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Keskusteluaiheita Discussion papers

Guja Bacchilega - Roberto Golinelli

MEDIUM TERM PROSPECTS

FOR THE EUROPEAN ECONOMIES*

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ABSTRACT: The report was originally prepared for the Spring 1989 meeting of the Working Group on Longer-Term Prospects and Structural Change of the Association of European Conjuncture Institutes (AIECE) by PROMETEIA-Institute in Bologna. Discussed at the meeting were medium-term prospects of the international economy, structural problems and uncertainties of prospects. In this report the medium term outlook for 9 countries and for the most important groups of countries are presented. It also analyzes briefly the medium-term prospects and problems mainly during the next five-year period and partly thereafter even until 1995.

The prospects for the international economy are now more optimistic than the prospects prepared a year ago. The average estimate of economic growth is now 2.9 % in a year for the years 1989-93. In EC countries the growth is 2.8 %, in the United States 2.6 % and in Japan 4 %. The growth is expected to be moderate in the years 1989-91, but the growth rates will be higher after 1992. The acceleration of inflation observed during the beginning of 1989 is expected to level off generally, and to reduce in some countries due to tight monetary policy. The main problem for industrial countries is to control inflation and to continue the economic growth in the medium-term perspective. The external imbalances will also remain a problem.

KEY WORDS: Forecasting, medium-term economic prospects, international economic developments

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TIIVISTELMÄ: Raportti on laadittu alunperin Euroopan suhdannetutkimusliiton (AIECE) toukokuussa 1989 pidettyä kokousta varten Bolognalaisen PROMETEIA-instituutin toimesta. AIECE:n keskipitkän aikavälin työryhmässä käsitellään vuosittain kansainvälisen talouden keskipitkän aikavälin kehitysnäkymiä, arvioidaan kansantalouksien rakenneongelmia ja keskustellaan ennusteisiin liittyvistä epävarmuuksista. Tässä raportissa esitetään keskipitkän aikavälin kehitysarviot 9 maalle ja tärkeimmille maaryhmille sekä analysoidaan lyhyesti kansainvälisen talouden näkymiä ja ongelmia pääasiassa seuraavan viisivuotiskauden aikana ja osittain jopa vuoteen 1995.

Kansainvälisen talouden kehitysarvio on edellistä, vuosi sitten tehtyä arvioita selvästi optimistisempi. Suhdanneinstituuttien keskimääräinen kasvuennuste OECD-maille on 2.9 % vuodessa vuosina 1989-93. EC-maissa kasvu on 2.8 %, Yhdysvalloissa 2.6 % ja Japanissa 4 %. Suhdanneuran odotetaan olevan laskevan vuosina 1989-91, mutta kääntyvän nousuun vuonna 1992. Vuoden 1989 alkupuolella tapahtuneen inflaation kiihtymisen odotetaan seuraavan viiden vuoden aikana tasaantuvan tai jopa hidastuvan joissakin maissa harjoitetun kireän rahapolitiikan ansiosta. Teollisuusmaiden keskeisin ongelma tarkasteluvuosina on inflaation kurissa pitäminen ja kasvun jatkuminen. Ulkoisten tasapainottomuuksien odotetaan säilyvän ongelmana.

ASIASANAT: Ennustaminen, keskipitkän aikavälin ennusteet, kansainvälinen talous

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1. INTRODUCTION

It is well known that a medium term analysis meets targets different from the ones characterizing a short term forecast. However, it is undoubtedly true that the current situation exerts some relevant influences on the medium term development of an economy; at the same time, it is also true that over the last year any particular event - able to alter the medium term prospects for the European economies described in the previous medium term report - has taken place.

At present, the main problems faced by the industrial countries are the control of inflation and economic growth. The external imbalances seem bound to persist a long time.

Nevertheless, in comparison with the forecasts presented in the 1988 Medium Term Report some differences appear. In general a more optimistic mood concerning world trade development and economic growth emerges while inflation prospects do not appear significantly changed.

Many of the main issues of past and future tendencies of world economies were discussed in detail in last year Report.

However, in outlining a scenario for the coming 5/6 years, we will attempt to enhance the main problems or the main constraints.

We would like to conclude these preliminary notes by stressing that we cannot forget the challenge of the coming years: the increasing interdependency of the economies. This fact implies an increasing integration of markets, a stronger competitiveness and a widespread diffusion of technological progress and information.

We are grateful to Anna Stagni, Angelo Tantazzi, B.A. Van Hamel for their comments and to Giorgio Poli for the simulations with Prometeia's world econometric model. We are also very grateful to Elisabetta Altena for her precious collaboration in editing this report.

2. THE MEDIUM TERM SCENARIO: A FOCUS ON THE MAJOR ISSUES.

2.1 *The external imbalances.*

It is well known that the presence of large financial disequilibria (USA and debtor developing countries) negatively affected the medium term forecasts made over the past few years. They were considered as being unsustainable over a longer term.

They are undoubtedly a crucial problem in determining the economic growth prospects; however, as far as US imbalances are concerned and in spite of the modest progress made since Summer 1988, a more optimistic mood emerged. In fact, it seems now clear that the increased capital mobility makes the financing of imbalances easier.

Although capital mobility may allow a softer adjustment of the US twin deficits it should be noted that the risks of instability have not diminished. In particular, capital mobility makes US more vulnerable.

According to the institutes projections, the adjustments of US deficits will be slower than expected a year ago. The depreciation of dollar (tab.1) will be very gradual (in 1992 it is expected to be on average 4.7% lower than in 1988); in particular, it will be less pronounced in the short term.

Adjustments in US economic policy, especially fiscal policy, are still necessary in order to reduce both public and external deficit but they are unlikely to lead to a marked slowdown in economic growth.

In the meanwhile, also the Japanese and German surpluses will be reduced very slowly.

With regard to the indebted developing countries, despite some recent improvements, their situation tends to remain precarious, as repeatedly pointed out in many official reports. Adjustments in domestic policy are increasingly important in order to strengthen growth and make sustainable debt-service payments. Moreover, these countries are largely influenced by the external developments; the ways by which the adjustment in the imbalances among industrial countries will occur will play an important role in determining the economic growth prospects of these countries. It is clear that their economic policy should also aim at reducing the adverse effects of the external environment.

Tab. 1 EXCHANGE RATES								
	88	89	90	91	92	93	94	95
DM/\$ (levels): (●)	1.75	1.73	1.65	1.63	1.66	1.63	1.65	1.75
BIPE	1.77	1.75	1.66	1.73	1.67	1.61	1.55	-
INSEE	1.75	1.69	1.57	1.52	-	-	-	-
IRES-BPB	1.78	1.8	1.8	1.78	1.76	1.73	-	-
KOPINT	1.75	1.65	1.57	1.6	1.7	1.8	1.9	2.0
NIESR	1.75	1.8	1.72	1.65	1.58	1.51	-	-
PROMETEIA	1.75	1.75	1.62	1.55	1.63	1.55	1.52	1.51
WIFO	1.74	1.67	1.62	1.59	1.57	1.57	-	-
National currency/\$ (levels):								
BIPE (FF)	6.0	6.0	5.70	5.99	5.81	5.63	5.46	-
INSEE (FF)	6.0	5.78	5.35	5.21	-	-	-	-
IRES-BPB (FB)	36.9	37.3	37.3	36.9	36.4	35.8	-	-
KOPINT (F)	50.4	58	65	72	78	82	86	90
LBS (£)	0.562	0.568	0.578	0.581	0.581	-	-	-
NIESR (£)	0.562	0.571	0.598	0.612	0.627	0.642	0.657	0.673
PROMETEIA (Lit)	1301	1312	1212	1181	1261	1228	1203	1186
(●) The figures from 1988 on are computed as averages of the institutes forecasts.								

