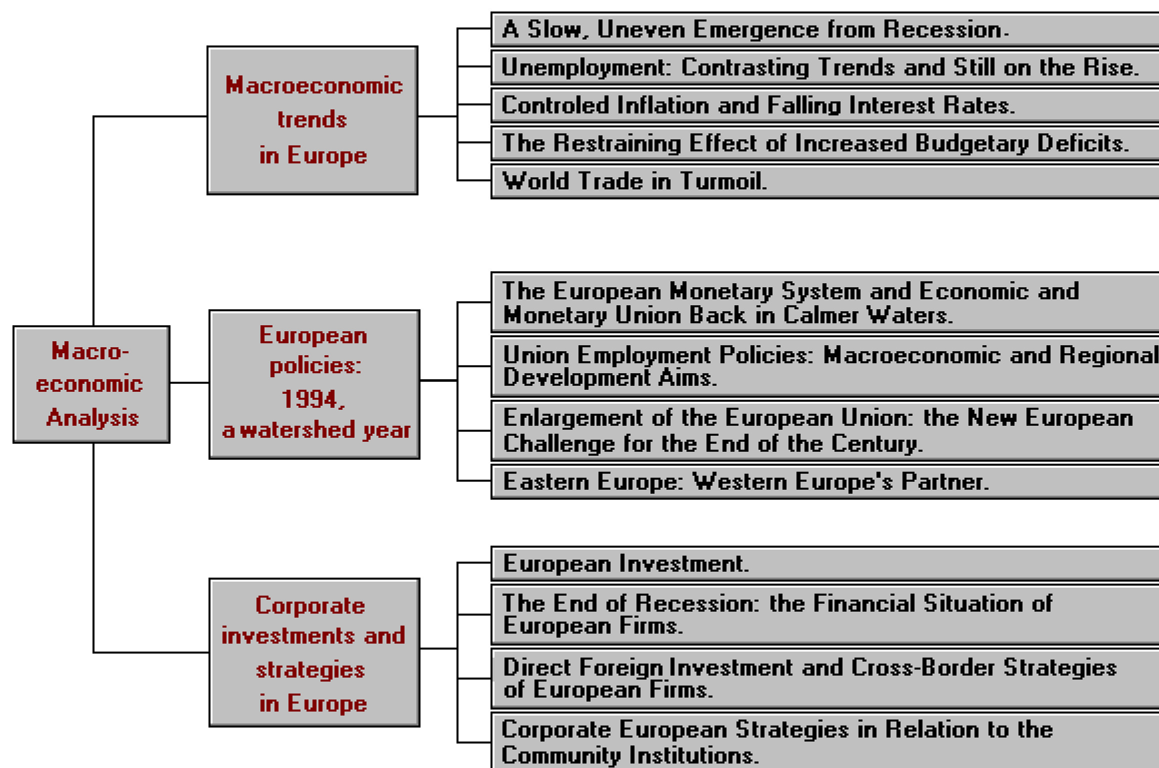
Macro-economic Analysis
Macroeconomic trends in Europe
A Slow, Uneven Emergence from Recession.
Unemployment: Contrasting Trends and Still on the Rise.
Controled Inflation and Falling Interest Rates.
The Restraining Effect of Increased Budgetary Deficits.
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The European Monetary System and Economic and Monetary Union Back in Calmer Waters.
Union Employment Policies: Macroeconomic and Regional Development Aims.
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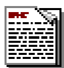
MACROECONOMIC ANALYSIS

The year 1993 was very difficult for the European economy. With most European countries finding themselves struggling with recession, unemployment rates attained levels unknown since the Second World War. Economic growth as a whole was negative and budget deficits reached record highs. But 1993 also sent out rays of hope. The recession bottomed out in the middle of the year. The first to experience growth were America and the United Kingdom who consolidated a recovery that had already shown its first signs in 1992. The South East Asian countries enjoyed buoyant growth and demand for European products from these markets is likely to increase.

To cope with the relentless rise in unemployment, an increase in labour market flexibility came to be seen as a possible solution. Policies aimed at developing part-time work and cutting labour costs have been implemented. However, the sweeping labour market reforms needed to cut unskilled labour costs are delayed by social problems and the feeble labour markets themselves. In 1994, the recovery is taking hold every-where. Western Europe will experience growth of at least 1.5% this year, with prospects of attaining over 2% in 1995. 1994 results in Eastern Europe are also better than in 1993, particularly in terms of production and inflation.

Against this backdrop of ending recession, this article will first have a close look at the major macroeconomic trends for 1994 and 1995, together with monetary and budgetary policy developments in the European countries. The European Union's policies will be examined and compared with those of the EFTA countries and of Central and Eastern Europe. The macroeconomic trends and policies will further lead on to an analysis of the behaviour and strategies of European firms seen in the context of the slow recovery of economic activity.

 **1. Macroeconomic trends in Europe**

2. European policies: 1994, a watershed year

3. Corporate investments and strategies in Europe

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Panthéon - Sorbonne

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Sources

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Organisation for Economic Cooperation and Development,
Paris (F)

IMF
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GATT
General Agreement on Tariffs and Trade, Geneva (CH)

EBRD
European Bank for Reconstruction and Development,
London (GB)

European Commission,
Brussels (B)

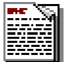
UN,
United Nations,
Geneva (CH)

I. Macroeconomic trends in Europe

1. A Slow, Uneven Emergence from Recession

2.Unemployment: Contrasting Trends and Still on the Rise

3.Controlled Inflation and Falling Interest Rates

 4. The Restraining Effect of Increased Budgetary Deficits

5. World Trade in Turmoil

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II. European policies: 1994, a watershed year

The European Union is poised at a cross-roads. The recession has made it increasingly difficult to implement policies aimed at convergence and deepening within the Union. Due to regionalisation elsewhere in the world, e.g. Asia and America, negotiations on enlargement with the EFTA countries have also been speeded up. The interplay between deepening and widening policies within the context of the recession together with the contradictions thought to exist between these two movements caused a crisis of confidence in European construction in 1993. Economic recovery should contribute to more constructive talks on the future of the European Union.

1.The European Monetary System and Economic and Monetary Union Back in Calmer Waters

2. Union Employment Policies: Macroeconomic and Regional Development Aims

3.Enlargement of the European Union: the New European Challenge for the End of the Century

4. Eastern Europe: Western Europe's Partner

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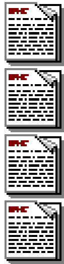
III. Corporate investments and strategies in Europe

In 1994, the recessionary tendencies will continue to ease. Still, Poland and the Czech Republic are the only countries likely to see positive growth. In Poland, growth could stay on the 1993 level (4%). Stronger growth will be hard to achieve due to budgetary constraints and external imbalance. The GDP in Hungary and Romania should remain steady. An upturn in farm production, which is already underway in these two countries, should gain ground in 1994

.Since 1991, European businesses have reacted strongly to the unfavourable economic conditions. They have held investments in check, concentrating on those intended to improve their productivity, and have pruned their labour forces. In order to withstand increased international competition, they have continued to restructure and merge, but at a less hurried pace than before. Lastly, they have been looking to foreign markets for outlets and production conditions they have difficulty to find in Europe.



1. European Investment

2. The End of Recession: the Financial Situation of European Companies

3. Direct Foreign Investment and Cross-Border Strategies of European Firms

4. Corporate European Strategies in Relation to the Community Institutions

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1. A Slow, Uneven Emergence from Recession

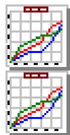
In spite of the strong American recovery and the favourable English situation, the European economic recovery was still subdued in the first quarter of 1994. It was marked by a substantial gap between the situations in the European countries. Germany went into recession later than the other countries owing to activity sustained by the German unification until 1992. The United Kingdom, however, was experiencing an early upswing as a result of American growth.

A subdued economic recovery...

The 1993 recession was the end of a trade cycle that had started in Europe in 1987. 1994 is the year of economic recovery. However, the recent factors of economic recession are still exerting a restraining effect on the recovery, both in terms of consumer demand and business activity. These factors include rising unemployment, budget deficits and high real short-term interest rates which, though falling, are still much higher than American interest rates. Most European countries experienced a heavy drop in domestic demand. Household consumption plummeted due to rising unemployment and shrinking disposable income, while business investments slowed owing to increasing underuse of production capacity and sluggish demand.

...spread unevenly across Europe

Recovery indicators clearly showed that there was a wide gap between the different European economies. In the United Kingdom, the upturn began in 1992 and continued to gain ground in 1993. Early in 1993, it was the turn of the Netherlands, Spain and Portugal to take the road to recovery, followed by Germany, Austria and Denmark. France did not experience a turnaround until mid 1993. In those countries that had suffered a heavy currency depreciation, particularly Italy, Finland, Spain and Sweden, the recovery was given a strong boost by exports, with significant inroads being made into foreign markets.Growth prospects in 1994 and 1995 are largely conditioned by this gap in economic conditions. The strongest momentum will be witnessed in the United Kingdom, where the foreseeable 1994 growth rate will be around 3%. The German economy is also showing signs of growth. However, only a strong impetus to growth provided by foreign trade would make up for the slowdown in domestic demand caused by deteriorating employment, reduced salaries in real terms and the tight budgetary policy, which has cut back purchasing power.



GDP and GDP per head in Western Europe 1993

GDP Growth in Western Europe 1992-1995

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2. Unemployment: Contrasting Trends and Still on the Rise

Contrasting trends ...

In Western Europe, unemployment will continue to edge up and will affect 22 million people in 1994 (12% of the economically active population). A slight decrease in unemployment is expected in 1995 in the wake of the recovery. However, development in unemployment is very different within the developed countries. Owing to the recovery, the American jobless rate has been falling since the end of 1992. Only 6.3% of the working population should be out of work by the end of 1994. In over half of the European Union countries, the unemployment rate will remain over 10% in 1995 (see fig. 3 opposite)

The United Kingdom is the only country to have experienced a fall in unemployment, but it will nevertheless remain relatively high, still around 9% in 1995. The drop in British unemployment follows the recovery in this country, but is also a reflection of a more flexible labour market. Due to flexibility, working hours have been shortened in the United Kingdom and the share of part-time work increased.

...that still give cause for concern

Such high levels of unemployment are liable to make more acute the labour market's structural imbalances in Western Europe. Long periods of unemployment may indeed weaken people's skills and capacities, making them less and less capable of doing the jobs they did previously. In many Western European countries, long-term unemployment (more than 12 months) is still a cause for concern. In Italy, this type of unemployment is very common. However, it is lower in France and even more so in the United Kingdom. Not only is there a big difference in these levels but they also develop in different directions. Thus long-term unemployment has decelerated markedly since 1988 in the United Kingdom, but is static in other countries. More labour market reforms will certainly be necessary in Europe. Given the current public deficits and unbearable costs of welfare, it is all the more urgent to find solutions.

Unemployment Rates in Western Europe 1992-1995

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3. Controlled Inflation and Falling Interest Rates

Inflation is easing in all the industrialised countries. The turnaround is due to the weakness of economic activity, low price levels for raw materials, including oil, restraint in pay claims and gains in productivity. This opens the way to stimulation monetary policies, especially to continued reductions in real interest rates.

Inflation down to levels not reached since the sixties ...

Western European inflation fell to some 3.5% in 1993. It should drop still further in 1994 and 1995 . 1995 should see an average inflation rate in Western Europe of 3%. This would make a better overall result than the particularly stable prices of the 1960s. The lack of any pressure on the production system gives good reason to expect that the disinflationary trend will continue in spite of a likely upswing in production.

The favourable European conditions for disinflation enable the different European inflation rates to converge, particularly those belonging to the European Union. The average gap between EU countries' inflation rates (Greece excluded) was narrowed from 2.6% in 1988 to 1.6% in 1993. This convergence is not only cyclical; it signals major changes in behaviour in relation to inflationary pressures, such as doing away with index linked wages. In Italy, for example, the scrapping of the sliding wage scale enabled annual growth in consumer prices to be reduced to some 4% in 1993.

... which is at last bringing down interest rates

Throughout 1993, monetary policies in Western Europe were tied to the policy of the Bundesbank, due to the key role played by the German mark in the European monetary system and the susceptibility of currency exchange rates to differences in interest rates. The Bundesbank en-
gaged in a series of small interest rate cuts because unification-related inflationary risks had not disappeared. This very gradual reduction has not enabled other countries to cut money prices quickly for fear of destabilising the money market, in which case foreign capital would be liable to invest in the mark to take advantage of higher German interest rates.

The German discount rate finally came down from 8.25% to 5.75% between January and December 1993, being fixed at 5.25% in February 1994. This cut was considered possible because German inflation had fallen to around 2.25% per year, which came close to the 2% target set by the German monetary policy-makers. In 1994, the downward trend in these rates should continue, providing it is not impeded by the rise in American rates.

Inflation Rates in Western Europe 1992-1995

Short-term Interest Rates in Western Europe 1992-1995

Long-term Interest Rates in Western Europe 1992-1995

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4. The Restraining Effect of Increased Budgetary Deficits

The economic recession has had a universally detrimental effect on governmental budget deficits. This deterioration comes just at a time when the recovery needs to be supported. It is also liable to hamper progress towards bringing the economies of European Union countries into line. In the next few years, the need to reduce these deficits will play a decisive role in the economic and social policies of the European countries.

A deteriorating budgetary situation...

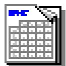
In 1993, budget deficits within the Union reached an unprecedented 6.5% of GDP. This deterioration in public accounts is largely due to the recession insofar as receipts have suffered (public decreases in revenue, profits and consumption, and consequently in the financial return from taxes) and spending has increased (rising unemployment benefits, stimulation programmes, etc.).

For most countries the key issue is to know how to stabilise public spending in spite of the negative impact of the 1992-93 recession and the depressive impact that an effort to reduce deficits would have on consumer demand. In Germany, France and the United Kingdom, the delay in implementing the necessary deficit control measures, recessionary by nature, only served to worsen the situation. These countries saw their public deficit increase by nearly two points in terms of GDP in 1993.

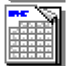
...preventing countries from implementing programmes to boost the economy

The size of these public deficits will compel governments to take steps to cut expenditure and increase revenue and this may impede economic recovery. In the United Kingdom, tax measures timetabled for 1994 will entail a reduction in real income; 400,000 more Britons will pay income tax this year. This increase in direct taxation will cause a reduction of nearly 3% in the average net income of the working population. In Germany, the worsening budget deficit partly reflects the long-lasting impact of reunification. To keep the deficit down to around 70 billion marks, the federal government has embarked on a cost-saving programme which aims at reducing many social benefits, particularly unemployment benefits and some family allowances. Similar measures are progressively being implemented in many European countries.

