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Central Intelligence Agency

Washington, D.C. 20505

14 NOV 1986

MEMORANDUM FOR: Mr. William M. George
Director, International Financial
and Economic Policy
Office of the Under Secretary of Defense

SUBJECT: NATO Country Economic Summaries 25X1

Attached are the NATO Country Economic Summaries that you requested in your memorandum of 20 October (I-09268/86). Once again, we are pleased to contribute to the briefing material being put together for Secretary Weinberger's attendance at the December NATO ministerial meeting. If you have any further questions or if we can be of further assistance, please call 25X1
Chief, West European Division 25X1

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Director
European Analysis

Attachment:
As stated

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DATE 11/18/86

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BELGIUM-LUXEMBOURG: GENERAL ECONOMIC DATA

BELGIUM

Population (1985): 9.9 Million GDP (Purchaser's Value)/Capita: $8,121

Total Output (Billion $US - 1985 Exch Rate)	1983	1984	1985	1986*
GDP (Purchaser's Value - Current Prices)	70.7	75.5	80.4	87.3
GDP (Constant Prices - % Change by Year)	0.0	1.5	0.9	2.1
Cost-of-Living Index (1980 = 100)	126	134	141	143

LUXEMBOURG

Population (1985): 0.4 Million GDP (Purchaser's Value)/Capita: $8,500

Total Output (Billion $US - 1985 Exch Rate)	1983	1984	1985	1986*
GDP (Purchaser's Value - Current Prices)	2.9	3.3	3.4	3.5
GDP (Constant Prices - % Change by Year)	1.8	2.8	4.9	2.8
Cost-of-Living Index (1980 = 100)	128	136	141	142

Dampened somewhat by efforts to reduce spending, the Belgian economy continues to grow at a slow but steady pace. Increased exports, especially to other EC members, will pace Belgium's growth in 1986 and GDP will expand by about 2 percent—up slightly from the last two years. Investment spending will continue to expand as interest rates fall, while cheaper oil and low inflation will boost private consumption. The sluggish pace of growth will do little to reduce the high unemployment rate—hovering above 12 percent. On the brighter side, inflation fell in 1985 to 4.9 percent and will fall even further this year to about 1.4 percent. 25X1

Prime Minister Martens's fiscal policy continues to emphasize reducing the budget deficit by controlling government spending. His center-right coalition's 1987 budget—currently before the Parliament—is designed to reduce the deficit from 12 percent of GDP in 1985 to 8 percent by next year. Brussels is pledged not to increase taxes, so the deficit reduction will have to come from lowered government spending. 25X1

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Belgium's current account surplus is expected to increase to about $2.2 billion this year from $0.6 billion in 1985. Belgian exports, which constitute about 70 percent of GNP, will grow by about 4.7 percent in 1986, while lower oil prices will hold down the growth of imports.

TRADE AND PAYMENTS (Billion $US, BOP Basis) (Belgium-Luxembourg)	1983	1984	1985	1986*
Exports of Goods and Services	76.1	77.4	80.5	84.2
Imports of Goods and Services	76.1	76.6	79.8	82.1
Balance of Goods and Services	-0.6	0.8	0.5	2.1
Current Account Balance	-0.5	-0.1	0.6	2.2
Long-Term Capital	-3.3	-2.3	-4.9	-1.8
Total Reserves Minus Gold (yearend)	4.7	4.6	4.8	5.3**

* Estimated
**August

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CANADA: GENERAL ECONOMIC DATA

Population (1985): 25.4 Million GDP (Purchaser's Value)/Capita: $13,547

Total Output (Billion $US - 1985 Exch Rate)	1983	1984	1985	1986
GDP (Purchaser's Value - Current Prices)	294.5	319.2	344.1	368.0
GDP (Constant Prices - % Change by Year)	3.2	5.0	4.5	2.7
Cost-of-Living Index (1980 = 100)	132	138	144	150

Ottawa is currently attempting to deal with recent US countervailing duty (CVD) decisions that have hit its forestry industry and to keep the free-trade negotiations with Washington on track. The government is fending off opposition insistence that it has mismanaged the negotiations and that it end the talks. To appease producers suffering from depressed commodity prices, Ottawa has promised Canadian grain farmers a $720-million aid package and has rescinded certain taxes for oil companies. The Tory government continues to trail in the polls, however, despite having achieved many of its economic goals. 25X1

