

**Commission of the
European
Communities**

**Directorate-
General
for Economic
and Financial
Affairs**

**2
1978**

The economic situation in the Community

Quarterly survey

This publication appears quarterly. Numbers 2 (June) and 4 (December) are surveys by the Commission of the European Communities of recent developments in and the outlook for the economic situation in the Community as a whole and in each of the Member States. They do not contain economic policy recommendations or guidelines, but are limited in this area to a statement of the conjunctural policy problems arising at Community level and in the various Member States. Number 3 (October) reproduces the Commission proposal for the annual report on the economic situation in the Community. This report, which the Council adopts in the fourth quarter of each year, establishes the economic policy guidelines to be followed by the Member States in the year that follows. Number 1 (March) reproduces the text of a communication by the Commission to the Council concerning the adjustment of these guidelines for the current year. It contains in addition a summary account of the economic policies pursued in the previous year, and a report on the application of the Council decision on the attainment of a high degree of convergence of the economic policies of the Member States and on the conformity of the policies pursued with the objectives set.

**COMMISSION
OF THE
EUROPEAN COMMUNITIES**

The economic situation in the Community

JUNE 1978

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The publication of this report is the responsibility of the Commission's departments. The writing of chapters 1 and 2 was completed at the end of June.

The Copenhagen and Bremen European Councils and the Western economic summit held in Bonn

This analysis is mainly concerned with the economic situation of the Community in the first half of 1978.

It forms the background for the outcome of the European Council held in Copenhagen on 7 and 8 March and at Bremen on 6 and 7 July, and for the Western economic summit held in Bonn on 16 and 17 July.

This report begins with the texts of the conclusions reached in the economic and monetary fields by the European Council at Bremen and the Western economic summit. The two meetings were followed on 24 July by a meeting of the Council of Ministers for Economic and Financial Affairs, at which guidelines for the development of the European monetary system were established and a decision was taken on the individual contributions of the Member States to the common strategy to deal with the economic situation as agreed upon at the European Council meeting on 6 and 7 July 1978. These contributions are presented below. As this report could otherwise not have been got out in time, the following chapters are necessarily concerned with the economic developments observed in mid-1978 before the meetings were held.

The economic principles upon which the notion of a concerted approach to macro-economic policy is based are set out in Annex A, showing how joint action among the Member States increases the area of manoeuvre available to each one of them.

European Council, 6-7 July 1978, Bremen Conclusions of the Presidency

I. The economic and social situation

The European Council states that in the face of the dangers resulting from the serious disruptions of the world economy, especially since the end of 1973, the Community has come through a very testing time, proved its cohesion and thereby made a decisive contribution to the stabilization of the world economy.

However, the situation within the Community is not yet satisfactory. Consequently, the European Council, meeting in Copenhagen in April 1978, instructed that a common strategy be evolved to overcome the unsatisfactory tendency of economic and social developments in the Community.

The Community and the Member States will closely coordinate their action with the other major industrial countries which are their partners, since the problems involved will be overcome better by means of close international coordination extending beyond Europe, in which heed must also be paid to the developing countries' interests. The meeting of Heads of State and of Government of the seven major industrial nations in Bonn on 16 and 17 July 1978, at which the Community is to be represented by the President of the Council and the President of the Commission, will provide a good opportunity for this. The European Council has arrived at the conclusions set out below regarding the action to be taken by the Community and in the Member States.

1. Economic policy

The European Council has decided on a common approach in order to achieve in Europe a considerably higher rate of economic growth and thus reduce the level of unemployment by fighting inflation, establishing a greater measure of monetary stability, expanding international trade, achieving progress in the energy sector, reducing regional disparities and stimulating demand. In pursuing this course no new dangers must arise to threaten the economic balance. In particular, the efforts to reduce inflation and disparities in cost and price trends between the individual countries must be continued.

A common approach by means of complementary measures will help to minimize the internal and external economic policy constraints of individual Member States and increase the effectiveness of such measures.

All Member States will take the necessary measures according to the room for manoeuvre under their respective economic policies. The scope available to individual Member States depends, of course, on their different initial situations, notably the success of their efforts to fight inflation, their balance-of-payments situation, their foreign currency reserves, the size of their public-sector deficits and the extent of their unused production capacities. Countries without inflation and balance-of-payments problems will do more to increase domestic demand, in particular investment demand and

rate of economic growth. Countries with steeply rising prices will first concentrate in particular on undesirable inflationary developments.

