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MEMORANDUM FOR: Mr. William M. George
Director, East-West Economic Competition
Office of the Assistant Secretary of Defense

SUBJECT: NATO Country Economic Summaries [redacted] 25X1

Attached are the NATO Country Economic Summaries that you requested in your memorandum of 28 October (I-07664/87.) Once again, we are pleased to contribute to the briefing material being put together for the Secretary of Defense for the fall 1987 semi-annual NATO ministerial meeting. If you have any further questions or if we can be of further assistance, please call 25X1
[redacted] Chief, West European Division, [redacted] 25X1

[redacted] 25X1

Director
European Analysis

Attachment:
As stated

[redacted] 25X1

[redacted] 25X1

# BELGIUM-LUXEMBOURG: GENERAL ECONOMIC DATA

## BELGIUM

Population (1986): 9.9 Million GDP (Purchaser's Value)/Capita: $11,210

| Total Output (Billion $US - 1986 Exch Rate) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| GDP (Purchaser's Value - Current Prices) | 101.0 | 107.7 | 109.8 | 111.0 |
| GDP (Constant Prices - % Change by Year) | 1.5 | 0.9 | 2.3 | 1.1 |
| Cost-of-Living Index (1980 = 100) | 134 | 141 | 142 | 144 |

## LUXEMBOURG

Population (1986): 0.4 Million GDP (Purchaser's Value)/Capita: $11,500

| Total Output (Billion $US - 1986 Exch Rate) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| GDP (Purchaser's Value - Current Prices) | 4.4 | 4.5 | 4.6 | 4.7 |
| GDP (Constant Prices - % Change by Year) | 2.8 | 4.9 | 2.5 | 2.0 |
| Cost-of-Living Index (1980 = 100) | 136 | 141 | 142 | 143 |

25X1

Dampened somewhat by efforts to reduce spending, the Belgian economy will not be able to repeat the 2.3-percent GDP growth recorded last year--its best performance since 1980. Growth last year got a boost from increased exports--especially to other EC members--as well as from lower oil prices, which helped boost investment and private consumption. This year investment and private consumption will both grow more slowly while government spending will actually decline in real terms, pulling GDP growth down to about 1 percent. The sluggish pace of growth will do little to reduce the high unemployment rate--hovering above 12 percent. On the brighter side, inflation fell to 1.3 percent in 1986 and will probably hold steady at just over 1 percent this year.

Prime Minister Martens--whose center-right coalition fell in October and is serving in a caretaker capacity pending elections later this year--continues to emphasize reducing the budget deficit by controlling government spending. The coalition's 1987 budget 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 lower government spending. 25X1

The Belgium/Luxembourg current account surplus increased to about $3.6 billion last year, up from $0.7 billion in 1985, mainly because of the lower oil bill. Belgian exports, which constitute about two-thirds of GNP, will grow by more than 4 percent in 1987. 25X1

| TRADE AND PAYMENTS (Billion $US, BOP Basis) (Belgium-Luxembourg) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| Exports of Goods and Services | 77.4 | 80.8 | 101.9 | 105.9 |
| Imports of Goods and Services | 76.6 | 79.4 | 97.5 | 101.9 |
| Balance of Goods and Services | 0.8 | 1.4 | 4.4 | 4.0 |
| Current Account Balance | -0.1 | 0.7 | 3.6 | 3.2 |
| Long-Term Capital | -2.3 | -4.5 | -6.8 | -4.3 |
| Total Reserves Minus Gold (yearend) | 4.6 | 4.8 | 5.5 | 8.2** |

*Projected
**August

25X1

# CANADA: GENERAL ECONOMIC DATA

Population (1986): 25.4 Million

GDP (Purchaser's Value)/Capita: $14,310

| Total Output (Billion $US - 1986 Exch Rate) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| GDP (Purchaser's Value - Current Prices) | 319.0 | 342.9 | 363.6 | 392.0 |
| GDP (Constant Prices - % Change by Year) | 5.5 | 4.0 | 3.1 | 3.7 |
| Cost-of-Living Index (1980 = 100) | 138 | 144 | 149 | 156 |

25X1

All components of GNP have exhibited strong growth in 1987, but we expect some slowing next year in both consumer demand and exports. At that time business investment--fueled by emerging capacity constraints and high corporate profits--will take over as the driving force behind economic expansion. Overall, real GDP growth will slow to about 2.5 percent in 1988, while the unemployment rate probably will remain near its present level of 8.6 percent--the lowest it has been since early 1982. Higher commodity prices, new excise taxes, and larger wage gains are likely to push consumer prices up about 5 percent in 1988. 25X1