The Canadian economy is likely to grow by less than 3 percent this year, down from 4.5 percent in 1985. The slowdown is attributable to declining investment following the collapse of oil prices and an accumulation of inventories at mid-year. Ottawa has missed its budget deficit target of $21.6 billion for fiscal year 1986-87 by at least $1.8 billion, but insists that tax reforms to be proposed in early 1987 will broaden the tax base enough to meet deficit reduction goals. The unemployment rate has fallen to a four-year low of 9.4 percent, but is expected to reach ten percent by the end of the year. Inflation should remain around four percent, with higher sales taxes offsetting gains from lower oil prices. 25X1

Canada's 1985 trade surplus of $15 billion with the US will be reduced to $11 billion in 1986 by the declining value of its energy exports and the sluggish US economy. This decline in trade with the US—the only major trading partner with which Canada has a positive trade balance—will help push the expected current account deficit to $6 billion. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1983	1984	1985	1986*
Exports of Goods and Services	87.7	101.3	103.6	106.0
Imports of Goods and Services	87.0	100.2	106.2	113.0
Balance of Goods and Services	0.7	1.1	-2.6	-7.0
Current Account Balance	1.4	1.9	-1.9	-6.0
Long-Term Capital	-0.6	1.2	0.6	0.6
Total Reserves Minus Gold (yearend)	3.5	2.5	2.5	2.3**

* Estimated
**September 1986

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DENMARK: GENERAL ECONOMIC DATA

Population (1985): 5.1 Million

GDP (Purchaser's Value)/Capita: $11,200

Total Output (Billion $US - 1985 Exch Rate)	1983	1984	1985	1986*
GDP (Purchaser's Value - Current Prices)	48.4	53.0	57.1	60.9
GDP (Constant Prices - % Change by Year)	2.1	3.5	2.7	3.3
Cost-of-Living Index (1980 = 100)	132	140	146	151

Denmark's economy will grow about 3.0 - 3.5 percent this year, spurred by strong domestic demand. An inflation rate of under 4 percent will combine with real wage increases, growing employment, and a decline in household saving to boost consumption by almost 4 percent. Furthermore, investment spending will increase about 15 percent because of high capacity utilization, strong profitability, lower interest rates, slower labor cost growth, and a favorable business climate. 25X1

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The persistent current account deficit--$2.3 billion for the first half of 1986 and growing at a record-setting pace--continues to frustrate the center-right government, forcing it to consider a currency devaluation. Copenhagen announed yet another plan in October to dampen import demand--its third in a year--by raising taxes on consumer lending. The new measures are unlikely to lead to a significant improvement in the 1986 current account since export performance will remain weak due to the falling US dollar and slow growth in Denmark's major trading-partner countries.

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Strong job creation has steadily lowered Denmark's high unemployment rate over the past year, from over 10 percent to 7.8 percent in August. This improvement has diminished much of the opposition's pressure on the government to stimulate the economy, which would almost certainly have significantly worsened Denmark's current account.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1983	1984	1985	1986*
Exports of Goods and Services	22.5	22.4	24.1	24.8
Imports of Goods and Services	23.5	24.1	26.7	28.8
Balance of Goods and Services	-1.0	-1.7	-2.6	-4.0
Current Account Balance	-1.2	-1.6	-2.8	-4.2
Long-Term Capital	2.5	1.9	7.2	7.6
Total Reserves Minus Gold (yearend)	3.6	3.0	5.4	5.2**

* Estimated

** September

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FRANCE: GENERAL ECONOMIC DATA

Population (1985): 55.1 Million GDP (Purchaser's Value)/Capita: $9,281

Total Output (Billion $US - 1985 Exch Rate)	1983	1984	1985	1986*
GDP (Purchaser's Value - Current Prices)	437.9	476.7	511.4	536.2
GDP (Constant Prices - % Change by Year)	0.7	1.5	1.3	2.3
Cost-of-Living Index (1980 = 100)	139	149	158	162

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Helped by lower oil prices and the falling US dollar, the French economy is enjoying a relatively good year. Real GDP should increase about 2.3 percent in 1986, after five years of virtually flat growth. Inflation is at its lowest in 20 years, with price rises averaging about 2.3 percent over the year compared to a 5.8-percent increase in 1985. The French balance of payments is also showing its best performance since 1979. The trade balance is expected to improve significantly from a $4.6-billion deficit in 1985 to a $0.8 to $1.0-billion surplus this year. Likewise, the almost $1.0-billion current account surplus France had last year will grow to around $4.0 billion in 1986.