This coordinated approach in all areas of economic policy should help strengthen the confidence of investors and consumers in longer-term growth perspectives.

2. Monetary policy

Following the discussions at Copenhagen on 7 April 1978 the European Council has discussed the attached scheme for the creation of a closer monetary cooperation (European Monetary System) leading to a zone of monetary stability in Europe, which has been introduced by members of the European Council. The European Council regards such a zone as a highly desirable objective. The European Council envisages a durable and effective scheme. It agreed to instruct the Finance Ministers at their meeting on 24 July 1978 to formulate the necessary guidelines for the competent Community bodies to elaborate by 31 October 1978 the provisions necessary for the functioning of such a scheme — if necessary by amendment. There will be concurrent studies of the action needed to be taken to strengthen the economies of the less prosperous member countries in the context of such a scheme; such measures will be essential if the zone of monetary stability is to succeed. Decisions can then be taken and commitments made at the European Council meeting on 4 and 5 December 1978.

The Heads of Government of Belgium, Denmark, the Federal Republic of Germany, Luxembourg and the Netherlands state that the 'snake' has not been and is not under discussion. They confirm that it will remain fully intact.

3. Measures to promote employment

The European Council confirms its view that improving the employment situation by means of increased growth is a crucial objective of the Community.

It notes that the Community is already providing considerable assistance through the European Social Fund and the European Regional Fund. It calls upon the Council of Ministers of Labour and Social Affairs to decide on measures to combat youth unemployment within the framework of the European Social Fund so that such measures can come into force on 1 January 1979.

4. Tripartite conference with both sides of industry

The European Council emphasizes the importance of tripartite conferences with both sides of industry and welcomes the decision to hold another conference with both sides of industry in the autumn to consider, in accordance with the outcome of the previous conference, the relationship between investment, employment and competition, work sharing and employment in the services sector.

5. Energy

The European Council emphasizes that efforts to resolve long-term energy problems should be intensified at all

levels. The primary objective is for all countries to reduce their dependence on oil imports. In this connection the Community adopts the following objectives for 1985:

- to reduce the Community's dependence on imported energy to 50 %;
- to limit net oil imports by the Community;
- to reduce to 0.8 the ratio between the rate of increase in energy consumption and the rate of increase in gross domestic production.

The Community emphasizes the need for the other industrialized countries to set themselves similar objectives.

Particular importance is attached to better use of the Community's energy resources, prospection efforts and the development of new sources of energy.

The contribution of nuclear energy alongside other forms of energy is vital and a matter of urgency for the Community. It is also important that work should continue on ecological, safety and protection issues in order to take into account the particular need for some Member States to find a solution to certain specific problems linked with the introduction or implementation of nuclear programmes.

Community measures on energy, particularly in order to promote energy-saving and to exploit all alternative sources of energy are complementary to the Member States' considerable efforts.

Apart from the new measures which it must take, the Community will in future have to give special attention to the joint appraisal and the coordination of the individual Member States' energy programmes.

The European Council lays emphasis on the need for worldwide cooperation on energy and in particular indicates the willingness of the Community and the Member States to assist the developing countries, in cooperation with other industrial countries, in surmounting their energy problems.

6. Common market

The European Council is agreed that the safeguarding and development of the Common Market by further measures to remove trade barriers and distortions of competition are a permanent task of the Community.

7. International trade

The European Council reaffirms its determination to strengthen the open world trading system through joint efforts. It emphasizes the outstanding importance it attaches to substantial and balanced results of the GATT multilateral trade negotiations. It calls upon all trading partners to make a constructive contribution to attaining this objective, in which the Community will play its part. The expansion of world trade, the improvement of the international division of labour and sustained economic growth are closely linked and are mutual prerequisites. The Community will take steps against protectionism in international trade and accordingly calls for increased international cooperation and consultation.

8. Structural policy

The European Council concludes that preserving and improving the competitiveness of industry and increasing its innovativeness are important requirements for a higher level of economic growth and the creation of new jobs. Consequently, a greater readiness to undergo structural changes must be induced in firms and industries. Such changes must, however, take place under socially acceptable conditions. The Community is making its contribution to this by means of its financing instruments, which have recently been considerably extended. Where public intervention is justified in exceptional cases on specific economic and social grounds, the assistance provided must be for a limited period and designed, subject to the rules in the Treaties, to facilitate structural adjustment.

