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In this number : Economic Forecasts for 1998–2000

ECONOMIC OUTLOOK OF THE EU : 1998–2000

Highlights

- *Pick–up of domestic demand confirmed in 1998.*
- *Sharp deceleration of world output and trade due to the effects of the deepening Asian crisis and its widening to Russia.*
- *Increased uncertainty and volatility in international financial and exchange markets.*
- *European Union and in particular the future euro zone only mildly affected thanks to sound fundamentals and balanced economic policies.*
- *The slowdown is temporary and conditions for sustained economic growth and job creation remain intact.*
- *Slower budgetary consolidation, but no slippage.*

TABLE 1: **Main features of the autumn 1998 forecasts: EU–15**

				Autumn 1998 Forecast			Difference with Spring 1998 (b)	
	1995	1996	1997	1998	1999	2000	1998	1999
	Main economic indicators							
GDP growth (a)	2.5	1.8	2.7	**2.9**	**2.4**	**2.8**	0.1	–0.6
Investment in equipment (a)	7.9	2.9	4.9	**7.9**	**5.2**	**6.1**	1.5	–1.8
Employment (a)	0.6	0.1	0.4	**1.2**	**0.9**	**0.9**	0.4	–0.2
Unemployment rate (c)	10.8	10.9	10.7	**10.0**	**9.5**	**9.0**	–0.2	–0.3
Inflation (d)	2.9	2.6	2.1	**1.6**	**1.7**	**1.8**	–0.3	–0.3
Government deficit (% GDP)	–5.0	–4.2	–2.3	**–1.8**	**–1.4**	**–1.2**	0.1	0.2
Government debt (% GDP)	71.0	72.9	71.9	**70.3**	**69.0**	**67.3**	–0.2	0.1
Current account balance (% GDP)	0.4	0.8	1.5	**1.5**	**1.4**	**1.4**	0.2	0.1
p.m.: GDP growth EUR–11 (a)	2.4	1.6	2.5	**3.0**	**2.6**	**2.9**	0.0	–0.6

(a) Real annual percentage change unless otherwise stated.
(b) A "+" ("–") sign means a higher (lower) positive figure or a lower (higher) negative one compared to Spring 1998.
(c) Percentage of the labour force.
(d) Private consumption deflator.

Overview

For 1998, favourable developments in the first half of the year suggest that the Spring 98 Forecast is on track. GDP in the EU is expected to rise by 2.9 % in real terms compared to 2.8 % in the previous forecast. However, the composition of growth has changed: domestic demand is stronger, particularly stockbuilding, while the external contribution has shrunk under the influence of a deteriorating international environment.

With Japan facing an output contraction of 2.5 % of GDP in 1998, the crisis in Asia has deepened and spread to Russia. As a result, world GDP and trade growth are cut by half in 1998 compared to 1997, to 2% and 4.7% respectively. However they should pick up from 1999 onwards. The US dollar that had been relatively stable vis–à–vis EU currencies since the beginning of 1998 has weakened considerably since August. Its depreciation of approximately 10% until mid–October 1998 has led to an appreciation of EU currencies that weighs on export growth.

GDP growth in the EU is now expected to slow from 2.9% in 1998 to 2.4% in 1999 whereas an acceleration to 3% was forecast in the spring. The deceleration in EUR–11 is somewhat less pronounced. In addition to faltering exports, the downward revision is explained by reduced confidence as reflected in sharp stock market corrections which have undermined the spill–over from external demand to investment and private consumption. In 2000 the EU economy is expected to reaccelerate under the influence of a better investment performance, but with an increase of 2.8 %, real GDP growth remains under that of 1998 as the uncertainties surrounding the world economy are still large.

Thanks to stronger growth, employment in the EU should increase by 1.2 % in 1998 and for the remainder of the forecast horizon job creation is expected to be 0.9 % per year. This corresponds to a net increase of 4½ million jobs in the years 1998–2000. The unemployment rate falls from 10.0 % in 1998 to 9.0 % in 2000.

Mainly under the influence of falling import prices, inflation (measured by the private consumption deflator) has been revised downward to 1.6 % in 1998 and 1.7% in 1999. The inflation rate remains under 2 % in 2000.

The general government deficit should decline further to 1.8 % of GDP in the EU as a whole in 1998, mainly as a result of stronger growth and falling interest rates. The cyclically adjusted deficit hardly improves in 1998 in some Member States suggesting a pause in the consolidation effort after the sprint in 1997 to meet the Maastricht criteria. Several Member States will see a growing surplus on their general government balance. For the EU as a whole the general government deficit is expected to fall to 1.4 % of GDP in 1999 and 1.2 % in 2000.

The international environment has deteriorated considerably

Since the spring the international environment has deteriorated considerably. The Asian crisis has widened and deepened, the Japanese economy has worsened and the Russian economy has plunged into crisis. There has also been contagion to Latin America and, to a lesser extent, central and Eastern Europe. Nevertheless, given signs that the worst hit Asian economies are already bottoming out, an expected soft landing in the US and a continuation of accelerating growth in the Europe Agreement countries, the expectation is of a gentle pick–up in growth over the forecasting horizon in the world outside the EU.

The forecast for GDP growth in *Japan* has been again revised down significantly. In the spring growth was forecast to slow sharply in 1998 to 0.4%; given the latest data the economy is now expected to shrink by 2.5% in 1998 and grow by a very modest 0.6% in 1999 and 1.7% in 2000. Economic activity in *ASEAN4 + South Korea* also looks likely to turn out considerably weaker than expected. However, the commitment of the authorities to policy reforms and strong underlying growth potential in these countries have already led to some improvements in sentiment. Nevertheless, given the size of the contraction of GDP expected in 1998, positive growth is not expected here until 2000. The bottoming out of the crises in Japan and ASEAN4 plus South Korea, coupled with continued robust growth in other Asian economies should allow a reacceleration of growth in Asia as a whole over the forecasting horizon.

After finally achieving positive GDP growth in 1997 (0.4%), the Russian economy is back on a downhill track following the events of August 1998. Indeed the slowdown is set to accelerate in the absence of any change of policy. The current forecast for *the FSU (Former Soviet Union excluding the Baltics)* is for GDP growth of –0.8% in 1998, –0.7% in 1999 and –1.7% in 2000. The *EAC (Europe Agreement Countries)* have been adversely affected by events in Russia and growth forecasts have been revised down somewhat. GDP growth in the ten candidate countries overall is nevertheless still expected to accelerate in 1998, from 2.9% in 1997 to 3.3%, with a further acceleration to 3.7% in 1999 and 4.4% in 2000. Positive growth is expected in all EAC countries this year with the exception of Romania, where growth should turn positive by 2000.

Spill–over effects in *Latin America* are expected to bring about some slowdown next year before growth picks up again in 2000.

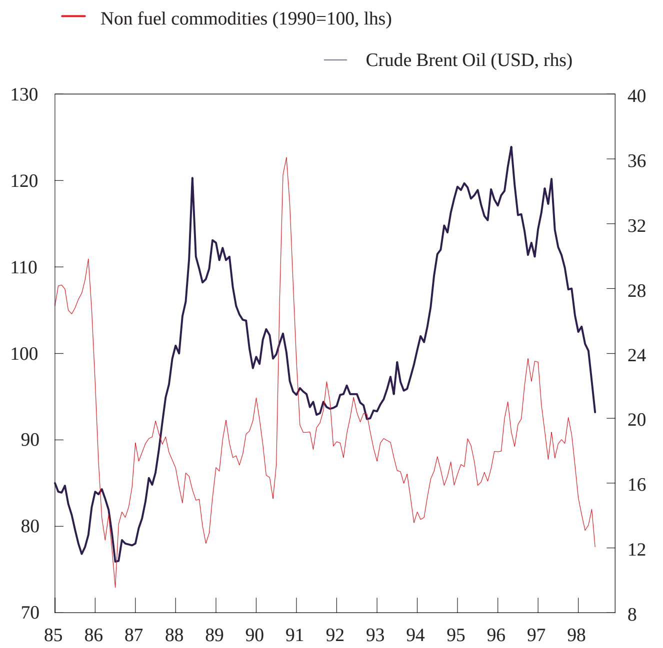
By contrast, news from the *United States* has been brighter than expected. The GDP growth forecast for 1998 has been revised up from 2.5% to 3.3%. Despite the gloomier international outlook a soft–landing is still expected for the US economy with growth slowing to just above 2% in 1999 and 2000.

TABLE 2: **International economic environment**

	Weights	1996	1997	Autumn 1998 Forecast 1998	1999	2000	Difference with Spring 1998: 1998	1999
GDP Growth (Real Annual Percentage Changes)								
World	100.0	4.2	4.1	**2.0**	**2.7**	**3.5**	–0.9	–0.9
EU–15	19.2	1.8	2.7	**2.9**	**2.4**	**2.8**	0.1	–0.6
World excl. EU–15	80.8	4.9	4.5	**1.8**	**2.7**	**3.7**	–1.2	–1.1
USA	20.2	3.6	4.0	**3.3**	**2.1**	**2.2**	0.8	0.0
Asia	32.9	6.6	5.3	**2.0**	**3.7**	**5.0**	–1.8	–1.3
of which **Japan**	7.7	3.9	0.9	**–2.5**	**0.6**	**1.7**	–2.9	–0.9
ASEAN4+South Korea[(a)]	6.2	7.1	4.1	**–10.0**	**0.0**	**3.8**	–7.3	–5.4
EAC [(b)]	1.9	4.8	2.9	**3.3**	**3.7**	**4.4**	–0.6	–0.7
FSU [(c)]	2.9	2.3	0.8	**–0.8**	**–0.7**	**–1.7**	–2.6	–3.6
of which **Russia**	1.9	0.0	0.4	**–3.0**	**–3.0**	**–5.0**	–4.5	–5.5
DAEs [(d)]	3.9	7.5	4.0	**–2.4**	**1.4**	**3.9**	–3.7	–4.0
OPEC–Indonesia [(e)]	3.7	3.4	3.5	**0.7**	**2.2**	**3.5**	–2.4	–1.4
Latin America	6.1	4.1	4.4	**2.5**	**2.2**	**3.7**	0.2	–1.5
Africa	3.0	4.2	3.7	**3.8**	**4.1**	**4.6**	–0.5	–0.5
Imports (real annual percentage change)								
World	100.0	7.7	10.2	**4.7**	**4.9**	**5.9**	–1.3	–2.3
EU–15	35.3	4.0	9.0	**7.9**	**5.9**	**6.7**	0.2	–1.2
World excl EU–15	64.7	9.9	10.9	**3.0**	**4.4**	**5.5**	–2.0	–2.8
USA	16.6	9.9	14.7	**11.9**	**5.9**	**5.6**	2.4	–2.4
Asia	24.5	7.4	6.5	**–5.3**	**2.9**	**5.5**	–5.3	–3.0
of which **Japan**	5.7	10.0	2.4	**–6.7**	**–3.4**	**0.9**	–6.1	–3.5
ASEAN4+South Korea[(a)]	6.6	12.8	5.9	**–18.7**	**5.2**	**7.3**	–	–
EAC [(b)]	2.6	9.7	13.0	**12.1**	**10.7**	**10.4**	0.8	–0.3
FSU [(c)]	2.3	10.8	9.7	**–7.2**	**–5.7**	**–7.2**	–18.7	–14.6
of which **Russia**	1.4	7.1	14.9	**–16.0**	**–15.0**	**–20.0**	–31.5	–27.5
DAEs [(d)]	10.7	12.2	7.0	**–6.0**	**4.0**	**6.4**	–8.0	–3.5
OPEC–Indonesia [(e)]	2.5	3.5	13.1	**3.7**	**3.6**	**5.1**	–2.9	–4.7
Latin America	3.3	9.2	17.3	**6.8**	**5.3**	**6.2**	–1.9	–1.3
Africa	1.7	5.0	10.4	**4.3**	**4.2**	**5.5**	–0.8	–1.4
Extra–EU export market growth		8.5	6.7	**4.6**	**5.1**	**6.0**	–1.6	–2.5

(a) Indonesia, Thailand, Malaysia and Philippines.
(b) Europe Agreement Countries: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.
(c) Former Soviet Union (excluding the Baltics).
(d) Dynamic Asian Economies: Hong Kong, Malaysia, Singapore, Taiwan and Thailand.
(e) Algeria, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

GRAPH 1: **Commodity prices**



Overall *world GDP* growth is forecast to slow from 4.1% in 1997 to 2% in 1998, rising to 2.7% in 1999 and 3.5% in 2000. Given the expected slowdown in the EU economy in 1999, GDP growth in the world excluding the EU is set to accelerate more rapidly, from 1.8% in 1998 to 2.7% in 1999 and 3.7% in 2000. In line with weaker than expected world demand, the forecasts for imports have also been revised downwards. Imports in the world excluding the EU are now expected to slow by nearly three–quarters this year, from 10.9% in 1997 to 3% in 1998. A gentle pick–up is forecast to 4.4% in 1999 and 5.5% in 2000, to rates which nevertheless remain much lower than those recorded in recent years. Extra–EU export market growth is set to slow to 4.6% in 1998 from 6.7% in 1997, in line with slowing world demand, but should then pick up again.