The dark cloud in the French economic picture is unemployment, which reached a post-war high of around 10.7 percent this fall. Given current demographic trends and the restructuring of French industry—which is trying to cut labor costs—there is little chance that the employment situation will improve before the presidential elections due no later than May 1988. The end of next year will see over three million Frenchmen unemployed compared to around 2.5 million out of work at present. 25X1

The conservative government of Prime Minister Chirac has moved toward market-oriented policies. Price controls on all but a few selected items will be removed by the end of the year. The government is also moving on its plans to privatize parts of the public sector and to liberalize foreign and capital market regulations. The government introduced a 1987 budget which, for the first time in 29 years, proposes expenditure growth that is less than expected inflation. The new budget envisions tax reductions and cuts in government personnel, in subsidies, and in aid to industry. Defense spending is to grow substantially in real terms and equipment purchase plans give priority to the modernization of France's strategic nuclear forces. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1983	1984	1985	1986*
Exports of Goods and Services	145.3	147.7	154.6	158.4
Imports of Goods and Services	146.6	145.7	151.1	152.4
Balance of Goods and Services	-1.3	2.0	3.5	6.0
Current Account Balance	-5.2	-0.9	0.9	3.8
Long-Term Capital	9.3	5.2	3.8	2.0
Total Reserves Minus Gold (yearend)	19.9	20.9	26.6	33.6**

* Estimated
** August

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GREECE: GENERAL ECONOMIC DATA

Population (1985): 9.9 Million   GDP (Purchaser's Value)/Capita: $3,313

Total Output (Billion $US - 1985 Exch Rate)	1983	1984	1985	1986*
GDP (Purchaser's Value - Current Prices)	22.2	27.3	32.8	32.4
GDP (Constant Prices - % Change by Year)	0.0	2.6	2.1	-1.0
Cost-of-Living Index (1980 = 100)	181	215	256	324

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Despite electoral losses, Prime Minister Papandreou is sticking to the austerity program initiated at the start of the year. The plan included a 15-percent devaluation of the drachma, import restrictions, and changes in the wage indexation formula which will reduce worker's real income by about 7 percent. The program was aimed at curbing a soaring current account deficit, a huge public sector borrowing requirement, and a high inflation rate, but it has yet to show significant results in these areas. Austerity is causing the economy to contract in 1986; real GDP will fall .5 to 1 percent and unemployment may rise to about 9 percent.

25X1

The current account deficit for January-August decreased 39.7 percent to $1.2 billion against a deficit of $2 billion in the same period of last year, but falling oil prices saved Greece $726 million and higher net EC payments and tourist receipts provided $359 million and $244 million respectively. Non-oil imports for January-August have risen 14.8 percent compared to last year, while exports have only increased 1.5 percent over the same period. Greece's 24-percent inflation rate has already eroded any benefits from the drachma devaluation.

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On November 7, Papandreou implemented a complete price freeze until 31 January 1986. The freeze was probably instituted more for political than economic reasons, in hopes of easing worker discontent over falling real incomes. It may well lead, however, to shortages, a worsened current account situation, decreased investment, and greater unemployment through business failure. Greece's best hope for relief lies with the EC. The austerity program paved the way for a $1.5 billion balance-of-payments loan from the EC, about half of which has been disbursed. The second portion is supposed to be released if Athens makes progress in meeting its economic targets. Although Greece has little chance of meeting those conditions, the EC is likely to go ahead with the loan after getting Papandreou to tighten economic policy in 1987.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1983	1984	1985	1986*
Exports of Goods and Services	4.1	4.4	4.3	4.4
Imports of Goods and Services	9.5	9.8	10.5	10.2
Balance of Goods and Services	-5.4	-5.4	-6.2	-5.6
Current Account Balance	-1.9	-2.2	-3.3	-2.0
Long-Term Capital	2.1	1.8	2.8	3.1
Total Reserves Minus Gold (yearend)	0.9	1.0	0.9	1.5**

*Estimated
**August

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ICELAND: GENERAL ECONOMIC DATA