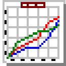
The Maastricht criteria, which give as a standard of convergence a public deficit corresponding to 3% of GDP, seem impossible to meet without first recovering growth of at least 3% per year. The question is how will the negative short-term impact of reforming public finance be offset by interest rate cuts? As it is not easy to use budget policy as an instrument to spur recovery, only monetary policy is likely to play this role and then only if real interest rates continue to fall.



Budget Deficit in Western European Countries 1992-1995



Gross Debt Load of Western European Governments 1992-1995



Budget Deficit / Gross Debt Load of Western European Governments 1992-1995

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5. World Trade in Turmoil

Growth in world trade slowed down in 1993. Further to the GATT agreements and the economic recovery, growth of over 5% in world trade is predicted for 1994, against 2.5% in 1993. Such a strong progression will not be fully realised unless Western Europe recovers as hoped and the Japanese economy rallies. A number of European countries are pinning their hopes on the growth of their exports to buoy up domestic activity.

Last-minute signing of the Uruguay Round in Marrakech ...

In 1993, the European Union was the leading world exporter with 18.8% of global exports (intra-community trade not included), ahead of the United States and Japan. Even so, Western European foreign trade declined in 1993. Exports in volume decreased by 0.5% and imports by 3.5%. The conclusion of the GATT agreements in December 1993 and their signing in April 1994 in Marrakech, give reason to expect an expansion in international trade for 1994 and 1995 which should be of benefit to Europe.

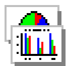
The final Uruguay round agreements are scheduled to come into effect on 1 January 1995. These agreements, signed by 111 countries, will result in a substantial decrease in import duties and other non-tariff barriers and include farm products, textiles and services within the general framework of the GATT agreements. The agreements also provide that a World Trade Organisation (WTO), enforcing free and fair world trade, be set up by January 1995.

However, now that the signing of the Marrakech agreement is over, the WTO's task seems enormous. Some questions remain as to the WTO's capacity to carry through the programme set out for it. Besides supervising the strict application of the Uruguay Round agreements (scrapping of tariff barriers, reductions in farm subsidies, ongoing negotiations on services), the WTO has new responsibilities on environmental issues, social rights, cross-border labour movements, etc. It must also replace the GATT negotiation rounds by permanent talks between the members of the organisation. To achieve this, the organisation will use a decision process based on the rule of consensus in place of that of a majority with a weighting system of voting rights. This method is liable to block joint decisions by uncooperative member countries.

... giving hopes of support for growth from foreign trade

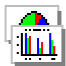
Most Western European countries are anticipating that foreign trade will be the driving force behind the recovery in 1994 and 1995. In the Scandinavian countries, hopes of an an upturn throughout 1994 are based primarily on continued growth in exports following the drastic depreciation of the Swedish krone and the Finnish markka.

However, if each country in Europe counts on the development of its partners' exports to support its own domestic growth, the effect is liable to come full circle where one country's exports are another country's imports. Many European countries expect growth in GDP based on forecasts of a rise in exports of up to 4%. Growth outside Europe, particularly in Asia, will doubtless contribute to the recovery, but it also depends on economic growth in the developed countries and on their ability to deal with imports from that part of the world.

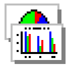


Balance of Trade of Western European Countries 1992-1995

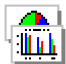
Leading Western European Exporters and Importers 1993:



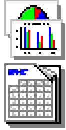
Exports



Country's share of total exports (%)



Imports



Country's share of total imports (%)

the GATT's Uruguay Round comes to an end

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1. The European Monetary System and Economic and Monetary Union Back in Calmer Waters

Following the 1992 crisis, the European monetary system went through troubled times again in 1993. The widening of fluctuation margins in August 1993 was commonly seen as an end to the system, but adjustments were made with no major upsets to the relative positions of the currencies. This gives good reason to expect the currency integration process to continue in 1994.

1993's tensions under control in 1994 ...

Following the Danish "yes-vote" to the Maastricht treaty in May 1993, the EMS settled down to greater stability. However, big differences in short-term interest rates remained between the United States and Western Europe. Against the background of European economic recession, the currency markets did not believe that the European monetary authorities would be able to keep the exchange rates within the narrow EMS bands whilst only bringing the principal interest rates down very gradually. A wave of speculation thus took hold not only of the franc-mark parity, considered as the pivot of the system, but also the Belgian franc and the Danish krone and even the Spanish peseta and the Portuguese escudo, which had recently been devalued. Speculation peaked in late July 1993 due to high German discount rates. Large-scale concerted action by central banks was unable to stave off speculative attacks.

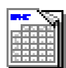
In August 1993, the fluctuation band around the central rate increased from 2.25% to 15% (allow-ing for a total of 30%). While upholding the EMS, this decision enables central bankers to more efficiently stand up to speculation. In the wake of the widened fluctuation bands, the mark continued to hold firm in spite of the poor performance of the German economy. Late in 1993, the French franc returned to its former fluctuation band with the mark.

The downward trend of the European short-term rates should continue in 1993. The upturn in interest rates in the United States will reduce the short-term rate differential between the United States and Germany. This should support the parity of the dollar against the mark and channel capital towards the United States. The dollar is therefore expected to appreciate against the mark. The same should hold true for the other major European currencies.

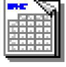
...but convergence criteria are shelved

Early 1994 saw the beginnings of phase 2 of the Economic and Monetary Union (EMU). The second stage forms the transition period before the final phase. It began with the setting up of the European Monetary Institute (EMI), which will become the Central European Bank with the adoption of the single currency. During this second phase, the economic policies of the member countries will have to further converge. No monetary financing of government deficits is allowed. Central banks, where necessary, must change their legal form and become independent from executive power. The third stage should begin on 1 January 1997 or, if a majority of members does not meet the economic convergence criteria, on 1 January 1999 at the latest. This final step will lead to the irrevocable locking of exchange rate parities and the introduction of the ECU as the single currency. A European system of central banks will then be set up. It will include the central European bank and the central national banks.

At the beginning of 1994, no single country satisfied all the economic convergence criteria fixed by the Maastricht treaty. In fact the implementation of these convergence criteria suffers from ambiguity. The aim of the European system of central banks is clear: to maintain price stability. But even though the Maastricht treaty requires member countries to avoid excessive public deficits, budget policies still remain in the hands of the governments of the member countries. The decisions of member countries are basically dictated by national policy considerations via their annual budgets. This becomes evident when the budget deficits in Europe are examined in detail.



ECU Exchange Rates 1991-1993



Composition of the ECU 1993

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2. Union Employment Policies: Macroeconomic and Regional Development Aims

The worrying employment situation in the European Union has prompted the Community to revive the idea of a "European growth initiative" adopted in 1992 at the Edinburgh summit. The lack of consensus on a big European loan has blocked the Commission. It is therefore trying to support a regional employment policy by means of specific aid funds.

From an overall policy to reduce unemployment ...

Late in 1993, the European Commission, in its White Paper "Growth, Competitiveness and Employment", encouraged the idea of a community revival strategy aiming to reduce the European unemployment rate by half before the year 2000, which means creating 15 million jobs. The anticipated 2 to 2.5% growth level will not be sufficient to reverse the increase in unemployment, as this would require a growth rate of over 3%.

At the 1993 Brussels summit, the twelve member countries decided to devote 20 billion ECU every year for six years to the setting up of infrastructures within the European Union in the areas of transport, energy and telecommunications. The overall cost of such major projects is estimated at 400 billion ECU. Moreover, not all governments favour the idea of a loan by the Commission.

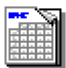
Even with equal growth rates, the European countries create fewer jobs than the United States or Japan. The Commission therefore considers the only possible solution to be one of promoting "job-intensive" growth. To attain this objective, the Commission advocates structural reform of the labour markets that will involve cutting labour costs, commonly thought to be too high, particularly for unskilled labour. Income tax and social insurance contributions exceed 40% of aggregate labour costs (against 30% in the United States and 20% in Japan). It will therefore be proposed to the twelve member States that they reduce payroll taxes by 1 or 2 points of GDP.

If interest rates continue to fall, investments rally and the dollar rise, the Commission reckons that the European Union can hope to see growth of 3%, an unemployment rate of 7% and acceptable imbalance in public finance after a period of adjustment between 1993 and 1996.

... to regional support for employment

Apart from supporting macroeconomic action, the Commission also acts at a regional level. It provides help for European regions that are eligible for financial aid from the various European regional development funds. Total structural budgets for the 1994-1999 period, excluding any additions made necessary by the prospective enlargement of the European Union, amount to 141 billion ECU. These structural funds will be paid over the next six years to regions affected by industrial decline and to rural areas.

Economic or social developments in the different regions have gained in importance since April due to the setting up of a Committee for the European Regions as one of the European institutions. The European Union text signed in Maastricht explicitly referred to this Advisory Committee intended to create " increasingly close union between the peoples of Europe" and enable "decisions to be taken as close to grassroots level as possible". Soon after being set up, the Committee decided to re-examine the rules for allocation of European funds with particular emphasis on continuity between regions in the various countries of the Union.



Regional Aid from the European Structural Funds
Allocation to Old and New Members

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3. Enlargement of the European Union: the New European Challenge for the End of the Century

In 1993, the European partners tried to reconcile both the deepening and the widening of European construction. The internal market provided by the Single Act of 1986 was applied in January 1993. The Maastricht treaty, which instituted the European Union and provided the blueprint for economic and monetary unification in 1999, came into effect on 1 December 1993. On 1 January 1994, the European Union and several countries from the European Free Trade Association (EFTA) set up the European Economic Area (EEA). Then in March 1994, the successful conclusion of negotiations between the European Union and certain members of EFTA enabled a 16-member European Union to be scheduled for 1995.

From the European Economic Area ...

The EEA agreement, which came into effect on 1 January 1994, provides for the taking over of 80% of the single market legislation by the EFTA countries. There are three major objectives in the agreement:

a) To encourage trade between the two areas and provide freedom of movement for people, goods, services and capital;

b) To apply community competition law to the EFTA countries, which will ban cartels, the abuse of dominant position and government aid that distorts competition and open up the EFTA services market to European competition;

c) To intensify co-operation between the two areas on environmental issues, R&D, training etc.

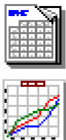
However, this agreement does not cover certain basic European Union policies such as the Common Agricultural Policy, fisheries, trade, tax, foreign policies, etc. These policies will nevertheless have to be applied by those countries that join the European Union.

... to a 16-member European Union in 1995

Negotiations with the EFTA countries began in early 1993 for Austria, Finland, Sweden and Norway. At the end of March 1994, agreement had been reached between the EU and the new applicants. Enlargement of the European Union should come into effect on 1 January 1995 after a people's referendum in the four applicant countries (12 June for Austria, September for Finland, November for Sweden and Norway). The twelve member countries have adopted a common position on agriculture, regional policy and the Community budget.

At the end of March 1994, agreement was reached on the institutional problems raised by enlargement. Pending the major institutional reform planned for 1996, the qualified majority required for most decisions of the Councils of Ministers, remains fixed at 70% of voting rights; the minority threshold further to enlargement will pass from 23 votes out of 76 to 27 votes out of 90 in the 16-member European Union. How-ever, this simple arithmetic is not a hard-and-fast rule as the agreement stipulates that where opponents to a decision obtain between 23 and 26 votes, the Council of Ministers will continue to discuss the issue "for a reasonable period". This compromise, together with the membership procedure for applicants, was ratified by the European Parliament on May 4th 1994.

It was agreed that the farm prices of the four new member countries, which are often higher than those of the Union, should immediately be brought into line. However, the applicants may offset these price cuts by temporary, degressive national aid. Less favoured agricultural areas will receive Community funding. To assist the Arctic regions, a new "target six" has been created. Targets 1 to 6 will not have a cumulative effect. The creation of a new target should cost the community budget 170 million ECU each year. The twelve have agreed that no exemption from contributing to the Community budget will be possible.



Candidates for European Membership*: Compliance with Convergence Criteria 1992-1995

European Union: Vote Distribution in the 16-Member Council of

Ministers

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4. Eastern Europe: Western Europe's Partner

1994 is marked by two significant improvements in Eastern Europe: a favourable production trend and a decline in inflation. However the gap between the performance levels of the various countries is becoming ever wider, with the Central European countries on one side and Russia and the Association of Independent States on the other side. The lack of a reduction in trade deficits and the worrying rise in unemployment are inducing these countries to look for deeper co-operation with Western Europe.

In the East, a growing desire for integration with Western Europe ...

The Eastern European countries are still pressing for greater concertation with the Western European countries. The gradual liberalisation of all their foreign trade, both exports and imports, is a clear indication of their desire to participate in European economic integration. It is also a consequence of their trade being increasingly directed towards Western Europe.

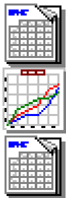
The Eastern European countries are trying to boost foreign investment by the West. In 1992, flows of foreign investment towards the East had progressed by some 1.98 billion ECU over the previous year. Provisional figures for 1993 give reason to expect similar growth. While Hungary benefited from the bulk of the flows up to 1992, Poland and the Czech Republic have seen foreign investment get off the ground since then. Such investment is beginning to have a positive impact on the development of some sectors in Central Europe (Hungary, Poland, the Czech Republic) such as the auto and tourist industries.

The increase in foreign investment is boosted by privatisation in most of the countries in the process of transition. In Hungary, for example, the private sector provided some 40% of the GDP in 1993. In Poland, where recent government policy is aimed at speeding up privatisation, the figure is around 45%. In the Czech Republic, the authorities opted for two spates of large-scale privatisation at the beginning and end of 1993 which, once completed, should have privatised 80% of the State's productive assets.

... is up against a difficult, though improving situation

The economic situation of the Eastern European countries is improving but remains fragile. In Central and Eastern Europe, the decrease in production slowed in 1993. Poland achieved good growth in production (+3%) in 1993. Production in the Czech Republic remained steady at zero growth in 1994 and in Romania, Hungary and Bulgaria it decreased less than in previous years. The situation in Russia, where production was down 15% in 1993 and down 50% over the past three years, is still causing concern. In 1994 output should drop a further 10%.

For the so-called "Visegrad group" countries (Hungary, Poland, Czech Republic and Slovak Republic), the transition phase towards a market economy seems to be well advanced. There are still some black spots, in particular the rise in unemployment, but shortages have disappeared and inflation seems to have been arrested. Poland managed a 4% growth rate in 1993 despite a long recession. But the social cost remains high. The Czech Republic suffered the negative consequences of the split with the Slovak Republik at the end of 1992. Hungary, which has adopted a more progressive policy, should come out of recession slowly in 1994.



Foreign Direct Investment in Eastern Europe 1990-1993

Eastern European Foreign Trade 1992-1993

Candidates for European Membership: Compliance with Convergence Criteria 1992-1995

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1. European Investment

Negative outlooks for profits and demand, together with financial constraints, were the major obstacles to an increase in investments in 1992 and 1993. The economic recovery, which is gaining ground in 1994, has begun to change the frame of mind of companies which, after reducing their stocks, are now once more planning to invest.