The loss in external demand for EU economies described above is partly offset by lower interest rates and falling commodity prices, especially *oil prices*. The average price of Brent crude in 1997 was 19.1 USD/barrel. In mid–August this year the price dipped briefly below 12 USD/barrel before recovering again somewhat. Nevertheless, prices in 1998 Q3 were around 1/3 lower than in the same period a

Box 1: Technical Points

Unchanged policy assumption

The forecasts are made under the assumption of unchanged policies. Only measures adopted or known in sufficient detail are included. This is of particular importance in the field of budgetary and monetary policy.

With regard to public finances most countries have recently presented their budgets for 1999. The forecasts assume the budgets are fully implemented. In the case of Italy, due to the resignation of the government on 9 October 1998, the budget forecasts for 1999 do not include any discretionary measures. For 2000, the no–policy change assumption applies for all Member States which implies that presently known measures (if not one–offs) and trends are extrapolated. Figures are compatible with ESA79 accounting rules, and the ratios are calculated using the GDP 4th resource in the denominator.

The evolution of monetary variables is governed by technical assumptions. Depending on the case, exchange rates are held constant in nominal or real terms starting from a level observed in the recent past. Interest rates are set in order to have a neutral impact on the economy.

ESA95

According to Council Regulation (EC) N° 2223/96 of 25 June 1996, the new European system of accounts called ESA95 shall be applied for data to be transmitted to Eurostat from April 1999 onwards. Until then Member Countries may use the old system of accounts, called ESA79 (or ESA Second Edition). Denmark was the first country to use ESA95 accounts and the Commission’s Autumn 1998 forecasts are established on the new statistical basis for the first time. A transitional provision of the above regulation stipulates that Member Counties should report to the Commission public deficit and debt figures under the excessive deficit procedure (Regulation EC N° 3605/93) according to ESA79 until 1 September 1999. For this purpose in the current forecasts for Denmark, an adjustment line was introduced in order to allow for the difference in the public deficit under ESA95 and ESA79.

The UK moved to ESA95 on 24 September 1998. The tables in the Autumn 1998 forecasts have, hence, been prepared for the first time in line with the ESA95 definitions. The changes to historical data are significant and embody other methodological changes including re–basing.

Italy: 1998 Tax reform

A tax reform became effective in Italy from 1 January 1998. Due to this reform there are breaks in several series of data between 1997 and 1998. The establishment of IRAP (Imposta regionale sulle Attività Produttive), which is a tax on value added replacing health contributions and other direct taxes, has the effect of considerably increasing, on the one hand indirect taxes, and on the other decreasing direct taxes and social contributions in 1998 compared to 1997. The estimated amount of the reallocation of tax revenues according to the tax reform is close to 4% of GDP. In addition to the field of public finance the interpretation of series involving nominal compensation per head (which includes social security contributions) is blurred. The sharp drop in this variable does not suggest that disposable income declines. On the other hand the fall in unit labour costs is genuine, but does not mean that inflationary pressures are reduced by the same token as the tax base is shifted to other production factors. Given the weight of Italy, the European average is also visibly influenced.

year earlier. Although developments in the former Soviet Union and Iraq especially inject a significant element of uncertainty into the outlook, with the approaching winter in the northern hemisphere and the risk that OPEC will resort to revenue boosting measures it is assumed that prices will rise gently over the forecasting horizon. On average, oil prices in 1999 are assumed to be about 4 ½ % higher than in 1998, accelerating to an increase of around 7% in 2000. The strong downward revision in *non–oil commodity prices* since the spring is due largely to the effects of the Asian crisis. It is estimated that Asia accounted for around 2/3 of the growth in energy and other commodity consumption between 1992 and 1997 so the dramatic fall in economic activity in the region has caused a substantial fall in demand and thus prices.

The economy of the European Union

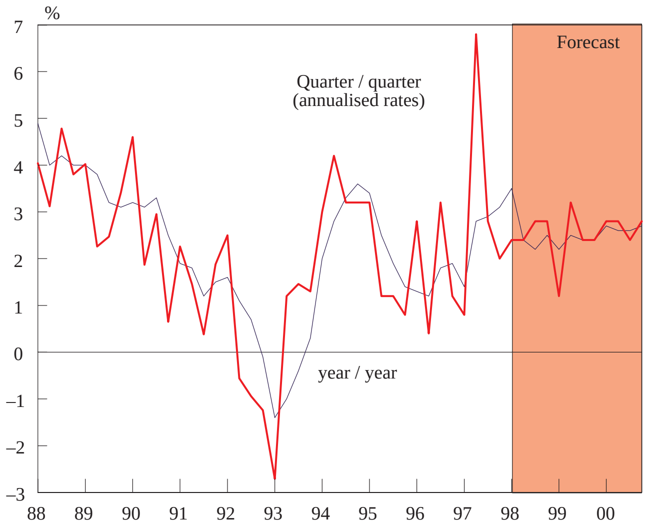
1. Recent developments

On the one hand, world growth prospects have been sharply revised down due to the worsening and the broadening of the financial crisis that started in Asia last year. On the other hand, EU internal demand has displayed throughout 1998 genuine signs of a strength that had not been observed since the beginning of the 1990’s. The EU economy cannot stay immune from the mounting uncertainties in the world economy, a slowdown is forecast in EU GDP growth in 1999, due to a combination of falling export performance and deteriorating business confidence.

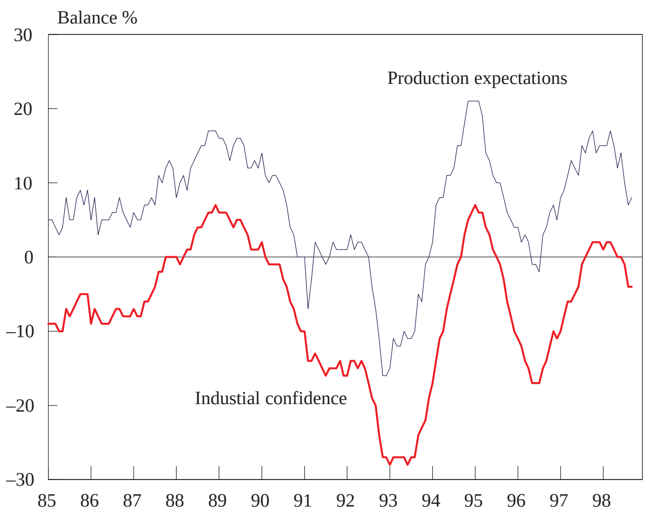
Quarterly GDP figures for the first half of 1998 have developed roughly as anticipated in the Spring 1998 Forecast. Based on a preliminary estimate by Eurostat, GDP in EU–15 grew 0.6% qoq and 3.3% yoy in 98Q1, before slowing to 0.2% qoq and 2.0% yoy in 98Q2. However, one should not pay too much attention to this apparent deceleration, largely due to working day variations. Recent data and indicators suggest a relatively buoyant 98Q3 that would allow a GDP growth of 2.9% for the year 1998 as a whole.

Industrial production growth in the EU as a whole peaked during 97Q4 and 98Q1 at around 5% yoy (harmonised seasonally adjusted Eurostat data). Since, it has slowed moderately to around 4% yoy in 98Q2. Germany, France and Spain have recorded rather strong increases according to data available until July 1998, while more subdued or stagnant growth rates were observed in Italy and the UK.

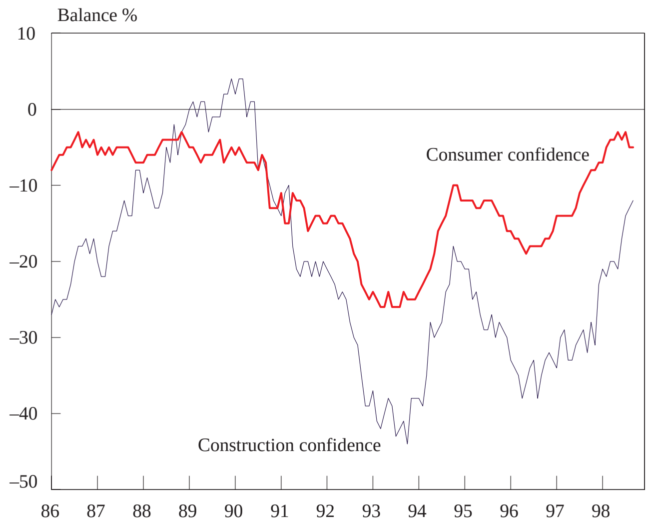
GRAPH 2: **Real GDP growth in EU–15**



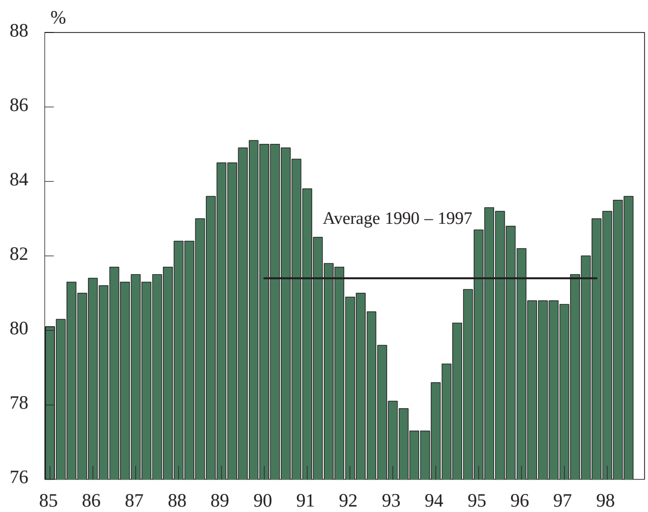
GRAPH 3: **Industrial confidence and production expectations in EU–15**



GRAPH 4: **Consumer and construction confidence in EU–15**



GRAPH 5: **Capacity utilisation in manufacturing industry in EU–15**



Survey indicators to September 1998 provide a clear confirmation of the dichotomy between domestic activity and external threats. The EU economic sentiment indicator, which summarises the information contained in several surveys, peaked in July 1998, and has since experienced sharp drops. Although a large part of it is explained by the collapse in stock markets, declining industrial confidence has also played a role. It appears that business confidence peaked in March–April 1998. This fall owes much to growing concerns in the export sector. Export order–books have seen a turn–around at the beginning of the year, although it is impossible to split extra from intra–EU trade. The robustness of intra–EU trade probably hides a much larger fall of extra–EU export order–books. A totally different picture is painted by more domestic–oriented surveys. Despite a slight drop in August consumer confidence remains remarkably stable and high, at a level close to its peak of the previous cycle, while sentiment in the retail trade remains steady. Following several difficult years, construction confidence is now recovering markedly. As regards capacity utilisation in manufacturing industry, the latest survey made in July shows that it increased marginally by 0.1 point compared with April 1998 to the high level of 83.6%.

