remained substantial, the improvement in foreign demand induced a rise in manufacturing exports in the second half of 1986, after eighteen months of decline. Imports responded to the deterioration in relative prices by accelerating markedly. Trade in manufactures (excluding military equipment) was in slight deficit (cif/fob), compared with a surplus of FF 70 billion two years earlier, but the lower energy bill allowed for a marginal surplus on overall trade (on a customs basis). By the first quarter of 1987 the trade balance was again in deficit, primarily as a result of increases in both the volume and price of oil imports, but also because of a further deterioration in the balance on trade in manufactured goods. However services continued to record a large surplus. The current account was in surplus in 1986 (FF 26 billion, or ½ per cent of GDP) for the first time since 1979. This allowed for a reduction in the government external debt, which was brought down to FF 7 billion at end-1986. The franc continued to rise against the dollar (up by 16 per cent between April 1986 and April 1987), but changed little in effective terms, largely because of parity changes within the EMS.

The new national accounts are relatively unchanged as far as their general structure is concerned, though there have been some major reclassifications of transactions and agents, especially as regards the treatment of hospitals (previously included under "enterprises" and now classified under "general government") and financial institutions. The underground economy is explicitly taken into account but, at the same time, estimates of tax avoidance and evasion have been revised downwards.

With regard to outturns, GDP has been slightly revised upwards (by 2 percentage points in 1984) with a slightly more favourable price/volume split than on the previous base. By major demand categories, the main changes have been a downward revision of investment in machinery, offset by an upward adjustment of construction expenditure and a significant improvement in the balance on trade in goods and services (which is now more in line with balance-of-payments data). The corporate profit ratio has also been raised by 2 percentage points (though the trend has remained unchanged) while the decline in the household savings ratio since the 1978 peak is much more marked in the new accounts.

Looking at the shorter term, the quarterly accounts at 1980 prices reveal rather different intra-year movements from those given by earlier estimates, with growth of final domestic demand remaining buoyant in the second half of 1986.

Percentage change, volume (1980 prices)	1985	1986	1985	1986	
			II	I	II
Private consumption	2.4	3.4	3.4	3.8	2.8
Government consumption	3.2	2.7	3.0	2.2	3.6
Gross fixed investment	1.1	3.0	6.3	0.9	3.9
Final domestic demand	2.3	3.2	3.8	2.9	3.2
Change in stockbuilding	0.0	0.7	1.1	0.1	1.3
Change in foreign balance	–0.5	–1.7	–1.8	–1.6	–1.7
GDP at market prices	1.7	2.2	3.1	1.4	2.8

Policies

Efforts to bring government expenditure under control were successful in 1986. The budget deficit was stabilized, for the first time since the early 1980s, and was within the target of 3 per cent of GDP set by the Finance Act. In contrast, the social security account worsened, primarily as a result of a surge in health expenditure. Overall, the general government borrowing requirement increased, on official estimates, from 2.6 per cent of GDP in 1985 to 2.9 per cent in 1986. Fiscal policy should be less expansionary in 1987 and 1988. The 1987 Finance Act aims to cut the budget deficit to 2½ per cent of GDP, while at the same time lowering taxes on households and firms. However, since employees' social insurance contributions are also being raised, only firms will actually benefit from a major reduction in taxes and quasi-taxes (estimated at FF 23 billion, or ½ per cent of GDP, including reductions in employers' contributions to stimulate youth employment). The large increase in taxable incomes in 1986 (particularly corporate income), the vigorous effort to curb personnel expenditure (by shedding jobs and limiting wage increases to 1.8 per cent) and pruning of health spending could reduce the borrowing requirement. OECD projections, based on unchanged policies, suggest borrowing requirements of 2.7 per cent of GDP (1987) and 2.5 per cent of GDP (1988). However, the government has announced its intention to lower taxes even further and to get the budget deficit down to 2.2 per cent of GDP in 1988[2]. Achieving both objectives will require difficult decisions in respect of limiting spending. A special levy of 1 per cent on all incomes, which would be used to finance social security, is also planned. Overall, the stance of fiscal policy could become considerably more restrictive than that assumed in the projections.

The privatisation programme eases the budget constraint only indirectly, since the proceeds are allocated to a special off-budget fund. Although the fund will be used primarily to reduce central government debt, a third will be used to finance equity investment in public enterprises (notably public transport). Given the success of the first flotations, the Government has raised its forecast of privatisation proceeds in 1987 from FF 30 billion to FF 40 billion.

In line with the targets sets by the monetary authorities, the growth of M3 continued to slow throughout 1986, falling to 4½ per cent at the end of the year, and stabilizing at that figure during the first quarter of 1987. Financial innovation and an increase in traditional contractual saving contributed to a more rapid expansion of the broad aggregate L (by 7 per cent). The slower growth in M3 was induced by a reduction in monetary financing of the Treasury deficit (FF 20 billion for the whole of 1986, compared with FF 65 billion in 1985); it also reflected a slowdown in corporate demand for credit, stemming both from reduced financing requirements[3] and from greater recourse to new means of financing offered by the money market. Pressure in the foreign exchange markets led to a tighter interest rate policy in the latter months of 1986, and the Central Bank's intervention rate was increased to 8½ per cent (for 7-day repurchase agreements) in January 1987. This ended a trend of easing rates which began in the first half of 1986; rates in March 1987 were at practically the same level as a year earlier. With regulation of domestic lending now abolished, interest rates should play a more central role in the control of monetary aggregates. The monetary targets for 1987 (4 to 6 per cent growth of M2, and 3 to 5 per cent growth of M3) should be compatible with a gradual reduction in nominal interest rates, leading to narrower differentials with German rates. However, given the gradual opening-up of financial markets, the general level of interest rates may be more influenced by international rates than in the past and by tensions on foreign exchange markets.

Prospects

With the improvement in the terms of trade coming to a halt, and a tighter fiscal stance, exogenous factors are likely to have a less favourable influence on demand in 1987. The improvement in corporate profitability and competitiveness should allow the pickup in investment to continue and a gradual improvement in the foreign balance. Thus, after a poor start to the year, characterised primarily by a run-down of excess stocks, GDP growth is expected to strengthen, running at about 2 per cent from the second half of the year in line with 1986 trends, but with a better balance between domestic and foreign demand.

The improvement in demand and output would not be sufficient to check the rise in unemployment, which should continue to exert downward pressure on wage claims. Moreover, the marked acceleration in consumer prices in early 1987, which was not taken into account in most wage negotiations at the beginning of the year, will cause a fall in real wages, which may be only partly made up in the second half of the year. Wage restraint will also be accentuated by the slower growth of civil service pay, while the measures to put the social security accounts back into order are also expected to reduce transfers. Thus, notwithstanding a sharp increase in property income, households' real disposable income is likely to slow down significantly in 1987, improving only marginally in 1988 in the wake of a further deceleration of inflation. As a result, real private consumption will probably be restrained markedly, especially as the pronounced downward trend of the savings ratio since 1981 could ease, given the attractive returns on financial investments and a gradual pickup in housing demand following the measures taken in 1986.

While, overall, the growth of household demand is expected to weaken, the upturn in corporate investment that began two years ago should continue. Business

FRANCE

Balance of payments

Value, $ million

	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Seasonally adjusted									
Exports	95 226	118 809	137 250	145 000	61 576	67 500	69 750	71 500	73 500
Imports	100 590	120 459	141 750	152 250	62 048	69 250	72 500	75 000	77 250
Trade balance	–5 364	–1 649	–4 500	–7 250	– 472	–1 750	–2 750	–3 250	–3 750
Services and private transfers, net	6 530	7 636	9 750	9 250	3 366	5 000	4 750	4 500	4 750
Official transfers, net	–1 336	–2 515	–2 750	–3 000	–1 021	–1 500	–1 500	–1 500	–1 500
Current balance	– 170	3 471	2 500	– 750	1 872	1 750	500	– 250	– 500
Unadjusted									
Current balance	– 170	3 471			2 731				
Long-term capital	3 267	–6 809			–4 784				
Short-term capital and unrecorded	2 000	2 097			2 317				
Balance on non-monetary transactions	5 103	–1 241			264				
Net transactions of monetary authorities[a]	2 277	1 689			–4 983				
Memorandum items (Seasonally adjusted)									
Per cent changes in volume[b]									
Exports	1.9	–0.2	2¾	3¾	3.7	1¾	3¾	3¾	4
Imports	4.9	9.3	4½	4¼	10.7	1¾	4¼	4¼	4

Note: Detail may not add, due to rounding.
a) Previously *Balance on official settlements.*
b) Over previous period at annual rates, customs basis.

surveys indicate an acceleration of capital spending in industry in 1987; after some hesitation early in the year, spending may therefore pick up in the second half of 1987 essentially reflecting the continuing improvement in firms' balance sheets. Profits should continue to grow in 1987 and 1988, albeit more slowly than in 1984-86, with firms taking advantage of the slow growth in wage costs to build up profit margins and returns on capital to a degree compatible with the continuing high level of real interest rates. In these circumstances and given that demand prospects remain uncertain, capital spending is likely to focus essentially on replacement and modernisation investment to improve productivity. Although the differential between the increase in the cost of labour and that of the user cost of capital may disappear and could even be reversed during the projection period, this is not be expected to start slowing the substitution of capital for labour before 1988. The major national enterprises are still cutting back their investment plans, but increased equity funding from privatisation should modify this trend, especially in transport infrastructure.

After a strong surge in the second half of 1986, import growth is expected to slow markedly during the projection period, on account of the more moderate trend of domestic demand. However, as the competitive position of the manufacturing sector on the domestic market is still unfavourable, import penetration will probably continue to increase. On the other hand, exporters have made a major effort to trim their margins since the end of 1985. The impact of relative prices on exports should become positive again from the second half of 1987, at least in European markets, allowing market share to stabilize by the end of the projection period. Overall, the performance of trade volumes should improve gradually; however, the trade deficit could widen as a result of the deterioration in the terms of trade (due essentially to the rise in energy prices). Nevertheless, the surplus on invisibles should allow the current account to remain close to equilibrium.

Notwithstanding new measures to help the long-term jobless to find re-employment, the employment situation

Appropriation account for households

Percentage changes from previous year

	1982 billion francs	1986	1987	1988
Compensation of employees	1 983.1	4.2	3½	3½
Income from property and other	818.3	6.1	6½	5¼
Current transfers received	934.3	5.8	5½	4½
Total income	3 735.7	5.0	4¾	4¼
Less: direct taxes	231.5	4.5	3¾	4¾
current transfers paid	785.2	4.8	5½	4½
Disposable income	2 719.0	5.1	4½	4
Consumers' expenditure	2 293.1	5.3	4¾	4¼
Savings ratio (as a percentage of disposable income)	–	12.2	12	11¾

will probably continue to worsen in 1987. With stronger growth and a trend of relative costs more favourable to labour than to capital, employment in the private sector could increase slightly in 1988. But the rise is likely to fall well short of the growth in the labour supply: the unemployment rate is likely to reach 12 per cent by the end of 1988. Against this background of high unemployment, the decline in unit labour costs should continue. If, after a period of adjustment to the lifting of price controls, firms moderate the increases in their profit margins, the rise in consumer prices could stabilize at around 2½ per cent, notwithstanding continuing upward pressures in some items, such as rents.

NOTES

1. The estimates and forecasts given in this note were compiled from the national accounts data available on the base 1970 = 100. Because of methodological changes, it was not possible to incoporate the data available on the new base 1980 = 100. These are described briefly in the inset on page 85.
2. In the absence of information on the measures that might permit these objectives to be achieved, the latter have not been built into the forecasts.
3. On INSEE estimates, it was cut from 2¼ per cent in 1984 to 1¾ per cent in 1985 and 1½ per cent in 1986.

UNITED KINGDOM

Key features

The United Kingdom is enjoying continued expansion, with output growth in 1987 projected to exceed that for most other Member countries. Oil production, representing about 6 per cent of total output, levelled off in 1986, but the fall in oil prices has resulted in a switch in profitability towards energy-using companies and a substantial real income gain for consumers. In addition, consumers reduced their saving rate despite the windfall gains from lower energy prices. In view of the damping effect of oil prices on inflation and the need for some real exchange rate adjustment, the exchange rate was allowed to fall further. In the second half of 1986, export growth accelerated sharply, assisted by the depreciation of sterling since mid-1985. At the same time, domestic demand was supported by higher public expenditure on goods and services, reversing the decline in real terms in 1985.

Despite some overshooting of public spending targets and sharp falls in oil revenues, the rise in the general government deficit (on a national accounts definition), to about 3 per cent of GDP in 1986, was relatively modest thanks to buoyant non-oil tax receipts. The FY 1986/87 Public Sector Borrowing Requirement (PSBR) dropped to about 1 per cent of GDP, partly because of an increase in public asset sales corresponding to ½ per cent of GDP. The Medium Term Financial Strategy (MTFS), as set out in the March 1987 Budget, aims at maintaining the PSBR stable in relation to GDP. Public expenditure is planned to decline as a proportion of GDP, leaving room for further reductions in taxation. Taking account of privatisation proceeds and the economic cycle, this points to a declining fiscal boost to the economy. Economic policy continues to be set in a nominal income framework with the intention of bringing down inflation by a gradual reduction in the growth of nominal GDP. The target

UNITED KINGDOM

Demand, output and prices

Percentage changes from previous period, seasonally adjusted at annual rates, volume (1980 prices)

	1982 current prices billion £	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Private consumption	167.4	2.1	3.6	4.7	3¾	3½	5.1	3¼	4	3½	3
Government consumption	60.5	0.7	0.2	1.2	1½	1	3.9	¾	1	1	1¼
Gross fixed investment	44.7	9.1	1.8	0.6	2¾	3½	0.2	3	5¼	3½	1½
Public[a]	11.3	0.3	–14.3	1.9	–1¾	–¾	–9.5	1¾	–¾	–¾	–¾
Private residential	6.4	8.9	–3.0	13.2	8½	2	27.7	3	2¾	1¾	1½
Private non-residential	27.0	13.4	10.1	–2.6	3	5¼	–2.2	3¼	8	5¼	2½
Final domestic demand	272.5	3.1	2.6	3.2	3¼	3	4.0	2½	3¾	3	2¼
* change in stockbuilding	–1.3[b]	–0.3	0.3	0	0	0	–0.3	¼	¼	0	0
Total domestic demand	271.2	2.7	2.8	3.2	3¼	3	3.6	3	3¾	3	2½
Exports of goods and services	73.1	6.9	5.8	3.0	4½	1½	11.2	2¾	1¾	1½	1½
Imports of goods and services	68.1	9.2	3.1	5.8	4½	4¼	18.1	–2	5¼	4¼	3½
* change in foreign balance	4.9[b]	–0.6	0.8	–0.8	0	–¾	–1.7	1½	–1	–¾	–½
* compromise adjustment	0.8[b]	0.8	–0.1	0.3	0	0	1.7	–¾	0	0	0
GDP at market prices[c]	277.0	3.0	3.5	2.7	3¼	2¼	3.5	3½	2¾	2¼	1¾
GDP implicit price deflator	–	4.1	6.1	3.7	4½	5¼	3.7	4¾	5¼	5½	5¼
Memorandum items											
Consumer prices[d]	–	4.7	5.4	3.7	4	4¼	2.9	4¼	4¼	4½	4½
Industrial production	–	3.9	3.0	0.8	4¼	3¼	6.0	3½	4	3	2½
Unemployment rate	–	11.5	11.7	11.8	11¼	10¾	11.7	11½	11	11	10¾

* As a percentage of GDP in the previous period.
a) Including nationalized industries and public corporations.
b) Actual amount of stockbuilding, foreign balance and compromise adjustment.
c) Data for GDP in the past are based on a compromise estimate which is the average of the expenditure, output and income estimates of GDP.The compromise adjustment is the difference between compromise GDP and the expenditure estimate of GDP.
d) National accounts implicit private consumption deflator.

projections for the latter are now a little higher than those shown in last year's MTFS. While recognising that a declining path for nominal GDP growth requires firm monetary policies, the authorities have dropped the formal target for broad money, due to increasing difficulties in interpreting its development. The narrow money target range for 1987 has been maintained; target ranges for the later years are intended to be gradually lowered in line with the projected path for nominal GDP growth. The exchange rate continues to be taken into account in assessing monetary conditions. The 1987 MTFS refers to the G6 agreement of last February, and the authorities have indicated that they aim at a stabilization of exchange rates at current levels which they consider satisfactory.

On the basis of these policies and the technical assumptions of unchanged oil prices and exchange rates, the growth of activity is projected to decelerate in the period ahead. In 1987, however, real GDP growth should exceed 3 per cent, with the revival of business investment following upon that of private consumption and exports. Unemployment is likely to fall somewhat, continuing the downward trend since mid-1986. The fall in the unemployment rate, stemming in part from special employment measures so far, may increasingly reflect the sustained strength of the upturn. Inflation is projected to accelerate a little. The external balance is likely to turn into deficit again, following the improvement in recent months.

The balance between real growth and inflation has tended to deteriorate with inflation likely to exceed slightly the OECD average over the next eighteen months. So far, the pick-up in inflation has mainly reflected the rise in import prices, which should slow down under the technical assumption of constant exchange rates. Substantially more rapid wage increases than in other countries, however, are likely to remain a fundamental problem. The rise in unit labour costs, which has decelerated markedly in recent months, is likely to pick up again, in particular if the cyclical acceleration of productivity growth is reversed. Any resulting deterioration in competitiveness is bound to affect export performance over the medium run.

Recent trends

Growth in the average measure of real GDP, which had dropped to an annual rate of 1 per cent in the final quarter of 1985, accelerated sharply in 1986, to reach an annual rate of 3½ per cent by the end of the year, when the level of activity was about 17 per cent higher than at its cyclical trough in 1981. Taking 1986 as a whole, real GDP growth may have been a little more than 2½ per cent (or 2 per cent if allowance is made for the direct effects of the 1984-85 coal dispute). Output of service industries increased by nearly 4 per cent, about the same as energy output, while output in manufacturing rose little in 1986 on average but showed a marked revival through the year. Subsequent to a weather-induced setback in early 1987, manufacturing production has again picked up markedly.

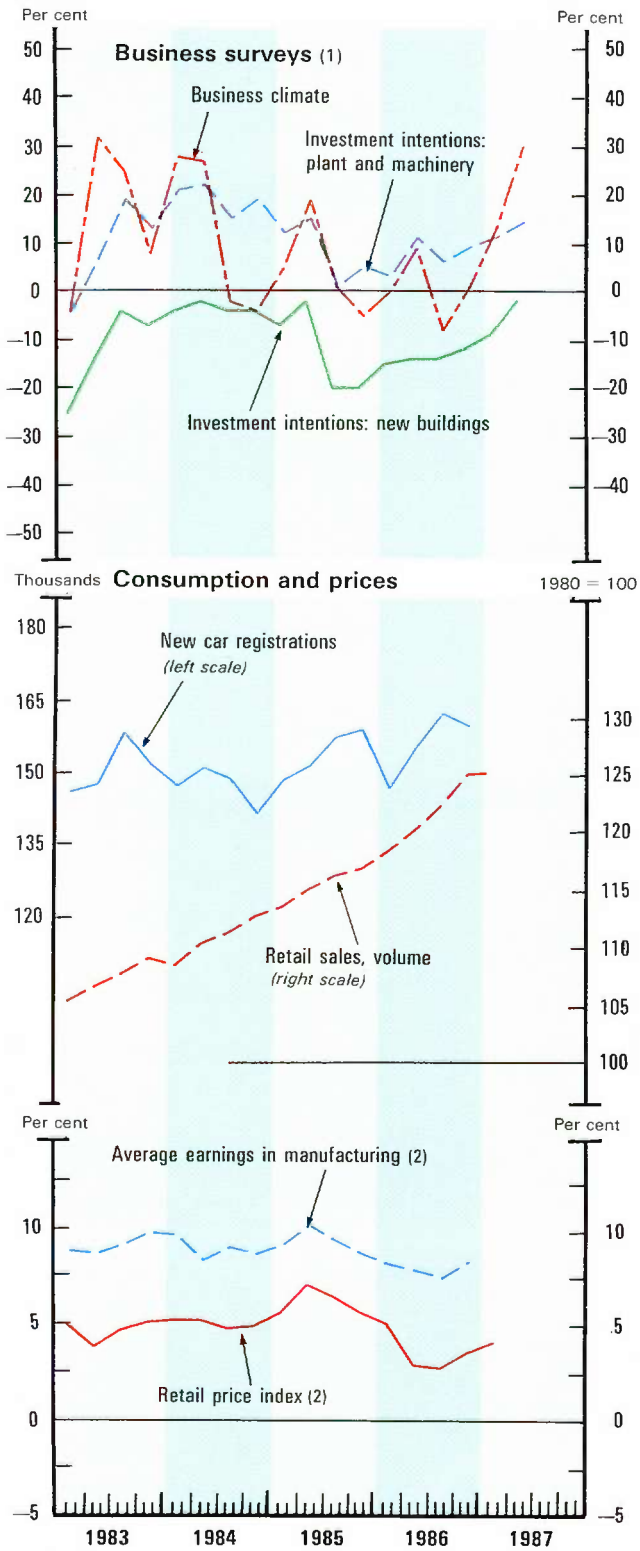
Consumer spending was the main source of expenditure growth in 1986, supported by a strong rise in real incomes and a further fall in the savings ratio. Expenditure on durable goods grew by 9 per cent, twice as fast as total private consumption. In the latter part of 1986 and into 1987, growth of real consumer demand appears to have paused. Public consumption, which had declined in real terms during 1985, picked up through 1986. Despite higher public investment and rapid growth in private residential investment, fixed capital formation showed little change in 1986, the poorest performance since 1981. This unexpected weakness reflected only in part the reduction of North Sea oil investment. Non-oil business investment, too, failed to recover, despite a further improvement in company profits (while total profits fell by 7½ per cent, those of non-oil companies rose by 14 per cent). To some extent, weak investment performance can be explained by changes in taxation. The 1984 corporate tax reform provided a strong inducement to accelerate investment programmes, and the recent weakness of manufacturing investment included a sharp fall in the contribution of leasing, following the abolition of first year allowances from April 1986. Stockbuilding fell in 1986; this was partly a consequence of the strength of consumer demand, but also in line with the falling trend of the stock/output ratio in recent years.

Export growth accelerated sharply in the latter half of 1986 with export performance helped by exchange-rate-induced improvements in competitiveness. Exports of manufactures grew by 6 percentage points more than markets, largely recuperating the losses in market shares over the preceding year. Import growth accelerated earlier and considerably more than export growth (due possibly to a less marked improvement in price competitiveness on internal markets) so that the real foreign balance acted as a drag on production. Negative net exports coupled with deteriorating terms of trade, due mainly to the oil price fall but partly also to the depreciation of sterling, led to a large swing in the current account into deficit. However, the non-oil external deficit changed little in 1986, since the deterioration in the non-oil trade balance was largely offset by a higher invisibles surplus, notably in net investment income. In the first quarter of 1987, merchandise imports dropped markedly while exports remained almost at previous high levels; together with a reversal in terms-of-trade trends, this is estimated to have resulted in a swing of the current balance back into surplus.

Inflation has picked up again in recent months, reflecting the rise in import prices. Between mid-1986 and March 1987 industry's material and fuel costs rose by 4½ per cent and the year-on-year increase in the retail price index accelerated from 2.4 per cent to 4 per cent (excluding mortgage interest rates and seasonal food prices from 3 to 3¾ per cent). Despite indications

UNITED KINGDOM

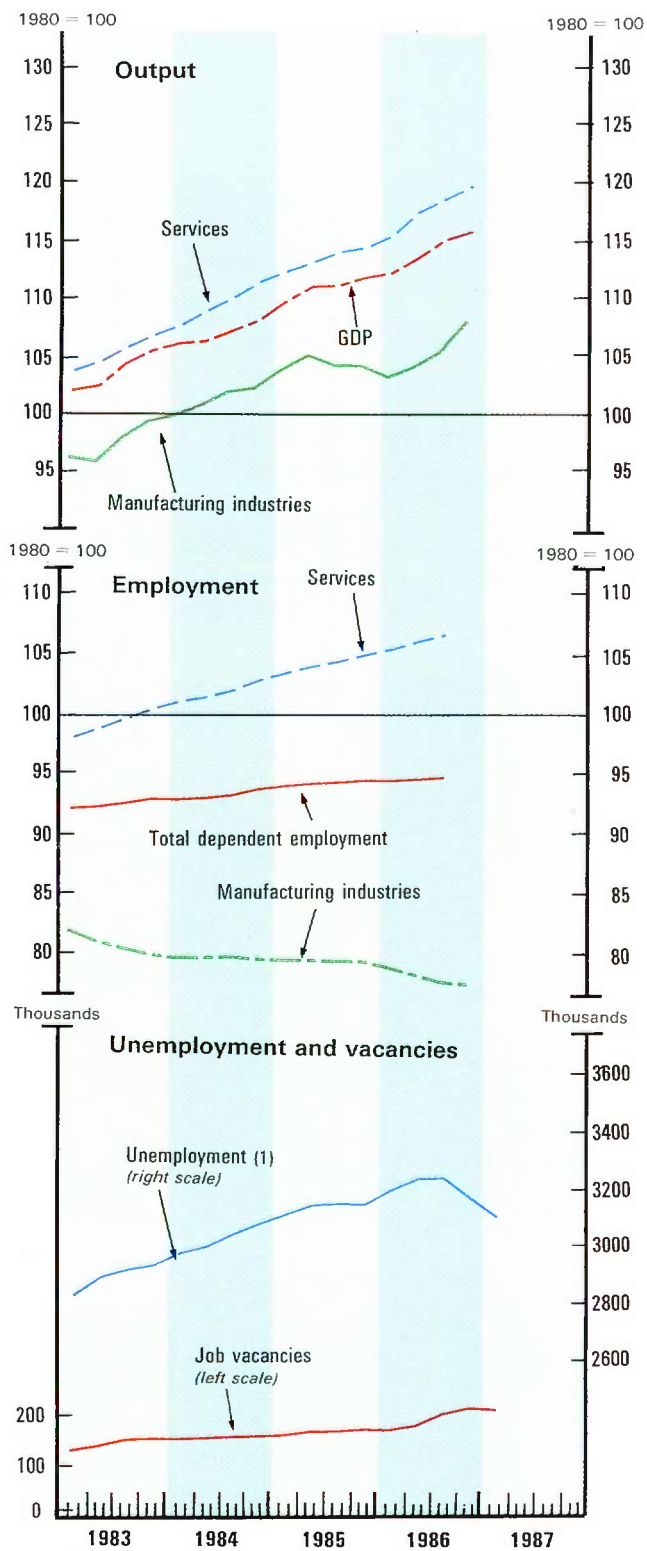
RECENT INDICATORS



1. Balance between *positive* and *negative* answers.
2. Change over 4 quarters.

Sources: CBI, Economic Trends and Employment Gazette.

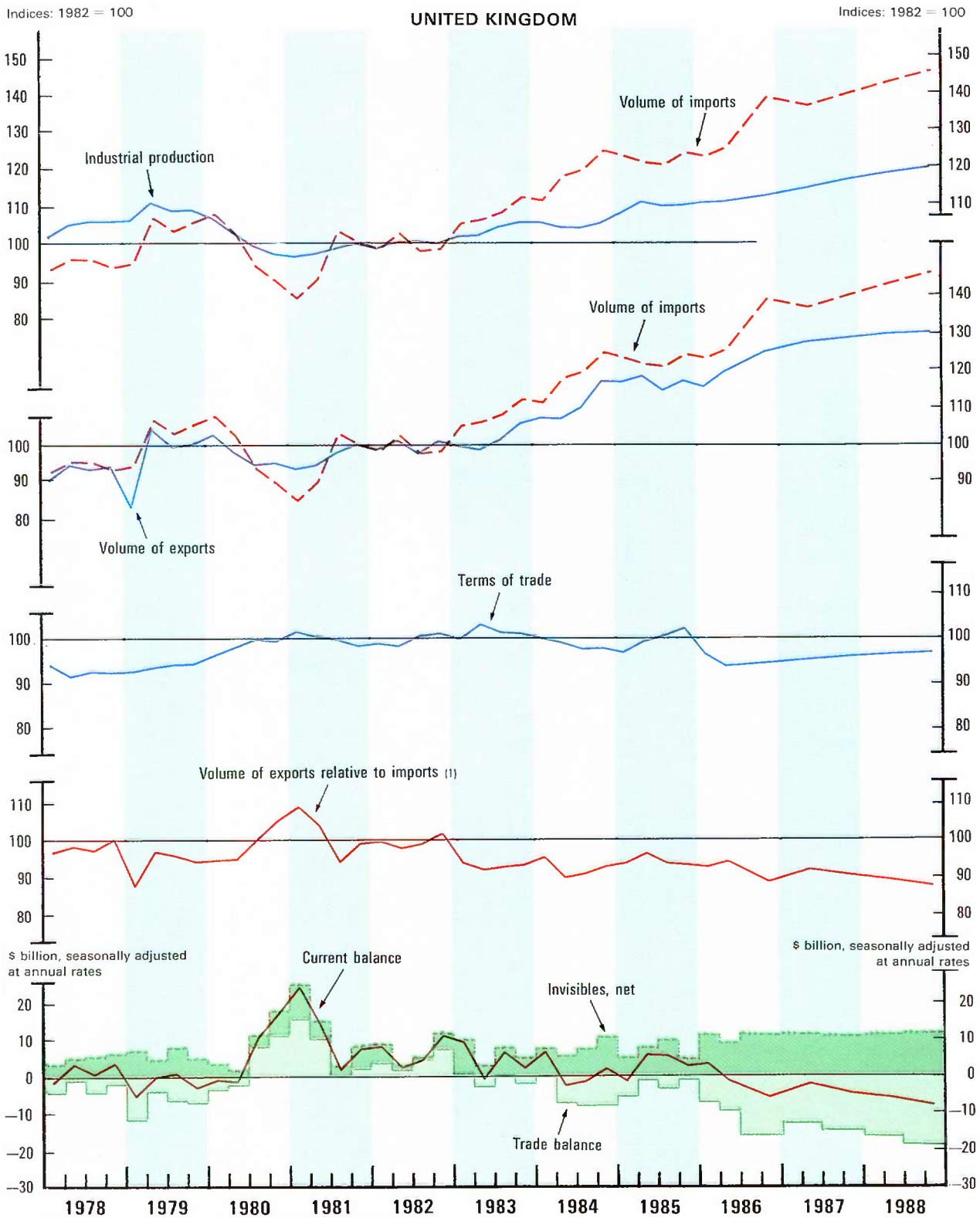
OUTPUT AND LABOUR MARKET



1. United Kingdom, excluding school leavers.
Break in series in April 1983; recorded unemployment reduced by 160,000.

Sources: Economic Trends and Employment Gazette.

INDUSTRIAL OUTPUT, FOREIGN TRADE AND CURRENT BALANCE



1. Ratio of export and import volume index multiplied by 100.

Note: OECD forecasts from 1987 I onwards.

that wage settlements have come down somewhat, earnings have hardly reacted to the fall in inflation in 1986. The underlying annual rate of growth of average earnings is estimated to have remained virtually unchanged at around 7½ per cent since mid-1984, resulting in an increase in real wages of 4 per cent in 1986. In response to stronger activity growth, the rise in the employed labour force reaccelerated in the second half of 1986, reflecting a further increase in service industries' employment and a slower decline in manufacturing employment. With the growth in the total labour force apparently decelerating, the upward trend in unemployment since 1980 seems to have been reversed. From mid-1986 to March 1987, the unemployment rate (seasonally adjusted, excluding school leavers) fell by ¾ percentage points to about 11 per cent of the working population. Part of the drop in unemployment reflected additional special employment measures.

Policies

The outturn for the PSBR for 1986/87 is estimated to have been £3.3 billion (less than 1 per cent of GDP), some £3½ billion less than predicted in the March 1986 Budget. This compares with an outturn of £5.8 billion or 1.6 per cent of GDP in 1985/86. The favourable outturn for 1986/87 was achieved in spite of a sharper-than-expected fall in oil revenues (by about £7 billion). Other tax revenues ran much higher than the 1986 Budget forecast, with non-North Sea corporation tax accounting for the bulk of the additional receipts. The reasons for this surge in corporate taxes are not clear, as the recorded rise in profits would seem to be insufficient to explain the outcome. One possibility is that the effect of the change in investment allowances resulting from the 1984 corporate tax reform has been significantly underestimated. On the expenditure side there was considerable overspending in the areas of social security and local authority current spending. Public asset sales, which are counted as negative expenditure, appear to have almost met the projections, which were for a doubling of privatisation proceeds (to more than 1 per cent of GDP). After allowing for drawings from the reserve, the public expenditure planning total seems to have been overshot by less than 1 per cent. An improvement in the financial position of public corporations also reduced the PSBR in 1986/87.

The March 1987 Budget projections are for a PSBR of £4 billion, significantly below the previous target. The decision to set public borrowing at about the level expected for 1986/87 at Budget time meant tax adjustments limited to about the amount foreshadowed in the 1986 MTFS; higher-than-expected revenues are balanced by extra expenditure. The Budget provides for tax reductions (beyond indexation) of £2½ billion, mainly in the area of income tax. The basic rate of personal income tax is cut by 2 points to 27 per cent. Small companies' rate of corporation tax is reduced accordingly but the main corporate rate remains unchanged at 35 per cent. Spending plans are unchanged from those in the Autumn Statement and the Public Expenditure White Paper, which raised the previous planning total by 3 per cent. While the oil price assumption of $15 per barrel underlying the revenue estimates is very cautious, expenditure targets may be put under pressure again, given past experience, although falling unemployment may lessen pressure on social security spending. In particular, public sector pay could grow more than implied by the Budget projections. Hence, the contingency reserve, which is lower than in 1986/87, is expected to be fully spent, and some overshoot of the planning total may occur again but probably not such as to reverse the downward trend in public spending as a proportion of GDP. Public spending plans for 1988/89 are for a sharp deceleration in volume growth. The authorities have made it clear that further tax cuts are dependent on the success in controlling public expenditure. The PSBR is intended to be kept stable as a proportion of GDP for the rest of the decade.

Within the framework of the MTFS, there have been further shifts of emphasis. As noted, the broad money target has been suspended. The target range for narrow money (M0) growth in 1987 has been kept unchanged at 2 to 6 per cent, and a gradual reduction to a range of 0 to 4 per cent by 1990 is envisaged. Underlying growth of M0 significantly outside its target range would lead the authorities to change short-term interest rates, unless other indicators, including broad money and the exchange rate, suggest that monetary conditions remain satisfactory. The authorities have indicated that the current level of the exchange rate is satisfactory in present circumstances and that they would aim at broad exchange rate stability, co-operating closely with the other countries represented at the Louvre meeting of last February.

M0 growth edged up at the turn of the year but has fallen back towards the middle of its target range more recently. £M3 has displayed an opposite pattern, moderating somewhat and picking up again thereafter; expanding by about 19 per cent in the twelve months to March, it overshot the target range for the financial year 1986/87 by a wide margin. Bank lending, in particular for consumption, has remained high. After the disturbances which led to higher interest rates in October, financial sentiment has gradually improved, reflecting developments in the oil market and the more favourable short-term outlook for the domestic economy. As a result, sterling was hardly affected by the turbulence in the foreign exchange markets early this year and has tended to appreciate recently. Given the rapid growth in bank lending and the initially muted reaction of the exchange rate to the rising oil price, the authorities adopted a cautious approach to cuts in interest rates but finally allowed them to fall. From March to May, banks' base rates were reduced in four steps to 9 per cent and are now below the pre-October level.

UNITED KINGDOM

Balance of payments

Value, $ million

	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Seasonally adjusted									
Exports	100 238	106 783	127 000	135 500	53 792	61 750	65 250	67 000	68 500
Imports	103 033	118 883	140 500	152 750	61 788	68 250	72 500	75 000	77 750
Trade balance	–2 795	–12 100	–13 500	–17 500	–7 996	–6 250	–7 250	–8 000	–9 250
Services and private transfers, net	10 918	13 865	15 750	15 750	7 955	8 000	7 750	8 000	8 000
Official transfers, net	–4 343	–3 378	–4 750	–4 500	–2 419	–2 500	–2 500	–2 250	–2 000
Current balance	3 781	–1 613	–2 500	–6 000	–2 461	– 750	–2 000	–2 500	–3 500
Unadjusted									
Current balance	3 781	–1 613			–1 133				
Long-term capital	–19 257	–20 337			–9 215				
Short-term capital and unrecorded	6 702	12 214			5 140				
Balance on non-monetary transactions	–8 775	–9 735			–5 208				
Net transactions of monetary authorities[a]	162	4 301			2 810				
Memorandum items (Seasonally adjusted)									
Per cent changes in volume[b]									
Exports	5.8	3.8	5½	1½	12.9	4	1¾	1¾	¾
Imports	3.4	7.4	5	4½	24.9	–3¼	5	4½	4

Note: Detail may not add, due to rounding.

a) Previously *Balance on official settlements*. Foreign borrowing by the public sector is included in the capital account while changes in official sterling balances are included below the line as a financing item.

b) Over previous period at annual rates, customs basis.

Prospects

The present forecast is based on the assumption of unchanged oil prices and effective exchange rates as from April. Compared with *Economic Outlook 40*, both are now considerably higher. Some tightening of policies is assumed, with public expenditure growth decelerating and interest rates edging up somewhat in line with international developments. This would seem to be consistent with both a constant exchange rate and a gradual deceleration in monetary growth. After a marked improvement in the course of 1986, the competitive position is likely to deteriorate a little, as unit labour costs in the United Kingdom are projected to increase faster than abroad. Hence, export market gains are likely to decrease and possibly be reversed. Export growth is projected to slow down progressively, although the growth of markets for manufactures is expected to accelerate – from an annual rate of 3 per cent in the first half of 1987 to 4½ per cent by the end of the projection period.

Growth in domestic demand is likely to remain strong this year but to slow somewhat in 1988 when the projected revival of business investment and restocking may no longer compensate for the expected deceleration in the expansion of private and public consumption. As noted above, private non-residential investment remained weak until the end of 1986. But intention surveys point to a marked pick-up early this year and into 1988. The capital/output ratio may now be relatively low, following a period of weak investment, and profitability and output expectations have further improved. However, the growth in business capital spending may decelerate towards the end of the projection period influenced by less buoyant export expectations and lower profitability. Growth in residential investment is projected to slow down in the period ahead, given the levelling-off in housing starts. Public investment should decline, according to Budget plans. Stockbuilding is expected to accelerate temporarily after the marked drop in the stock/output ratio last year. Budget plans point to slower growth in public consumption, following the rapid expansion in the recent period.

Appropriation account for households

Percentage changes from previous year

	1982 billion £	1986	1987	1988
Compensation of employees	158.4	7.8	8½	8
Income from property and other	48.3	8.9	6½	6¼
Current transfers received	36.5	7.7	5	5¼
Total income	243.2	8.0	7½	7¼
Less: direct taxes	31.5	8.4	5¾	4¾
current transfers paid	19.6	6.6	6¾	6¾
Disposable income	192.1	8.1	7¾	7¾
Consumers' expenditure	167.4	8.6	8	8
Savings ratio (as a percentage of disposable income)	–	11.0	11	10¾

Private consumption is also likely to grow at a slower pace as higher inflation erodes personal income gains, although the weakening in consumer spending may be damped by some further decline in the savings ratio. Real GDP growth is projected to fall short of that of domestic demand, decelerating gradually in the period ahead.

Unemployment is expected to continue to decline, with its fall, however, likely to decelerate in the course of 1988. Inflation is projected to remain above the OECD average. The inflationary effect of recent increases in import prices should diminish, while the increase in unit labour costs is projected to reaccelerate from recent low levels as productivity growth slows down. Given the forecast decline in real net exports, the current account deficit is expected to show a rising trend, somewhat mitigated by a positive evolution of the terms of trade.

ITALY

Key features[1]

In 1986 Italian GDP growth was among the most rapid of OECD countries. This growth was accompanied by a marked slowdown in inflation, and a current account surplus amounting to nearly 1 per cent of GDP. The general government borrowing requirement fell from 14 per cent of GDP in 1985 to 12.5 per cent in 1986, while profits grew substantially. This outcome was partly due to the effects of the fall in oil and raw materials prices (terms-of-trade gains amounted to about 3 per cent of GDP in 1986, of which 2 percentage points were accounted for by the reduction in the oil bill). Economic developments in Italy were thus broadly favourable in 1986, though some disquieting aspects still remain: despite the reduction in the general government borrowing requirement, public debt has continued to grow, reaching 100 per cent of GDP. The inflation differential with the other European countries remains wide, and substantial wage increases have occurred alongside steadily mounting unemployment, reflecting persisting imbalances in the labour market.

The outlook for 1987 and 1988 is likely to be less favourable than developments last year. One of the most important differences relate to wage and price behaviour. Following the tri-annual wage negotiations, there will be a steep increase in private and public sector pay in 1987, which could result in a 9 per cent increase in the total wage bill. This rise in wage costs, coupled with an upward swing in import prices, should bring about a pause in the disinflation process from the first half of 1987. Both the terms of trade and the real trade balance are likely to worsen – the latter on account of both the loss of competitiveness and differential domestic demand pressure. Hence, the current account balance could swing from a surplus of $5 billion in 1986 to a deficit, of perhaps $1 billion, in 1988. The general government borrowing requirement as a percentage of GDP is unlikely to decline further in 1987, primarily on account of the sharp increase in wages and salaries.

Faced with an acceleration of domestic credit and the expansion of households' liquid assets, the monetary authorities are maintaining a prudent stance, and real interest rates are still high. Interest rates are unlikely to

ITALY

Demand, output and prices

Percentage changes from previous period, seasonally adjusted at annual rates, volume (1970 prices)

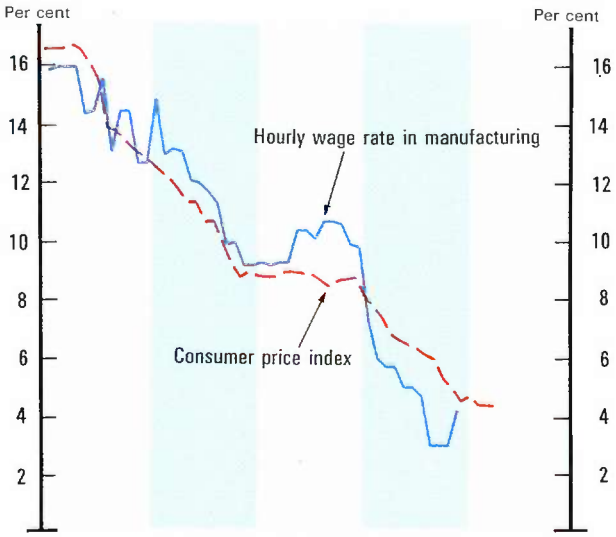
	1982 current prices trillion L	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Private consumption[a]	299.5	1.9	1.9	3.2	4¼	3¼	4.0	4½	3½	3¼	3
Government consumption	87.3	2.4	2.5	2.9	3	2	3.1	3¼	2½	2	2
Gross fixed investment	89.6	6.2	4.1	1.2	4½	3¼	3.0	5¼	4½	3	2¾
Investment in machinery and equipment	36.4	14.1	10.0	3.0	6¼	4¼	4.9	7	6	4	3½
Construction	53.2	–0.5	–1.7	–0.8	2¾	2¼	0.8	3½	3	2	1¾
Residential	24.8	–0.7	–0.8	–1.9	0	1	–1.5	½	1	1	1¼
Non-residential	28.4	–0.3	–2.4	0.2	4¾	3	2.7	6	4½	2¾	2¼
Final domestic demand	476.4	2.7	2.4	2.8	4	3	3.7	4½	3½	3	2¾
* change in stockbuilding	4.9[b]	0.6	0	0.5	¼	¼	0.8	¼	0	¼	¼
Total domestic demand	481.3	3.3	2.4	3.2	4½	3¼	4.5	4¾	3¾	3¼	3
Exports of goods and services	113.8	6.5	8.2	3.0	1¼	3¾	–4.7	3¼	3½	4	3½
Imports of goods and services	127.0	9.2	9.4	5.2	7	7	1.4	9	8¼	6¾	6¾
* change in foreign balance	–13.2[b]	–0.3	0.1	–0.4	–1¼	–¾	–1.7	–1¼	–1	–¾	–¾
GDP at market prices	468.1	2.8	2.3	2.7	3	2½	2.7	3¼	2½	2½	2¼
GDP implicit price deflator	–	10.8	8.8	8.3	5½	4¼	7.0	5¼	5	4¼	3½
Memorandum items											
Consumer prices[c]	–	11.1	9.4	6.1	4¾	5	4.6	5	4¾	5¼	4½
Industrial production	–	3.3	1.2	2.7	1½	2½	–3.6	3½	3	2½	2¼
Unemployment rate	–	9.8	10.1	10.9	11½	11¾	11.0	11¼	11½	11¾	11¾

* As a percentage of GDP in the previous period.
a) Private national consumption as defined in the standardized system of national accounts.
b) Actual amount of stockbuilding and foreign balance.
c) National accounts implicit private consumption deflator.