Strong employment growth has boosted government revenues in the first half of 1987, and Ottawa is likely to meet its 1987/88 budget deficit target of $22 billion or 5.4 percent of GDP. Ottawa, however, has introduced a tax reform program that we believe will hamper further deficit reduction because the government plans to delay an unpopular new sales tax until 1990. 25X1

Efforts to finalize the preliminary free-trade agreement signed recently with the United States will dominate Canada's trade front over the next year. The agreement, which eliminates tariffs and reduces non-tariff barriers over a ten-year period, would increase trade and investment between the two countries. Nonetheless, many Canadians--led by the two opposition parties--fear Ottawa has ceded sovereignty over energy and investment policies in return for these economic benefits. Canada's merchandise trade surplus with the US probably will drop to $10.5 billion in 1987, and decline further as US growth slows next year.

| TRADE AND PAYMENTS (Billion $US, BOP Basis) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| Exports of Goods and Services | 102.4 | 105.0 | 104.5 | 105.5 |
| Imports of Goods and Services | 100.4 | 106.1 | 111.8 | 114.0 |
| Balance of Goods and Services | 2.0 | -1.1 | -7.3 | -8.5 |
| Current Account Balance | 2.6 | -0.4 | -6.0 | -5.5 |
| Long-Term Capital | 1.3 | -0.3 | 11.6 | 20.5 |
| Total Reserves Minus Gold (yearend) | 2.5 | 2.5 | 3.3 | 6.4** |

* Projected
**August

25X1

## DENMARK: GENERAL ECONOMIC DATA

Population (1986): 5.1 Million GDP (Purchaser's Value)/Capita: $16,050

| Total Output (Billion $US - 1986 Exch Rate) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| GDP (Purchaser's Value - Current Prices) | 69.3 | 75.8 | 81.8 | 83.5 |
| GDP (Constant Prices - % Change by Year) | 3.5 | 3.9 | 3.3 | -2.3 |
| Cost-of-Living Index (1980 = 100) | 140 | 146 | 152 | 159 |

The Danish economic outlook is deteriorating, with the government's latest forecast calling for GDP declines of 0.75 percent in both 1987 and 1988. Private forecasters are more pessimistic--and, in our view, more realistic--in predicting a decline of over 2 percent this year. Private consumption is falling because of government efforts to restrict buying on credit; business investment is declining because of high interest rates and rising wage costs; and reduced international competitiveness is keeping exports stagnant. After falling below 8 percent last year, unemployment has been going up and is likely to top 9 percent in 1988. The inflation picture remains a bright spot with consumer prices likely to rise by less than 4.5 percent. 25X1

25X1

Copenhagen's tight fiscal policy has kept government spending virtually unchanged in real terms since 1982. The 1988 central government budget calls for a deficit of only 0.2 percent of GDP, while the broader general government balance will be in surplus for the third consecutive year. In our view the government's program helped the economy out of difficulty earlier in the decade but the tough measures are now having a negative effect.

Government efforts to reduce the persistent current account deficit--a record $4.3 billion, or 5.2 percent of GDP, in 1986--are beginning to have an impact. The first five months of 1987 showed a slight surplus--compared to a $1 billion deficit a year earlier. For the full year the current account deficit probably will be only $3 billion, with further improvement likely in 1988. Government efforts to dampen domestic demand have kept imports down and recent government trade measures should boost export industries. 25X1

| TRADE AND PAYMENTS (Billion $US, BOP Basis) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| Exports of Goods and Services | 22.4 | 24.1 | 24.9 | 27.3 |
| Imports of Goods and Services | 24.1 | 26.7 | 26.0 | 26.0 |
| Balance of Goods and Services | -1.7 | -2.6 | -1.1 | 1.3 |
| Current Account Balance | -1.6 | -2.7 | -4.3 | -3.0 |
| Long-Term Capital | 1.3 | 4.3 | 2.3 | 1.8 |
| Total Reserves Minus Gold (yearend) | 1.9 | 4.5 | 3.5 | 8.9** |

* Projected
**August

25X1

## FRANCE: GENERAL ECONOMIC DATA

Population (1986): 55.4 Million GDP (Purchaser's Value)/Capita: $13,070

| Total Output (Billion $US - 1986 Exch Rate) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| GDP (Purchaser's Value - Current Prices) | 630.2 | 677.5 | 724.1 | 753.4 |
| GDP (Constant Prices - % Change by Year) | 1.5 | 1.3 | 2.0 | 1.1 |
| Cost-of-Living Index (1980 = 100) | 149 | 158 | 162 | 167 |