2. Monetary conditions

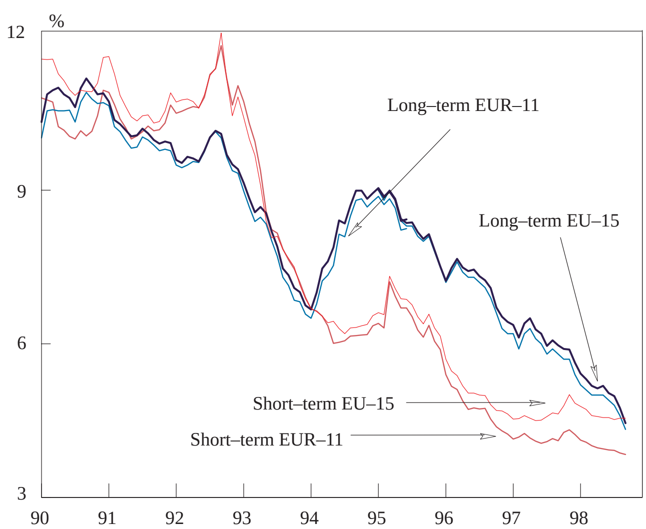
Short–term interest rates in Germany have remained close to 3½% since October 1997 when the Bundesbank last raised its repo rate to 3.3%. In the first three quarters of 1998 convergence among money market rates in EUR–11 economies has continued but spreads remain larger than 100 basis points in the cases of Ireland and Italy. For the remainder of 1998 monetary policy in EUR–11 will be determined by the need to bring money market rates into line by the beginning of 1999 when the ECB takes responsibility for monetary policy. As monetary policy is already widely co–ordinated among designated members of the union a smooth changeover can be expected. The interest rate cuts in Spain, Ireland, and Portugal in October 1998 brought short–term rates further down in these countries.

Outside EUR–11 short–term rates in the UK had risen several times to 7.5% before they were cut in October by ¼ percentage point. Confronted with exchange rate pressures Denmark had to briefly hike its interest rate. In the USA short term rates had been more or less stable close to 5½% until the Fed cut rates in late September and mid–October. Although already low, short–term interest rates in Japan were cut in October (from ½ to ¼%) in order to avoid the unintended monetary tightening resulting from the combination of slower growth, weaker demand and unchanged interest rates.

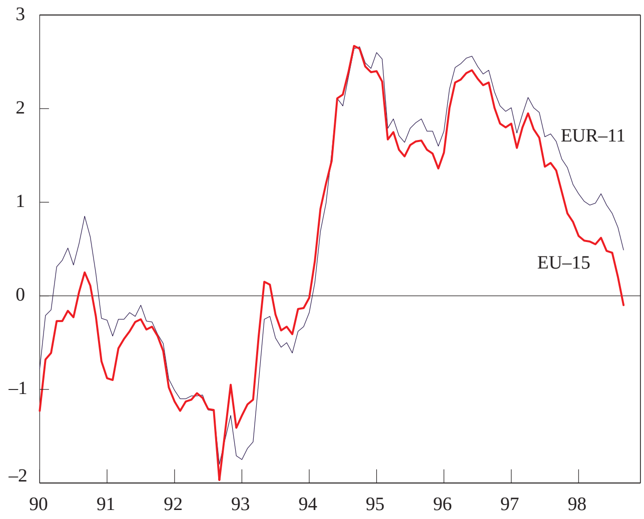
Long–term interest rates reflect the absence of inflationary pressures as well as the temporary appearance of extraordinary factors (a second flight–to–quality wave immediately following the emergence of problems in Russia) sending yields to historical lows in the euro area. Convergence of inflation rates among most countries that will join monetary union in 1999 has further supported convergence of long–term interest rates in 1998. However, unlike short–term rates, temporarily differentials between rates in Germany and other parts of the euro area have become larger than in early 1998 during certain periods.

The situation is somewhat different outside EUR–11. While yields in Denmark and Sweden are close to the level of the EMU core countries, UK bond yields are currently approximately 70 basis points above euro area yields since the UK is further on in the business cycle than EUR–11 economies. This is also visible in the inverted UK yield curve. Since the drachma entered the ERM the spread between Greek government bonds and German Bunds has narrowed to approximately 280 basis points at the beginning of August, before widening to around 460 b.p. in the first weeks of October.

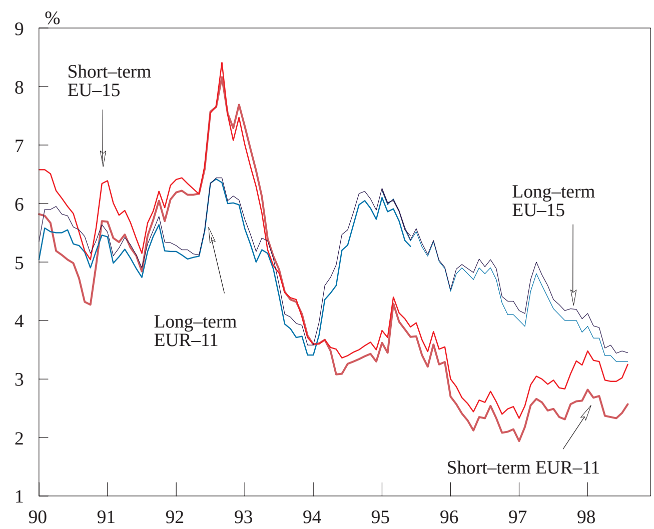
GRAPH 6: **Long and short term interest rates**



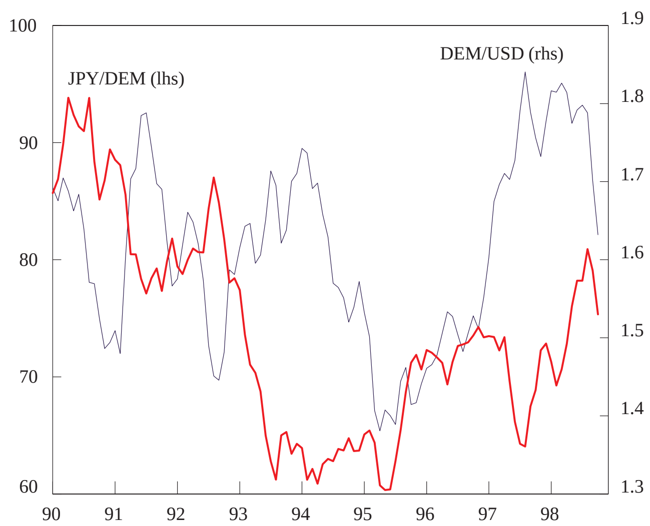
GRAPH 7: **Yield spread (long minus short–term interest rates)**



GRAPH 8: **Real interest rates (nominal rates minus CPI, HCPI from 1996)**



GRAPH 9: **DEM exchange rates**



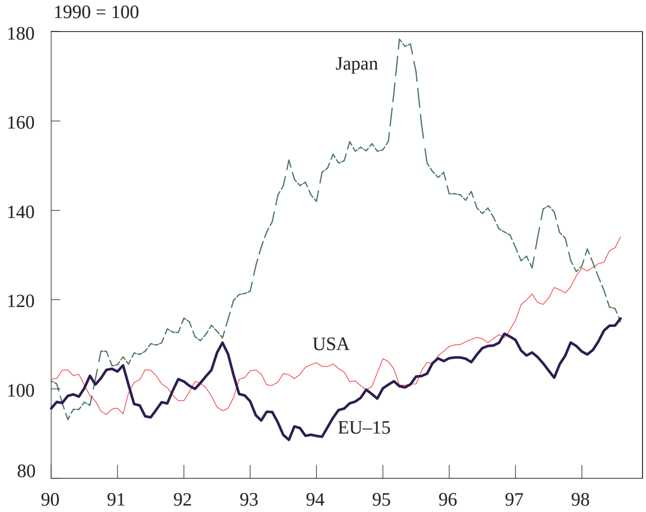
There has also been a flattening of *yield curves* in many Member States. However, this is due to a fall in long rates and cannot be viewed as having the same leading indicator properties (suggesting a downturn) as in periods without extraordinary factors. Although interest rates are relatively low in nominal terms the absence of inflationary pressure results in *real interest rates* in the euro area, which are still higher than in the USA.

Foreign exchange markets outside the ERM have displayed a lot of volatility over the course of 1998. In early October the US dollar has continued to depreciate vis–à–vis the JPY and the DEM. In the second week of October the US dollar was trading around 1.65 DEM which is clearly below the rates observed in the first eight months of the year (between 1.70 and 1.85 DEM/USD).

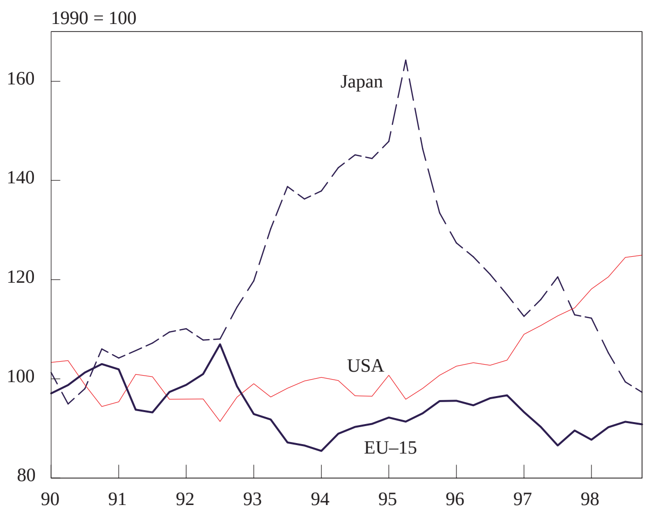
The technical assumptions for exchange rates imply fixed nominal *exchange rates* between ERM currencies, and fixed real exchange rates between ERM currencies and the other European as well as non–European currencies. Exchange rates for the fourth quarter of 1998 are set at the average of historical daily data between 24 September and 9 October 1998, the starting period for the calculations. It implies a DEM/USD rate of 1.65 and a ECU/USD rate of 0.84. For Denmark and Greece constant bilateral exchange rates are assumed against the other ERM participants. For the euro–area, the bilateral exchange rates (DEM/FRF, DEM/NLG, FRF/NLG, …) are set at the ERM central rates as announced on 2 May 1998 by the Finance Ministers at the European Council. The conversion rates into euro (DEM/EURO, NLG/EURO, FRF/EURO, …) are as yet unknown because three currencies (DKK, GRD, GBP) are in the ecu basket but are not participating in EMU. These rates are set so that the external value of the ecu does not change (article 109 *l* (4) of the Treaty) taking into account that 1 ECU = 1 EURO (article 2 of Council regulation No 1103/97, OJ L 162 of 19.6.1997). These technical assumptions imply an appreciation of the euro in nominal effective terms by 5% in 1999.

Stock markets have faced increased volatility in the first three quarters of 1998. From spring stock markets in Europe and the US rallied to new all–time peaks in July. However, increasing concern about developments in Asia and Russia have since contributed to a downward reaction of stock prices. In some cases stock prices have even fallen below levels seen at the beginning of the year. The impact of these movements on the real economy can be expected to differ significantly between the regions affected. In most Member States the share of private households' wealth held in equities is still small compared to the USA. This suggests a limited impact of changes in stock prices on private wealth and on private consumption. Confidence effects are difficult to assess, but should be monitored carefully.