ITALY

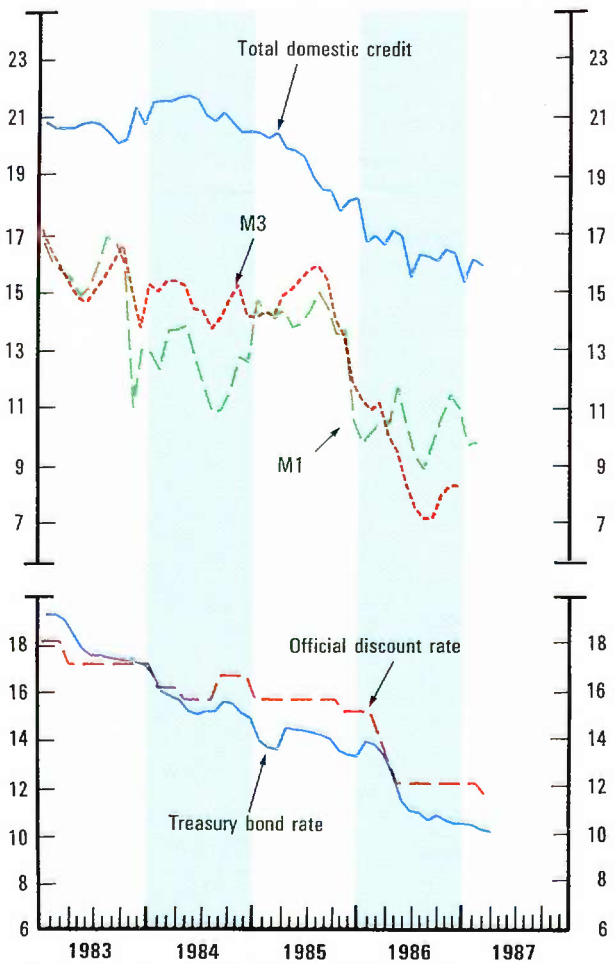
PRICES AND WAGES

Percentage change over corresponding month of previous year



MONETARY INDICATORS

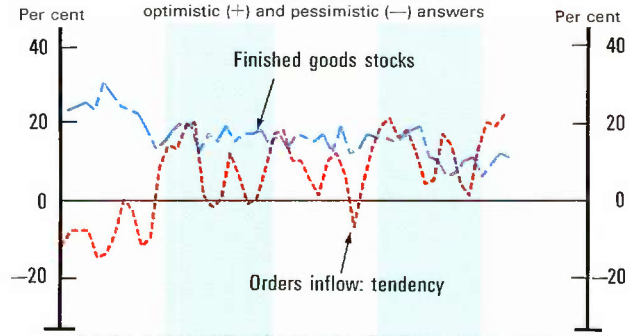
Percentage change over corresponding month of previous year



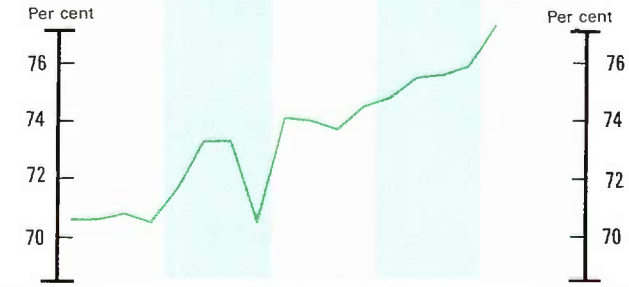
Sources: Bank of Italy; OECD, *Main Economic Indicators.*

BUSINESS SURVEYS

Balance between businessmen's optimistic (+) and pessimistic (—) answers

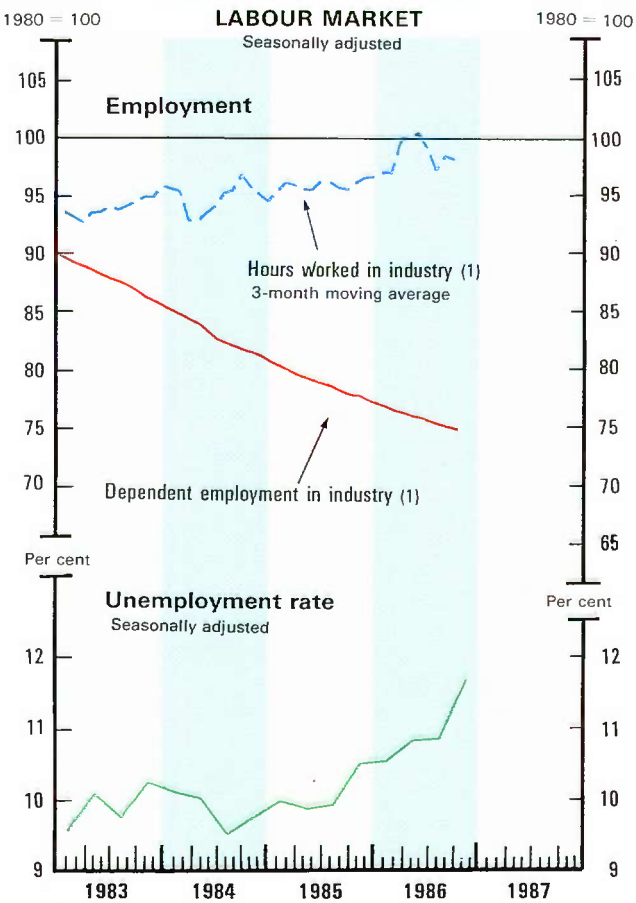


CAPACITY UTILISATION, TOTAL INDUSTRY



LABOUR MARKET

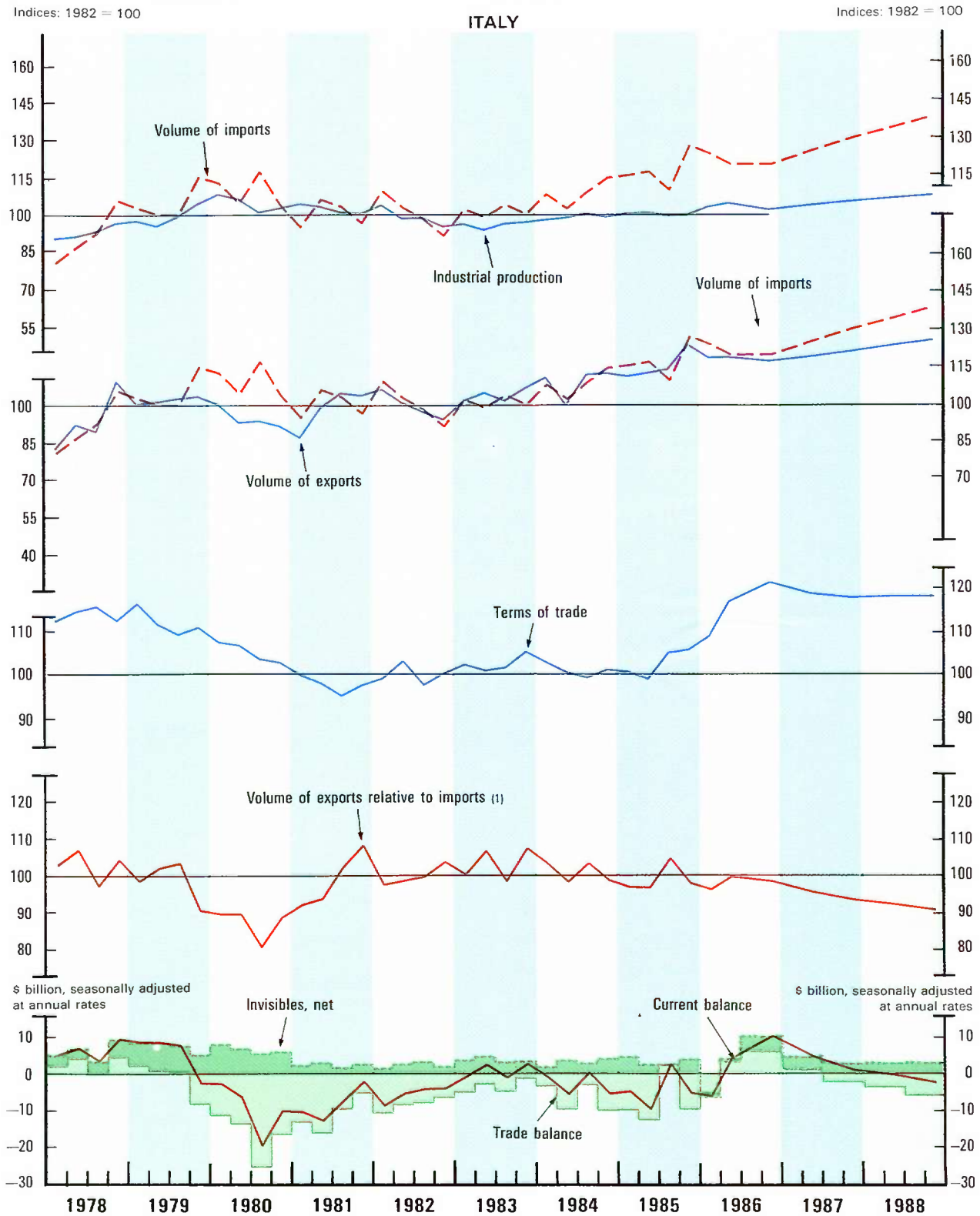
Seasonally adjusted



1. In large enterprises.

Sources: Bank of Italy; OECD, *Main Economic Indicators.*

INDUSTRIAL OUTPUT, FOREIGN TRADE AND CURRENT BALANCE



1. Ratio of export and import volume index multiplied by 100.

Note: OECD forecasts from 1987 I onwards.

come down significantly during the projection period, given the existing constraints (loss of competitiveness, high general government borrowing requirement). The aim of fiscal policy is to reduce the public sector deficit in the medium term. However, in 1987 as in 1986, the "inflation-adjusted" structural balance of the general government account is expected to worsen (by about 1½ GDP percentage points for each year); the improvement in the overall balance in 1986, and its stabilization in 1987, appear to be due essentially to cyclical factors. Overall, even though high real interest rates may act as a brake on investment (although this factor has been largely offset by the rise in profits in the past two years), economic policy, on its present setting, could have a stimulative impact in 1987, and perhaps return to a more neutral stance in 1988.

Recent trends

GDP growth in 1986 was 2.7 per cent. This outturn stemmed essentially from the buoyancy of domestic demand, spurred by private and public consumption and substantial rebuilding of inventories. Investment in plant and machinery, which declined in the second half of 1985 (after a period of eighteen months of exceptional growth, which marked the most active phase of industrial restructuring in Italy) showed positive growth again in 1986. This was stimulated by the large increase in corporate profits, essentially those of large enterprises. The trend seems to be continuing into 1987. On the other hand, investment in construction has remained depressed, damping the growth rate of investment as a whole. The pattern of foreign trade was uneven in 1986: the first half was characterised by an increase in import and export volumes of close to 6 per cent, while in the second half exports declined appreciably and growth of imports slowed. For the year as a whole, foreign trade made a negative contribution to growth of 0.4 percentage point of GDP. Although employment increased by 0.6 per cent in 1986, unemployment nonetheless rose, partly as a result of the sharp increase in the number of people seeking their first job.

Inflation continued to slow in 1986. The annual rate of increase in consumer prices fell from 6 per cent in the first half of the year to 4.6 per cent in the second. After peaking in January 1987, mainly on account of adjustments in controlled prices, the monthly rate of increase in consumer prices dropped back to about 0.4 per cent in the following two months. The deceleration in inflation in 1986 stemmed from a fall of about 11.5 per cent in energy prices between January and December 1986 and from a slowdown during the second half of the year in food prices and prices of durable goods, the latter also reflecting the fall in the prices of imported inputs. With lower inflation and changes in indexation rules, nominal wages decelerated significantly. The increase in private sector wage rates fell from 10.4 per cent in 1985 to 7.4 per cent in 1986. This induced a slowdown in unit labour costs, which nonetheless grew by 6.5 per cent, compared with an average rate of less than 2 per cent for the other six major Member countries.

The effects of the unfavorable trend of competitiveness on the trade balance were lessened by an improvement of 10 per cent in the terms of trade. An annual trade surplus of $2.7 billion was registered, yielding a current account surplus of about $5 billion, compared with a deficit of $4.2 billion in 1985. During the first quarter of 1987 the trend of foreign trade turned around and the trade balance (cif/fob) again showed a deficit, of L 4 000 billion compared with L 5 600 billion a year earlier. Between these two periods exports fell by 4.8 per cent in value, and the energy deficit was cut by half, while the surplus on non-energy products narrowed appreciably.

Policies

In 1986 the general government borrowing requirement stabilized in nominal terms, falling to 12.6 per cent of GDP from 14 per cent the previous year, because of favourable macroeconomic developments, measures implemented in previous years and in 1986 (Visentini Act, condono edilizio, reform of the Social Security system, centralised exchequer account, shift from quarterly to half-yearly indexation) and the increase in taxes on petroleum products. Taken together, these factors more than offset the adverse effects of the fall in tax revenue resulting from the fiscal drag for inflation allowance, and from the increase in pensions. All told, the budget deficit is estimated to have fallen by L 1 500 billion between 1985 and 1986, to about L 109 000 billion.

In the 1987 Finance Act the budget deficit is to be reduced to L 100 000 billion. However, on current policies and prospects it appears that this target will be difficult to achieve. The budget as voted by Parliament would result in a L 2 600 billion overshoot of the target deficit. In addition, the projected growth in government labour costs (8.5 per cent) does not fully allow for the outcome of the tri-annual wage negotiations, which in 1987 are likely to result in increases of about 11 per cent. Lastly, revenue from tax on petroleum products is expected to flatten or even fall. Without new measures, the budget deficit could be between L 105 000 and L 106 000 billion in 1987. On a national accounts basis, the general government borrowing requirement could stabilize at around 12½ per cent of GDP in 1987, resulting in a further rise in the ratio of public debt to GDP. A slowdown in wage expenditure can be expected in 1988, and the borrowing requirement could be about 12¼ per cent of GDP.

Private sector credit accelerated rapidly in 1986, and especially in the second half of the year, the increase for the year as a whole being 11.4 per cent, against the target figure of 7 per cent. The acceleration most likely had financial causes, with firms stepping up their borrowing from the banking sector to carry out stock

exchange transactions, and taking advantage of the differential between interest payable on bank loans and returns on financial investments to finance the latter by means of the former. On account of the stabilization of the public sector deficit, total domestic lending exceeded its initial growth target by only two percentage points (15.2 per cent compared with 13.2 per cent). The rapid growth in credit prompted the monetary authorities to defer a cut in interest rates. However, the discount rate was cut by ½ percentage point in mid-March. The positive differential between Italy's real interest rates and those of many other countries, and the improved expectations about the Lira exchange rate since the realignment in January 1987, have led to large capital inflows from abroad. These inflows are accounted for primarily by the increase in the short-term foreign currency liabilities of resident banks, and they thus contribute to credit expansion. In order to check this growth and cut back one of the banks' chief sources of financing, the monetary authorities introduced in mid-March a compulsory reserve of 25 per cent on the increase in banks' foreign currency positions. Long- and short-term interest rates will probably fall only slowly during the projection period, on account of the large general government borrowing requirement, and the persisting wide gap between the evolution of Italy's competitiveness and that of its partners at a time of important exchange market liberalisation. In the coming months, this should allow a slowdown in targeted monetary aggregates (private sector credit and total domestic lending), with the growth targets for 1987 set at 7 and 11 per cent respectively (with a growth range of 6 to 9 per cent for M2).

Prospects

In 1987, and to a lesser degree in 1988, domestic demand should be stimulated by buoyant growth in household consumption made possible by the wage increases. Investment growth prospects are also good. After picking up in 1986, investment in plant and machinery could further expand at an average rate of 6¼ per cent in 1987, with, however, a slowdown in the course of the projection period to an annualised rate of 3½ per cent for the second half of 1988. The slowdown would stem both from the slower growth in profits and from lower demand expectations. Domestic demand pressure, coupled with the deterioration in Italian competitiveness, is likely to stimulate imports and adversely affect exports in 1987 and 1988. This could result in a sharp negative contribution of the foreign balance to growth in 1987 (–1¼ per cent), lessening in 1988 when domestic demand is likely to expand more slowly. All in all, GDP may grow by 3 per cent in 1987, falling back to 2½ per cent in 1988. Growth of this order could make possible a rise in employment of between ¼ and ½ per cent on an annualised basis. Given the annual growth trend for the labour force of ¾ per cent, a further rise in the unemployment rate is likely (to 11¾ per cent by the second half of 1988).

In 1987, the rise in consumer prices could slow even further on a year-on-year basis, to 4¾ per cent. However, the inflation rate will probably stabilize at around 5 per cent during the projection period, as a result of a turnaround in import prices and particularly oil prices, an acceleration in labour costs following the wage negotiations, and finally the effects of domestic demand

ITALY

Balance of payments

Value, $ million

	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Seasonally adjusted									
Exports	77 682	98 664	114 000	122 750	50 927	55 750	58 250	60 500	62 250
Imports	84 723	95 937	114 250	127 000	47 809	55 000	59 000	62 000	65 000
Trade balance	–7 041	2 727	– 250	–4 250	3 118	750	–1 000	–1 500	–2 750
Services and private transfers, net	3 147	4 617	5 250	5 250	2 661	2 750	2 500	2 500	2 750
Official transfers, net	– 313	–2 264	–2 250	–2 250	– 620	–1 000	–1 000	–1 000	–1 000
Current balance	–4 207	5 080	2 750	–1 250	5 159	2 250	500	0	–1 000
Unadjusted									
Current balance	–4 207								
Long-term capital	2 527								
Short-term capital and unrecorded	–2 694								
Balance on non-monetary transactions	–4 374								
Net transactions of monetary authorities[a]	–7 151								
Memorandum items (Seasonally adjusted)									
Per cent changes in volume[b]									
Exports	6.1	3.4	1	3¾	–5.1	3	3½	4	3¼
Imports	8.2	3.4	6	7	–2.1	9¼	8¼	6¾	6¾

Note: Detail may not add, due to rounding.
a) Previously *Balance on official settlements.*
b) Over previous period at annual rates, customs basis.

Appropriation account for households

Percentage changes from previous year

	1982 trillion lire	1986	1987	1988
Compensation of employees	266.4	8.1	9	7
Income from property and other	141.4	16.5	8½	7¾
Current transfers received	105.8	8.8	8	6¼
Total income	513.7	10.6	8¾	7
Less: direct taxes	56.5	10.8	8½	7
current transfers paid	92.4	10.0	9½	7¼
Disposable income	364.8	10.7	8½	7
Consumers' expenditure	291.1	8.9	9	8¼
Savings ratio (as a percentage of disposable income)	–	21.2	20¾	20

pressure. This last factor will probably enable firms partly to compensate on domestic markets for efforts to limit price increases on export markets to prevent too great a deterioration of competitiveness. The outcome of the tri-annual wage negotiations, and the effects of indexation, could result in 1987 in an average rise in the wage rate of 6¾ per cent in the private sector, and of 11 per cent in the public sector. The rise in wages is expected to slacken considerably in 1988.

Whereas in 1986 the terms of trade improved in each half-year at an annual rate of about 10 per cent, they are likely to deteriorate by about 1¼ per cent in the first half of 1987, and then should remain broadly unchanged until the end of 1988 (on the present assumption that exporters do not fully pass on cost increases to prices). In these circumstances, and in view of the worsening real trade balance, the trade surplus registered in the second half of 1986 could narrow, and gradually give way to a deficit of about $3 billion in the second half of 1988. The surplus on invisibles could stabilize at around $2 billion in each half-year until the end of 1988, primarily on account of the easing of the interest burden made possible by the fall in interest rates and the reduction in external debt. All told, in 1987 the current balance will show a surplus of about $2¾ billion (0.2 per cent of GDP), but could move back into a small deficit of around $1 billion in 1988.

NOTE

1. The outturns and forecasts given in this note are based on the national accounts at 1970 prices. Rebased accounts at 1980 prices were not available in their entirety (in particular the appropriation accounts for households and enterprises) when the forecasts were compiled. The half-yearly profile for 1986 was built up by the OECD from the items of the quarterly accounts available on the new base. An analysis of Italy's economic situation and of the forecasts based on the new accounts will be available in the next Economic Survey of Italy to be published during the summer of 1987.

CANADA

Key features

GDP volume growth of 3.1 per cent last year, albeit with marked regional divergences, was among the highest in the OECD area. Unemployment was reduced by a percentage point, but remained at a high level. Canada did not share in the continued OECD area disinflation, despite continued moderation in labour costs. The current external account weakened noticeably owing mainly to a further sharp deterioration in the terms of trade. Prospects for the coming eighteen months suggest steady growth sufficient to allow some further reduction in unemployment. Inflation could ease marginally, but regional imbalances have highlighted areas of overheating characterised by, for example, rapid growth of house prices and above-average wage settlements. The current account deficit is projected to decline with an improvement in the terms of trade this year. The recent tension in international financial markets and accompanying reversal of the earlier decline in Canadian interest rates would, if maintained, imply some downward risk to the projection.

Recent trends

Output growth slowed considerably in the second half of 1986, reflecting a strongly negative contribution of stockbuilding. Final domestic demand growth, on the other hand, almost doubled to 3.0 per cent (s.a.a.r.). For the year as a whole real GDP rose by 3.1 per cent – the fastest growth among the major OECD countries. Regional discrepancies have been particularly marked; Central Canada experienced buoyant conditions, while Alberta, the province most severely affected by weakness in energy and grain markets, suffered an absolute decline in output. Growth has strengthened since the turn of the present year, lead by a rebound of manufacturing output and continued buoyancy of residential construction.

Household outlays were the primary factor underpinning the continued expansion of demand in 1986. The decline in interest rates reinforced underlying demographic factors to stimulate housing starts to their highest level since 1977 (200 000). Indeed, overheating was evident in certain areas, and housing prices were

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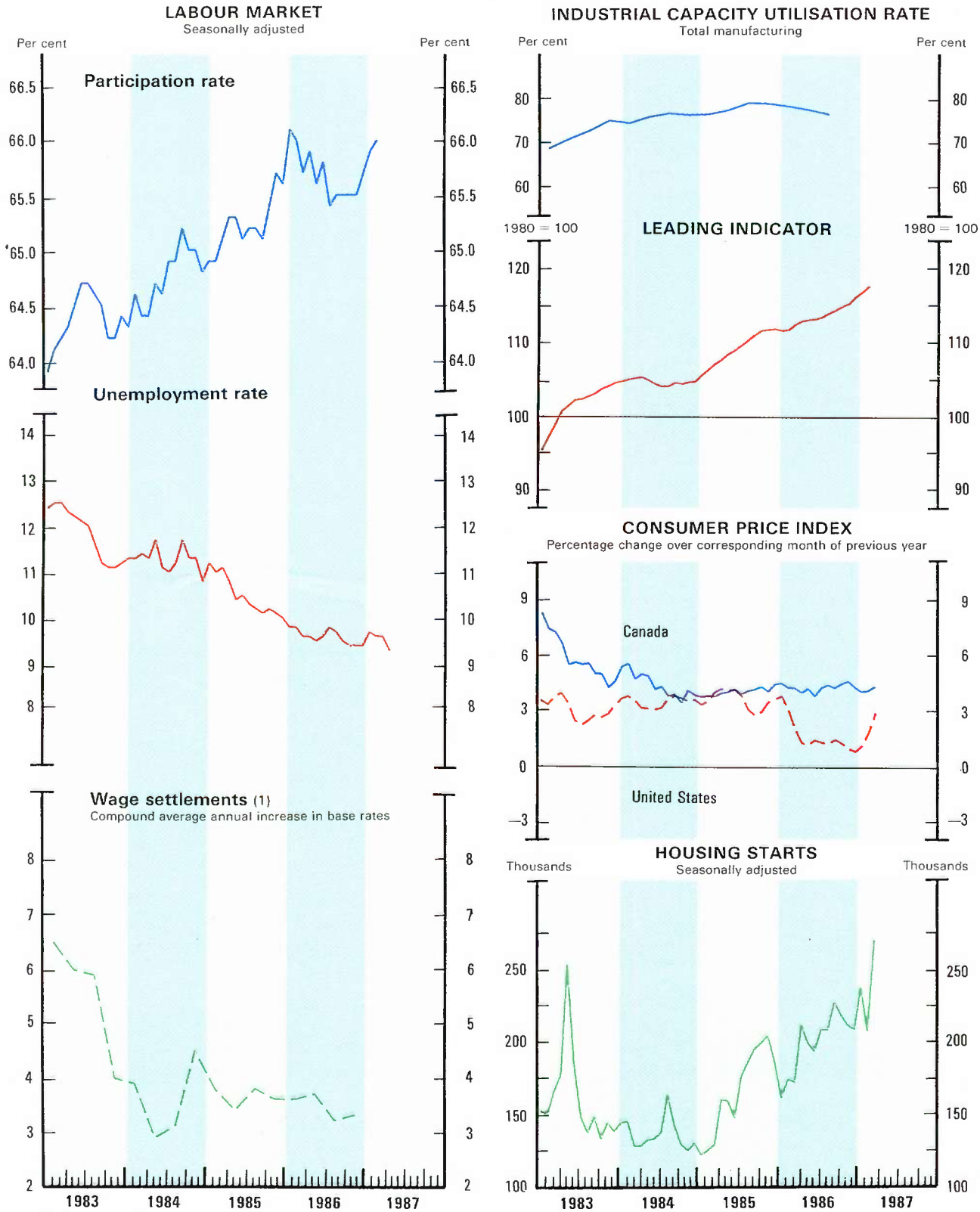
Demand, output and prices

Percentage changes from previous period, seasonally adjusted at annual rates, volume (1981 prices)

	1982 current prices billion C$	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Private consumption	212.5	3.6	5.0	4.0	3	2½	4.7	2¼	2¾	2½	2¼
Government consumption	77.8	3.1	1.9	1.2	1¼	1½	1.2	1¼	1¼	1½	1½
Gross fixed investment	81.6	0.8	6.1	2.6	3¼	4	–0.2	4¼	4¼	4	3¾
Public[a]	10.5	3.9	2.7	–4.5	0	2½	–6.3	2	3¼	2¼	2¾
Private residential	17.7	–0.2	12.6	13.2	7¾	3	16.6	5¾	4	3	2¼
Private non-residential	53.4	0.6	4.1	–0.8	1½	4¾	–6.8	4	4¾	4¾	4¾
Final domestic demand	371.9	2.9	4.6	3.1	2¾	2¾	3.0	2½	2¾	2¾	2½
* change in stockbuilding	–9.8[b]	1.2	0	0.4	–½	0	–2.7	½	0	0	0
Total domestic demand	362.1	4.2	4.6	3.5	2¼	2¾	0.1	3	3	2¾	2½
Exports of goods and services	96.6	17.5	5.8	3.1	5¼	4¼	6.8	5	4¾	4¼	4
Imports of goods and services	82.6	16.4	7.7	5.1	4¾	4¼	5.4	4¾	4¾	4	3¾
* change in foreign balance	14.0[b]	1.0	–0.2	–0.4	¼	¼	0.6	¼	¼	¼	¼
* error of estimate	–1.4[b]	0.5	–0.1	0.2	0	0	0.5	0	0	0	0
GDP at market prices	374.7	5.5	4.0	3.1	2½	2¾	1.2	3	3	2¾	2½
GDP implicit price deflator	–	3.6	3.3	2.8	4¼	3½	3.4	5	3¾	3½	3½
Memorandum items											
Consumer prices[c]	–	4.4	4.1	4.1	3¾	3½	4.0	3¾	3¾	3½	3½
Industrial production	–	8.3	4.9	0.4	2¾	3¼	–2.4	5¼	3½	3¼	3
Unemployment rate	–	11.3	10.5	9.6	9¼	9	9.5	9½	9¼	9	9

* As a percentage of GDP in the previous period.
a) Excluding nationalized industries and public corporations.
b) Actual amount of stockbuilding, foreign balance and error of estimate.
c) National accounts implicit private consumption deflator.

CANADA

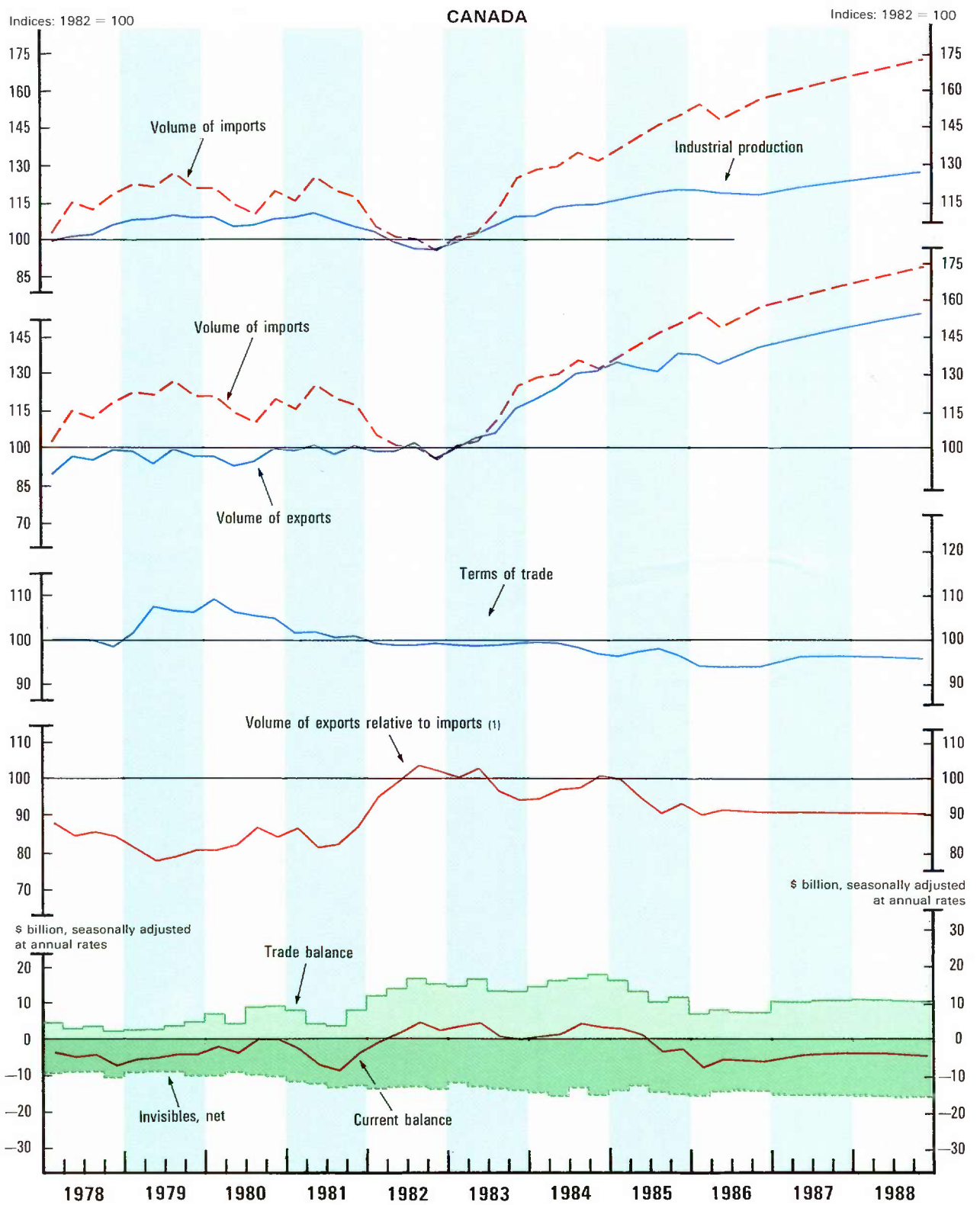


1. Contracts without cost of living adjustment (COLA) clauses.

Sources: Statistics Canada, *The Labour Force;*
Labour Canada, *Major wage settlements.*

Source: OECD, *Main Economic Indicators.*

INDUSTRIAL OUTPUT, FOREIGN TRADE AND CURRENT BALANCE



1. Ratio of export and import volume index multiplied by 100.
Note: OECD forecasts from 1987 I onwards.

rising on average by 20 per cent by the end of the year. Equipping these dwellings boosted private consumption which expanded in volume by 4.7 per cent (s.a.a.r.) in the second half of 1986 despite a marked weakening in the final quarter as auto sales dropped after termination of special sales incentives. The saving ratio in this period (10.2 per cent) fell to its lowest level since the early 1970s. In conformity with the restrictive stance adopted by the federal and most provincial Governments, public-sector outlays have been restrained; indeed, investment expenditure in volume terms was cut back quite abruptly. Business investment has also remained subdued, essentially reflecting the retrenchment of energy-related projects, although the final quarter saw a rebound in oil/gas exploration prior to the expiration of certain provincial incentives. On the other hand, the manufacturing and construction industries, as well as financial and commercial services, increased outlays strongly. A broadly-based inventory correction in the final part of 1986 reversed the build-up earlier in the year as the (non-farm) inventory/sales ratio reverted to its 1985 level.

Employment, after a record increase in January 1986, subsequently languished before picking up again late in the year. Ontario and Quebec recorded the largest gains, while employment stagnated in the Prairies and fell in British Columbia, partly owing to a protracted forest-industry strike. In contrast to the initial recovery phase, full-time jobs have been growing somewhat faster than part-time ones. Services continue to absorb most new entrants, while manufacturing employment has shrunk. Demographic factors continue to exercise a strong influence on labour supply developments, with the decline in the size of younger cohorts reducing labour force growth. The overall unemployment rate remained stable at an average of 9.6 per cent in the first quarter of 1987, although receding somewhat among 15 to 19 year olds, before dropping to 9.3 per cent in April.

Inflation, as measured by the consumer price index, has fluctuated around 4 per cent for the past four years. The (year-on-year) rate in March 1987 (4.2 per cent) clearly exceeded the 3.0 per cent prevailing in both the United States and the OECD area as a whole. Excluding food and energy, inflation was close to 4½ per cent, although the differential *vis-à-vis* the United States remained about the same. While domestic labour cost pressures remained low, the Canadian dollar's effective depreciation (averaging 7.3 per cent last year), as well as increased indirect taxes and public charges (both federal and provincial), kept Canada from sharing the disinflation trend evident elsewhere. Reflecting the 30 per cent fall in energy prices, the industrial product price index was essentially flat in the year to March 1987. While most other commodity prices remain weak, those of forest products (particularly paper) have firmed. Wage settlements have generally remained moderate, as unions emphasize job security, but have been clearly above average in Ontario and below in the resource-based provinces. Canadian competitiveness (as measured by relative manufacturing unit labour costs) strengthened on average by about 5 per cent in 1986, but this gain has since been offset by the appreciation of the exchange rate in effective terms in early 1987. Corporate pre-tax profits recovered somewhat in the latter part of 1986, but their earlier collapse, which essentially reflected energy sector problems, resulted in a 5 per cent average decline for the year as a whole. The firming of forest-product prices (noted above) largely compensated firms in this industry for the impact of the British Columbia strike on sector profits. Farm incomes, which continue to suffer from disturbed international grain markets, have been bolstered by improved output yields and government assistance (including the Special Canadian Grains Program).

The improvement in Canada's real foreign balance in the second half of 1986 contributed ½ percentage point to GDP growth, despite the relatively high import-intensity of the more rapidly growing domestic demand components (consumer durables and machinery/equipment investment). A recovery in exports, spearheaded by auto and grain shipments, helped redress the balance of payments on current account which, nevertheless, registered a deficit of US$6.3 billion (1.7 per cent of GDP) in 1986. About two-thirds of the US$6 billion deterioration from 1985 resulted from a significant weakening in the terms of trade (some 3½ percentage points) owing to price declines for energy and wheat which are major Canadian exports. British Columbia's Expo 86 and the currency's effective depreciation helped narrow the tourist deficit substantially, but heavy dividend repatriation pushed up net outflows on investment income account. For diverse reasons Canada has been attracting unusually heavy inflows of capital – particularly in the form of Japanese purchases of federal government bonds. Foreign exchange reserves rose sharply from US$4.1 billion at end-1986 to US$7.8 billion at end-March, before dropping back to US$6.2 billion in April.

Policies

In 1986 the federal government deficit (on a national accounts basis) was reduced to 4.9 per cent of GDP (C$24.8 billion) from 6.8 per cent in 1985, despite a 16.9 per cent decline in corporate tax revenue (largely due to energy sector losses) and selective aid to the energy and farm sectors. Expenditure on goods and services was kept unchanged in nominal terms. The fall in the deficit stemmed from earlier policy measures: restricting personal income tax indexation and temporary increases in rates (personal tax revenue rose by 15.6 per cent), the phasing-out of the National Energy Program (subsidies and capital assistance fell by 22.7 per cent), as well as broadening the base, and raising rates, of indirect tax. The provinces' combined deficit rose from 1.0 to 1.6 per cent of GDP in the same

period, reflecting both cyclical developments and discretionary policy initiatives. Both their corporate tax and investment income receipts declined, owing largely to energy sector developments, while consumption and subsidy/capital assistance outlays expanded relatively rapidly. With the net lending of other levels of government broadly unchanged, the overall (general) government deficit fell from 6.6 per cent of GDP in 1985 to 5.4 per cent in 1986. OECD estimates suggest that general government discretionary fiscal action may have reduced the "structural" deficit by almost 1 percentage point in 1986.

During the projection period it is assumed that fiscal policy stance will remain restrictive. The February 1987 federal Budget projects a decline in the deficit, reduction of which was reconfirmed as the prime policy objective, to 4.4 per cent of GDP (C$23.6 billion) in the present fiscal year from an expected 5.1 per cent in 1986/87. Proposals for far-reaching taxation reform (likely entailing a broadening of both direct and indirect tax bases, coupled with a lowering of statutory rates) are due to be tabled at the time of this *Economic Outlook's* publication. Their implementation could possibly impact on developments in 1988. Provincial budgets tend to adopt a pro-cyclical stance; the recent Alberta and Saskatchewan budgets incorporate restrictive measures in the face of deteriorating finances.

The primary objective of monetary policy remains inflation control. The marked strengthening of the Canadian currency *vis-à-vis* the United States dollar during the first quarter of 1987 (from around US$0.72 to US$0.76) was accompanied by a reduction in short-term interest rates by over 1 percentage point, and a narrowing in the differential compared with United States rates to only about ½ per cent. By end-March Bank Rate had fallen to 7.14 per cent – its lowest level since late 1973. Long-term rates fluctuated around an essentially unchanged level. Subsequently, the rise in United States interest rates has been accompanied by an easing in the Canadian bilateral exchange rate and strong upward pressure on both long- and short-term interest rates. By the beginning of May the Bank Rate had rebounded to 8.33 per cent, broadly in line with the upward shift in United States interest rates. Monetary aggregates growth has tended to accelerate recently, but interpretation thereof remains difficult in the face of on-going innovations within the financial sector.

Prospects

The growth in Canada's external markets for manufactures is projected to slow from 7½ per cent in 1986 to around 2 per cent and the international oil price to rise to an average US$17.25 per barrel in the first half of 1987 and US$18 thereafter. Combining the economic policy and external assumptions and taking into consideration the late-1986 inventory correction, the Canadian economy is projected to continue expanding at around 2½ to 3 per cent, with some small improvement being registered in the major macroeconomic performance measures and a narrowing in regional growth disparities. Final domestic demand may grow on average at the same rate as GDP. Residential construction could

CANADA

Balance of payments

Value, $ million

	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Seasonally adjusted									
Exports	90 194	88 975	102 000	109 500	45 085	49 750	52 250	54 000	55 500
Imports	77 082	81 236	91 250	98 500	41 269	44 500	46 750	48 500	50 250
Trade balance	13 112	7 739	10 750	11 000	3 816	5 250	5 500	5 500	5 250
Services and private transfers, net	–13 174	–14 048	–14 750	–15 250	–6 856	–7 500	–7 500	–7 500	–7 750
Official transfers, net	– 370	–27	0	0	–4	0	0	0	0
Current balance	– 432	–6 336	–4 000	–4 250	–3 044	–2 250	–2 000	–2 000	–2 250
Unadjusted									
Current balance	– 432	–6 336			–1 713				
Long-term capital	2 090	14 010			7 879				
Short-term capital and unrecorded	–2 742	–3 408			–2 172				
Balance on non-monetary transactions	–1 080	4 265			3 994				
Net transactions of monetary authorities[a]	–85	478			599				
Memorandum items (Seasonally adjusted)									
Per cent changes in volume[b]									
Exports	5.9	3.1	5¾	4½	7.3	5½	5	4½	3¾
Imports	9.4	7.3	6	4¾	7.3	5½	5¼	4½	4½

Note: Detail may not add, due to rounding.
a) Previously *Balance on official settlements.*
b) Over previous period at annual rates, customs basis.

expand somewhat from its recent high level – at least in the near term – bolstered by buoyant consumer confidence, although the recent upturn in interest rates clouds prospects. There may be some further scope for a reduction in the household saving ratio. The latest Private and Public Investment survey by Statistics Canada points to another marked fall in energy-sector outlays in 1987 (by almost 20 per cent in nominal terms), but an expansion in manufacturing (up 8.7 per cent), with expenditures likely to be more evenly spread geographically than last year. Despite the recent imposition of a 15 per cent tax on lumber exports, the forest industry is planning an important capacity expansion.

Wage settlements are projected to generally remain moderate, although some signs of upward pressure could emerge in areas where the unemployment rate dips noticeably below the national average. Hence, a modest acceleration in unit labour costs is projected. This is likely to offset partially the reduced pressure on prices due to the much lower increases in indirect taxes and other factors responsible for impeding disinflation last year. While some deterioration could thus emerge in Canadian competitiveness, the effect of earlier gains are likely to predominate over the projection period, thereby enabling a recovery of manufacturing market shares. With some reversal in 1987 of recent years' deterioration in the terms of trade, the current account deficit is projected to shrink to around US$4 billion this year (1 per cent of GDP) and to remain at about that level in 1988.

Appropriation account for households

Percentage changes from previous year

	1982 billion Can.$	1986	1987	1988
Compensation of employees	211.7	5.7	5¾	6¼
Income from property and other	67.3	10.7	4¼	5½
Transfers received	45.8	6.5	6¼	5
Less: interest on consumer debt	5.1	9.3	3½	4
Total income	319.6	6.9	5½	6
Less: direct taxes	43.9	14.8	8¼	8
other transfers paid	18.5	9.5	7¾	6¾
Disposable income	257.2	5.4	5	5½
Consumers' expenditure	212.5	8.2	7	6¼
Savings ratio (as a percentage of disposable income)	–	11.4	9¾	9

AUSTRALIA

Following a decline in the first half of 1986, real GDP grew slowly in the second half as import volumes fell and exports strengthened. Domestic demand remained weak. Business and public enterprise investment rallied somewhat in the second half of the year, but this was largely offset by lower stockbuilding. There was some acceleration in the underlying growth of unit labour costs during 1986, despite less-than-full wage indexing to prices. Consumer prices accelerated sharply after the depreciation of the Australian dollar around mid-year. Employment growth remained remarkably strong in the face of sluggish output growth, and the unemployment rate rose only marginally. Despite J-curve effects associated with the depreciation, and special factors which raised import volumes, buoyant export volume growth led to a fall in the current external deficit to around 5½ per cent of GDP in the second half of the year.

Fiscal policy became more restrictive in 1986. The Commonwealth budget net borrowing requirement for FY 1986-87 may have declined by some 1 per cent of GDP to around 2 per cent. However, increased net borrowings by State and local governments are expected to partly offset the reduction in the Commonwealth's deficit. Fiscal policy in FY 1987-88 is assumed to be slightly contractionary (not including the May Statement). Reduced spending against forward estimates has been assumed for the Commonwealth Government with more subdued spending by the States and local authorities. However, the progressive introduction of tax reform will substantially reduce the growth of income tax receipts and this will be only partly offset by higher corporate taxes. Monetary policy is assumed to remain tight faced with a declining, but still large, current account deficit. Nevertheless, decelerating inflation should permit some fall in nominal interest rates.

Compensation per employee is projected to rise by around 7 per cent in both 1987 and 1988 and unit labour costs by about 5½ to 6 per cent. As the effect of the depreciation wears off, consumer price increases may decelerate steadily to some 5½ to 6 per cent by the end of 1988. Private consumption growth may recover to around 2 per cent by the second half of 1987, largely reflecting tax cuts and higher real wages. The trough of the housing cycle should be reached in the course of 1987 and some fall in long term interest rates could permit a modest recovery. Most recent investment surveys point to a sharp near-term decline in non-residential construction. After a fall in the first half of 1987, machinery and equipment investment is expected to rally somewhat. A progressive end to the rundown in stocks should contribute substantially to GDP growth over the forecast period. With higher domestic demand only partly offset by a weaker contribution from the real foreign balance, GDP growth may accelerate to 2½ to 2¾ per cent in 1987 and 1988. The unemployment rate could edge upwards to 8½ to 9 per cent by the end of 1988, reflecting slower employment growth. The current account deficit may be reduced in 1987, with a further marginal decline thereafter to around $A 12 billion (3¾ per cent of GDP) by the end of the projection period.

AUSTRALIA

Demand, output and prices

Percentage changes, volume (1980 prices)

	1982 current prices billion A$	1984	1985	1986	1987	1988
Private consumption	97.7	2.7	4.2	0.6	¾	2¼
Government consumption	26.4	4.8	5.3	3.3	2¼	¾
Gross fixed capital formation	39.4	6.1	7.2	–3.3	–3½	1
Final domestic demand	163.5	3.8	5.1	0.2	¼	1¾
* change in stockbuilding	–0.5[a]	1.8	–0.3	–1.2	¼	½
Total domestic demand	162.9	5.6	4.7	–1.0	½	2¼
Exports of goods and services	24.2	15.8	10.3	5.2	4¼	3
Imports of goods and services	29.5	20.5	4.7	–4.1	–6½	¾
* change in foreign balance	–5.2[a]	–1.1	0.9	1.8	2	½
GDP at market prices[b]	158.7	7.0	5.1	1.4	2½	2¾
GDP implicit price deflator	–	7.0	6.2	7.6	7½	6¼
Memorandum items						
Consumer prices[c]	–	6.8	7.4	9.5	8½	6¼
Industrial production	–	4.7	–0.8	0.5	3	4
Unemployment rate	–	8.8	8.1	8.0	8	8½
Current balance ($ billion)	–	–8.5	–8.7	–9.3	–8¾	–8½

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) Includes statistical discrepancy not included in the components.
c) National accounts implicit private consumption deflator.

AUSTRIA

Activity unexpectedly weakened in the second half of 1986, and growth in real GDP dropped below 2 per cent for the year as a whole. The main depressive factor was the decline in export volumes, although final domestic demand also fell short of projections. The deterioration in export performance reflected both loss of competitiveness and an unfavourable supply structure of export industries, in particular nationalised industries. Losses of export market shares were felt mainly outside Western Europe, where the nationalised sector is an important supplier. The weakening of foreign demand has adversely affected industrial output and investment. Industrial production dropped by 4 per cent in the twelve months to December. Total fixed capital formation in 1986 fell short of expectations, although construction activity held up relatively well. The deterioration of the business situation has also affected consumer confidence. Private consumption rose by less than half the rate of growth of real disposable income, with the saving ratio reaching an historically high level. The sharp drop in oil and other commodity prices in 1986 more than offset the decline in real exports, moving the current external account into a small surplus. Austria's import-price falls and terms-of-trade gains were, however, smaller than in many other European countries, reflecting a relatively low share of raw material imports and of imports from the dollar area. Hence, inflation has remained higher than in countries with similar exchange rate developments, running at about 1 per cent by March 1987. Unemployment, though still far below the OECD average, has reached high levels by post-war Austrian standards.