Population (1985): 0.24 million GDP (Purchaser's Value)/Capita: $14,167

Total Output (Billion $US - 1985 Exch Rate)	1983	1984	1985	1986*
GDP (Purchaser's Value - Current Prices)	2.0	2.6	3.4*	4.3
GDP (Constant Prices - % Change by Year)	-5.5	2.7	3.4*	5.0
Cost-of-Living Index (1980 = 100)	418	547	722	790

The Icelandic economy will probably achieve 5-percent growth in 1986 and should also remain strong in 1987 due to the fall in oil prices, a sharp decline in inflation, higher real incomes, and an increase in the fish catch—Iceland's main export. The decline in fish exports to the US, because of the US dollar's depreciation, has been more than offset by higher prices and strong markets in Western Europe. The weaker dollar also will ease the burden of Iceland's foreign debt, from 55 percent to about 50 percent of GDP. 25X1

Gross fixed investment growth will be flat in 1986 for the second consecutive year, but private consumption remains strong following the February anti-inflation agreement among government, business, and labor. This agreement may bring the inflation rate down to single digits for 1986 following more than a decade of double-digit inflation. 25X1

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Iceland's unemployment rate will remain under 1 percent, although some regions may experience cyclically higher rates because of their fishing-based economy. Improvements in the terms of trade will help maintain strong export growth, a declining current account deficit, and low unemployment. Over the longer term, Reykjavik realizes it will have to continue deregulating its money and capital markets and amend its limits on foreign ownership of industries to attract the foreign investment needed to diversify Iceland's economy and ensure sustained growth.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1983	1984	1985	1986*
Exports of Goods and Services	1.10	1.11	1.22	1.30
Imports of Goods and Services	1.15	1.24	1.34	1.38
Balance of Goods and Services	-0.05	-0.13	-0.12	-0.08
Current Account Balance	-0.06	-0.13	-0.12	-0.07
Long-Term Capital	0.09	0.11	0.16	0.17
Total Reserves Minus Gold (yearend)	0.15	0.13	0.21	0.23**

* Estimated
** September

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ITALY: GENERAL ECONOMIC DATA

Population (1985): 57.1 Million   GDP (Purchaser's Value)/Capita: $6,282

Total Output (Billion $US - 1985 Exch Rate)	1983	1984	1985	1986*
GDP (Purchaser's Value - Current Prices)	282.3	320.6	358.7*	397.0
GDP (Constant Prices - % Change by Year)	-0.4	-2.6	2.3*	2.8
Cost-of-Living Index (1980 = 100)	157	174	190	201

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External forces—falling oil prices and the declining value of the dollar—are the key factors behind Italian real GDP growth of 2.8 percent in 1986. We believe exports will gradually replace private consumption as the driving force behind moderately healthy (2.5-3.0 percent) growth through the end of the decade. Increases in investment in plant and equipment of about 3.5 percent this year and next will also contribute to growth. A large youth population and increased participation by women in the labor force, however, are likely to push the unemployment rate above 11 percent in 1987. 25X1

Falling oil prices have helped reduce inflation 3.5 percentage points to 5.7 percent in 1986, despite the government's decision to discourage increased fuel consumption by raising gasoline taxes. Consumer price inflation is likely to be reduced another percentage point in 1987, although prices probably will begin to rise again toward the end of the year. Cheaper energy imports will contribute to a nearly $5.5 billion improvement in Italy's trade deficit and a current account surplus of $2.5 billion this year. Declining export competitiveness, however, probably will put the current account back into deficit in 1987.

Rome continues to fail in its efforts to reduce the huge public sector deficit, 25X1 which is likely to exceed 15 percent of GDP this year. The government crisis last July delayed planning of the 1987 budget and the spending cuts finally introduced again lack any teeth. As a consequence, Rome's 1987 deficit is likely to remain near 15 percent of GDP, well above the 12.5-percent target projected in the budget. Covering the huge public sector borrowing requirement is a significant drain on Italy's financial resources and probably will keep Italian interest rates high relative to those in other industrialized countries.