9. Mediterranean agriculture

The European Council considers that the decisions taken by the Council (Ministers of Agriculture) on 12 May 1978 constitute a contribution to solving the agricultural problems in the Community's Mediterranean regions. It noted with satisfaction that the Council (Agriculture) had decided to take a decision by 30 September 1978 on the Commission proposals still outstanding.

The Council is of the opinion that due consideration must continue to be given to the special agricultural structural and market problems in the Mediterranean regions and in other less-favoured regions.

10. Relations with the developing countries

The European Council is of the opinion that progress in the North-South Dialogue is essential for the solving of international economic problems and the safeguarding of world peace and stability. It reaffirms its will to strike a balance of interests between North and South even in difficult times. This requires the industrialized countries' markets to be open to products from the developing countries. Full integration of the developing countries into the world trade system represents a considerable contribution to this extension of world trade.

At the same time the Community and the Member States will continue and step up on a worldwide basis the development assistance which they provide.

Efforts to achieve constructive results in the current negotiations on a Common Fund and individual Commodity Agreements are to be continued. In this context, the stabilization of export earnings should receive further study.

The European Council regards the Lomé Convention as an important part of North-South cooperation and looks forward to successful negotiations on its renewal.

The European Council considers that the worldwide inter-connections between the economic activities of all concerned — including the State-trading countries — call for common action on a basis of joint responsibility. It continues to place its trust in a favourable climate of cooperation in the United Nations and emphasizes the Community's firm resolve to render North-South re-

lations mutually advantageous by means of cooperation, partnership and readiness to play a greater part.

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Sections II and III of the conclusion, which do not concern economic questions, are not reproduced here.

IV Annex

1. In terms of exchange-rate management the European Monetary System (EMS) will be at least as strict as the 'snake'. In the initial stages of its operation and for a limited period of time member countries currently not participating in the snake may opt for somewhat wider margins around central rates. In principle, interventions will be in the currencies of participating countries. Changes in central rates will be subject to mutual consent. Non-member countries with particularly strong economic and financial ties with the Community may become associate members of the system. The European Currency Unit (ECU)¹ will be at the centre of the system; in particular, it will be used as a means of settlement between EEC monetary authorities.

2. An initial supply of ECUs (for use among Community central banks) will be created against deposit of US dollars and gold on the one hand (e.g. 20% of the stock currently held by member central banks) and member currencies on the other hand in an amount of a comparable order of magnitude.

The use of ECUs created against member currencies will be subject to conditions varying with the amount and the maturity; due account will be given to the need for substantial short-term facilities (up to one year).

3. Participating countries will coordinate their exchange-rate policies *vis-à-vis* third countries. To this end they will intensify the consultations in the appropriate bodies and between central banks participating in the scheme. Ways to coordinate dollar interventions should be sought which avoid simultaneous reverse interventions. Central banks buying dollars will deposit a fraction (say 20%) and receive ECUs in return; likewise, central banks selling dollars will receive a fraction (say 20%) against ECUs.

4. Not later than two years after the start of the scheme, the existing arrangements and institutions will be consolidated in a European Monetary Fund².

5. A system of closer monetary cooperation will only be successful if participating countries pursue policies conducive to greater stability at home and abroad; this applies to deficit and surplus countries alike.

¹ The ECU has the same definition as the European Unit of Account.

² The EMF will take the place of the EMCF.

Western economic summit, 16-17 July, Bonn

Declaration

The Heads of State and Government of Canada, the Federal Republic of Germany, France, Italy, Japan, the United Kingdom of Great Britain and Northern Ireland and the United States of America met in Bonn on 16 and 17 July 1978. The European Community was represented by the President of the European Council and by the President of the European Commission for discussion of matters within the Community's competence.

1. We agreed on a comprehensive strategy covering growth, employment and inflation, international monetary policy, energy, trade and other issues of particular interest to developing countries. We must create more jobs and fight inflation, strengthen international trading, reduce payments imbalances, and achieve greater stability in exchange markets. We are dealing with long-term problems, which will only yield to sustained efforts. This strategy is a coherent whole, whose parts are interdependent. To this strategy, each of our countries can contribute; from it, each can benefit.