GRAPH 10: **Nominal effective exchange rates (against rest of 24 ind. countries)**



GRAPH 11: **Real effective exchange rates (unit labour costs in total economy, against rest of 24 ind. countries)**



GRAPH 12: **EU stock markets**

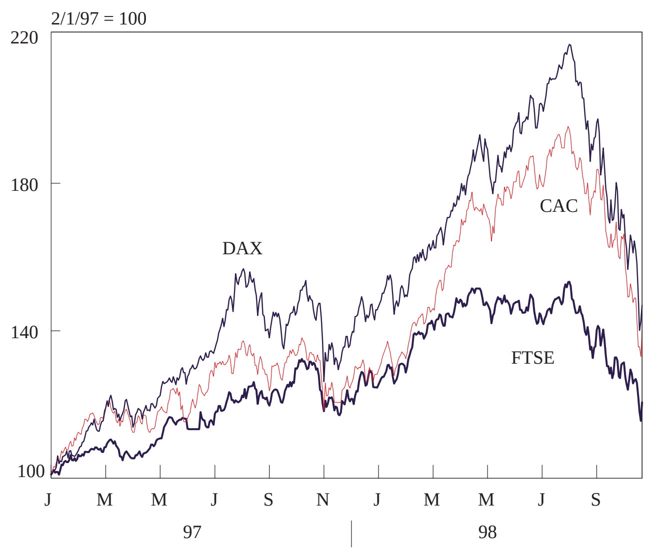


TABLE 3: **Composition of growth: EU–15**

				Autumn 1998 Forecast			Difference with Spring 1998	
	1995	1996	1997	1998	1999	2000	1998	1999
				Real annual percentage change				
Private consumption	1.8	2.0	1.9	**2.6**	**2.5**	**2.4**	0.0	–0.1
Government consumption	0.5	1.7	0.3	**1.6**	**1.7**	**1.9**	0.3	0.2
Gross fixed capital formation	3.7	1.0	2.8	**4.7**	**4.6**	**5.4**	0.2	–0.8
– Equipment	7.9	2.9	4.9	**7.9**	**5.2**	**6.1**	1.5	–1.8
– Construction	0.9	–0.5	0.4	**2.0**	**4.1**	**4.7**	–0.8	0.0
Exports of goods and services (a)	8.2	5.1	9.5	**6.5**	**4.7**	**6.1**	–0.6	–2.1
Imports of goods and services (a)	7.2	4.1	8.8	**7.7**	**5.8**	**6.6**	0.3	–1.1
GDP	2.5	1.8	2.7	**2.9**	**2.4**	**2.8**	0.1	–0.6
				Contribution to change in GDP				
Consumption	1.2	1.5	1.3	**1.8**	**1.8**	**1.8**	0.0	0.0
Investment	0.7	0.2	0.5	**0.9**	**0.9**	**1.1**	0.0	–0.2
Inventories	0.2	–0.3	0.5	**0.4**	**–0.1**	**0.0**	0.3	–0.1
Exports (b)	0.9	0.8	1.7	**0.8**	**0.5**	**0.8**	–0.2	–0.5
Final demand (b)	3.1	2.2	4.0	**4.0**	**3.2**	**3.7**	0.2	–0.7
Imports (minus) (b)	–0.5	–0.5	–1.3	**–1.1**	**–0.8**	**–0.9**	–0.1	0.1
Net exports	0.3	0.4	0.4	**–0.3**	**–0.3**	**–0.1**	–0.3	–0.4

(a) Total trade.
(b) Adjusted for intra–EU trade.

3. Sound growth factors underpin robust domestic demand

In the troubled waters of the world economy, the EU appears to be an island of relative stability. Indeed, the EU economy is reaping the fruits of its past efforts with the soundness of current macro–economic fundamentals justifying its status of safe–haven. The macro–economic environment of the EU is characterised by low nominal interest rates, stable European currencies in expectation of the euro, and already well–advanced budgetary consolidation. This will not make the EU economy completely immune from the world financial storm, but will protect it to a large extent. Strongly positive *growth forces* remain at play in the EU economy, and help sustain domestic demand. Private consumption benefits from purchasing power gains due to falling inflation, the pick–up in employment and the overall confidence climate shown by households in the surveys. Following several years of subdued consumption, this demand factor for investment is now in place. In addition, supply–side conditions were already very supportive for investment. They have further improved. Real wages are growing less rapidly than productivity. Capital profitability is higher than in the 1960's and is approaching that of the USA. Long–term interest rates are historically low and prices for oil and commodities have fallen to record low levels.

The clouded international environment is assumed to weigh down on the forecast mainly in 1999. A significant downward revision from 3.0% to 2.4 has been applied to GDP growth in EU–15. A reacceleration is expected for 2000 (2.8%), assuming a « normalisation » of the world environment.

As regards *demand components*, exports had represented the main driver of activity in 1997. This dynamic has enabled a spill–over into the domestic economy with investment and consumption clearly picking up in 1998, following years of subdued growth. Investment and private consumption in the EU are estimated to grow by 4.7% and 2.6% respectively in 1998. However, a slowdown is forecast in the growth rate of exports from last year's almost 10% to between 6.5% in 1998, 4.7% in 1999, and 6.1% in 2000. This loss of external demand, directly affecting the contribution of net exports to growth, is also expected to

TABLE 4: **Main features of the autumn 1998 forecasts: EUR–11**

				Autumn 1998 Forecast			Difference with Spring 1998	
	1995	1996	1997	1998	1999	2000	1998	1999
				Main economic indicators				
GDP growth (a)	2.4	1.6	2.5	**3.0**	**2.6**	**2.9**	0.0	–0.6
Employment (a)	0.4	0.0	0.2	**1.1**	**1.0**	**1.0**	0.2	–0.2
Unemployment rate (b)	11.5	11.8	11.9	**11.0**	**10.4**	**9.9**	–0.2	–0.3
Inflation (c)	2.9	2.5	1.9	**1.5**	**1.6**	**1.7**	–0.2	–0.3
Government deficit (% GDP)	–4.8	–4.1	–2.5	**–2.3**	**–1.9**	**–1.7**	0.1	0.1
Government debt (% GDP)	72.8	75.2	75.0	**73.8**	**72.5**	**70.9**	–0.1	0.0
Current account balance (% GDP)	0.8	1.2	1.7	**1.9**	**1.9**	**1.8**	0.0	0.0

(a) Real annual percentage change.
(b) Percentage of the labour force. (c) Private consumption deflator.

TABLE 5: **Composition of growth: EUR–11**

				Autumn 1998 Forecast			Difference with Spring 1998	
	1995	1996	1997	1998	1999	2000	1998	1999
	Real annual percentage change							
Private consumption	1.8	1.8	1.4	**2.5**	**2.7**	**2.5**	0.2	0.0
Government consumption	0.3	1.6	0.5	**1.5**	**1.7**	**1.8**	0.3	0.2
Gross fixed capital formation	3.6	0.5	2.1	**4.1**	**4.8**	**5.5**	–0.2	–0.7
– Equipment	7.3	2.8	4.3	**7.8**	**6.0**	**6.8**	0.9	–1.6
– Construction	1.2	–1.3	0.2	**1.2**	**3.8**	**4.4**	–0.9	0.1
Exports of goods and services [a]	8.2	4.8	9.8	**7.1**	**4.9**	**6.2**	–0.8	–2.3
Imports of goods and services [a]	7.7	3.2	8.7	**7.9**	**6.0**	**6.6**	0.5	–1.2
GDP	2.4	1.6	2.5	**3.0**	**2.6**	**2.9**	0.0	–0.6
	Contribution to change in GDP							
Consumption	1.2	1.3	0.9	**1.8**	**1.9**	**1.8**	0.0	0.0
Investment	0.7	0.1	0.4	**0.8**	**1.0**	**1.1**	0.0	–0.1
Inventories	0.2	–0.3	0.6	**0.5**	**0.0**	**0.0**	0.3	0.0
Exports [b]	2.5	1.6	3.4	**2.6**	**1.8**	**2.4**	–0.1	–0.8
Final demand [b]	4.7	2.7	5.3	**5.7**	**4.7**	**5.3**	0.6	–0.8
Imports (minus) [b]	–2.3	–1.1	–2.7	**–2.7**	**–2.1**	**–2.4**	0.3	–0.3
Net exports	0.2	0.5	0.6	**–0.1**	**–0.3**	**0.0**	–0.5	–0.5

([a]) Total trade.
(b) Unadjusted for intra–EU–15 trade.

weigh down on output performance in the EU via a negative effect on business confidence. Some slowdown isforecast in equipment investment growth from almost 8% this year to 5.2% next year, together with a negligible contribution of inventories. On the other hand, construction investment is set to accelerate gradually while private consumption is forecast to grow steadily at around 2½% per year until 2000.

Given the weight of the *EUR–11* aggregate in the total it is not surprising that differences with the EU as a whole are slight. However, EUR–11 displays both a slightly better growth performance and a greater cyclical homogeneity. Although, some countries (e.g., IRL, FIN, P) grow much faster than the aggregate, they still display the same cycle. Compared to EU–15, in EUR–11 GDP growth (from this year onward) is slightly stronger, inflation lower, trade and current account surpluses larger and short term interest rates lower, but public sector deficits and unemployment are higher. Turning to growth components, domestic demand in EUR–11 is clearly accelerating from 2.0% in 1997 to 3.2% this year, before settling around 3.0% in 1999 and 2000. Domestic demand is taking over from exports which were the main engine for growth in the years 1996 and 1997.

4. All Member States affected by the deteriorated global outlook

The ongoing synchronisation of business cycles among most Member States of the European Union is reflected in similar outlooks. The four big countries that will join EMU (Germany, France, Italy, Spain) belong to this category especially. For economies not participating in EMU some more pronounced differences are evident.

Germany

Economic activity gathered substantial momentum in the first half of 1998 as GDP grew at an annualised rate of 3.4% (seasonally adjusted). In contrast to 1997, when stocks and net exports were the main determinants, growth was supported by contributions from all domestic components except construction investment. Against the backdrop of the strong performance in the first half of the year, annual output growth in 1998 is expected to accelerate compared to last year's 2.2% and to remain close to the 2¼% level in 1999 and close to 2½ in 2000. In contrast to many previous years of expansion in Germany, the contribution of net exports to GDP growth will be virtually negligible because net exports are affected by the deterioration of the external environment. Therefore the driving force of future output growth will be domestic demand. Private consumption will continue to accelerate moderately, supported by low price rises and a sustained improvement in labour incomes. The contribution of government consumption will be small but distinctly positive in 1998 with some acceleration starting next year as a further slight loosening of the budgetary stance takes hold. Although the strong growth of equipment investment will be partly compensated for by a further fall in construction investment in 1998, overall capital formation is expected to grow much more strongly than last year. While equipment investment is expected to slow down from the current year, not least due to uncertainty regarding the effects of the international crises, for construction investment a slow recovery is forecast on the basis of some encouraging recent developments in orders and the expected acceleration in public work projects. Total investment is expected to continue to support economicgrowth in 1999 and 2000 as continued high profitability and the transition to the euro act as a stimulus for enterprises to renew their capital stock. Due to continued economic expansion the labour market should continue to improve gradually. However, job creation will be limited at first, accelerating only towards the year 2000. Inflationary pressures remain low, thanks to continued wage moderation and the decline in import prices. Further contributions to price stability stem from the depreciation of the US dollar since mid–1998 and a technical effect whereby the impact of the April 1998 VAT increase on prices falls out of the figures.