Trade and Payments (Billion $US, BOP Basis)	1983	1984	1985	1986*
Exports of Goods and Services	97.4	99.2	105.5	118.0
Imports of Goods and Services	98.1	103.2	110.8	121.0
Balance of Goods and Services	-0.7	-4.0	-5.3	-3.0
Current Account Balance	-0.6	-2.9	-4.2	-2.5
Long-Term Capital	0.5	0.6	2.5	1.5
Total Reserves Minus Gold (yearend)	19.8	20.8	15.5	20.4**

* Estimated
** August

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NETHERLANDS: GENERAL ECONOMIC DATA

Population (1985): 14.5 Million   GDP (Purchaser's Value)/Capita: $8,566

Total Output (Billion $US-1985 Exch Rate)	1983	1984	1985	1986*
GDP (Purchaser's Value - Current Prices)	113.9	118.9	124.2	126.1
GDP (Constant Prices - % Change by Year)	1.3	1.7	2.0	1.5
Cost-of-Living Index (1980 = 100)	116	120	123	123

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The Dutch economy is likely to continue its slow but steady growth in 1986, fueled by rising business investment, consumer spending, and export earnings. Job creation is beginning to exceed the growth of the labor force, and the unemployment rate should drop slightly to around 12 percent. The Dutch are also beginning to come to grips with a generous welfare system that reduces the incentive to find work. Modest wage settlements and small rises in import prices helped hold inflation to only 2.5 percent in 1985 and should permit a further fall to near zero this year.

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The Hague's 1986 budget relaxes—but does not abandon—the austerity program put in place in 1982 to bring down the public sector deficit. Public expenditures are being reduced by $2.5 billion by trimming welfare spending, public-sector wages, and allocations to various ministries. Nevertheless, the deficit is likely to rise slightly above the 1985 figure of 6 percent of GDP.

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The Netherlands will continue to enjoy large current account and trade surpluses in 1986. Although imports should grow faster than exports in volume terms, the trade surplus is likely to widen marginally due to favorable movements in the terms of trade on both the energy and non-energy accounts.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1983	1984	1985	1986*
Exports of Goods and Services	83.4	86.2	86.7	90.3
Imports of Goods and Services	78.9	78.7	80.3	83.8
Balance of Goods and Services	6.0	7.5	6.4	6.5
Current Account Balance	5.1	6.5	5.4	5.6
Long-Term Capital	-3.2	-4.3	-3.7	-3.9
Total Reserves Minus Gold (yearend)	10.2	9.2	10.8	11.6**

* Estimated
** September

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NORWAY: GENERAL ECONOMIC DATA

Population (1985): 4.2 Million GDP (Purchaser's Value)/Capita: $13,786

Total Output (Billion $US - 1985 Exch Rate)	1983	1984	1985	1986
GDP (Purchaser's Value - Current Prices)	46.8	52.7	57.9	60.2
GDP (Constant Prices - % Change by Year)	3.8	3.8	3.0	4.0
Cost-of-Living Index (1980 = 100)	137	146	154	166

The Norwegian economy, which grew about 4 percent this year, will probably have difficulty adjusting to the 1986 collapse of oil prices. The resulting cloudy outlook for the domestic economy and lack of confidence in the Labor government's economic policies will probably turn the healthy 25-percent growth in investment in 1986—compared to a 22 percent fall in 1985—into a slight decline in 1987. The main short-run impact of lower oil prices has been the sharp decline in oil production tax revenues, which have fallen from about 20 percent of total receipts in 1985 to about 15 percent in 1986, and will probably fall further to about 7 percent in 1987. Higher taxes that may be imposed on the non-oil sectors to offset the shortfall will hinder the economy's adjustment and will help slow 1987 economic growth. 25X1

Norway's inflation rate has remained at over 7 percent despite the fall in oil prices. The kroner devaluation in May and an estimated 9-percent increase in wages have offset a tighter monetary policy and a slowdown in consumption spending. Inflationary pressures will continue in 1987 because of a legislated reduction in the workweek, unaccompanied by pay cuts, and because of a probable increase in money supply growth as the government attempts to boost the economy by reducing interest rates. 25X1

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The $3.1-billion current account surplus in 1985 turned into a $4.5-billion deficit in 1986 and may widen further in 1987. Exports will decline about 16 percent this year due to the drop in energy exports, while imports have increased despite the devaluation. The devaluation may stimulate exports somewhat next year.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1983	1984	1985	1986*
Exports of Goods and Services	26.6	28.0	27.3	26.5
Imports of Goods and Services	24.0	24.2	22.7	29.1
Balance of Goods and Services	2.8	3.8	4.6	-2.6
Current Account Balance	2.0	3.0	3.0	-4.5
Long-Term Capital	-1.0	-0.1	1.3	1.8
Total Reserves Minus Gold (yearend)	6.6	9.4	13.9	14.6**