An erratic investment cycle among the European countries ...

Due to the recession, Western Europe recorded another drop in investments by private companies in 1993. This trend was very unequal owing to different circumstances in each country, some recovering and others entering recession. For the United Kingdom and Norway, for example, corporate investment began to progress once more in 1993, just when it was in deepest decline in countries such as Germany, the Netherlands, Italy or Spain. These countries went into recession later. For other countries, a more gradual decline than in 1992 gave reason to hope for a quicker upswing in 1994; this was the case for Denmark, Switzerland and, to a certain extent, France.

Taking the countries of the European Union as a whole, the volume of corporate investments dropped by 12% in 1993. The 1994 recovery will only bring a flickering rise in investments as production capacities are far from being fully used and firms have preferred to destock massively before increasing their production rate. In early 1994, the capacity utilisation rate in the European Union rose slightly from 77.4% (recorded in the last quarter of 1993) to 78.3%. In the first quarter of 1994, this increase seems to herald the end of the downward trend, and reflects the intention of managers to increase their production activities. There will be a certain time-lag before the increase affects the upturn in investments.

... followed by a pan-European recovery in 1994 and 1995

In 1994, as the economic recovery gets up steam, companies are putting their balance sheets in order and improving investment capacities (redeployment of bank borrowings towards equity capital). Corporate investment prospects are consequently more promising. The first to rally are the countries that went into the recession the earliest and now enjoy a marked upturn in demand. Investment by private companies should also be boosted by the cut in real interest rates and by government packages to aid investment.

Return on Capital Rates for Businesses in Western Europe 1992-1995

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2. The End of Recession: the Financial Situation of European Companies

The debt burden of European companies was at its worst between 1990 and 1992 and began to ease in 1993. The cut in real interest rates has been one of the key factors in the adjustment up until now. It has been largely responsible for the improvement in liquidity positions of the private sector, particularly in countries such as France, Germany or Belgium where financing of debt is primarily through bank or financial intermediation (financial institutions) and rarely through negotiable instruments (short-term securities, bonds).

A gradual reduction of financial constraints ...

Debt ratios, which are still very high compared with the eighties, are slowly decreasing. Corporate debts were at first so large that the economies of the European countries will remain at the mercy of interest rate movements. The level of real interest rates required to ensure a sustainable recovery will need to be lower than it has been in previous cycles.

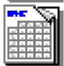
Besides privatisation, European financial markets will absorb a large number of capital increases in 1994. This is because firms will take advantage of the bullish stock and bond markets to improve their balance sheet by increasingly exploiting stock market liquidities. The United States is a graphic example of this trend. It always has a head start on Europe as far as changes in interest rates and stock market rates are concerned. Growth in the United States in 1993 was marked by low short-term interest rates and short-term savings that were transformed into long-term investments. The stock market continued its bullish trend and companies appealed massively to investors. In Europe, the easing of interest rates coupled with improved corporate results should give rise to a comparable state of events and thus act as incentives to buying on the stock market.

... but still vulnerable competitive positions

The much debated question in 1993 of corporate competitiveness has shown how very necessary it is to curb wage costs and other corporate costs. The outlook in this respect is encouraging because wage restraint was prevalent throughout Europe in 1993.

However, the devaluation of some currencies and some heavy labour-related social costs have caused wide disparities in the competitive situations of countries within the Union. Many sectors still lack competitiveness in countries such as Germany and France. And this situation is made worse by increasing competition from Eastern Europe and Asia. European firms are endeavouring to cut their costs by streamlining their production and shedding jobs. Others are looking to relocate abroad. Some European firms, German small and medium-sized businesses for example, consequently increasingly subcontract and relocate production of common goods to Eastern Europe.

Labour Price Index for the Western European Industry 1992-1995



Export Price Index for Manufactured Goods in Western Europe 1992-1995

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3. Direct Foreign Investment and Cross-Border Strategies of European Firms

After buoyant growth between 1985 and 1990, foreign investment by the developed countries plummeted between 1990 and 1992. Likewise, in the manufacturing industry concentrations and merger-acquisitions slowed down, except those involving companies in eastern Germany. In 1993 and 1994, the flow of direct foreign investments is beginning to pick up again.

1994: the return of international investment...

In 1992, international investment dwindled in Europe. This was particularly the case for Japanese investments, which fell by 25%. The Japanese and European recession, coupled with shrinking profits and high interest rates, forced Japanese firms to concentrate on profitability. Many relocated to Asian countries such as China and the ANASE countries, at the expense of the European countries. European investments abroad also lost momentum. The slowdown in investment flows from Western Europe since 1990 is largely due to the steep decline in European investments in the American market.

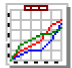
In 1994, international investments will once again enjoy buoyant growth. There are three main reasons for this: the recovery in the United States and the United Kingdom, the wave of privatisation of state-owned businesses in Europe and the return of the big international investors. The United States and the United Kingdom accounted for 36% of the direct investment flows abroad in 1993. The recovery has enabled investors from these countries to build up their capital once more and resume a number of international operations.

In 1994, an even greater spate of privatisations is sweeping over Western as well as Eastern Europe and the developing countries. These privatisations are giving rise to extensive flows of direct foreign investment.

...with a strong progression of investments channelled towards Asia

In 1994, the increase in international investments is marked by the reorientation of these investments outside the developed countries. Developing countries, which took up less than 20% of investments from the developed countries in the eighties, received nearly 40% in 1993.

The buoyant growth observed in the South-East Asian countries, which will again record growth rates of around 7 to 8% in 1994, is making this region very attractive to foreign investors. China, with an expected 1994 growth rate of around 12% and an even greater progression in its foreign trade, is still the prime mover behind this trend. This makes it the centre of attention for international investment and especially so for European investment. Investors not only have access to a vast market, but also to conditions for producing common goods at the lowest poss-
ible cost. The risk of inflationary overheating in China and low work productivity may however keep this danger in check.



Growth in the Volume of Business Investment in Western Europe 1992-1995

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4. Corporate European Strategies in Relation to the Community Institutions

In just a few years, with the introduction of the Common Market, corporate representation or lobbying at European Community level has become institutionalised. The stakes are high, as they concern optimum corporate involvement in such European programmes as those relating to R&D.

From corporate representation at European Community level...

Companies are either represented directly (the biggest among them), or through trade organisations or specialised firms for small and medium businesses. The main purpose in being represented is to keep up-to-date with texts and directives relating to the single market, to be awarded community contracts and subsidies and to put forward any technical amendments relating to their specific field of activity to the European Parliament.

The amount of subsidies awarded to companies by the European Community has been evaluated at 48 billion ECU over four years (1994-1998), via more than 150 different programmes. Consultancy firms are able to propose a service including data sheets on Community programmes and a package of recommendations explaining how these programmes work. Small and medium-sized businesses can then ask a consultancy firm to monitor any texts concerning its trade and to help it gain access either to the various invitations to tender proposed by Brussels, or to the programmes financed by the Commission. Opportunities for SMBs are all the greater given a real desire on the part of the Commission to enable them to participate more actively in European programmes. This is particularly true for public procurements or the IVth Framework Programme for R&D, which is providing 12 billion ECU over the period 1994-98. Many of the projects focus on the computer, medical and telecommunications sectors, etc. British companies are the best at using such a system of representation, followed by Irish, Italian and Dutch companies. An increasing number of German and French companies now realise how extremely important it is to develop such a system.

In May 1994, the European Parliament discussed how best to organise relations between the European institutions and the 3,000 interest groups representing over 10,000 people in terms of lobbying action. In this context, Brussels and Strasbourg are endeavouring to encourage the representatives of the various trades and professions to enrol on a public register and undertake to comply with a behaviour code that would lay down the rights and duties of consultancy and representation firms.

...to partnerships for R&D programmes

In December 1993, the European Union Heads of State devoted 12 billion ECU to the fourth R&D programme (1994-1998), to which a reserve of 1 billion ECU has been added. This amount represents 4% of the overall research effort in the twelve member countries. Aid is mainly focused on support to cross-sectional technologies because the Commission is unwilling to become too heavily involved in grants that would seem to be sector-based.

Information technology (electronics, data processing, telecommunications) accounts for the greatest share of this aid. The aim of the programme is to increase the efficiency of joint schemes and their impact on industrial competitiveness in Europe. But Community aid is caught between the wish to support generic, pre-competitive, non-sectoral research, and pressures exerted by industrialists who want more specifically sector-based action to be taken, for example in the automobile industry. In spite of this effort (the previous framework programme was only allocated 6.6 billion ECU), the twelve member countries only spend 2% of their GNP on research, against 2.8% for the United States and 3% for Japan.

In conclusion, after the period of heavy recession in the early nineties, Europe is now once more on the road to economic growth in 1994. The biggest hope is to see unemployment come down, as it has in the United States and to a lesser extent in the United Kingdom. But only buoyant recovery with growth of at least 3% can help to bring down unemployment. The labour market is excepted to stabilize in 1995. Unfortunately, in the various countries recovery is not synchronised and there is therefore no attendant snowballing effect of all the economies rallying at the same time. Furthermore, the need to reduce massive budget deficits will also impede the dynamics of the recovery. The European

countries are therefore going to have to manage this slow, chaotic recovery together as best they can over the next two years if they are to once more advance along the path of steady growth

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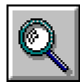
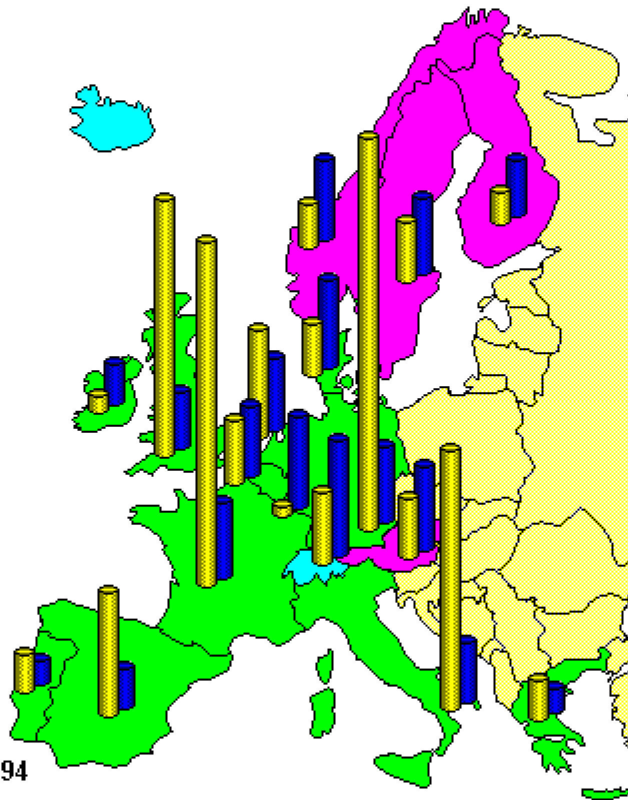
GDP and GDP per head in Western Europe 1993





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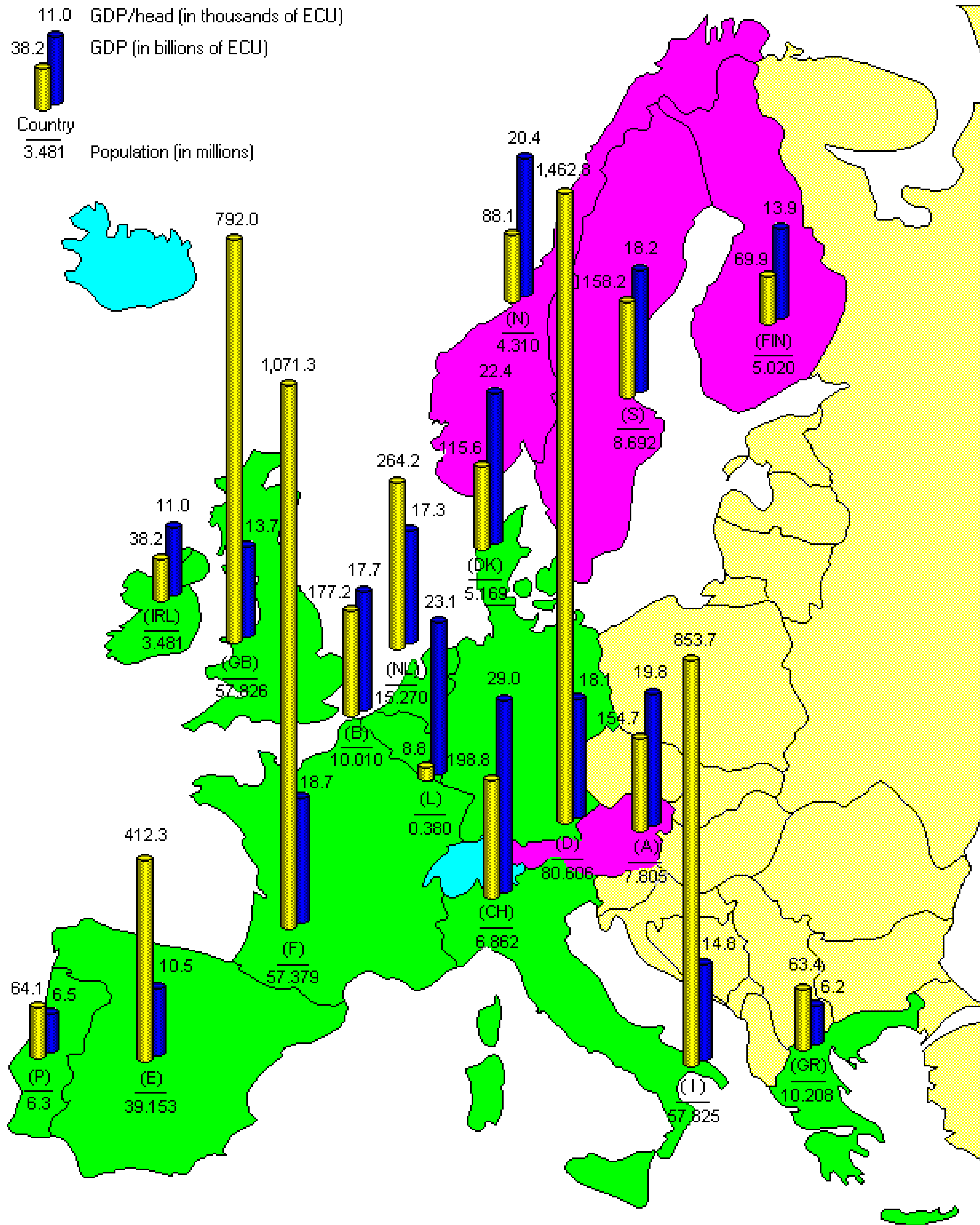
Source: Organisation for Economic Cooperation and Development (OECD) / United Nations (UN), December 1993