TABLE 6: **Main features of country forecasts**

	1995	1996	1997	Autumn 1998 Forecast 1998	Autumn 1998 Forecast 1999	Autumn 1998 Forecast 2000	Difference with Spring 1998 1998	Difference with Spring 1998 1999
Germany								
Inflation [(a)]	1.8	1.7	1.8	**1.0**	**1.1**	**1.5**	–0.7	–0.8
Unemployment (% labour force)	8.2	8.9	10.0	**9.7**	**9.3**	**8.9**	–0.1	–0.1
General gov.net borr.(% GDP)	–3.3	–3.4	–2.7	**–2.6**	**–2.2**	**–2.2**	–0.1	0.0
Current acc. balance (% GDP)	–1.3	–1.0	–0.6	**0.2**	**0.3**	**0.4**	0.1	0.1
Real GDP growth [(b)]	1.8	1.4	2.2	**2.8**	**2.2**	**2.6**	0.2	–0.7
France								
Inflation [(a)]	1.6	1.8	1.1	**0.6**	**1.2**	**1.4**	–0.4	–0.4
Unemployment (% labour force)	11.7	12.4	12.4	**11.7**	**11.1**	**10.8**	–0.2	–0.5
General gov.net borr.(% GDP)	–4.9	–4.1	–3.0	**–2.9**	**–2.3**	**–1.9**	0.0	0.3
Current acc. balance (% GDP)	1.5	1.5	3.1	**2.9**	**2.8**	**2.9**	0.0	–0.2
Real GDP growth [(b)]	2.1	1.6	2.3	**3.1**	**2.6**	**2.8**	0.1	–0.5
Italy								
Inflation [(a)]	5.9	4.3	2.5	**2.2**	**2.0**	**1.9**	0.1	0.0
Unemployment (% labour force)	11.9	12.0	12.1	**12.0**	**11.9**	**11.6**	0.0	0.1
General gov.net borr.(% GDP)	–7.7	–6.7	–2.7	**–2.6**	**–2.3**	**–2.0**	–0.1	–0.3
Current acc. balance (% GDP)	2.3	3.4	3.2	**3.1**	**3.1**	**3.0**	0.0	0.0
Real GDP growth [(b)]	2.9	0.7	1.5	**1.7**	**2.1**	**2.5**	–0.7	–0.9
United Kingdom								
Inflation [(a)]	2.6	2.6	2.6	**2.0**	**2.2**	**2.0**	–0.3	0.1
Unemployment (% labour force)	8.7	8.2	7.0	**6.3**	**6.2**	**6.2**	–0.2	–0.1
General gov.net borr.(% GDP)	–5.5	–4.7	–2.1	**–0.1**	**0.1**	**–0.2**	0.5	0.4
Current acc. balance (% GDP)	–1.9	–1.5	1.0	**0.2**	**–0.1**	**–0.4**	1.4	1.5
Real GDP growth [(b)]	2.8	2.3	3.5	**2.5**	**1.3**	**2.1**	0.6	–0.9
Spain								
Inflation [(a)]	4.7	3.4	2.5	**2.3**	**2.1**	**2.1**	0.1	–0.1
Unemployment (% labour force)	22.9	22.2	20.8	**18.9**	**17.2**	**15.7**	–0.8	–1.3
General gov.net borr.(% GDP)	–7.3	–4.7	–2.6	**–2.1**	**–1.6**	**–1.3**	0.1	0.3
Current acc. balance (% GDP)	0.1	0.3	0.4	**0.1**	**–0.4**	**–0.8**	–0.6	–0.9
Real GDP growth [(b)]	2.7	2.3	3.5	**3.8**	**3.6**	**3.5**	0.2	–0.1

(a) Private consumption deflator, annual percentage change.
(b) Annual percentage change.

France

Following a recovery very much driven by exports in 1997, 1998 has seen a clear rebound of domestic demand, yielding a GDP growth rate of 3.1%. The acceleration is remarkable : after 2 years of subdued growth (0.9% per year), internal demand is estimated to accelerate by 3.8% in 1998, benefiting in particular from good employment performance and record low inflation. All demand components experience this improvement. Private consumption grows by a very strong 3.6%, while equipment investment also picks up markedly by 8.9%. The 0.8% growth rate of construction investment may look rather subdued, but it represents a true turn–around compared to previous years. Logically given both worse external demand and healthy domestic demand, the contribution of net exports to growth in 1998 is estimated to be clearly negative. A negative contribution from the external side is forecast for 1999 as well, but to a lesser extent. Uncertainties in the world economy are assumed to weigh down on the forecast for 1999, not so much through trade but through domestic demand. Falling business confidence, already visible in surveys, is expected to fuel more prudent behaviour in terms of equipment investment and stockbuilding. Private consumption is also expected to return to a more normal pattern. As a result GDP growth is forecast to slow somewhat in 1999 to 2.6%, before reaccelerating slightly to 2.8% in 2000. Moderate improvement is expected in the public sector deficit, which should fall from 2.9% of GDP this year to 2.3% in 1999 and 1.9% in 2000. The debt to GDP ratio is forecast to start falling from 2000.

Italy

After accelerating in the middle of 1997, real GDP growth weakened in the following quarters. The annual rate of growth slowed from 2.5% in the first quarter of 1998 to 1.1% in the second quarter leaving an expected average growth rate for the year as a whole of only 1.7%. Real GDP growth is expected to accelerate gradually in 1999–2000, to approach its trend rate of about 2.5%. Domestic demand continued to be sustained in the first half of 1998, as a result of a large accumulation of stocks and favourable developments in equipment investment. The deceleration of private consumption reflects the gradual phasing out of tax incentives on car sales, the squeeze on personal disposable income and some deterioration in households' confidence. Private consumption is expected to improve in the period 1999–2000 thanks to better employment prospects, improving real disposable income and lower interest rates. Total investment is expected to strengthen (from 3.3% in 1998 to 6.7% in 2000), as result of better demand prospects and a lower cost of capital. Lower world demand will reduce export growth in 1999, while in 2000 some improvements are expected. Import growth is likely to decelerate in 1999 with the fading out of the car incentive scheme, which boosted imports in 1997–98. Employment is expected to improve gradually during the forecast period (+0.3% in 1999 and +0.6% in 2000). Positive effects are expected from the newly introduced measures for higher flexibility in the labour market and from the initiatives aiming to reduce labour costs in the depressed areas. Inflation has remained subdued (2.2% in 1998) and is expected to remain so, thanks to wage moderation, low commodity prices and the slow pace of economic recovery. The introduction of a wide–ranging fiscal reform has influenced the timing of tax receipts, but the 2.6% deficit target for the year should be met. As the government fell over the adoption of the 1999 budget the no policy change assumption points to a deficit of around 2.3% of GDP. The Draft Budget Law for 1999 introduced measures of additional revenues and savings for 0.7% of GDP (according to government estimates), of which around 0.3% are aimed at financing employment measures and tax relief for the poorest households. The reduction in the deficit to 2.0% of GDP in year 2000 is mainly due to lower government interest payments.

United Kingdom

Growth remained stronger than expected in the first half of 1998 so the forecast for the year as a whole has been revised up to 2.5% from 1.9% in the spring. However there are now clear signs that the economy is slowing in response to monetary and fiscal tightening. The impact on trade has been particularly marked with the negative effects of the strength of sterling exacerbated by the crisis in south east Asia. GDP growth is forecast to fall back to 1.3% in 1999 before rising again to around trend at 2.1% in 2000. Inflationary pressures in the UK economy are subdued, helped by weak world wide commodity prices, and look set to remain so. The private consumption deflator is forecast to increase by about 2% in all three forecasting years. Buoyant recent revenues and ongoing consolidation resulting from announced plans should ensure that the public finances remain close to balance over the forecasting horizon, in line with the objectives of the Stability and Growth Pact.

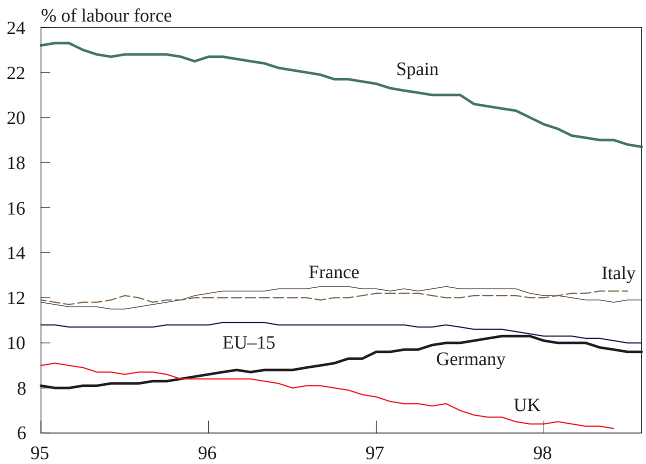
Spain

GDP rose at an annualised rate of 3.8% in the first half of 1998, a rate which is expected to be sustained during the rest of the year. As a result, for 1998 as a whole, GDP growth is forecast to grow by around 3.8%. Economic activity in 1999 is expected to decelerate slightly, especially during the first quarters of the year. In 2000, GDP growth is foreseen to stabilise at around 3.5%. With regard to the components of growth, in the first half of 1998 domestic demand remained strong, led by private consumption and investment in equipment, whereas the external sector had a negative contribution to GDP growth. Private consumption is expected to increase by 3.4% in 1998, mainly sustained by continued strong job creation. In 1999 it is expected to accelerate, partially due to the income tax reform which will raise households' disposable income. Investment in equipment registered a growth rate of 11% in 1997, and for 1998 it is expected to accelerate further to 12.5%, supported by buoyant demand, high profits, low interest rates and a high rate of capacity utilisation. It is forecast to slow down in 1999 (growth rate of about 8%) as a result of the slight internal demand deceleration and the less dynamic external markets. Investment in construction is foreseen to recover strength progressively in the forecast period, owing to lower interest rates and to higher public construction. This year's acceleration from 1.3% to 6.2% will be continued in the years 1999 and 2000 for which growth rates close to 8% are expected.

Other economies

The smaller Member States displayed very robust growth over the course of 1998. Eight of these ten economies (all except Belgium and Denmark) are expected to exhibit GDP growth above the EU average in the years 1998 to 2000. *The Netherlands* are expected to complete a five–year–roll of economic growth close to 3% p.a. in 1996–2000, even displaying an acceleration towards 3½% this year mainly due to strong domestic demand. Strong domestic demand exceeding GDP growth in 1998 and 1999 is also expected in *Belgium*, *Denmark*, *Finland*, and *Portugal*, and *Sweden*. In *Greece* domestic demand is expected to become the engine of economic growth next year driven by strong investment and a progressive rise in private consumption. While the foreign contribution to growth is expected to remain positive though considerably declining in *Austria*, significant support from net exports is still expected in *Ireland* adding the years 1998 to 2000 to the success story which becomes evident in an average annual growth of 7.7% in the 1990s, well ahead of the second fastest growing economy, *Luxembourg* (4.7%), and considerably ahead of the rate of 2.0% for the EU as a whole.