* Estimated
** September

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PORTUGAL: GENERAL ECONOMIC DATA

Population (1985): 10.0 Million   GDP (Purchaser's Value)/Capita: $2,100

Total Output (Billion $US - 1985 Exch Rate)	1983	1984	1985	1986*
GDP (Purchaser's Value - Current Prices)	13.4	17.1	21.0	24.6
GDP (Constant Prices - % Change by Year)	-0.4	-1.7	2.8	3.7
Cost-of-Living Index (1980 = 100)	184	238	284	321

The Portuguese economy will probably grow 3.7 percent in 1986, benefitting from declining interest rates, lower oil and commodity prices, and a weakened US dollar. Private consumption is likely to be the major component of growth—increasing 3.8 percent—as nominal wage increases run 4-5 percentage points above inflation and household incomes are boosted by strong increases in social transfers and lower taxes. Private sector investment growth is likely to be sluggish—despite interest rate cuts and the introduction of tax incentive measures—since business lacks confidence in the minority Cavaco Silva government and doubts Lisbon's willingness to liberalize the economy. Inflation will continue its downward trend, falling to about 13 percent, with unemployment remaining around 11 percent. 25X1

The fall in oil prices is likely to provide an ample cushion against the initial adjustment difficulties of Portugal's first year in the EC. The current account is expected to reach a $1.3-billion surplus in 1986, despite a deteriorating trade balance. As a result, Portugal's international credit rating is likely to improve, which will help pave the way for the government's proposed restructuring of Portugal's $16.6 billion foriegn debt. 25X1

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Lisbon has made some progress in reducing the budget deficit, although it has been due primarily to greater-than-expected revenues realized from the value added tax, savings on external debt service, and lower oil and agricultural commodity prices. Government expenditures are likely to rise slightly, as Lisbon increases public consumption and investment in an attempt to stimulate the economy. The budget deficit is expected to be 11 percent of GDP this year.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1983	1984	1985	1986*
Exports of Goods and Services	6.9	7.1	8.0	8.5
Imports of Goods and Services	10.1	9.8	9.8	10.3
Balance of Goods and Services	-3.2	-2.7	-1.8	-1.8
Current Account Balance	-1.0	-0.5	0.4	1.3
Long-Term Capital	1.2	1.2	1.0	1.0
Total Reserves Minus Gold (yearend)	0.4	0.5	1.4	1.8**

* Estimated
**August

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SPAIN: GENERAL ECONOMIC DATA

Population (1985): 38.8 Million GDP (Purchaser's Value)/Capita: $4,356

Total Output (Billion $US - 1985 Exch Rate)	1983	1984	1985	1986*
GDP (Purchaser's Value - Current Prices)	134.0	152.5	169.0	187.6
GDP (Constant Prices - % Change by Year)	2.5	2.3	2.1	2.9
Cost-of-Living Index (1980 = 100)	147	164	178	192

[redacted] Real GDP is likely to grow 2.9 percent this year, mainly because of rising private sector demand. After only a moderate rise in 1985, private consumption should increase 2.5 percent, due primarily to rising real wages and lower taxes. Fixed investment is likely to jump 7 percent in 1986, buoyed by improving company profits, declining interest rates, and renewed corporate optimism. Inflation probably will be about 8 percent, as real wages and the money supply continue to rise. Unemployment remains troublesome at 21 to 22 percent. 25X1

[redacted] Entry into the EC is not likely to bring Spain any immediate benefits. Agricultural exports will not rise greatly since high EC tariffs will only gradually diminish over the 7- to 10-year transition period. Industrial exports are also unlikely to expand significantly because Spanish firms are plagued with unit labor costs that are among the highest in Europe and an inflation rate still about 5 percentage points above the EC average. Lower oil and commodity prices, a weakened US dollar, and a large increase in tourism revenues will, nonetheless, help to mitigate the initial negative effects of EC membership. The current account balance is expected to be a $5.8 billion surplus in 1986. 25X1