France's economic performance has been generally disappointing this year. Real GDP is expected to grow only about 1.1 percent--barely half the increase recorded in 1986--while inflation has picked up to about 3.5 percent. Unemployment--France's main economic problem--has stabilized around 11 percent as a result of the government's costly job creation and training programs for those under 25 and for the hard core unemployed. Current projections for 1988 indicate some slight improvement in growth and a minor slowdown in the rate of inflation. The unemployment rate is likely to increase after next spring's presidential elections, however, as some of the government programs end. 25X1

France's external accounts have suffered an unexpectedly large deterioration after a good performance in 1986. The trade deficit will more than double to about $6 billion this year, due to continued high import demand and a slowdown in the growth of French exports. These developments will swing the current account from a healthy $3.4 billion surplus last year to near balance in 1987. The deterioration in the external accounts is expected to slow considerably next year, with the trade deficit growing by another $1.5-$2 billion and the current account falling into a $1 billion deficit. 25X1 25X1

During 1987, the conservative government of Prime Minister Chirac continued its market-oriented liberalization policies. Virtually all price controls have been removed, capital and foreign exchange rules have been liberalized, and 23 state-owned companies have been privatized. Up until the stock market crash in October, the privatization program was one of the Chirac government's greatest successes. With the fall in stock prices, however, the government had to postpone the privatization of the defense firm Matra. Chirac is counting on the success of the program to help him in the presidential election next spring and will be interested in having further successful sales before then.

| TRADE AND PAYMENTS (Billion $US, BOP Basis) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| Exports of Goods and Services | 147.7 | 154.6 | 187.3 | 217.0 |
| Imports of Goods and Services | 145.7 | 151.1 | 179.5 | 214.0 |
| Balance of Goods and Services | 2.0 | 3.5 | 7.8 | 3.0 |
| Current Account Balance | -0.9 | 0.9 | 3.4 | 0 |
| Long-Term Capital | 5.2 | 3.8 | -6.9 | -2.0 |
| Total Reserves Minus Gold (yearend) | 20.9 | 26.6 | 31.5 | 31.8** |

* Projected
**August

25X1

## GREECE: GENERAL ECONOMIC DATA

Population (1986): 10.0 Million GDP (Purchaser's Value)/Capita: $3,980

| Total Output (Billion $US - 1986 Exch Rate) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| GDP (Purchaser's Value - Current Prices) | 27.2 | 33.0 | 39.8 | 44.0 |
| GDP (Constant Prices - % Change by Year) | 2.7 | 3.0 | 1.3 | -0.8 |
| Cost-of-Living Index (1980 = 100) | 215 | 256 | 315 | 362 |

The Greek economy contracted this year, following sluggish growth in 1986, in large part because Prime Minister Papandreou generally has stuck to the austerity program initiated in late 1985, despite strong opposition from labor. The plan included a 15-percent devaluation of the drachma, import restrictions, and changes in the Greek wage indexation formula intended to reduce workers' real income by at least 7 percent. The program has helped Athens to reduce the current account deficit and slow inflation--although lower oil prices and increased EC aid were more important factors. Greece also is benefitting from exceptionally good earnings from tourism and shipping this year in addition to a repayment of $260 million from the EC for overpayments it had made in previous years. Athens has had less success in cutting the budget deficit; the 1987 public sector borrowing requirement--at 12 percent of GDP--will exceed the government target by 2 percentage points. 25X1

In his annual economic policy speech this fall, Prime Minister Papandreou announced the formal end of the austerity program in 1988, but stressed the need for continued stabilization. Abandoning much of his past socialist rhetoric, he spoke of the need to lower taxes, reduce government intervention, boost private investment, and improve Greek competitiveness. The speech clearly was intended to reassure businessmen because Greece needs to reverse the ongoing slump in private investment. 25X1

Greece also faces a debt service constraint. Foreign debt reached almost $18 billion at the end of last year and Athens must repay $1.5 billion of medium- and long-term debt in 1987 and roughly $1.7 billion in 1988. There should be no serious financing problems in 1988 but if, as we expect, Papandreou eases up on stabilization as the next election approaches, the external deficit will widen and Greece will probably have difficulty finding the resources to finance both higher amortization payments and a higher current account deficit.

| TRADE AND PAYMENTS (Billion $US, BOP Basis) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| Exports of Goods and Services | 7.3 | 7.1 | 7.9 | 8.5 |
| Imports of Goods and Services | 11.1 | 12.1 | 11.9 | 12.5 |
| Balance of Goods and Services | -3.8 | -5.0 | -4.0 | -4.0 |
| Current Account Balance | -2.1 | -3.3 | -1.7 | -1.5 |
| Long-Term Capital | 1.8 | 2.8 | 2.2 | 2.0 |
| Total Reserves Minus Gold (yearend) | 1.0 | 0.9 | 1.5 | 3.0** |