In short, there are no signs of a more balanced situation of the international economy over the coming five years. As shown in detail in section 3.2, according to IMF¹, in 1994 the current account balance on GDP will be in US -2.7% (-2.5% in 1988), in Japan 2.5% (2.8% in 1988), in Germany 3.6% (4.0% in 1988). In the debtor developing countries the current account balance on exports of goods and services in 1994 will be -2.6% (-2.9% in 1988). Nonetheless, perhaps paradoxically, the persistence of these imbalances does not seem affect negatively the medium term perspectives of economic growth.

1 It should be noted that the IMF reference scenario assumes unchanged policies and constant real exchange rates and real oil price.

2.2 World trade and economic growth.

As noted above, the forecasts for total world trade have been revised upward, on average, by 1% over the period 1989-92 in spite of the persistence of important imbalances. As shown in the table 2, over the period 1989-95 its expected growth rate exceeds 5%. World trade might therefore maintain the average growth pace experienced over the last six years.

Trade in manufactured goods will continue to increase at more sustained rate: 6.3% in 1989-92, 6.0% in 1989-1995.

At the same time, we note an upward revision in economic growth for the coming years (tab.3). For OECD GDP growth is expected to average close to 3% per annum in 1989-95 while for EEC it should be 2.8%. In the USA GDP should slow from 3.3% in 1982-88 to 2.6% in 1989-95. On the contrary, in Japan the GDP growth rate will be more regular (4%).

As far as both economic activity and world trade are concerned, it is worth noting that their development will reflect, especially in the short term, the adjustments of the US economy: some slowdown effects are expected in 1989-90.

Tab. 2 WORLD TRADE (% change)												
	60/73	73/82	82/87	88	89	90	91	92	93	94	95	89/93
Total: (●)	8.6	3.0	4.8	7.7	6.0	5.3	4.9	5.5	5.4	5.0	5.3	5.4
BIPE				5.0	5.0	5.0	5.0	5.0	5.0	5.0	-	5.0
INSEE				8.2	5.5	4.5	4.2	4.8	-	-	-	-
IRES-BPB				7.7	7.1	6.5	5.4	5.3	5.2	-	-	5.9
KOPINT				8.5	7.5	7.0	4.0	5.0	5.5	-	-	5.8
NIESR				7.3	5.4	3.8	5.1	5.1	5.1	-	-	4.9
PROMETEIA				7.4	5.6	4.9	4.4	6.3	5.3	5.0	5.3	5.3
WIFO				9.2	6.2	5.6	6.0	6.4	6.4	-	-	6.1
Manufactured goods: (●)	9.6	4.1	5.1	9.3	7.1	5.8	5.4	6.7	6.3	5.1	5.4	6.3
INSEE				8.4	6.8	5.0	5.1	-	-	-	-	-
KOPINT				10.5	9.0	8.5	5.0	7.0	7.0	-	-	7.3
LBS				8.8	6.5	5.7	5.2	7.1	-	-	-	-
NIESR				8.5	6.5	3.6	5.1	5.1	5.1	-	-	5.1
PROMETEIA				7.4	5.3	4.8	4.6	6.5	5.2	5.1	5.4	5.3
WIFO				12.3	8.4	7.5	7.7	7.8	7.8	-	-	7.8
(●) The figures from 1988 on are computed as averages of the institutes forecasts.												

Tab. 3 GDP growth by area												
	60/73	73/82	82/87	88	89	90	91	92	93	94	95	89/93
GDP OECD (●) 5.0	2.0	3.2	4.0	3.1	2.7	2.6	3.0	2.9	3.1	2.9	2.9	
INSEE					2.5	2.5	2.9	3.2	-	-	-	-
IRES-BPB					3.2	2.7	2.9	2.9	2.9	-	-	2.9
KOPINT					3.5	3.0	2.6	2.9	3.0	3.1	2.9	3.0
LBS					3.2	2.1	1.9	2.8	-	-	-	-
PROMETEIA					3.3	3.0	2.6	3.1	2.8	3.0	2.9	3.0
WIFO					3.0	2.5	2.7	3.0	3.0	-	-	2.8
GDP MAJOR 7 (●)	-	2.0	3.4	4.2	3.2	2.7	2.8	3.0	2.9	3.1	3.0	2.9
NIESR					2.8	2.1	2.7	2.7	2.7	-	-	2.6
IMF (***)					3.4	3.1	3.1	3.1	3.1	3.1	-	3.2
PROMETEIA (*)					3.4	3.0	2.6	3.3	2.9	3.1	3.0	3.0
GDP EEC (●)	4.7	1.8	2.4	3.8	3.0	2.6	2.6	2.8	2.9	2.9	2.7	2.8
BIPE					2.9	2.8	2.1	2.6	3.4	2.9	-	2.8
INSEE					2.5	2.3	3.2	2.9	-	-	-	-
KOPINT (**)					3.5	2.7	2.5	2.7	2.8	3.0	2.6	2.8
PROMETEIA					3.1	2.9	2.5	2.9	2.6	2.8	2.7	2.8
WIFO (**)					2.8	2.3	2.5	2.8	2.8	-	-	2.6
(●) The figures from 1989 on are computed as averages of the institutes forecasts. (*) Excluding Canada. (**) OECD Europe. (***) Reference scenario.												

Do the above mentioned revisions reflect the optimism induced by the very positive results of 1988? Probably only in part.

A number of factors are likely to play a role.

First, the great attention paid by policy authorities to the control of inflation; given their efforts of cooperation, the risk of recession in the short run may be ruled out.

Second, we have to take into account longer term factors which can explain the satisfactory growth rate of economic activity in the recent years and its expected persistence.

a) **Real factors.** Over the past few years industrialized countries overcame the negative effects of the two oil shocks. The fall in the relative price of

oil had a strong influence on the economic growth of 1987-88. According to the medium term forecasts here presented, this tendency should not reverse.

A great role is played also by the technological innovation, especially in information and communications, in stimulating investment, in reducing costs and in improving the quality of services. Of course, the effects of these factors are likely to persist. Till now they mainly concerned the firms and the public sector of developed countries; in prospects, they will spread to households and firms of LDC's.