[redacted] The snap elections called by the Socialists in June resulted in their retaining power, albeit with a reduced majority. Moderate but outward-looking policies are now likely to continue to dominate economic decisionmaking in the next year. Reducing the budget deficit—to 4.8 percent of GDP in 1986—and the inflation rate—to 5 percent by 1987—will remain central to the government's monetary and fiscal policies. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1983	1984	1985	1986*
Exports of Goods and Services	32.7	37.1	38.8	40.2
Imports of Goods and Services	36.6	35.9	36.9	39.3
Balance of Goods and Services	-3.9	1.2	1.9	0.9
Current Account Balance	-2.7	2.3	3.0	5.8
Long-Term Capital	3.1	3.3	-1.4	0.5
Total Reserves Minus Gold (yearend)	7.4	12.0	11.2	14.8**

* Estimated
**August

[redacted] 25X1

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TURKEY: GENERAL ECONOMIC DATA

Population (1985): 51.3 Million   GDP (Purchaser's Value)/Capita: $1,023

Total Output (Billion $US - 1985 Exch Rate)	1983	1984	1985	1986*
GDP (Purchaser's Value - Current Prices)	22.0	34.9	52.5	56.2
GDP (Constant Prices - % Change by Year)	3.8	5.9	4.9	7.0
Cost-of-Living Index (1980 = 100)	237	352	507	669

Turkey is making progress under Prime Minister Ozal's free-market economic program, 25X1 but continues to face difficulties with inflation, unemployment, and the balance of payments. Although prospects for the economy continue to be good, important Middle East markets have lost their buoyancy, and Turkey will have to continue adhering closely to its program to avoid serious problems with debt servicing as repayments peak in 1987.

Turkey's current account deficit more than doubled in the period January-June 1986 25X1 over the same period last year. The sharp deterioration is partially due to increased imports of investment goods before the expiration of government incentives earlier this year, but mostly to a decline in invisibles--tourism and worker's remittances--as well as loss of export markets. On the domestic side, inflation fell to a 30-percent annual rate in August, but it may begin rising later this year due to a burgeoning money supply and price increases on state-produced goods. Unemployment, officially at 16.7 percent, is unlikely to fall any time soon as growth in the labor pool is outstripping increases in employment opportunities. Moreover, guest workers formerly employed in oil producing states are now returning home.

The biggest challenge facing Ankara is its large debt service obligations that 25X1 began climbing last year as grace periods on previously rescheduled debt expired. In 1985 Turkey paid approximately $3.7 billion in principal and interest repayments, or about 33 percent of foreign exchange earnings. This year, Turkey will pay an estimated $4.0 to $4.2 billion. To provide the cash, Ankara has tried a succession of measures aimed at increasing exchange earnings. The latest of these was a 2.3-percent devaluation of the Lira against the US dollar and reforms of banking laws, aimed at encouraging banks to lend more to exporters.

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1983	1984	1985	1986*
Exports of Goods and Services	5.9	7.4	11.4	11.0
Imports of Goods and Services	8.9	10.3	14.4	15.0
Balance of Goods and Services	-3.0	-2.9	-3.0	4.0
Current Account Balance***	-1.8	-1.4	-1.0	-2.0
Long-Term Capital	-0.3	0.2	-0.6	-0.2
Total Reserves Minus Gold (yearend)	1.3	1.3	1.1	1.7**

* Estimated
**August
***1982-1984 figures exclude debt relief

25X1

 25X1

UNITED KINGDOM: GENERAL ECONOMIC DATA

Population (1985): 56.4 Million GDP (Purchaser's Value)/Capita: $8,018

Total Output (Billion $US-1985 Exch Rate)	1983	1984	1985	1986*
GDP (Purchaser's Value - Current Prices)	389.0	412.3	452.2	477.5
GDP (Constant Prices - % Change by Year)	3.6	2.0	3.0	2.4
Cost-of-Living Index (1980 = 100)	127	133	141	146

The United Kingdom's five-year-old economic expansion lost a great deal of steam this year, with growth likely to be limited to between 2 and 2.5 percent. A sharp rise in real earnings—caused by both a fall in inflation to 3 percent and high wage settlements—has allowed consumption to be the mainstay of 1986 growth. Private investment has been weak due to high real interest rates and depressed activity in the oil sector. Despite the continued growth, unemployment remains a critical problem. The jobless rate, which stood at 11.6 percent in October, shows no sign of a significant improvement in the near future. 25X1