GDP and GDP per head in Western Europe 1993



Members of the European Union
Prospective members of the European Union
Members of the EFTA
11.0 GDP/head (in thousands of ECU)
38.2 GDP (in billions of ECU)
Country
3.481 Population (in millions)
(IRL) 38.2 11.0 3.481
(GB) 792.0 13.7 57.826
(F) 1,071.3 18.7 57.379
(E) 412.3 10.5 39.153
(P) 64.1 6.5 6.3
(B) 177.2 17.7 10.010
(NL) 264.2 17.3 15.270
(L) 8.8 23.1 0.380
(DK) 115.6 22.4 5.169
(N) 88.1 20.4 4.310
(D) 1,462.8 18.1 80.606
(S) 158.2 18.2 8.692
(FIN) 69.9 13.9 5.020
(CH) 198.8 29.0 6.862
(A) 154.7 19.8 7.805
(I) 853.7 14.8 57.825
(GR) 63.4 6.2 10.208

Source: Organisation for Economic Cooperation and Development (OECD) / United Nations (UN), December 1993

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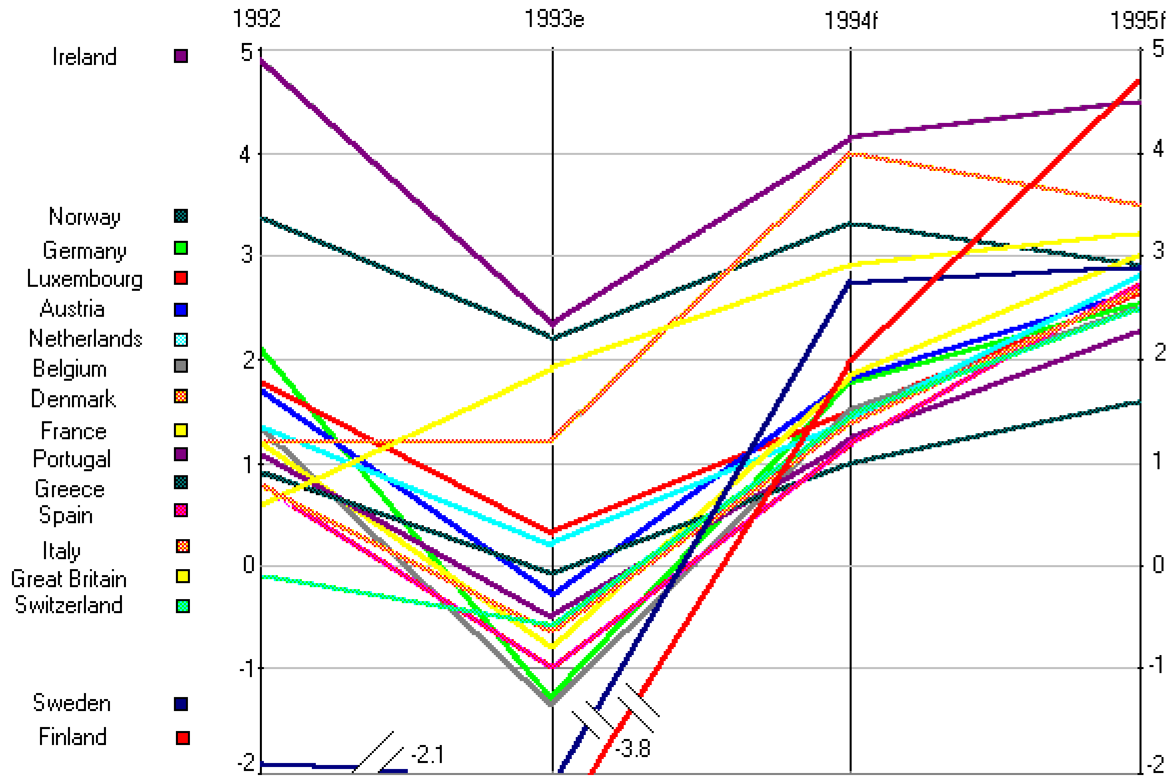
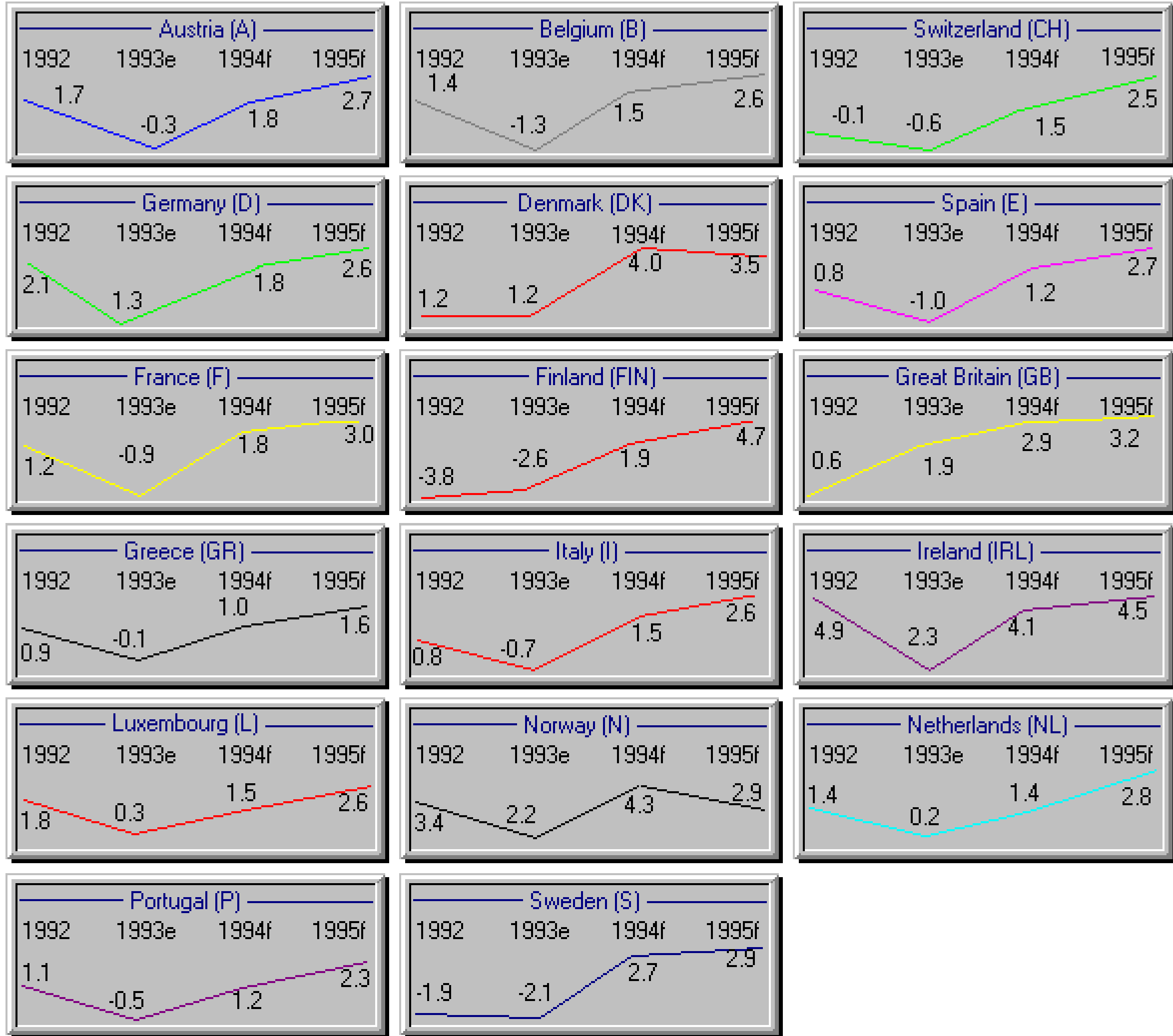
GDP Growth in Western Europe 1992-1995

(% yearly change)





e: estimate
f: forecast
Source: Organisation for Economic Cooperation and Development (OECD), June 1994

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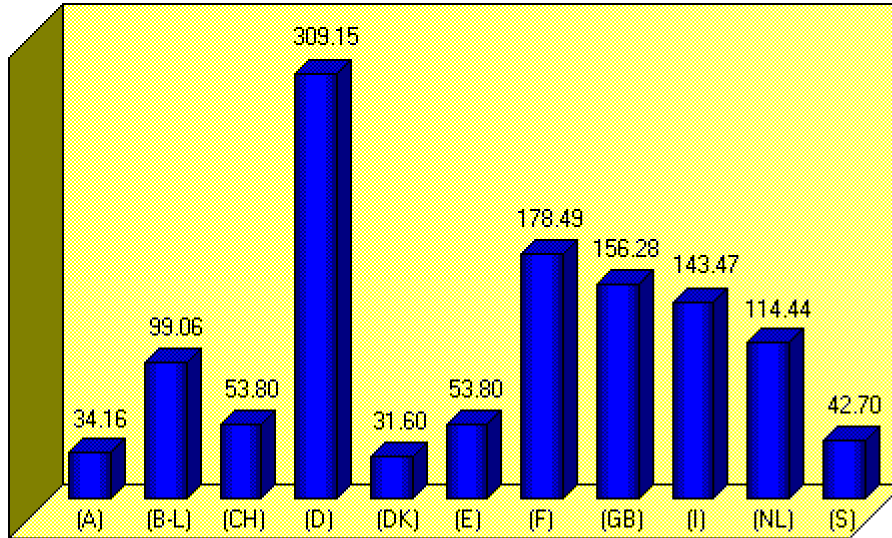
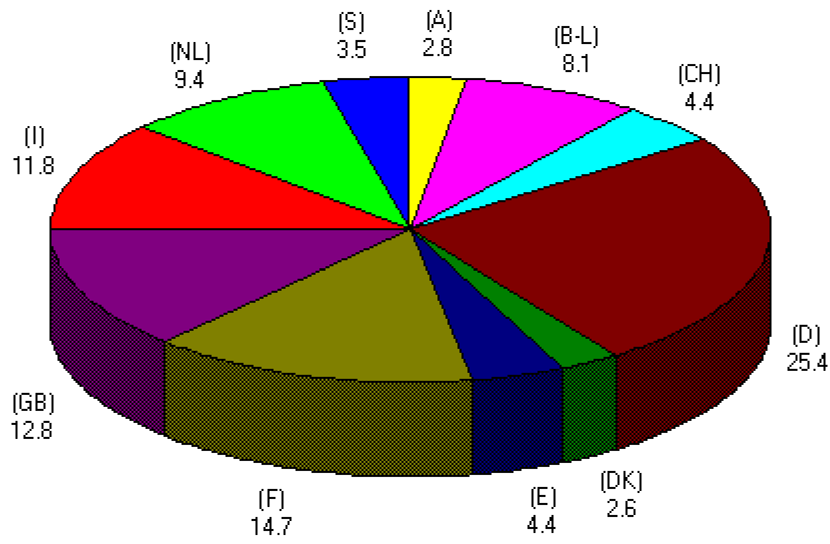
Leading Western European Exporters and Importers 1993:
Exportations.

(in billions of ECU)



F.O.B. values
Source : GATT, mars 1994

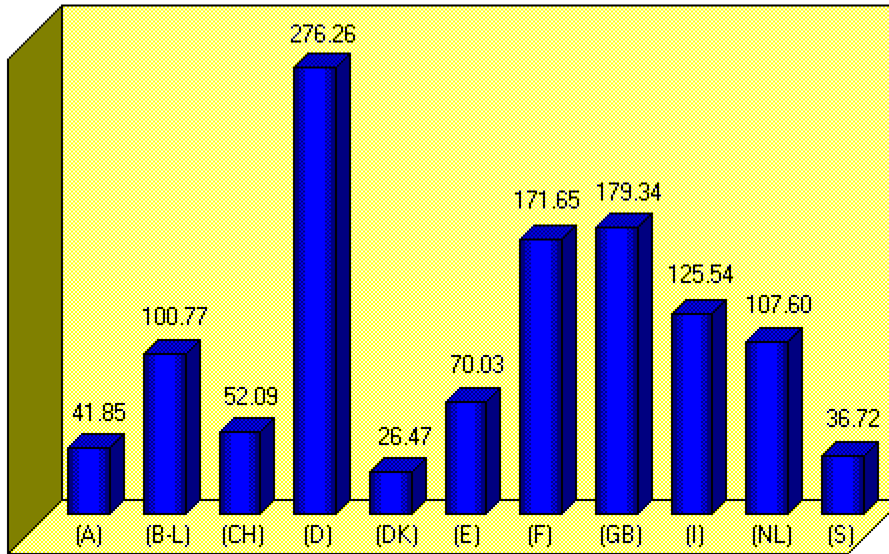
Leading Western European Exporters and Importers 1993
Country's share of total exports (%).



Source : GATT, mars 1994

Leading Western European Exporters and Importers 1993:
Importations.

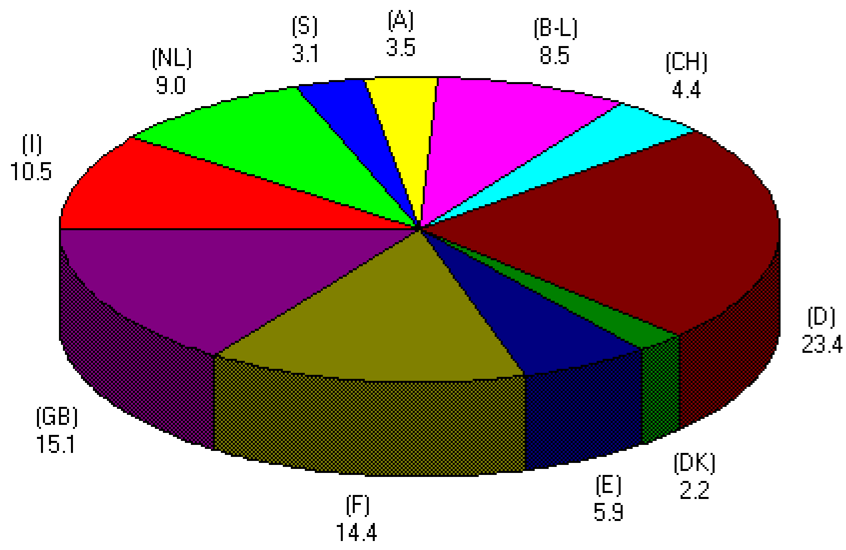
(in billions of ECU)



C.I.F. values

Source : GATT, mars 1994

Leading Western European Exporters and Importers 1993
Country's share of total imports (%).