* Projected
**August

25X1

## ICELAND: GENERAL ECONOMIC DATA

Population (1986): 0.24 million GDP (Purchaser's Value)/Capita: $16,250

| Total Output (Billion $US - 1986 Exch Rate) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| GDP (Purchaser's Value - Current Prices) | 2.0 | 2.7 | 3.9 | 5.4 |
| GDP (Constant Prices - % Change by Year) | 2.7 | 3.4 | 6.3 | 5 |
| Cost-of-Living Index (1980 = 100) | 547 | 722 | 803 | 965 |

25X1

Economic growth has slowed from 6.3 percent last year to about 5 percent this year and probably will decline further in 1988. A main cause of expected slower GDP growth next year is a planned reduction in the cod catch, recommended by the National Marine Institute to preserve fish stocks. In addition, the new coalition government formed in July will tighten fiscal policy in 1988. 25X1

The unemployment rate will remain below 1 percent in 1987, but probably will rise slightly in 1988 as employment is affected by the lower fish catch. The inflation rate--which plunged to single digits last year following a temporary anti-inflation package--is back to 20 percent and likely will remain in double digits in 1988.

The current account should move into deficit in 1987 and 1988 because of a sharp drop in the trade surplus--a result of both the strong krona and the impact on import demand of rapid income growth. While the reduced cod catch will hurt exports next year, the main factor contributing to the likely current account deficits in 1987 and 1988 is interest payments on Iceland's growing foreign debt. The new government thus hopes its tight budget policy will prevent foreign debt from rising beyond its current level--about 50 percent of GDP. In addition, the government wants to reduce Iceland's dependence on fishing by continuing to open the economy to more foreign competition through capital market deregulation and amending the limits on foreign ownership of Icelandic firms. 25X1

| TRADE AND PAYMENTS (Billion $US, BOP Basis) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| Exports of Goods and Services | 0.83 | 1.21 | 1.56 | 1.50 |
| Imports of Goods and Services | 0.82 | 1.19 | 1.54 | 1.60 |
| Balance of Goods and Services | 0.01 | 0.02 | 0.02 | -0.10 |
| Current Account Balance | -0.10 | -0.12 | 0.03 | -0.20 |
| Long-Term Capital | 0.13 | 0.15 | 0.17 | 0.18 |
| Total Reserves Minus Gold | 0.13 | 0.21 | 0.31 | 0.34** |

* Projected
**August

25X1

## ITALY: GENERAL ECONOMIC DATA

Population (1986): 57.2 Million GDP (Purchaser's Value)/Capita: $10,490

| Total Output (Billion $US - 1986 Exch Rate) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| GDP (Purchaser's Value - Current Prices) | 483.7 | 540.7 | 600.2 | 656.0 |
| GDP (Constant Prices - % Change by Year) | 2.8 | 2.3 | 2.7 | 2.9 |
| Cost-of-Living Index (1980 = 100) | 174 | 190 | 202 | 213 |

25X1

A pickup in domestic demand in Italy will likely lead to real GDP growth of nearly 3 percent in 1987. Private consumption spending is strong because of substantial wage increases this year and this in turn has encouraged businesses to invest more. Consumption and investment are both likely to grow more slowly next year, reducing 1988 GDP growth to just over 2 percent. The foreign sector will be a drag on growth both this year and next--imports are rising much faster than exports, largely because of the strength of the lira since 1986. 25X1

The moderate economic growth of recent years has not generated many jobs--the unemployment rate has risen almost two percentage points since 1984 and likely will top the 12-percent mark next year. An increase in indirect taxes and higher costs for energy and labor likely will drive inflation over 5 percent in 1987 and 6 percent in 1988--well above the rates in Italy's main trading partners. The continuing weakening of export competitiveness will cut the current account surplus by more than half this year, and probably put it into deficit in 1988. 25X1

The worsening economic conditions will put increasing pressure on Rome to deal with the huge public sector deficit--still above 12 percent of GDP. Unfortunately, political infighting and personality clashes are seriously weakening the fragile five-party coalition government and hampering Christian Democratic Prime Minister Goria's ability to implement budget and labor legislation. In a move led by the Socialist party--the other major coalition partner--the Senate Budget Committee recently rejected the government's 1988 budget proposals. The conflict between the two main coalition parties will delay final approval of the 1988 budget, and, more generally, will weaken the governments' ability to implement tough economic policies.