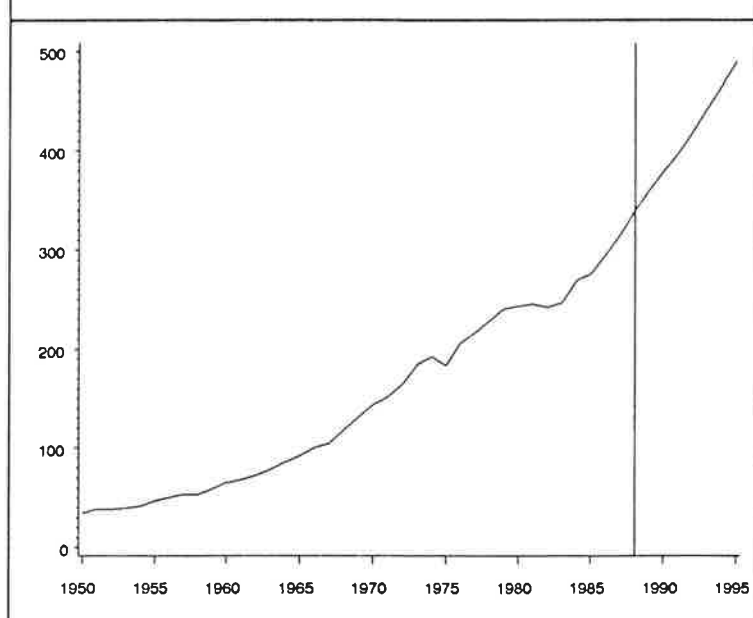
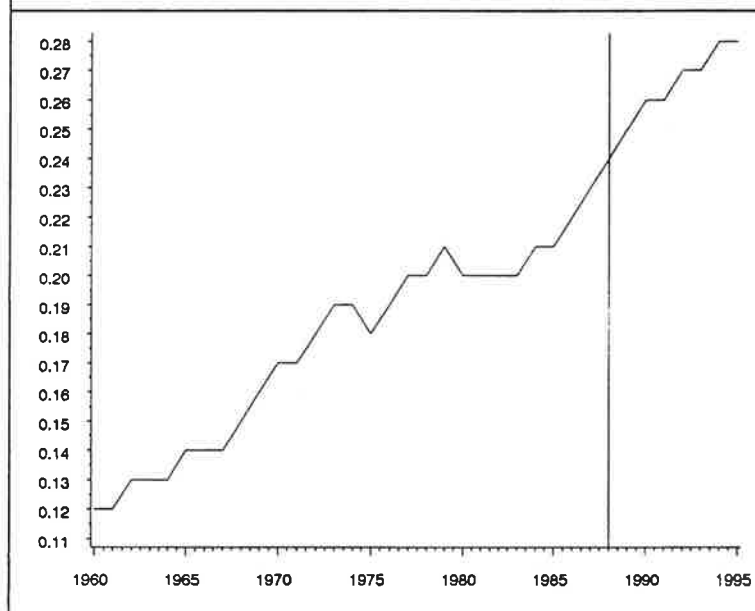
b) **Financial factors.** The financial innovations made sustainable the situation of debtor countries (adversely affected by the decline of raw materials prices and by the raise of interest rates) and the external imbalances of industrialized countries. Such a phenomenon is expected to exert effects on labour market. In particular, it might play a role in containing labour costs.

c) **Institutional factors.** Deregulation and greater flexibility of labour market in some countries (particularly United States and United Kingdom) partly contributed to a positive development of employment and economic activity. We cannot rule out the possibility that in the future Europe will experience a relevant immigration from the North Africa and from the Eastern European countries.

Of course, the above mentioned factors already existed last year. The new fact might be their more than expected positive influence on agents' expectations which stimulated a stronger than expected investment activity. It is therefore necessary to understand if such an improvement in expectations is likely to persist also in the long run.

Finally, the move to freer trade within Europe and in North-America and the gradual liberalisation of markets in Eastern Europe are likely to exert significant positive effects on world trade development.

Although many observers have stressed the risk of protectionism associated to the fragmentation of the world in several major trading and currency blocks, the trend towards greater cooperation seems difficult to reverse. In particular the completion of the single market in the EEC should not lead to a greater degree of protectionism with respect to extra European countries. Furthermore, the EEC countries will be stimulated to carry out appropriate trade policies to gain from the gradual market liberalization in Eastern Europe.

Fig. 1 World trade (1970 = 100, level)**Fig. 2 Import as a ratio of domestic demand in OECD**

2.3 Inflation.

In 1988 the disinflationary process came to an end. The present acceleration in inflation seems temporary: the restrictive stance of monetary policy is expected to succeed in keeping it under control. Over the next five years the inflation rate should tend to stabilize or, in some countries, to decline.

The international commodities markets appear to be favourable (table 4).

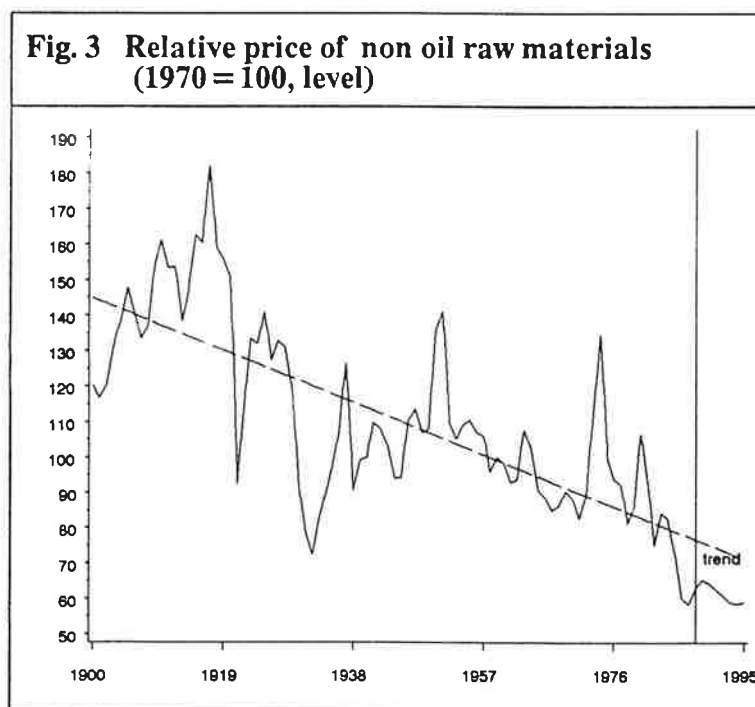
Prospects for non oil raw materials prices suggest only moderate increases.

The terms of trade for non oil raw material producers is unlikely to improve (Fig. 3).

As far as oil price is concerned, its present recovery is expected to continue but forecasters do not believe that a new oil shock will take place. Oil prices in real terms should recover, though moderately (1/1.5% over the period considered).

Manufactured goods prices in dollars are expected to increase, on average, by 4%, at a rate rather similar to the one experienced in the 1982-1988. In this regard we have to consider that over a medium term horizon there will be an increasing supply of manufactured goods from LDC's.

In order to show a global view about national inflation rates, GDP deflator growth rates by country are presented in table 4a.