At the time of writing, the revised Budget of the new Government, was being discussed in Parliament. Spending cuts may keep the deficit at a level close to that envisaged previously, despite cyclical and other tax shortfalls. Owing to personal income tax cuts as from January 1987, the fiscal stance is expected to be broadly neutral this year. In 1988, budget consolidation measures are assumed to reverse the increase in the structural deficit, in line with the government aim of gradually reducing the fiscal deficit over the medium run. Reflecting the "hard currency option" (the link to the DM) interest rates are expected to remain slightly above those in Germany. The deterioration in competitiveness due to exchange rate appreciation is likely to lead to continued losses in export market shares and hence an only modest revival of export growth in the period ahead. Domestic demand is projected to grow at a slower pace during the next eighteen months, as capital spending is adversely affected by depressed export expectations and cuts in public expenditure. The contribution of stockbuilding to GDP growth is likely to be much lower than in 1986. With a continuing, though slowing, decline in real net exports, GDP growth is projected to fall to just under 1 per cent in 1987 but to pick up modestly in 1988. Stagnating employment is likely to result in a marked increase in the number of unemployed. Inflation should remain low, but the current account is expected to move into deficit, given the projected deterioration in both the real foreign balance and the terms of trade.

AUSTRIA

Demand, output and prices

Percentage changes, volume (1976 prices)

	1982 current prices billion Sch	1984	1985	1986	1987	1988
Private consumption	640.2	–0.5	2.4	1.9	2½	2½
Government consumption	214.3	0.9	2.1	1.7	1½	1½
Gross fixed capital formation	261.3	2.4	6.0	3.7	1½	2¼
Final domestic demand	1 115.8	0.4	3.2	2.3	2	2¼
* change in stockbuilding	–1.0[a]	2.6	–0.1	1.3	0	0
Total domestic demand	1 114.7	3.0	2.9	3.6	2	2¼
Exports of goods and services	431.2	6.8	7.1	–2.4	–¾	1½
Imports of goods and services	412.4	9.9	7.1	1.8	1¾	3
* change in foreign balance	18.8[a]	–1.0	0.1	–1.8	–1	–¾
GDP at market prices	1 133.5	2.0	3.0	1.7	¾	1½
GDP implicit price deflator	–	4.8	3.3	3.6	2¼	2¾
Memorandum items						
Consumer prices[b]	–	5.8	3.4	1.5	1¾	2½
Industrial production	–	5.2	4.6	1.3	1	2
Unemployment rate	–	3.8	3.6	3.4	4	4½
Current balance ($ billion)	–	–0.2	–0.1	0.1	–½	–1

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts implicit private consumption deflator.

BELGIUM

For the first time since 1982, the growth of real GDP in 1986 was not lower than the European average. The labour market ceased to deteriorate, reflecting both the higher level of activity and a vigorous policy of encouraging worksharing (and withdrawal from the labour force). The fall in energy prices resulted in consumer prices remaining virtually stable throughout 1986. However, a substantial widening in corporate profit margins led to a brisk rise in the GDP deflator. The worsening in the real trade balance was more than offset by the improvement in the terms of trade, and the current external account swung into a surplus of about 3 per cent of GDP in 1986, from near equilibrium in 1984 and 1985.

Although down on 1985, the budget deficit was still high in 1986, at 11 per cent of GDP. Further progress should be made in 1987 with the withholding of the "3rd index skip" on wages and social transfers (equivalent to 2 per cent of their amount), and the full-year impact of the restrictive measures adopted in 1986. Official estimates point to a reduction in the net Treasury borrowing requirement to 8 per cent of GDP in 1987, while the general government borrowing requirement could be brought down to 7 per cent of GDP in 1988. Given the size of the public debt (the interest burden on which represented 10¾ per cent of GDP in 1986), this progress will probably be insufficient to check the self-sustaining nature of the deficit. The authorities are endeavouring to hold interest rates as low as possible, consistent with the exchange rate constraint. The discount rate, which had been raised to 8½ per cent in January 1987 in response to pressures within the SME, has since been lowered to 8 per cent.

A major factor of uncertainty remains the trend of wages, which are being freely negotiated for the first time since the early 1980s. However, the agreements concluded to date have not resulted in a surge in wages, real wage increases being roughly in line with productivity gains. With moderate wage increases and higher taxes and other compulsory transfers, the growth in households' real disposable income is projected to slow appreciably. In contrast, investment prospects in the private sector remain satisfactory, mainly due to the extremely rapid growth in profits. The slowdown in domestic demand is likely to be accompanied by a more favourable trend of foreign trade volumes. Nevertheless, GDP growth may slow down to 1½ per cent in 1987 and 1988 entailing a rise in unemployment. In a context of flagging demand and low growth in unit labour costs, consumer price inflation could stabilize at 1½ to 2 per cent while, in spite of less favourable terms of trade, the current account surplus will probably remain large at about 3 per cent of GDP.

BELGIUM

Demand, output and prices

Percentage changes, volume (1980 prices)

	1982 current prices billion BF	1984	1985	1986	1987	1988
Private consumption	2 591.8	1.1	1.5	3.0	1½	2
Government consumption	741.9	0.5	1.5	0.4	–1½	0
Gross fixed capital formation	671.8	2.2	1.2	5.3	2¾	2¾
Final domestic demand	4 005.5	1.1	1.5	2.9	1¼	1¾
* change in stockbuilding	–4.6[a]	0.5	–0.2	0.5	¼	¼
Total domestic demand	4 000.9	1.7	1.3	3.4	1¼	2
Exports of goods and services	2 713.7	4.4	2.2	4.4	3¼	3¾
Imports of goods and services	2 761.4	4.8	1.9	6.2	3½	4¼
* change in foreign balance	–47.7[a]	–0.1	0.3	–1.0	0	–¼
GDP at market prices	3 953.2	1.6	1.5	2.3	1¼	1¾
GDP implicit price deflator	–	5.5	5.1	4.5	2¼	1¾
Memorandum items						
Consumer prices[b]	–	6.4	4.8	1.4	1½	1¾
Industrial production	–	2.5	2.2	2.8	1¾	2½
Unemployment rate	–	12.9	12.0	11.4	11¾	12
Current balance ($ billion)[c]	–	0	0.7	3.8	4½	4½

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) Private consumption deflator.
c) Balance for BLEU.

DENMARK

1986 marked another year of rapid expansion of domestic demand and adverse developments in net exports. The current external deficit widened to more than 5 per cent of GDP despite a 5 per cent terms-of-trade gain. Helped by a slowdown in the growth of the labour force, the unemployment rate continued to fall, reaching a level of less than 8 per cent.

However, domestic demand decelerated during the year, partly reflecting very tight fiscal policy. The general government budget position swung into a surplus of around 3 per cent of GDP, an improvement of 5 per cent of GDP. Following measures in October 1986 to stimulate households' saving and reduce incentives to borrow, final domestic demand components weakened or fell. Stockbuilding was high but may to some extent have been involuntary.

Private consumption is expected to rebound somewhat during 1987, partly because of rising real wages. The wage settlements concluded in early 1987, combined with indirect labour cost increases and the appreciation of the krone, are likely to lead to a marked deterioration of international competitiveness. The expected fall in market shares – both domestically and abroad – may entail the current external deficit remaining above 3 per cent of GDP, even though import volumes are projected to fall. Unemployment is expected to increase only modestly, despite the fall in domestic production, as a consequence of the shortening of working hours from end-1986. The stance of fiscal policy is assumed to remain restrictive, albeit less so than in 1986. Only a minor pick-up in consumer prices is foreseen despite accelerating unit labour costs. This reflects the absence of changes in indirect taxes following sharply higher energy taxes in 1986, but squeezed profit margins and slightly lower import prices also play a role.

The deterioration of competitiveness in 1987 is also expected to influence market shares in 1988. Domestic activity may continue to be weak as a result of a relatively strict fiscal policy, and this year's tax reform which, together with the late 1986 policy measures, should enhance private savings. The current external deficit may stabilize at its 1987 level. With some pick-up in productivity growth, unemployment might increase to around 10 per cent of the labour force.

DENMARK

Demand, output and prices

Percentage changes, volume (1980 prices)

	1982 current prices billion DKr	1984	1985	1986	1987	1988
Private consumption	255.6	2.8	5.3	4.2	–½	1
Government consumption	131.1	–1.0	2.5	–0.7	1	¾
Gross fixed capital formation	74.7	10.5	11.9	16.8	–6½	–6
Final domestic demand	461.4	3.0	5.7	5.2	–1¼	–½
* change in stockbuilding	1.1[a]	1.0	0.1	0.5	–1	0
Total domestic demand	462.5	4.1	5.7	5.7	–2½	–½
Exports of goods and services	168.9	3.4	4.2	0.2	½	1¾
Imports of goods and services	166.9	5.1	8.6	6.5	–4	0
* change in foreign balance	2.0[a]	–0.5	–1.4	–2.2	1¾	½
GDP at market prices	464.5	3.5	4.2	3.4	–¾	0
GDP implicit price deflator	–	5.8	5.3	4.9	4¾	2¾
Memorandum items						
Consumer prices[b]	–	6.5	4.9	3.6	4	2½
Industrial production	–	10.5	4.5	3.0	0	1¼
Unemployment rate	–	10.1	9.0	7.8	8½	10
Current balance ($ billion)	–	–1.6	–2.7	–4.3	–3¼	–3¼

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts implicit private consumption deflator.

FINLAND

Reflecting buoyant demand in European markets and recovery of production from strikes in the early months of the year, growth of the Finnish economy resumed strongly in the second half of 1986. However, GNP growth for the year as a whole was only 1¾ per cent. The oil price fall helped to reduce consumer price inflation to 3.6 per cent. A 5½ per cent terms-of-trade gain and lower international interest rates helped to keep the current account deficit nearly at the previous year's level of 1¼ per cent of GDP, despite strong growth of import volumes. The unemployment rate rose to 5½ per cent, its highest level so far in the 1980s.

In 1987, the impact of lower oil prices on bilateral trade with the Soviet Union may reduce the volume of exports to this market by a fifth. But, reflecting improved price competitiveness, strong carry-over effects and favourable growth of OECD markets, total export volumes may nevertheless increase by 1½ per cent. Capacity utilisation in the exposed sector increased in the latter part of 1986, business confidence has improved, and rising foreign exchange reserves are expected to put downward pressure on interest rates. Business investment may therefore strengthen further. Private consumption is expected to remain buoyant due to rapid growth of real incomes reflecting brisk real wage increases and negative fiscal drag. The current external deficit is projected to widen to $1½ billion (1¾ per cent of GDP) whereas inflation may accelerate slightly. Unemployment is expected to decline, but only marginally.

In 1988, an assumed tightening of fiscal policy may restrain the growth of domestic demand, notably consumption. Interest rates could fall further in these circumstances, thus supporting private investment. Western export markets are expected to grow 4½ per cent and, if exports to the Soviet Union do not decline any further, merchandise export volumes may increase by over 3 per cent. Under these circumstances, real GDP may expand by 2½ per cent, approximately the OECD average, although the current external deficit could widen further. Should the planned tax reform lead to less fiscal tightening and the wage negotiation of Spring 1988 adversely affect price competitiveness, there would be negative effects on the current external account and on inflation performance.

FINLAND

Demand, output and prices

Percentage changes, volume (1980 prices)

	1982 current prices billion MK	1984	1985	1986	1987	1988
Private consumption	134.2	2.8	3.3	3.2	3¼	2¾
Government consumption	46.7	2.8	4.7	3.0	2¾	2½
Gross fixed capital formation	61.0	–1.9	3.1	–0.1	3¼	2¼
Final domestic demand	241.8	1.6	3.6	2.3	3¼	2½
* change in stockbuilding	2.0[a]	0	–0.2	–0.2	¼	0
Total domestic demand	243.8	1.5	3.3	2.1	3½	2½
Exports of goods and services	76.4	6.0	0.6	1.8	1½	2
Imports of goods and services	74.4	0.7	6.3	6.2	3¾	2¾
* change in foreign balance	2.0[a]	1.8	–1.8	–1.4	–¾	–¼
GDP at market prices	245.2	2.8	3.0	1.8	2¾	2½
GDP implicit price deflator	–	9.0	5.9	4.8	3¾	3¾
Memorandum items						
Consumer prices[b]	–	6.8	6.0	3.6	3¾	4
Industrial production	–	4.8	4.0	0.9	2	2½
Unemployment rate	–	5.2	5.0	5.5	5¼	5½
Current balance ($ billion)	–	0	–0.8	–0.8	–1½	–1¾

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) Consumer price index.

GREECE

Developments in 1986 were strongly influenced by the Stabilization Programme introduced in October 1985. Reflecting the stipulated income norms, real wages fell by 8 per cent. This, coupled with moderate rises in import prices, brought the year-to-year rate of inflation down to 17 per cent by December 1986 (25 per cent in December 1985). The squeeze on real household incomes and a 20 per cent decline in public sector investment depressed domestic demand. Yet, GDP grew moderately owing to a switch to exports and strong growth of agricultural output. The improved real trade balance together with a fall in oil prices, sharply rising tourist receipts and EEC transfers reduced the current external deficit to 4.3 per cent of GDP (10 per cent in 1985).

The Government appropriated the largest part (some 2½ per cent of GDP) of the gains from the fall in oil prices. In addition, capital expenditure declined in real terms and administered prices were raised considerably. The Public Sector Borrowing Requirement thus fell to 13.7 per cent of GDP from 17.6 per cent in 1985. Monetary policy was also tightened. In the wake of falling rates of inflation, real interest rates rose markedly and domestic credit expansion to the private sector was broadly in line with the growth of nominal GNP. The fiscal stance in 1987 has remained restrictive. Indirect tax receipts are budgeted to increase by as much as 25 per cent as a result of the introduction of VAT as of 1st January, 1987. This, combined with moderate public sector pay increases, should further reduce the PSBR to around 12½ per cent of GDP. Credit expansion to the private sector is projected to fall in real terms and real interest rates to rise further. The policy stance is assumed to remain restrictive after the end of the Stabilization Programme in December 1987, implying a further tightening of monetary and fiscal policies in the face of a relaxation of incomes policy.

Following a pick-up early this year (associated with the introduction of VAT and a surge in food prices because of cold weather), inflation is forecast to resume its downward trend, reaching about 14 per cent by the turn of the year and dropping to around 11 per cent by the end of 1988. With sharply falling real labour costs, the substantial improvement in profitability since 1986 is projected to continue and is likely to induce some recovery in business investment. The main support to demand is expected to come from steadily rising exports. Even so, GDP is projected to decline in 1987, largely influenced by the expected big drop in farm output as a result of bad weather. GDP should resume positive growth in 1988, curbing the rise of unemployment. Sluggish private consumption and an increasingly export-oriented business sector may lead to a reduction of the current external deficit to some 3¼ per cent of GDP by 1988. In addition, a generally improved business climate may boost private long-term capital inflows and thus virtually eliminate the need for net compensatory borrowing by the end of 1988.

GREECE

Demand, output and prices

Percentage changes, volume (1970 prices)

	1982 current prices billion Dr	1984	1985	1986	1987	1988
Private consumption	1 695.0	1.7	2.9	0.7	−1¾	−¼
Government consumption	471.2	3.9	2.3	0	½	1½
Gross fixed capital formation[a]	513.5	−6.3	3.4	−4.8	−2	1
Final domestic demand	2 679.7	0.7	2.8	−0.3	−1½	¼
* change in stockbuilding	52.5[b]	1.2	−0.5	0.1	−½	¼
Total domestic demand	2 732.2	1.9	2.3	−0.2	−1¾	½
Exports of goods and services	473.0	16.9	1.3	13.2	3½	4
Imports of goods and services	738.3	0.2	12.9	2.6	−¾	1
* change in foreign balance	−265.3[b]	2.9	−2.8	2.0	1	¾
* error of estimate	85.4[b]	−2.1	2.5	−0.4	0	0
GDP at market prices	2 552.3	2.8	2.1	1.3	−1	1¼
GDP implicit price deflator	–	20.1	17.6	19.3	13¼	10¾
Memorandum items						
Consumer prices[c]	–	18.4	18.5	22.3	14¾	11
Manufacturing production	–	2.0	4.5	0.5	¾	1½
Unemployment rate	–	8.9	8.6	8.1	8¾	9½
Current balance ($ billion)	–	−2.1	−3.3	−1.7	−1½	−1¼

* As a percentage of GDP in the previous period.
a) Excluding ships operating overseas.
b) Actual amount of stockbuilding, foreign balance and error of estimate.
c) National accounts implicit private consumption deflator.

ICELAND

Economic developments were very favourable in 1986. Real GDP rose by almost 6 per cent and real national income by 8½ per cent. At the same time, the terms of trade improved by almost 2½ per cent of GNP, the current account moved into balance and inflation decelerated sharply, to 13½ per cent in the year to December. Several external factors underlay this improved performance: an increased fish catch for the third year running – up over 13 per cent in constant price terms; higher fish prices on foreign markets; a decline in international lending rates; and the drop in oil prices. Building on these favourable external developments, the Government attempted to moderate nominal wage increases by offering fiscal concessions designed to directly lower the cost of living. This policy yielded a slowing in wage inflation, boosting real per capita income by over 10 per cent, but substantially increased the government deficit.

The external environment is expected to remain relatively favourable in 1987 and GDP may grow at about 3½ per cent in volume terms. Output in the fisheries sector should continue to expand fairly strongly, with the overall fish catch increasing by 5 to 6 per cent in constant price terms. However, the 1987 wage settlement provides for at least a 22½ per cent rise in nominal earnings, implying a stalling of progress on disinflation. Assuming a roughly unchanged inflation rate, real incomes may increase by about 8 per cent. For this reason, domestic demand is projected to rise faster than output, with private consumption displaying particular strength. Import volumes are likely to expand rapidly while export growth will probably slow, as stocks of marine products are expected to be rebuilt following a period when they have been run down to satisfy foreign demand. The foreign sector will thus be a net drag on the economy. Accordingly, the current account is forecast to fall back into deficit, despite a further improvement in the terms of trade. Furthermore, while the recovery has facilitated a move to higher real interest rates, concessions made in the interests of wage moderation mean that fiscal imbalances have worsened. This implies a significant inflationary risk if external conditions are not as favourable as expected, and/or the private savings rate does not remain at a high level. The authorities could then be forced to depreciate the krona and allow inflation to increase.

ICELAND

Demand, output and prices

Percentage changes, volume (1980 prices)

	1982 current prices million IKr	1984	1985	1986	1987
Private consumption	21 789	3.0	5.0	6.5	5
Government consumption	6 586	0.1	6.2	3.9	3
Gross fixed capital formation	9 251	8.9	1.0	0	4
Final domestic demand	37 626	3.8	4.3	4.5	4½
* change in stockbuilding	913[a]	2.2	–1.2	–0.8	1½
Total domestic demand	38 539	6.0	3.0	3.7	6
Exports of goods and services	12 714	3.0	11.0	6.5	1½
Imports of goods and services	14 329	9.3	9.7	1.3	7
* change in foreign balance	–1 615[a]	–2.3	0.3	2.1	–2¼
GDP at market prices	36 924	3.6	3.4	5.9	3¾
GDP implicit price deflator	–	25.2	32.3	25.8	17
Memorandum item					
Consumer prices[b]	–	28.7	32.5	21.3	14½
Unemployment rate	–	1.3	0.9	0.7	¾
Current balance ($ billion)	–	–0.1	–0.1	0	0

* As a percentage of GNP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) Consumer price index.

IRELAND

GNP is estimated to have fallen slightly in 1986 as industrial export growth weakened and fixed investment fell. Private consumption advanced only modestly; agricultural income declined in nominal terms and lower employment reduced the growth of non-agricultural household income. Although the pass-through of lower import prices to consumer prices appears to have been less than complete, inflation eased to under 4 per cent. During the course of 1986, wage settlements, which had been running at an annual rate of over 6 per cent, moderated by about 1 per cent. Despite a substantial increase in emigration, unemployment has continued to rise. According to preliminary estimates, the current external deficit declined to about 2 per cent of GNP, in 1986. However, Irish balance of payments estimates included a net negative residual in 1986 approaching 10 per cent of GNP, compared with a negative residual of some 4 per cent in 1985. It is believed that much of the increase in this residual reflects unrecorded capital outflows during a period of exchange rate pressure, related especially to the weakness of sterling. Nevertheless, the persistence of a negative residual each year since 1982 suggests some possible under-recording of Ireland's current external deficit.

After elections in February 1987, the new Government introduced a Budget on 31st March 1987. This Budget seeks to limit the Exchequer Borrowing Requirement to under Ir£1.9 billion, 10¾ per cent of GNP, down from an estimated 13 per cent of GNP in 1986. The measures taken included a freeze on public service pay and employment, the termination of some housing subsidies, and restrictions on duty-free and other allowances for travellers. Money market interest rates have been falling since the beginning of the year, reaching in late April a little under 11 per cent (three-month Interbank rate) but still high in real terms.

The projections for 1987 and 1988 are based on the assumptions of some recovery in agricultural income and on stronger growth in industrial exports. Growth of industrial exports is closely related to expansion in the capacity of foreign firms operating in Ireland. It is possible that slower increase in such capacity could eventually lead to weaker growth in industrial exports. Assuming that the budgetary targets are adhered to, GNP may expand by less than 1 per cent this year; on a technical assumption of some further fiscal adjustment in 1988, GNP is projected to expand a little faster next year. Unemployment may continue to rise and inflation should fall a little further in both 1987 and 1988.

IRELAND

Demand, output and prices

Percentage changes, volume (1980 prices)

	1982 current prices million Ir£	1984	1985	1986	1987	1988
Private consumption	8 014	–0.5	1.6	1.6	1	1½
Government consumption	2 621	0.1	0.8	1.9	–2	0
Gross fixed capital formation	3 468	–2.7	–0.3	–3.6	0	2
Final domestic demand	14 103	–1.0	1.0	0.4	¼	1¼
* change in stockbuilding	205[a]	2.3	–1.6	–0.2	½	0
Total domestic demand	14 308	1.0	–0.4	0.2	½	1¼
Exports of goods and services	6 433	16.4	6.7	1.1	4½	5
Imports of goods and services	7 415	9.9	2.8	0.4	2¾	3¾
* net factor income paid abroad	– 928[a]	–2.8	–2.0	–1.2	–1¼	–1¼
* change in foreign balance[b]	–1 910[a]	0.6	0.7	–0.7	¼	0
GNP at market prices	12 398	1.8	0.2	–0.5	¾	1¼
GNP implicit price deflator	–	6.2	5.4	6.5	4½	3¼
Memorandum items						
Consumer prices[c]	–	7.5	4.2	3.7	3¼	3
Industrial production	–	12.2	2.4	2.8	6½	6¾
Unemployment rate	–	15.5	17.3	17.9	18¾	18¾
Current balance ($ billion)	–	–0.9	–0.6	–0.4	–½	–½

* As a percentage of GNP in the previous period.
a) Actual amount of stockbuilding, foreign balance and net factor income paid abroad.
b) Includes factor income flows.
c) National accounts implicit private consumption deflator.

LUXEMBOURG

Although activity in the steel sector weakened, growth remained buoyant in 1986. Private consumption was boosted by a steep increase in real wages and tax reductions, while the pickup in investment which had been under way since 1985 accelerated. Dependent employment rose rapidly (by about 3 per cent) and by year-end the unemployment rate had fallen to 1¼ per cent. Consumer prices fell in 1986 and in March 1987 stood at the same level as a year earlier. The non-BLEU trade balance worsened slightly, but with buoyant growth of activity on Luxembourg's financial market persisting, the current external surplus probably continued to widen to nearly one third of GDP.

Fiscal policy continues to be expansionary with a continued emphasis on investment, a substantial increase in public sector pay and a further reduction in personal and corporate tax rates. The upward movement in wages is expected to accelerate, reflecting the contractual increases provided for under collective bargaining agreements and the change in the system of indexation as the 1982-83 austerity measures are reversed. All told, real private consumption growth is likely to remain very brisk in 1987, but could ease slightly in 1988, after the effects of the exceptional 1987 wage adjustments peter out. Investment will be favourably influenced by the new industry projects and by rapid expansion in the non-residential construction sector. On the other hand, the situation of the steel industry seems likely to deteriorate further with respect to both output and prices. In particular, the abolition of the Community compulsory minimum price mechanism has triggered price competition again, thereby jeopardising the export competitiveness of certain products.

LUXEMBOURG

Demand, output and prices

Percentage changes, volume (1980 prices)

	1982 current prices billion LF	1984	1985	1986	1987	1988
Private consumption	96.8	0.8	2.5	2.9	3½	2¾
Government consumption	26.6	0.4	2.5	1.4	1¼	1¼
Gross fixed capital formation	40.7	–33.3	2.1	2.9	4	4½
Final domestic demand	164.1	–9.7	2.4	2.6	3¼	3
* change in stockbuilding	–1.4[a]	1.3	–1.5	–0.2	0	0
Total domestic demand	162.7	–8.3	0.8	2.3	3¼	3
Exports of goods and services	135.6	17.3	7.8	3.3	2½	3¼
Imports of goods and services	141.2	13.1	5.8	3.6	3½	4
* change in foreign balance	–5.6[a]	3.4	2.1	–0.1	–½	–½
GDP at market prices	157.0	–4.8	2.9	2.0	2½	2¼
GDP implicit price deflator	–	6.3	3.4	2.2	1½	1½
Memorandum items						
Consumer prices[b]	–	6.4	3.4	0	1	1¾
Industrial production	–	11.8	6.9	3.0	2	2½
Unemployment rate	–	1.7	1.6	1.5	1¼	1¼

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts implicit private consumption deflator.

NETHERLANDS

In 1986, for the first time since the start of the current recovery in 1983, final domestic demand contributed more to economic growth than did exports. Real GDP growth remained close to 2 per cent. Higher final domestic demand was offset by a turnaround in stockbuilding and a larger negative contribution to GDP growth from net exports. Employment rose by 1½ per cent and unemployment fell by 1 percentage point to 13¼ per cent. Nominal wages accelerated and real wage increases exceeded the rise in productivity. Combined with the effective appreciation of the guilder, this led to a 5 per cent rise in relative unit labour costs. Despite a terms-of-trade gain of ½ per cent of GDP, the current account surplus dropped by Gld 5 billion to Gld 12 billion (2¾ per cent of GDP) influenced by stronger domestic demand.

Net borrowing of general government (on a national accounts basis) rose sharply in 1986, reflecting the fall in gas revenues. The deficit is projected to decrease slightly over the next two years because of the tax measures taken at the end of 1986 and planned expenditure cuts in 1987 and 1988. (The profile of the central government deficit on a cash basis is different; lags in receipts of gas revenues push up the deficit sharply in 1987.) No changes in tax rates and moderate increases in social security rates are assumed for 1988. Although the agreement between the Central Bank and the commercial banks to slow the growth of lending was renewed, monetary policy remains accommodating with short-term interest rates set to maintain the exchange rate link with the Deutschemark.

Real GDP growth is projected to decelerate to 1½ per cent in 1987 and to 1 per cent in 1988. Deteriorating competitiveness in 1986 and 1987 is expected to entail losses of export market shares, raise import penetration and constrain profitability and business investment. Employment is forecast to decelerate as well, reflecting more sluggish growth in the private sector, and budgetary cuts. The unemployment rate may decline slightly in 1987 and remain broadly unchanged in 1988. Despite the carry-over of the 1 percentage point VAT increase in October 1986, consumer prices are projected to fall by ½ per cent in 1987 as domestic gas prices decline, and to remain broadly flat in 1988. The current account surplus is projected to fall to around Gld 5½ billion in 1987 and 1988 (1¼ per cent of GDP), reflecting the impact of worsening competitiveness on trade volumes and the terms-of-trade loss as gas prices are adjusted for the fall in oil prices in 1986.

NETHERLANDS

Demand, output and prices

Percentage changes, volume (1980 prices)

	1982 current prices billion Gld	1984	1985	1986	1987	1988
Private consumption	221.8	–0.4	1.6	3.1	2½	1½
Government consumption	65.1	–0.6	1.1	0.9	–¾	–1¼
Gross fixed capital formation	67.2	4.3	3.9	8.0	3¼	2
Final domestic demand	354.1	0.5	2.0	3.7	2	1¼
* change in stockbuilding	–1.0[a]	1.0	0.3	–0.8	¼	¼
Total domestic demand	353.1	1.4	2.3	2.8	2½	1¼
Exports of goods and services	212.6	7.0	4.6	2.6	2¼	2¼
Imports of goods and services	196.8	5.5	5.7	4.2	4	2¾
* change in foreign balance	15.8[a]	1.0	–0.4	–0.8	–1	–¼
GDP at market prices	368.9	2.4	1.7	1.9	1½	1
GDP implicit price deflator	–	2.1	2.4	0.6	–1½	¼
Memorandum items						
Consumer prices[b]	–	2.5	2.6	0	–½	¼
Industrial production	–	6.2	3.1	3.2	2¾	2¼
Unemployment rate	–	15.4	14.3	13.3	12¾	12¾
Current balance ($ billion)	–	5.0	5.2	4.8	2¾	2½

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts implicit private consumption deflator.

NEW ZEALAND

During fiscal 1986/87 the weakening of economic activity – mainly induced by restrictive policies – was interrupted by anticipatory purchases prior to the introduction of the Goods and Services Tax (GST) in October 1986. With the subsequent sharp drop in retail sales and building permits, the net effect of GST on growth in 1986/87 is highly uncertain. Inflation, which had receded earlier, revived to 18 per cent in March 1987 (year-on-year), to which the introduction of GST contributed an estimated 5 to 6 percentage points. Nevertheless, the current wage round has produced settlements of only 7 to 8 per cent; labour market slack has been increasing and the effect of GST on disposable income was more than compensated by direct tax cuts. The current external deficit declined during the second half of 1986.

Monetary policy has tightened since September 1986, signalling the authorities' unwillingness to accommodate the recent inflation spike. Short-term interest rates have exceeded 20 per cent since early 1987 and the real effective exchange rate has appreciated. With the projected decrease in inflation later in 1987, nominal interest rates could drop substantially. The October 1986 tax reform implies some easing of fiscal policy.

In the absence of official budget projections for this year and next, and assuming no major policy initiatives, fiscal stance is likely to be broadly neutral over the next eighteen months. The downturn in economic activity since early 1985 is expected to bottom out later in 1987. Private consumption is expected to start growing again in the course of the present fiscal year. While the low spending level following the introduction of GST implies a drop on average in 1987/88, an increase in line with real disposable income is projected for 1988/89. Investment activity is expected to turn around later in 1987 in response to improving demand and profitability, and could rise briskly in 1988. The recent (nominal and real) appreciation of the exchange rate might entail some loss of competitiveness and sluggish export growth. With little growth in output and job creation, unemployment is likely to increase. Inflation is projected to slow considerably by end-1987 with the absorption of GST, while further deceleration in 1988/89 will depend crucially on realising another moderate wage round. The current account deficit is projected to decrease to below 4 per cent of GDP in calendar 1987 and to remain around that level in 1988.

NEW ZEALAND

Demand, output and prices

Percentage changes, volume (1976/77 prices)

	1982 current prices million NZ$	1984	1985	1986	1987	1988
Private consumption	18 231	3.4	–0.3	1.1	–¾	1½
Government consumption	5 431	0.7	0.4	0.5	½	½
Gross fixed capital formation	7 662	–2.6	10.5	–10.7	–4	4¾
Final domestic demand	31 324	1.4	2.5	–2.1	–1½	2¼
* change in stockbuilding[a]	350[b]	4.4	–2.3	–1.3	1¼	¼
Total domestic demand	31 674	5.8	0.1	–3.4	0	2½
Exports of goods and services	8 896	7.4	0.7	5.5	1½	2¾
Imports of goods and services	10 234	12.1	–0.8	–2.5	1¼	3¼
* change in foreign balance	–1 338[b]	–1.7	0.5	2.9	¼	–¼
GDP at market prices	30 336	4.2	0.7	–0.6	¼	2¼
GDP implicit price deflator	–	9.6	13.5	12.6	9¾	5¾
Memorandum item						
Consumer prices[c]	–	8.7	15.2	14.6	10¾	6
Unemployment rate	–	4.5	3.7	4.9	5¾	6¼
Current balance ($ billion)[d]	–	–1.6	–1.3	–1.4	–1¼	–1¼

* As a percentage of GDP in the previous period.
a) Including statistical discrepancy and valuation adjustment.
b) Actual amount of stockbuilding and foreign balance.
c) Consumer price index.
d) Calendar year.
Note: The figures refer to fiscal years ending in March of the following year.

NORWAY

Economic developments in Norway in 1986 were marked by a sharp deterioration of terms of trade associated with the drop in the price of oil. Combined with the impact of a depreciating krone, real disposable national income fell by 4½ per cent. As real wage incomes and private consumption continued to grow strongly, the current external account moved into a deficit of 6¼ per cent of GDP. For the sixth consecutive year, prices rose faster than for main trading partners, with the inflation differential widening towards the end of the year.

Fiscal policy was tightened on several occasions in 1986, and the 1987 National Budget envisages a further move towards restriction. Restrictive policies are assumed to be maintained in 1988. With a view to supporting the currency, interest rates have been increased and have generally moved more flexibly than before. Given the projected current account deficit, interest rates can be expected to remain high throughout the forecast period.

The projections for the next eighteen months imply a continuing correction of the huge domestic and external imbalances that built up in the last few years. With real incomes stagnating, and some rise projected in the (negative) saving ratio, the level of private consumption may fall during the next eighteen months. Given depressed domestic demand prospects, reduced profits and problems of international competitiveness, private fixed investment is also projected to decline. Import volumes may fall in line with domestic demand. Further market share losses for traditional export may occur with relative unit labour costs continuing to increase, reflecting the higher projected rate of inflation in Norway than in trading partner countries. Moreover, a fall in exports of used ships is projected to be more than offset by a strong rise in energy exports. Mainland GDP growth may slow down from 3½ per cent in 1986 to just below 1 per cent in 1987 and could fall by up to ½ per cent in 1988 with positive contributions from real net exports being offset by declining domestic demand. Including the oil sector, total output growth is expected to be 2¾ per cent in 1987 and 1¼ per cent in 1988.

Unemployment – below 2 per cent in 1986 – is projected to rise despite the shortening of the working week. With full compensation and continued high nominal wage increases, unit labour costs are expected to rise sharply in 1987. As the 1986 devaluation effects peter out and pressures in the labour market ease, inflation should start to decelerate towards the end of 1987 and into 1988. The current account deficit is expected to be reduced to 6 per cent of GDP in 1987 and to 5¼ per cent in 1988.

NORWAY

Demand, output and prices

Percentage changes, volume (1980 prices)

	1982 current prices billion NKr	1984	1985	1986	1987	1988
Private consumption	175.3	2.7	10.4	5.5	–1¼	–2
Government consumption	70.4	2.4	3.4	1.9	1	½
Gross fixed capital formation	92.3	10.9	–21.0	24.4	–5	–5½
Final domestic demand	338.0	5.0	–0.4	9.1	–1¾	–2¼
* change in stockbuilding	3.8[a]	1.0	3.2	–0.9	¼	1¼
Total domestic demand	341.8	6.1	3.1	7.8	–1½	–1
Exports of goods and services	165.0	8.2	10.7	1.0	5¼	2¼
Imports of goods and services	144.5	9.5	6.5	8.8	–3	–2¼
* change in foreign balance	20.5[a]	0.1	2.6	–3.2	4	2
GDP at market prices[b]	362.3	5.7	5.4	3.8	2¾	1¼
GDP implicit price deflator	–	6.4	5.2	–2.0	5	4¼
Memorandum items						
Consumer prices[c]	–	6.6	5.8	7.4	8½	5¼
Industrial production[d]	–	5.6	2.5	2.0	1	¾
Unemployment rate	–	3.0	2.5	1.9	2¼	3
Current balance ($ billion)	–	3.0	3.0	–4.5	–5	–4½

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) GDP excluding oil and shipping: 1986: 3.5; 1987: 1; 1988: -½.
c) National accounts implicit private consumption deflator.
d) Excluding oil sector.

PORTUGAL

Total domestic demand in volume terms grew by a vigorous 7.6 per cent in 1986, and further progress was made with respect to inflation, the balance of payments and public finances. Private consumption increased by 6.5 per cent in real terms, and investment by 9.5 per cent, with a particularly marked improvement in the private business sector. A sharp rise in oil stocks raised the contribution of stockbuilding to growth to 1.4 per cent of GDP. These developments led to a substantial increase in the volume of imports, up by over 16 per cent. Reflecting market-share gains, export volumes grew by nearly 8 per cent. The terms of trade improved by 11 per cent, and the current external surplus rose to $1.3 billion (4.6 per cent of GDP). Consumer price inflation fell from 19.3 per cent in 1985 to 11.7 per cent in 1986. As such a slowdown was not fully anticipated in wage settlements, wages and salaries rose by about 18 per cent.

The increase in taxes on petroleum products and the introduction of VAT resulted in a lowering of the general government borrowing requirement from 11 per cent of GDP in 1985 to 8.5 per cent in 1986. In the absence of similar special factors, the borrowing requirement will probably at best stabilize as a percentage of GDP in 1987. Monetary policy is directed at slowing the growth of the money supply (the aggregate "L" which comprises total liquid assets held by the public increased by 23.5 per cent in 1986 and the 1987 target is 15 to 16.5 per cent). Nominal interest rates will probably fall only in line with inflation. The 0.5 per cent monthly devaluation of the escudo will be maintained until June 1987. (In the absence of any indications to the contrary, the projections have been based on the technical assumption that this exchange rate policy will be maintained over the next eighteen months).

Domestic demand is likely to decelerate by 1988, as slower wage growth restrains private consumption; nonetheless, investment, stimulated by tax incentives, may continue to increase on average at a rate of 8 per cent. Import growth is projected to be less buoyant than in 1986, while exports may expand a little less fast than markets. Consequently, the negative contribution of net exports to growth is expected to be less than in 1986. GDP growth should moderate to 2¾ per cent in 1988, in line with the trend of domestic demand, which should allow at best a stabilization of the unemployment rate. Rising import prices are expected to hinder progress in reducing inflation, and consumer prices could be still increasing by 8 per cent in 1988. The current external account is projected to move into equilibrium over the next eighteen months.

PORTUGAL

Demand, output and prices

Percentage changes, volume (1977 prices)

	1982 current prices billion Esc	1984	1985	1986	1987	1988
Private consumption	1 275.0	–3.0	1.0	6.5	4	3
Government consumption	266.6	2.5	1.7	1.0	1¼	1¼
Gross fixed capital formation	582.0	–18.0	–3.0	9.5	9	7½
Final domestic demand	2 123.6	–5.8	0.3	6.2	4¾	3¾
* change in stockbuilding	71.9[a]	–0.4	0.5	1.4	½	0
Total domestic demand	2 195.5	–6.1	0.8	7.6	5	3¾
Exports of goods and services	474.9	14.2	11.1	7.7	4½	4½
Imports of goods and services	822.3	–2.7	3.3	16.3	8½	7
* change in foreign balance	– 347.4[a]	4.9	2.5	–2.7	–1½	–1
GDP at market prices	1 848.1	–1.6	3.3	4.8	3½	2¾
GDP implicit price deflator	–	25.0	21.6	18.0	9¼	7
Memorandum items						
Consumer prices[b]	–	29.2	19.3	11.7	9¾	7½
Industrial production	–	–0.1	4.2	4.5	4	3½
Unemployment rate	–	9.0	9.0	8.7	8¾	8½
Current balance ($ billion)	–	–0.6	0.4	1.3	½	0

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts implicit private consumption deflator.

SPAIN

Buoyant domestic demand, led by fixed investment, has been the driving force behind the rapid growth of GDP since early 1986. Supported by the Employment Promotion Schemes and rising general government employment, dependent employment increased by 4.7 per cent during 1986, bringing the rate of unemployment down to 21.2 per cent by December. The growth of average earnings has remained at around 8 per cent since the beginning of 1986. This, and a surge in food prices, largely offset lower oil prices so that the inflation rate has stabilized at 6 per cent over the last eighteen months. Buoyant domestic demand combined with the reduction of protection following Spain's entry into the EEC (1st January 1986) resulted in a marked volume increase (18 per cent) in merchandise imports in 1986, which continued into 1987. In contrast, the volume of merchandise exports declined a little through 1986, but has since recovered slightly. The resulting deterioration of the real trade balance was only partly offset by the fall in oil prices. Nevertheless, the current external surplus widened to 1.8 per cent of GDP in 1986, largely because of fast-growing receipts from tourism. Net inflows of foreign direct investment also increased considerably, to 2¼ per cent of GDP, permitting advanced debt repayments and a sizeable increase in official reserves.

Monetary policy was broadly accommodating in 1986. The growth of ALP (the wide monetary aggregate) decelerated to 11.3 per cent during 1986, remaining within the target range. Interest rates declined somewhat in nominal and real terms. Credit expansion to the private sector accelerated to a year-to-year rate of some 9 per cent against an original target of 7 per cent, whereas credit to the public sector slowed down to 20 per cent from 34 per cent in 1985. Mainly reflecting the appropriation by the Government of about 60 per cent (1¼ per cent of GDP) of the gains resulting from lower oil prices, the general government deficit declined to slightly less than 6 per cent of GDP. The reduction of the central government deficit was largely offset by a steep rise of the deficit of the regional authorities (autonomias). The 1987 Budget incorporates a further fall of the deficit as a percentage of GDP. In line with the income norms implying pay rises of about 6 per cent for public sector employees, a slower expansion of nominal government consumption is planned to make room for a strong recovery of real investment. Indirect tax receipts are projected to rise steeply owing to the collection of VAT arrears. The mid-range monetary growth targets for 1987 are 8 per cent, 7 per cent and 11 per cent for ALP, private and public domestic credit respectively. Given unexpectedly strong credit demand, the Bank of Spain tightened monetary conditions substantially in the first four months of 1987, with the one-day intervention rate almost doubling to around 20 per cent by early May. Though remaining moderately restrictive, some relaxation of the policy stance is assumed over the forecasting horizon.

Though weakening during 1988, both fixed investment and private consumption should continue to be

SPAIN

Demand, output and prices

Percentage changes, volume (1980 prices)

	1982 current prices billion Ptas	1984	1985	1986	1987	1988
Private consumption	13 143.0	–0.5	1.8	3.6	3½	3
Government consumption	2 618.5	2.9	4.4	4.0	4½	3½
Gross fixed capital formation	4 172.4	–5.1	3.9	12.0	9½	5
Final domestic demand	19 933.9	–1.0	2.6	5.3	5	3½
* change in stockbuilding	–14.4[a]	0.5	0.1	0.5	0	–¼
Total domestic demand	19 919.5	–0.5	2.7	5.8	4¾	3¼
Exports of goods and services	3 669.3	11.1	2.9	1.0	4½	5½
Imports of goods and services	4 023.2	–1.0	5.4	16.1	14	7¼
* change in foreign balance	– 353.9[a]	2.3	–0.3	–2.6	–1¾	–½
GDP at market prices	19 565.6	1.9	2.2	3.0	3	2¾
GDP implicit price deflator	–	10.8	8.7	11.2	6¼	5
Memorandum items						
Consumer prices[b]	–	10.5	8.3	8.9	5¾	4¾
Industrial production[c]	–	0.9	2.1	3.5	3	2½
Unemployment rate	–	20.6	21.9	21.5	21	20½
Current balance ($ billion)	–	2.0	2.7	4.2	2¼	1½

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts implicit private consumption deflator.
c) Value added.

buoyant. Imports are expected to rise sharply reflecting strong demand, EEC entry and declining competitiveness. Nonetheless, supported by a marked upturn in exports, GDP is projected to expand at a sustained rate of around 3 per cent over the forecasting horizon. Employment may grow again appreciably. Even so, the rate of unemployment is unlikely to fall below the 20 per cent mark as participation rates may continue to rise sharply. The rates of increase of average pay and unit labour costs are projected to decline gradually but to remain high relative to Spain's trading partners. On the technical assumption of unchanged exchange rates, import prices should maintain their moderating influence and help to reduce the increase in consumer prices to around 4½ per cent in the second half of 1988. Rising real net imports, combined with progressively less favourable terms-of-trade changes, should lead to a sizeable rise in the trade deficit. The current external account, however, should remain in surplus owing to growing net service revenues. Similarly, given favourable business prospects, substantial long-term capital inflows are likely to persist, yielding comfortable basic balance-of-payments surpluses.

SWEDEN

Total domestic demand growth slowed down in 1986 despite a surge in private consumption as real incomes were boosted by lower oil prices and deregulation on financial markets eased households' access to credit. A slowdown in business fixed investment and a rundown of stocks were major factors in reducing domestic demand growth. Net exports made a negative contribution to GNP growth, but lower oil prices led to a terms-of-trade gain of around 1½ per cent of GDP, and pushed the current account back into a surplus slightly above ½ per cent of GDP.

Private consumption growth may continue at a relatively high level in 1987, with real disposable incomes rising moderately and continued easy access to consumer credit. Responding to both higher real incomes and lower nominal interest rates, housing starts picked up through 1986 and this should result in a higher level of residential investment in 1987. Business surveys point to a very strong rise in investment in the automobile industry, but other industrial investment may be restrained by slow growth of industrial production in 1986, stagnating profits and high real interest rates. Stocks have been falling for six years now, and a turn-around is due, but oil companies are now being allowed to reduce their buffer stocks. Growth of government consumption may decline somewhat as fiscal policy will continue to be relatively tight. The special levy on insurance companies and pension funds equal to 1½ per cent of GDP – which will contribute significantly to positive government net lending in 1987 – is expected to have only a limited impact on real activity. Despite higher oil prices, the private consumption deflator may rise at almost the same pace as in 1986 given the assumed slowdown in wage increases. The price freeze invoked in early 1987 is not assumed to have strong effects on the year-to-year changes. Non-oil import

SWEDEN

Demand, output and prices

Percentage changes, volume (1980 prices)

	1982 current prices billion SKr	1984	1985	1986	1987	1988
Private consumption	333.0	1.4	2.7	4.1	3	2
Government consumption	185.5	2.4	1.9	1.7	1¼	1¼
Gross fixed capital formation	118.2	5.1	6.3	–0.8	2¾	2
Final domestic demand	636.7	2.4	3.2	2.4	2¼	1¾
* change in stockbuilding	–6.1 [a]	0.7	0.6	–0.6	0	0
Total domestic demand	630.6	3.2	3.9	1.8	2½	1¾
Exports of goods and services	201.3	6.7	2.3	2.1	2	2½
Imports of goods and services	205.2	4.5	7.7	3.6	3¾	3½
* change in foreign balance	–3.8 [a]	0.9	–1.5	–0.4	–½	–¼
GDP at market prices	626.8	4.0	2.2	1.3	1¾	1½
GDP implicit price deflator	–	6.8	6.7	7.1	4½	4½
Memorandum items						
Consumer prices [b]	–	8.2	7.3	4.7	4½	4½
Industrial production	–	6.9	1.3	0.4	2¼	2½
Unemployment rate	–	2.5	2.3	2.2	2¼	2½
Current balance ($ billion)	–	0.4	–1.2	0.8	0	–¾

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts implicit private consumption deflator.

volumes may strengthen in line with domestic demand in 1987, and export market growth is projected to be markedly weaker. Thus, the negative contribution to GNP growth from net exports may be of the same size as in 1986, despite the planned reduction in oil buffer stocks. The current external account may be in rough balance.