GRAPH 13: **Unemployment rate (Eurostat harmonised rate)**



5. Employment creation improving

Employment in the EU is forecast to increase by 1.2% in 1998 following two years of only very moderate increases (0.1% and 0.4% respectively). In the years 1998–2000 economic expansion in the European Union will add 4½ million new jobs (in net terms) to the economy. Given a

TABLE 7: **Labour market outlook: EU–15**

Annual percentage change	1991–95	1996–2000	1997	Autumn 1998 Forecast 1998	Autumn 1998 Forecast 1999	Autumn 1998 Forecast 2000	Difference with Spring 1998 1998	Difference with Spring 1998 1999
Population of working age (15–64)	0.4	0.3	0.3	**0.3**	**0.3**	**0.3**	0.0	0.0
Labour force	0.1	0.4	0.3	**0.4**	**0.4**	**0.5**	0.1	–0.2
Employment	–0.6	0.7	0.4	**1.2**	**0.9**	**0.9**	0.4	–0.2
Employment (in millions) [(a)]	–4.6	5.1	0.6	**1.7**	**1.3**	**1.4**	0.5	–0.3
Unemployment rate (% lab. force) [(b)]	10.0	10.0	10.7	**10.0**	**9.5**	**9.0**	–0.2	–0.3
Labour productivity, whole economy	2.1	1.8	2.2	**1.7**	**1.5**	**1.8**	–0.2	–0.4

(a) 1991–95 and 1996–2000 : cumulative change.
(b) Eurostat definition.

steady increase in the labour force of approximately ½% p.a. this is transformed into a decline in the number of registered unemployed by roughly 2½ million. This forecast performance contrasts sharply with fears of 'jobless growth' expressed until very recently. It becomes more and more evident that both favourable supply–side conditions and the expectation of a sufficiently long lasting period of economic expansion are a *conditio sine qua non* for improvements in the labour market.

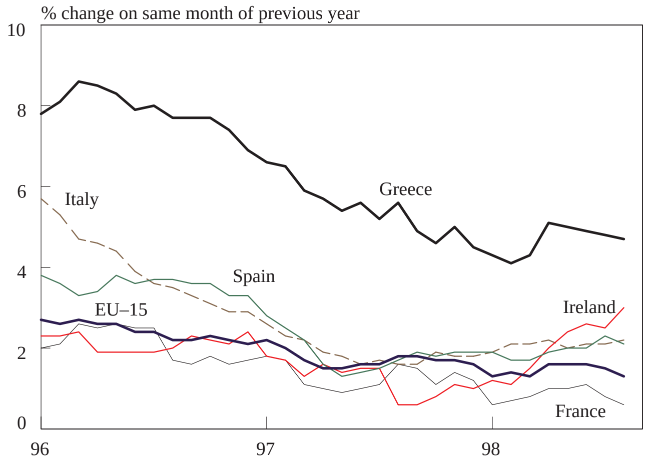
In 1998 the improvement in employment creation is shared by all Member States except Denmark, the Netherlands, Luxembourg, Finland and the UK where figures were well above the Union average both in 1997 and 1998. The biggest increases in employment between 1997 and 2000 are forecast for Ireland (+11.2%), Spain (+8.8%), Luxembourg (+8.4%), the Netherlands (+6.3%) while employment is expected to grow only moderately in Italy (+1.2%) and in Germany (0.9%).

Between 1998 and 2000 *unemployment rates* are expected to decline in all Member States bringing the EU average rate down to 9.0% in 2000. Only in Luxembourg which displays the lowest levels in all years is the unemployment rate increasing, despite strong employment creation. This is explained by the large share of new jobs which are captured by border workers but not counted in the Luxembourg labour force. The strongest improvements between 1996 and 2000 are expected for Spain (–6.5 percentage point), Finland (–5.8 percentage point), Ireland (–5.4 percentage point) and the Netherlands (–3.7 percentage point).

6. Inflation remains moderate

The downward trend observed since 1991 in inflation rates continued due to supporting factors from the wage front leading to subdued rises in unit labour costs. Downward pressures on inflation also come from the supply side (stronger competition, higher price transparency). The average annual rise in EU–15 of the harmonised index of consumer prices (HICP) was 1.3% in August 1998, down from 1.5% in July 1998 and from 1.8% a year earlier. The highest rates were reported in Greece (4.7%), Ireland (3.0%), Italy and Portugal (both 2.2%). The lowest rates were in France and Sweden (both 0.6%), Germany and Austria (both 0.7%). The harmonised index for EUR–11, the monetary union index of consumer prices (MUICP) stood at 1.2% in August 1998 down from 1.4% in July and a year ago.

GRAPH 14: **Harmonised index of consumer prices**



Inflation as measured by the private consumption deflator is expected to decline further (from 2.1% in 1997) and to remain at levels slightly below 2% in the years 1998 to 2000. A considerable degree of convergence is also expected for 1999 and 2000. The factors that slow inflation are falling imported input prices, the decline of commodity prices, the pass–through from the depreciation of the US dollar starting in summer, and falling unit labour costs due

TABLE 8: **Inflation outlook – EU–15**

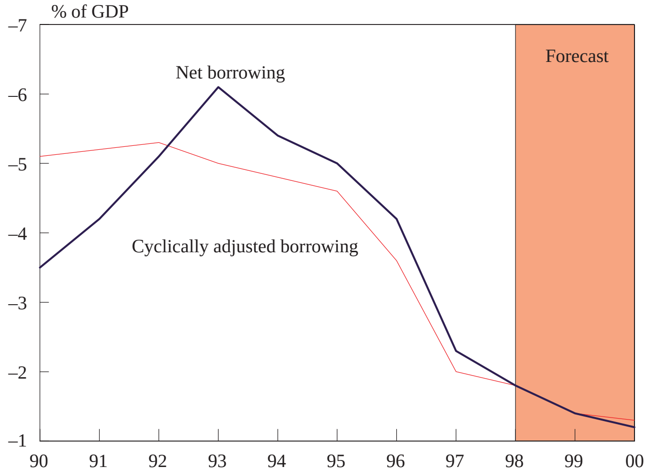
Annual percentage change	1995	1996	1997	Autumn 1998 Forecast 1998	Autumn 1998 Forecast 1999	Autumn 1998 Forecast 2000	Difference with Spring 1998 1998	Difference with Spring 1998 1999
Private consumption deflator	2.9	2.6	2.1	**1.6**	**1.7**	**1.8**	–0.3	–0.3
GDP deflator	2.9	2.4	1.8	**1.8**	**2.1**	**2.0**	–0.1	0.1
Conpensation per employee	3.5	3.6	3.0	**2.4**	**3.2**	**3.2**	–0.6	0.0
Unit labour costs	1.6	1.9	0.8	**0.6**	**1.7**	**1.4**	–0.4	0.4
Import prices of goods [(a)]	4.0	0.3	0.7	**–1.5**	**0.0**	**1.7**	–2.1	–2.0

(a) Unadjusted for intra–EU imports.

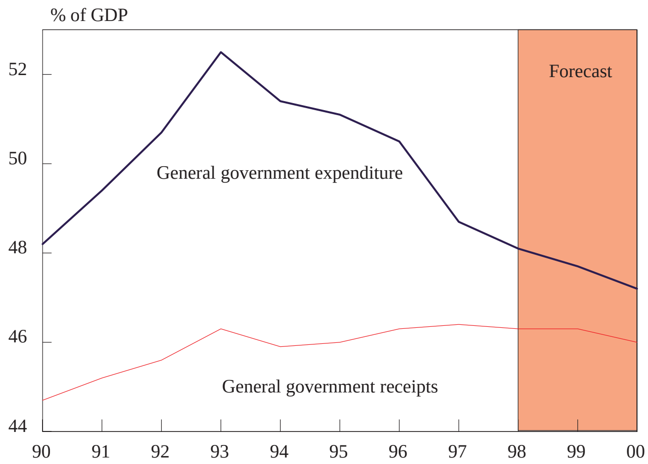
to wage moderation. Even increases in indirect taxes in some Member States have not shown up significantly in the average inflation rate. In 1998 a decline in inflation rates is observed in most Member States. Only Ireland, Portugal, the Netherlands and Luxembourg display higher rates than in 1997.

7. Budgetary consolidation continues at a slower pace

GRAPH 15: **General government borrowing – EU–15**



GRAPH 16: **General government expenditures and receipts– EU–15**



1997 saw an important progress in budget consolidation across Europe, with the EU average *budget deficit* falling to 2.3% of GDP from 4.2% of GDP in 1996. In 1998 some improvement in the average EU deficit/GDP ratio is expected in the order of half of a percentage point (1.8% of GDP) thanks to stronger growth and lower interest rates. The cyclically adjusted deficit hardly improves. Including the available national budgets for 1999 and based on the assumption of unchanged policies for 2000, the deficit/GDP ratio will continue to decline to 1.4% and 1.2% respectively. Six countries are expected to show a surplus in their budgetary balances in 1999 (DK, IRL, L, FIN, S and the UK).

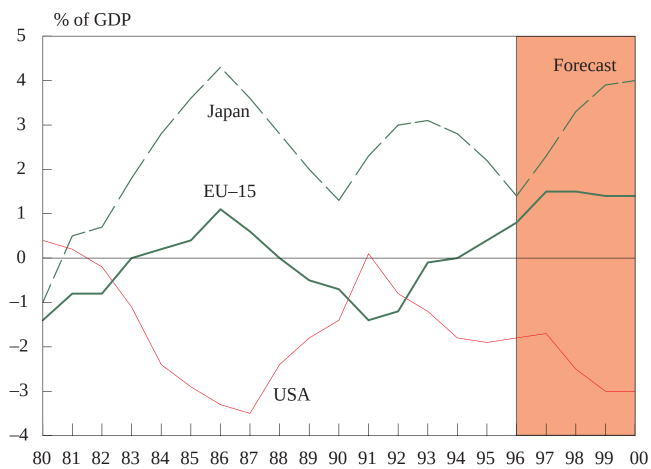
Budget consolidation has mainly progressed in the European Union over the past few years through a decrease in *expenditure* rather than by increasing the *revenues* of general government as a percentage of GDP. From a peak of 52.5% of GDP in 1993, general government total expenditure for the Union as a whole kept decreasing year after to year to reach about 48.1% of GDP in 1998. For 1999 and 2000, general government expenditure may well decrease further to 47.7% of GDP and 47.2% of GDP respectively. Current receipts of general government as a percentage of GDP have been increasing at a rather slow pace. During the last five years current receipts represented around 46% of GDP, with only small variations.

The decline in *the public debt,* which started in 1997 when the debt/GDP ratio fell by a full percentage point to about 72%, is expected to continue through the forecast period. In 1998 and 1999 the debt/GDP ratio will fall to 70½% and 69% respectively, while in 2000 it will be just over 67%. In 1998 the debt/GDP ratio is expected to fall in all Member States except France and Luxembourg, where it nevertheless remains relatively low compared to the EU average. In Ireland the debt/GDP ratio is expected to fall by about 10 percentage points annually during the 1998–2000 period. In this way, by 2000 Ireland will have the second lowest debt/GDP ratio (34.4 %) in the EU, while it had the second highest ratio in the EU (peak level of 114.9 %) in 1987.

8. EU current account surplus set to decline

A slowdown in EU exports stemming from a shift from external to domestically driven growth results in a gentle decline in the current account surplus over the forecasting horizon. In EU–15 the surplus declines from a peak of 1.5% of GDP in the years 1997 and 1998 to 1.4% in the years 1999 and 2000. In EUR–11, excluding the UK which is in significant deficit, the surplus is forecast to fall from this year's and next year's 1.9% to 1.8% in 2000. By contrast, the current account surplus in Japan has grown rapidly over the past few years and is forecast to continue rising to 4.0% of GDP by 2000. The US deficit is also expected to continue widening, from –1.7% of GDP in 1997 to –3.3% in 2000.