Tab. 4 WORLD PRICES (in \$, % change)												
	60/73	73/82	82/87	88	89	90	91	92	93	94	95	89/93
Manufactured goods: (●)	3.6	8.0	3.8	4.9	3.8	4.7	4.1	3.7	4.2	3.9	4.1	4.1
BIPE (*)				-	3.7	3.7	3.5	4.0	3.5	3.2	-	3.7
IMF (****)				5.5	4.5	3.8	3.8	3.8	3.8	3.8	-	3.9
INSEE(**)				5.6	4.9	4.7	4.2	4.6	-	-	-	-
IRES-BPB				2.9	3.0	2.8	3.2	3.0	2.8	-	-	3.0
KOPINT				5.5	2.5	4.0	4.0	5.0	5.0	4.0	4.0	4.1
LBS (***)				6.0	4.6	4.1	3.6	3.9	-	-	-	-
NIESR				4.8	1.6	5.6	4.4	4.4	4.4	-	-	4.1
PROMETEIA				4.3	4.6	8.8	5.7	0.9	5.7	4.4	4.3	5.1
WIFO				4.7	5.5	4.5	3.5	3.5	3.5	-	-	4.1
Crude oil: (●)	5.0	30.3	-12.7	-16.6	4.5	7.2	6.0	6.1	5.1	5.2	6.7	5.8
BIPE				-16.0	0.0	6.1	0.0	2.6	5.0	4.8	-	2.7
INSEE				-13.0	10.8	8.2	8.2	-	-	-	-	-
IMF (****)				-20.8	-0.9	8.3	3.8	3.8	3.8	3.8	-	3.8
IRES-BPB				-16.5	-8.0	3.5	4.0	4.1	4.2	-	-	1.6
KOPINT				-15.0	10.0	5.0	10.0	5.0	0.0	5.0	5.0	6.0
LBS				-12.0	-10.4	12.7	6.4	8.8	-	-	-	-
NIESR				-18.8	17.3	5.3	7.5	7.5	7.5	-	-	9.0
PROMETEIA				-15.0	2.1	9.1	8.9	11.3	9.9	7.1	8.4	8.3
WIFO				-21.9	19.4	6.3	5.0	5.0	5.0	-	-	8.0
Non oil raw materials (●)	7.6	6.1	2.2	16.2	7.2	3.3	1.4	0.7	1.2	3.2	4.9	2.8
LBS				6.2	6.6	-0.3	-2.9	-0.6	-	-	-	-
KOPINT				21.3	6.0	3.0	0.0	-5.0	-5.0	0.0	3.3	-0.2
PROMETEIA				16.0	10.0	7.5	5.5	5.3	6.6	6.3	6.7	7.0
WIFO				21.4	6.0	3.0	3.0	3.0	3.0	-	-	3.6
(●) The figures from 1988 on are computed as averages of the institutes forecasts. (*) Consumer prices. (**) Total export price. (***) Wholesale prices. (****) Reference scenario.												

Tab. 4a GDP deflator (% change in national currency)												
	60/73	73/82	82/87	88	89	90	91	92	93	94	95	89/93
CBS	9.7	5.6	4.1	4.3	4.1	2.8	3.3	-	-	-	-	-
IMF-GER	4.9	4.6	3.0	1.9	2.2	2.4	2.3	2.3	2.3	2.3	-	2.3
IMF-JAP	6.0	6.3	1.0	0.5	1.4	1.2	1.1	1.1	1.1	1.1	-	1.2
IMF-USA	5.6	8.0	3.6	3.4	4.6	4.5	4.1	4.1	4.1	4.1	-	4.3
INSEE	4.9	11.1	7.1	2.7	4.0	3.8	3.4	-	-	-	-	-
IRES-BPB	4.1	7.1	4.8	2.3	2.7	3.1	2.4	2.2	2.1	-	-	2.5
LBS	5.1	15.0	5.1	6.5	5.8	5.6	5.9	5.6	-	-	-	-
PROMETELA	5.4	17.7	11.0	5.6	6.3	6.2	4.9	5.5	6.2	5.5	5.4	5.8
WIFO	4.6	6.0	3.7	1.5	2.8	2.6	3.1	3.4	3.6	-	-	3.1

3. THE INSTITUTES' FORECASTS

3.1 *World trade and prices.*

As we have stressed in the previous parts of this paper, the present long term perspectives are more optimistic than those expressed one year ago.

In fact over the base period of these notes (1989-1993), all the institutes forecast a GDP growth for OECD countries well above (2.9% a year) last year's figure (2.4%), and no institute is significantly far from this average view.

The corresponding EEC growth is only a little slower (2.8%) than that for the OECD, though "consensus" forecast figures do not show any explicit growth acceleration in the period of likely introduction of the European single market.

In the short term we note a two year growth deceleration in both aggregates because of the effects of a generalized tightening of monetary policy, the aim of this policy being to stop recent blips of inflation by controlling demand. This dynamic fluctuation is particularly stressed in the LBS's forecast.

World trade figures, reflecting these assumptions, grow by 5.4% a year over the period 1989-93 (about one point above last year's forecasts).

Percentage change in the price of manufactured goods in dollars is quite stable with respect to both 1982-87 levels and the forecast made in 1988 for the period 1988-92. In fact, according to the "consensus" forecast of institutes, in the period 1989-93 manufactures prices will grow by 4.1% against a quite similar 4.0% in the period 1982-88.

Though characterized by the well known marked differences in the institutes' forecasts, crude oil prices will rise by 5.8% a year: + 1.5% with respect to the manufactures average increases. Though in 1989 English institutes present forecasts that differ from each other by about 28 percentage points (LBS forecasts a fall of 10.4% because of expected re-emerging problems of excess production, while NIESR presents a 17.3% increase caused by a rising demand for oil), in the longer term both their forecasts tend to reach a 7-8% steady growth rate.

The majority of institutes (5 out of 7) forecast a long term level of the DM/\$ exchange rate between 1.5-1.57. The exchange rate reaches this average 1.53 "equilibrium" level via different paths which depend on the various institutes' forecasting periods (for example BIPE forecasts 1.55 in 1994 while INSEE forecasts 1.52 in 1991). IRES-BPB institutes forecast a fairly stable exchange ra-

te (dollar devalues about 0.5% a year against DM), and KOPINT institute forecasts a dollar devaluation till 1990 and a subsequent rapid recovery: in 1995 the DM would be devalued by 14.3% with respect to its 1988 starting level.

3.2 Individual countries.

In the short term the United States economy is expected to slow gradually from the 1988 growth level (table 5), but shows a strong upward revision for 1988-89 (3.8% and 2.7% respectively) when compared to last year's forecasts (2.1% and 1.7%). The explanation of the 1989-90 slowdown depends mainly on the need both for raising domestic saving and for achieving further reductions in inflation by pushing up interest rates. The increase in interest rates is expected to be concentrated in the first half of 1989. Indeed not all the institutes make explicit assumptions on the level of US interest rates. According to Prometeia, the three months eurodollar rate should average 9.8% in 1989 (8% in 1988); from 1990 on it should be around 8.5%. For the period 1989-90 the IMF assumptions appear rather similar to Prometeia (9.2% and 8.8% respectively).