Domestic demand growth is likely to slow down in 1988. Private consumption will no longer be boosted by the effect of deregulation on financial markets, and some weakening of growth of business fixed investment is foreseen. A smaller negative contribution from net exports may, however, keep GDP growth in the same 1½ to 2 per cent range as in 1987. Although the surplus on the trade account is projected to remain close to its 1987 level, a further widening of the invisibles deficit may push the current external account back into deficit. As productivity is expected to grow only moderately, unemployment should remain low.

SWITZERLAND

Preliminary National Accounts suggest that total domestic demand accelerated to 5 per cent in 1986; investment in machinery and equipment was particularly buoyant. Weakening exports and accelerating imports of goods and services held down the growth of real GDP to 2.8 per cent. Employment continued to grow faster than the labour force, and the unemployment rate fell to 0.8 per cent. Influenced by the steep fall in import prices, consumer price inflation decelerated to 0.4 per cent in 1986. The current external surplus widened to $7½ billion, 5½ per cent of GDP.

The adjusted monetary base increased by 2 per cent, the initial target for 1986. For 1987, the same monetary growth target has been set by the Swiss authorities and is assumed to remain valid for the projections for 1988. This should provide scope for a slight decline in interest rates. The surplus in the general government account is estimated to have been around SF 2.5 billion in 1986 (1 per cent of GDP) and was thus considerably higher than initially projected by the authorities. Stronger than expected revenue growth mainly accounts for this result. It is assumed that the public sector will remain in financial surplus in the forecast period.

Growth of real wage income is predicted to slow down in both 1987 and 1988, reflecting moderation in the growth of nominal wages and some pick up in inflation. In consequence, private consumption growth may decelerate somewhat, though remaining a mainstay of domestic demand. Investment surveys point to a continuation of the investment boom in machinery and equipment despite some weakening of export demand. This appears to be based on modernisation of plant and equipment, further capital deepening and the strength of private consumption. Business construction may weaken somewhat, but this is likely to be offset by rising public construction and a recovery in housing investment. Imports of goods and services are projected to decelerate in line with weakening total domestic

SWITZERLAND

Demand, output and prices

Percentage changes, volume (1970 prices)

	1982 current prices billion SF	1984	1985	1986	1987	1988
Private consumption	121.8	1.7	1.5	3.0	2¾	2½
Government consumption	26.1	0.8	2.3	1.6	2	2
Gross fixed capital formation	45.3	4.1	5.7	7.4	4¾	3¼
Final domestic demand	193.2	2.2	2.8	4.1	3¼	2¾
* change in stockbuilding	1.8[a]	0	–0.1	1.1	–½	–½
Total domestic demand	195.0	2.2	2.6	5.1	2¾	2¼
Exports of goods and services	69.3	6.4	8.3	3.0	2	3½
Imports of goods and services	68.7	7.0	5.0	7.6	4	4
* change in foreign balance	0.7[a]	–0.6	1.3	–2.4	–1¼	–½
GDP at market prices	195.7	1.7	4.0	2.8	1¾	2
GDP implicit price deflator	–	2.8	2.7	3.0	2½	3
Memorandum items						
Consumer prices[b]	–	3.3	3.6	0.4	1½	2
Industrial production	–	3.6	5.0	4.3	2	2
Unemployment rate	–	1.2	1.0	0.8	1	1
Current balance ($ billion)	–	4.4	5.2	7.5	7½	7¼

* As a percentage of GDP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts implicit private consumption deflator.

demand. Export volumes may slow down in response to the major deterioration of price competitiveness ensuing from the effective appreciation of the Swiss Franc, despite relatively strong growth of Switzerland's export markets. The projections assume that market share losses may be smaller than historical experience would suggest, and the negative contribution from the real foreign balance may diminish in 1988. The reaction of employment to the weakening of activity may be small, leading to an only moderate rise of the unemployment rate. With external sources of disinflation becoming less important, domestic inflation is expected to pick up over the next eighteen months. Following a positive swing in the real foreign balance, but a levelling-off of the terms-of-trade gain, the surplus in the current account in U.S. dollars is expected to remain broadly unchanged in 1987 and 1988.

TURKEY

In 1986, the Turkish economy grew considerably quicker than anticipated. Output in agriculture and in manufacturing industries was particularly buoyant, and both consumption and investment rose vigourously, as did imports, notably of investment goods. Export growth was weak and, at 8 per cent, the growth of real GNP was 2½ percentage points lower than that of domestic demand. Inflation decelerated but remained the highest in the OECD area at 30 per cent. The current external deficit widened to $1.5 billion in 1986, 2½ per cent of GNP. Employment increased somewhat more rapidly than the labour force for the first time in many years, thus making some inroads on high unemployment.

Real GNP growth is likely to exceed the official target of 5 per cent for 1987, given the strong carry-over from 1986. With employment and real labour incomes rising further, and the savings ratio assumed to decline, the growth of private consumption may remain brisk. Business surveys point to buoyant private investment in 1987 though its rate of growth may be somewhat lower than in the preceding year. It is planned to reduce the growth of public expenditure, particularly investment, in order to reduce the current external deficit. Monetary policy is assumed to become somewhat more restrictive. Import volumes are projected to decelerate in line with slowing (but still relatively strong) growth of domestic demand. The income elasticities incorporated in the projections are lower than those observed historically, and there is thus an upside risk in this area, especially for 1988, which is an election year. Reflecting the exchange rate assumption and export promotion policies, the growth of export volumes may increase. Employment growth may decelerate somewhat to a 1½ to 2 per cent rate. As the damping external effects on prices peter out, domestic influences as well as the policy of a continuously falling effective exchange rate of the lira may make further reduction of inflation in 1987 and 1988 more difficult. The current external deficit is projected to widen further in 1987, reflecting adverse terms-of-trade movements. A small fall may be registered in 1988.

TURKEY

Demand, output and prices

Percentage changes, volume (1982 prices)

	1982 current prices billion TL	1984	1985	1986	1987	1988
Private consumption	6 159.7	5.1	3.0	9.7	5¼	6
Government consumption	939.4	3.0	3.2	8.8	6	6½
Gross fixed capital formation	1 646.9	5.4	12.7	13.7	7¾	8¼
Final domestic demand	8 746.0	4.9	4.8	10.4	5¾	6½
* change in stockbuilding	123.3[a]	–0.2	–1.0	0.2	–¾	–½
Total domestic demand	8 869.3	4.7	3.8	10.5	5	6
Exports of goods and services	1 643.3	20.6	11.8	3.1	9½	6
Imports of goods and services	1 777.5	13.5	6.0	13.8	3¼	5
* change in foreign balance	– 134.2[a]	1.1	1.2	–2.6	1¼	¼
GNP at market prices	8 735.1	5.9	5.1	8.0	6½	6¼
GNP implicit price deflator	–	49.9	43.9	30.6	27	25
Memorandum items						
Consumer prices[b]	–	53.0	43.6	34.0	30	27
Manufacturing production	–	10.1	6.3	9.2	7½	7½
Unemployment rate	–	15.7	15.9	15.1	14¾	14½
Current balance ($ billion)	–	–1.4	–1.0	–1.5	–1¾	–1½

* As a percentage of GNP in the previous period.
a) Actual amount of stockbuilding and foreign balance.
b) National accounts implicit private consumption deflator.

TECHNICAL ANNEX

DETAILED SUPPORTING TABLES AND CHARTS

Table 33

Growth of labour force in the OECD area[a]

Percentage changes from previous period, seasonally adjusted at annual rates

	1985 Labour force (thousands)	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
United States	115 464	1.8	1.7	2.1	1¾	1¾	1.7	1¾	1¾	1¾	1¾
Japan	59 630	0.7	0.6	1.0	¾	½	1.1	¾	½	½	½
Germany	27 838	0.1	0.8	0.6	½	½	0.4	½	½	½	½
France	23 864	0.6	0.2	0.3	¾	¾	0.5	¾	¾	¾	1
United Kingdom	27 644	1.6	1.6	0.7	½	½	0.3	½	½	½	½
Italy	23 274	0.2	0.8	1.6	1	¾	1.5	1	¾	¾	¾
Canada	12 639	1.8	1.9	1.8	1½	1¾	0.1	2¼	1¾	1½	1¾
Total of above countries	290 354	1.2	1.2	1.4	1¼	1	1.2	1¼	1	1	1¼
Other OECD countries[b]	78 883	0.7	0.8	1.2	1	¾	1.0	1	1	¾	¾
Total OECD	369 238	1.1	1.1	1.3	1	1	1.1	1¼	1	1	1
Four major European countries	102 621	0.6	0.9	0.8	¾	¾	0.7	¾	½	¾	¾
OECD Europe	172 720	0.6	0.8	0.8	¾	¾	0.8	¾	¾	¾	¾
EEC	138 273	0.5	0.7	0.8	¾	½	0.7	¾	½	½	¾
Total OECD *less* the United States	253 774	0.7	0.8	1.0	¾	¾	0.9	¾	¾	¾	¾

a) For sources and definitions, see *Sources and Methods*.
b) Half-yearly data must be interpreted with care since for most of these countries, half-yearly growth rates were obtained by a purely mechanical interpolation. For details on a yearly basis, see Table 34.

Table 34

Growth of labour force in other OECD countries

Percentage changes from previous year

	1985 Labour force (thousands)	1984	1985	1986	1987	1988
Austria	3 355	0.6	–0.2	0.7	½	½
Belgium	4 202	0	–0.3	–0.1	¼	¼
Denmark	2 784	1.0	1.7	0.7	¾	¾
Finland	2 556	0.7	0.8	0.3	¼	¼
Greece	3 892	0.7	0.6	–0.3	¼	¼
Iceland	107	1.1	–7.3	0.8	¾	..
Ireland	1 299	0.4	–1.1	–0.9	–½	–¼
Luxembourg	163	0.7	1.4	1.3	1½	1½
Netherlands	5 322	0	–0.2	0.3	0	0
Norway	2 064	0.3	1.6	2.3	1¾	½
Portugal	4 448	–1.1	–0.5	0.2	½	½
Spain	13 542	0.6	0.8	1.8	1½	1
Sweden	4 400	0.3	0.9	0.7	½	½
Switzerland	3 195	0.1	0.6	0.8	1¼	¾
Turkey	18 769	1.3	1.4	1.3	1¼	1¼
Total of above European countries	70 099	0.6	0.7	0.9	¾	¾
Australia	7 377	2.1	2.2	3.5	1¾	1¾
New Zealand	1 408	1.8	1.6	0.9	¾	1
Total of above countries	78 883	0.7	0.8	1.2	1	¾
OECD Europe	172 720	0.6	0.8	0.8	¾	¾
EEC	138 273	0.5	0.7	0.8	¾	½

Table 35

Growth of labour productivity in the OECD area[a]

Percentage changes from previous period, seasonally adjusted at annual rates

	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
United States	2.1	0.7	0.2	½	¾	–1.1	1½	½	1	¾
Japan	4.3	3.9	1.3	1¼	¼	2.5	1¼	½	0	½
Germany	3.5	2.4	1.8	1¾	2	3.4	–¼	1½	2	2½
France	2.8	1.6	2.5	1½	2¼	2.5	¾	2½	2¼	1¾
United Kingdom	1.9	2.2	1.7	2	1¼	2.4	2¼	1¾	1¼	¾
Italy	3.2	2.5	1.9	3	2¼	1.6	3¾	2½	2¼	1¾
Canada	3.7	1.0	–0.5	½	¾	0.2	½	¾	¾	½
Total of above countries	3.2	1.8	1.1	1¼	1¼	0.8	1½	1	1¼	1
Other OECD countries[b]	3.3	2.3	0.4	¾	1½	0.5	¾	1¼	1½	1½
Total OECD	3.4	1.9	1.0	1¼	1¼	0.8	1½	1¼	1¼	1¼
Four major European countries	2.8	2.2	2.0	1¾	2	2.6	1¼	2	2	1¾
OECD Europe	2.9	2.3	1.5	1½	1¾	1.9	1	1¾	1¾	1¾
EEC	3.1	2.2	1.6	1½	1¾	1.9	1	1¾	1¾	1¾
Total OECD *less* the United States	3.4	2.6	1.2	1¼	1¼	1.8	1	1¼	1¼	1¼

a) Labour productivity is defined as private sector GDP at factor cost divided by employment. The private sector is the total economy minus general government, and therefore includes agriculture and public enterprises. The self-employed are included. Aggregates were computed on the basis of 1982 GDP at constant prices expressed in 1982 US dollars.

b) Excluding Iceland and Luxembourg. Private sector output is valued at factor cost, except for New Zealand, Portugal, Switzerland and Turkey.Half-yearly data must be interpreted with care since for most of these countries, half-yearly growth rates were obtained by mechanical interpolation.

Table 36

Productivity trends in selected OECD countries

Private sector, compound annual growth rates

	United States	Japan	Germany	France	United Kingdom	Italy	Canada	Belgium	Finland	Sweden	Australia	New Zealand
Total factor productivity												
Pre-1973[a]	1.5	5.9	2.7	3.9	2.1	5.3	1.8	4.1	3.3	0.2	1.6	0.7
1973-1979	–0.1	1.4	1.8	1.9	0.1	1.7	1.1	1.8	1.8	0.6	1.1	–1.7
1979-1984	–0.2	1.6	0.6	0.4	0.6	0.1	–0.8	1.7	1.3	0.4	0.3	1.8
1984-1986[b]	0.0	1.1	1.4	0.8	1.4	1.6	–0.2	1.2	0.7	–1.4	0.7	–1.6
Labour productivity												
Pre-1973[a]	2.2	9.4	4.9	5.6	3.6	6.9	2.8	5.9	5.1	2.3	3.3	1.9
1973-1979	0.3	3.3	3.5	3.4	1.3	2.4	2.1	3.1	3.4	2.0	1.9	–1.0
1979-1984	0.4	3.0	2.0	1.8	1.9	0.8	1.1	2.8	2.0	1.6	1.1	2.4
1984-1986[b]	0.5	2.6	2.1	2.0	2.0	2.1	0.2	1.5	1.7	–0.6	0.1	–1.1
Capital productivity												
Pre-1973[a]	0.2	–2.1	–1.2	0.6	–0.8	0.8	0.1	0.5	–0.1	–3.1	–1.1	–1.7
1973-1979	–0.8	–3.1	–1.0	–1.0	–2.1	–0.3	–0.4	–0.9	–1.4	–1.6	–0.2	–3.2
1979-1984	–1.4	–1.9	–1.8	–2.3	–1.9	–1.6	–3.6	–0.7	0.1	–1.6	–0.9	0.7
1984-1986[b]	–0.9	–2.7	0.1	–1.3	0.3	0.1	–0.9	0.6	–1.4	–2.8	1.8	–2.7

a) United States 1960-1973, Japan 1965-1973, Germany 1962-1973, France 1963-1973, United Kingdom 1963-1973, Italy 1970-1973, Canada 1966-1973, Belgium 1970-1973, Finland 1964-1973, Sweden 1970-1973, Australia 1960-1973, New Zealand 1962-1973.

b) Data for 1986 is estimated.

Note: Total factor productivity=real gross value added (at factor cost)/total factor inputs (1985 weights).
Labour productivity=real gross value added/private sector employment, including self-employed .
Capital productivity=real gross value added/gross capital stock (constant prices).

Sources: National sources, OECD estimates.

Table 37

Comparison of private consumption deflators and GNP/GDP deflators[a]

Percentage changes from previous year

	1986		1987		1988	
	Private consumption deflator	GNP/GDP deflator	Private consumption deflator	GNP/GDP deflator	Private consumption deflator	GNP/GDP deflator
United States	2.1	2.6	4	3½	4½	4
Japan	0.6	1.8	0	¼	1¾	1¼
Germany	–0.4	3.1	¾	1¾	1½	1¾
France	2.2	5.3	3¼	3	2½	2½
United Kingdom	3.7	3.7	4	4½	4¼	5¼
Italy	6.1	8.3	4¾	5½	5	4¼
Canada	4.1	2.8	3¾	4¼	3½	3½
Total of above countries	2.0	3.1	3	3	3½	3¼
Austria	1.5	3.6	1¾	2¼	2½	2¾
Belgium	1.4	4.5	1½	2¼	1¾	1¾
Denmark	3.6	4.9	4	4¾	2½	2¾
Finland[b]	3.6	4.8	3¾	3¾	4	3¾
Greece	22.3	19.3	14¾	13¼	11	10¾
Iceland[b]	21.3	25.8	14½	17	..	..
Ireland	3.7	6.5	3¼	4½	3	3¼
Luxembourg	0	2.2	1	1½	1¾	1½
Netherlands	0	0.6	–½	–1½	¼	¼
Norway	7.4	–2.0	8½	5	5¼	4¼
Portugal	11.7	18.0	9¾	9¼	7½	7
Spain[b]	8.9	11.2	5¾	6¼	4¾	5
Sweden	4.7	7.1	4½	4½	4½	4½
Switzerland	0.4	3.0	1½	2½	2	3
Turkey	34.0	30.6	30	27	27	25
Total smaller European countries	6.4	7.4	5½	5¼	4¾	4¾
Australia	9.5	7.6	8½	7½	6¼	6¼
New Zealand[b]	14.6	12.6	10¾	9¾	6	5¾
Total smaller countries	7.0	7.5	6	5½	5	5
Total OECD	2.8	3.8	3½	3¼	3¾	3½
Four major European countries	2.4	4.7	2¾	3½	3	3¼
OECD Europe	3.7	5.6	3¾	4	3½	3¾
EEC	3.1	5.3	3	3½	3	3¼
Total OECD *less* the United States	3.2	4.6	3	3¼	3¼	3¼

a) Aggregates were computed on the basis of 1982 GNP/GDP weights expressed in 1982 US dollars.
b) Consumer price index instead of national accounts implicit private consumption deflator.

Table 38

Exchange rates of OECD countries

Spot rates in terms of units of national currency per US $

	1984	1985	1986	1987[a]	1988[a]	1986	1987		1988	
						II	I[a]	II[a]	I[a]	II[a]
United States	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Japan	237.55	238.62	168.52	144.94	142.10	158.08	147.78	142.10	142.10	142.10
Germany	2.8464	2.9437	2.1719	1.8164	1.8084	2.0470	1.8244	1.8084	1.8084	1.8084
France	8.7394	8.9841	6.9269	6.0442	6.0150	6.6769	6.0733	6.0150	6.0150	6.0150
United Kingdom	0.7515	0.7793	0.6822	0.6212	0.6120	0.6856	0.6305	0.6120	0.6120	0.6120
Italy	1756.7	1909.4	1491.0	1294.4	1289.6	1413.3	1299.1	1289.6	1289.6	1289.6
Canada	1.2950	1.3658	1.3894	1.3281	1.3255	1.3852	1.3307	1.3255	1.3255	1.3255
Austria	20.007	20.685	15.268	12.771	12.715	14.403	12.827	12.715	12.715	12.715
Belgium-Luxembourg	57.762	59.428	44.685	37.623	37.445	42.437	37.800	37.445	37.445	37.445
Denmark	10.355	10.594	8.089	6.847	6.811	7.710	6.882	6.811	6.811	6.811
Finland	6.0031	6.1963	5.0704	4.4383	4.3946	4.9439	4.4820	4.3946	4.3946	4.3946
Greece	112.66	138.05	139.48	136.70	145.00	136.68	134.39	139.00	143.00	147.00
Iceland	31.726	41.537	42.108	42.070	42.070	42.070	42.070	42.070	42.070	42.070
Ireland	0.9228	0.9457	0.7466	0.6817	0.6798	0.7360	0.6836	0.6798	0.6798	0.6798
Netherlands	3.2088	3.3223	2.4497	2.0491	2.0395	2.3098	2.0586	2.0395	2.0395	2.0395
Norway	8.1604	8.5938	7.3918	6.8114	6.7327	7.4259	6.8900	6.7327	6.7327	6.7327
Portugal	146.38	169.93	148.17	143.05	151.35	146.87	141.40	144.70	149.10	153.60
Spain	160.80	170.06	139.97	128.31	128.28	134.80	128.35	128.28	128.28	128.28
Sweden	8.2731	8.6022	7.1236	6.3464	6.2900	6.9472	6.4027	6.2900	6.2900	6.2900
Switzerland	2.3497	2.4574	1.7984	1.5011	1.4850	1.6749	1.5171	1.4850	1.4850	1.4850
Turkey	363.5	519.6	669.0	850.0	1050.0	705.4	788.0	912.0	1010.0	1090.0
Australia	1.1406	1.4317	1.4960	1.4306	1.4114	1.5783	1.4498	1.4114	1.4114	1.4114
New Zealand	1.7670	2.0255	1.9166	1.7621	1.7422	1.9746	1.7819	1.7422	1.7422	1.7422

a) On the technical assumption that exchange rates remain at their average level on 21st April 1987 except Greece, Portugal and Turkey where exchange rates vary according to official exchange rate policy.

Table 39

Effective exchange rates of OECD countries[a]

Indices, 1982=100

	1984	1985	1986	1987[b]	1988[b]	1986 II	1987 I[b]	1987 II[b]	1988 I[b]	1988 II[b]
United States	109.6	112.8	92.6	82.7	82.0	89.4	83.5	81.9	81.9	82.0
Japan	115.6	118.6	155.0	169.8	172.6	162.8	167.0	172.5	172.6	172.6
Germany	105.3	107.3	116.7	123.8	124.0	119.2	124.0	123.7	123.9	124.1
France	92.1	93.8	96.3	96.7	96.7	95.8	96.7	96.6	96.7	96.8
United Kingdom	89.7	90.8	83.2	81.2	82.1	79.7	80.4	82.0	82.1	82.2
Italy	94.4	90.6	92.7	94.3	94.4	94.1	94.4	94.2	94.4	94.5
Canada	97.7	93.4	86.5	87.9	87.9	86.0	88.0	87.9	87.9	87.9
Austria	102.6	105.1	109.4	112.3	112.4	110.3	112.4	112.3	112.4	112.4
Belgium-Luxembourg[c]	95.8	97.6	103.0	107.4	107.4	104.2	107.5	107.3	107.4	107.4
Denmark	98.4	99.0	103.7	107.8	107.6	105.0	108.0	107.6	107.6	107.7
Finland	96.2	97.9	95.4	96.0	96.3	94.4	95.8	96.3	96.3	96.4
Greece	72.5	63.8	49.2	44.2	41.5	48.1	45.2	43.2	42.0	40.9
Iceland	44.2	34.3	27.3	24.2	24.1	26.4	24.3	24.1	24.1	24.2
Ireland	91.7	91.0	97.4	96.3	95.8	97.0	96.9	95.7	95.8	95.8
Netherlands	100.9	101.9	110.4	116.2	116.2	112.7	116.3	116.1	116.2	116.3
Norway	98.1	96.5	90.2	86.1	86.5	86.7	85.7	86.5	86.5	86.5
Portugal	64.3	59.2	54.4	49.5	46.5	52.9	50.3	48.6	47.2	45.8
Spain	81.5	81.7	81.0	79.3	79.1	81.3	79.7	78.9	79.1	79.2
Sweden	91.0	90.7	88.1	87.1	87.3	87.4	86.9	87.3	87.3	87.4
Switzerland	104.8	105.5	114.0	120.0	120.9	117.2	119.3	120.7	120.8	121.0
Turkey	52.4	39.2	24.6	10.3	8.3	22.3	11.1	9.5	8.6	7.9
Australia	94.0	76.0	60.1	56.9	57.2	55.0	56.7	57.2	57.2	57.2
New Zealand	82.9	76.2	69.0	68.8	68.9	65.9	68.8	68.9	68.9	68.9

a) The method of calculation of effective exchange rates has been changed since Economic Outlook no. 37. For details of the changes refer to the section in *Sources and Methods* in Economic Outlook no. 39.
b) On the technical assumption that exchange rates remain at their level on 21st April 1987 except for Greece, Portugal and Turkey.
c) Commercial rate.

Table 40

Volume of imports of major OECD countries and country groups

Customs basis, percentage changes from previous period, seasonally adjusted at annual rates[a]

	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
United States[b]	23.5	9.1	10.4	–1¼	2½	10.1	–8	2½	3	2¼
Japan	10.8	0.1	13.5	–1¾	4¼	12.2	–10¾	4¼	4½	4
Germany	5.5	4.6	6.1	3½	4¾	1.0	4¼	4½	5	4½
France	2.3	4.9	9.3	4½	4¼	10.7	1¾	4¼	4¼	4
United Kingdom	9.6	3.4	7.4	5	4½	24.9	–3¼	5	4½	4
Italy	7.3	8.2	3.4	6	7	–2.1	9¼	8¼	6¾	6¾
Canada	19.3	9.4	7.3	6	4¾	7.3	5½	5¼	4½	4½
Total of above countries	12.7	6.0	8.9	1¾	4	9.2	–2¾	4¼	4¼	3¾
Other OECD countries	6.8	6.3	6.5	3¼	3½	10.3	¼	2¾	3¾	3¾
Total OECD	11.1	6.1	8.2	2¼	4	9.5	–2	3¾	4	3¾
Four major European countries	6.0	5.0	6.7	4½	5	8.0	2¾	5¼	5	4¾
OECD Europe	5.9	5.5	6.9	4½	4½	9.4	2	4¼	4½	4¼
EEC	5.5	5.2	7.0	4¾	4¾	9.9	2¼	4¾	4¾	4½
Total OECD *less* the United States	7.7	5.1	7.5	3½	4¼	9.3	¼	4¼	4½	4¼

a) Seasonally adjusted data are used for calculating semi-annual as well as annual changes. The latter may therefore differ from changes based on unadjusted or annual data.
b) Derived from values and unit values on a Bureau of Census basis.

Table 41

Volume of exports of major OECD countries and country groups

Customs basis, percentage changes from previous period, seasonally adjusted at annual rates[a]

	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
United States[b]	6.9	–2.0	–0.6	10½	15¼	6.5	10¼	15½	16¼	13¼
Japan	15.4	4.9	–1.4	–1	–1¾	–0.2	¼	–4½	–1½	¼
Germany	9.6	6.4	1.3	–¾	1¼	–0.7	–1½	½	¾	2¾
France	6.4	1.9	–0.2	2¾	3¾	3.7	1¾	3¾	3¾	4
United Kingdom	8.8	5.8	3.8	5½	1½	12.9	4	1¾	1¾	¾
Italy	5.0	6.1	3.4	1	3¾	–5.1	3	3½	4	3¼
Canada	18.4	5.9	3.1	5¾	4½	7.3	5½	5	4½	3¾
Total of above countries	9.9	3.7	0.9	3¼	4½	3.2	3¼	3¾	4¾	4¾
Other OECD countries	9.0	5.2	2.5	3¼	3	5.0	2½	2¾	3	3
Total OECD	9.6	4.1	1.3	3¼	4¼	3.7	3	3½	4¼	4¼
Four major European countries	8.0	5.3	1.9	1¾	2¼	2.3	1¼	2	2	2¾
OECD Europe	8.2	5.0	2.1	2¼	2½	3.0	1¾	2½	2½	2¾
EEC	8.1	4.9	2.0	2	2½	2.7	1¾	2¼	2½	2¾
Total OECD *less* the United States	10.2	5.2	1.7	2	2	3.2	1¾	1½	2	2½

a) Seasonally adjusted data are used for calculating semi-annual as well as annual changes. The latter may therefore differ from changes based on unadjusted or annual data.
b) Derived from values and unit values on a Bureau of Census basis.

Table 42

Foreign trade volumes of selected other OECD countries

Customs basis, percentage changes

	Exports					Imports				
	1983	1985	1986	1987	1988	1984	1985	1986	1987	1988
Austria	9.5	9.7	0.6	0	1½	9.0	5.0	4.7	2½	3¼
Belgium-Luxembourg	5.1	4.0	4.1	3	3½	5.3	3.7	7.9	3¾	4½
Denmark	6.7	4.4	1.0	½	1¾	7.3	7.5	6.3	–4½	½
Finland	9.7	1.0	1.8	2¾	3¼	–0.4	6.0	5.6	3½	2½
Ireland	18.2	4.8	1.3	4¾	5	9.2	3.3	0.4	3	4
Netherlands	6.8	5.3	2.3	3¼	2¼	6.7	6.0	3.9	3¾	3
Norway	9.1	3.6	2.6	8½	4¼	13.5	12.1	14.7	–4¾	–3
Sweden	7.4	3.3	3.0	2¼	2¾	4.8	9.2	4.5	2¾	3½
Switzerland	6.4	9.0	2.3	¾	2¼	7.4	5.8	7.7	4	4
Total smaller European countries	8.5	4.7	2.4	3	3	5.7	6.3	7.4	4	3½
Australia	17.9	10.7	4.7	3¾	2½	21.6	7.7	–3.7	–6¾	¾
New Zealand	4.7	10.7	–1.4	6¼	2¼	20.0	0.0	–1.9	¼	2¾
Total smaller countries	9.0	5.2	2.5	3¼	3	6.8	6.3	6.5	3¼	3½
OECD Europe	8.2	5.0	2.1	2¼	2½	5.9	5.5	6.9	4½	4½
EEC	8.1	4.9	2.0	2	2½	5.5	5.2	7.0	4¾	4¾

Table 43

Foreign trade prices (average values) of major OECD countries and country groups

Percentage changes, national currency terms

	Exports					Imports				
	1983	1985	1986	1987	1988	1984	1985	1986	1987	1988
United States	1.1	–0.3	0.3	2¾	3½	1.7	–2.4	–3.3	11¼	4¾
Japan	0.1	–0.4	–14.7	–3	2½	–2.2	–4.1	–38.9	–5	2½
Germany	3.5	3.9	–3.5	–3¼	1	5.9	2.5	–16.0	–5¾	1½
France	10.6	4.6	–4.3	–1½	1¼	10.2	1.3	–14.8	–1¾	2½
United Kingdom	6.8	5.1	–10.0	3¼	3¾	9.9	3.9	–5.4	2¼	2½
Italy	11.1	9.3	–4.9	–¾	3½	13.0	7.4	–15.6	–2¾	3½
Canada	4.5	1.9	–2.6	3¾	2¾	4.9	2.7	1.1	1½	3
Total of above countries	4.3	3.0	–5.4	¼	3	4.9	0.8	–12.1	3	3¼
Other OECD countries	10.0	6.0	–5.0	1¾	4½	9.2	6.4	–8.2	4	5¼
Total OECD	5.8	3.9	–5.2	¾	3¼	6.0	2.4	–11.0	3¼	4
Four major European countries	7.1	5.2	–5.4	–¾	2¼	9.2	3.5	–13.0	–2	2½
OECD Europe	8.4	5.3	–5.4	¼	3½	9.3	4.4	–11.6	½	3¾
EEC	7.9	4.7	–6.2	–1	2½	9.1	3.2	–13.2	–1½	3
Total OECD *less* the United States	6.7	4.5	–6.1	½	3¼	7.5	3.9	–13.1	¾	3½

Table 44

Foreign trade prices (average values) of selected other OECD countries

Percentage changes, national currency terms

	Exports					Imports				
	1983	1985	1986	1987	1988	1984	1985	1986	1987	1988
Austria	3.5	2.6	–3.0	–1¾	2¼	2.6	4.6	–9.0	½	2¾
Belgium-Luxembourg	7.6	1.8	–7.2	–3¾	1¾	7.9	0.1	–13.8	–4¼	2
Denmark	7.3	3.5	–4.4	–1	1¾	8.2	2.5	–8.6	–¼	2½
Finland	5.9	2.8	–4.4	¾	2¼	4.7	3.0	–10.3	1¾	2¾
Ireland	8.6	4.4	–3.8	–2¼	2¼	10.3	2.7	–7.2	–2½	3½
Netherlands	6.6	1.6	–14.7	–5¼	2	5.7	1.1	–17.1	–3¼	2½
Norway	9.4	4.2	–24.3	–4¼	1½	3.1	6.4	–0.2	4¼	3¼
Sweden	7.3	3.6	–1.3	2	2	4.0	2.5	–10.3	2½	3
Switzerland	4.6	1.8	0.4	–1	1¼	4.1	4.5	–9.3	–2	1
Total smaller European countries	10.5	5.5	–5.3	1¾	5	9.5	5.5	–9.7	3¾	5¾
Australia	2.4	11.6	–1.2	3¼	½	3.0	18.0	12.3	8¾	2
New Zealand	13.5	8.7	–2.2	2¾	2¼	13.9	10.5	–2.3	3	3¼
Total smaller countries	10.0	6.0	–5.0	1¾	4½	9.2	6.4	–8.2	4	5¼
OECD Europe	8.4	5.3	–5.4	¼	3½	9.3	4.4	–11.6	½	3¾
EEC	7.9	4.7	–6.2	–1	2½	9.1	3.2	–13.2	–1½	3

Table 45

Commodity trade forecasts: UNITED STATES

Percentage changes from previous period, at annual rates

	Exports							Imports						
	Weights	1987	1988	1987 I	1987 II	1988 I	1988 II	Weights	1987	1988	1987 I	1987 II	1988 I	1988 II
Average values														
Food	13	–10	0	–13	0	0	0	8	2	2	0	2	2	2
Raw materials	10	–3	1	–5	0	1	1	4	–5	1	–1	1	1	2
Energy	6	21	3	90	12	0	0	27	11	5	73	21	1	0
Manufactures	71	4	4	2	5	4	2	62	11	5	12	10	4	4
Total		2¾	3½	2½	4¾	3¾	2¼		11¼	4¾	19¼	9¾	3¼	3
Volumes														
Food	13	10	6	4	6	6	7	8	–2	–2	–2	–1	–2	–3
Raw materials	10	8	7	7	6	7	7	4	4	–1	0	0	–1	–1
Energy	6	14	5	5	5	6	4	27	–13	7	–34	7	7	7
Manufactures	71	11	18	12	19	20	16	62	2	2	–1	2	1	2
Total		10½	15¼	10¼	15½	16¼	13¼		–1¼	2½	–8	2½	3	2¼

Note: For explanations of this table see annex *Sources and Methods*. The forecasts for commodity components have been rounded to the nearest integer.

Table 46

Commodity trade forecasts: JAPAN

Percentage changes from previous period, at annual rates

	Exports							Imports						
	Weights	1987	1988	1987 I	1987 II	1988 I	1988 II	Weights	1987	1988	1987 I	1987 II	1988 I	1988 II
Average values														
Food	1	–12	0	–12	–3	1	1	11	–13	0	–9	–6	2	2
Raw materials	1	–14	1	–10	–4	2	2	15	–11	2	–5	–3	4	5
Energy	0	19	1	77	3	0	0	50	2	3	88	13	0	0
Manufactures	98	–2	3	1	2	3	2	24	–1	1	5	–2	2	2
Total		–3	2½	1½	2	3	2¼		–5	2½	16¼	2½	2½	2½
Volumes														
Food	1	–2	–2	–2	–3	–2	–1	11	1	2	–7	2	2	3
Raw materials	1	2	–2	–1	–2	–2	–1	15	1	2	–1	2	2	2
Energy	0	2	2	2	2	3	2	50	1	2	–1	1	2	2
Manufactures	98	–1	–2	0	–5	–1	0	24	–5	9	–20	11	10	8
Total		–1	–1¾	¼	–4½	–1½	¼		–1¾	4¼	–10¾	4¼	4½	4
Exchange rate ($ per unit of local currency)		16	2	14	8	0	0							

Note: For explanations of this table see annex *Sources and Methods*. The forecasts for commodity components have been rounded to the nearest integer. Average values are given in local currency, but are derived from estimated dollar indices.

Table 47

Commodity trade forecasts: GERMANY

Percentage changes from previous period, at annual rates

	Exports							Imports						
	Weights	1987	1988	1987 I	1987 II	1988 I	1988 II	Weights	1987	1988	1987 I	1987 II	1988 I	1988 II
Average values														
Food	5	–6	3	–8	2	4	3	11	–10	2	–16	1	3	2
Raw materials	2	–19	–9	–21	–13	–8	–6	7	–15	–1	–20	–2	–1	0
Energy	4	15	2	61	10	0	0	24	–8	4	26	18	0	0
Manufactures	89	–4	1	–5	0	2	2	58	–5	1	–6	1	1	1
Total		–3¼	1	–4¼	0	1½	1½		–5¾	1½	–5½	2¼	1½	1¼
Volumes														
Food	5	3	3	2	2	3	3	11	2	2	2	2	2	2
Raw materials	2	4	2	3	2	2	2	7	3	3	3	3	3	3
Energy	4	2	4	3	3	4	5	24	–1	2	3	2	1	1
Manufactures	89	–1	1	–2	0	0	3	58	7	6	5	6	7	6
Total		–¾	1¼	–1½	½	¾	2¾		3½	4¾	4¼	4½	5	4½
Exchange rate ($ per unit of local currency)		20	0	26	2	0	0							

Note: For explanations of this table see annex *Sources and Methods*. The forecasts for commodity components have been rounded to the nearest integer. Average values are given in local currency, but are derived from estimated dollar indices.

Table 48

Commodity trade forecasts: FRANCE

Percentage changes from previous period, at annual rates

	Exports							Imports						
	Weights	1987	1988	1987 I	1987 II	1988 I	1988 II	Weights	1987	1988	1987 I	1987 II	1988 I	1988 II
Average values														
Food	15	–8	4	–15	2	5	3	10	–8	2	–13	1	3	2
Raw materials	4	–9	–5	–12	–8	–5	–3	6	–12	0	–16	–1	0	1
Energy	4	12	2	67	10	0	0	27	–1	5	43	19	1	0
Manufactures	76	0	1	–1	1	1	1	58	–1	2	–2	2	2	2
Total		–1½	1¼	–2¼	1	1½	1¼		–1¾	2½	1	3½	2¼	2
Volumes														
Food	15	2	3	2	2	2	3	10	3	1	2	1	2	1
Raw materials	4	4	3	5	3	3	3	6	2	2	2	2	2	2
Energy	4	9	3	2	3	3	3	27	1	1	–1	1	1	2
Manufactures	76	3	4	2	4	4	4	58	6	6	3	6	6	5
Total		2¾	3¾	1¾	3¾	3¾	4		4½	4¼	1¾	4¼	4¼	4
Exchange rate ($ per unit of local currency)		15	0	21	2	0	0							

Note: For explanations of this table see annex *Sources and Methods*. The forecasts for commodity components have been rounded to the nearest integer. Average values are given in local currency, but are derived from estimated dollar indices.

Table 49

Commodity trade forecasts: UNITED KINGDOM

Percentage changes from previous period, at annual rates

	Exports							Imports						
	Weights	1987	1988	1987 I	1987 II	1988 I	1988 II	Weights	1987	1988	1987 I	1987 II	1988 I	1988 II
Average values														
Food	7	2	3	3	2	4	3	13	0	0	–2	–4	2	2
Raw materials	2	–4	–7	–1	–11	–7	–4	7	–1	1	–1	1	1	2
Energy	20	0	1	45	5	0	0	13	0	3	39	14	0	0
Manufactures	70	3	3	4	2	4	3	67	5	3	7	1	3	3
Total		3¼	3¾	8	3	4	3¾		2¼	2½	6¼	1½	3	3
Volumes														
Food	7	11	2	2	2	2	2	13	1	3	–2	4	3	3
Raw materials	2	12	4	4	4	4	4	7	10	1	12	1	1	2
Energy	20	1	–6	4	–4	–6	–8	13	25	1	15	1	1	0
Manufactures	70	5	4	4	3	4	3	67	2	6	–8	6	6	5
Total		5½	1½	4	1¾	1¾	¾		5	4½	–3¼	5	4½	4
Exchange rate ($ per unit of local currency)		10	2	18	6	0	0							

Note: For explanations of this table see annex *Sources and Methods*. The forecasts for commodity components have been rounded to the nearest integer. Average values are given in local currency, but are derived from estimated dollar indices.

Table 50

Commodity trade forecasts: ITALY

Percentage changes from previous period, at annual rates

	Exports							Imports						
	Weights	1987	1988	1987 I	1987 II	1988 I	1988 II	Weights	1987	1988	1987 I	1987 II	1988 I	1988 II
Average values														
Food	7	1	4	–7	4	5	4	13	–5	5	–10	4	5	5
Raw materials	2	–6	–2	–16	–3	–3	–2	10	–13	–3	–17	–4	–2	–1
Energy	7	1	2	47	10	0	0	32	–7	5	45	19	1	0
Manufactures	84	–1	3	–2	3	4	3	45	0	4	0	3	4	4
Total		–¾	3½	–1½	3½	3¾	3		–2¾	3½	2½	5	3¼	3
Volumes														
Food	7	–8	3	6	3	3	4	13	5	6	6	7	6	6
Raw materials	2	1	0	3	0	0	1	10	3	6	7	7	6	6
Energy	7	0	3	3	3	3	3	32	8	7	8	8	6	7
Manufactures	84	2	4	3	4	4	3	45	5	8	12	9	7	7
Total		1	3¾	3	3½	4	3¼		6	7	9¼	8¼	6¾	6¾
Exchange rate ($ per unit of local currency)		15	0	18	1	0	0							

Note: For explanations of this table see annex *Sources and Methods*. The forecasts for commodity components have been rounded to the nearest integer. Average values are given in local currency, but are derived from estimated dollar indices.

Table 51

Commodity trade forecasts: CANADA

Percentage changes from previous period, at annual rates

	Exports							Imports						
	Weights	1987	1988	1987 I	1987 II	1988 I	1988 II	Weights	1987	1988	1987 I	1987 II	1988 I	1988 II
Average values														
Food	12	–3	2	–8	0	2	2	7	–1	2	–8	1	2	2
Raw materials	16	–2	0	–6	0	0	0	5	–4	0	–9	1	0	0
Energy	15	27	4	81	15	1	0	10	15	5	84	20	1	0
Manufactures	57	2	3	3	3	3	3	78	1	3	0	3	3	3
Total		3¾	2¾	6¾	4	2½	2		1½	3	1¾	3¾	3	2¾
Volumes														
Food	12	1	1	1	1	1	2	7	3	2	2	3	2	2
Raw materials	16	1	2	4	3	2	2	5	3	1	2	1	1	1
Energy	15	7	4	4	4	4	4	10	1	2	0	2	2	2
Manufactures	57	7	5	7	6	5	4	78	7	5	6	6	5	5
Total		5¾	4½	5½	5	4½	3¾		6	4¾	5½	5¼	4½	4½
Exchange rate ($ per unit of local currency)		5	0	8	1	0	0							

Note: For explanations of this table see annex *Sources and Methods*. The forecasts for commodity components have been rounded to the nearest integer. Average values are given in local currency, but are derived from estimated dollar indices.

Table 52

Trade balances of major OECD countries and country groups[a]

Seasonally adjusted, $ billion

	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
United States	–112.5	–124.4	–147.7	–158	–140	–75.5	–79	–79	–73	–67
Japan	44.3	56.0	92.7	105	101	51.8	53	53	50	51
Germany	22.9	28.9	57.3	61	55	32.0	32	29	27	27
France	–4.1	–5.4	–1.6	–4	–7	–0.5	–2	–3	–3	–4
United Kingdom	–5.8	–2.8	–12.1	–14	–17	–8.0	–6	–7	–8	–9
Italy	–6.1	–7.0	2.7	0	–4	3.1	1	–1	–2	–3
Canada	16.7	13.1	7.7	11	11	3.8	5	6	6	5
Total of above countries	–44.7	–41.7	–1.0	2	–2	6.8	4	–2	–3	1
Other OECD countries	–3.4	–4.2	–5.4	–12	–17	–2.2	–5	–7	–8	–9
Total OECD	–48.0	–45.9	–6.5	–10	–19	4.6	–1	–9	–11	–9
Four major European countries	6.9	13.7	46.3	43	26	26.7	25	18	14	11
OECD Europe	4.6	10.6	42.8	32	9	25.0	20	12	7	3
EEC	1.9	8.9	44.5	36	14	25.0	22	14	9	5
Total OECD *less* the United States	64.5	78.5	141.3	148	121	80.1	78	70	62	59

a) Detail may not add, due to rounding.