Source : GATT, mars 1994

Unemployment Rates in Western Europe 1992-1995

(% of total workforce)	1992	1993e	1994f	1995f
Austria (A)	3.6	4.2	4.5	4.6
Belgium (B)	10.3	12.0	12.8	12.7
Switzerland (CH)	2.5	4.5	4.5	3.8
Germany (D)	7.7	8.9	10.0	10.0
Denmark (DK)	11.2	12.2	11.0	10.5
Spain (E)	18.4	22.7	24.5	24.4
France (F)	10.4	11.7	12.3	12.2
Finland (FIN)	13.1	17.9	18.5	17.7
Great Britain (GB)	10.0	10.4	9.6	8.9
Greece (GR)	8.7	9.8	10.7	11.0
Italy (I)*	11.6	10.5	11.7	11.9
Ireland (IRL)	16.4	16.6	15.7	15.4
Luxembourg (L)	1.6	2.1	2.7	2.5
Norway (N)	5.9	6.0	5.6	5.2
Netherlands (NL)	6.7	8.1	9.8	9.5
Portugal (P)	4.2	5.5	6.4	7.0
Sweden (S)	4.9	7.8	7.6	7.4

* Figures after 1992 are based on new definitions and are not comparable with previous years
e: estimate
f: forecast
Source: Organisation for Economic Cooperation and Development (OECD), June 1994

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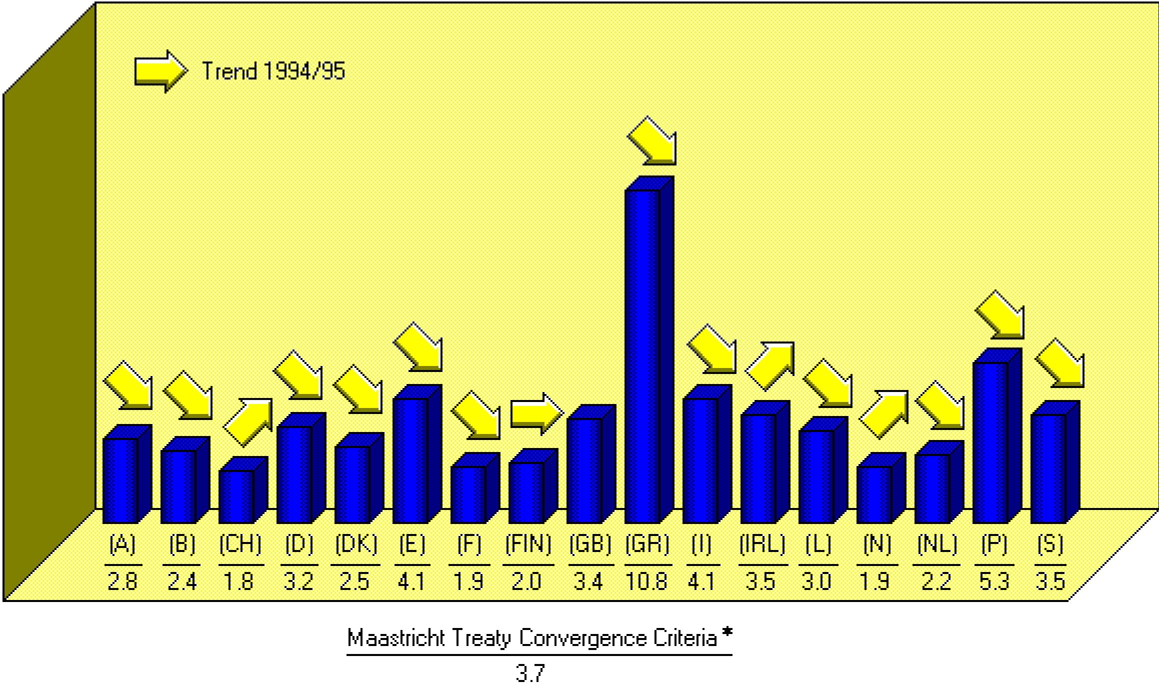
Balance of Trade of Western European Countries 1992-1995



e: estimate
f: forecast
Source: Organisation for Economic Cooperation and Development (OECD), December 1993

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Budget Deficit in Western European Countries 1992-1995

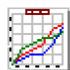
(Financial balance of government authorities/GDP)	1992	1993e	1994f	1995f
Austria (A)	-2.0	-2.9	-3.8	-3.3
Belgium (B)	-6.8	-7.0	-6.1	-5.3
Germany (D)	-2.6	-4.0	-3.5	-2.7
Denmark (DK)	-2.5	-4.3	-5.1	-4.3
Spain (E)	-4.5	-7.2	-7.0	-5.9
France (F)	-3.9	-6.0	-6.0	-5.8
Finland (FIN)	-6.1	-9.1	-6.2	-5.2
United Kingdom (GB)	-6.2	-8.2	-7.4	-6.7
Greece (GR)	-11.1	-14.8	-15.7	-14.9
Italy (I)	-9.5	-9.7	-8.7	-7.3
Ireland (IRL)	-2.6	-3.2	-3.2	-2.8
Norway (N)	-2.8	-3.2	-3.2	-2.7
Netherlands (NL)	-3.5	-4.1	-4.3	-3.8
Portugal (P)	-4.6	-8.2	-6.9	-6.1
Sweden (S)	-7.1	-14.7	-13.6	-12.1
Maastricht Treaty Convergence Criteria	-3.0	-3.0	-3.0	-3.0

e: estimate
f: forecast
Source: Organisation for Economic Cooperation and Development (OECD), December 1993

Inflation Rates in Western Europe 1992-1995

(% yearly change)	1992	1993e	1994f	1995f
Austria (A)	4.2	3.7	2.8	2.5
Belgium (B)	2.4	2.7	2.4	2.1
Switzerland (CH)	4.1	3.3	1.8	2.0
Germany (D)	4.7	4.1	3.2	1.9
Denmark (DK)	1.9	1.1	2.5	2.3
Spain (E)	6.5	4.8	4.1	2.9
France (F)	2.4	2.3	1.9	1.5
Finland (FIN)	3.9	3.0	2.0	2.0
United Kingdom (GB)	5.0	3.5	3.4	3.3
Greece (GR)	14.6	14.1	10.8	8.5
Italy (I)	5.4	4.5	4.1	3.0
Ireland (IRL)	2.6	2.2	3.5	3.6
Luxembourg (L)	2.8	3.5	3.0	2.5
Norway (N)	2.6	2.3	1.9	2.2
Netherlands (NL)	3.0	2.0	2.2	2.0
Portugal (P)	9.4	6.3	5.3	4.8
Sweden (S)	2.5	5.2	3.5	3.0
Maastricht Treaty Convergence Criteria*	3.7	3.3	3.7	3.3

e: estimate
f: forecast
* A country's inflation rate shall be no more than 1.5% higher than the average level in the three lowest-inflation countries. Non-weighted average; the treaty does not explicitly say how the three countries' figures should be weighted.
Source: Organisation for Economic Cooperation and Development (OECD), December 1993



Graphic

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Gross Debt Load of Western European Governments 1992-1995

(% of GDP)	1992	1993e	1994f	1995f
Austria (A)	55.8	57.0	58.6	59.2
Belgium (B)	136.0	141.6	144.6	144.8
Germany (D)	42.8	46.2	50.8	60.0
Denmark (DK)	62.4	66.2	69.7	72.1
Spain (E)	51.4	57.4	62.6	66.0
France (F)	51.6	57.1	62.1	66.3
Finland (FIN)	44.0	60.0	66.1	70.9
United Kingdom (GB)	40.5	47.3	52.3	56.4
Greece (GR)	94.6	98.4	103.7	108.5
Italy (I)	108.0	114.0	116.5	118.0
Ireland (IRL)	93.8	92.1	89.6	87.0
Norway (N)	43.4	47.2	51.0	54.2
Netherlands (NL)	78.0	80.6	81.9	82.8
Portugal (P)	62.6	67.6	70.2	71.4
Sweden (S)	52.9	67.6	80.5	91.2
Maastricht Treaty Convergence Criteria	60.0	60.0	60.0	60.0

e: estimate
f: forecast
Source: Organisation for Economic Cooperation and Development (OECD), December 1993

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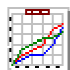
Short-term Interest Rates in Western Europe 1992-1995

	1992	1993e	1994f	1995f
Austria (A)	9.3	7.2	4.9	3.8
Belgium (B)	9.4	8.5	6.2	4.0
Switzerland (CH)	7.2	4.3	3.2	2.8
Germany (D)	9.5	7.3	5.0	3.8
Denmark (DK)	11.7	10.4	6.5	4.8
Spain (E)	13.3	12.3	8.9	7.3
France (F)	10.3	8.5	5.0	3.9
Finland (FIN)	12.5	7.8	5.8	5.5
United Kingdom (GB)	9.6	6.0	5.5	5.7
Italy (I)	14.4	10.6	7.9	7.2
Ireland (IRL)	10.1	8.3	6.0	4.9
Norway (N)	12.9	7.9	4.8	4.3
Netherlands (NL)	9.4	6.9	4.7	3.6
Sweden (S)	12.9	8.4	6.6	6.1

e: estimate
f: forecast
Source: Organisation for Economic Cooperation and Development (OECD), December 1993



Graphic

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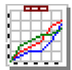
Long-term Interest Rates in Western Europe 1992-1995

	1992	1993e	1994f	1995f
Austria (A)	8.3	6.6	5.7	5.5
Belgium (B)	8.7	7.2	6.4	6.0
Switzerland (CH)	6.4	4.6	4.0	4.0
Germany (D)	7.9	6.5	5.7	5.5
Denmark (DK)	9.0	7.2	6.1	6.0
Spain (E)	12.6	10.5	8.5	7.6
France (F)	9.0	7.0	5.7	5.5
Finland (FIN)	13.8	10.0	8.5	8.0
United Kingdom (GB)	9.1	7.6	6.7	6.7
Italy (I)	13.7	11.3	8.7	8.2
Ireland (IRL)	9.1	8.1	7.6	7.5
Norway (N)	9.6	6.9	5.5	5.5
Netherlands (NL)	8.1	6.5	5.6	5.4
Sweden (S)	10.4	8.8	8.0	7.8
Maastricht Treaty Convergence Criteria*	10.9	9.3	7.9	7.5

* Long-term interest rates shall be within 2% of the average interest rates in the three lowest-inflation countries.
Non-weighted average; the treaty does not explicitly say how the three countries figures should be weighted.
e: estimate
f: forecast
Source: Organisation for Economic Cooperation and Development (OECD), December 1993



Graphic

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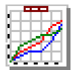
Composition of the ECU 1993

	Currency	Compostion of the ECU*	Currency share **(%)
Belgium (B)	BEF	3.301	8.42 (1)
Germany (D)	DEM	0.624	32.49
Denmark (DK)	DKK	0.198	2.52
Spain (E)	PTA	6.885	4.38
France (F)	FRF	1.332	19.81
United Kingdom (GB)	GBP	0.088	11.56 (2)
Greece (GR)	GDR	1.440	0.53 (2)
Italy (I)	LIT	151.8	8.36 (2)
Ireland (IRL)	IEP	0.086	1.05
Luxembourg (L)	LFR	0.130	8.42 (1)
Netherlands (NL)	NLG	0.220	10.17
Portugal (P)	ESC	1.393	0.71

(1) Belgian and Luxembourg Franc(2) Does not participate in exchange mechanism
* in national currency
** August 1993
Source: European Commission



Graphic

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ECU Exchange Rates 1991-1993

(1 ECU in national currency*)		1991	1992	1993
Austria (A)	Austrian schilling (ATS)	14.43	14.22	13.62
Belgium/Luxembourg (B/L)	Belgian/Luxembourgian franc (BEF-LFR)	42.22	41.59	40.47
Switzerland (CH)	Swiss franc (CHF)	1.773	1.819	1.730
Germany (D)	German mark (DEM)	2.051	2.021	1.936
Denmark (DK)	Danish krone (DKK)	7.909	7.811	7.590
Spain (E)	Spanish peseta (PTA)	128.5	132.5	148.9
France (F)	French franc (FRF)	6.973	6.849	6.630
Finland (FIN)	Finnish markka (FIM)	4.998	5.803	6.699
United Kingdom (GB)	British pound sterling (GBP)	0.701	0.737	0.780
Greece (GR)	Greek drachma (GDR)	225.0	246.4	268.3
Italy (I)	Italian lira (LIT)	1,534	1,594	1,841
Ireland (IRL)	Irish pound (IEP)	0.769	0.761	0.800
Norway (N)	Norwegian krone (NOK)	8.012	8.039	8.304
Netherlands (NL)	Dutch guilder (NLG)	2.311	2.274	2.174
Portugal (P)	Portuguese escudo (ESC)	178.4	174.4	188.7
Sweden (S)	Swedish krone (SEK)	7.472	7.534	9.116

* yearly average

Source: Organisation for Economic Cooperation and Development (OECD), February 1994

Macroeconomic Indicators for Eastern Europe 1992-1995

	Unemployment*				Inflation**				Real GDP***			
	1992	1993e	1994f	1995f	1992	1993e	1994f	1995f	1992	1993e	1994f	1995f
Bulgaria (BG)	15.6	17.0	17.0	16.0	71.0	60.0	45.0	35.0	-7.7	-4.0	-1.0	2.0
Czech Republic (CZ)	2.6	4.0	8.0	8.0	11.1	21.0	11.0	10.0	-7.1	0.0	2.0	5.0
Hungaria (H)	12.3	13.0	13.0	12.0	23.0	23.0	20.0	20.0	-5.0	-1.0	2.0	1.0
Poland (PL)	15.0	17.0	16.0	14.0	43.0	40.0	35.0	30.0	1.0	3.0	4.0	3.0
Romania (RO)	6.2	9.0	15.0	15.0	210.0	275.0	100.0	50.0	-15.4	-4.0	-3.0	0.0
Russian Federation (RUS)	n.a.	n.a.	n.a.	n.a.	1,500.0	900.0	n.a.	n.a.	-19.0	-11.0	-9.0	1.0
Slovak Republic (SK)	10.4	15.0	18.0	18.0	10.0	25.0	20.0	15.0	-7.5	-5.0	0.0	2.0
Ukraine (UA)	n.a.	n.a.	n.a.	n.a.	1,400.0	4,000.0	n.a.	n.a.	-14.0	-20.0	-10.0	0.0

* as a % of total labour force, year end
** % yearly change of average consumer prices
*** % yearly change
e: estimatef: forecast
n.a.: not available
Source: Organisation for Economic Cooperation and Development (OECD), December 1993