For 1989-93 period the institutes forecast a GDP growth of 2.6% a year. It may be noted that the concentration of the forecasts around their consensus this year is higher than last year. This could be interpreted as the result of the institutes' overcoming of last year's different views about the impact of the Oc-

Tab. 5 USA GNP forecasts (volume, % change)												
	60/73	73/82	82/87	88	89	90	91	92	93	94	95	89/93
GNP-volume (●)4.1		1.9	3.2	3.8	2.7	2.2	2.5	2.8	2.7	2.8	2.6	2.6
BIPE					2.7	1.8	2.2	2.8	3.2	2.8	-	2.5
IMF (*)					3.1	2.8	2.8	2.8	2.8	2.8	-	2.9
INSEE					2.1	2.3	3.1	3.3	-	-	-	-
KOPINT					2.7	2.2	2.3	2.5	2.5	2.6	2.3	2.4
MERRIL LYNCH					2.4	2.5	2.7	2.9	2.9	2.8	2.8	2.7
NIESR					2.5	1.5	2.5	2.5	2.5	-	-	2.3
PROMETEIA					3.2	2.9	2.3	3.1	2.6	2.8	2.7	2.8
WIFO					2.5	2.0	2.3	2.5	2.5	-	-	2.4
(●) The figures from 1989 on are computed as averages of the institutes forecasts.												
(*) Reference scenario.												

Tab. 6 IMF: forecasts for UNITED STATES (reference scenario)											
	60/73	73/82	82/87	88	89	90	91	92	93	94	89/93
GNP-volume	4.1	1.9	3.2	3.8	3.1	2.8	2.8	2.8	2.8	2.8	2.9
Real total domestic demand	4.1	1.7	3.8	3.0	2.8	2.7	2.7	2.7	2.7	2.7	2.7
GNP deflator	5.6	8.0	3.6	3.4	4.6	4.5	4.1	4.1	4.1	4.1	4.3
Gen. Govt. Fin. Bal. (% of GNP)	-	-1.2	-3.2	-1.8	-2.2	-1.6	-	-	-	-	-
Curr. Account Balance (% GNP)	-	0.1	-2.3	-2.5	-2.4	-2.4	-	-	-	-2.7	-

tober 1987 stock market crash. The IMF reference scenario (table 6) analysis is characterized by a long term reduction in the 1989-90 inflation rate, and a higher than consensus GDP growth (2.9%). From the point of view of structural imbalances, IMF depicts a worsening in current account balance, but does not present any long term level for Government net lending on GDP: it stresses the danger that, without explicit expenditure cuts or increasing revenue measures, the level of deficit might not decline significantly over the medium term.

The prospects for Japan GDP growth are seen to be even brighter than last year's forecasts (table 7). The reasons for this further improvement are a favourable international environment (the increase in the growth of world trade and the expected stability in world commodity prices) associated with a still sustained increase in domestic demand. On the whole, economic policy should not exert restrictive effects. The figures proposed show a 4-4.5% long term output

Tab. 7 Japan GNP forecasts (volume, % change)												
	60/73	73/82	82/87	88	89	90	91	92	93	94	95	89/93
GNP-volume (●)9.6		3.6	3.9	5.7	4.2	3.8	3.7	4.2	4.3	4.2	4.4	4.0
BIPE					3.8	3.2	3.0	3.8	4.5	4.0	-	3.7
IMF (*)					4.6	4.3	4.2	4.2	4.2	4.2	-	4.3
INSEE					4.1	3.6	3.9	4.5	-	-	-	-
KOPINT					4.2	4.5	3.5	4.0	4.3	4.5	4.5	4.1
NIESR					3.9	3.3	4.0	4.0	4.0	-	-	3.8
PROMETELA					4.4	4.1	3.8	4.4	4.2	4.2	4.2	4.2
WIFO					4.5	3.8	4.0	4.5	4.5	-	-	4.3
(●) The figures from 1989 on are computed as averages of the institutes forecasts.												
(*) Reference scenario.												

Tab. 8 IMF: forecasts for Japan (reference scenario)											
	60/73	73/82	82/87	88	89	90	91	92	93	94	89/93
GNP-volume	9.6	3.6	3.9	5.7	4.6	4.3	4.2	4.2	4.2	4.2	4.3
Real total domestic demand	9.9	2.6	3.7	7.7	5.2	4.9	4.5	4.5	4.5	4.5	4.7
GNP deflator	6.0	6.3	1.0	0.5	1.4	1.2	1.1	1.1	1.1	1.1	1.2
Gen. Govt. Fin. Bal. (% of GNP)	-	-3.1	-1.9	1.1	1.6	2.0	-	-	-	2.0	-
Curr. Account Balance (% GNP)	-	0.2	2.8	2.8	2.6	2.5	-	-	-	2.5	-

growth for the Japanese economy. IMF's reference scenario (table 8) depicts no further change in the external balance that stays at a level of 2.5% of GDP, and potentially pushes up the value of the Yen. IMF sees the Yen revaluation as a particularly unfavorable event because it might have the undesirable effect of blocking fiscal policy adjustments in US. The level of net Government lending on GDP is expected to double over the forecast period (from 1.1% in 1988 to 2% in 1994) because of the tax reform approved in late 1988 that should improve both efficiency and equity. Possible inflationary pressures from the introduction of the tax reform will be very low and easily overcome by 1990.

Both the forecasts presented for Germany (made by IFO and IMF, tables 9 and 10 respectively) stress a good performance of GDP growth (2.4-2.5% on average) driven by investment and exports. In fact over the forecast period Germany is expected to return to its traditional style of growth characterized by net exports gaining weight as a contribution to GDP growth. This fact implies a

Tab. 9 Forecasts for F.R. GERMANY					
	60/73	73/82	82/87	88	89/93
IFO:					
GDP-volume	4.4	2.0	2.3	3.4	2.4
Private Cons. (vol)	4.9	3.1	2.5	2.5	2.5
Public Cons (vol)	4.5	2.9	1.7	1.8	1.3
GFCF volume, total	4.0	-0.8	1.8	5.8	2.9
Exports volume	9.0	4.3	3.4	5.5	4.1
Imports volume	10.3	3.3	4.8	5.9	4.4
Consumer price	3.9	8.8	2.2	1.2	2.2
Unemployment (rate)	0.8	3.7	7.9	7.7	8.2
Gen. Govt. fin. bal. (% GDP)	-	-2.6	-2.0	-2.0	-2.0
Curr. Bal. of Paym. (% GDP)	-	0.5	2.2	4.0	4.0

Tab. 10 Forecasts for F. R. GERMANY											
	60/73	73/82	82/87	88	89	90	91	92	93	94	89/93
IMF: (reference scenario)											
GDP-volume	4.4	2.0	1.7	3.4	2.4	2.8	2.4	2.4	2.4	2.4	2.5
Real total domestic demand	4.5	1.5	1.6	3.7	2.2	3.2	2.5	2.5	2.5	2.5	2.6
GNP deflator	4.9	4.6	3.0	1.9	2.2	2.4	2.3	2.3	2.3	2.3	2.3
Gen. Govt. Fin. Bal.											
(% of GNP)	-	-2.6	-2.0	-2.0	-0.8	-1.4	-	-	-	-0.9	-
Curr. Account Balance											
(% GNP)	-	0.5	2.2	4.0	4.0	3.8	-	-	-	3.6	-

discouraging outlook for the possibility of reduction in Germany's external surplus: in the forecasts of both institutes the current account balance on GDP stays at the 1988 level averaging between 3.6-4%, while by the end of the simulation the budget deficit will have been reduced to -1% from -2% in 1988. Of the major European countries, Germany is likely to have the best results on inflation: IMF forecast a low average 2.2% a year. Finally it should be noted that Germany is not expected to deal with the problem of a high unemployment rate that in the period 1989-93 will remain well above its historical values.