Table 53

Trade balances of other OECD countries

$ billion

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Austria	–3.7	–6.0	–4.2	–3.0	–3.4	–3.2	–2.6	–2.9	–4¾	–5¾
Belgium-Luxembourg	–2.5	–3.7	–2.9	–1.7	–0.1	0.2	0.7	3.5	3¾	3¼
Denmark	–3.4	–2.0	–0.9	–0.8	0.2	–0.2	–0.7	–1.2	–¼	0
Finland	0.4	–0.6	0.4	0.2	0.2	1.5	0.9	1.6	1½	1¾
Greece	–5.0	–5.6	–5.4	–4.8	–4.3	–4.2	–5.1	–4.4	–5	–5¼
Iceland	0	0	0	–0.2	0	0	0	0.1	0	..
Ireland	–2.3	–2.2	–2.2	–1.1	–0.2	0.2	0.7	0.7	1	1
Netherlands	–1.4	–1.4	3.8	4.5	4.3	5.4	5.3	7.2	6½	5¾
Norway	0.1	1.9	3.0	2.3	4.3	5.1	4.7	–2.2	–1¼	–¼
Portugal	–2.6	–4.2	–5.2	–4.8	–3.0	–2.1	–1.5	–1.4	–2¼	–2¾
Spain	–5.6	–11.7	–10.0	–9.3	–7.6	–4.3	–4.2	–6.3	–11½	–14
Sweden	0.8	–0.3	1.6	0.8	3.1	4.7	3.7	6.6	7¼	7
Switzerland	–1.7	–4.9	–2.5	–1.3	–2.2	–2.3	–2.0	–1.8	–3¼	–4¼
Turkey	–2.6	–4.6	–3.9	–2.7	–3.0	–2.9	–3.0	–3.1	–3	–2¾
Total of above European countries	–29.5	–45.4	–28.3	–21.7	–11.7	–2.2	–3.1	–3.5	–11¼	–16½
Australia	2.5	1.4	–2.3	–2.6	0.1	–0.8	–1.3	–2.2	–1	–1
New Zealand	0.5	0.3	0.2	–0.2	0	–0.3	0.1	0.2	¾	½
Total of above countries	–26.5	–43.6	–30.4	–24.5	–11.6	–3.4	–4.2	–5.4	–11½	–16¾
OECD Europe	–22.5	–61.5	–24.5	–14.7	–1.8	4.6	10.6	42.8	32	9½
EEC	–15.9	–46.9	–19.0	–11.0	–0.8	1.9	8.9	44.5	35½	13¾

Table 54

Current invisible transactions of major OECD countries and country groups[a]

Seasonally adjusted, $ billion

	1984	1985	1986	1987	1988	1986	1987		1988	
						II	I	II	I	II
United States	6.1	6.8	7.1	11	14	3.4	4	6	7	7
Japan	–9.3	–6.8	–6.7	–10	–14	–3.6	–5	–5	–7	–7
Germany	–16.0	–15.7	–21.5	–24	–26	–11.5	–12	–12	–13	–13
France	3.3	5.2	5.1	7	6	2.3	4	3	3	3
United Kingdom	7.5	6.6	10.5	11	11	5.5	6	5	6	6
Italy	3.2	2.8	2.4	3	3	2.0	2	1	2	2
Canada	–14.1	–13.5	–14.1	–15	–15	–6.9	–7	–7	–8	–8
Total of above countries	–19.2	–14.7	–17.2	–18	–20	–8.7	–9	–9	–10	–9
Other OECD countries	1.0	1.7	3.9	5	8	1.2	2	3	4	4
Total OECD	–18.2	–13.0	–13.2	–13	–11	–7.4	–7	–6	–6	–5
Four major European countries	–1.9	–1.1	–3.5	–3	–5	–1.6	–1	–2	–3	–2
OECD Europe	8.1	9.5	9.1	12	13	3.8	6	6	6	7
EEC	4.8	6.2	5.9	9	11	2.3	4	5	5	6
Total OECD *less* the United States	–24.2	–19.7	–20.4	–23	–25	–10.8	–11	–12	–13	–12

a) Balance on services (including factor incomes) and total transfers (both private and official).

Table 55

Current balances of OECD countries

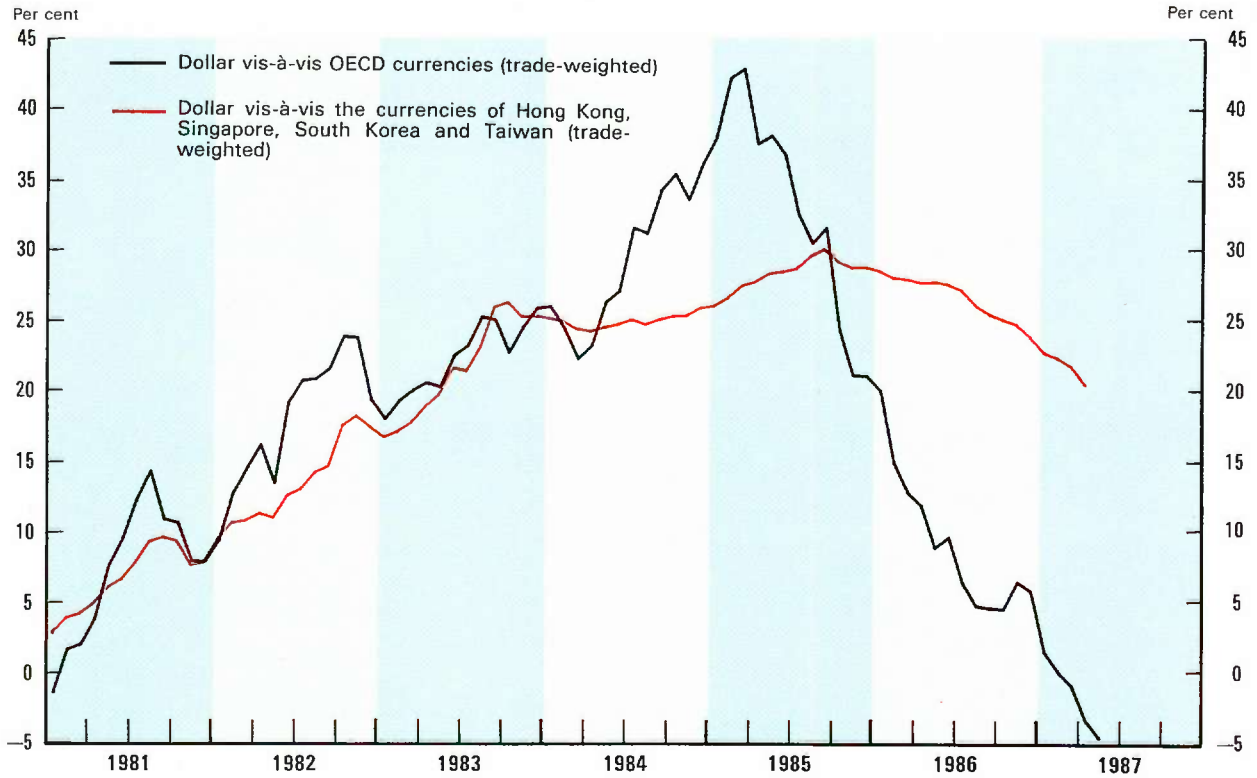
Percentage of GDP except for countries with an asterix where GNP is used

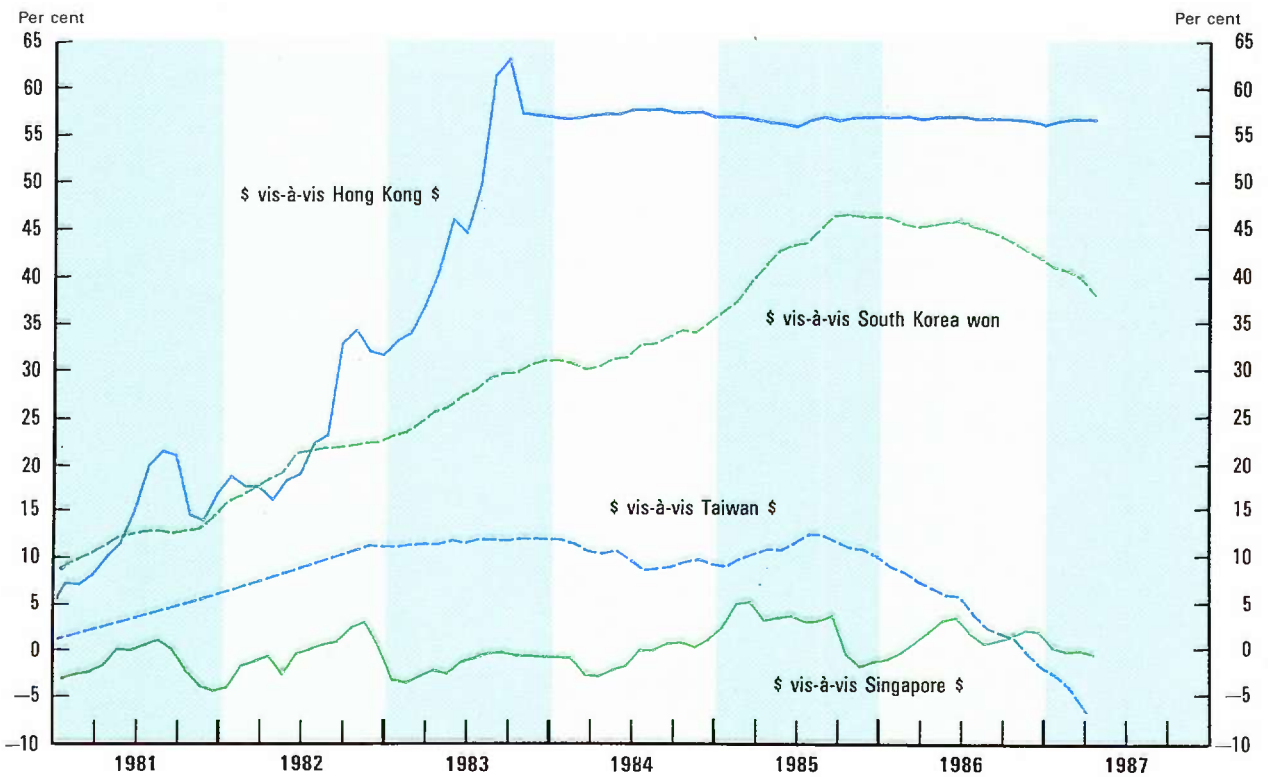
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
United States*	0	0.1	0.2	–0.3	–1.4	–2.8	–2.9	–3.3	–3.3	–2.6
Japan*	–0.9	–1.0	0.4	0.6	1.8	2.8	3.7	4.4	4.1	3.5
Germany*	–0.8	–1.9	–0.8	0.6	0.6	1.1	2.1	4.0	3.3	2.5
France	0.9	–0.6	–0.8	–2.2	–0.9	–0.2	0	0.5	0.3	–0.1
United Kingdom	–0.4	1.3	2.4	1.4	1.0	0.4	0.8	–0.3	–0.4	–0.8
Italy	1.7	–2.4	–2.3	–1.6	0.2	–0.8	–1.2	1.0	0.4	–0.2
Canada*	–1.7	–0.4	–1.7	0.8	0.7	0.8	–0.1	–1.7	–1.0	–1.0
Total of the above countries	–0.2	–0.5	0	–0.1	–0.3	–0.9	–0.7	–0.2	–0.2	–0.2
Austria	–1.5	–2.1	–2.0	0.7	0.3	–0.3	–0.2	0.1	–0.4	–
Belgium-Luxembourg	–2.7	–4.2	–4.2	–2.7	–0.4	0	0.8	3.3	3.3	–
Denmark	–4.5	–3.7	–3.2	–4.0	–2.1	–3.0	–4.6	–5.2	–3.2	–
Finland	–0.4	–2.7	–0.8	–1.6	–1.9	0	–1.4	–1.2	–1.6	–
Greece	–4.9	–5.5	–6.5	–5.0	–5.4	–6.4	–10.0	–4.3	–3.4	–
Iceland*	–0.8	–2.1	–4.4	–8.6	–2.2	–5.0	–4.6	0.1	–1.5	–
Ireland	–13.5	–11.5	–14.7	–10.6	–6.9	–5.8	–3.6	–2.0	–1.9	–
Netherlands	–1.3	–1.7	2.8	2.6	2.8	4.0	4.2	2.8	1.3	–
Norway	–2.2	1.9	3.8	1.2	3.7	5.4	5.1	–6.5	–6.1	–
Portugal	–0.2	–5.0	–11.7	–13.5	–7.3	–3.0	1.8	4.4	1.8	–
Spain	0.6	–2.4	–2.6	–2.3	–1.6	1.3	1.7	1.8	0.8	–
Sweden	–2.2	–3.6	–2.5	–3.5	–1.0	0.4	–1.2	0.6	0.1	–
Switzerland	2.6	–0.5	2.9	4.1	4.0	4.8	5.6	5.6	4.4	–
Turkey*	–2.4	–5.8	–3.2	–1.6	–3.7	–2.8	–1.9	–2.6	–2.8	–
Total of the smaller European countries	–1.4	–2.8	–1.6	–1.3	–0.3	0.9	0.8	0.7	0.3	0.1
Australia	–2.1	–2.9	–5.0	–5.1	–3.7	–4.7	–5.5	–5.6	–4.6	–
New Zealand	–3.4	–4.1	–4.8	–6.9	–5.2	–7.2	–5.9	–5.6	–3.8	–
Total of the smaller countries	–1.5	–2.8	–2.2	–2.0	–0.9	–0.2	–0.2	–0.1	–0.4	–0.5
Total OECD	–0.4	–0.9	–0.3	–0.4	–0.4	–0.8	–0.7	–0.2	–0.2	–0.2
Four major European countries	0.2	–0.9	–0.3	–0.3	0.3	0.3	0.6	1.6	1.2	0.6
OECD Europe	–0.4	–1.5	–0.7	–0.6	0.1	0.5	0.7	1.3	0.9	0.5
EEC	–0.3	–1.4	–0.8	–0.7	0	0.3	0.6	1.5	1.1	0.6
Total OECD *less* the United States	–0.6	–1.4	–0.7	–0.4	0.4	0.9	1.2	1.9	1.6	1.2

Note: Figures for 1987 and 1988 are forecasts.

CHART P

EXCHANGE RATES OF THE DOLLAR (1)





1. Deviations from average 1980 levels.

CHART Q

EXCHANGE RATES OF MAJOR CURRENCIES AGAINST THE DOLLAR

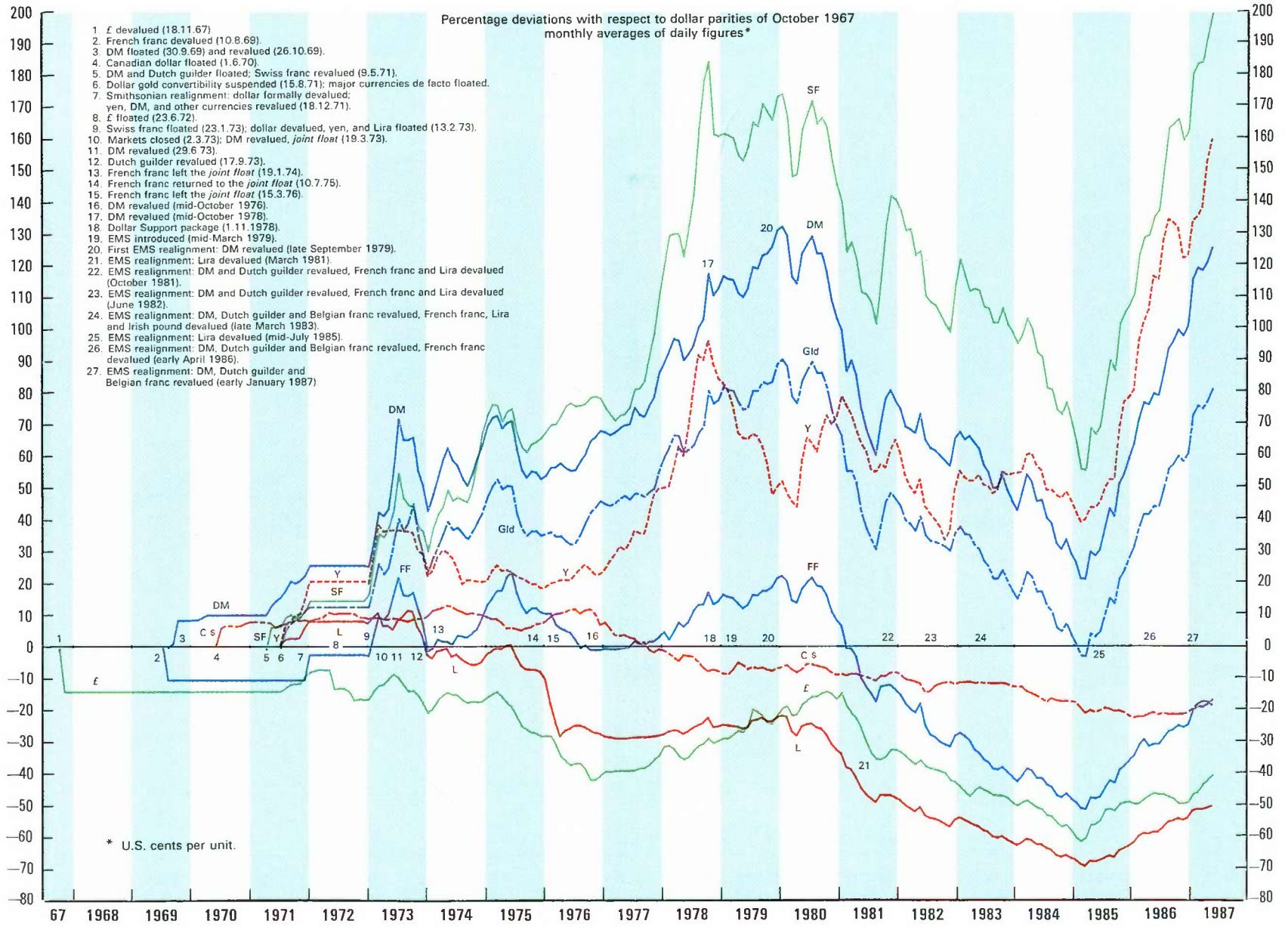


Table 56

Competitive positions

Indices, 1982=100

Relative costs and prices are calculated in a common currency

	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
A. *Manufacturing unit labour costs in local currency*										
United States	97	98	98	97	98	97	97	98	98	99
Japan	94	92	94	95	94	95	95	95	94	93
Germany	101	101	105	107	108	106	107	107	108	108
France	113	115	117	117	117	116	117	117	117	117
United Kingdom	103	106	112	115	120	112	113	116	119	122
Italy	117	125	134	140	145	136	139	142	144	146
Canada	99	101	104	106	109	105	106	107	109	110
Austria	99	100	104	105	106					
Belgium-Luxembourg	104	104	104	104	105					
Denmark	109	115	120	127	130					
Finland	107	111	115	119	122					
Netherlands	93	95	95	96	96					
Norway	111	119	131	144	152					
Sweden	106	114	120	126	132					
Switzerland	108	109	112	115	118					
Australia	111	113	121	126	133					
Relative unit labour costs in manufacturing										
United States	106	109	86	75	74	82	76	74	74	75
Japan	107	106	139	151	149	146	149	153	151	148
Germany	100	97	106	111	110	109	111	111	110	110
France	97	99	99	96	95	97	97	96	95	95
United Kingdom	89	90	84	81	85	80	80	83	84	86
Italy	104	104	110	114	116	112	113	115	116	117
Canada	99	96	91	94	95	91	93	94	95	96
Austria	97	98	100	102	101					
Belgium-Luxembourg	96	95	96	99	98					
Denmark	103	106	112	120	119					
Finland	99	102	98	98	99					
Netherlands	89	89	93	97	95					
Norway	104	105	103	106	110					
Sweden	93	96	96	97	99					
Switzerland	107	105	113	118	119					
Australia	103	85	70	68	71					
B. *Export prices of manufactures in local currency*										
United States	102	104	106	110	114	108	109	111	114	115
Japan	93	93	80	78	80	77	77	78	79	80
Germany	104	106	103	100	101	102	100	100	101	102
France	125	132	128	127	129	128	127	128	129	129
United Kingdom	116	121	122	126	130	123	126	127	129	131
Italy	118	129	127	126	130	126	125	127	129	131
Canada	108	113	114	117	120	114	116	118	120	121
Austria	104	107	103	102	105					
Belgium-Luxembourg	118	123	118	114	116					
Denmark	114	119	119	119	122					
Finland	112	117	117	118	121					
Netherlands	105	107	100	96	99					
Norway	120	123	123	130	136					
Sweden	120	126	130	133	137					
Switzerland	109	111	111	109	110					
Australia	116	125	135	145	149					
Relative export prices of manufactures										
United States	106	108	95	88	89	95	89	88	89	89
Japan	100	99	109	114	115	109	112	115	115	115
Germany	95	94	101	103	101	103	104	102	102	101
France	103	106	107	107	106	106	108	107	106	105
United Kingdom	95	95	90	90	92	86	89	91	92	92
Italy	98	98	100	101	102	101	101	101	102	102
Canada	102	100	94	95	94	92	95	94	94	94
Austria	98	98	100	103	104					
Belgium-Luxembourg	102	103	106	107	106					
Denmark	101	103	109	112	112					
Finland	98	99	98	99	99					
Netherlands	95	93	98	99	99					
Norway	104	100	94	95	97					
Sweden	98	100	101	103	103					
Switzerland	103	100	109	113	113					
Australia	104	91	81	82	82					

Table 57

Summary of balance of payments on current account of the OECD area and other major world groupings[a]

$ billion

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Trade balance										
OECD	–41	–75	–28	–21	–23	–48	–46	–6	–10	–19
OPEC	110	171	126	64	47	57	60	16	30	36
Non-oil developing countries	–42	–61	–70	–47	–23	–2	–6	3	3	–2
USSR and Eastern countries	4	3	7	15	17	18	8	3	5	3
Total[b]	30	38	35	11	18	25	15	15	28	18
Services and private transfers, net										
OECD	31	28	24	15	16	7	16	19	23	25
OPEC	–48	–59	–74	–83	–64	–62	–53	–45	–44	–46
Non-oil developing countries	–14	–16	–28	–33	–27	–33	–32	–29	–28	–25
USSR and Eastern countries	–4	–6	–7	–7	–6	–5	–4	–4	–4	–3
Total[b]	–35	–52	–85	–108	–80	–93	–73	–58	–53	–50
Balance on goods, services and private transfers										
OECD	–10	–47	–4	–5	–6	–41	–30	13	13	6
OPEC	61	112	52	–19	–17	–4	7	–30	–14	–10
Non-oil developing countries	–56	–78	–98	–80	–50	–36	–39	–26	–25	–27
USSR and Eastern countries	0	–2	0	8	11	13	4	–1	1	0
Total[b]	–5	–15	–50	–97	–62	–69	–58	–44	–25	–32
Official transfers, net										
OECD	–19	–22	–22	–24	–22	–25	–29	–33	–36	–36
OPEC	–4	–6	–5	–3	–4	–3	–3	–2	–2	–2
Non-oil developing countries	12	12	13	12	13	13	15	15	16	16
USSR and Eastern countries	0	0	0	0	0	0	0	0	0	0
Total[b]	–12	–16	–14	–14	–13	–15	–16	–20	–22	–21
Current balance										
OECD	–29	–69	–26	–29	–28	–66	–59	–20	–23	–30
OPEC	57	106	47	–22	–21	–7	4	–32	–17	–12
Non-oil developing countries	–44	–65	–85	–67	–37	–23	–23	–11	–9	–11
USSR and Eastern countries	0	–2	0	8	11	13	4	–1	1	0
Total[b]	–15	–31	–64	–111	–75	–83	–74	–63	–47	–54

a) Historical data for the OECD area are aggregates of reported balance of payments data by each individual country. For non-OECD groupings the data are estimated: in particular, for the derivation of trade balance of these country groups use is made of trade statistics reported by OECD countries, one important advantage being that such data are reported with much shorter time lag than non-OECD countries own trade statistics. Because of various statistical problems as well as a large number of non-reporters among non-OECD countries, trade and current balances estimated on the basis of these countries own balance of payments records may differ from corresponding estimates shown in this table.

b) Reflects statistical errors and asymmetries. Given the very large gross flows of world balance of payments transactions, statistical errors and asymmetries easily give rise to world totals (balances) that are significantly different from zero.

Table 58

Current balance of OPEC

$ billion

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
OPEC										
Exports	218	305	283	223	185	181	164	108	116	124
Imports	105	132	156	156	138	124	104	92	86	88
Trade balance	113	173	127	67	47	57	60	16	30	36
Services and private transfers, net	–51	–62	–71	–72	–64	–62	–53	–45	–44	–46
Official transfers, net	–5	–7	–6	–5	–4	–3	–3	–2	–2	–2
Current balance	56	104	50	–10	–21	–7	4	–32	–17	–12
Low absorbers										
Exports	115	178	179	129	96	89	75	52	50	52
Imports	45	56	67	69	63	57	44	39	37	38
Trade balance	70	122	112	61	33	32	31	13	13	14
Services and private transfers, net	–28	–33	–38	–35	–34	–33	–24	–21	–19	–19
Official transfers, net	–5	–7	–6	–4	–4	–3	–3	–3	–2	–2
Current balance	38	82	68	22	–5	–4	4	–11	–8	–7
High absorbers										
Exports	102	127	104	94	90	93	89	55	66	72
Imports	60	75	89	88	76	67	60	53	49	50
Trade balance	42	51	15	6	14	25	29	3	17	22
Services and private transfers, net	–24	–30	–33	–37	–30	–29	–29	–24	–26	–27
Official transfers, net	0	0	0	0	0	0	0	0	0	0
Current balance	19	22	–18	–31	–16	–4	0	–21	–9	–5
Memorandum items										
Percentage changes in OPEC trade										
Export prices	40	56	10	–4	–12	–2	–3	–40	19	2
Import prices	13	10	–5	–5	–4	–2	–1	17	10	3
Export volumes	6	–11	–15	–18	–6	0	–7	10	–10	5
Import volumes	–8	14	25	5	–8	–8	–15	–25	–15	–1
Of which: Low absorbers	11	13	26	5	–5	–8	–21	–24	–15	0
High absorbers	–18	14	25	4	–10	–9	–10	–25	–15	–2

Note : Figures may not add due to rounding.

Table 59

Current balance of non-oil developing countries

$ billion

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Exports, fob	224	285	298	282	293	328	324	343	390	419
Imports, fob	266	346	368	329	316	331	330	340	387	421
Trade balance	–42	–61	–70	–47	–23	–2	–6	3	3	–2
Services and private transfers,net	–14	–16	–28	–33	–27	–33	–32	–29	–28	–25
Official transfers, net	12	12	13	12	13	13	15	15	16	16
Current balance	–44	–65	–85	–67	–37	–23	–23	–11	–9	–11

Note: Detail may not add, due to rounding.

Table 60

Current balance of Eastern countries[a]

$ billion

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Exports	68.5	80.9	84.4	88.1	89.2	90.1	82.0	79.3	93.7	98.2
Imports	64.9	77.6	77.7	73.5	72.7	72.3	74.0	76.7	89.0	95.0
Trade balance	3.6	3.3	6.7	14.6	16.5	17.8	8.0	2.6	4.7	3.1
Services and private transfers, net	–3.9	–5.6	–6.6	–6.8	–5.7	–5.0	–4.1	–3.7	–3.7	–3.5
Official transfers, net	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Current balance	–0.2	–2.2	0.2	7.9	10.9	12.9	4.1	–0.9	1.3	–0.1
Memorandum items										
Percentage changes in trade										
Export prices	..	..	..	–6	–6	–4	–5	–12	17	3
Import prices	..	..	..	–7	–6	–5	–6	5	10	3
Export volumes	..	..	..	14	9	5	–5	9	1	2
Import volumes	..	..	..	1	5	5	9	–2	6	4

a) Data reflect transactions of the Soviet Union and Eastern Europe with third countries.

Table 61

Trade in manufactured goods: export market growth and relative export performance

Percentage changes from previous year

	(1) Import volume				(2) Export market growth[a]				(3) Export volume				(4) = (3) - (2) Relative export performance			
	1984	1986	1987	1988	1984	1986	1987	1988	1984	1986	1987	1988	1984	1986	1987	1988
United States	11.7	9.0	2¼	1½	3.8	2.6	3½	5¾	0.3	0.3	11¼	18½	–3.3	–2.3	7½	12
Japan	1.1	24.0	–5	9½	5.0	2.0	3¼	3½	4.9	–1.5	–1½	–1¾	–0.1	–3.4	–4½	–5¼
Germany	4.7	8.3	6¾	6¼	6.0	4.6	4	5	8.7	2.7	–¾	1	2.6	–1.9	–4½	–3¾
France	5.7	9.3	5½	5¾	5.0	2.9	4	5¼	0.5	0	2¾	4¼	–4.3	–2.8	–1¼	–¾
United Kingdom	8.3	5.2	2	5¾	4.5	3.1	3½	4½	8.8	2.5	5½	3½	4.1	–0.5	1¾	–1
Italy	7.3	4.2	5½	7¾	4.0	3.1	3½	4¾	5.3	1.7	1¾	3¾	1.2	–1.3	–1¾	–¾
Canada	7.2	7.2	6¾	5¼	10.6	7.9	2¼	2	3.5	5.3	6¾	5½	–6.4	–2.5	4½	3¼
Total of the above countries	8.1	8.8	3½	4½	5.2	3.4	3½	4½	4.7	1.1	3	5	–0.4	–2.2	–½	½
Austria	5.4	6.4	3¾	5	5.0	3.6	4¾	5¼	10.2	1.5	–1½	¾	4.9	–2.1	–6	–4¼
Belgium-Luxembourg	5.9	9.4	5¼	5¾	6.0	5.6	4¾	5¼	4.5	3.5	3¼	3¾	–1.4	–2.0	–1½	–1½
Denmark	8.9	10.9	–4	1¾	7.5	4.9	3¼	4	3.2	0.7	–¼	1¾	–4.0	–4.0	–3¼	–2¼
Finland	6.4	5.8	5	3¼	7.9	2.5	4½	4½	2.8	2.4	2½	3¼	–4.8	–0.1	–2	–1
Ireland	3.7	0	3	4¾	7.1	6.4	3¾	5¼	7.2	4.0	3¼	5	0.1	–2.3	–½	–¼
Netherlands	8.7	6.9	6¾	4	5.6	5.7	4½	5¼	6.4	4.1	3¼	1½	0.7	–1.5	–1	–3½
Norway	14.2	15.2	–5	–3½	7.3	4.7	4¼	5	3.9	–4.0	–1¼	–1½	–3.1	–8.3	–5¼	–6
Spain	12.0	32.2	27¼	11¼	5.0	1.8	3	4¾	1.2	–8.0	2	4¼	–3.6	–9.6	–1	–½
Sweden	10.7	3.4	8	5¾	6.9	6.1	2¼	3½	4.2	3.2	2	2½	–2.5	–2.7	–¼	–1
Switzerland	5.6	10.2	4¼	4½	4.6	4.4	4¼	5¼	9.8	3.6	¾	2¼	4.9	–0.7	–3¼	–3
Total of the smaller European countries	8.5	9.4	6	4¾	5.7	4.5	3¾	5	5.6	2.4	2¼	2¾	–0.1	–2.0	–1½	–2
Australia	10.5	–6.2	–7½	½	3.7	3.4	2½	5¼	7.7	8.6	9½	4¾	3.8	5.0	6¾	–½
New Zealand	2.6	–0.9	3¼	3½	7.0	3.6	–2¼	4	6.8	–8.9	2½	3¾	–0.2	–12.1	5	–¼
Total of the smaller countries	8.6	7.8	4¾	4½	5.7	4.4	3¾	5	5.7	2.4	2½	2¾	–0.1	–1.9	–1¼	–2
Total OECD	8.2	8.5	3¾	4½	5.3	3.6	3½	4½	4.9	1.4	3	4½	–0.3	–2.1	–¾	0
Total of non-OECD	–1.0	–8.4	2	4¼	6.4	4.6	2¼	4	3.6	6.5	6½	4¼	–2.6	1.8	4	¼
of which:																
Developing areas	3.8	–2.9	6¼	5¾	6.7	5.1	2¼	3¾	4.7	7.3	7¼	4¾	–1.9	2.0	5	¾
Newly industrialising countries	–0.6	5.6	13	7¾	7.3	4.8	1½	3½	4.3	7.1	8	4½	–2.8	2.2	6¼	1

a) The calculation of market growth is based on the growth of import volume [panel (1) above] in each exporting country's markets, with weights based on manufacturing trade flows in 1981.

Source: Trade Matrix Tape - United Nations Statistical Office.

Table 62

Trade of non-oil developing countries (NODCs)

Trade volumes and prices, percentage changes; dollar terms

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Oil producers										
Export volumes	11	–5	–8	9	7	8	2	4	4	4
Import volumes	–5	21	15	2	–10	8	4	–18	–7	6
Export prices	37	47	7	–4	–5	2	–8	–33	14	3
Import prices	14	13	1	–4	–4	1	–2	8	9	3
Newly industrialising NODC's										
Export volumes	6	17	9	–1	6	15	5	6	6	4
Import volumes	11	10	5	–6	1	7	0	6	12	7
Export prices	19	16	–1	–5	0	2	–5	8	8	3
Import prices	21	19	2	–4	–3	1	–5	1	10	4
Other NODC's										
Export volumes	8	7	3	4	3	5	7	10	5	4
Import volumes	6	8	1	1	1	4	13	–4	1	1
Export prices	17	13	–4	–5	–4	2	–6	2	4	3
Import prices	18	18	2	–5	–4	–1	–2	–1	9	3
Total NODC's										
Export volumes	8	8	2	1	5	11	5	7	6	4
Import volumes	5	11	6	–5	–1	6	5	–1	6	5
Export prices	22	24	–1	–5	–2	2	–6	–1	8	3
Import prices	19	20	–1	–5	–4	0	–4	1	10	4
Trade balances ($ billion)										
Oil producers	1	4	–4	2	11	12	10	1	10	9
Newly-industrialising NODC's	–15	–20	–20	–13	0	17	27	34	28	22
Other NOC's	–27	–46	–46	–36	–34	–31	–43	–32	–35	–33
Total NODC's	–42	–61	–70	–47	–23	–2	–6	3	3	–2

Table 63

OECD countries' exports to OPEC[a]

Data based on $ values of exports

	Value in $ billion		Percentage changes				Exports to OPEC as a percentage of total exports				Share of OPEC market[b]			
	Annual average 1972-73	1986	At annual rates 1972-75	At annual rates 1975-84	1984 to 1985	1985 to 1986	1972-73	1975-84	1985	1986	1972-73	1975-84	1985	1986
United States	3.2	10.8	57.3	3.3	–13.3	–13.1	5.3	9.6	5.9	5.0	22.9	19.9	17.3	16.5
Japan	2.3	11.7	65.2	7.3	–16.1	–11.7	7.0	13.8	7.5	5.6	16.4	18.4	18.4	17.8
Germany	1.9	8.2	66.8	4.1	–12.5	–3.7	3.3	7.7	4.7	3.4	13.2	13.9	11.8	12.5
France	1.5	6.6	61.8	7.1	–20.2	–9.0	4.8	9.4	7.4	5.5	10.6	9.5	10.1	10.0
United Kingdom	1.6	7.0	47.4	4.4	–1.8	5.3	5.8	9.9	6.5	6.5	11.5	9.5	9.2	10.6
Italy	1.1	6.2	57.7	9.8	–15.4	–14.9	5.3	12.8	9.2	6.3	7.8	9.4	10.1	9.4
Canada	0.3	1.1	39.7	8.5	–22.3	–7.8	1.2	2.4	1.3	1.2	1.9	1.6	1.6	1.6
Total of the above countries	11.8	51.6	59.2	5.7	–14.1	–8.8	4.7	9.5	6.0	4.8	84.2	82.2	78.5	78.4
Austria	0.1	0.9	66.1	11.9	3.3	–17.9	2.2	6.0	6.0	3.8	0.7	1.0	1.4	1.3
Belgium-Luxembourg	0.4	1.6	60.8	5.8	–11.9	–6.0	1.9	4.4	3.2	2.3	2.6	2.5	2.3	2.4
Denmark	0.1	0.5	62.1	8.4	–26.2	2.4	1.9	4.7	3.2	2.6	0.7	0.7	0.7	0.8
Finland	0	0.3	56.4	13.3	–14.5	–22.4	1.3	3.8	2.6	1.7	0.3	0.5	0.5	0.4
Greece	0	0.4	98.3	8.1	–23.3	–6.1	3.7	14.8	9.6	7.3	0.3	0.7	0.6	0.6
Iceland	0	0	52.5	–5.7	–37.9	1223.8	0.3	4.0	0.2	1.8	0	0	0	0
Ireland	0	0.3	89.5	19.3	17.0	–22.2	0.7	4.1	4.0	2.6	0.1	0.3	0.6	0.5
Netherlands	0.5	2.1	51.9	7.3	–16.7	0.8	2.4	4.7	3.1	2.7	3.4	3.2	2.9	3.2
Norway	0	0.2	60.8	0	–7.6	22.4	1.0	1.9	0.6	0.8	0.3	0.3	0.2	0.2
Portugal	0	0.1	50.1	14.7	4.1	–17.4	0.8	2.3	2.6	1.6	0.1	0.1	0.2	0.2
Spain	0.3	1.5	56.0	11.4	–18.2	–13.8	6.1	12.1	7.2	5.6	1.9	2.3	2.4	2.3
Sweden	0.2	0.9	69.7	8.0	–30.1	–14.5	1.8	5.6	3.4	2.4	1.3	1.7	1.4	1.3
Switzerland	0.3	1.7	54.6	8.9	–11.1	4.5	3.5	7.7	5.9	4.5	2.1	2.1	2.3	2.6
Turkey	0	2.3	46.0	38.4	11.8	–15.3	3.9	20.1	35.6	31.9	0.3	1.0	3.8	3.5
Total of the smaller European countries	2.0	12.8	59.3	10.4	–10.8	–8.4	2.3	5.8	4.7	3.5	14.2	16.5	19.5	19.5
Australia	0.2	1.4	54.7	10.3	–7.9	–7.0	2.8	6.0	6.5	6.1	1.6	1.3	2.0	2.1
Total of the smaller countries[c]	2.2	14.2	58.8	10.4	–10.5	–8.3	2.4	5.8	4.8	3.7	15.8	17.8	21.5	21.6
Total OECD[c]	14.0	65.8	59.1	6.6	–13.4	–8.7	4.1	8.6	5.7	4.5	100.0	100.0	100.0	100.0
Four major European countries	6.0	28.0	58.7	6.2	–13.2	–5.7	4.4	9.4	6.4	4.9	43.0	42.3	41.1	42.5
OECD Europe	8.0	40.8	58.9	7.3	–12.4	–6.6	3.6	8.0	5.7	4.4	57.2	58.8	60.6	62.0
EEC	7.0	33.0	58.8	6.3	–13.4	–5.4	3.8	8.2	5.7	4.4	50.2	49.8	48.4	50.1
Total OECD *less* the United States[c]	10.8	55.0	59.7	7.4	–13.4	–7.8	3.8	8.3	5.7	4.4	77.1	80.1	82.7	83.5

a) See table 59 in *Economic Outlook* no. 23, for data 1973-1977.
b) Percentage of total OECD exports to OPEC.
c) Excluding exports of New Zealand for which figures are not available.

Table 64

Market prices of selected primary commodities exported by developing countries[a]

Indices of dollar prices, 1982=100

	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Food and tropical beverages	107	96	114	104	105	106	104	104	105	105
of which										
Food	91	80	86	85	86	84	85	85	86	86
Tropical beverages	120	109	136	120	120	123	120	120	120	120
Agricultural raw materials	103	93	94	94	96	93	94	95	95	96
Minerals, ores and metals	95	92	86	85	86	83	85	85	86	87
Total	103	94	102	97	98	97	97	98	98	98
Memorandum item										
Export prices of OECD manufactures	94	94	113	127	130	116	125	128	130	131

a) Indices through 1986 II are based on data compiled by UNCTAD.

Table 65

Oil prices

	OECD real end-user price of petroleum products (1980=100)	OECD import price of crude (cif $ per bl)	Spot market refined product price[a] ($ per bl)	OPEC crude oil production[b] (mbd)
1977	74.0	13.87	13.39	27.3
1978	70.4	14.03	14.66	30.8
1979	82.2	19.34	31.29	31.4
1980	100.0	32.91	33.73	27.1
1981	107.3	36.34	34.05	22.8
1982	103.8	33.94	31.59	18.8
1983	99.6	30.00	28.29	17.7
1984	97.7	28.98	27.68	17.7
1985	96.0	27.45	30.13	16.2
1986	72.0	15.04	17.87	18.2
1985 Q3	94.5	26.76	29.72	15.1
Q4	94.7	27.47	31.04	17.7
1986 Q1	85.0	21.69	22.59	17.5
Q2	73.2	13.22	17.27	18.2
Q3	67.0	11.74	15.50	19.5
Q4	65.5	13.53	16.10	17.4
1987 Q1	68.9	..	19.78	15.9
1986 October	65.9	13.08	15.51	17.1
November	65.1	13.35	16.02	17.5
December	65.5	14.18	16.78	17.6
1987 January	68.5	16.27	21.07	16.6
February	69.0	17.24	18.43	15.8
March	69.2	..	19.83	15.3
April	..	..	..	16.8

a) Up to 1984, derived by weighting each product average price by its importance in the production of a typical European refinery. Since 1985, derived by weighting each spot fob product price produced in a typical European refinery; this price tends to be more representative of netback prices which are not published. According to the definition used prior to 1984, the 1985 average would be equal to $26.88 per barrel.

b) Excluding Natural Gas Liquids, including Oman and Bahrain.

Table 66

Oil market conditions[a]

Seasonally adjusted, in million of barrels per day (mbd)

	1984	1985	1986	1987	1988	1986 II	1987 I	1987 II	1988 I	1988 II
Demand										
OECD consumption[b]	34.3	34.0	34.8	35.2	35.6	35.0	35.1	35.3	35.4	35.7
OPEC consumption[b]	3.4	3.5	3.5	3.5	3.6	3.5	3.5	3.5	3.6	3.6
NODC consumption	8.1	8.1	8.3	8.5	8.6	8.3	8.5	8.5	8.6	8.6
OECD stockbuilding	0.2	–0.3	0.3	–0.3	0	0.7	–0.7	0	0	0
Total demand	46.0	45.3	47.0	46.9	47.8	47.5	46.4	47.3	47.6	47.9
Discrepancy[c]	0	0.1	0.5	–0.3	0	0.8	–0.6	0	0	0
Supply										
Total supply	46.0	45.4	47.5	46.6	47.8	48.3	45.8	47.3	47.6	47.9
of which:										
Processing gain	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
OECD production	16.7	17.1	16.8	16.8	16.7	16.7	16.8	16.8	16.7	16.7
NODC production	7.6	8.0	7.9	8.2	8.2	8.1	8.2	8.2	8.2	8.2
Centrally-planned economies net exports	1.8	1.6	1.9	1.9	1.9	2.2	1.7	2.1	1.7	2.1
Production of Low and High absorbers	18.9	17.7	19.9	18.7	20.0	20.3	18.1	19.2	20.0	19.9
of which:										
Opec	18.5	17.2	19.3	18.1	19.4	19.7	17.5	18.6	19.4	19.3
Trade										
OECD net imports	16.9	15.5	17.4	17.1	17.9	18.0	16.6	17.5	17.7	18.0
Non-OECD,non OPEC net imports	–1.3	–1.5	–1.5	–1.6	–1.5	–2.0	–1.4	–1.8	–1.3	–1.7
Discrepancy[c]	0	0.1	0.5	–0.3	0	0.8	–0.6	0	0	0
Net exports of Low and High absorbers	15.5	14.2	16.4	15.2	16.4	16.8	14.6	15.7	16.4	16.3
Memorandum items										
OECD stock level (mb)	3 365	3 280	3 403	3 275	3 275	3 403	3 275	3 275	3 275	3 275
OECD stock/consumption ratio (days)[d]	101	96	95	93	92	97	93	93	92	92
Ratio of consumption to GNP (1980=100)	81.2	78.1	78.0	77.1	75.9	..	..	..	..	..
OECD import price of crude (fob, $ bl.)[e]	27.98	26.45	14.04	17.63	18.00	11.63	17.25	18.00	18.00	18.00

a) Estimates of processing gains and Natural Gas Liquids are included in both demand and supply. Detail may not add due to rounding.
b) Includes marine bunkers.
c) Reflects stock changes on land outside the OECD area, changes in oil at sea, and statistical and reporting errors.
d) Half-yearly figures represent period-end stock levels divided by following half-year's consumption.Yearly figures are an average of the two half-years.
e) Using import weights and prices for six large OECD economies.

Table 67

Net imports of oil[a]

$ million

	1973	1979	1980	1981	1982	1983	1984	1985	1986
United States	–7 031	–57 562	–74 112	–74 834	–55 574	–49 754	–53 710	–46 769	–30 200
Japan	–6 642	–37 851	–57 645	–58 422	–51 268	–45 600	–45 355	–40 311	–23 986
Germany	–5 110	–24 481	–32 143	–28 885	–25 589	–22 706	–22 045	–21 828	–13 788
France	–3 264	–16 295	–26 782	–24 898	–22 079	–18 082	–17 711	–16 151	–9 256
United Kingdom	–3 301	–2 269	69	5 160	7 604	10 262	9 149	10 229	5 607
Italy	–2 395	–12 094	–20 561	–22 237	–18 767	–17 429	–15 738	–15 837	–9 314
Canada	582	– 814	–2 436	–3 497	–1 062	1 006	1 299	2 275	800
Total of the above countries	–27 162	–151 366	–213 610	–207 613	–166 735	–142 303	–144 111	–128 392	–80 137
Austria	– 332	–1 794	–2 835	–2 699	–2 128	–1 859	–1 875	–1 800	–1 154
Belgium-Luxembourg	– 676	–2 956	–4 640	–5 278	–5 054	–3 035	–3 944	–3 502	–1 845
Denmark	– 649	–2 678	–3 240	–2 859	–2 740	–1 916	–1 802	–1 722	– 975
Finland	– 423	–2 322	–3 343	–3 020	–2 526	–2 319	–1 936	–2 112	–1 337
Greece	– 203	–1 542	–1 626	–1 522	–2 355	–2 205	–1 984	–2 359	–1 192
Ireland	– 159	–1 049	–1 443	–1 341	–1 235	– 996	– 967	– 897	– 672
Netherlands	– 526	–4 588	–6 556	–5 565	–4 150	–3 828	–3 287	–2 580	374
Norway	– 329	1 490	3 591	4 082	3 921	5 086	5 866	6 130	3 369
Portugal	– 137	–1 165	–1 843	–1 971	–2 234	–1 819	–1 967	–1 601	–1 200
Spain	– 901	–6 684	–11 073	–11 692	–9 732	–9 103	–8 128	–7 992	–4 900
Sweden	–1 011	–5 213	–6 485	–5 770	–5 032	–4 030	–3 208	–3 568	–2 216
Switzerland	– 791	–3 263	–3 814	–3 480	–3 112	–3 016	–2 752	–2 811	–2 131
Turkey	– 172	–1 665	–3 418	–3 635	–3 285	–3 268	–3 115	–3 132	–1 800
Total of the smaller European countries[b]	–5 783	–33 429	–46 725	–44 750	–39 662	–32 308	–29 099	–27 946	–15 679
Australia	– 179	–1 291	–2 290	–2 563	–2 503	–1 047	– 441	361	– 200
New Zealand	– 147	– 671	–1 181	–1 061	– 977	– 964	– 829	– 691	– 521
Total of the smaller countries[b]	–6 634	–35 391	–50 196	–48 374	–43 142	–34 319	–30 369	–28 276	–16 400
Total OECD[b]	–33 796	–186 757	–263 806	–255 987	–209 877	–176 622	–174 480	–156 668	–96 537
Four major European countries	–14 070	–55 139	–79 417	–70 860	–58 831	–47 955	–46 345	–43 587	–26 751
OECD Europe[b]	–19 853	–88 568	–126 142	–115 610	–98 493	–80 263	–75 444	–71 533	–42 430
EEC	–17 322	–75 801	–109 838	–101 088	–86 331	–70 857	–68 424	–64 240	–37 161
Total OECD *less* the United States[b]	–26 765	–129 195	–189 694	–181 153	–154 303	–126 868	–120 770	–109 899	–66 337

a) All figures exclude natural gas liquid.
b) Excluding Iceland.