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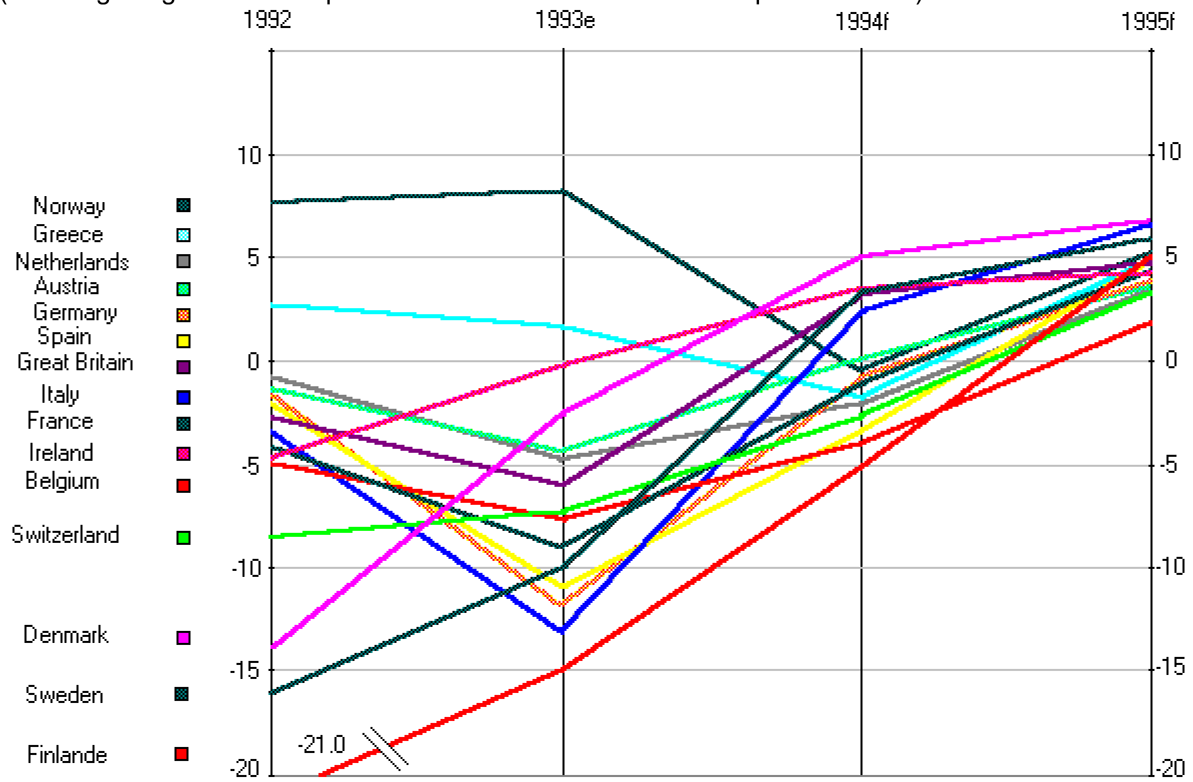
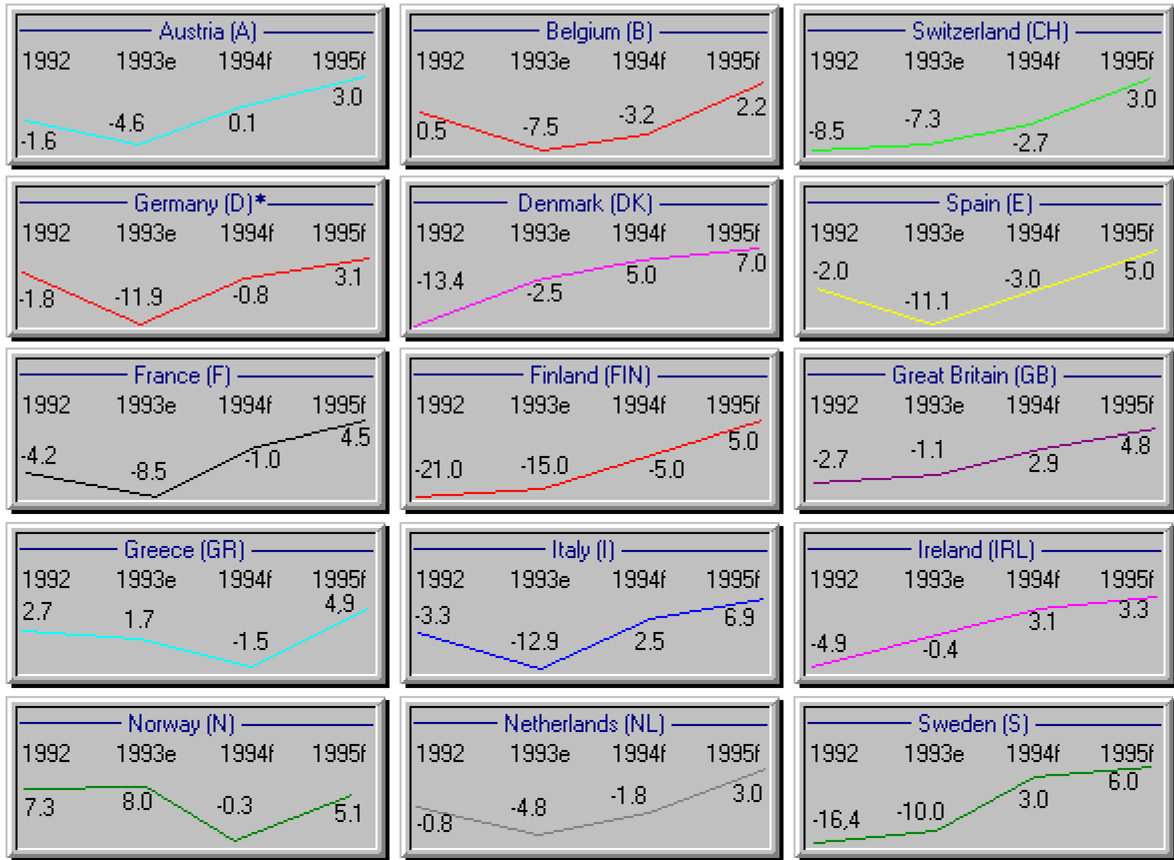
Growth in the Volume of Business Investment in Western Europe 1992-1995

(% change in gross fixed capital formation in the non-residential private sector)





* western Germany
e: estimate
f: forecast
Source: Organisation for Economic Cooperation and Development (OECD), December 1993

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Return on Capital Rates for Businesses in Western Europe 1992-1995

(in %)	1992	1993e	1994f	1995f
Austria (A)	10.7	10.5	10.4	10.6
Belgium (B)	13.1	12.3	12.1	12.2
Switzerland (CH)	8.5	9.0	9.2	9.1
Germany (D)*	13.6	13.0	13.0	13.1
Denmark (DK)	10.5	10.0	10.1	10.6
Spain (E)	17.9	17.8	17.7	18.2
France (F)	14.4	14.1	14.2	14.7
Finland (FIN)	8.2	8.8	9.3	10.3
United Kingdom (GB)	10.3	11.1	11.7	12.3
Greece (GR)	11.7	11.9	11.7	12.0
Italy (I)	12.4	12.0	12.2	12.5
Ireland (IRL)	10.4	10.3	10.6	10.7
Norway (N)**	6.3	6.8	7.0	7.3
Netherlands (NL)	16.9	15.7	15.5	15.8
Sweden (S)	10.0	11.2	11.5	11.9

* western Germany
** Private continental sector (shipbuilding, oil and gas production excluded)
e: estimate
f: forecast
Source: Organisation for Economic Cooperation and Development (OECD), December 1993

Export Price Index for Manufactured Goods in Western Europe 1992-1995

(Base year 1991= 100)	1992	1993e	1994f	1995f
Austria (A)	100	100	101	101
Belgium/Luxembourg (B/L)	102	101	98	98
Switzerland (CH)	99	101	102	103
Germany (D)	103	104	104	104
Denmark (DK)	102	101	99	99
Spain (E)	103	95	92	91
France (F)	100	99	98	98
Finland (FIN)	93	86	90	91
United Kingdom (GB)	97	95	98	99
Italy (I)	99	91	92	93
Norway (N)	95	95	97	96
Netherlands (NL)	100	99	98	98
Portugal (P)	102	96	92	92
Sweden (S)	99	87	85	86

e: estimate
f: forecast
Source: Organisation for Economic Cooperation and Development (OECD)

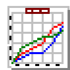
Labour Price Index for the Western European Industry 1992-1995

(Base year 1991= 100)	1992	1993e	1994f	1995f
Austria (A)	102	103	104	104
Belgium/Luxembourg (B/L)	102	102	99	99
Switzerland (CH)	98	100	101	101
Germany (D)	104	113	113	114
Denmark (DK)	101	101	99	98
Spain (E)	101	89	86	86
France (F)	102	105	103	102
Finland (FIN)	78	65	64	64
United Kingdom (GB)	96	80	80	81
Italy (I)	98	82	81	81
Norway (N)	101	96	96	96
Netherlands (NL)	96	98	98	97
Portugal (P)	110	110	108	111
Sweden (S)	99	81	78	78

e: estimate
f: forecast
Source: Organisation for Economic Cooperation and Development (OECD), December 1993

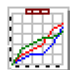
Candidates for European Membership*: Compliance with Convergence Criteria 1992-1995

	Inflation rate				Long-term interest rates			
	1992	1993e	1994f	1995f	1992	1993e	1994f	1995f
Austria (A)	4.2	3.7	2.8	2.5	8.3	6.6	5.7	5.5
Finland (FIN)	3.9	3.0	2.0	2.0	13.8	10.0	8.5	8.0
Norway (N)	2.6	2.3	1.9	2.2	9.6	6.9	5.5	5.5
Sweden (S)	2.5	5.2	3.5	3.0	10.4	8.8	8.0	7.8
Maastricht Treaty Convergence Criteria	3.7	3.3	3.4	3.3	10.9	9.3	8.6	7.5



Graphic

	Public sector deficit/GDP				National debt/GDP			
	1992	1993e	1994f	1995f	1992	1993e	1994f	1995f
Austria (A)	-2.0	-2.9	-3.8	-3.3	55.8	57.0	58.6	59.2
Finland (FIN)	-6.1	-9.1	-6.2	-5.2	44.0	60.0	66.1	70.9
Norway (N)	-2.8	-3.2	-3.2	-2.7	43.4	47.2	51.0	54.2
Sweden (S)	-7.1	-14.7	-13.6	-12.1	52.9	67.6	80.5	91.2
Maastricht Treaty Convergence Criteria	-3.0	-3.0	-3.0	-3.0	60.0	60.0	60.0	60.0



Graphic

e: estimate
f: forecast
** membership scheduled for 01/01/95*
Source: Organisation for Economic Cooperation and Development (OECD), December 1993

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Foreign Direct Investment in Eastern Europe 1990-1993

(in millions of ECU)	1990	1993
Bulgaria (BG)	n.a.	51.2
Czech Republic (CZ)	199.2*	1,638.8
Hungary (H)	427.9	3,672.2
Poland (PL)	77.8	1,708.0
Romania (RO)	87.1	573.9
Slovak Republic (SK)	199.2*	2137.6

The GATT's Uruguay Round comes to an end

The most outstanding overall results are the following. 1/ 38% cut in customs duties on goods by the developed nations (who take in two thirds of world exports - oil excluded). Import duties are lowered from 6.3% to 3.9% on average. 2/ Founding of the World Trade Organisation (WTO). The WTO will be endowed with extensive decision-making powers which will make it harder to implement unilateral trade sanctions. The WTO will also replace the GATT negotiation cycles by permanent talks between the member countries. Decisions will not be taken on the majority-based vote of the past, but on a unanimous basis. This is liable to become a major stumbling-stone to collective decision-making in the future. Ratification of the Uruguay Round agreements by national governments was still pending in May 1994. Squabbling was going on in the European Union between the Commission and the European Parliament, and the member States and national parliaments, over who was competent to ratify the agreements. In the United States, the drop in tariffs entails a loss of 14 billion dollars; which will now have to be recovered by means of other taxes.

The GATT Agreements: Principal Results

Industrial products: Customs duties are cut by 40% on average. In many cases customs duties will by scrapped altogether during the four years following the initial coming into force of the agreements.

Farm produce: This sector is liberalised for the first time through agreements on market access and the progressive reduction of subsidies on production.

Textiles: The Multi-fibre Agreement (MFA) of 1974 that restricted free trade will be phased out over the next ten years. But the new text contains a temporary safety clause which allows importing countries to protect themselves in specific conditions.

Services: It is the first time that a GATT agreement covers services. In several sectors, such as telecommunications, financial services, sea transportation, etc., the agreements need to be completed, however.

Intellectual property: The agreement covers patents, royalties, rights of reproduction, brands, designs, etc. The aim is to fight imitation products.

Public markets: The contracting parties undertake to carry out a certain number of procedures to open up their public markets to competition.

Ongoing Negociationss

Financial services: Due to the inadequate number of proposals, negotiations aimed at liberalisation have been suspended until the WTO is set up.

Aeronautics: Due to the conflict between the Americans and the Europeans over government subsidies, there was disagreement on this question. Pending new codes on subsidies and amended compensatory measures for aeronautics, the 1992 bilateral agreement remains in force.

Global agreement on steel: Discussions are in progress with a view to restraining subsidies, the removal of non-tariff barriers and a specific multilateral regulation system.

Shipping: The reluctance of some countries, especially the United States, to open up their sea-going traffic, has prevented a successful conclusion to the negotiations. They will continue until June 1996.

Air transport: Following lack of agreement on air traffic laws, the situation will remain dormant for a period of five years.

Telecommunications: The liberalisation of basic calls is the subject of a work programme that will last until April 1996.

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Regional Aid from the European Structural Funds
Allocation to Old and New Members

Target 1: Development of backward regions

Eligibility condition: The region shall have a GDP per inhabitant of under 75% of the community average based on the three previous years. Of the new members, the Austrian Burgenland region is eligible in respect of this target.

96.35 billion ECU prior to Union enlargement, are budgeted to this target between 1994 and 1999.

Target 2: Reconversion of regions seriously hit by industrial decline

Eligibility condition: Recipient areas shall have an average unemployment rate higher than the community average, together with a higher industrial employment rate. This industrial employment shall be exposed to severe decline.

15.316 billion ECU will be devoted to this target over the 1994-1999 period.

Target 3: Aid for the reduction of long-term unemployment

Target 4: Aid for youth integration into employment

These two targets concern efforts to adapt workers excluded from the jobs market by industrial transformation and by changes in the productive system.

15.840 billion ECU will be devoted to targets 3 and 4 over the 1993-1999 period.

Targets 5a and 5b: Aid to rural areas and agriculture

6.143 billion ECU for target 5a (adjustment of farming and fisheries structures) and

6.296 billion ECU for target 5b (development and structural adjustment of rural areas).

For target 5a, firms are to send their application packages directly and aid will also be granted directly, theoretically without being based on national criteria.

New target 6: Aid to Arctic areas

Aid to Arctic areas with a population density of less than 8 inhabitants per sq. km. (estimated at 170 million ECU per year).

o An additional 1.530 billion will be used to support measures for so-called "transition and innovation" targets.