The institutes forecast GDP growth for France over the simulation period will be 2.8%, 0.5% higher than last year's forecasts, and, particularly noteworthy, over 1% above the average growth rate experienced in 1982-87 period (tables 11-12). The growth of real GDP is explained by a huge increase in investments (on average 5% in BIPE and 3.7% in INSEE forecasts) that, apart from the 1960-73 period, never reached such a high growth level, and a strong expansion in exports (more or less 5% for both the institutes). Inflation is expected to

Tab. 11 Forecasts for FRANCE					
	60/73	73/82	82/87	1988	89/94
BIPE:					
GDP-volume	5.5	3.1	1.6	3.6	2.8
Private Cons. (vol)	5.5	3.9	2.0	2.6	2.6
GFCF volume, total	7.6	0.4	0.3	6.1	5.0
Exports volume	9.1	4.2	2.5	6.4	4.8
Imports volume	11.2	4.4	2.8	7.1	4.6
Consumer prices	4.6	11.1	6.7	2.7	3.0

Tab. 12 Forecasts for FRANCE

	60/73	73/82	82/87	88	89	90	91	89/91
INSEE:								
GDP-volume	5.5	3.1	1.6	3.6	3.1	2.6	2.6	2.8
Private Cons. (vol)	5.5	3.9	2.0	2.6	2.4	2.0	2.2	2.2
GFCF volume, total	7.6	0.4	0.3	6.1	3.9	3.8	3.5	3.7
Exports volume	9.1	4.2	2.5	6.4	5.8	4.9	4.9	5.2
Imports volume	11.2	4.4	2.8	7.1	4.7	5.4	5.7	5.3
Consumer prices	4.6	11.1	6.7	2.7	3.3	3.3	3.0	3.2
Gen. Govt. fin. bal. (% GDP) -		-0.9	-2.9	-1.6	-2.1	-2.1	-2.0	-2.1
Curr. Bal. of Paym. (% GDP) -		-0.2	-0.6	-0.6	-0.4	-0.4	-0.8	-0.5

stay at its lowest ever level (about 3% a year); all this depends on both the low world prices assumptions and the high rate of investments that will increase labour productivity. Moreover, it seems unlikely a sustained increase of compensations. INSEE notes that in the 1990-91 period the foreign contribution to GDP growth will be negative because the increase in imports will offset the increase in exports, causing a progressive deterioration of manufactured goods real trade balance.

In the period 1983-88 the high level of demand in the United Kingdom (through a sharp fall in the rate of savings that stimulated investment afterwards) explains both the present inflationary pressures and the rapid worsening of the current account deficit. In order to change this dangerous trend, NIESR economists suggest tighter fiscal and monetary policies that, accompanied by spontaneous changes in private behavior, would allow the necessary improvements in the balance of payments. The results for the projections they make are striking (table 13): the so called "permitted" GDP growth in the base case is about 2 per cent a year (two points less than the period 1982-88). The most important implications of this slow GDP growth are an increase in unemployment (2.7 million people on average in the period 1991-97), a reduction in inflation (about 3% a year by 1992) and, by 1993, a reduction to 1% of GDP of the balance of payments current account deficit compared with 3.2% in 1988. The LBS's forecasts (table 14) are made over a shorter period (1989-92). Though higher than NIESR, expected GDP growth is considerably lower (2.6%) than in the previous historical period. This GDP deceleration is mainly explained by a sharp fall in private consumptions growth rate (halved to about 2.4% in 1989-92 from 4.6% in 1982-88). In the period 1989-92 the average inflation rate will

Tab. 13 Forecasts for UNITED KINGDOM

	60/73	73/82	82/87	88	89	90	91/97	89/92
NIESR (base case):								
GDP-volume	3.1	1.3	3.5	4.7	2.5	0.8	1.7	1.7
Private Cons. (vol)	2.9	0.6	4.3	6.2	3.2	0.7	1.0	1.5
Public Cons. (vol)	2.5	1.8	1.0	0.4	0.1	1.0	1.0	0.8
GFCF (vol), total	4.6	-0.3	3.9	8.4	4.4	-2.1	1.1	1.1
Exports (vol) goods	5.2	3.2	4.3	0.5	7.1	3.6	4.4	4.9
Imports (vol) goods	5.4	1.2	6.1	13.1	6.6	0.8	3.0	3.4
Consumer price	5.1	14.2	5.2	5.1	5.8	5.5	3.9	4.8
Unemployment (millions)	-	1.4	3.1	2.3	1.9	1.8	2.7	2.3
Curr. Bal. of Paym. (% GDP)-	-	-0.2	0.5	-3.2	-2.9	-2.7	-1.0	-1.9

Tab. 14 Forecasts for UNITED KINGDOM

	60/73	73/82	82/87	88	89	90	91	92	89/92
LBS:									
GDP-volume	3.1	1.3	3.5	4.7	3.0	2.4	2.6	2.4	2.6
Private Cons. (vol)	2.9	0.6	4.3	6.2	2.4	2.2	2.7	2.2	2.4
Public Cons. (vol)	2.5	1.8	1.0	0.4	0.6	0.8	0.9	0.9	0.8
GFCF (vol), total	4.6	-0.3	3.9	8.4	3.5	2.8	3.0	2.9	3.1
Exports (vol) goods	5.2	3.2	4.3	0.5	5.5	5.1	2.1	2.7	3.9
Imports (vol) goods	5.4	1.2	6.1	13.1	4.0	2.4	1.3	1.4	2.3
Consumer price	5.1	14.2	5.2	5.1	6.6	4.8	4.3	5.0	5.2
Unemployment (rate)	1.9	6.0	11.6	8.4	7.1	7.2	7.4	7.0	7.2
Curr. Bal. of Paym. (% GDP)	-	-0.2	0.5	-3.2	-2.5	-2.2	-2.6	-0.9	-2.1
Gen. Govt. fin. bal. (% GDP)-	-	-3.6	-1.9	2.8	3.1	2.8	2.8	3.1	2.9

be 5.2%, and the balance of payments current account deficit will average 2.1% of GDP.

Prometeia's forecasts about Italy GDP growth have been raised to 2.7% over the period 1989-93, from a meagre 2.3% forecast last year (table 15). The most dynamic growth components are investments and exports. Investments in particular show an average increase (3%) that is very high with respect to last two historical periods. Despite a slight acceleration in 1989-90 period, the rate of inflation will reach a long run steady level of 5-5.5% a year. The net Government lending will continue to be the main problem of the Italian economy. Its level on GDP will increase to 1990 (-10.9%) and from this level will fall a little