| Trade and Payments (Billion $US, BOP Basis) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| Exports of Goods and Services | 100.1 | 103.3 | 128.4 | 129.0 |
| Imports of Goods and Services | 103.9 | 107.9 | 122.1 | 131.0 |
| Balance of Goods and Services | -3.8 | -4.6 | 6.3 | -2.0 |
| Current Account Balance | -2.3 | -3.5 | 4.8 | 2.0 |
| Long-Term Capital | 1.1 | 2.0 | -3.8 | -5.0 |
| Total Reserves Minus Gold (yearend) | 20.8 | 15.5 | 20.0 | 18.5** |

* Projected
**August 1987

25X1

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## NETHERLANDS: GENERAL ECONOMIC DATA

Population (1986): 14.5 Million GDP (Purchaser's Value)/Capita: $12,055

| Total Output (Billion $US-1986 Exch Rate) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| GDP (Purchaser's Value - Current Prices) | 161.2 | 163.3 | 171.5 | 174.8 |
| GDP (Constant Prices - % Change by Year) | 1.7 | 2.0 | 1.9 | 2.0 |
| Cost-of-Living Index (1980 = 100) | 120 | 123 | 123 | 122 |

The Dutch economy is likely to continue its slow but steady growth in 1987, 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 11.5 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 near zero in 1986, and price increases this year should also be negligible. 25X1

The Hague's 1987 budget relaxed--but did not abandon--the austerity program put in place in 1982 to bring down the public sector deficit. Progress in trimming the deficit was hampered, however, by reduced tax revenue from gas due to the fall in world energy prices. The 1987 budget attempted to offset the decline in gas prices through revenue increases--including a hike in VAT rates--and expenditure cuts. 25X1

The current account surplus held up surprisingly well last year in the face of declining gas export revenue. The Netherlands will continue to enjoy large current account and trade surpluses in 1987, although these will be smaller than last year due to the strength of the guilder. 25X1

| TRADE AND PAYMENTS (Billion $US, BOP Basis) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| Exports of Goods and Services | 86.4 | 86.5 | 101.9 | 105.2 |
| Imports of Goods and Services | 78.9 | 81.3 | 95.5 | 100.1 |
| Balance of Goods and Services | 7.5 | 5.2 | 6.4 | 5.1 |
| Current Account Balance | 6.6 | 4.2 | 4.6 | 3.8 |
| Long-Term Capital | -4.4 | -2.9 | -8.9 | -5.0 |
| Total Reserves Minus Gold (yearend) | 9.2 | 10.8 | 11.2 | 14.2** |

*Projected
**August

25X1

# NORWAY: GENERAL ECONOMIC DATA

Population (1987): 4.2 Million   GDP (Purchaser's Value)/Capita: $16,750

| Total Output (Billion $US - 1986 Exch Rate) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| GDP (Purchaser's Value - Current Prices) | 61.2 | 67.3 | 69.7 | 70.5 |
| GDP (Constant Prices - % Change by Year) | 3.8 | 5.4 | 4.5 | 1.3 |
| Cost-of-Living Index (1980 = 100) | 146 | 154 | 166 | 180 |

Norwegian GDP growth slowed significantly in 1987 and will remain sluggish in 1988, reflecting the continued impact on Norway of the 1986 oil price decline. Loss of revenue from the decline--oil tax receipts fell from 20 percent of total revenues in 1985 to about 8 percent in 1987--necessitated tightened fiscal policy in 1986 and 1987. The tighter fiscal policy led to a 2-percent decline in 1987 consumption spending and stagnating investment spending. Surveys indicate investment may fall by 7 percent in 1988 and further brake economic growth. 25X1 25X1

Unemployment has fallen to about 1.5 percent over the course of 1987, down from 1.8 percent in 1986, due to the 1986 surge in non-oil business investment spurred by loose credit policy. The expected slowdown in the economy through 1988 could boost the unemployment rate above 2 percent. The inflation rate--pushed to 8 percent in 1987 because of the reduction in the workweek and the 1986 krone devaluation--could decline if the economic slowdown and continued tightening of fiscal policy offset the effect of rapid monetary growth during 1987. 25X1

While sluggish GDP growth in 1988 will dampen import demand, the current account deficit could begin to worsen again. The trade deficit showed some improvement in 1987, reflecting the devaluation as well as softened import demand, but rising interest payments on Norway's growing foreign debt will probably offset this improvement.

| TRADE AND PAYMENTS (Billion $US, BOP Basis) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| Exports of Goods and Services | 28.0 | 27.3 | 26.5 | 28.1 |
| Imports of Goods and Services | 24.2 | 22.7 | 29.1 | 30.1 |
| Balance of Goods and Services | 3.8 | 4.6 | -2.6 | -2.0 |
| Current Account Balance | 3.0 | 3.0 | -4.4 | -3.6 |
| Long-Term Capital | -0.1 | 1.3 | 1.8 | 2.1 |
| Total Reserves Minus Gold (yearend) | 9.4 | 13.9 | 12.8 | 14.4** |