Sources and Methods

The OECD *Economic Outlook* is based largely on the work of the Department of Economics and Statistics. The following notes describe briefly the forecasting techniques used and the underlying statistical concepts and sources.

CALCULATION OF SEMI-ANNUAL GROWTH RATES AT ANNUAL RATES

Most data shown in the *Economic Outlook* are annual or semi-annual, although quarterly figures are shown for some countries. While the calculation of annual (sometimes referred to as "year-on-year") growth rates is widely understood, the meaning and interpretation of semi-annual growth rates is sometimes a source of confusion.

An annual growth rate is the absolute change between the earlier and the later year, expressed as a percentage of the earlier year value. Semi-annual growth rates are calculated analogously, with the change between the earlier and later half-year being expressed as a percentage of the earlier half-year. But it is often convenient to be able to compare semi-annual growth rates more directly with annual growth rates, and hence they are often expressed at annual rates. This is done by squaring the growth factor between the earlier and later half-years, and expressing the result as a percentage after subtracting unity. (The reason for squaring the growth factor, rather than simply doubling the growth rate, derives from the compound nature of geometric growth rates: a growth rate of 10 per cent in two successive half-years results in more than 20 per cent growth in a full year, because the level at the beginning of the second half-year is higher than at the beginning of the first half-year).

Thus if the value of a variable averages X_t in half year 't' and grows to average X_{t+1} in the next half-year, the semi-annual growth rate at an annual rate is given by $[(X_{t+1}/X_t)^2-1].100$. For example, semi-annual United States GNP in constant 1982 dollars over the period 1983 to 1985 was as follows (in billions):

	1983		1984		1985	
	I	II	I	II	I	II
GNP (level, annual rate)	3 222	3 336	3 446	3 514	3 557	3 613

At an annual rate, therefore, the growth between the first and second halves of 1983 is given by $[(3336/3222)^2-1].100$, or 7.2 per cent. Growth rates for the years, and for the series of half-years, are as follows:

	1984	1985	1983		1984		1985	
			I	II	I	II	I	II
GNP (growth rate)	6.4	2.7	4.2	7.2	7.9	2.8	2.5	3.2

This numerical example illustrates the usefulness of semi-annual growth rates in highlighting movements through the course of a year, and also the fact that the average of two semi-annual growth rates is not necessarily the same as the corresponding annual growth rate figure. The annual growth rates for United States GNP in 1984 and 1985 are 6.4 and 2.7 per cent respectively. Whereas 2.7 per cent is reasonably close to the average of 2.5 and 3.2 per cent for the two half-years of 1985, this is largely coincidental: the 1984 annual growth rate of 6.4 per cent is far from the average of the two semi-annual growth rates during 1984.

This results from the phenomenon known as "carry-over". The *level* of a variable at the *end* of one year has, from a purely arithmetic point of view, a quantitatively different influence on the growth rate *during* the next year than on the year-on-year growth rate for that year. In the U.S. example above, GNP was accelerating during 1983, and so the level by the end of the year was considerably higher than the average for the year as a whole. Hence the year-on-year growth rate for 1984 was higher than the growth during 1984.

There is a convenient rule of thumb for converting semi-annual to annual growth rates, which for most purposes gives acceptably accurate results. It is the so-called "quarter-half-quarter" rule, and is to the effect that the annual growth rate is a quarter of the rate in the second semester of the preceding year, plus half the rate in the first semester of the year in question, plus a quarter of the rate in the second semester. Applying this rule to the example above gives an annual growth rate for 1984 of $7.2/4 + 7.9/2 + 2.8/4$, or 6.5. This rule of thumb is generally sufficiently accurate for most purposes, but nevertheless should be used with caution, because it becomes progressively less accurate the higher the growth rates involved.

Year-on-year and semi-annual growth rates are not, of course, the only way of expressing the growth of economic variables. Quarter-to-quarter growth rates are frequently referred to, and the rate annualised by raising the growth factor to the fourth power, subtracting unity and multiplying by 100 in a fashion analogous to that for calculating annualised semi-annual growth rates. In some countries, notably the United States, public interest frequently focusses on the growth rate between the fourth quarter of the preceding year and that of the current year. This is often referred to as the growth rate *in* the current year.

FORECASTING TECHNIQUES

A key feature of the OECD semi-annual forecasting cycle is that it produces for the Member countries forecasts which aim at being consistent externally as well as internally. Emphasis is placed on international trade and financial influences

involving a set of success ive iterations between domestic and external projections. The purpose is to take into account as fully and consistently as possible, for each country, both domestic impulses and external impulses (export volumes, import prices, and financial variables) generated by all other OECD countries and non-OECD regions. While account is taken of official and unofficial national forecasts, OECD forecasts are entirely the product of the OECD Department of Economics and Statistics.

Relatively detailed forecasts are prepared for seven OECD countries (United States, Japan, Germany, France, United Kingdom, Italy and Canada) which account for 85 per cent of total OECD GNP at 1982 exchange rates. For those countries, however, where only yearly data are available from national sources, the OECD Secretariat prepares its own half-yearly estimates, by interpolation or on the basis of short-term economic indicators. All half-yearly demand, output and price figures are easonally adjusted, and percentage changes are expressed at annual rates.

To ensure the international consistency of the forecasts, the OECD's INTERLINK system[1]–which draws the quantitative material, prepared by the country and general specialists, into an integrated simulation system–is applied at all stages of the forecasting "Round". The forecasting Round begins with a simulation of the INTERLINK system, to provide an initial, incremental update of the previous set of forecasts, in the light of new data, changes in achieved or announced policies, and changed assumptions about exogenous variables. Together with an assessment of special factors affecting each economy, and information available from leading economic indicators, this simulation provides a basis for preliminary assessments of likely future demand, price and other developments for the individual countries. This procedure ensures that, from the outset, the estimates not only of domestic forecast components prepared by the Country Desks, but also of import and export volumes and prices prepared by the Balance of Payments and General Economics Divisions, are nationally and internationally coherent.

The forecasts prepared by the OECD are conditional upon a set of technical assumptions. Exchange rates against the dollar are assumed to remain constant except for those countries where stated or *de facto* policy is otherwise. The official price of crude oil is assumed to follow announced OPEC intentions as far as they go, and the prices of OECD exports of manufactures thereafter. Fiscal and monetary policy assumptions are generally based upon existing stated policies (the individual Country Notes discuss the assumptions made in particular cases). For public consumption and public investment, as much use as possible is made of budgetary statements.

The domestic economy

While the details differ from country to country, forecasts of domestic trends in individual OECD economies are generally built up as follows.

Private consumption forecasts, for all countries, are based principally on the evolution of real personal disposable income, with some allowance for effects of financial conditions and consumer confidence. Private investment components are forecast separately, the minimum disaggregation for the major countries being the distinction between business fixed investment, residential construction, and stockbuilding. Business fixed investment is often derived from a function involving financial variables (such as cash flow and interest rates) and non-financial variables (capacity utilisation, movements of sales and output). The results of investment intentions surveys carried out among businessmen are frequently used in adjusting the short-term forecast of business fixed investment. Residential investment is usually projected on the basis of demographic trends, real incomes, financial conditions and cyclical construction indicators such as building starts or permits, mortgage rates, availability and changes in housing and land prices. The stockbuilding forecast is often based upon developments of the ratio of stocks to output over the preceding few years.

Changes in the level of demand, together with a judgement of the effect of demographic trends on participation rates, lead to forecasts for employment and unemployment. The pressure of demand, information on the pattern of wage settlements and an element of judgement regarding productivity give an estimate of the likely development of compensation per employee. This, together with projected employment and productivity growth, gives the contribution of unit labour costs to changes in prices. The forecasts of demand conditions and foreign trade prices, as well as an assessment of supply potential, are important to an evaluation of the possible development of domestic prices. Changes in wages and import prices are typically assumed to be shifted into domestic prices within 12-18 months. Wages in turn are assumed to adjust fully, or nearly so, to changes in domestic prices (as measured by the private consumption deflator), within a year for most countries. Special factors which may affect food prices are taken into account and an estimate is finally reached for the implicit price deflator for private consumption. Deflators for the other demand components are usually separately estimated in order to obtain the deflator for total output.

For the seven major OECD countries and some smaller countries forecasts are provided for the appropriation accounts of households, business and government. These three accounts are constructed by identifying first the different sources of income on the revenue side, while the disposition of each sector's income is determined in the expenditure account.

Income of households consists primarily of compensation of employees, income of the self-employed, and transfers received. These income elements, together with property and other income, are then adjusted for direct taxes and current transfers to derive household disposable income. Household saving is determined by subtracting nominal consumption, the implied savings ratio being compared with its past behaviour as a check on the consumption forecast. Household net lending is determined by further subtracting various capital transactions.

Business taxes are closely related to business income. The remaining components of the business appropriation account are derived as follows: business income is GDP minus the net income of the three other sectors (households, government and foreign); business net lending is determined residually as the difference between the foreign balance and net lending of the other two domestic sectors.

Current receipts of government is the sum of direct taxes on households and business, indirect taxes, various transfers received, and property income of government.

Current disbursements of government is the sum of government consumption, and various transfers, subsidies and property income paid. Net lending of government is given by government saving (current receipts less current disbursements) net of investment and other capital transactions.

Foreign trade

Particular attention is given in the forecasting Round to ensuring the consistency of international trade and price forecasts, trade representing a principal channel through which developments in one country affect other OECD economies. Six categories of international trade are customarily distinguished: manufactures, oil, food, raw materials, non-factor services, and other services. Various adjustment and reconciliation procedures are involved in linking customs basis foreign trade projections to the national accounts basis forecasts for individual countries.

The forecasts for total goods trade are based on a split into the following specific SITC categories:

- food: 0+1
- raw materials: 2+4
- energy: 3
- manufactures: 5+6+7+8+9

Forecasts of these components are weighted together using weights based on 1982 trade flows. These are approximately comparable to figures published in the OECD's monthly Statistics of Foreign Trade (Series "A"). The paragraphs below summarise how forecasts for these components are prepared. The structural specifications of equations used in the foreign trade forecasts are set out, for each country, in the OECD Secretariat's INTERLINK Technical Manual.

a) *Goods: volumes*

i) *Manufactures*

Projections of import volume growth for manufactured goods are derived from equations (in percentage change form) in which the main explanatory variables are activity (demand) and lagged competitive position. The activity variable in the import equations is an import-content-weighted expenditure term (i.e. the individual components of demand, weighted according to their different import contents). Export volume projections are based on export market growth, derived as weighted averages of the forecasts for imports of manufactured goods, with an allowance for the effects of competitive position. This is typically represented by relative prices, though in cases of divergent movements between relative prices and relative unit labour costs, *ad hoc* adjustments are sometimes made.

Expenditure elasticities for imports are, in general, assumed to lie in the range of 1.5 to 2, while most of the price elasticities (import prices relative to domestic prices) range from –0.7 to –1.2, the response being lagged over two to three years. For export volumes, price elasticities (export prices relative to competitors' prices) are typically taken to be in the range of –1.0 to –2.0, lagged over three years, while market growth elasticities for most countries are close to unity.

ii) *Energy*

International trade in energy is concentrated in oil, and the forecasting effort is focused accordingly. At the interregional level, it is assumed that OPEC is the marginal supplier, with other producers setting prices relative to those of OPEC such that they are always able to sell their full capacity output.

The demand for oil is projected, in collaboration with the International Energy Agency, from relationships which link oil consumption to the real cost of imported oil. Judgemental adjustment is then made to reflect any unusual weather conditions and new developments in energy substitution.

With oil demand determined, net oil imports are obtained by subtracting expected domestic production and adjusting for any expected change in stocks. The movement in oil imports is then added to the forecast movements of imports of other forms of energy.

iii) *Food and raw materials*

Import volumes of food are assumed to follow projected movements in real private consumption; import volumes of raw materials are assumed to follow movements in industrial production. While some allowance is made for the effects of large changes in competitiveness, trade volumes of food and raw materials are generally assumed to be relatively insensitive to changes in competitiveness over the projection period. Food and raw material exports are based on, *inter alia,* projected import volumes of other countries, with an allowance for factors affecting supply.

b) *Goods: unit values*

i) *Manufactures*

Projections for unit values of exports of manufactured goods are based initially on movements in unit labour costs, import prices, and competitors' export prices – the first two being subject to lags of up to one year. Some allowance is made for exceptionally high or low rates of capacity utilisation.

Initial projections of import unit values are derived as weighted averages of the projected export unit values of supplying countries. The resulting import price projections are then modified to reflect time lags in the translation of exchange rate changes into import prices. In those countries where competitiveness has changed sharply, an allowance is made for price discrimination by foreign suppliers in the first half-year, partly reversed over the next two half-years.

ii) *Energy*

The customary technical assumption is that oil prices move in line with announced OPEC decisions and thereafter follow prices of OECD exports of manufactured goods. For some countries, adjustments are made to reflect natural gas contracts and thereby allow for the lag between the movements of natural gas and oil prices.

iii) *Food and raw materials*

In general, food and raw material unit values (in dollars) are derived from projected movements of spot commodity prices. Current OECD estimates suggest that about three-quarters of the change in spot industrial materials prices is passed through into OECD import unit values of raw materials within about six months.

Equations for OECD export unit values for food and raw materials utilise domestic cost pressure variables as well as world spot commodity prices as explanatory variables. In addition, food export unit value equations for EEC countries are adjusted for the effects of the Common Agricultural Policy. Import unit values for food and raw materials are trade-weighted averages of partner-country export unit values.

c) *Services*

Projections of non-factor services are based on equations of broadly similar specification to those used for manufactures trade. Volumes of non-factor service debits (some two-thirds of total service flows) depend both on projected movements of import-content-weighted real expenditure, and the price of import of services relative to domestic prices. Non-factor service credits depend on market growth and each country's export prices relative to those of its competitors. A service trade share matrix is used to calculate market growth and competitors' prices. Export prices of services for each country are assumed to move in line with its total expenditure price deflator. Service export prices for non-OECD areas are assumed to move with the average for the OECD area. Import prices are then calculated from export prices using the service trade share matrix. Import elasticities of non-factor services with respect to import-content-weighted expenditure components are around 1.2, with price elasticities of –0.7 to –0.8 lagged over 1½ years. Non-factor service export projections are based on market growth in partner countries, with market growth elasticities around unity and prices elasticities of –0.4 to –0.5 lagged over 1½ years. Projections for investment income are not, at present, based on equations, but take account of external assets and liabilities, interest rates and the profitability of direct investment.

d) *Non-OECD*

Trade volumes and prices of non-OECD area are projected on the basis of six country groupings (see below for detail). Import and export prices for each group reflect world prices weighted according to the commodity structure of trade. Export volumes for each group are projected on the basis largely of OECD demand, with some account taken of demand from other non-OECD groupings and, in some cases, changes in competitiveness. For groups with large external assets such as OPEC low absorbers, import volumes are in line with assessment of development plans. For other groups, import volumes are projected taking account of export revenues, the level of external financing and import prices.

NATIONAL ACCOUNTS

The figures shown in the country tables on Demand and Output follow, in general, the *OECD Standardized System*[2] definitions, which need not be summarized here. One important deviation from the *Standardized System* is the line public investment which includes, whenever possible, fixed capital formation by both general government and government-owned and controlled enterprises. The latters' definition and coverage may vary as between countries.

a) *United States*

Official quarterly national accounts, published in the Survey of Current Business by the Bureau of Economic Analysis of the U.S. Department of Commerce, are available through the first quarter of 1987. The Appropriation Account for households is on OECD definitions and differs slightly from official U.S. figures. Briefly, OECD disposable income equals U.S. disposable income minus consumer interest payments. OECD estimates of the savings ratio may thus differ by one or two tenths of a percentage point from estimates based on the official U.S. definition. Government fixed investment expenditures (including those of government enterprises) are included in "government expenditure" and no allowance is made for depreciation of government fixed capital. The investment figures, therefore, refer to the private sector only.

b) *Japan*

Annual and quarterly national accounts are published in the *Annual Report on National Accounts* of the Economic Planning Agency. Partial national accounts data are also published by the Economic Planning Agency in Japanese Economic Indicators. Figures for the first quarter of 1986 through to the fourth quarter of 1986 are preliminary estimates published by the Economic Planning Agency.

c) *Germany*

The historical figures for 1986 are based on official data published in *Wirtschaft und Statistik* and special national accounts (Fachserie 18, Reihe 1) of the Statistisches Bundesamt. Historical seasonally adjusted quarterly components of demand and GNP, available through the fourth quarter of 1986, are estimated by the Deutsche Bundesbank and published in the Statistical Supplement, Reihe 4, of the Bank's Monthly Report.

d) *France*

Annual accounts based on the *Enlarged System of National Accounts* (ESNA) are available for the period 1970-1985. Partial quarterly ESNA figures are available until the second quarter of 1986. Industrial production figures refer to the official quarterly index of industrial production and not to the value added in the industrial sector as calculated each year for national accounts purposes.

e) *United Kingdom*

National accounts data up to the fourth quarter of 1986 are taken from *Economic Trends,* CSO. The three official estimates of GDP, output, expenditure and income are averaged to yield a "compromise" GDP estimate.

f) *Italy*

The definitions used are those of the OECD System of National Accounts. Half-yearly developments to 1985 are based on quarterly national accounts (1970 basis) estimated by *Istituto Centrale di Statistica* (ISTAT). 1986 data are OECD Secretariat estimates.

g) *Canada*

Official quarterly national accounts through the fourth quarter of 1986 are from *National Income and Expenditure Accounts* of Statistics Canada. The Canadian national accounting convention includes a separate entry for the "residual error of estimate". This item is included in the OECD figures for GDP, which are therefore not the sum of the expenditure components. Over the forecast period, the residual error has been assumed to remain unchanged from the level of the second half of 1986.

FISCAL AND MONETARY POLICIES

Cyclically corrected and inflation-adjusted budget balances (Table 14)

Changes in the budget balance (B) can be decomposed into discretionary and automatic responses:

$$B_t - B_o = \underbrace{(e\frac{T_o}{Y_o} - g\frac{G_o}{Y_o})rY_o + \Delta T - \Delta G}_{\text{"discretionary" change}} + \underbrace{m(a-r)Y_o}_{\text{built-in stabilizers}}$$

"Built-in stabilizers" measure automatic budget responses, due to the operation of marginal tax and unemployment benefit rates (m), with respect to the divergence between actual growth (a) and trend growth (r).

The "discretionary", or "cyclically-corrected", change is made up of two principal components:

i) The effect of existing policies, reflected in the elasticity of taxes (e) and expenditures (g) relative to trend GDP growth (r) (when e is greater than unity, the result is "fiscal drag"); note that $m = e-g$.

ii) Changes in tax yields, ΔT, and expenditures, ΔG arising out of policy changes in year t.

Expressing budget balances as ratio of GDP, ($b = B/Y$), Table 14 dichotomizes the year-to-year changes in such balances in an identical manner to that above:

$$b_t - b_o = \underbrace{[s^r_o(e-1) - s^g_o(g-1)]\frac{r}{1+r} + (\Delta T - \Delta G)/[Y_o(1+r)]}_{\text{"discretionary" change}} + \underbrace{\frac{m(a-r) + b_t(r-a)}{1+r}}_{\text{built-in stabilizers}}$$

Again the "discretionary" change is defined to include both announced policy changes and net fiscal drag resulting from changes in the shares of revenue ($s^r = T/Y$) and expenditures ($s^r = G/Y$) in GDP. Trend output growth for each economy is based on OECD estimates of the average growth rate from one cyclical peak to the next. The trend growth rate for the major seven economies averages approximately 2½ per cent in 1987.

Estimates of the effects of built-in stabilizers (m) are derived by simulating the receipts and expenditures that would have accrued if GDP had grown at its trend rate. "Built-in stabilizers", estimated thus, are then subtracted from actual budget balances to give "cyclically-corrected" budget balances, changes in which may be interpreted as discretionary policy adjustments in the sense defined above. It should be noted that this also defines changes in resource revenues – as a result of oil price changes, for example – and in interest payments – as a result of past debt accumulation or changes in interest rates – as discretionary.

Inflation-adjusted budget balances recognize that governments make real capital gains on their outstanding financial liabilities as the price level rises. These gains offset the increases in debt service payments that occur when higher inflationary expectations lead to an increase in nominal interest rates. The Secretariat estimates add the government's capital gain on its financial liabilties, net of those financial assets that are fixed in nominal terms (i.e. excluding equities) to the general government's cyclically-adjusted financial balance. The inflation-adjusted structural deficit is thus smaller than the ordinary structural deficit. (If prices were to fall the adjustment would be in the opposite direction.)

If the inflation rate is stable from year to year the changes to the inflation-adjusted structural balance will be little different from those of the unadjusted structural balance. When inflation falls, however, the capital gain will be lower and the change in the inflation-adjusted structural balance will appear more expansionary (or less restrictive) than when the structural balance unadjusted for inflation is considered. If inflation increases the effect is the opposite.

For a further discussion of these issues see: OECD Economics and Statistics Department, Working Paper No. 15, "Structural budget deficits and fiscal stance" (P. Muller and R.W.R. Price) and *OECD Economic Outlook, Occasional Studies*, June 1983.

Monetary aggregates (Table 11)

M1 is the narrowly-defined money supply, i.e. currency plus domestic demand deposits. M2, M2+CD, M3 and £M3 are broadly-defined money stocks, which add to M1 domestic savings deposits and other managed liabilities of banks and other financial institutions; and certificates of deposit (CD) in Japan and France. German CBM is central bank money, defined as currency in circulation plus commercial bank required reserves held at the central bank. In France, L signifies "liquidity", i.e. the sum of M3 and a wide range of other liquid assets. Similarly, in the United Kingdom, PSL2 is the sum of private sector liquid assets and deposits, and MO is currency in circulation with the public plus commercial bank cash reserves. For Italy, TDC is total domestic credit excluding bank acceptances. M1A for Canada is M1 plus other chequable savings and notice deposits.

Interest rate developments (Table 12)

Projections are based on the technical assumptions of unchanged policies and exchange rates. Interest rates used are :

Short-term rates: United States, United Kingdom: 3-month Treasury bills; Japan, France: Call money; Germany, Italy: 3-month interbank rate; Canada: 90-day finance company paper.

Long-term rates: United States: AAA corporate bonds; Japan: Telephone and telegraph bonds; Germany: public sector bonds; France: public and semi-public sector bonds; United Kingdom: 20-year government bonds; Italy: private sector bonds; Canada: long-term government bonds.

Monetary and fiscal policy indicators (Chart B)

The monetary indicators are based on data for the seven major OECD countries. Broad definitions of money are: M2 for the United States; M2+CD for Japan; M3 for Germany; the new aggregate M3 for France; £M3 for the United Kingdom; M2 for Italy; and M2 for Canada. Movements shown are percentage changes over the corresponding quarters of the previous year.

Movements in nominal and real GNP are shown as half-yearly percentage changes at annual rates. The weights used for aggregation are 1982 GNP shares. The liquidity ratio is calculated for each country as the percentage deviation from the trend over the period 1970 Q1 to 1986 Q4.

The fiscal impulse is defined as the change from the previous year in the structural general government budget deficit as a percentage of potential GNP/GDP. A positive sign corresponds to an increase in the structural deficit and thus an expansionary impulse, while a negative sign represents a restrictive one.

Trends in money velocity, interest rates and inflation (Chart D)

a) The income velocity of money is the index of the ratio of GNP or GDP to the monetary aggregate considered. The index is normalized to average unity from the second quarter of 1973 to the third quarter of 1986.

b) The predicted velocity is calculated from the following simple money demand equations:
$lnM = a_0 + a_1\, lnY + a_2\, ln(1+r) + a_3\, lnM_{-1}$
where M is a money stock, Y an income variable, and r a short-term interest rate, and where ln refers to a natural logarithm.

c) The linear trend of velocity is estimated over the sample period from the second quarter of 1973 to the third quarter of 1986.

d) The inflation rate is a 3-quarter moving average. For the most recent quarters, OECD forecasts are used.

LABOUR FORCE DATA

This section outlines the sources and definitions of the labour force statistics published in the Employment and Unemployment chapter. Where different series are available, those chosen are the ones which the OECD Economics and Statistics Department finds most useful for policy analysis and forecasting, usually because they are the most commonly-cited, most timely and frequently published data. For many countries the data are consistent both with the national authorities' definitions and those published in the OECD's quarterly and annual publication *Labour Force Statistics* (LFS). However, there are exceptions in both cases. These are noted below.

For most countries the source of these data is a labour force survey of a sample of households in which both components of the unemployment rate (UNR), unemployment levels (UN) and labour force (LF), are measured simultaneously. For the remaining countries, one of the components of the identity LF = UN + ET (employment) is derived from the other two, which are generally estimated from different sources. The term "total" is used with reference to labour force and employment to indicate that all armed forces (conscripts as well as professional military) are included. In some countries (indicated below), employment and labour force include professional military, but exclude conscripts. "Civilian" labour force and employment data exclude all military personnel. Unless otherwise specified, annual data refer to the average of either monthly or quarterly data; semi-annual data shown for the seven largest countries are averages of monthly or quarterly seasonally-adjusted figures.

United States:

Unemployment, civilian employment and civilian labour force are from the monthly labour force survey of persons aged 16 and over. The data are seasonally adjusted by the national authorities. All lay-offs are included in unemployment.

Japan:

Unemployment, employment and labour force (including national "self-defense" forces) are from the monthly labour force survey of persons aged fifteen and over. The data are seasonally adjusted by the OECD.

Germany:

Unemployment refers to persons registered as unemployed at the end of the month. The quarterly figures, on which the semi-annual data are based, are averages of each month, including the end-month figure of the month preceding the quarter in question. Total labour force figures are compiled by the national authorities using the annual labour force survey (Microcensus) and other statistical sources. Both series are seasonally adjusted by the OECD. The national unemployment rate refers to the registered unemployed as a percentage of the dependant civilian labour force (i.e. the self-employed are excluded from the denominator).

France:

INSEE provides OECD with quarterly data on seasonally-adjusted unemployment rates and total labour force levels corresponding to the ILO guidelines. The figures refer to the last month of each quarter. The unemployment rate is based on the results of the annual labour force survey held in March, and converted to a quarterly basis using end-of-month registrations. Unemployment levels are calculated using the relationship UN = UNR*LF*100, and total employment (ET) is then obtained as a residual.

United Kingdom:

Seasonally-adjusted unemployment, total employment and total labour force (working population) are from the Department of Employment publication, *Employment Gazette*. The unemployment figures refer to claimants at Unemployment Benefit Offices. They include unemployed school-leavers, but exclude unemployed students seeking vacation work and those persons temporarily stopped from work. The number of employees is estimated from the census of employment, surveys of employees and the annual labour force survey. Self-employment is derived from the annual labour force survey, the census of agriculture and the census of population; it excludes unpaid family workers. Total employment equals the sum of employees, self-employment and the armed forces. Quarterly data for all series refer to the months of March, June, September and December of each year. The national

unemployment rate refers to unemployed claimants excluding unemployed school leavers as a percentage of the total labour force.

Italy:

Unemployment is from the quarterly labour force survey of persons aged 14 and over, held in January, April, July and October of each year. The figures are seasonally adjusted by the OECD. The definition of unemployment was revised in 1986 to be more in line with ILO guidelines. The result of this revision was to exclude certain persons with a marginal attachment to the labour force. Earlier years have been revised accordingly. Seasonally adjusted employment figures on a quarterly basis, excluding conscripts, are taken from the National Accounts source, *Conti Economici Trimestriali*, ISTAT. These data are compiled from various sources including the establishments survey and the labour force survey. The labour force is then derived from the identity LF = ET + UN. Both the numerator and the denominator of the national unemployment rate and all the Italian labour force data published in LFS are based on the results of the labour force surveys.

Canada:

Unemployment, civilian employment and civilian labour force are from the monthly labour force survey of persons aged fifteen and over. Unemployment includes persons who, while not actively looking for work in the preceding four weeks were available for work, but were on lay-off or had a new job to start in four weeks or less. The data are seasonally adjusted by the national authorities.

Australia:

Unemployment, total employment and the total labour force are from the monthly household labour force survey of persons aged fifteen and over. Only persons laid-off for less than four weeks (because of bad weather or plant breakdown) are included with the employed; all other lay-offs are considered as unemployed or out of the labour force. The national unemployment rate is calculated with reference to the civilian labour force.

Austria:

Unemployment, total employment and total labour force are from the quarterly labour force survey (microcensus) of persons aged 15 and over carried out in March, June, September and December of each year. The figures have been adjusted by the OECD for a break in the employment series at 1983/84. The national unemployment rate refers to registered unemployment as a percentage of civilian employees from social insurance statistics plus the armed forces and the registered unemployed.

Belgium:

Unemployment refers to end of June registrations, which comprise those unemployed persons entitled to benefits, other unemployed obliged to register and voluntarily registered persons. The mid-year estimate of the total labour force is based on the insured employed, border workers, the self-employed, all armed forces and the unemployed. The national authorities publish two unemployment rates which differ from the above because they relate only to the wholly unemployed registered with the Office National pour l'Emploi (ONEM), and they are expressed as a percentage of 1) the insured labour force and 2) the total labour force.

Denmark:

Unemployment refers to the registered unemployed including the partially unemployed converted to full-time equivalents; this is measured by dividing each persons' hours of unemployment during the reference period by the number of hours for which that person is insured during the same period. Unemployment and total employment figures, corresponding to national accounts concepts, are compiled from the Danish Central Register of Labour Market Statistics (CRAM). The CRAM data are provided by the unemployment insurance funds, the public employment offices and the Central Population Register. Total labour force is then derived from the identity LF = ET + UN. The national rate refers to all registered unemployed expressed as a percentage of the CRAM estimate of total labour force. The *Economic Outlook* statistics differ from those published in LFS, which are based on the spring labour force survey.

Finland:

Unemployment, civilian employment and civilian labour force are from the monthly labour force survey of persons aged 15 to 74. The labour force concept underlying the national unemployment rate includes the professional military but excludes conscripts. The national authorities have recently revised their unemployment figures to exclude persons over the age of 56 receiving a pre-retirement unemployment pension and who are not actively seeking work. Previously all persons receiving the pension were classified as unemployed. Data for all years published in *Economic Outlook* take account of this revision, which reduced the 1986 unemployment rate by about 1½ percentage points.

Greece:

Unemployment, total employment and total labour force are compiled from the annual labour force survey. The figures are completed or revised in line with the latest census results. All data refer to the second quarter of each year.

Iceland:

The unemployed are registrations. Civilian employment, expressed in man-years, is compiled from accident insurance statistics. The labour force is derived from the identity LF = ET + UN.

Ireland:

Unemployment, total employment and total labour force figures are derived from the annual labour force survey and relate to mid-April of each year. The national unemployment rate refers to the registered unemployed, persons on the "Live Register", as a percentage of the mid-April total labour force.

Luxembourg:

Civilian employment includes non-resident persons working in Luxembourg and excludes nationals working over the border. The figures are derived from sickness insurance funds, pension funds and enterprise surveys. Unemployment refers to those registered at the employment agencies and resident in Luxembourg. The labour force is derived from the identity LF = ET + UN.

Netherlands:

Unemployment refers to the monthly registered unemployed, excluding part-time unemployed (defined as persons seeking work for less than 20 hours per week), and the unemployed temporarily engaged in State-run unemployment relief programmes. Total employment, expressed in man-years, is taken from the National Accounts source; an adjustment is made for those who are in part-time or part-year employment to put them a full-year equivalent basis. The total labour force is then derived from the identity LF = ET+ UN. The national unemployment rate refers to registered unemployed seeking work for more than 20 hours per week expressed as a percentage of the dependant labour force including the armed forces. The labour force figures published in LFS are based on the annual labour force survey and refer to persons; the unemployment levels in LFS are identical to those published in the *Economic Outlook*.

New Zealand:

Unemployment refers to monthly registrations, including unemployed vacation workers. The total labour force is the yearly average of a quarterly series estimated by interpolating the February labour force figure (derived from the quarterly employment survey and the census of population) and a Reserve Bank reference series. Total employment is derived as a residual ET = LF – UN. The total labour force figure published in LFS refers to February.

Norway:

Unemployment, employment and labour force are from the quarterly labour force survey of persons aged 16 to 74. The figures include the professional military, but exclude conscripts. The national authorities publish two unemployment rates; one is identical to the rate published in *Economic Outlook* and the second refers to registered unemployed as a percentage of total labour force including conscripts.

Portugal:

Unemployment, civilian employment and civilian labour force are derived from the quarterly labour force survey of persons aged 12 and over. Annual data shown refer to the last quarter of each year and refer to continental Portugal. Unemployment is measured according to two definitions; the first applies a one month reference period for job search, whereas the second includes those persons who are not actively seeking work during the reference period. Figures reported in the *Economic Outlook* adopt the restricted measure of unemployment. The national authorities publish unemployment rates according to both definitions, expressed as a percentage of the labour force including the professional military and excluding conscripts.

Spain:

Unemployment, employment and labour force are from the quarterly labour force survey of persons aged 16 and over, held in March, June, September and December. The provinces of Ceuta and Melilla and permanent inmates at institutions, notably religious establishments, are excluded from the survey. Professional military are included whereas conscripts are excluded. Conscripts are added to total employment and labour force figures published in LFS and all data are adjusted to include Ceuta and Melilla and permanent inmates at institutions.

Sweden:

Unemployment is from the monthly labour force survey of persons aged 16 to 64 (aged 16 to 74 prior to January 1986). Adjustments have not been made for this break in the series; in 1985 persons aged 65 to 74 were 0.5 per cent of all unemployed. Since January 1987 there has also been a significant revision to the definitions used in the labour force survey to bring them in line with the ILO guidelines. This has resulted in a reduction of the unemployment rate of around half a percentage point. Data for earlier years published in *Economic Outlook* have been revised accordingly. Employment, from the National Accounts Annual Report, SCB, is derived from various sources including the census of population, the labour force survey and administrative statistics. The labour force is derived from the identity LF = ET + UN. Both the numerator and the denominator of the national unemployment rate and the Swedish labour force data published in LFS are based on the results of the labour force survey.

Switzerland:

Unemployment refers to the monthly registered unemployed, including the partially unemployed. Civilian employment figures are established using the census of enterprises, the census of population and the quarterly employment surveys of enterprises. The labour force is derived from the identity LF = ET + UN. All data refer to the average of the seasonally-adjusted figures for March, June, September and December. The unemployment rate published by the national authorities refers to the registered unemployed, including the partially unemployed, as a percent of the civilian labour force based on the 1980 census of population. Unemployment levels published in LFS refer to the average of twelve months.

Turkey:

The total labour force is based on the results of the five-yearly population census, projected participation rates for the year in question, and estimates of the armed forces. Non-agricultural employment estimates are based on assumptions about labour productivity and surveys of non-agricultural enterprises. Estimates of employment and disguised unemployment for the agricultural sector are derived from population census results and trend productivity assumptions. Unemployment, including disguised unemployment in agriculture (estimated at 652 000 in 1986 or 23 per cent of total unemployment) is derived as a residual. The national authorities publish both estimates of unemployment, i.e. including and excluding disguised unemployment.

COST AND PRICE DATA

In order to facilitate the interpretation of current cost and price trends, the OECD Secretariat has compiled indicators on wage costs and consumer and producer prices from various sources. In spite of the efforts made to derive reasonably comparable series there are considerable divergences in definitions and statistical methods and intercountry comparisons can only be made with great caution.

Wages (Table 22)

Wage indices are not comparable between countries, not only because of the variety of sources and methods of calculations, but also because of important differences in definitions (e.g., hourly rates, hourly earnings, monthly earnings, inclusion or exclusion of fringe benefits, etc.).

The different series used in Table 22 and their sources for the largest countries are:

United States: Average gross hourly earnings of wage earners: *MEI* (i.e. OECD Main Economic Indicators).

Japan: Average gross monthly earnings (including bonuses) of "regular" wage and salary earners in firms employing 30 workers and over: *MEI.*

Germany: Average gross hourly earnings of wage earners in firms employing 10 workers and over: *MEI.*

France: Average gross hourly wage rates of time-rated wage earners aged 18 years and over in firms employing 10 workers and over: *MEI.*

United Kingdom: Average gross weekly earnings of wage and salary earners in firms employing 25 workers and over (G.B.): *MEI.*

Italy: Minimum gross hourly wage rates of time-rated wage earners aged 20 years and over: *MEI.*

Canada: Average gross hourly earnings of hourly-rated wage earners in firms employing 20 workers and over, last payroll of the month: *MEI.*

Price indices

The coverage and calculation methods of consumer price indices vary greatly from country to country.[3] In some countries, the weights used to calculate the index are revised fairly frequently on the basis of family expenditure surveys using large samples, and in such cases the index moves about in line with the deflator for private consumption. In some countries, however, the weighting system relates only to low income groups, and/or is seriously out of date. In such cases, the weight of food is generally higher and that given to services lower, compared with the pattern of expenditure for private consumption as a whole and the consumer price index can diverge substantially from the private consumption deflator.

Labour costs in the business sector (Table 24)

Table 24 presents forecasts for compensation per employee and unit labour costs for the business sector rather than manufacturing industry as in earlier issues of the *Economic Outlook*. Broadening the wage concept to include compensation per employee (i.e. total labour costs per worker to the employer) has the advantage of including large and fast growing non-wage costs (fringe benefits and social charges). The shift to the business sector is important as manufacturing industry now represents only 20 to 30 per cent of GDP in many

COUNTRY CLASSIFICATION

	OECD
Seven major OECD countries	Canada, France, Germany, Italy, Japan, the United Kingdom and the United States
Other OECD	All other OECD
	NON-OECD
OPEC	
Less absorptive OPEC countries	Bahrein, Kuwait, the Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates
More absorptive	Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Nigeria, and Venezuela
NON-OIL DEVELOPING COUNTRIES (NODC)	
Oil-producing	Brunei, Cameroons, Congo, Egypt, Mexico, Malaysia, Peru, Syria, Trinidad and Tobago, Tunisia
Newly-industrialising	Argentina, Brazil, Hong Kong, Israel, South Korea, Philipines, Singapore, South Africa, Taiwan, Thailand, Yugoslavia
Low- and middle-income	All other NODCs, including trade not specified in terms of origin or destination
USSR and Eastern European countries	Albania, Bulgaria, Czechoslovakia, Germany (Dem. Rep.), Hungary, Poland, Rumania, Union of Soviet Socialist Republics

countries. The unit labour cost measure has also been expanded to the business sector. It is defined as compensation per employee divided by business sector output per employee at factor cost.

Profits and rates of return (Chart P)

The data in Chart P are derived from *OECD National Accounts* statistics. The gross operating surplus shown for the business sector and manufacturing industries includes income of self-employed workers, which is usually considered to include a wage component in addition to pure entrepreneurial or profit income. No adjustment is made for this element. It should be noted that consumption of fixed capital and capital stock are valued at relacement cost, and current replacement cost is also used to value changes in inventories in arriving at the operating surplus data. In principle, therefore, the profits data shown are *inflation adjusted*. Profits shares and rates of return refer to incomes generated from production and exclude inflation gains and losses, accruing to enterprises from holdings of tangible and financial assets and liabilities. The capital stock data include only assets included in gross fixed capital formation and hence exclude inventories and monetary working capital. The historical capital stock data are obtained from national sources. For the projection period they have been extrapolated using the perpetual inventory method, which involves accumulating past investment and dropping out assets at the end of their service lives. Value added is shown at factor cost, i.e. excluding net indirect taxes. The difference between value added and compensation of employees is thus the gross operating surplus of enterprises and the wage share can be obtained as the converse of the profit share.

USE OF CURRENT NATIONAL STATISTICS

Unless otherwise stated, all the national statistics quoted in the *Economic Outlook* are taken from the *Main Economic Indicators* published monthly by the OECD (*MEI*). Starting in September 1967, supplements to *MEI* have been published describing in detail the sources and methods of these statistics. The following notes are therefore confined to some methodological points of special importance for the understanding of the text.

Index of industrial production (Country tables and charts)

The figures shown include, as far as possible, mining, manufacturing and public utilities (electricity, gas and water), but exclude construction. The exact coverage, the weighting system and the methods of calculation vary from country to country but the divergences are less important than in the case of the price and the wage indices.[4] With the exception of certain smaller countries, the indices are seasonally adjusted by national statistical offices using different methods usually derived from the US Bureau of the Census Method II.

Seasonal adjustment

As noted above, some of the series used have been seasonally adjusted by the Department of Economics and Statistics, notably in the area of foreign trade but also in some cases for industrial production, unemployment and consumer prices. The method used is the X-11 variant of the US Bureau of the Census Method as programmed for computer use by that Agency. (Further details may be found in Technical Paper No.15 of the Bureau of the Census). Where appropriate, series are also corrected for calendar variations.

NOTES

1. Details are given in OECD INTERLINK System Volume I, Structure and Operation, 1983, available through OECD Sales Agents, or direct from Economic Prospects Division, Department of Economics and Statistics, OECD.
2. United Nations, *A System of National Accounts*, New York, 1968.
3. For a detailed survey, see C. Vannereau, "Comparability of Consumer Price Indices in OECD Countries", OECD, *Economic Outlook – Occasional Studies*, July 1975.
4. A quarterly supplement to *Main Economic Indicators* provides an internationally comparable selection of industrial output indices for branches and a number of categories.

Reference Statistics

This annex contains statistics on national accounts, prices, unemployment, balance of payments and exchange rates covering, where possible, the last 20 years. They are intended to provide an historical background to the recent economic developments in the OECD area described in the main body of this report. The data in some of the tables have been adjusted to internationally-agreed concepts and definitions in order to make them more comparable as between countries, as well as consistent with historical data shown in other OECD publications, including the *OECD Economic Outlook Historical Statistics*. The figures are therefore not always identical with the corresponding national-definitions data given in the main body of the text, which Member governments, and hence the Secretariat, use for forecasting purposes. The attention of readers is drawn to the following points.

Tables R1 and R3 to R9

These tables are based on national accounts data which conform to the UN/OECD *System of National Accounts* as published in the OECD's *National Accounts (Volumes I and II)*. They may sometimes differ from corresponding data in the text of this report because of slight differences in the coverage or definition of the same series between the international and national systems of accounts. It should also be noted that the historical statistics always refer to GDP whereas the text tables often refer to GNP. In one or two cases, differences may also arise because of a difference in base year for the growth rates (United States) or because of revisions incorporated in the data used in the text but not available for the data used in this annex.

Table R12

The standardized unemployment rates in this table are based on data which have been adjusted to make them conform as closely as possible with the internationally-agreed guidelines drawn up by the International Labour Organisation. They may differ from unemployment rates as published by individual countries, or as used in the text, because adjustments have been made to the numbers of unemployed, the size of the labour force, or both. Differences may also occur if a national figure refers to a single point of time within a year, whereas the standardized rates are annual averages.

Tables R13 and R14

The balance of payments data in these tables are derived from OECD countries' submissions and publications which are based on the concepts and definitions of the IMF *Balance of Payments Manual*. They are published, at irregular intervals, in the OECD publication *Balances of Payments of OECD Countries*.

Readers are referred to the footnotes to the individual tables for a detailed description of the concepts, definitions, coverage and sources of the various series.