Tab. 15 Forecasts for ITALY												
	60/73	73/82	82/87	88	89	90	91	92	93	94	95	89/93
PROMETEIA:												
GDP-volume	5.3	2.1	2.5	4.0	3.6	2.7	2.6	2.5	2.0	2.9	2.9	2.7
Private Cons. (vol)	5.9	1.7	2.6	4.1	3.6	3.6	3.1	1.3	2.2	3.6	3.5	2.7
GFCF (vol), total	4.3	-1.7	2.0	5.5	4.8	2.3	1.9	3.0	3.0	3.7	4.0	3.0
Exports (vol)	10.9	5.9	4.4	7.4	5.4	4.1	4.7	6.9	4.9	4.4	5.6	5.2
Imports (vol)	10.4	3.5	5.9	7.4	5.8	5.1	5.0	4.9	4.9	6.4	7.1	5.1
Consumer price	4.7	16.6	10.2	5.1	6.4	5.5	4.6	6.3	5.5	5.0	5.1	5.8
Unit labour cost	5.2	17.7	8.7	4.5	5.9	6.7	5.2	6.1	6.6	5.6	5.4	6.1
Unemployment rate	5.2	7.0	9.6	12.0	11.9	11.7	11.3	11.0	10.9	10.8	10.8	11.3
Curr. Bal. of Paym.												
(% GDP)	1.4	-0.8	-0.3	-0.5	-0.8	-0.6	-0.7	-0.9	-0.6	-0.9	-1.1	-0.7
General Govt. Fin. Bal.												
(% GDP)	-3.1	-9.7	-11.3	-10.3	-10.7	-10.9	-10.1	-10.7	-9.9	-9.6	-9.7	10.5

to reach 9.7% of GDP in 1995. No particular change is expected in current account balance on GDP which will average -0.7% a year. It is worth noting that such a deficit will be due to an imbalance in services due to an unsatisfactory development of tourism, which traditionally counterbalanced the deficits in the other services.

IRES-BPB institutes (table 16) forecast the Belgium GDP to grow by 2.4% a year, much faster than in recent years (1982-87). The variables that contribute to this growth are, as in many other countries, exports and investments. Low

Tab. 16 Forecasts for BELGIUM										
	60/73	73/82	82/87	88	89	90	91	92	93	89/93
IRES-BPB:										
GDP-volume	4.9	2.0	1.4	3.2	2.8	2.5	2.3	2.1	2.2	2.4
Private Cons. (vol)	4.3	2.2	1.3	2.5	2.6	2.5	2.5	2.2	2.0	2.4
GFCF (vol), total	5.1	-0.7	2.1	8.0	5.0	4.5	3.5	2.3	2.2	3.5
Exports (vol)	11.3	4.3	3.8	6.1	6.2	5.9	5.4	5.2	5.1	5.6
Imports (vol)	10.7	4.2	3.7	4.8	4.4	4.3	3.7	3.4	3.3	3.8
Consumer price	3.6	8.1	5.0	1.3	1.9	2.5	2.1	2.1	2.1	2.1
Unit labour cost	-	-	-	0.4	1.6	2.4	1.9	1.9	1.8	1.9
Unemployment rate	2.1	7.3	12.0	11.6	10.9	10.4	9.7	9.0	8.2	9.6
Curr. Bal. of Paym.										
(% GDP)	-	-1.0	0.4	1.8	1.9	1.9	1.8	2.0	2.2	2.0
General Govt. Fin. Bal.										
(% GDP)	-	-6.9	-9.8	-6.9	-6.2	-6.2	-5.9	-5.4	-5.0	-5.7

unit labour costs will allow non-inflationary growth (inflation only 2.1% over the period). The unemployment rate, though still high, is expected to decrease from 1988 levels by 3.4 points in 1993. The net Government lending on GDP, the most urgent problem for the Belgian economy, will fall by about two points from the beginning to the end of forecast period, indicating a decisive fiscal strategy of deficit reduction.

CBS institute forecasts for Norway GDP a difficult recovery from last year's slowdown: the 2.3% average GDP growth will be almost entirely sustained by net foreign demand, while internal demand (in particular investment) will be very low (table 17). The main achievements of this period will be a balanced current account (-0.1% of GDP in the forecasting period) and an improvement in Government deficit with respect to 1982-87 period figures.

Tab. 17 Forecasts for NORWAY

	60/73	73/82	82/87	88	89	90	91	92	89/92
CBS:									
GDP-volume	4.3	3.9	4.0	1.5	2.7	1.5	1.9	3.0	2.3
Private Cons. (vol)	3.7	3.1	3.2	-1.6	0.4	0.8	1.7	2.1	1.3
GFCF (vol), total	5.8	1.9	1.5	3.3	-4.5	3.4	1.9	1.6	0.6
Exports (vol)	-	5.1	8.7	6.0	8.9	0.5	3.3	3.9	4.2
Imports (vol)	-	4.0	8.5	-2.2	0.9	4.3	0.3	4.0	2.4
Consumer price	-	10.3	7.9	5.9	3.7	3.0	2.9	3.0	3.2
Unit labour cost	-	-	-	3.3	-1.2	-0.5	1.4	1.7	0.4
Unemployment rate	-	1.9	2.6	3.2	4.2	4.7	5.2	5.5	4.9
Curr. Bal. of Paym. (% GDP)	-	-4.1	0.7	-4.7	-0.1	-1.5	0.3	1.0	-0.1
General Govt. Fin. Bal. (% GDP)	-	-2.3	-5.7	1.6	-1.1	-2.3	-3.1	-3.4	-2.5

For Austria WIFO forecasts (table 18) an annual average growth rate of 2.7% in the period 1989-93, well above 1.7% projected last year for the period 1988-92. The most dynamic components of demand are investments and exports (on average 3.5% and 6.3% respectively). However this stronger growth rate does not involve a higher inflation (3.1 on average in 1989-93) because of a good performance of labour productivity. The balance of payments on GDP will average -0.5% over the forecast period; therefore it does not tend to worsen.

Tab. 18 Forecasts for AUSTRIA										
	60/73	73/82	82/87	88	89	90	91	92	93	89/93
WIFO										
GDP-volume	4.9	2.4	1.8	4.2	3.0	2.5	2.6	2.8	2.8	2.7
Private Cons. (vol)	4.6	2.5	2.1	3.4	3.7	3.0	2.6	2.5	2.4	2.8
GFCF (vol), total	6.5	0.1	2.4	4.8	4.0	2.5	3.2	3.8	3.8	3.5
Exports (vol)	9.1	5.9	5.4	8.3	7.4	5.4	5.8	6.2	6.5	6.3
Imports (vol)	10.4	3.9	6.0	10.0	7.2	5.4	5.3	5.6	5.6	5.8
Consumer price	4.2	6.4	3.5	1.5	3.0	2.8	3.1	3.3	3.5	3.1
Unit labour cost	-	-	-	-0.8	1.8	2.4	2.5	2.8	3.0	2.5
Unemployment rate	1.8	1.7	3.5	5.3	4.9	4.9	4.8	4.7	4.6	4.7
Curr. Bal. of Paym. (% GDP)	-	-1.6	0.1	-0.4	-0.5	-0.8	-0.6	-0.4	-0.1	-0.5

For net debtor developing countries (table 19) IMF forecasts a GDP growth rate of 4.6% in 1989-93 period. Among these the better outlook seems to be reserved for developing countries in Asia (whose GDP growth averages more than 6%). Over the forecast period, the import volumes growth of these countries will be equal to exports. The current balance of payments is expected to average 3% of exports, and external debt ratio will decline from 164.5% in 1988 to 119.7% in 1994.