* Projected
**August

25X1

## PORTUGAL: GENERAL ECONOMIC DATA

Population (1986): 10.1 Million

GDP (Purchaser's Value)/Capita: $2,720

| Total Output (Billion $US - 1986 Exch Rate) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| GDP (Purchaser's Value - Current Prices) | 18.8 | 23.6 | 27.5 | 31.2 |
| GDP (Constant Prices - % Change by Year) | -1.6 | 3.3 | 4.5 | 3.7 |
| Cost-of-Living Index (1980 = 100) | 238 | 284 | 318 | 348 |

Real GDP probably will continue to expand at a healthy rate in 1987 -- albeit slower than in 1986 -- thanks to strong growth of fixed investment and private consumption. Inflation should continue its downward trend, falling to 9.4 percent from 11.8 percent in 1986, while the unemployment rate is expected to decline from 9.6 to 8.7 percent by yearend, primarily because of expanding job opportunities in the industrial and services sectors. Strong domestic demand and the dismantling of trade barriers following Portugal's entry into the EC last year will contribute to a worsening of the trade deficit in 1987, although booming tourist revenues and rising worker remittances will keep the current account in surplus. 25X1 25X1

The elections of 19 July gave Prime Minister Cavaco Silva and his Social Democratic Party the first single-party majority since the 1974 revolution. In its four-year economic program, the government promised "profound reforms," including more flexible labor laws, more private enterprise in agriculture, and greater emphasis on private investment. Perhaps most pressing, however, is Cavaco Silva's push for constitutional revision this fall to allow the privatization of firms nationalized in the aftermath of the revolution. Moves are also underway to deregulate the financial markets and encourage direct foreign investment. 25X1

Real GDP probably will grow about 2.7 percent in 1988 as domestic demand decelerates, leading to a stagnation in the unemployment rate. Inflation should continue to fall because of slower real wage growth, but is likely to remain above the government's 6-percent target due to rising import prices. Rising imports will further boost the trade deficit, more than offsetting continuing gains in invisibles earnings and pushing the current account about $400 million into the red.

| TRADE AND PAYMENTS (Billion $US, BOP Basis) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| Exports of Goods and Services | 7.1 | 8.0 | 10.0 | 12.7 |
| Imports of Goods and Services | 9.8 | 9.8 | 11.7 | 14.6 |
| Balance of Goods and Services | -2.7 | -1.8 | -1.7 | -1.9 |
| Current Account Balance | -0.5 | 0.4 | 1.2 | 0.7 |
| Long-Term Capital | 1.2 | 1.0 | -0.5 | -0.1 |
| Total Reserves Minus Gold (yearend) | 0.5 | 1.4 | 1.5 | 3.0** |

* Projected
**August

25X1

## SPAIN: GENERAL ECONOMIC DATA

Population (1986): 39.1 Million GDP (Purchaser's Value)/Capita: $5,860

| Total Output (Billion $US - 1986 Exch Rate) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| GDP (Purchaser's Value - Current Prices) | 179.4 | 198.9 | 229.1 | 249.9 |
| GDP (Constant Prices - % Change by Year) | 1.9 | 2.1 | 3.6 | 3.3 |
| Cost-of-Living Index (1980 = 100) | 164 | 178 | 194 | 205 |

Real GDP is expected to grow 3.3 percent in 1987, buoyed by a 4.9 percent increase in domestic demand. Private consumption will be strong because of higher household disposable income; government consumption should continue apace; and fixed investment probably will benefit from a strong recovery in public investment. Rising real wages and money supply will likely keep inflation above the government's 5.0 percent target, although it should fall from 8.8 percent in 1986 to 5.6 percent. Despite higher labor force participation rates, the expected increase in jobs will reduce the unemployment rate from 21.5 to 21 percent. 25X1

25X1

Strong domestic demand and the reduction in tariff rates following Spain's entry into the EC last year contributed to a 75 percent increase in Spain's merchandise trade deficit in the first nine months of 1987. However, record tourist receipts will keep the current account balance in surplus, albeit at a lower level than in 1986. In real terms, imports are expected to increase 11 percent in 1987, while exports will likely rise only four percent because of relatively sluggish OECD growth and a loss in export competitiveness due to the appreciation of the peseta. 25X1

The focus of Spanish economic policy in 1988 will continue to be modernizing the economy and reducing the inflation differential between Spain and its main trading partners. Nonetheless, the continuing rift within the Socialist party -- highlighted by the resignation in October of Socialist labor union leader Redondo from his parliamentary seat -- may prompt Prime Minister Gonzalez to relax his conservative policies. Real GDP growth is expected to fall below 3 percent next year, mainly because of lower investment growth and decreasing net exports, while the lack of cooperation among government, labor, and business in wage negotiations probably will put the government's 3-percent inflation target in jeopardy.