Table R 1. **Growth of real GDP at market prices in the OECD area**

Percentage changes

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
United States	5.1	2.2	4.2	2.9	–0.1	3.3	5.1	4.8	–0.7	–1.0	4.9	4.5	5.2	2.0	0.0	3.7	–2.5	4.0	6.7	3.0
Japan	10.5	10.4	12.6	12.1	9.4	4.2	8.4	7.9	–1.2	2.6	4.8	5.3	5.1	5.2	4.4	3.9	2.8	3.2	5.0	4.5
Germany	2.9	–0.1	5.6	7.5	5.1	2.9	4.2	4.7	0.3	–1.6	5.4	3.0	2.9	4.2	1.4	0.2	–0.6	1.5	2.7	2.6
France	5.2	4.7	4.3	7.0	5.7	5.4	5.9	5.4	3.2	0.2	5.2	3.1	3.8	3.3	1.1	0.5	1.8	0.7	1.5	1.1
United Kingdom	1.9	2.7	4.1	1.3	2.3	2.7	2.3	7.7	–1.0	–0.6	3.8	1.1	3.5	2.2	–2.3	–1.2	1.0	3.8	2.2	3.7
Italy	6.0	7.2	6.5	6.1	5.3	1.6	3.2	7.0	4.1	–3.6	5.9	1.9	2.7	4.9	3.9	0.2	–0.5	–0.2	2.8	2.3
Canada	6.8	2.9	5.3	5.4	2.6	5.8	5.7	7.7	4.4	2.6	6.1	3.6	4.6	3.9	1.5	3.7	–3.3	3.1	5.6	3.9
Total of above countries	5.2	3.4	5.4	4.9	2.7	3.5	5.2	5.7	0.1	–0.4	5.0	3.9	4.5	3.1	1.0	2.5	–0.8	3.1	5.0	3.1
Austria	5.6	3.0	4.5	6.3	7.1	5.1	6.2	4.9	3.9	–0.4	4.6	4.4	0.5	4.7	3.0	–0.1	1.1	2.1	2.0	3.0
Belgium	3.2	3.9	4.2	6.6	6.4	3.7	5.3	5.9	4.1	–1.5	5.3	0.4	3.0	2.1	4.1	–1.5	1.9	–0.3	1.7	1.5
Denmark	2.7	3.4	4.0	6.3	2.0	2.7	5.3	3.6	–0.9	–0.7	6.5	1.6	1.5	3.5	–0.4	–0.9	3.0	2.5	3.5	3.9
Finland	2.4	2.2	2.3	9.6	7.5	2.1	7.6	6.7	3.0	1.2	0.3	0.2	2.6	7.4	5.6	1.8	3.0	2.9	2.7	3.0
Greece	6.1	5.5	6.7	9.9	8.0	7.1	8.9	7.3	–3.6	6.1	6.4	3.4	6.7	3.7	1.8	–0.3	–0.2	0.4	2.8	2.1
Iceland	8.5	–1.6	–5.7	3.2	7.8	12.7	6.6	4.7	5.8	1.7	5.3	9.1	6.7	5.5	5.7	2.6	–0.3	–5.0	3.4	3.1
Ireland	1.0	5.1	8.1	6.0	3.5	3.4	6.4	4.7	4.3	3.7	1.4	8.2	7.2	3.1	3.1	3.4	1.4	–1.9	4.2	2.0
Luxembourg	1.1	0.2	4.2	10.0	1.7	2.9	6.6	8.8	3.9	–5.6	2.3	1.8	3.8	3.0	1.4	–1.0	1.5	3.2	5.5	2.9
Netherlands	2.7	5.3	6.4	6.4	5.7	4.2	3.3	4.7	4.0	–0.1	5.1	2.3	2.5	2.4	0.9	–0.7	–1.4	1.4	2.4	1.7
Norway	3.8	6.3	2.3	4.5	2.0	4.6	5.2	4.1	5.2	4.2	6.8	3.6	4.5	5.1	4.2	0.9	0.3	4.5	5.6	4.2
Portugal	4.1	7.5	8.9	2.1	9.1	6.6	8.0	11.2	1.1	–4.3	6.9	5.6	3.4	6.1	4.8	0.5	3.2	–0.3	–1.6	3.3
Spain	7.1	4.3	6.8	8.9	4.1	5.0	8.1	7.9	5.7	1.1	3.0	3.3	1.8	0.2	1.5	–0.2	1.2	1.8	1.9	2.2
Sweden	2.1	3.4	3.6	5.0	6.5	0.9	2.3	4.0	3.2	2.6	1.1	–1.6	1.8	3.8	1.7	–0.3	0.8	2.4	4.0	2.2
Switzerland	2.5	3.1	3.6	5.6	6.4	4.1	3.2	3.0	1.5	–7.3	–1.4	2.4	0.4	2.5	4.6	–1.5	–1.1	0.7	1.8	4.0
Turkey	11.7	4.5	6.7	5.3	4.9	9.1	6.6	2.0	12.5	10.1	10.8	5.1	3.2	–1.7	–0.3	4.5	5.8	3.7	5.7	5.1
Total smaller European countries	4.0	4.1	4.9	6.6	5.4	4.1	5.3	5.3	3.7	0.3	3.8	2.4	2.4	2.6	2.3	0.2	1.0	1.7	2.7	2.8
Australia	2.8	6.9	6.2	6.2	6.0	5.9	4.0	5.5	1.8	2.9	3.4	1.0	2.7	4.6	1.6	3.1	0.0	0.7	7.1	4.8
New Zealand	3.2	–1.1	0.8	8.3	1.5	4.1	3.8	7.9	6.6	–1.4	2.9	–5.1	–1.5	0.0	2.1	3.8	0.0	5.0	4.1	0.7
Total smaller countries	3.9	4.3	5.0	6.6	5.4	4.4	5.1	5.3	3.5	0.6	3.7	2.0	2.3	2.9	2.2	0.7	0.8	1.6	3.4	3.0
Total OECD	5.0	3.5	5.4	5.1	3.1	3.6	5.2	5.7	0.6	–0.2	4.8	3.6	4.2	3.0	1.2	2.3	–0.5	2.9	4.8	3.1
Four major European countries	3.6	2.9	5.0	5.4	4.6	3.2	4.0	6.0	1.3	–1.2	5.0	2.3	3.2	3.6	0.8	–0.1	0.4	1.5	2.3	2.4
OECD Europe	3.8	3.3	5.0	5.8	4.8	3.5	4.4	5.8	2.1	–0.7	4.6	2.3	3.0	3.3	1.3	0.0	0.6	1.6	2.4	2.5
EEC	3.8	3.3	5.2	5.8	4.7	3.5	4.4	6.0	1.8	–0.9	4.9	2.4	3.1	3.2	1.0	–0.2	0.5	1.5	2.3	2.4
Total OECD *less* the United States	5.0	4.5	6.4	7.0	5.6	3.9	5.3	6.3	1.5	0.3	4.7	2.9	3.5	3.8	2.0	1.3	0.8	2.1	3.4	3.2

Source: National Accounts (annual OECD publication). The data in this table are measured according to the standard definitions of the OECD-United Nations system of accounts. (See *A System of National Accounts*, Series F, No. 2, Rev. 3, United Nations, 1968.)

Growth rates for country groups. These are obtained by applying growth rates for each country to their 1982 values expressed in 1982 US dollars.

Table R 2. **Growth of real GNP/GDP - Seven major OECD countries**

Percentage changes from previous half year, seasonally adjusted at annual rates

	1970		1971		1972		1973		1974		1975		1976		1977		1978		1979		1980		1981		1982		1983		1984		1985		1986	
	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II
United States	–1.3	1.4	4.5	1.0	6.5	6.0	7.0	1.0	0.1	–3.2	–3.7	5.9	5.7	2.3	5.5	5.5	4.7	6.2	1.1	1.5	–0.6	–1.0	4.9	–0.8	–4.1	–1.1	4.2	7.2	8.0	2.8	2.5	3.2	2.5	1.8
Japan	9.9	6.9	2.3	6.1	9.4	8.8	11.4	0.8	–4.8	3.7	0.4	6.3	4.8	3.4	7.0	3.9	5.9	5.2	5.5	4.6	4.6	3.4	4.5	2.3	3.4	3.4	2.6	4.4	5.5	4.7	4.8	4.3	1.2	3.2
Germany	1.2	7.2	1.1	2.7	4.7	4.5	6.6	1.2	0.7	–1.9	–4.0	4.3	7.9	2.4	3.1	2.0	3.9	3.3	4.4	3.6	2.1	–1.9	0.5	0.8	–1.7	–1.2	3.3	2.0	3.5	2.9	1.4	4.4	0.6	3.9
France	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1.8	4.2	3.2	3.0	3.8	1.6	–0.5	0.7	3.8	2.6	1.2	0.8	0.0	2.1	1.3	1.1	3.1	1.4	2.8
United Kingdom	0.6	4.4	–0.3	7.2	–1.1	4.6	14.0	–1.0	–3.0	3.3	–2.6	–0.2	6.0	3.7	–1.7	4.2	4.3	1.6	3.2	1.1	–4.1	–1.7	–0.9	–0.6	1.6	0.8	5.6	3.0	1.7	2.3	5.5	1.2	3.3	1.8
Italy	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	–1.3	2.2	1.6	1.5	–3.5	1.2	3.2	3.7	3.4	2.6	2.4	3.0	2.6
Canada	1.1	2.9	4.8	10.5	3.2	6.3	10.1	4.4	5.4	2.5	1.5	5.0	8.1	3.6	3.7	3.6	5.3	4.1	4.1	3.1	0.9	1.0	7.6	–1.2	–4.6	–2.9	4.3	7.0	5.0	5.3	3.4	3.8	3.8	1.2
Total	1.8	3.4	3.2	3.4	5.6	6.0	8.1	1.8	–0.1	–1.0	–2.9	4.9	6.1	3.0	4.4	3.9	4.7	5.0	2.7	2.8	0.8	–0.4	3.6	0.3	–1.4	–0.3	3.5	5.0	5.8	3.1	2.9	3.3	2.2	2.3

Sources: Half-yearly national accounts are not available according to the standard definitions of the OECD-United Nations System of National Accounts. The data in this table are based on the following national sources:

United States: Gross National Product at market prices. *Source: Survey of Current Business*, Department of Commerce, Washington, D.C.

Japan: Gross National Product at market prices. *Source: Economic Statistics Monthly*, Bank of Japan, Tokyo.

Germany: Gross National Product at market prices. *Source: Statistical Supplements to the Monthly Reports of the Deutsche Bundesbank*, Frankfort

France: Gross Domestic Product at market prices. *Source: Institut National de la Statistique et des Etudes Economiques (INSEE)*, Paris.

United Kingdom: Gross Domestic Product at market prices. *Source: Monthly Digest of Statistics*, Central Statistical Office, London.

Italy: Gross Domestic Product at market prices. *Source: Instituto Centrale di Statistica (ISTAT)*, Rome.

Canada: Gross Domestic Product at market prices. *Source: National Income and Expenditure Accounts*, Statistics Canada, Ottawa.

Growth rate for the total: See note to Table R1.

Table R 3. **Real GDP per person employed**

Percentage changes from previous period

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
United States	2.3	0.1	2.1	0.3	–0.9	2.6	1.8	1.3	–2.6	0.1	1.5	0.8	0.8	–0.8	–0.5	2.6	–1.6	2.7	2.5	1.0
Japan	8.2	8.3	10.7	11.2	8.2	3.7	8.3	5.1	–0.8	2.9	3.8	3.9	3.8	3.8	3.4	3.0	1.8	1.4	4.4	3.8
Germany	3.3	3.2	5.5	5.9	3.9	2.3	4.5	4.0	1.6	1.3	6.3	3.1	2.3	2.8	0.3	0.9	1.0	3.0	2.6	1.9
France	4.4	4.4	4.5	5.4	4.3	4.9	5.2	3.9	2.3	1.1	4.4	2.3	3.4	3.2	1.0	1.0	1.6	1.1	2.5	1.5
United Kingdom	1.3	4.2	4.8	1.2	2.7	3.7	2.4	5.2	–1.3	–0.2	4.7	1.0	2.9	0.6	–2.0	2.8	2.8	5.0	0.2	2.3
Italy	7.7	6.0	6.5	7.0	4.9	1.7	5.1	6.2	2.3	–4.0	5.2	0.9	2.4	3.9	2.5	–0.1	–0.3	–0.4	2.4	1.8
Canada	2.6	0.1	3.4	2.3	1.5	3.4	2.7	2.7	0.3	0.9	4.1	1.7	1.1	–0.1	–1.5	0.9	–0.1	2.3	3.1	1.1
Total of above countries	3.7	2.6	4.4	3.7	2.3	3.1	4.0	3.2	–0.7	0.4	3.5	1.9	2.2	1.3	0.4	2.1	0.0	2.3	2.7	1.8
Austria	6.7	4.8	5.8	6.4	6.7	3.9	5.5	3.2	3.0	0.1	4.0	3.4	0.3	4.0	2.6	–0.3	2.3	2.9	1.9	2.8
Belgium	2.7	4.4	4.4	4.8	4.7	2.7	5.5	4.7	2.8	0.1	6.2	0.7	3.1	0.9	4.0	0.6	3.2	0.7	1.6	0.7
Denmark	1.0	1.3	3.6	5.9	0.6	1.8	4.4	2.6	0.5	0.4	..	1.0	0.9	–1.0	–1.0	2.9	2.8	1.8	0.6	1.3
Finland	2.0	4.4	4.2	8.5	6.0	2.2	7.9	4.5	0.0	1.6	–2.4	2.3	4.1	4.7	2.5	0.7	2.1	2.5	1.8	1.9
Greece[a]	7.1	6.8	7.9	10.3	8.1	6.8	8.3	6.2	–3.8	6.0	5.1	2.6	6.2	2.6	0.4	–5.2	0.9	–1.0	2.4	1.1
Iceland	7.1	–1.6	–6.9	3.2	3.8	7.4	4.1	1.2	2.4	0.6	1.0	9.1	3.5	5.5	2.7	–3.0	–2.1	–5.8	2.5	1.3
Ireland	1.3	5.7	7.8	5.8	4.7	3.8	6.1	3.2	2.8	4.6	2.3	6.3	4.6	–0.1	2.1	4.3	1.2	0.3	5.9	4.9
Luxembourg	0.4	2.5	4.2	9.1	..	–0.7	3.7	7.4	0.6	–6.8	3.0	1.8	3.8	3.0	0.8	–1.6	2.2	3.2	4.8	1.6
Netherlands	1.9	5.5	5.5	5.0	4.5	3.7	4.1	4.6	3.9	0.7	4.9	1.3	1.2	1.0	–2.2	–1.3	–1.3	2.9	2.8	–1.6
Norway	3.2	5.2	1.9	3.7	0.5	3.3	..	3.8	4.9	1.2	1.9	1.6	2.8	4.1	1.9	–0.1	–0.4	3.9	4.9	2.1
Portugal[b]	3.7	6.9	8.2	1.5	8.5	6.3	8.4	11.8	..	–3.0	6.7	5.7	3.7	3.8	2.3	0.8	3.2	..	0.2	4.4
Spain	6.0	3.8	5.9	7.8	3.1	4.4	8.0	5.4	5.1	2.8	4.0	3.9	4.2	2.2	5.4	1.3	1.5	2.4	6.2	1.9
Sweden	1.1	4.4	2.5	3.8	4.5	0.8	2.2	3.5	1.0	0.0	0.4	–1.8	1.4	2.2	0.4	–0.1	0.9	2.3	3.2	1.1
Switzerland	2.8	2.5	3.0	3.9	4.9	2.2	1.8	2.0	1.5	–2.6	1.6	2.0	–0.6	1.4	2.3	0.2	–0.5	2.0	2.0	3.1
Turkey	10.4	4.3	6.2	5.1	5.0	6.9	4.3	0.4	10.8	8.4	8.4	3.2	2.2	–1.8	–0.3	3.5	4.8	2.9	4.4	4.4
Total smaller European countries	3.4	4.2	4.6	5.8	4.6	3.1	4.5	3.9	2.1	0.7	3.3	1.8	2.3	2.0	2.1	0.0	1.0	1.4	3.1	1.9
Australia	4.9	1.2	6.8	2.6	1.8	2.9	3.0	1.4	–0.1	3.2	1.4	0.0	5.6	0.2	–0.1	0.2	–1.6	7.1	2.1	1.1
New Zealand	–0.4	–3.4	2.3	5.9	–1.5	2.9	2.6	4.3	2.1	–3.1	1.2	–6.5	–0.9	–1.4	2.1	4.0	–1.7	6.1	3.0	–2.9
Total smaller countries	3.5	3.8	4.9	5.5	4.3	3.1	4.3	3.7	1.9	0.9	3.1	1.4	2.6	1.8	1.9	0.2	0.7	2.1	3.1	1.7
Total OECD	3.7	2.8	4.6	4.0	2.6	3.0	4.1	3.4	–0.3	0.5	3.5	1.9	2.3	1.4	0.6	1.8	0.1	2.3	2.9	1.8
Four major European countries	3.8	4.0	5.2	4.9	4.0	3.3	4.4	4.6	1.1	–0.2	5.2	2.0	2.8	2.5	0.3	1.3	1.3	2.3	1.9	1.8
OECD Europe	3.6	3.9	5.0	5.2	4.2	3.2	4.3	4.4	1.3	0.0	4.5	1.9	2.7	2.4	0.9	0.8	1.2	1.9	2.3	1.8
EEC	3.7	4.0	5.2	5.2	4.0	3.4	4.7	4.6	1.2	0.2	5.2	2.1	2.9	2.3	0.7	1.0	1.3	2.0	2.3	1.7
Total OECD *less* the United States	4.2	4.2	5.8	6.0	4.7	3.3	5.0	4.3	0.9	0.7	4.2	2.2	2.9	2.5	1.3	1.2	1.1	2.0	2.8	2.2

Source: Historical Statistics

Table R 4. Net household saving as a percentage of disposable household income

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
United States	8.4	9.7	8.6	8.1	9.8	10.4	9.2	11.2	11.1	11.0	9.5	8.6	8.9	8.7	9.1	9.4	8.9	7.5	8.5	7.3
Japan	14.1	13.5	15.8	15.6	17.9	17.8	18.2	20.4	23.2	22.8	23.2	21.8	20.8	18.2	17.9	18.3	16.5	16.3	16.0	16.0
Germany	11.6	11.2	12.5	13.3	13.8	13.5	14.4	13.9	14.6	15.1	13.3	12.2	12.0	12.6	12.8	13.4	12.8	11.2	11.4	11.4
France	12.2	12.5	12.3	10.9	12.9	13.5	13.7	14.2	14.1	15.3	12.9	13.2	14.2	12.7	11.4	12.3	12.2	10.8	10.0	8.8
United Kingdom	6.6	5.9	4.7	5.0	6.3	4.4	6.4	7.0	7.1	8.4	7.7	7.3	8.6	9.2	11.0	9.2	8.8	7.2	7.5	6.7
Italy	17.2	16.0	16.8	18.1	18.9	20.4	21.6	21.3	20.4	22.8	22.5	22.1	23.5	22.6	20.5	20.6	20.3	19.3	18.8	..
Canada	7.6	6.7	5.7	6.0	6.2	7.4	8.9	10.8	11.9	12.7	12.1	11.5	12.7	13.3	13.9	15.3	17.4	14.2	15.0	13.8
Total of above countries	9.8	10.3	10.0	9.8	11.4	11.8	11.8	13.4	13.9	14.3	13.2	12.5	13.1	12.4	12.3	12.5	11.8	10.6	10.9	9.6
Austria	9.1	8.9	9.3	10.1	11.9	11.8	9.1	8.1	8.2	9.9	10.4	8.0	11.3	11.2	10.4	8.1	10.3	8.8	9.6	9.6
Belgium	14.3	14.7	14.0	14.9	17.1	16.8	17.4	16.4	17.2	17.1	18.7	16.5	16.5	15.0	16.1	15.7	14.3	15.5	13.7	12.7
Denmark	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Finland	4.9	3.5	4.6	3.6	4.5	6.3	5.8	3.6	6.1	7.0	6.1	5.4	6.5	6.3	7.2	6.1	6.8	7.5	6.8	6.1
Greece[a]	12.5	13.6	11.4	13.1	15.7	18.1	19.5	23.1	19.5	18.7	18.7	19.7	22.0	23.6	24.6	25.6	17.4	15.4	17.1	15.5
Iceland	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ireland	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Netherlands	14.3	14.6	14.8	14.5	13.6	14.9	15.3	15.3	15.3	14.8	13.8	12.7	12.6	12.0	11.7	12.9	15.7	14.0	14.2	14.2
Norway	..	..	..	..	..	..	..	..	..	4.2	6.1	4.7	8.4	4.6	3.4	4.5	3.8	4.3	4.8	0.5
Portugal[b]	10.3	15.4	10.8	10.9	14.0	12.5	20.1	19.6	12.8	12.7	11.1	20.0	25.0	28.1	28.5	28.3	..	..	..	..
Spain	8.9	8.1	9.1	10.7	10.6	11.3	11.3	11.8	11.7	11.3	9.9	8.7	9.8	9.0	8.2	8.4	8.9	8.2	7.7	..
Sweden	6.3	5.4	4.4	4.2	4.2	4.4	2.6	4.0	5.3	5.0	2.7	4.3	4.8	3.2	5.2	4.0	0.8	1.4	1.1	–0.1
Switzerland	12.8	13.9	12.7	12.4	13.6	16.2	15.3	15.0	15.1	13.8	11.7	10.1	10.8	10.0	9.9	11.3	12.7	12.5	12.4	12.9
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Total smaller European countries	10.6	10.7	10.4	10.9	11.7	12.6	12.6	12.9	12.7	12.0	11.3	10.7	11.9	11.1	11.2	11.4	10.6	10.3	10.0	9.8
Australia	11.4	7.1	10.1	9.9	12.4	13.5	16.3	18.3	19.0	16.8	16.4	16.1	16.0	14.5	14.8	14.7	13.8	14.9	14.1	..
New Zealand	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Total smaller countries	10.7	10.1	10.4	10.8	11.8	12.8	13.2	13.8	13.9	12.8	12.1	11.5	12.5	11.6	11.7	12.0	11.2	11.2	10.8	9.8
Total OECD	9.9	10.3	10.0	9.9	11.5	11.9	12.0	13.5	13.9	14.1	13.0	12.4	13.0	12.3	12.2	12.5	11.8	10.6	10.9	9.6
Four major European countries	11.5	11.1	11.5	11.7	13.0	13.0	14.0	14.1	14.1	15.3	13.9	13.4	14.1	13.8	13.4	13.5	13.2	11.8	11.7	9.2
OECD Europe	11.3	11.0	11.3	11.5	12.6	12.9	13.6	13.7	13.7	14.4	13.1	12.6	13.4	13.0	12.8	12.9	12.5	11.4	11.2	9.4
EEC	11.6	11.3	11.6	12.0	13.1	13.2	14.2	14.3	14.2	15.1	13.8	13.4	14.1	13.7	13.4	13.6	13.1	11.9	11.7	9.9
Total OECD *less* the United States	11.4	10.9	11.6	11.8	13.1	13.4	14.3	15.2	15.9	16.1	15.4	14.9	15.5	14.3	14.1	14.5	13.8	13.1	13.0	12.1

Source: Historical Statistics

a) From 1975, including savings of corporate and quasicorporate enterprises.

b) From 1977, gross saving.

Table R 5. **Surplus on current transactions with the rest of the world as percentage of GDP**

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
United States	0.5	0.4	0.2	0.2	0.4	0.0	–0.3	0.7	0.5	1.4	0.5	–0.4	–0.5	0.1	0.4	0.3	0.0	–1.0	–2.4	–2.9
Japan	1.3	0.0	0.8	1.3	1.0	2.5	2.2	0.0	–1.0	–0.1	0.7	1.5	1.7	–0.9	–1.0	0.5	0.7	1.8	2.8	3.7
Germany	0.2	2.2	2.3	1.4	0.6	0.4	0.4	1.3	2.7	1.1	0.9	0.8	1.4	–0.8	–1.8	–0.8	0.5	0.6	1.0	2.2
France	0.1	0.0	–0.5	–1.1	0.1	0.6	0.5	–0.2	–2.3	0.0	–1.5	–0.7	0.6	0.0	–1.4	–1.4	–3.0	–1.7	–0.8	–0.8
United Kingdom	0.1	–0.9	–0.8	0.6	1.2	1.7	0.1	–2.0	–4.6	–2.1	–1.7	–0.1	0.4	0.0	1.5	2.3	1.2	0.7	–0.3	1.0
Italy	3.2	2.2	3.3	2.7	1.2	1.8	1.6	–1.7	–4.6	–0.2	–1.5	1.2	2.4	1.7	–2.5	–2.3	–1.6	0.2	–0.9	–1.2
Canada	–1.8	–0.9	–0.3	–1.4	1.0	0.1	–0.5	0.0	–1.2	–3.0	–2.4	–2.2	–2.2	–2.0	–0.6	–2.0	0.4	0.4	0.5	–0.4
Total of above countries	0.5	0.4	0.4	0.4	0.6	0.6	0.3	0.2	–0.4	0.4	0.0	0.0	0.4	–0.2	–0.4	0.0	–0.1	–0.2	–0.8	–0.8
Austria	–1.2	–0.7	–0.4	1.2	0.6	0.5	0.1	–0.3	–1.0	–0.1	–2.3	–3.6	–0.7	–1.0	–2.7	–2.0	1.1	0.6	–0.3	–0.1
Belgium	–0.3	0.8	0.9	1.2	2.8	2.1	3.6	2.0	0.4	–0.1	0.1	–1.3	–1.4	–2.7	–4.5	–4.6	–3.3	–0.5	–0.4	0.5
Denmark	–1.9	–2.4	–1.7	–2.8	–3.9	–2.4	–0.4	–1.7	–3.1	–1.5	–4.9	–4.0	–2.7	–4.7	–3.7	–3.0	–4.2	–2.6	–3.5	–4.6
Finland	–2.2	–1.7	0.7	0.0	–2.2	–2.8	–0.9	–1.9	–4.9	–7.5	–3.7	–0.3	1.9	–0.3	–2.7	–0.8	–1.6	–1.9	0.0	–1.2
Greece	–2.0	–2.2	–3.6	–4.0	–3.1	–1.5	–1.2	–3.8	–2.8	–3.7	–1.9	–1.9	–1.3	–1.9	0.5	–0.7	–4.4	–5.1	–4.1	–8.3
Iceland	–1.3	–8.8	–9.1	1.1	1.4	–7.0	–2.6	–2.8	–11.0	–10.6	–1.6	–2.4	1.2	–0.7	–2.1	–4.3	–8.5	–2.1	–5.1	–4.4
Ireland	–1.6	1.4	–1.3	–4.8	–4.0	–3.8	–2.2	–3.5	–9.9	–1.5	–5.3	–5.4	–6.8	–13.4	–11.8	–14.7	–10.6	–7.0	–6.1	–3.8
Luxembourg	1.7	7.4	9.7	14.0	14.4	5.5	9.6	15.6	25.3	16.1	20.7	21.0	19.6	22.4	19.9	23.0	35.2	38.5	38.9	42.4
Netherlands	–0.9	–0.3	0.3	0.2	–1.4	–0.3	2.8	3.8	3.1	2.5	2.9	0.8	–0.9	–1.2	–1.5	2.2	3.2	3.1	4.1	4.3
Norway	–2.6	–2.9	1.0	1.3	–2.2	–4.1	–0.4	–1.8	–4.8	–8.5	–11.9	–14.0	–5.2	–2.2	1.9	3.8	1.1	3.6	5.4	5.2
Portugal	0.8	3.7	1.6	3.6	1.9	2.6	5.6	3.1	–6.3	–5.6	–8.2	–9.4	–5.7	–1.7	–5.9	–12.2	–12.7	–6.3	–1.9	3.0
Spain	–2.1	–1.5	–0.8	–1.1	0.2	2.2	1.2	0.6	–3.5	–3.0	–3.5	–1.8	0.9	0.3	–2.4	–2.7	–2.5	–1.5	1.3	1.7
Sweden	–0.7	–0.1	–0.4	–0.7	–0.8	1.0	1.3	2.8	–1.0	–0.5	–2.1	–2.6	0.0	–2.2	–3.6	–2.5	–3.6	–1.0	0.4	–1.2
Switzerland	0.8	1.5	3.2	2.8	0.4	0.4	0.8	0.8	0.5	4.9	6.0	5.8	5.3	2.7	–0.5	2.9	4.1	4.0	4.8	5.6
Turkey	–1.0	–0.5	–1.3	–1.0	–0.6	–0.2	0.0	2.3	–2.4	–5.2	–5.5	–7.0	–2.7	–2.2	–5.6	–3.6	–1.6	–3.6	–2.8	–1.9
Total smaller European countries	–1.1	–0.5	0.0	–0.1	–0.5	0.2	1.3	1.1	–1.3	–1.2	–1.7	–2.1	–0.4	–1.2	–2.5	–1.5	–1.1	–0.1	1.1	1.1
Australia	–2.3	–2.7	–3.6	–1.9	–1.5	–1.4	1.5	1.2	–2.8	–0.7	–1.3	–2.5	–3.4	–1.4	–2.3	–4.7	–5.2	–3.9	–4.6	–5.4
New Zealand	–3.7	–1.7	0.6	1.3	–3.9	0.6	2.9	0.2	–13.1	–8.2	–4.1	–3.9	–2.4	–3.6	–3.2	–5.5	–6.3	–3.8	–7.0	–6.4
Total smaller countries	–1.3	–0.8	–0.5	–0.3	–0.7	0.0	1.3	1.1	–1.8	–1.3	–1.7	–2.2	–0.7	–1.3	–2.5	–2.0	–1.8	–0.7	0.0	0.0
Total OECD	0.3	0.3	0.3	0.3	0.4	0.5	0.4	0.4	–0.6	0.1	–0.3	–0.3	0.2	–0.4	–0.8	–0.3	–0.3	–0.2	–0.7	–0.7
Four major European countries	0.7	0.8	1.0	0.8	0.7	1.0	0.6	–0.2	–1.3	–0.1	–0.6	0.3	1.1	0.0	–1.1	–0.5	–0.6	0.0	–0.1	0.5
OECD Europe	0.1	0.4	0.7	0.5	0.3	0.7	0.8	0.2	–1.3	–0.5	–1.0	–0.5	0.6	–0.4	–1.5	–0.8	–0.8	0.0	0.3	0.7
EEC	0.3	0.5	0.7	0.5	0.5	0.9	0.8	0.1	–1.2	–0.3	–0.8	–0.1	0.7	–0.4	–1.4	–0.9	–0.9	–0.1	0.1	0.6
Total OECD *less* the United States	0.0	0.1	0.5	0.4	0.4	0.9	1.0	0.2	–1.3	–0.6	–0.8	–0.3	0.6	–0.6	–1.4	–0.7	–0.5	0.3	0.8	1.2

Source: National Accounts (annual OECD publication). The data in this table are measured according to the standard definitions of the OECD-United Nations system of accounts.(See *A System of National Accounts*, Series F, No. 2, Rev. 3, United Nations, 1968.)

Percentages for country groups. The percentages for each group of countries are calculated from the total GDP and surplus on current transactions for the group, with both aggregates expressed in US dollars at current exchange rates. Percentages for country groups exclude countries for which no data are shown in the table.

Current transactions with the rest of the world include merchandise trade, trade in services such as transport, insurance, tourism and business services, payments and receipts of property income, and other current transfers. The surplus on these transactions is given in line 13 of Table 1 (capital transactions of the nation) of *National Accounts*, Volume II, Detailed Tables.

Table R 6. **Government final consumption as percentage of GDP**

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
United States	17.7	18.9	18.8	18.4	18.8	18.1	18.0	17.4	18.1	18.6	18.1	17.6	17.0	17.0	17.6	17.5	18.4	18.4	18.0	18.3
Japan	8.0	7.6	7.4	7.3	7.4	8.0	8.2	8.3	9.1	10.0	9.9	9.8	9.7	9.7	9.8	9.9	9.9	10.0	9.9	9.7
Germany	15.5	16.2	15.5	15.6	15.8	16.9	17.1	17.8	19.3	20.5	19.8	19.6	19.7	19.6	20.1	20.6	20.4	20.1	20.0	19.9
France	13.0	13.0	13.5	13.3	13.4	13.4	13.2	13.2	13.6	14.4	14.6	14.7	15.0	14.9	15.2	15.8	16.2	16.4	16.4	16.3
United Kingdom	17.1	17.9	17.6	17.2	17.6	17.9	18.4	18.2	20.0	21.8	21.4	20.3	19.9	19.8	21.3	21.9	22.0	22.0	21.9	21.1
Italy	14.9	14.4	14.5	14.2	13.8	15.5	16.1	15.5	15.1	15.4	14.8	15.3	15.9	16.2	16.4	18.3	18.6	19.3	19.4	19.5
Canada	15.0	16.1	16.9	17.2	18.5	18.8	18.6	18.0	18.1	19.5	19.4	20.0	19.7	19.0	19.2	19.4	20.9	20.6	20.3	20.1
Total of above countries	16.1	16.8	16.6	16.3	16.5	16.4	16.2	15.7	16.5	17.2	16.8	16.5	16.0	16.1	16.7	16.8	17.4	17.3	17.0	17.1
Austria	13.7	14.6	14.7	15.1	14.7	14.8	14.6	15.1	15.8	17.2	17.6	17.4	18.3	18.1	18.0	18.5	18.9	18.9	18.6	18.7
Belgium	13.1	13.5	13.6	13.6	13.4	14.1	14.5	14.5	14.7	16.4	16.4	16.8	17.4	17.6	17.8	18.8	18.2	17.7	17.3	17.3
Denmark	17.1	17.8	18.6	18.9	20.0	21.3	21.3	21.3	23.4	24.6	24.1	23.9	24.5	25.0	26.7	27.8	28.2	27.4	26.1	25.3
Finland	14.3	14.9	15.3	14.5	14.5	15.2	15.3	15.0	15.2	17.1	18.1	18.5	18.3	17.9	18.1	18.7	19.0	19.4	19.4	20.2
Greece	11.8	13.0	12.9	12.7	12.6	12.5	12.2	11.5	13.8	15.2	15.1	16.0	15.9	16.3	16.4	18.0	18.5	19.0	19.2	19.9
Iceland	11.1	12.3	13.1	12.6	13.0	13.4	15.0	14.6	16.2	16.5	15.6	15.8	16.6	17.0	16.4	16.8	17.8	18.4	17.2	18.0
Ireland	13.6	13.4	13.4	13.5	14.6	15.2	15.3	15.7	17.2	18.6	18.0	17.1	17.2	18.1	19.9	19.9	19.7	19.7	19.2	19.1
Luxembourg	11.4	12.1	12.1	11.0	10.5	11.7	11.7	11.3	11.5	15.0	14.8	15.9	15.7	16.0	16.7	17.4	16.4	16.1	15.5	15.6
Netherlands	14.9	15.3	14.9	15.0	15.4	16.0	15.8	15.6	16.2	17.4	17.3	17.4	17.7	18.1	17.9	17.8	17.7	17.5	16.6	16.3
Norway	15.5	16.1	16.6	16.8	16.9	17.9	18.2	18.2	18.3	19.3	20.0	20.2	20.4	19.5	18.8	19.1	19.4	19.4	18.6	18.6
Portugal	12.1	13.1	13.1	12.9	13.8	13.5	13.4	12.8	14.1	15.0	13.7	14.0	13.9	13.9	14.5	15.0	14.4	14.6	14.5	14.2
Spain	7.7	8.4	8.2	8.3	8.5	8.6	8.6	8.6	8.8	9.2	9.8	10.0	10.4	10.9	12.7	13.2	13.4	13.9	13.7	14.0
Sweden	18.8	19.5	20.5	20.7	21.4	22.5	22.7	22.7	23.2	23.8	24.9	27.5	27.9	28.3	28.8	29.2	29.1	28.4	27.6	27.4
Switzerland	10.4	10.3	10.4	10.5	10.5	10.9	10.9	11.2	11.6	12.6	13.2	13.0	12.9	12.9	12.7	12.7	13.0	13.4	13.4	13.2
Turkey	12.1	12.3	12.6	12.4	12.9	13.4	12.1	12.5	11.5	12.3	12.7	13.5	13.5	13.6	12.6	10.9	10.9	10.1	8.9	8.5
Total smaller European countries	13.4	13.9	14.1	14.2	14.5	15.0	14.9	14.8	15.2	16.3	16.7	17.1	17.3	17.3	17.8	18.2	18.1	18.1	17.7	17.7
Australia	13.5	14.1	14.3	13.8	13.9	14.2	14.2	14.6	15.6	17.2	17.6	18.0	18.3	17.5	18.0	18.4	18.8	19.4	18.9	19.0
New Zealand	13.8	12.7	13.0	12.5	13.4	13.2	13.3	13.1	14.7	15.7	14.4	15.9	17.1	16.8	18.0	18.0	17.8	17.2	16.0	16.4
Total smaller countries	13.4	13.9	14.1	14.1	14.4	14.8	14.8	14.7	15.2	16.4	16.8	17.2	17.4	17.3	17.9	18.2	18.2	18.3	17.9	17.8
Total OECD	15.7	16.4	16.3	16.0	16.2	16.2	16.0	15.6	16.3	17.1	16.8	16.6	16.2	16.3	16.9	17.0	17.5	17.5	17.1	17.2
Four major European countries	15.2	15.5	15.2	15.1	15.2	16.0	16.2	16.2	17.2	18.2	17.8	17.7	17.8	17.8	18.4	19.2	19.3	19.4	19.4	19.2
OECD Europe	14.6	15.0	14.9	14.8	15.0	15.7	15.8	15.8	16.5	17.5	17.4	17.5	17.6	17.6	18.2	18.9	19.0	19.0	18.8	18.7
EEC	14.6	15.0	14.8	14.7	14.8	15.6	15.7	15.7	16.6	17.5	17.2	17.2	17.4	17.4	18.1	18.9	18.9	19.0	18.9	18.7
Total OECD *less* the United States	13.7	13.9	13.8	13.6	13.8	14.5	14.4	14.3	15.1	16.2	16.0	15.9	15.8	15.9	16.5	16.7	16.9	16.8	16.5	16.3

Source: National Accounts (annual OECD publication). The data in this table are measured according to the standard definitions of the OECD-United Nations system of accounts. (See *A System of National Accounts,* SeriesF, No. 2, Rev. 3, United Nations, 1968.)

Percentages for country groups. The percentages for each group of countries are calculated from the total GDP and Government final consumption expenditure for the group, with both aggregates expressed in US dollars at current exchange rates. Percentages for country groups exclude countries for which no data are shown in the table.

Government final consumption expenditure mainly consists of current purchases of goods and services for public administration, defence, health and education. It excludes all transfer payments. It is given on line 1 of Table 1 (Expenditure on the GDP) of *National Accounts,* Volume II, Detailed Tables.

Table R 7. **Current disbursements of government as percentage of GDP**

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
United States	26.0	27.9	28.3	28.1	29.6	29.6	29.7	29.2	30.6	32.8	32.0	31.0	30.1	30.4	32.4	32.9	35.2	35.7	34.6	35.3
Japan	14.2	13.8	13.9	13.7	14.0	14.9	15.5	15.7	18.2	20.9	21.6	22.4	23.1	23.9	25.0	26.0	26.7	27.5	27.2	26.9
Germany	31.2	33.6	34.0	33.2	32.5	33.8	35.1	36.1	38.8	43.3	42.6	42.7	42.7	42.4	42.9	44.4	45.0	44.3	44.0	43.4
France	33.6	34.0	35.4	35.1	34.7	34.3	34.2	34.8	35.9	39.2	39.7	40.8	42.0	42.3	43.0	45.9	47.5	48.6	49.5	49.4
United Kingdom	31.2	33.1	33.4	32.8	33.7	33.5	34.3	34.1	38.7	40.5	40.4	39.3	39.4	39.5	41.8	43.9	44.6	44.2	44.8	..
Italy	30.7	30.0	31.0	30.6	30.2	33.1	35.0	34.4	34.4	38.3	38.0	38.5	41.7	41.0	41.5	46.4	49.5	51.5	51.9	51.9
Canada	25.3	27.3	28.5	29.1	31.3	32.3	32.8	31.9	33.0	36.2	35.6	36.6	37.1	36.0	37.5	38.5	42.7	43.2	43.5	43.7
Total of above countries	26.8	28.2	28.5	28.1	29.0	29.3	29.6	29.3	31.0	34.0	33.4	33.1	32.9	33.5	35.1	35.8	37.6	37.8	37.0	36.7
Austria	31.8	33.3	33.8	34.1	33.1	33.4	32.9	33.3	34.6	38.6	40.1	40.4	43.3	42.9	42.8	44.1	45.2	45.5	45.2	45.2
Belgium	30.6	31.4	32.9	32.9	33.0	34.0	34.9	35.8	36.4	41.2	41.7	43.3	44.7	46.0	47.3	52.2	52.6	52.8	52.5	52.3
Denmark	27.3	29.4	31.3	31.1	34.6	37.4	37.6	37.8	41.2	43.5	43.2	44.7	46.4	48.9	52.2	55.6	57.4	58.4	58.2	56.7
Finland	26.7	27.6	27.9	26.9	26.6	27.9	28.1	26.8	28.1	31.3	32.9	34.0	33.8	33.0	32.6	33.6	34.9	36.1	36.2	37.7
Greece	21.5	23.6	23.5	22.5	22.4	22.8	22.0	21.1	25.0	26.7	27.4	29.0	29.9	29.7	30.5	36.0	37.3	38.5	40.2	43.2
Iceland	20.8	24.3	24.9	21.8	22.7	25.1	25.4	28.5	28.1	28.7	25.2	24.7	26.3	27.2	25.0	25.8	27.6	28.4	26.4	28.3
Ireland	28.5	29.1	29.5	30.3	34.2	34.8	34.0	34.1	37.2	41.2	41.4	39.2	39.5	41.6	45.1	47.0	50.0	51.4	50.4	..
Luxembourg	31.1	33.6	32.8	30.3	28.7	31.5	31.7	29.9	29.7	41.0	42.0	45.5	44.8	45.2	46.1	49.2	47.8	..	..	..
Netherlands	35.3	36.9	37.8	38.6	38.2	39.3	40.3	40.8	43.3	47.4	47.8	48.7	50.2	51.3	52.0	53.9	56.2	57.3	56.0	55.2
Norway	30.8	32.0	33.6	35.2	36.5	38.3	39.6	39.9	40.0	41.8	43.8	45.3	47.2	46.6	44.8	45.0	45.7	46.1	44.3	44.0
Portugal	17.8	18.6	18.6	18.2	19.5	19.1	19.9	19.5	22.7	27.2	30.9	30.8	31.8	31.2	33.8	37.6	..	..	..	..
Spain	15.7	17.0	17.8	18.0	18.8	19.7	19.7	19.7	19.8	21.2	22.8	23.7	26.2	27.7	29.7	31.6	32.4	34.0	34.7	..
Sweden	32.0	33.5	35.9	36.6	36.9	39.3	40.3	39.8	43.4	44.7	47.5	52.6	54.0	55.0	56.8	59.6	61.4	61.3	59.7	60.8
Switzerland	20.1	20.4	20.7	21.8	21.3	21.9	21.9	24.2	25.5	28.7	30.2	30.4	30.2	29.9	29.3	28.9	30.1	30.9	31.4	30.9
Turkey	15.1	15.4	15.5	16.9	16.4	17.4	18.0	..	..	..	..	..	..	..	..	..	..	..	..	..
Total smaller European countries	26.0	27.2	28.3	28.7	29.3	30.6	30.9	31.7	33.2	36.2	37.7	39.3	40.5	41.0	42.0	44.0	45.2	46.1	45.8	48.4
Australia	20.8	21.5	20.6	20.8	21.1	21.8	21.6	22.2	24.8	26.6	27.9	29.1	28.6	28.1	28.9	29.5	31.5	31.9	32.6	..
New Zealand	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Total smaller countries	25.3	26.4	27.2	27.6	28.2	29.3	29.6	30.2	31.9	34.8	36.3	37.9	39.0	39.4	40.4	41.7	43.0	43.7	43.3	48.4
Total OECD	26.6	27.9	28.3	28.1	28.9	29.3	29.6	29.4	31.2	34.1	33.9	33.8	33.9	34.4	36.0	36.7	38.4	38.6	37.8	37.7
Four major European countries	31.7	32.9	33.7	33.2	32.9	33.8	34.7	35.1	37.3	40.8	40.6	40.9	41.7	41.6	42.4	45.0	46.3	46.7	47.1	47.5
OECD Europe	30.1	31.2	32.1	31.8	31.8	32.8	33.5	34.1	36.0	39.3	39.7	40.3	41.3	41.4	42.3	44.7	46.0	46.5	46.7	47.8
EEC	30.6	31.8	32.7	32.2	32.2	33.1	33.9	34.2	36.1	39.6	39.7	40.2	41.2	41.2	42.3	44.9	46.2	46.9	47.1	48.4
Total OECD *less* the United States	27.2	28.0	28.4	28.0	28.2	29.1	29.5	29.6	31.6	34.9	35.1	35.6	36.0	36.7	37.9	39.1	40.5	40.7	40.4	40.2

Source: National Accounts (annual OECD publication). The data in this table are measured according to the standard definitions of the OECD-United Nations system of accounts. (See *A System of National Accounts*, Series F, No. 2, Rev. 3, United Nations, 1968.)

Percentages for country groups. The percentages for each group of countries are calculated from the total GDP and current disbursements of government for the group, with both aggregates expressed in US dollars at current exchange rates. Percentages for country groups exclude countries for which no data are shown in the table.

Current disbursements of government mainly consists of final consumption expenditure, interest on the public debt, subsidies and social security transfers to households. It is line 38 *less* 37 of Table 6 (Income and outlay account) of *National Accounts*, Volume II, Detailed Tables.