Tab. 19 IMF: forecasts for NET DEBTOR DEVELOPING COUNTRIES (reference scenario)											
	69/78	78/83	83/87	88	89	90	91	92	93	94	89/93
GDP-volume	5.7	3.2	4.3	4.6	3.5	4.3	5.0	5.0	5.0	5.0	4.6
Exports-volume	4.9	3.7	8.0	11.2	7.5	7.4	6.7	6.7	6.7	6.7	7.0
Imports-volume	6.0	1.7	2.6	9.9	7.3	7.8	6.5	6.5	6.5	6.5	6.9
Current											
Balance (*)	-	-14.3	-3.2	-2.9	-3.8	-4.2	-	-	-	-2.6	-
Total External											
debt (*)	-	137.4	171.4	164.5	157.2	149.7	-	-	-	119.7	-
Debt service											
payments (*)	-	21.4	22.9	23.0	22.0	20.5	-	-	-	16.9	-
(*) As % of exports of goods and services											

4. SUMMARY AND ISSUES FOR DISCUSSION.

The preceding analysis suggests that a slightly higher optimism (or a slightly lower pessimism) characterizes the medium term outlook.

The projections for economic growth have been revised upward, so that the consensus estimate of GDP growth in the OECD countries is close to a 3% yearly rate over the five coming years. It must be noticed however that this projected rate is still fairly lower than those recorded before the first oil shock. The same conclusion holds for the EEC area. Although the movement towards increasing integration is expected to allow a slight acceleration with respect to the performance of the '80s, the consensus forecasts exclude a return to growth rates similar to those experienced in the '60s.

The return to more rapid growth seems therefore far from being feasible, at least in the coming five years.

- 1) It is undoubtedly true that the present financial imbalances require adjustments which, even excluding the risk of deep recession and instability in the short run, will impose medium term constraints on growth. As far as the disequilibria are concerned, have the institutes taken them into account in their projections? Are they sustainable?
- 2) The concentration on the current disequilibria might obscure the other relevant factors and structural changes which are bound to condition the prospects of economic activity. Here the central issue is: the obstacles to more rapid growth depend mainly on the current financial imbalances or are linked to a wider set of underlying conditions affecting potential output growth?
To tackle this question a number of issues must be examined.
- 3) In analyzing the major determinants of growth, most of the different theoretical approaches emphasize the role of investment, which ultimately depends on expectations. Investments and technological progress are closely

connected: innovations represent a powerful stimulus to investments, but investments are also the vehicle to embody innovations. In the recent past we have seen a speed up in the pace of technical progress and capital accumulation and there is consensus that investments will keep a leading role in sustaining economic activity over the next five years. Is this a cyclical episode or does it reflect a more steady appearance of the old animal spirits? In the EEC countries is it mainly determined by the perspective of the single market?

- 4) On a longer term important demographic changes will take place. They will have implications for the labour market, for the level and the composition of demand, for the saving rate, for the level of output and for public finance. Although economic theory does not help much in evaluating the sign of these influences, are we inclined to believe that they will help or curb economic growth in industrial countries?
- 5) The scenario which should characterize the coming years will, moreover, experience shifts in the global pattern of production and trade, in part as a result of the stronger presence of Nic's and other emerging countries on the international markets. What will be the consequences for the industrial countries?
Might the Asian area play a role of "locomotive"?
- 6) The analysis developed in the preceding sections excluded the possibility of further acceleration of inflation. In perspective, there are no signs of pressures on the commodities markets. Are we optimistic in forecasting only moderate increases in oil prices? Will a new oil shock have the same effects of the '70 ones? The restructuring processes in the industrial countries have actually been energy saving and consequently the effects of any supply shocks might be smaller?

- 7) Besides the inflationary risks coming from the international markets, we have to consider the conditions of the labour markets. Despite the adjustments occurred in the OECD countries in the recent years, partly induced by specific measures carried out by the Governments aiming at increasing the flexibility of the labour market, unemployment rates in many countries are still very high, especially for young peoples. We may presume, moreover, that labour hoarding is still widespread.

In perspective, the rigidities still present are expected to diminish and the persistence of steady economic growth might contribute to mitigate the problem of unemployment which will remain nonetheless one of the major challenges for economic policy.

Is there any evidence of a change in the trade off between wage inflation and unemployment? Some studies suggest that the NAIRU has increased in the '80s in almost all OECD countries, implying that a rapid recovery might be more inflationary than in the past.

How much credit do we attribute to this idea? One of the possible explanations to the increase in the NAIRU and in the actual unemployment rates is the phenomenon of "hysteresis". Do we agree on the fact that wage increases are determined by the so called "insiders"? If this is the case, how serious is the risk of wage inflation in our forecasting horizon?

- 8) One of the new aspects characterizing the future will be the increasing geographical mobility of physical, human and financial capital; undoubtedly, one of the possible gains is a downward pressure on labour costs. Are the industrialized countries ready to accept the structural changes that these movements will imply? In other words, the potential benefits for growth of market integration are perceived higher than its unavoidable costs?
- 9) Which is the attitude towards the perspective market liberalization in Eastern Europe? Will Western Europe take deliberate actions to fill the gap between the two blocks?

- 10) The completion of the single market is one of the major targets of the EEC in the '90s. Economic agents are already undertaking investment activities in view of the increasing competitiveness implied by the abolition of trade barriers. What is the degree of credibility of the completion of the single market? Are the policy makers actually willing to accept the associated loss of sovereignty? One of the short term goals of the EEC is the abolition of fiscal barriers to trade. Which are the actual chances to proceed towards the harmonization of indirect taxes rates? Did the institutes make explicit assumptions on the tax reforms in their projections? In any case, which will be the effects of an eventual tax harmonization on economic activity? Furthermore did the institutes take Europe 1992 explicitly into account in their projections? Are these effects fully supplementary or are they partially a continuation of trends?
- 11) At present great attention is paid to the environment problems; indeed they may influence the future developments of the economies. What might be the economic effects of anti-pollution policies? Have they be taken into account in institutes' projections?

**Annex: LIST OF MEDIUM-TERM FORECASTS INCLUDED IN THE
COMPARISON, DATES OF FORECASTS AND FORECAST PERIOD.**

<u>Name of Institutes</u>	<u>Date of forecasts</u>	<u>Period covered</u>
BIPE Bureau d'Informations et de Previsions Economiques, Paris, France	March 1989	1989-1994
BPB Belgian Planning Bureau	January 1989	1989-1993
CBS Central Bureau of Statistics, Oslo, Norway	March 1989	1989-1992
IFO IFO-Institut für Wirtschaftsforschung, Munich, Federal Republic of Germany	January 1989	1988-1993
IMF International Monetary Fund Washington D.C.	April 1989	1989-1994
INSEE Institut National de la Statistique et des Etudes Economiques, Paris, France	March 1989	1989-1991
IRES Institute de recherches economiques Louvain, Belgique	January 1989	1989-1993
KOPINT Institute for Economic and Market Research, Budapest, Hungary	February 1989	1989-1995
LBS London Business School, London, United Kingdom	February 1989	1989-1992
NIESR National Institute of Economic Social Research, London, United Kingdom	February 1989	1989- 1997
PROMETEIA Associazione per le Previsioni Econometriche, Bologna, Italia	March 1989	1989-1995
WIFO Österreichisches Institut für Wirtschaftsforschung, Vienna, Austria	April 1989	1989-1993

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