| TRADE AND PAYMENTS (Billion $US, BOP Basis) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| Exports of Goods and Services | 36.8 | 38.5 | 46.2 | 55.7 |
| Imports of Goods and Services | 35.9 | 36.8 | 43.2 | 53.9 |
| Balance of Goods and Services | 0.9 | 1.7 | 3.0 | 1.8 |
| Current Account Balance | 2.0 | 2.9 | 4.2 | 2.7 |
| Long-Term Capital | 3.3 | -1.4 | -1.6 | -0.8 |
| Total Reserves Minus Gold (yearend) | 12.0 | 11.2 | 14.8 | 25.2** |

* Projected
**August

25X1

## TURKEY: GENERAL ECONOMIC DATA

Population (1986): 51.8 Million    GDP (Purchaser's Value)/Capita: $1,110

| Total Output (Billion $US - 1986 Exch Rate) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| GDP (Purchaser's Value - Current Prices) | 27.0 | 40.8 | 57.7 | 85.2 |
| GDP (Constant Prices - % Change by Year) | 5.7 | 5.1 | 8.0 | 7.5 |
| Cost-of-Living Index (1980 = 100) | 352 | 511 | 665 | 898 |

Turkey's economy in 1986 was marked by an 8 percent jump in output--the fastest growth of any OECD Country since 1977. Spurred by excessive government investment expenditures, domestic demand grew more than 10 percent--too high to be sustained without eventually causing a balance of payments crisis. Soaring demand pulled in imports and discouraged exports, causing the current account deficit to jump by 50 percent. Unemployment fell to an estimated 15.5 percent while lower energy costs helped reduce inflation from 40 to 30 percent last year--but financing the government budget deficit through money creation sowed the seeds for more inflation in 1987. 25X1

This year has been a particularly challenging one for Prime Minister Ozal, who has had to balance electoral considerations against rising external debt obligations that argue for cooling the economy. He apparently opted to ease policy and the public sector deficit thus will rise further this year, to about 7 percent of GDP. As a result, the economy remains overheated and 1987 GDP growth is likely to pass 7 percent against a target of 5 percent. By mid year strong demand and money supply growth had pushed inflation up to 40 percent. While the current account deficit fell in the first half--as Turkish businessmen took advantage of generous export incentives established last December--the improvement probably cannot be sustained because of inventory depletion. 25X1

The biggest challenge facing Ankara is its large debt service obligations--over $5 billion annually for the next few years. Ankara probably will be able to borrow enough money to cover its 1987 financing needs but its creditors have begun showing signs of increased caution. If Ozal wins the 29 November election we believe he will move quickly to restrain demand to prevent the balance of payments problems from getting out of hand. We are less confident that any alternative leader would take the needed action.

| TRADE AND PAYMENTS (Billion $US, BOP Basis) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| Exports of Goods and Services | 7.4 | 11.4 | 10.8 | 11.6 |
| Imports of Goods and Services | 10.3 | 14.4 | 14.3 | 14.6 |
| Balance of Goods and Services | -2.9 | -3.0 | -3.5 | -3.0 |
| Current Account Balance | -1.4 | -1.0 | -1.5 | -1.3 |
| Long-Term Capital | 0.2 | -1.0 | -1.5 | -1.7 |
| Total Reserves Minus Gold (yearend) | 1.3 | -1.1 | 1.5 | 1.5** |

* Projected
**August



25X1

[redacted] 25X1

## UNITED KINGDOM: GENERAL ECONOMIC DATA

Population (1986): 56.4 Million

GDP (Purchaser's Value)/Capita: $9,670

| Total Output (Billion $US - 1986 Exch Rate) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| GDP (Purchaser's Value - Current Prices) | 467.4 | 513.3 | 545.1 | 589.2 |
| GDP (Constant Prices - % Change by Year) | 2.2 | 3.7 | 2.3 | 3.6 |
| Cost-of-Living Index (1980 = 100) | 133 | 142 | 146 | 152 |

25X1

[redacted] The British economy is expanding at a 3.5 to 4.0-percent rate in 1987, the highest level among the Summit Seven countries. Although consumers continue to be the mainstay of the economy, growth is better balanced than in previous years. Manufacturing output is rising at a 6-percent annual rate and private investment is also strong. As a result of the faster economic growth and an expanded government jobs program, unemployment has fallen for 16 consecutive months--from 11.3 percent in June 1986 to 9.8 percent in October 1987. Inflation remains under control at 4.2 percent and is likely to pick up only slightly in 1988. Economic growth is expected to slow to 2.5 percent next year because of slower expansion in Britain's trading partners; it could be lower, however, if the recent turmoil in world stock markets is protracted and leads to cutbacks in consumer and investment spending. 25X1