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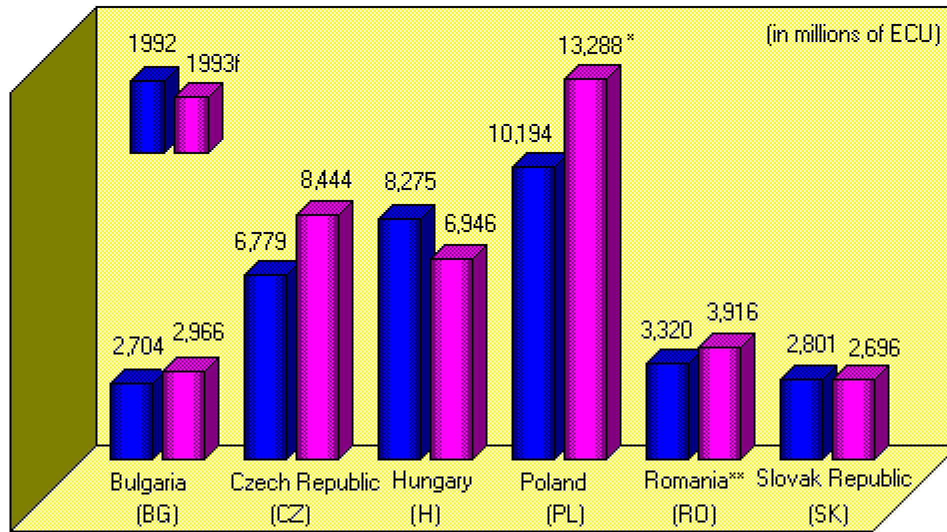
Eastern European Foreign Trade 1992-1993

(in millions of ECU)



* figures calculated from January to June figures
** 1992 figures calculated in all currencies; 1993 figures calculated in convertible currencies only
f: forecasts calculated from January to September figures
Source: General Agreement on Tariffs and Trade (GATT), March 1993

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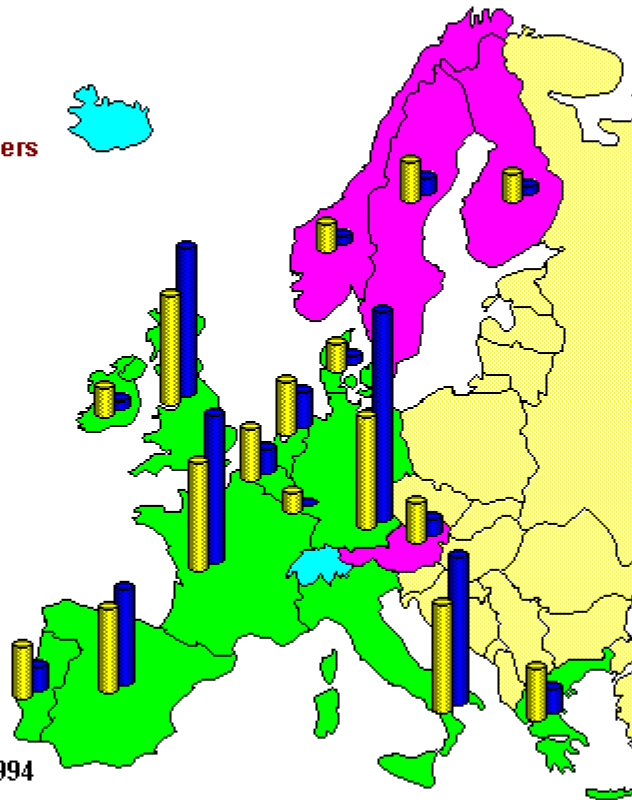
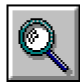
**European Union:
Vote Distribution in the
16-Member Concil of Ministers**





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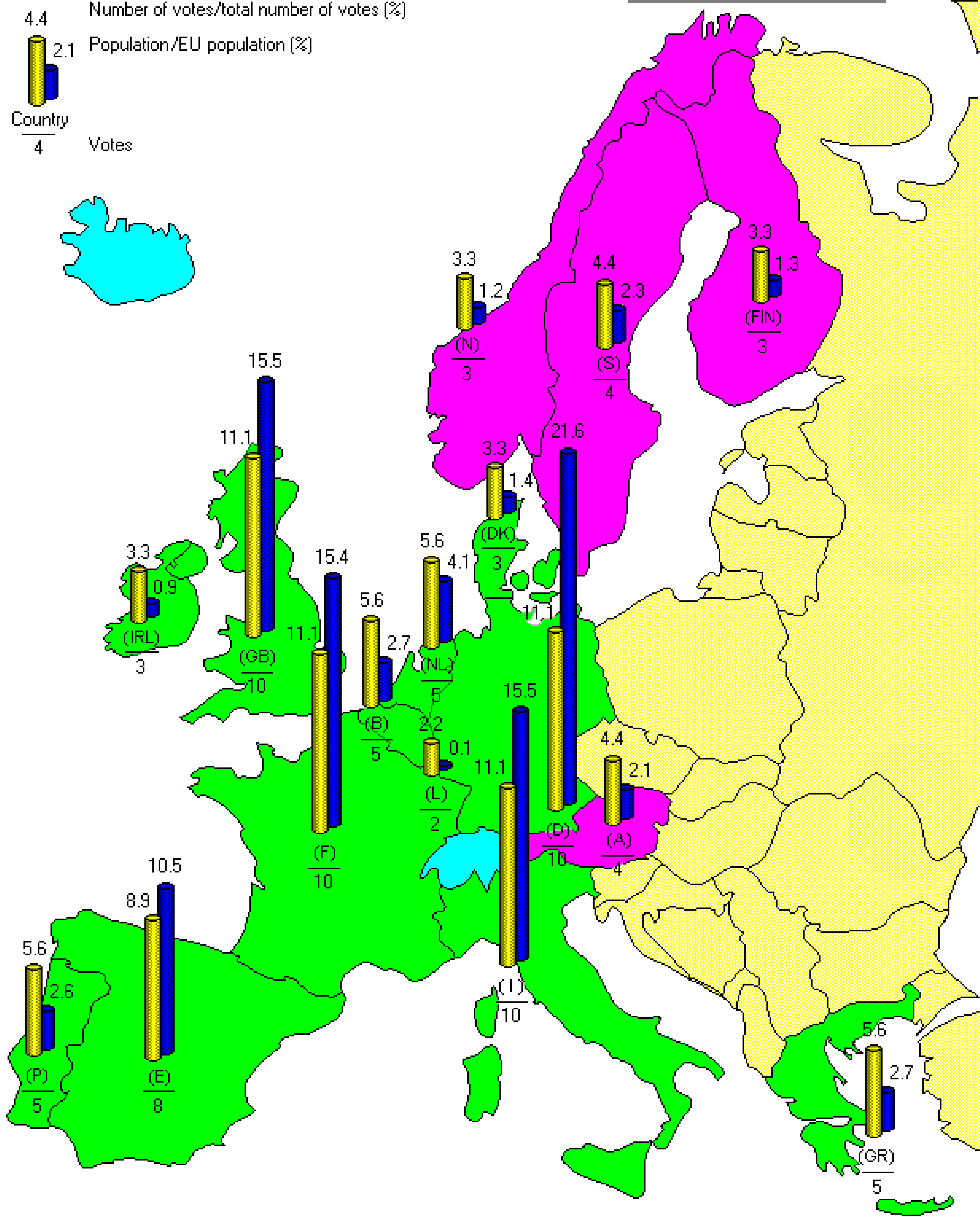
European Union: Vote Distribution in the 16-Member Council of Ministers



Members of the European Union
Prospective members of the European Union
Members of the EFTA
Number of votes/total number of votes (%)
Population/EU population (%)
Country
Votes
EU Council
Total number of votes 90
Blocking minority 27
Qualified majority 64
(N) 3.3 1.2 3
(S) 4.4 2.3 4
(FIN) 3.3 1.3 3
(DK) 3.3 1.4 3
(IRL) 3.3 0.9 3
(GB) 11.1 15.5 10
(F) 11.1 15.4 10
(B) 5.6 2.7 5
(NL) 5.6 4.1 5
(L) 2.2 0.1 2
(D) 11.1 21.6 10
(A) 4.4 2.1 4
(I) 11.1 15.5 10
(P) 5.6 2.6 5
(E) 8.9 10.5 8
(GR) 5.6 2.7 5

Source: European

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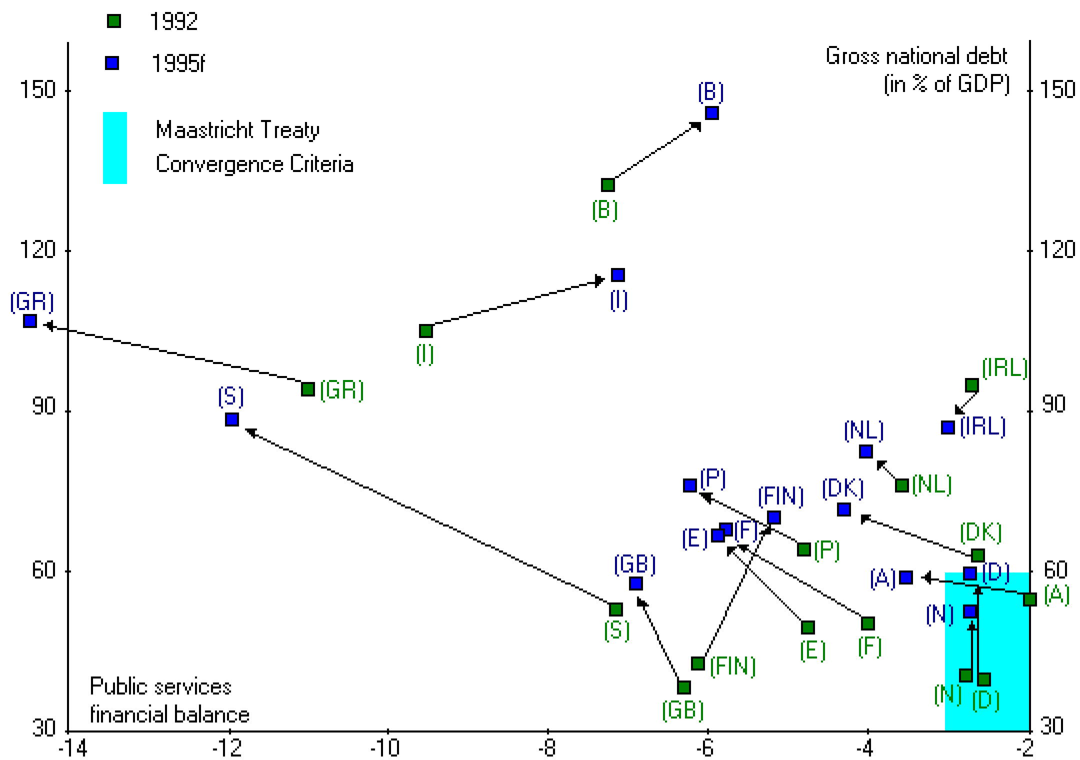
Budget Deficit / Gross Debt Load of Western European Governments 1992-1995



f: forecast
Source: Organisation for Economic Cooperation and Development (OECD), December 1993

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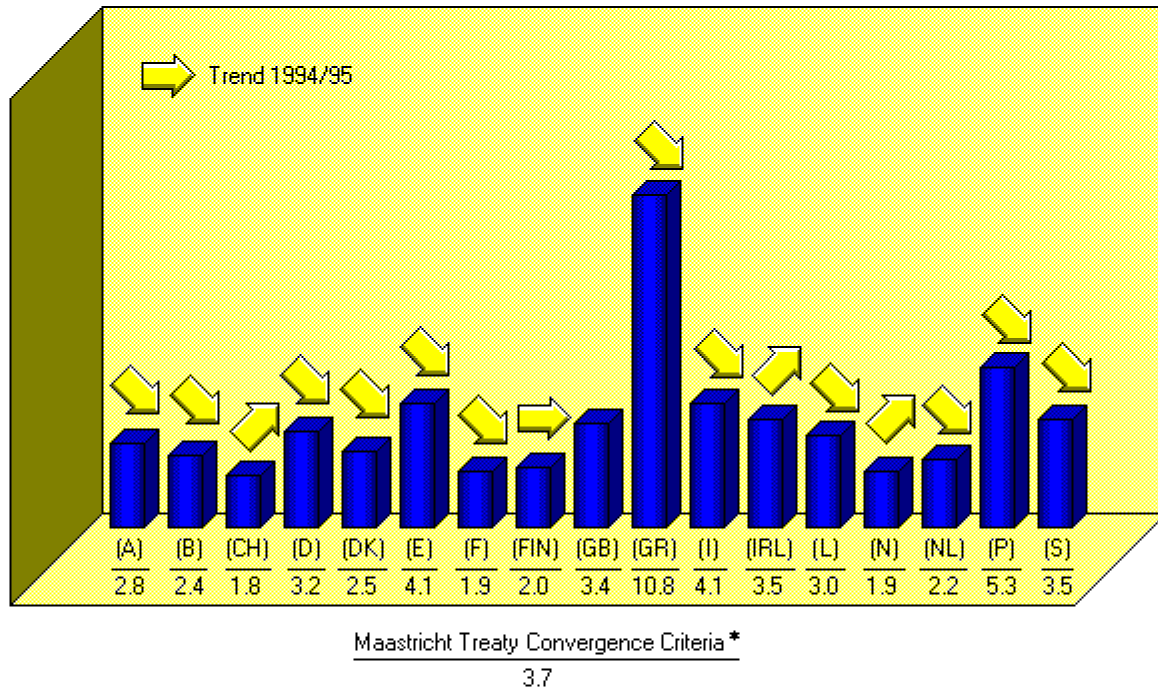
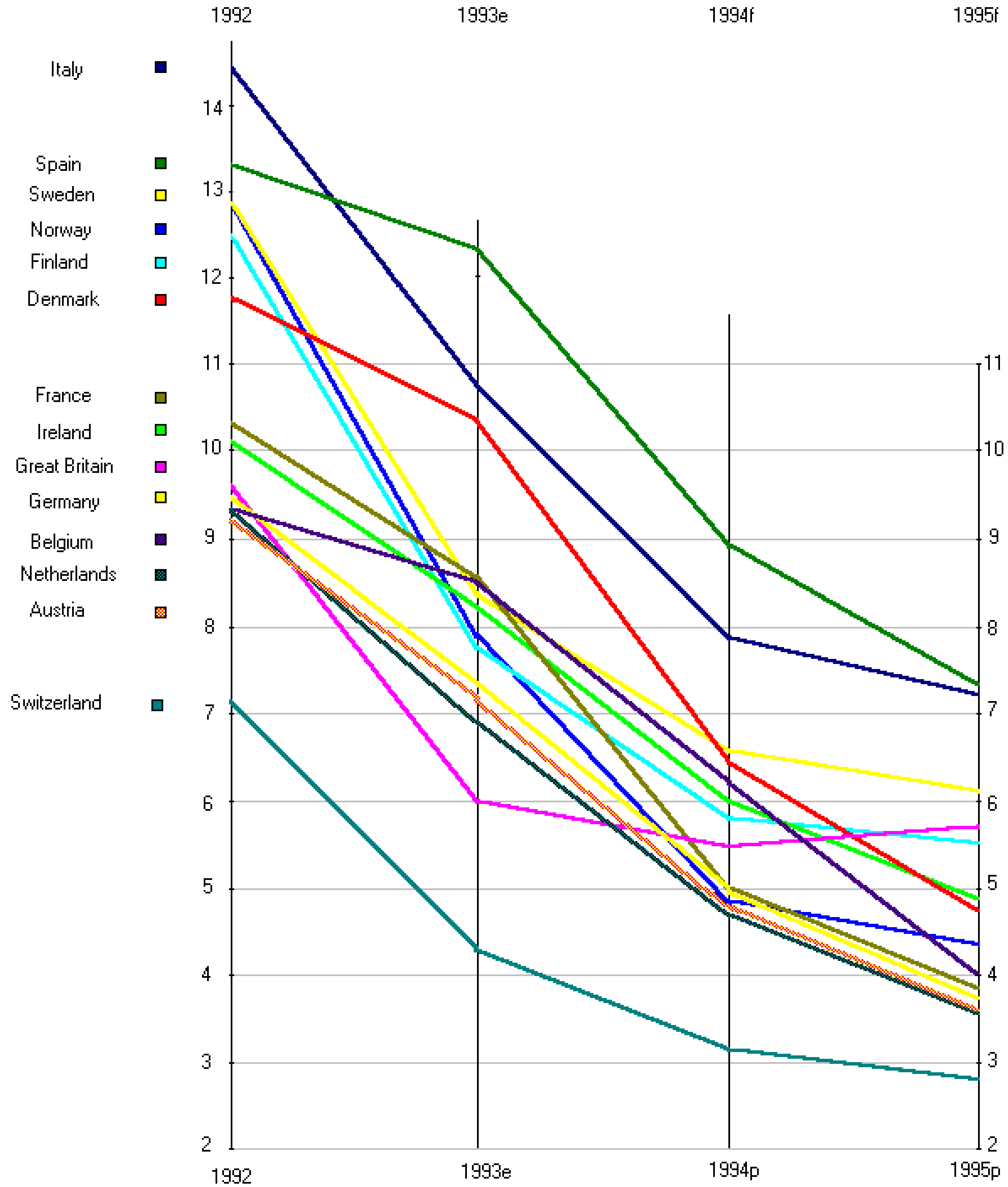
Inflation Rates in Western Europe 1992-1995