GRAPH 17: **Current account balance with the rest of the world**



DETAILED AUTUMN 1998 ECONOMIC FORECASTS

TABLE 1: **Gross Domestic Product, real percentage change on preceding year**

								1998 forecast of		1999 forecast of		2000 forecast
		1961–73	1974–85	1986–90	1991–95	1996–2000	1996	1997	III–1998	X–1998	III–1998	X–1998	X–1998
B	(e)	4.9	1.8	3.0	1.2	2.5	1.5	2.9	2.8	2.8	3.0	2.5	2.7
DK	(e)	4.3	2.0	1.3	2.1	2.6	3.4	3.3	2.7	2.4	2.8	1.9	2.1
D*	(f)	4.3	1.7	3.4	2.1	2.2	1.4	2.2	2.6	2.8	2.9	2.2	2.6
EL	(d)	7.7	2.5	1.9	1.1	3.3	2.6	3.2	3.8	3.4	4.0	3.5	3.8
E	(c)	7.2	1.9	4.5	1.3	3.3	2.3	3.5	3.6	3.8	3.7	3.6	3.5
F	(a)	5.4	2.2	3.2	1.1	2.5	1.6	2.3	3.0	3.1	3.1	2.6	2.8
IRL	(e)	4.4	3.8	4.6	6.2	9.5	8.3	10.6	8.7	11.4	8.8	8.2	9.0
I	(e)	5.3	2.7	3.0	1.1	1.7	.7	1.5	2.4	1.7	3.0	2.1	2.5
L	(h)	4.0	1.8	6.4	5.4	4.0	3.0	4.8	4.4	4.2	4.7	3.8	4.3
NL	(e)	4.9	1.9	3.1	2.1	3.2	3.1	3.6	3.7	3.8	3.2	2.7	3.0
A	(b)	4.9	2.3	3.2	2.0	2.6	1.6	2.5	2.8	3.2	3.1	2.8	3.0
P	(e)	6.9	2.2	5.5	1.8	3.6	3.2	3.7	4.0	4.2	3.8	3.4	3.6
FIN	(e)	5.0	2.7	3.4	–.5	4.2	3.6	6.0	4.6	5.1	3.6	3.4	2.9
S	(f)	4.1	1.8	2.3	.5	2.4	1.3	1.8	2.6	3.0	2.8	2.8	3.0
UK	(e)	3.1	1.4	3.3	1.3	2.3	2.3	3.5	1.9	2.5	2.2	1.3	2.1
EU–15*		4.8	2.0	3.3	1.5	2.5	1.8	2.7	2.8	2.9	3.0	2.4	2.8
EUR–11		5.2	2.1	3.4	1.5	2.5	1.6	2.5	3.0	3.0	3.2	2.6	2.9
US	(g)	4.0	2.3	2.8	2.1	3.0	3.6	4.0	2.5	3.3	2.1	2.1	2.2
JP	(e)	9.7	3.4	4.6	1.4	.9	3.9	.9	.4	–2.5	1.5	.6	1.7

(*) West–Germany up to 1991. EU–15 and EUR–11 aggregated with West–Germany up to 1991.
(a) 1980 prices. (b) 1983 prices. (c) 1986 prices. (d) 1988 prices. (e) 1990 prices. (f) 1991 prices. (g) 1992 prices. (h) 1995 prices.

TABLE 2: **Gross fixed capital formation in equipment, real percentage change on preceding year**

								1998 forecast of		1999 forecast of		2000 forecast
		1971–73	1974–85	1986–90	1991–95	1996–2000	1996	1997	III–1998	X–1998	III–1998	X–1998	X–1998
B	(e)	3.1	2.3	11.9	–3.2	6.0	5.7	6.0	5.8	6.7	6.9	5.0	6.5
DK	(e)	3.8	3.5	1.2	5.3	6.6	5.3	11.1	5.9	7.2	5.6	4.8	4.6
D*	(f)	.2	1.6	7.2	–1.8	4.9	1.9	3.9	7.4	8.0	7.8	4.8	6.0
EL	(d)	11.8	.7	4.0	3.0	10.0	9.5	9.5	8.0	9.1	10.6	10.6	11.2
E	(c)	10.9	–.5	13.0	–2.4	9.4	6.9	11.0	10.1	12.5	8.6	8.1	8.6
F	(a)	9.2	1.0	6.9	–.2	5.1	3.6	1.9	5.7	8.9	6.3	6.0	5.1
IRL	(e)	13.8	1.6	6.0	.2	8.6	6.7	7.2	10.0	10.0	11.0	11.0	8.0
I	(e)	8.4	3.1	6.8	–.4	4.7	–.3	2.6	7.5	5.8	8.0	7.0	8.5
L	(h)	–	–	–	–	–	–	–	–	–	–	–	–
NL	(e)	.4	2.8	3.6	1.3	5.9	7.9	7.0	3.2	2.9	6.9	4.6	7.4
A	(b)	6.4	2.4	6.1	1.7	5.8	3.7	4.9	6.2	7.0	7.0	6.5	7.0
P	(e)	–	–	13.5	1.5	7.5	1.5	11.6	7.9	11.3	7.4	6.2	6.9
FIN	(e)	6.2	1.8	6.2	–8.6	6.6	10.9	7.6	2.4	3.6	6.4	4.8	6.4
S	(f)	6.9	3.2	6.9	.2	6.7	5.4	2.9	7.0	12.3	6.0	7.0	5.9
UK	(e)	4.0	2.1	5.3	–.5	4.2	2.2	8.4	3.6	7.7	4.0	.9	2.0
EU–15*		5.4	2.0	7.2	–.7	5.4	2.9	4.9	6.4	7.9	7.0	5.2	6.1
EUR–11		5.5	1.9	7.6	–1.0	5.5	2.8	4.3	6.9	7.8	7.6	6.0	6.8
US	(g)	9.3	2.8	1.9	6.7	11.7	15.3	10.5	9.6	16.6	7.7	9.5	6.8
JP	(e)	7.5	4.2	9.9	–.3	–.2	18.4	–1.1	–.6	–13.6	1.7	–6.1	4.1

(*) West–Germany up to 1991. EU–15 and EUR–11 aggregated with West–Germany up to 1991. Aggregation without Portugal up to 1985.
(a) 1980 prices. (b) 1983 prices. (c) 1986 prices. (d) 1988 prices. (e) 1990 prices. (f) 1991 prices. (g) 1992 prices. (h) 1995 prices.

TABLE 3: **Total employment, percentage change on preceding year** ([a])

								1998 forecast of		1999 forecast of		2000 forecast
		1961–73	1974–85	1986–90	1991–95	1996–2000	1996	1997	III–1998	X–1998	III–1998	X–1998	X–1998
B		.5	–.3	1.1	–.4	.8	.4	.5	1.2	1.3	1.1	1.0	1.0
DK		1.1	.5	.3	–.3	1.3	1.3	2.3	1.2	1.9	.8	.6	.7
D*		.3	–.2	1.5	–.4	–.4	–1.3	–1.4	–.1	.1	.9	.2	.6
EL		–.5	1.0	.7	.8	.4	.7	–.5	1.0	.2	1.5	.8	.9
E		.7	–1.4	3.3	–.5	2.6	1.5	2.7	2.4	3.2	2.5	2.9	2.7
F		.7	.1	.8	–.2	.7	.2	.2	1.1	1.3	1.2	1.1	.8
IRL		.1	.1	1.1	1.9	3.6	3.9	3.2	3.5	4.1	3.8	3.7	3.4
I		–.2	.9	.6	–1.0	.2	.0	–.2	.4	.3	.6	.3	.6
L		1.1	.5	3.2	2.7	2.8	2.7	3.1	2.4	2.9	2.4	2.6	2.9
NL		.9	–.1	1.9	.7	2.2	2.0	2.6	2.1	2.5	2.0	1.8	2.0
A		–.1	.1	.8	.4	.4	–.7	.4	.5	.8	.7	.7	.7
P		.3	–.4	1.1	–.6	1.4	.7	2.0	1.3	2.4	1.0	1.3	.8
FIN		.5	.3	.2	–3.7	1.7	.7	2.7	2.2	2.3	1.0	1.7	1.3
S		.6	.8	1.0	–2.2	.4	–.5	–1.1	.6	1.1	.9	1.2	1.2
UK		.3	–.2	1.8	–.9	.9	.4	1.6	.6	1.5	.5	.5	.4
EU–15*		.3	–.0	1.3	–.6	.7	.1	.4	.8	1.2	1.1	.9	.9
EUR–11		.3	–.0	1.3	–.5	.7	.0	.2	.9	1.1	1.2	1.0	1.0
US	**([b])**	1.9	1.8	2.1	1.2	1.5	1.9	2.2	1.8	1.5	1.0	.9	1.0
JP		1.3	.7	1.0	.7	.3	.5	1.1	.4	–1.0	.9	–.4	1.3

([*]) West–Germany up to 1991. EU–15 and EUR–11 aggregated with West–Germany up to 1991.
([a]) National accounts definition.
([b]) Civilian employment.

TABLE 4: **Number of unemployed as a percentage of civilian labour force, annual average ([a])**

								1998 forecast of		1999 forecast of		2000 forecast
		1964–73	1974–85	1986–90	1991–95	1996–2000	1996	1997	III–1998	X–1998	III–1998	X–1998	X–1998
B		2.0	7.7	8.7	8.5	8.4	9.7	9.2	8.5	8.3	7.7	7.7	7.1
DK		.9	6.4	6.4	8.6	4.8	6.8	5.5	5.4	4.2	5.1	4.0	3.7
D*		.7	4.2	5.9	7.3	9.4	8.9	10.0	9.8	9.7	9.4	9.3	8.9
EL		4.2	3.8	6.6	8.3	9.3	9.6	9.6	9.2	9.4	8.7	9.1	8.9
E		2.8	11.3	18.9	20.9	19.0	22.2	20.8	19.7	18.9	18.5	17.2	15.7
F		2.2	6.4	9.7	11.1	11.7	12.4	12.4	11.9	11.7	11.6	11.1	10.8
IRL		5.7	10.6	15.5	14.5	8.8	11.6	10.1	8.4	8.7	6.5	7.4	6.2
I		5.2	7.0	9.6	10.3	11.9	12.0	12.1	12.0	12.0	11.8	11.9	11.6
L		.0	1.7	2.1	2.5	2.5	3.0	2.6	3.9	2.4	3.9	2.3	2.2
NL		1.3	7.1	7.4	6.4	4.2	6.3	5.2	4.4	3.7	3.8	3.1	2.6
A		1.6	2.5	3.4	3.7	4.3	4.3	4.4	4.2	4.4	4.2	4.3	4.2
P		2.5	6.9	6.1	5.6	5.9	7.3	6.8	6.2	5.7	5.6	5.1	4.7
FIN		2.3	4.8	4.3	14.0	12.0	15.3	13.1	12.3	11.6	11.6	10.4	9.5
S		2.0	2.4	2.0	7.2	8.5	9.6	9.9	9.1	8.3	8.7	7.7	7.0
UK		2.0	6.9	9.0	9.5	6.8	8.2	7.0	6.5	6.3	6.3	6.2	6.2
EU–15*		2.4	6.4	8.9	10.0	10.0	10.9	10.7	10.2	10.0	9.8	9.5	9.0
EUR–11		2.5	6.6	9.4	10.4	11.0	11.8	11.9	11.2	11.0	10.7	10.4	9.9
US	**([b])**	4.6	7.5	5.9	6.6	4.9	5.4	4.9	4.6	4.5	4.9	4.7	5.0
JP	**([b])**	1.2	2.2	2.5	2.6	3.9	3.4	3.4	3.5	4.2	3.4	4.4	4.1

([*]) West–Germany up to 1990. EU–15 and EUR–11 aggregated with West–Germany up to 1990.
([a]) SOEC definition.
([b]) USA and Japan: in percentage of total labour force.