[redacted] The rapid economic expansion has been swelling the Treasury's coffers and the budget deficit will fall below London's target of $6.3 billion (1.5 percent of GDP); some forecasters are even projecting a budget surplus this year. The government probably will use the additional revenue for modestly increasing spending on education and revitalizing the inner cities; the Treasury may also use some of the windfall to cut tax rates in next March's budget. The Bank of England generally has kept interest rates high to prevent the economy from overheating; a recent lowering of rates was engineered only to keep the pound from strengthening unduly against the dollar and the mark, which would hurt British exports. 25X1

[redacted] The trade accounts continue to be the government's biggest concern. High consumer spending has fueled a large rise in imports while lower oil prices have held down export growth. The favorable level of the pound against the dollar and the mark has helped exporters to recapture lost markets, but the recent strengthening of the currency threatens to reverse those gains. Both the trade and current account deficits are expected to worsen in 1988.

| TRADE AND PAYMENTS (Billion $US, BOP Basis) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| Exports of Goods and Services | 190.8 | 200.3 | 213.2 | 224.9 |
| Imports of Goods and Services | 185.7 | 191.0 | 210.0 | 222.6 |
| Balance of Goods and Services | 5.1 | 9.3 | 3.2 | 2.3 |
| Current Account Balance | 1.9 | 4.9 | -0.2 | -2.2 |
| Long-Term Capital | -22.4 | -22.2 | -22.9 | 24.2 |
| Total Reserves Minus Gold (yearend) | 9.4 | 12.9 | 18.4 | 28.9** |

* Projected
**August

[redacted] 25X1

## WEST GERMANY: GENERAL ECONOMIC DATA

Population (1986): 60.1 Million GDP (Purchaser's Value)/Capita: $14,840

| Total Output (Billion $US - 1986 Exch Rate) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| GDP (Purchaser's Value - Current Prices) | 808.6 | 843.6 | 892.0 | 911.6 |
| GDP (Constant Prices - % Change by Year) | 3.0 | 2.5 | 2.4 | 1.7 |
| Cost-of-Living Index (1980 = 100) | 118 | 121 | 121 | 121 |

The West German economy got off to a sluggish start this year and now is expected to expand by only 1.7 percent--down from the 2.5 percent the government forecast in January. Private consumption has held up fairly well but the sharp appreciation of the mark vis-a-vis the dollar has slowed the growth of investment spending and has cut net foreign demand. While exports are doing better than expected--up about 1 percent in real terms--this has been more than offset by a 4-percent increase in real imports. Expressed in dollar terms, however, West Germany's 1987 trade and current account surpluses will be even larger than in 1986. Slower growth has dashed Bonn's hopes of reducing unemployment further, but it has been sufficient to keep the level stable at around 8.0 percent. 25X1

Monetary growth has remained well above the Bundesbank's targets for the second year running, arousing inflationary fears within the Bank, even though inflation currently is almost nil. Monetary policy is not likely to tighten, however, because of concern that this would cause the mark to appreciate even more. Nor has fiscal policy altered appreciably during the year, although projections of rapidly rising budget deficits--due largely to slower economic growth--caused Bonn to tighten federal spending somewhat. 25X1

Most estimates put 1988 economic growth at about 2 percent, a rate that makes the Kohl government reluctant to provide additional stimulus. In rebuffing international calls for it to advance the tax cuts planned for 1990, Bonn will emphasize that $8 billion in tax cuts are scheduled to take effect in January. One factor bound to distress West Germany's allies, however, is that real West German export growth is projected at around 3.5 percent annually--indicating that the decline in the trade surplus will be much slower than originally anticipated. In addition, due to inflationary fears, continued reductions in West German interest rates can not be expected.

| TRADE AND PAYMENTS (Billion $US, BOP Basis) | 1984 | 1985 | 1986 | 1987* |
|---|---|---|---|---|
| Exports of Goods and Services | 209.3 | 223.8 | 297.4 | 352.1 |
| Imports of Goods and Services | 190.6 | 197.9 | 246.9 | 287.5 |
| Balance of Goods and Services | 18.7 | 25.9 | 50.5 | 64.6 |
| Current Account Balance | 8.2 | 15.7 | 37.7 | 48.0 |
| Long-Term Capital | -6.8 | -3.4 | 15.4 | 6.3 |
| Total Reserves Minus Gold (yearend) | 40.1 | 44.4 | 51.7 | 61.8** |

* Projected
**August

25X1

[redacted]

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