Table R 8. **Total outlays of government as percentage of GDP**

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
United States	28.5	30.5	30.7	30.4	31.6	31.6	31.3	30.6	32.0	34.6	33.4	32.2	31.6	31.7	33.7	34.1	36.5	36.9	35.8	36.7
Japan	19.1	18.2	18.3	18.3	19.4	20.9	22.1	22.4	24.5	27.3	27.7	29.0	30.5	31.6	32.6	33.5	33.7	34.1	33.2	32.7
Germany	36.7	38.6	39.1	38.6	38.6	40.1	40.8	41.5	44.6	48.9	47.9	48.0	47.8	47.6	48.3	49.2	49.4	48.3	48.0	47.2
France	38.5	39.0	40.3	39.6	38.9	38.3	38.3	38.5	39.7	43.5	44.0	44.2	45.2	45.5	46.4	49.1	51.1	52.0	52.7	52.4
United Kingdom	35.3	38.2	39.2	41.2	39.8	38.9	39.7	40.6	44.8	46.3	45.5	43.6	43.2	42.9	45.1	47.7	47.4	47.2	47.8	..
Italy	34.3	33.7	34.7	34.2	34.2	36.6	38.6	37.8	37.9	43.2	42.2	42.5	46.1	45.5	46.1	51.4	54.8	57.0	57.4	58.4
Canada	29.5	31.5	32.3	32.7	34.8	36.1	36.6	35.4	36.8	40.1	39.1	40.1	40.3	39.0	40.5	41.5	46.4	46.9	47.0	47.0
Total of above countries	30.2	31.6	31.9	31.6	32.4	32.8	33.0	32.7	34.5	37.7	36.7	36.3	36.5	37.0	38.7	39.2	40.8	40.9	39.8	39.6
Austria	38.3	40.5	40.6	40.3	39.2	39.7	39.8	41.3	41.9	46.1	46.9	46.8	49.7	48.9	48.9	50.3	50.9	51.4	50.8	50.7
Belgium	33.5	34.5	36.3	36.1	36.5	38.0	38.8	39.1	39.4	44.5	45.0	46.5	47.8	49.3	50.8	55.7	55.7	55.6	55.0	54.4
Denmark	31.7	34.3	36.3	36.3	40.2	43.0	42.6	42.1	45.9	48.2	47.8	48.9	50.6	53.2	56.2	59.8	61.2	61.6	60.9	59.5
Finland	32.0	32.9	32.8	31.2	30.5	32.0	32.4	31.0	32.0	36.1	37.0	38.2	37.7	36.6	36.5	37.3	39.0	40.3	39.9	41.5
Greece[a]	21.5	23.6	23.5	22.5	22.4	22.8	22.0	21.1	25.0	26.7	27.4	29.0	29.9	29.7	30.5	36.0	37.3	38.5	40.2	43.2
Iceland	28.4	32.2	33.8	30.2	30.7	33.5	34.3	36.7	38.2	38.5	33.2	32.8	32.9	33.4	31.4	32.5	34.1	36.3	32.6	35.6
Ireland	33.6	34.8	35.2	36.6	39.6	40.5	38.8	39.0	43.0	46.5	46.0	43.7	44.3	46.8	50.9	52.5	55.6	56.3	54.6	..
Luxembourg	35.0	37.5	37.3	34.1	33.1	36.8	37.1	36.0	35.7	48.6	49.2	52.0	51.5	52.7	54.8	57.9	56.4	..	..	..
Netherlands	40.7	42.5	43.9	44.4	43.9	45.0	45.6	45.8	47.9	52.8	52.9	53.0	54.4	55.8	57.5	59.7	61.6	62.2	61.3	60.2
Norway	34.8	36.4	37.9	39.9	41.0	43.0	44.6	44.6	44.6	48.4	50.3	52.1	54.4	52.9	50.7	50.3	50.8	50.9	48.5	48.1
Portugal	20.3	20.9	20.9	20.9	21.6	21.3	22.7	21.3	24.7	30.3	35.1	35.2	36.4	36.2	25.9	43.9	..	..	..	..
Spain	19.5	21.0	21.3	21.7	22.2	23.6	23.2	23.0	23.1	24.7	26.0	27.5	29.3	30.5	32.9	35.6	37.5	38.8	39.3	..
Sweden	38.3	40.2	42.8	43.2	43.3	45.3	46.2	44.7	48.1	48.9	51.7	57.5	59.2	60.7	61.6	64.6	66.6	66.2	63.5	64.5
Switzerland[a]	20.1	20.4	20.7	21.8	21.3	21.9	21.9	24.2	25.5	28.7	30.2	30.4	30.2	29.9	29.3	28.9	30.1	30.9	31.4	30.9
Turkey	20.6	21.0	21.9	23.1	21.9	22.1	22.5	..	..	..	..	..	..	..	..	..	..	..	..	..
Total smaller European countries	30.2	31.6	32.8	33.1	33.5	34.9	35.0	35.5	36.9	40.3	41.6	43.1	44.2	44.7	45.6	48.1	49.3	50.0	49.4	51.6
Australia	24.7	25.3	24.2	24.3	25.1	25.8	25.3	25.9	29.6	31.5	32.0	33.1	32.3	31.7	32.1	32.8	35.1	35.5	36.6	..
New Zealand	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Total smaller countries	29.4	30.7	31.6	31.8	32.3	33.6	33.7	34.0	35.7	38.9	40.1	41.8	42.7	43.1	43.9	45.7	47.0	47.5	47.0	51.6
Total OECD	30.1	31.5	31.8	31.7	32.4	32.9	33.1	32.9	34.7	37.9	37.3	37.1	37.5	38.0	39.5	40.1	41.6	41.7	40.7	40.6
Four major European countries	36.4	37.7	38.7	38.7	38.2	38.7	39.5	39.9	42.2	45.9	45.4	45.3	45.9	45.7	46.7	49.2	50.3	50.6	51.0	51.7
OECD Europe	34.6	35.9	36.9	37.0	36.8	37.6	38.2	38.6	40.5	44.1	44.2	44.6	45.4	45.4	46.4	48.9	50.0	50.4	50.5	51.7
EEC	35.1	36.4	37.4	37.4	37.2	37.9	38.5	38.8	40.8	44.4	44.2	44.4	45.2	45.2	46.4	49.1	50.3	50.8	51.0	52.5
Total OECD *less* the United States	31.7	32.5	33.0	32.9	33.0	34.0	34.4	34.4	36.4	40.0	39.9	40.3	40.9	41.5	42.6	44.0	45.2	45.3	44.8	44.7

Source: National Accounts (annual OECD publication). The data in this table are measured according to the standard definitions of the OECD-United Nations system of accounts. (See *A System of National Accounts*, Series F, No. 2, Rev. 3, United Nations, 1968.)

Percentages for country groups. The percentages for each group of countries are calculated from the total GDP and total outlays of government for the group, with both aggregates expressed in US dollars at current exchange rates. Percentages for country groups exclude countries for which no data are shown in the table.

Total outlays of government mainly consists of current disbursements plus gross capital formation. It is the sum of lines 38, 9, 10, 13, 14 and 15 *less* line 2 and 3 in Table 6 (Capital accumulation account) of *National Accounts*, Volume II, Detailed Tables.

a) Only current disbursements.

Table R 9. **Current receipts of government as percentage of GDP**

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
United States	26.7	27.1	28.7	29.9	28.9	28.2	29.3	29.6	30.3	28.8	29.5	29.7	29.9	30.5	30.8	31.6	31.1	30.7	30.7	31.1
Japan	19.1	19.3	19.6	19.6	20.7	21.6	21.5	22.5	24.5	24.0	23.6	24.7	24.5	26.3	27.6	29.1	29.5	29.8	30.4	31.2
Germany	36.1	36.7	37.8	39.3	38.3	39.4	39.8	42.2	42.7	42.7	44.0	45.0	44.7	44.4	44.7	44.8	45.4	45.1	45.4	45.4
France	38.4	38.2	38.8	39.8	39.0	38.3	38.2	38.6	39.4	40.3	42.5	42.4	42.3	43.7	45.5	46.2	47.1	47.7	48.5	48.5
United Kingdom	34.3	36.2	37.6	39.5	41.2	39.1	36.7	35.9	39.7	40.2	39.3	38.9	37.5	38.3	40.1	42.2	43.3	42.3	42.8	..
Italy	30.1	31.0	31.6	30.7	30.4	31.1	30.9	30.4	30.6	31.2	32.9	34.3	36.0	35.7	37.8	39.3	42.0	45.0	44.2	44.1
Canada	28.8	30.3	31.7	33.7	34.2	34.7	35.2	34.9	37.2	36.1	35.8	36.1	35.7	35.5	36.2	38.5	39.0	38.7	38.9	38.9
Total of above countries	28.7	29.2	30.3	31.3	30.9	30.6	31.0	31.6	32.7	32.2	32.7	33.0	32.9	33.9	34.9	35.3	35.4	35.1	34.9	34.7
Austria	39.3	39.1	38.9	39.6	39.7	40.5	41.2	41.9	42.5	42.9	42.4	43.7	46.2	45.8	46.4	47.8	46.7	46.3	47.2	47.7
Belgium	32.4	33.2	33.8	34.3	35.2	35.7	35.5	36.4	37.7	40.4	40.2	41.6	42.4	43.1	42.8	43.6	45.3	44.7	46.0	46.5
Denmark	33.5	34.1	36.9	37.2	41.7	46.4	45.9	46.8	48.4	46.1	46.9	47.6	49.6	50.8	52.2	52.1	51.2	53.6	55.9	57.0
Finland	32.8	34.6	34.8	33.8	34.1	35.7	35.4	36.0	35.7	37.8	41.0	40.3	38.0	36.0	35.9	37.6	37.5	37.5	39.1	40.5
Greece	25.3	26.2	27.3	27.2	26.8	26.6	26.6	25.4	27.0	27.4	29.5	29.9	30.1	30.6	30.5	29.2	32.6	33.9	34.8	34.6
Iceland	31.0	33.6	33.5	30.3	30.9	32.6	34.5	36.6	34.7	34.6	33.4	31.8	32.1	33.5	32.2	33.5	35.5	33.3	34.8	33.4
Ireland	30.0	30.6	31.0	31.6	35.3	36.3	34.9	34.5	35.2	34.6	37.9	36.4	35.2	35.9	38.8	39.6	41.7	43.9	44.3	..
Luxembourg	35.8	35.7	34.5	34.3	34.9	38.2	38.2	38.4	39.7	48.4	49.6	53.8	54.9	52.3	52.9	53.5	53.0	..	..	..
Netherlands	39.2	40.6	42.4	43.2	42.0	43.3	44.5	45.9	47.0	49.2	49.5	50.5	50.9	51.4	52.8	53.5	53.8	55.3	54.3	54.4
Norway	38.3	40.5	41.1	43.3	43.5	46.6	48.4	49.6	48.5	49.6	50.9	51.0	52.0	51.9	54.2	52.8	53.2	53.1	54.4	56.1
Portugal	20.8	21.0	21.5	22.5	24.3	23.5	23.4	22.7	23.0	24.8	28.1	30.5	29.5	30.0	31.4	33.3	..	..	..	..
Spain	19.4	21.4	21.2	21.9	22.5	22.6	23.0	23.7	22.8	24.3	25.3	26.5	27.1	28.4	29.7	31.2	31.4	33.5	33.2	..
Sweden	41.3	42.7	45.7	46.7	46.6	49.4	49.5	47.7	48.8	50.5	55.1	58.0	57.5	56.4	56.6	58.3	58.9	59.9	59.6	59.4
Switzerland	24.1	24.2	25.3	26.4	26.5	26.2	26.4	28.8	29.7	32.1	33.9	33.7	33.8	33.1	32.8	32.8	33.3	33.9	34.7	34.4
Turkey	19.9	22.1	21.8	23.8	23.7	23.7	27.1	..	..	..	..	..	..	..	..	..	..	..	..	..
Total smaller European countries	31.1	32.3	33.4	34.1	34.8	36.0	36.3	37.2	37.5	39.2	40.8	41.9	42.1	41.9	42.8	43.5	44.0	45.1	45.5	49.0
Australia	25.3	26.0	25.9	26.7	26.7	27.3	25.4	26.9	28.7	29.3	30.0	30.4	29.3	30.2	31.3	32.4	32.6	31.8	33.3	..
New Zealand	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Total smaller countries	30.3	31.4	32.3	33.1	33.7	34.8	34.8	35.6	36.1	37.7	39.2	40.3	40.4	40.5	41.3	41.7	42.1	42.8	43.2	49.0
Total OECD	28.9	29.5	30.6	31.5	31.2	31.2	31.6	32.2	33.3	33.1	33.7	34.1	34.1	35.0	36.0	36.2	36.4	36.1	35.9	35.9
Four major European countries	35.2	36.0	36.9	37.9	37.7	37.6	37.2	38.1	39.2	39.7	41.0	41.5	41.3	41.6	42.7	43.6	44.8	45.1	45.4	46.2
OECD Europe	34.0	34.9	35.8	36.8	36.8	37.1	36.9	37.8	38.7	39.5	40.9	41.6	41.6	41.7	42.8	43.6	44.5	45.1	45.4	47.0
EEC	34.1	34.9	35.9	36.8	36.8	36.9	36.6	37.4	38.4	39.0	40.2	40.9	41.0	41.3	42.3	43.2	44.3	44.9	45.2	46.9
Total OECD *less* the United States	31.2	31.9	32.4	33.1	33.3	33.8	33.3	33.9	35.2	35.8	36.5	37.0	36.5	37.5	38.8	39.2	40.1	40.1	40.2	40.8

Source: National Accounts (annual OECD publication). The data in this table are measured according to the standard definitions of the OECD-United Nations system of accounts. (See *A System of National Accounts*, Series F, No. 2, Rev. 3, United Nations, 1968.)

Percentages for country groups. The percentages for each group of countries are calculated from the total GDP and current receipts of government for the group, with both aggregates expressed in US dollars at current exchange rates. Percentages for country groups exclude countries for which no data are shown in the table.

Current receipts of government mainly consists of direct and indirect taxes, and social security contributions paid by employers and employees. It is given on line 21 of Table 6 (Income and outlay account) of *National Accounts*, Volume II, Detailed Tables.

Table R 10. **Consumer prices**

Percentage changes from previous year

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
United States	2.8	4.2	5.4	5.9	4.3	3.3	6.2	11.0	9.1	5.8	6.5	7.7	11.3	13.5	10.4	6.1	3.2	4.3	3.5	2.0
Japan	4.0	5.3	5.2	7.7	6.1	4.5	11.7	24.5	11.8	9.3	8.1	3.8	3.6	8.0	4.9	2.7	1.9	2.2	2.1	0.4
Germany	1.4	2.9	1.9	3.4	5.3	5.5	6.9	7.0	6.0	4.5	3.7	2.7	4.1	5.5	6.3	5.3	3.3	2.4	2.2	–0.2
France	2.7	4.5	6.4	5.2	5.5	6.2	7.3	13.7	11.8	9.6	9.4	9.1	10.8	13.6	13.4	11.8	9.6	7.4	5.8	2.7
United Kingdom	2.5	4.7	5.4	6.4	9.4	7.1	9.2	16.0	24.2	16.5	15.8	8.3	13.4	18.0	11.9	8.6	4.6	5.0	6.1	3.4
Italy[a]	2.0	1.3	2.8	5.1	5.0	5.6	10.4	19.4	17.2	16.5	18.1	12.4	15.7	21.1	18.7	16.3	15.0	10.6	8.6	6.1
Canada	3.6	4.0	4.5	3.4	2.8	4.8	7.6	10.9	10.8	7.5	8.0	8.9	9.2	10.2	12.5	10.8	5.9	4.3	4.0	4.2
Total of above countries[b]	2.7	4.1	5.0	5.7	4.9	4.3	7.5	13.3	10.9	7.9	8.0	7.0	9.3	12.2	10.0	7.0	4.4	4.4	3.8	2.0
Austria	4.0	2.8	3.1	4.4	4.7	6.3	7.6	9.5	8.4	7.3	5.5	3.6	3.7	6.4	6.8	5.4	3.3	5.6	3.2	1.7
Belgium	2.9	2.7	3.8	3.9	4.3	5.5	7.0	12.7	12.8	9.2	7.1	4.5	4.5	6.6	7.6	8.7	7.7	6.3	4.9	1.3
Denmark	6.9	8.6	4.2	5.8	5.8	6.6	9.3	15.3	9.6	9.0	11.1	10.0	9.6	12.3	11.7	10.1	6.9	6.3	4.7	3.6
Finland	5.5	9.2	2.2	2.8	6.5	7.1	10.7	16.9	17.9	14.4	12.6	7.8	7.5	11.6	12.0	9.6	8.3	7.1	5.9	3.6
Greece	1.7	0.3	2.4	3.2	3.0	4.3	15.5	26.9	13.4	13.3	12.1	12.6	19.0	24.9	24.5	21.0	20.2	18.5	19.3	23.0
Iceland[c]	3.4	15.3	21.9	13.6	6.6	9.7	20.6	42.9	49.1	33.0	29.9	44.9	44.1	57.5	51.6	49.1	86.5	30.9	31.9	22.2
Ireland	3.2	4.7	7.4	8.2	8.9	8.7	11.4	17.0	20.9	18.0	13.6	7.6	13.3	18.2	20.4	17.1	10.5	8.6	5.4	3.8
Luxembourg[c,d]	2.2	2.6	2.3	4.6	4.7	5.2	6.1	9.5	10.7	9.8	6.7	3.1	4.5	6.3	8.1	9.4	8.7	4.6	4.1	0.3
Netherlands	3.5	3.7	7.5	3.6	7.5	7.8	8.0	9.6	10.2	8.8	6.4	4.1	4.2	6.5	6.7	6.0	2.8	3.3	2.3	0.2
Norway	4.4	3.5	3.1	10.6	6.2	7.2	7.5	9.4	11.8	9.1	9.1	8.1	4.8	10.9	13.7	11.3	8.4	6.2	5.7	7.2
Portugal[c]	3.8	4.6	7.0	6.3	8.3	8.9	11.5	29.2	20.4	19.3	27.2	22.5	23.9	16.6	20.0	22.4	25.5	29.3	19.3	11.7
Spain	6.4	4.9	2.2	5.7	8.3	8.3	11.4	15.7	16.9	17.7	24.5	19.8	15.7	15.5	14.6	14.4	12.2	11.3	8.8	8.8
Sweden	4.3	1.9	2.7	7.0	7.4	6.0	6.7	9.9	9.8	10.3	11.4	10.0	7.2	13.7	12.1	8.6	8.9	8.0	7.4	4.3
Switzerland	4.0	2.4	2.5	3.6	6.6	6.7	8.7	9.8	6.7	1.7	1.3	1.1	3.6	4.0	6.5	5.6	3.0	3.0	3.4	0.7
Turkey	14.0	5.3	4.8	7.9	19.0	15.4	14.0	23.9	21.2	17.4	26.0	61.9	63.5	94.3	37.6	32.7	28.8	45.6	45.0	34.5
Total smaller European countries[b]	5.9	4.0	3.7	5.3	7.3	7.5	9.6	14.0	13.0	11.7	12.7	13.1	12.3	17.1	13.3	11.9	9.8	10.5	9.3	7.0
Australia	3.2	2.7	2.9	3.9	6.1	5.8	9.5	15.1	15.1	13.5	12.3	7.9	9.1	10.2	9.6	11.1	10.1	3.9	6.8	9.1
New Zealand	6.0	4.3	4.9	6.5	10.4	6.9	8.2	11.1	14.7	16.9	14.3	11.9	13.8	17.1	15.4	16.1	7.4	6.2	15.4	13.2
Total smaller countries[b]	5.5	3.8	3.6	5.2	7.2	7.3	9.6	14.1	13.3	12.1	12.7	12.5	12.0	16.3	12.9	11.9	9.8	9.5	9.0	7.4
Total OECD[b]	3.1	4.1	4.8	5.6	5.2	4.7	7.8	13.4	11.3	8.6	8.8	7.9	9.8	12.9	10.5	7.8	5.2	5.2	4.5	2.6
Four major European countries[b]	2.2	3.5	4.1	5.0	6.2	6.1	8.2	12.9	13.3	10.6	10.2	7.3	9.6	12.8	11.6	9.8	7.4	5.9	5.3	2.7
OECD Europe[b]	3.3	3.7	4.0	5.1	6.6	6.5	8.6	13.3	13.2	10.9	11.1	9.3	10.6	14.3	12.2	10.5	8.2	7.4	6.5	4.0
EEC[b]	2.9	3.7	4.1	5.0	6.3	6.3	8.6	13.3	13.4	11.2	11.1	8.2	9.7	12.6	11.6	10.3	7.9	6.7	5.8	3.3
Total OECD *less* the United States[b]	3.4	3.9	4.2	5.4	6.2	6.0	9.2	15.3	12.9	10.6	10.4	8.1	8.8	12.5	10.6	8.8	6.6	5.8	5.2	3.3

a) Index for households of wage and salary earners.
b) The country weights used in the aggregate indices are based on the private consumption and exchange rates of the preceding year.
c) Excluding rent.
d) From 1985, new index.

Table R 11. **Consumer prices**

Percentage changes from previous period, annual rates, not seasonally adjusted

	1972		1973		1974		1975		1976		1977		1978		1979		1980		1981		1982		1983		1984		1985		1986	
	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II
United States	3.0	3.6	6.0	9.2	11.2	12.4	8.3	7.6	4.8	5.7	7.0	6.3	7.3	9.7	10.9	13.6	15.1	10.4	10.6	9.8	4.7	5.6	1.4	4.6	4.2	4.0	3.3	3.6	1.1	1.8
Japan	3.9	5.1	12.7	16.7	32.2	17.6	11.5	7.3	11.0	8.1	10.0	4.1	3.8	3.7	2.1	6.4	9.5	6.8	4.8	3.3	2.2	2.9	1.4	1.7	2.8	1.7	2.5	1.4	0.7	–1.2
Germany	6.3	5.5	8.3	5.9	8.6	4.9	7.2	4.4	5.8	2.3	5.2	2.1	3.8	1.1	5.3	4.8	6.8	3.8	7.7	6.0	5.2	4.6	2.8	3.0	2.7	1.2	3.6	0.4	0.1	–1.6
France	5.4	7.6	6.0	9.9	15.0	14.5	11.6	9.3	9.7	9.8	9.0	10.1	8.1	10.7	9.6	12.7	14.3	12.9	12.6	15.2	12.5	7.9	10.3	9.3	7.4	6.8	6.1	4.4	1.6	2.6
United Kingdom	6.4	7.8	9.5	10.0	19.0	16.3	28.7	23.2	15.1	13.5	20.5	9.3	7.8	8.1	12.1	21.3	19.4	12.4	12.0	11.2	9.3	4.9	3.9	5.9	4.5	5.1	7.4	4.5	3.2	2.8
Italy[a]	5.1	7.7	11.6	10.4	19.7	28.0	15.9	10.3	18.0	19.7	20.0	13.1	12.6	11.5	16.5	18.2	24.2	18.4	20.3	15.7	16.2	17.2	15.5	11.7	11.8	7.3	10.1	6.9	7.1	3.6
Canada	4.1	6.0	7.2	10.1	10.5	12.5	9.6	11.4	6.4	6.0	8.5	9.1	8.6	9.3	9.1	9.2	9.9	11.8	13.1	12.0	11.0	9.3	4.3	5.6	4.2	3.4	4.2	3.9	4.2	4.3
Total of above countries	4.0	4.8	7.6	10.0	14.8	13.6	10.8	8.8	7.8	7.4	9.1	6.6	6.8	7.8	8.9	11.7	13.7	9.9	10.3	9.5	6.3	6.0	3.4	4.9	4.5	3.8	4.0	3.3	1.6	1.4
Austria	5.6	8.0	7.6	6.9	11.6	8.2	9.7	6.3	8.7	5.6	6.5	3.5	4.0	2.8	4.0	4.1	7.7	5.8	8.0	5.5	6.5	3.4	3.1	3.7	8.1	2.8	4.2	1.5	2.4	0.6
Belgium	4.9	6.6	7.5	6.2	13.9	16.7	12.1	10.5	9.3	7.6	7.5	5.9	4.2	3.7	4.3	5.6	7.1	6.8	7.7	8.4	8.5	9.5	6.8	7.6	6.5	4.7	5.9	2.9	0.8	0.6
Denmark	6.1	7.4	8.7	12.3	16.3	16.1	8.9	5.1	9.8	11.4	9.6	14.0	9.6	7.1	7.6	16.2	11.0	11.2	12.0	11.9	9.2	10.3	5.7	6.0	6.9	5.4	5.6	2.2	4.0	4.6
Finland	5.4	8.3	9.0	16.6	16.6	18.0	18.6	16.2	14.7	11.9	13.9	10.9	7.0	6.5	7.8	7.8	12.8	13.0	12.7	9.6	11.1	6.6	9.1	8.6	6.8	6.1	6.8	3.8	3.8	2.9
Greece	6.7	3.3	15.0	29.4	35.7	9.6	16.5	11.1	17.3	8.0	15.0	10.8	15.9	7.9	25.0	18.9	30.8	19.5	30.6	17.8	24.9	16.5	24.5	15.8	21.4	15.3	20.4	20.9	28.5	15.0
Iceland	11.3	15.2	19.7	28.9	48.3	44.8	56.0	41.7	27.6	35.7	27.8	29.2	52.0	46.4	31.2	68.3	56.0	52.1	57.2	40.2	46.7	63.7	99.3	82.1	19.4	17.7	38.7	32.8	23.7	10.9
Ireland	8.3	8.8	13.0	10.9	19.0	19.0	29.6	7.2	25.8	14.0	16.5	7.8	6.5	9.7	13.6	15.9	19.9	17.2	20.7	22.8	17.2	12.0	9.7	10.7	9.2	5.5	5.9	4.5	4.5	1.8
Luxembourg	4.9	6.8	6.3	5.0	11.8	9.7	11.4	10.4	10.8	7.4	8.1	3.4	3.0	3.1	4.7	5.7	6.9	5.8	9.3	8.0	9.3	10.7	7.6	8.9	3.2	3.4	4.8	3.5	–0.6	–1.1
Netherlands	8.9	6.6	9.2	7.0	10.6	10.2	10.7	9.3	9.3	7.4	6.7	4.9	3.2	5.1	3.3	5.1	7.2	6.6	6.6	7.2	6.3	4.2	1.5	3.7	3.6	2.3	2.6	1.4	0.1	–0.8
Norway	7.9	7.7	7.5	6.9	10.9	8.9	13.9	10.3	9.5	7.5	10.3	8.2	8.6	7.3	3.1	5.6	12.6	12.7	16.0	10.1	12.9	9.6	9.2	5.8	7.2	4.9	6.4	5.0	6.8	10.0
Portugal	10.4	4.0	13.0	16.4	34.7	31.0	20.6	11.0	22.4	21.5	34.7	18.5	23.8	24.2	23.6	23.1	16.7	10.8	22.4	24.4	26.8	13.8	28.2	30.1	32.0	22.1	24.4	8.9	16.0	6.5
Spain	7.9	9.4	9.6	16.9	13.9	18.1	17.8	14.3	18.9	18.3	25.1	29.1	16.7	17.3	14.7	16.3	15.9	14.1	15.5	13.2	16.1	12.2	13.0	10.5	12.8	9.0	10.1	6.1	11.1	6.9
Sweden	6.9	5.5	7.2	7.0	11.6	9.4	9.3	11.1	11.0	7.9	12.2	13.3	11.2	4.7	7.3	9.6	17.0	11.3	14.6	8.1	9.5	7.2	10.3	7.8	9.0	6.2	9.8	3.8	5.3	2.5
Switzerland	7.1	6.5	9.4	9.6	10.2	9.1	7.3	3.2	1.4	1.0	1.4	1.4	1.1	0.5	4.6	4.9	3.3	4.6	7.2	6.9	4.4	7.1	1.4	2.2	3.7	2.1	5.4	1.0	1.3	–0.6
Turkey	9.3	14.5	9.5	22.4	24.7	23.8	25.9	10.6	22.5	14.5	20.4	49.0	71.6	55.7	47.1	104.2	118.1	52.8	35.4	29.8	41.4	19.9	30.8	33.5	52.1	44.6	48.7	38.7	34.6	31.8
Total smaller European countries	7.4	7.5	9.3	12.2	15.2	13.5	14.3	10.1	13.1	10.5	12.8	14.8	13.1	11.5	10.9	16.0	19.1	14.2	13.7	11.6	13.2	9.6	10.0	9.6	11.8	8.8	10.8	6.9	7.9	5.4
Australia	5.3	4.9	9.0	14.9	13.1	19.3	15.2	11.0	14.7	13.6	13.4	8.9	7.2	8.5	8.6	10.7	10.6	8.9	9.3	10.9	10.4	12.8	9.8	8.2	1.7	4.4	6.8	9.1	8.6	10.1
New Zealand	7.3	4.6	9.0	10.1	10.2	13.9	14.2	16.3	18.6	14.2	13.5	16.3	10.6	10.6	12.2	19.6	16.7	15.8	14.5	16.6	16.2	15.7	5.4	3.6	4.6	11.9	18.2	13.4	9.9	19.6
Total smaller countries	7.2	7.1	9.3	12.5	14.8	14.2	14.4	10.3	13.5	11.0	12.9	14.0	12.4	11.1	10.7	15.4	18.2	13.7	13.3	11.6	12.9	10.2	9.9	9.2	10.3	8.2	10.3	7.3	8.0	6.2
Total OECD	4.4	5.2	7.8	10.3	14.8	13.7	11.3	9.0	8.7	8.0	9.7	7.8	7.8	8.4	9.2	12.3	14.4	10.5	10.8	9.8	7.3	6.6	4.3	5.5	5.3	4.4	4.8	3.8	2.3	2.0
Four major European countries	5.9	7.0	8.6	8.7	14.5	14.0	14.4	10.7	10.9	9.8	11.8	7.7	7.3	6.9	9.6	12.3	14.2	10.5	12.2	11.4	10.1	7.8	7.4	7.0	6.0	4.8	6.4	3.7	2.6	1.6
OECD Europe	6.3	7.1	8.8	9.8	14.7	13.8	14.3	10.5	11.7	10.0	12.1	10.1	9.3	8.5	10.1	13.6	15.9	11.8	12.7	11.5	11.1	8.4	8.2	7.8	7.9	6.1	7.8	4.7	4.2	2.8
EEC	6.2	7.0	8.9	9.6	14.8	14.0	14.5	10.7	11.8	10.4	12.4	9.4	7.9	7.6	9.6	12.1	13.9	10.7	12.1	11.5	10.7	8.2	7.9	7.5	7.0	5.3	6.9	4.0	3.4	2.1
Total OECD *less* the United States	5.8	6.6	9.4	11.2	17.6	14.7	13.5	10.0	11.4	9.5	11.5	8.8	8.1	7.5	8.2	11.5	14.0	10.6	10.9	9.8	9.1	7.3	6.4	6.2	6.2	4.7	6.1	4.0	3.4	2.1

See notes of table R10.

Table R12. **Standardized unemployment rates in sixteen OECD countries**

Per cent of total labour force

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1986 Q3	1986 Q4	1987 Q1
United States	5.8	5.5	4.8	5.5	8.3	7.6	6.9	6.0	5.8	7.0	7.5	9.5	9.5	7.4	7.1	6.9	6.8	6.8	6.6
Japan	1.2	1.4	1.3	1.4	1.9	2.0	2.0	2.2	2.1	2.0	2.2	2.4	2.6	2.7	2.6	2.8	2.9	2.8	2.9
Germany[a]	0.9	0.8*	0.8*	1.6*	3.6*	3.7*	3.6*	3.5*	3.2*	3.0*	4.4*	6.1*	8.0* I	7.1	7.2	6.9	6.9	6.8	6.9
France	2.6	2.7	2.6	2.8	4.0	4.4	4.9	5.2	5.9	6.3	7.4*	8.1*	8.3*	9.7*	10.1	10.3*	10.6*	10.6*	10.9*
United Kingdom[a]	3.6	4.0	3.0	2.9	4.3	5.6	6.1*	5.9*	5.0*	6.4*	9.8*	11.3*	12.5* I	11.7	11.3*	11.5	11.6	11.3	11.1
Italy[b]	5.3	6.3	6.2	5.3	5.8	6.6	7.0	7.1	7.6	7.5	8.3	9.0	9.8	10.2	10.5	. .	10.7	. .	. .
Canada	6.1	6.2	5.5	5.3	6.9	7.1	8.0	8.3	7.4	7.4	7.5	10.9	11.8	11.2	10.4	9.5	9.6	9.4	9.6
Major seven countries	3.7	3.8*	3.4*	3.7*	5.4*	5.4*	5.4*	5.1*	4.9*	5.5*	6.4*	7.8*	8.2*	7.5*	7.4*	. .	7.3*	. .	. .
Australia	1.9	2.6	2.3	2.6	4.8	4.7	5.6	6.2	6.2	6.0	5.7	7.1	9.9	8.9	8.2	8.0	8.2	8.3	8.3
Austria	1.3	1.2	1.1	1.4	1.7	1.8	1.6	2.1	2.1	1.9	2.5	3.5	4.1	3.8	3.6	. .	. .	. .	. .
Belgium[a]	2.1	2.7	2.7	3.0	5.0	6.4	7.4	7.9	8.2	8.8	10.8	12.6	12.1	12.1	11.2	10.8*	10.7*	10.7*	10.8*
Finland	2.2	2.5	2.3	1.7	2.2 I	3.8	5.8	7.2	5.9	4.6	5.1	5.8	5.4	5.2	5.0	5.4*	5.3	5.2*	. .
Netherlands[a]	1.3	2.2	2.2	2.7 I	5.2	5.5	5.3	5.3	5.4	6.0	8.5	11.4	12.0	11.8	10.6*	9.9*	9.8*	9.6*	9.6*
Norway	1.5	1.7	1.5	1.5	2.3	1.8	1.5	1.8	2.0	1.7	2.0	2.6	3.3	3.0	2.5	1.9	1.9	1.8	I 2.5*
Spain	3.1	3.1	2.5	2.6	3.6	4.6	5.2	6.9	8.5	11.2	13.9	15.8	17.2	20.0	21.4	21.0	20.7	20.7	. .
Sweden	2.5	2.7	2.5	2.0	1.6	1.6	1.8	2.2	2.1	2.0	2.5	3.2	3.5	3.1	2.8	2.7	2.6	2.6	I 2.1
Switzerland	–	–	–	–	0.4	0.7	0.4	0.3	0.3	0.2	0.2	0.4	0.9	1.1	0.9	. .	0.9	. .	. .
Total of above countries	3.5*	3.6*	3.2*	3.5*	5.1*	5.2*	5.2*	5.1*	5.0*	5.7*	6.6*	8.0* I	8.5 I	8.0*	7.9*	. .	7.8*	. .	. .
Memorandum item EEC[c]	2.9*	3.2*	2.9*	3.0*	4.3*	5.0*	5.4*	5.6*	5.7*	6.4*	8.3*	9.6* I	10.7* I	11.3*	11.4*	. .	11.4*	. .	. .

a) New series based on EEC Labour Force Surveys: see *Quarterly Labour Force Statistics*, No. 2, 1987.
b) The existing series is no longer being updated pending the receipt of new data based on EEC Labour Force Surveys.
c) EEC: only countries shown: Germany, France, United Kingdom, Italy, Belgium, Netherlands and Spain are included in the area totals.

Note: Data have been adjusted (as far as possible) both to preserve comparability over time and to conform with the definitions drawn up by the International Labour Organisation. The adjustments mainly affect countries that base their unemployment statistics on registration records maintained by employment offices. Where necessary the OECD has tried to adjust "registered" unemployment with a view to including unemployed persons not covered on the register and to excluding employed persons still carried on the register. For several countries the adjustment procedure used is similar to that of the U.S. Department of Labor. Minor differences may appear mainly because the rates published by the U.S. Department of Labor refer to the *civilian* labour force instead of the total labour force. Series adjusted by the OECD are marked by an asterisk (*). Break is marked by (I). Revision is marked by (R).
The data above are averages of quarterly or monthly figures.
For a detailed description of the sources and methods used, see *Standardized Unemployment Rates, Sources and Methods* (OECD, 1985).

Table R 13. **Current balances**[a]

$ million

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
United States	2 330	–1 434	–5 795	7 150	1 960	18 130	4 210	–14 510	–15 440	–1 000	1 870	6 330	–9 130	–46 610	–106 460
Japan	1 970	5 797	6 624	–136	–4 693	–682	3 680	10 918	16 624	–8 754	–10 746	4 770	6 848	20 800	35 006
Germany	873	795	856	4 624	10 277	4 074	3 913	4 082	8 963	–6 018	–15 671	–5 196	4 065	4 141	6 991
France	68	525	284	1 475	–3 905	2 672	–3 421	–430	6 998	5 189	–4 167	–4 742	–12 066	–4 686	–831
United Kingdom	2 017	2 747	482	–2 641	–7 937	–3 502	–1 653	–237	1 851	–1 519	6 809	12 375	6 874	4 752	1 706
Italy	771	1 576	2 004	–2 531	–8 016	–581	–2 816	2 465	6 198	5 479	–9 681	–8 117	–5 475	779	–2 894
Canada	989	366	–286	310	–1 328	–4 551	–4 154	–4 064	–4 299	–4 155	–963	–5 113	2 358	2 386	2 595
Austria	–67	–79	–148	–270	–466	–192	–1 054	–2 135	–634	–1 054	–1 652	–1 344	477	221	–197
Belgium-Luxembourg	687	669	1 309	1 329	757	163	389	–1 032	–978	–3 033	–5 027	–4 162	–2 335	–362	–33
Denmark	–546	–422	–66	–478	–947	–552	–1 991	–1 722	–1 412	–2 967	–2 453	–1 853	–2 248	–1 180	–1 630
Finland	–239	–339	–113	–388	–1 228	–2 131	–1 120	–106	665	–156	–1 401	–403	–810	–940	–17
Greece	–407	–341	–399	–1 189	–1 141	–953	–928	–1 078	–955	–1 888	–2 209	–2 408	–1 897	–1 878	–2 132
Iceland	8	–45	–20	–13	–155	–144	–24	–49	30	–21	–69	–145	–257	–54	–128
Ireland	–191	–190	–136	–233	–686	–124	–431	–525	–846	–2 101	–2 134	–2 564	–1 868	–1 151	–906
Netherlands	–486	–118	1 354	2 422	2 216	1 987	2 708	613	–1 474	–2 050	–2 938	3 985	3 586	3 747	4 970
Norway	–242	–516	–58	–349	–1 103	–2 430	–3 733	–5 037	–2 109	–1 048	1 104	2 191	665	2 056	2 985
Portugal	117	174	350	351	–829	–819	–1 289	–1 498	–792	–49	–1 256	–2 794	–3 142	–1 493	–582
Spain	79	856	571	557	–3 237	–3 493	–4 292	–1 910	1 570	1 124	–5 127	–4 812	–4 165	–2 545	2 037
Sweden	–264	351	561	1 435	–551	–354	–1 630	–2 124	–282	–2 365	–4 495	–2 795	–3 526	–944	387
Switzerland	70	83	220	281	171	2 587	3 369	3 441	4 398	2 444	–541	2 749	3 964	3 847	4 374
Turkey	–70	24	124	615	–634	–1 648	–2 029	–3 140	–1 265	–1 413	–3 408	–1 919	–863	–1 898	–1 408
Australia	–833	–867	401	413	–2 840	–1 081	–2 010	–3 144	–4 568	–2 660	–4 223	–8 516	–8 495	–5 936	–8 478
New Zealand	–184	–68	46	157	–1 577	–1 330	–944	–847	–492	–683	–925	–1 166	–1 622	–1 185	–1 582
Total	6 450	9 544	8 165	12 891	–25 892	5 046	–15 250	–22 069	11 751	–28 698	–69 303	–25 649	–29 062	–28 133	–66 228

a) Goods, services and all transfer payments.

Table R 14. **Current balances**[a]

$ million

	1977		1978		1979		1980		1981		1982		1983		1984		1985	
	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II
United States	–5 805	–8 705	–10 685	–4 755	–545	–455	–3 110	4 980	4 685	1 645	2 340	–11 470	–13 690	–32 920	–48 070	–58 390	–55 535	–62 145
Japan	4 322	6 596	10 009	6 615	–282	–8 474	–8 379	–2 367	1 558	3 213	3 528	3 320	9 348	11 452	16 610	18 396	21 827	27 342
Germany	2 064	2 017	3 544	5 420	–267	–5 752	–7 091	–8 582	–5 708	509	952	3 113	3 394	747	1 738	5 253	4 557	8 644
France	–1 074	641	2 752	4 246	3 201	1 986	–1 556	–2 617	–1 058	–3 683	–5 687	–6 379	–4 307	–379	–970	139	–391	221
United Kingdom	–1 309	1 072	620	1 231	–1 154	–365	–384	7 192	9 861	2 513	2 796	4 078	2 345	2 407	1 287	419	1 416	2 364
Italy	82	2 383	3 007	3 190	4 247	1 233	–2 289	–7 393	–5 762	–2 355	–3 466	–2 009	395	384	–1 628	–1 266	–3 568	–639
Canada	–2 220	–1 845	–1 766	–2 533	–2 343	–1 812	–1 197	234	–2 220	–2 894	451	1 907	2 131	255	636	1 959	1 072	–1 504

a) Goods, services and all transfer payments ; actual data, seasonally adjusted.

Table R 15. **Exchange rates, national currencies against the United States Dollar**

Average of daily rates

	Monetary unit	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
United States	Dollar	1.0000	1.0000	1.0000	1.0000	1.0000	0.9999	0.9999	0.9999	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Japan	Yen	308.00	271.49	291.79	296.82	296.54	268.48	210.44	219.20	226.70	220.59	249.08	237.48	237.55	238.62	168.52
Germany	Deutschemark	3.1890	2.6715	2.5864	2.4603	2.5185	2.3222	2.0086	1.8328	1.8172	2.2592	2.4266	2.5533	2.8464	2.9437	2.1719
France	Franc	5.0443	4.4538	4.8092	4.2872	4.7803	4.9135	4.5118	4.2546	4.2261	5.4343	6.5720	7.6212	8.7394	8.9841	6.9269
United Kingdom	Pound	0.4004	0.4082	0.4275	0.4517	0.5566	0.5732	0.5214	0.4720	0.4302	0.4977	0.5726	0.6598	0.7515	0.7793	0.6822
Italy	Lira	583.2	582.0	650.3	652.7	832.1	882.4	848.7	830.9	856.4	1136.5	1352.7	1518.9	1756.7	1909.4	1491.0
Canada	Dollar	0.9908	0.9999	0.9777	1.0170	0.9858	1.0634	1.1406	1.1710	1.1693	1.1989	1.2334	1.2324	1.2950	1.3658	1.3894
Austria	Schilling	23.115	19.594	18.693	17.421	17.939	16.524	14.530	13.369	12.940	15.923	17.059	17.968	20.007	20.685	15.268
Belgium-Luxembourg	Franc	44.015	38.963	38.958	36.788	38.610	35.843	31.500	29.313	29.253	37.137	45.698	51.130	57.762	59.428	44.685
Denmark	Krone	6.977	6.033	6.085	5.741	6.044	6.001	5.511	5.260	5.636	7.120	8.333	9.145	10.355	10.594	8.089
Finland	Markka	4.1631	3.8184	3.7633	3.6690	3.8557	4.0206	4.1065	3.8871	3.7196	4.3044	4.8128	5.5647	6.0031	6.1963	5.0704
Greece	Drachma	30.00	29.64	30.00	32.02	36.52	36.83	36.73	37.04	42.64	55.34	66.65	87.90	112.66	138.05	139.48
Iceland	Krona	0.877	0.924	0.992	1.533	1.819	1.988	2.708	3.533	4.799	7.206	12.296	24.853	31.726	41.537	42.108
Ireland	Pound	0.4004	0.4082	0.4275	0.4517	0.5566	0.5732	0.5214	0.4886	0.4866	0.6216	0.7043	0.8047	0.9228	0.9457	0.7466
Netherlands	Guilder	3.2095	2.7941	2.6882	2.5299	2.6445	2.4547	2.1638	2.0059	1.9876	2.4955	2.6703	2.8537	3.2088	3.3223	2.4497
Norway	Krone	6.5882	5.7443	5.5227	5.2233	5.4568	5.3216	5.2414	5.0628	4.9368	5.7318	6.4510	7.2958	8.1604	8.5938	7.3918
Portugal	Escudo	27.01	24.37	25.24	25.48	30.15	38.23	43.92	48.90	49.99	61.53	79.39	110.79	146.38	169.93	148.17
Spain	Peseta	64.29	58.16	57.64	57.40	66.93	76.01	76.70	67.15	71.72	92.26	109.80	143.52	160.80	170.06	139.97
Sweden	Krona	4.7624	4.3541	4.4333	4.1505	4.3566	4.4806	4.5168	4.2867	4.2292	5.0598	6.2822	7.6671	8.2731	8.6022	7.1236
Switzerland	Franc	3.8193	3.1691	2.9785	2.5818	2.4995	2.4036	1.7882	1.6631	1.6761	1.9663	2.0296	2.0994	2.3497	2.4574	1.7984
Turkey	Lira	14.15	14.00	14.00	14.30	15.78	17.83	24.04	37.53	76.04	110.16	160.75	223.67	363.46	519.57	669.03
Australia	Dollar	0.8387	0.7020	0.6930	0.7596	0.8158	0.9003	0.8725	0.8946	0.8771	0.8694	0.9860	1.1091	1.1406	1.4317	1.4960
New Zealand	Dollar	0.8368	0.7319	0.7081	0.8259	0.9984	1.0252	0.9608	0.9783	1.0271	1.1534	1.3325	1.4962	1.7670	2.0255	1.9166

Table R 16. **Effective exchange rates**

Indices 1970 Q1 = 100, Average of daily rates

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
United States	90.2	84.0	85.1	85.3	89.1	88.5	80.4	79.1	80.1	85.9	94.5	98.0	103.6	106.7	87.6
Japan	111.0	119.0	109.3	108.1	113.4	126.2	154.6	143.6	139.2	156.1	146.8	161.5	169.7	174.1	227.6
Germany	106.0	115.9	121.7	122.5	130.5	139.3	147.3	153.6	155.7	151.2	159.3	167.8	167.7	170.9	185.9
France	99.4	101.4	93.9	102.3	99.9	93.9	93.1	93.3	94.8	90.2	83.4	78.5	76.8	78.2	80.3
United Kingdom	96.1	85.0	81.7	75.2	64.9	61.8	62.4	65.6	72.5	74.8	71.9	67.3	64.6	65.3	59.8
Italy	97.7	86.6	77.8	73.7	61.8	56.6	53.0	51.0	49.6	45.4	42.6	41.7	40.2	38.5	39.4
Canada	105.7	102.3	105.6	101.3	106.8	98.5	89.0	85.7	85.8	85.8	85.8	87.2	83.8	80.1	74.2
Austria	100.1	104.1	108.1	110.6	114.5	119.0	119.4	120.2	125.5	125.3	129.0	131.6	132.3	135.6	141.1
Belgium-Luxembourg	102.1	102.8	103.9	105.6	108.1	113.6	117.3	117.9	117.9	113.7	103.2	100.7	98.8	100.7	106.2
Denmark	98.7	103.8	103.1	105.6	107.8	105.8	106.3	103.3	95.9	90.8	86.9	87.7	85.5	86.0	90.1
Finland	92.5	90.8	92.7	91.5	93.7	88.1	79.9	79.5	82.7	85.2	86.3	81.8	83.0	84.5	82.3
Greece	90.5	82.6	83.5	76.0	71.5	69.6	61.9	60.0	52.7	48.9	44.8	38.4	32.5	28.6	22.0
Iceland	92.7	80.3	75.8	47.1	44.4	40.9	27.9	19.8	14.6	11.7	8.2	4.6	3.6	2.8	2.2
Ireland	98.7	93.7	91.5	87.9	82.6	79.8	79.8	78.7	75.3	69.0	67.9	65.9	62.2	61.8	66.1
Netherlands	102.5	105.6	110.3	113.9	117.0	122.0	124.4	126.5	128.7	124.0	131.0	134.4	132.2	133.5	144.7
Norway	99.4	104.0	108.9	111.9	113.7	113.4	108.5	107.1	108.9	111.2	111.1	108.8	109.0	107.2	100.2
Portugal	96.7	99.3	96.2	92.7	86.7	67.6	53.2	44.4	43.7	43.4	39.1	31.4	25.1	23.2	21.3
Spain	100.2	101.4	103.5	100.2	92.9	80.9	72.7	80.5	76.4	71.0	66.7	55.5	54.3	54.5	54.0
Sweden	100.2	99.3	97.2	101.0	102.7	98.0	88.5	88.0	89.1	89.4	80.5	71.4	73.3	73.0	71.0
Switzerland	102.5	111.3	120.2	133.5	151.2	152.9	188.7	190.3	188.5	195.5	209.5	220.2	219.5	221.0	238.7
Turkey	58.8	90.2	90.2	86.1	85.0	73.7	50.0	32.6	15.4	12.2	9.3	7.2	4.9	3.6	2.3
Australia	99.4	110.8	114.5	104.6	104.3	90.4	83.8	80.2	83.8	90.7	85.7	78.6	80.6	65.1	51.4
New Zealand	100.0	105.8	110.0	97.7	87.6	84.1	81.9	78.0	74.0	69.5	64.8	61.0	53.7	49.4	44.7

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