TABLE 5: **Implicit deflator of private consumption, percentage change on preceding year**

	1961–73	1974–85	1986–90	1991–95	1996–2000	1996	1997	1998 forecast of III–1998	1998 forecast of X–1998	1999 forecast of III–1998	1999 forecast of X–1998	2000 forecast X–1998
B	3.7	7.4	2.3	2.7	1.6	2.3	1.6	1.3	1.1	1.5	1.4	1.5
DK	6.6	9.6	3.8	1.8	2.2	2.5	2.2	2.1	1.9	2.2	2.4	2.2
D*	3.5	4.3	1.5	3.5	1.4	1.7	1.8	1.7	1.0	1.9	1.1	1.5
EL	3.5	17.5	17.0	13.8	4.8	8.5	5.5	4.5	4.8	3.6	2.9	2.4
E	6.5	15.4	6.6	5.6	2.5	3.4	2.5	2.2	2.3	2.2	2.1	2.1
F	4.7	10.5	2.9	2.3	1.2	1.8	1.1	1.0	.6	1.6	1.2	1.4
IRL	6.3	13.8	3.2	2.5	2.3	1.4	.9	3.3	2.7	3.5	3.3	3.3
I	4.9	15.9	6.1	5.7	2.6	4.3	2.5	2.1	2.2	2.0	2.0	1.9
L	3.0	7.4	2.4	3.0	1.5	1.6	1.1	1.6	1.4	1.7	1.7	1.7
NL	5.1	5.7	.9	2.5	2.1	1.6	2.0	2.3	2.2	2.5	2.3	2.3
A	4.1	5.8	2.0	3.0	1.7	2.5	2.0	1.5	1.1	1.7	1.3	1.5
P	3.9	22.2	12.2	7.7	2.6	3.6	2.5	2.2	2.6	2.3	2.4	2.1
FIN	5.7	10.8	4.5	3.1	1.6	1.7	1.5	2.0	1.5	2.0	1.6	1.9
S	4.8	10.3	6.7	4.7	1.7	1.2	2.2	1.5	1.3	2.0	1.8	2.2
UK	4.8	12.0	5.0	4.1	2.3	2.6	2.6	2.3	2.0	2.1	2.2	2.0
EU–15*	4.6	10.7	4.3	4.1	2.0	2.6	2.1	1.9	1.6	2.0	1.7	1.8
EUR–11	4.6	10.3	3.7	3.9	1.8	2.5	1.9	1.7	1.5	1.9	1.6	1.7
US	3.1	7.0	4.1	2.9	1.9	2.0	1.9	2.0	.9	2.9	2.2	2.6
JP	6.1	6.5	1.2	1.1	.5	.1	1.6	.9	.7	.8	–.2	.4

(*) West–Germany up to 1991. EU–15 and EUR–11 aggregated with West–Germany up to 1991.

TABLE 6: **Balance on current account transactions with the rest of the world as a percentage of GDP**

		1961–73	1974–85	1986–90	1991–95	1996–2000	1996	1997	1998 forecast of III–1998	1998 forecast of X–1998	1999 forecast of III–1998	1999 forecast of X–1998	2000 forecast X–1998
B		1.4	–1.7	1.1	2.9	5.0	4.5	5.0	5.2	5.1	5.3	5.1	5.1
DK		–2.0	–3.5	–2.2	1.6	–.1	1.2	.3	.0	–.9	.2	–.6	–.4
D*		.7	.8	4.2	–1.2	–.1	–1.0	–.6	.1	.2	.2	.3	.4
EL		–2.4	–2.4	–3.5	–2.3	–2.4	–2.6	–2.6	–2.8	–2.4	–3.0	–2.3	–2.3
E		–.7	–1.4	–1.3	–1.9	–.1	.3	.4	.7	.1	.5	–.4	–.8
F		.6	–.3	–.3	.6	2.6	1.5	3.1	2.9	2.9	3.0	2.8	2.9
IRL		–2.4	–7.6	–.8	3.8	3.4	4.7	4.1	3.1	3.6	1.8	2.6	2.0
I		1.3	–.8	–.8	.0	3.2	3.4	3.2	3.1	3.1	3.1	3.1	3.0
L		6.3	24.4	28.1	21.0	15.0	16.3	14.1	17.0	14.1	18.0	14.7	15.7
NL		.5	2.0	3.0	4.5	5.8	6.2	5.8	5.6	5.8	5.4	5.6	5.5
A		.1	–1.0	.2	–.6	–2.1	–2.1	–2.2	–1.6	–1.9	–1.5	–2.1	–2.2
P		.4	–5.8	–.6	–3.4	–2.6	–5.1	–2.0	–2.7	–2.1	–3.1	–1.8	–2.0
FIN		–1.4	–2.0	–3.2	–1.2	5.5	4.0	5.5	6.0	5.8	6.7	6.1	6.2
S		.2	–1.7	–1.6	–1.2	1.6	1.5	2.1	2.2	1.5	2.6	1.3	1.6
UK	(a)	–.1	–.1	–3.7	–2.3	–.2	–1.5	1.0	–1.2	.2	–1.6	–.1	–.4
EU–15*		.4	–.3	.1	–.5	1.3	.8	1.5	1.3	1.5	1.3	1.4	1.4
EUR–11		.6	–.2	1.1	–.1	1.7	1.2	1.7	1.9	1.9	1.9	1.9	1.8
US		.5	–.4	–2.5	–1.1	–2.5	–1.8	–1.7	–2.1	–2.5	–2.4	–3.0	–3.3
JP		.6	.9	2.8	2.7	3.0	1.4	2.3	2.8	3.3	2.8	3.9	4.0

(*) West–Germany up to 1990. EU–15 and EUR–11 aggregated with West–Germany up to 1990.
(a) From 1995 onwards the series includes the balance of unremitted profits. SOEC definition without unremitted profits would suggest the following figures for 1996 to 2000: –1.6, –0.7, –2.4, –2.6 and –2.8.

TABLE 7: **General government net lending (+) or borrowing (–) as a percentage of GDP**

								1998 forecast of		1999 forecast of		2000 forecast
		1970–73	1974–85	1986–90	1991–95	1996–2000	1996	1997	III–1998	X–1998	III–1998	X–1998	X–1998
B		–3.4	–7.9	–7.1	–5.8	–1.7	–3.2	–2.0	–1.7	–1.3	–1.4	–1.2	–1.0
DK		4.2	–2.7	.8	–2.4	1.3	–.7	.5	1.1	1.2	1.7	2.6	2.9
D*	**([a])**	.2	–2.8	–1.5	–2.9	–2.6	–3.4	–2.7	–2.5	–2.6	–2.2	–2.2	–2.2
EL		–	–	–12.4	–11.7	–3.6	–7.5	–4.0	–2.2	–2.4	–2.0	–2.1	–1.9
E		.4	–2.8	–4.0	–5.8	–2.5	–4.7	–2.6	–2.2	–2.1	–1.9	–1.6	–1.3
F		.7	–1.7	–1.8	–4.5	–2.8	–4.1	–3.0	–2.9	–2.9	–2.6	–2.3	–1.9
IRL		–4.1	–10.4	–5.5	–2.2	2.1	–.4	.9	1.1	2.1	1.9	3.4	4.6
I		–5.4	–9.6	–10.9	–9.2	–3.3	–6.7	–2.7	–2.5	–2.6	–2.0	–2.3	–2.0
L		2.7	1.9	–	1.8	2.4	2.9	3.0	1.0	2.2	.6	2.0	2.0
NL	**([b])**	–.5	–3.6	–5.1	–3.6	–1.3	–2.2	–.9	–1.6	–1.4	–1.2	–1.4	–.6
A		1.5	–2.3	–3.2	–3.8	–2.4	–3.7	–1.9	–2.3	–2.2	–2.2	–2.1	–1.9
P		1.9	–6.7	–4.5	–5.4	–2.4	–3.3	–2.5	–2.2	–2.3	–1.9	–2.0	–1.8
FIN		4.6	3.7	4.0	–5.3	.0	–3.5	–1.1	.3	.7	.6	1.8	2.1
S		4.5	–1.7	3.2	–7.7	.1	–3.5	–.8	.5	.9	.9	1.4	2.3
UK		.1	–3.6	–.7	–5.8	–1.4	–4.7	–2.1	–.6	–.1	–.3	.1	–.2
EU–15*		–.3	–3.7	–3.3	–5.1	–2.2	–4.2	–2.3	–1.9	–1.8	–1.6	–1.4	–1.2
EUR–11		–.7	–3.9	–4.1	–4.9	–2.5	–4.1	–2.5	–2.4	–2.3	–2.0	–1.9	–1.7
US		–.8	–2.3	–2.9	–3.5	.9	–1.2	.1	.1	1.4	.6	2.0	2.4
JP		.8	–3.2	1.3	–.6	–5.1	–4.3	–3.3	–3.6	–5.5	–3.6	–6.7	–5.9

([*]) West–Germany up to 1990. EU–15 and EUR–11 aggregated with West–Germany up to 1991. Aggregation without Portugal up to 1985.
([a]) Not including unification–related debt and asset assumptions by the federal government in 1995 (Treuhand, eastern housing companies and Deutsche Kreditbank), equal to DEM 227.5 bn.
([b]) Not including for 1995 a net amount of NLG 32.84 bn of exceptional expenditure relating to the reform of the financing of the social housing societies.

TABLE 8: **General government gross debt as a percentage of GDP**

								1998 forecast of		1999 forecast of		2000 forecast
		1980	1985	1990	1994	1995	1996	1997	III–1998	X–1998	III–1998	X–1998	X–1998
B		77.1	120.1	125.7	133.2	131.0	126.8	121.9	118.1	117.2	114.2	113.7	110.1
DK	**([a])**	37.6	70.4	60.8	77.8	73.1	68.4	64.1	59.5	58.8	55.3	54.3	49.8
D*		31.7	41.7	43.8	50.2	58.3	60.8	61.5	61.2	61.3	60.7	61.0	60.7
EL		23.8	51.6	90.1	109.3	110.1	112.2	109.5	107.7	108.7	104.5	107.0	104.2
E		17.5	43.7	44.8	62.6	65.6	70.2	68.9	67.4	67.7	65.8	66.0	63.6
F		20.1	31.0	35.5	48.5	52.7	55.7	58.1	58.1	58.3	58.2	58.6	58.3
IRL		70.3	102.4	96.0	88.2	80.9	71.4	63.4	59.5	53.3	52.6	44.1	34.4
I		58.1	82.3	98.0	124.9	124.2	124.0	121.6	118.1	118.8	114.3	115.3	111.7
L		12.5	13.0	4.7	5.7	5.9	6.6	6.7	7.1	7.1	7.6	7.5	7.7
NL		46.9	71.5	79.2	77.9	79.2	77.1	71.4	70.0	68.6	67.7	66.6	63.7
A		36.6	49.8	57.9	65.4	69.2	69.6	64.3	64.7	64.0	63.6	63.6	62.8
P		31.6	60.5	65.3	63.8	65.9	64.9	61.5	60.0	57.4	58.0	55.3	53.7
FIN		11.8	16.5	14.5	59.6	58.1	57.8	55.1	53.6	52.9	52.3	50.2	48.3
S		41.0	63.8	43.5	79.3	78.0	77.2	76.9	74.1	74.0	70.0	69.5	63.8
UK		54.3	53.8	35.5	50.5	53.9	54.7	53.5	52.3	51.5	50.9	49.9	48.5
EU–15*		38.4	53.5	55.2	68.0	71.0	72.9	71.9	70.5	70.3	68.9	69.0	67.3
EUR–11		35.3	52.6	58.8	69.7	72.8	75.2	75.0	73.9	73.8	72.5	72.5	70.9

([*]) West–Germany up to 1990. EU–15 and EUR–11 aggregated with West–Germany up to 1990.
([a]) Government deposits with the central bank, government holdings of non–government bonds and public enterprise related debt amounted to some 12% of GDP in 1997.