Pre-election politics are straining the Thatcher government's commitment to cutting government spending and reducing the budget deficit. A sharp drop in North Sea oil receipts and smaller-than-expected revenues from the sale of nationalized industries have pushed the public sector borrowing requirement (PSBR) for fiscal year 1986 close to its target after only six months. This year's poor budget performance and the government's recently announced plans to increase spending will make it difficult for London to carry through with its planned tax cut in next March's budget. Monetary policy continues to stress control of inflation and currency stability. To that end, British interest rates remain among the highest in the OECD. 25X1

The current account was in slight deficit for the first nine months of the year, and the underlying trend points to a growing deficit over the next year. The trade account is suffering a significant deficit as high consumer spending is fueling a sharp rise in imports while oil exports have fallen sharply and non-oil exports have remained flat. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1983	1984	1985	1986*
Exports of Goods and Services	185.6	191.1	201.3	209.4
Imports of Goods and Services	177.7	186.0	191.5	211.2
Balance of Goods and Services	7.9	5.1	9.8	-1.8
Current Account Balance	4.7	1.4	4.6	-0.3
Long-Term Capital	-13.7	-20.8	-17.1	-15.0
Total Reserves Minus Gold (yearend)	11.3	9.4	12.9	15.0**

* Estimated
** August

25X1

WEST GERMANY: GENERAL ECONOMIC DATA

Population (1985): 61.0 Million GDP (Purchaser's Value)/Capita: $10,192

Total Output (Billion $US - 1985 Exch Rate)	1983	1984	1985	1986*
GDP (Purchaser's Value - Current Prices)	567.1	593.8	621.7	651.5
GDP (Constant Prices - % Change by Year)	-1.5	2.7	2.4	2.8
Cost-of-Living Index (1980 = 100)	116	118	121	121

25X1

Domestic demand, led by private consumption, has replaced the trade balance as the driving force behind economic expansion, and West Germany will probably record real growth of nearly 3 percent in 1986. Growth next year was also initially projected to be about 3 percent, but this expectation is now regarded as optimistic because of the effects of a stronger deutsche mark on trade, and the belief that the current surge in domestic demand will not last. To avert a slowdown, many experts, including West Germany's five leading economic institutes, are now pushing Bonn either to speed up scheduled tax cuts or to accelerate its planned tax reform. Reducing the budget deficit remains Finance Minister Stoltenberg's top fiscal priority, however, and Bonn is unlikely to accede to these calls unless markedly slower growth is apparent by the spring.

Unemployment has steadily dropped this year and currently stands below 8 percent. It remains above the politically sensitive 2-million level, however, and Bonn sees little hope of reducing it much further in the near and medium term. The German economy is projected to produce only 250,000 jobs in 1987, 50,000 less than this year. The inflation rate is expected to be slightly negative this year, reflecting the sharp drop in both oil and food prices, due in part to the appreciation of the deutsche mark. Christian Democrat Chancellor Kohl is counting on the country's relatively strong performance on growth and inflation to offset any concern over lingering unemployment when voters go to the polls on 25 January to elect a new national government. 25X1

Monetary growth will overshoot its 5.5-percent upper target range this year, largely as a result of the Bundesbank's efforts to slow the decline of the US dollar. This excessive monetary growth has been used by the Bundesbank in recent months to rationalize its refusal to lower the West German discount rate, thus exacerbating an economic dispute with the United States. Washington has argued that lower German interest rates would—among other things—alleviate West Germany's large bilateral trade surplus with the US. This surplus reached a peak of $25 billion this year, but is expected to decline in 1987. 25X1

TRADE AND PAYMENTS (Billion $US, BOP Basis)	1983	1984	1985	1986*
Exports of Goods and Services	208.9	209.3	223.7	276.0
Imports of Goods and Services	194.9	192.2	199.3	235.0
Balance of Goods and Services	14.0	17.1	24.4	41.0
Current Account Balance	4.2	6.8	13.8	35.0
Long-Term Capital	-3.0	-5.3	-2.2	8.0
Total Reserves Minus Gold (yearend)	42.7	40.1	44.4	48.9**

* Estimated
** September

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SUBJECT: NATO Country Economic Summaries [redacted] 25X1

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