e: estimatef: forecast
* A country's inflation rate shall be no more than 1.5% higher than the average level in the three lowest-inflation countries. Non-weighted average; the treaty does not explicitly say how the three countries' figures should be weighted.
Source: Organisation for Economic Cooperation and Development (OECD), December 1993

Short-term Interest Rates in Western Europe 1992-1995



e: estimate
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Source: Organisation for Economic Cooperation and Development (OECD), December 1993

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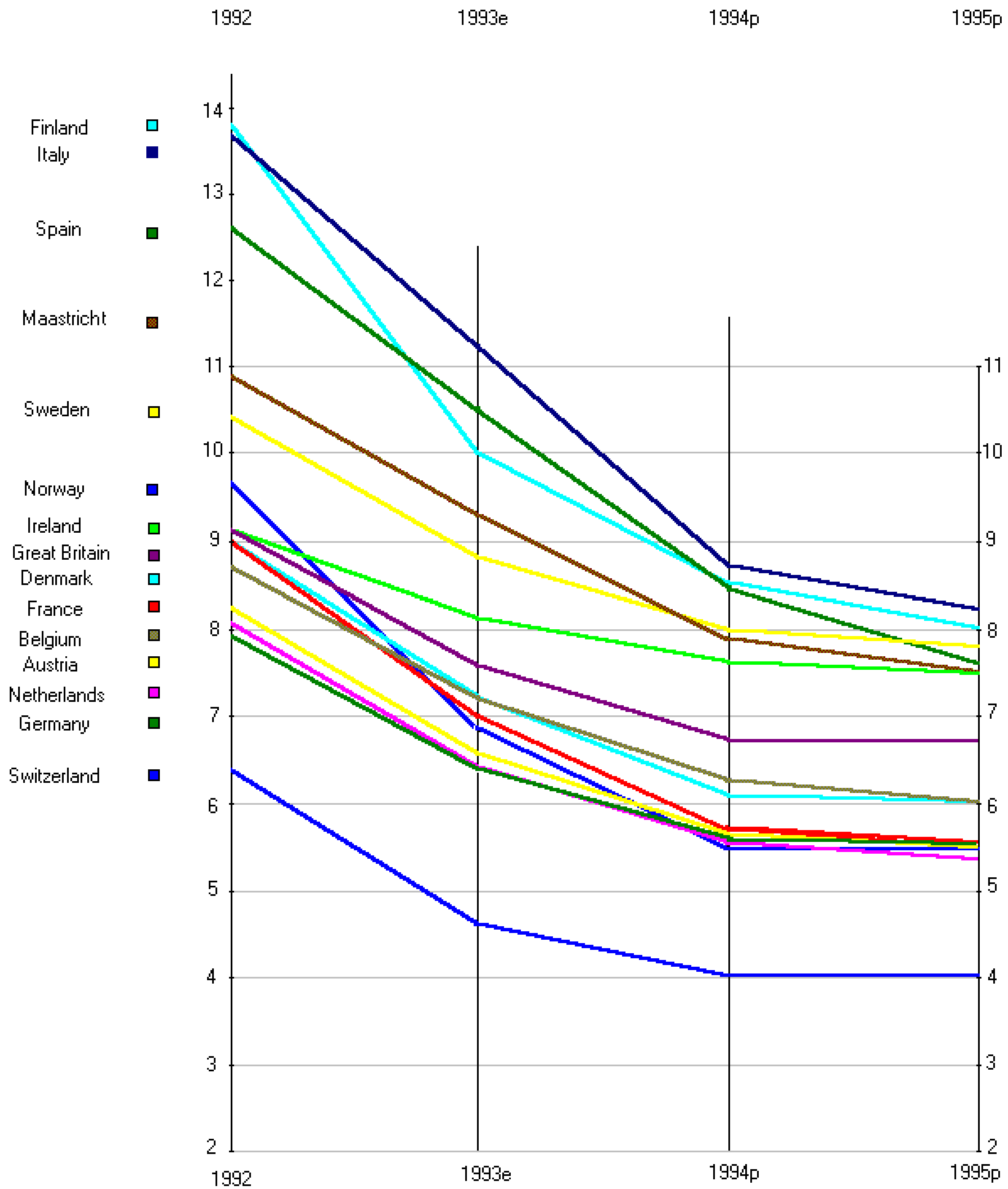

* Long-term interest rates shall be within 2% of the average interest rates in the three lowest-inflation countries.
Non-weighted average; the treaty does not explicitly say how the three countries figures should be weighted.
e: estimate
f: forecast
Source: Organisation for Economic Cooperation and Development (OECD), December 1993

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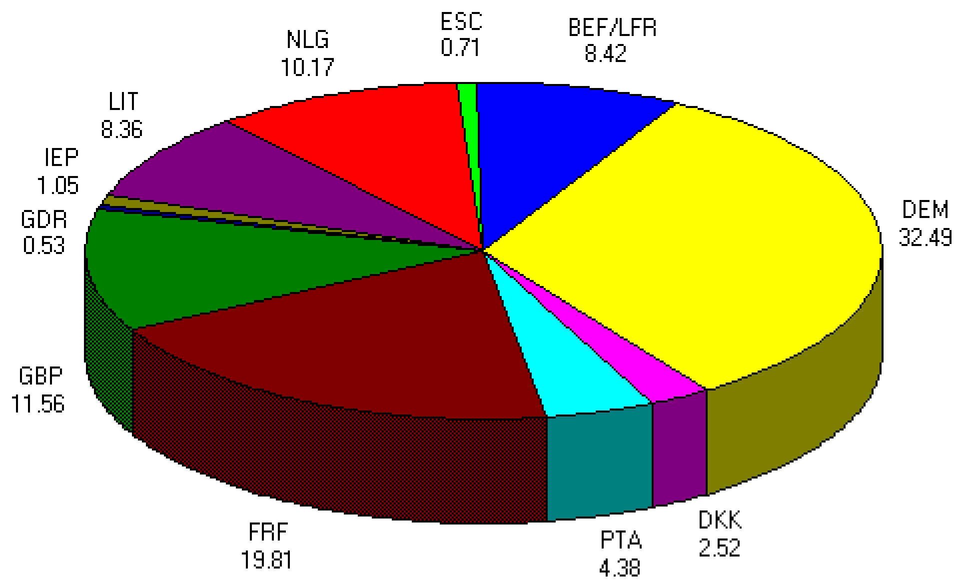
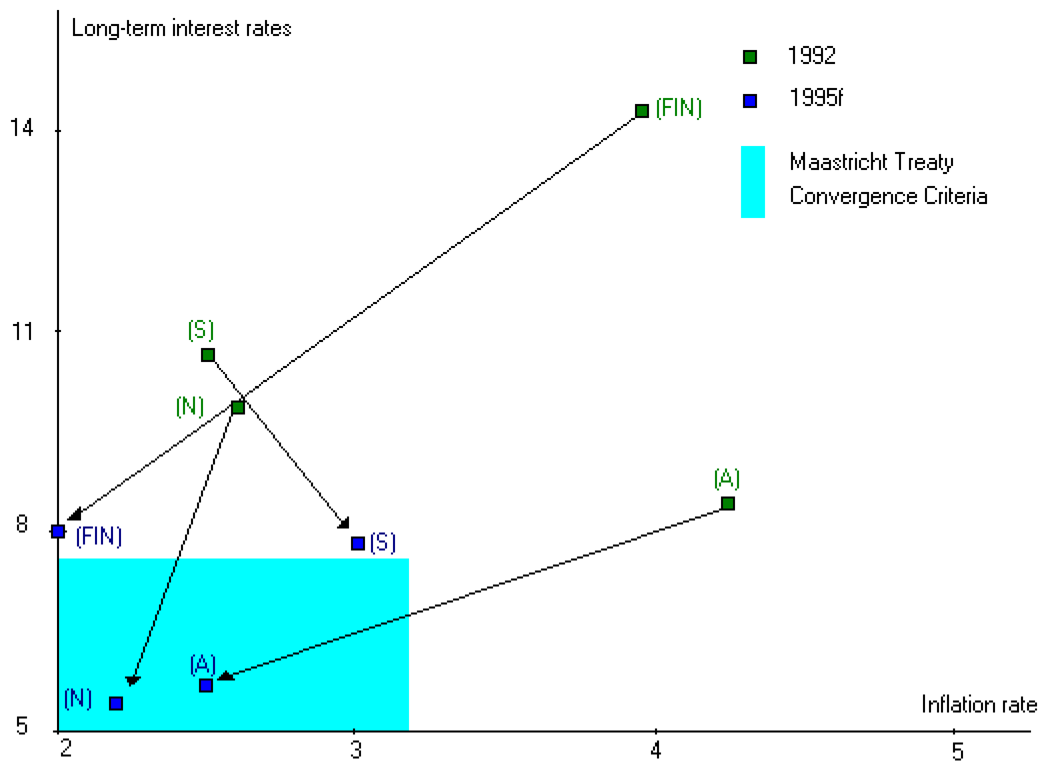
Currency share in the ECU (%)



Source: European Commission

Candidates for European Membership*: Compliance with Convergence Criteria 1992-1995



f: forecast
* membership scheduled for 01/01/95
Source: Organisation for Economic Cooperation and Development (OECD), December 1993

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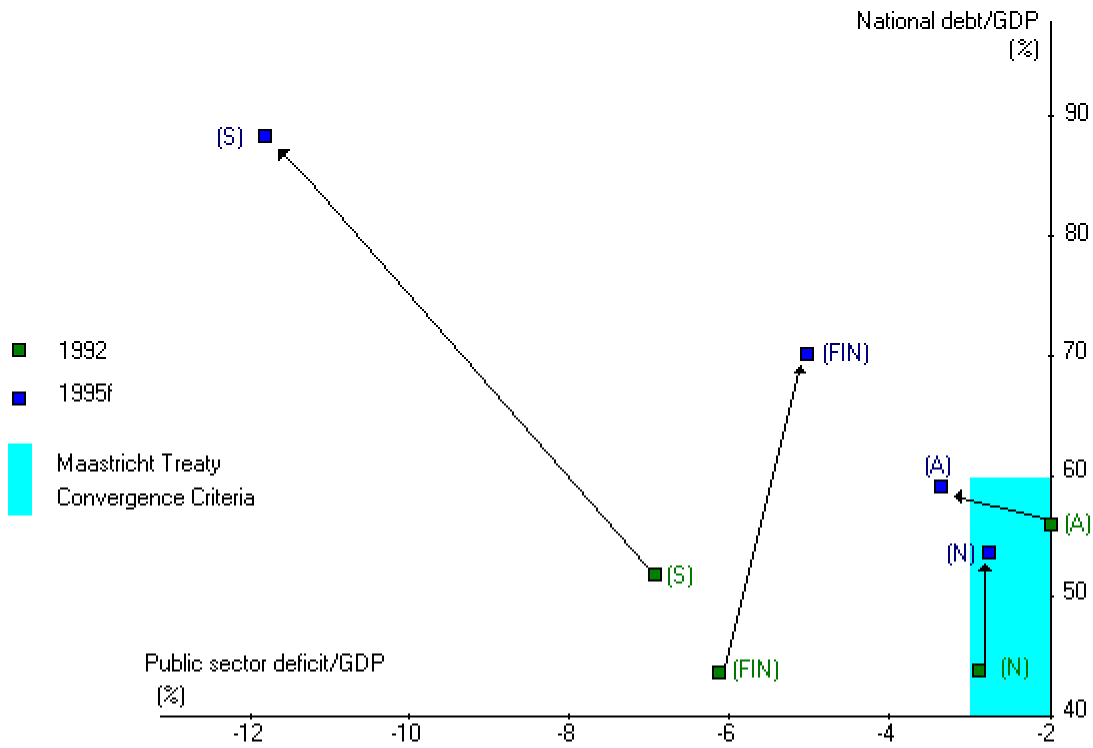
Candidates for European Membership*: Compliance with Convergence Criteria 1992-1995



f: forecast
* membership scheduled for 01/01/95
Source: Organisation for Economic Cooperation and Development (OECD), December 1993

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