Growth, employment and inflation

2. We are concerned, above all, about worldwide unemployment because it has been at too high a level for many years, because it hits hardest at the most vulnerable sections of the population, because its economic cost is high and its human cost higher still. We will act, through measures to assure growth and develop needed skills, to increase employment.

In doing this, we will build on the progress that has already been made in the fight against inflation and will seek new successes in that fight. But we need an improvement in growth where that can be achieved without rekindling inflation in order to reduce extremes of balance-of-payment surpluses and deficits. This will reduce destabilizing exchange-rate movements. Improved growth will help to reduce protectionist pressures. We need it also to encourage the flow of private investment, on which economic progress depends; we will seek to reduce impediments to private investment, both domestically and internationally. Better growth is needed to ensure that the free world is able to develop to meet the expectations of its citizens and the aspirations of the developing countries.

3. A programme of different actions by countries that face different conditions is needed to assure steady non-inflationary growth.

In countries whose balance of payments situation and inflation rate does not impose special restrictions, this requires a faster rise in domestic demand.

In countries where rising prices and costs are creating strong pressures, this means taking new measures against inflation.

Canada reaffirmed its intention, within the limits permitted by the need to contain and reduce inflation, to achieve higher growth of employment and an increase in output of up to 5%.

As a contribution to avert the worldwide disturbances of economic equilibrium the German Delegation has indicated that by the end of August it will propose to the legislative bodies additional and quantitatively substantial measures up to 1 % of GNP, designed to achieve a significant strengthening of demand and a higher rate of growth. The order of magnitude will take account of the absorptive capacity of the capital market and the need to avoid inflationary pressures.

The President of the French Republic has indicated that, while pursuing its policy of reduction of the rate of inflation, the French Government agrees, as a contribution to the common effort, to increase by an amount of about 0.5 % of GNP, the deficit of the budget of the State for the year 1978.

The Italian Prime Minister has indicated that the Government undertakes to raise the rate of economic growth in 1979 by 1.5 percentage points with respect to 1978. It plans to achieve this goal by cutting public current expenditure while stimulating investments with the aim of increasing employment in a non-inflationary context.

The Prime Minister of Japan has referred to the fact that his Government is striving for the attainment of the real growth target for fiscal year 1978, which is about 1.5 percentage points higher than the performance of the previous year, mainly through the expansion of domestic demand. He has further expressed his determination to achieve the said target by taking appropriate measures as necessary. In August or September he will determine whether additional measures are needed.

The United Kingdom, having achieved a major reduction in the rate of inflation and improvement in the balance of payments has recently given a fiscal stimulus equivalent to rather over 1 % of GNP. The Government intends to continue the fight against inflation, so as to improve still further the prospects for growth and employment.

The President of the United States stated that reducing inflation is essential to maintaining a healthy US economy and has therefore become the top priority of US economic policy. He identified the major actions that have been taken and are being taken to counter inflation in the United States: Tax cuts originally proposed for fiscal year 1979 have now been reduced by USD 10 milliard; Government expenditure projections for 1978 and 1979 have been reduced; a very tight budget is being prepared for 1980; steps are being taken to reduce the direct contribution by Government regulations or restrictions to rising costs and prices, and a voluntary programme has been undertaken to achieve deceleration of wages and prices.

The meeting took note with satisfaction that the common approach of the European Community already agreed at Bremen would reinforce the effectiveness of this programme.

Energy

4. In spite of some improvement, the present energy situation remains unsatisfactory. Much more needs to be done.

5. We are committed to reduce our dependence on imported oil.

6. We note that the European Community has already agreed at Bremen the following objectives for 1985: to reduce the Community's dependence on imported energy to 50 %, to limit net oil imports, and to reduce to 0.8 the ratio between the rate of increase in energy consumption and the rate of increase in gross domestic product.

7. Recognizing its particular responsibility in the energy field, the United States will reduce its dependence on imported oil. The US will have in place by the end of the year a comprehensive policy framework within which this effort can be urgently carried forward. By year end, measures will be in effect that will result in oil import savings of approximately 2.5 million barrels per day by 1985. In order to achieve these goals, the US will establish a strategic oil reserve of 1 000 million barrels; it will increase coal production by two-thirds; it will maintain the ratio between growth in gross national product and growth in energy demand at or below 0.8; and its oil consumption will grow more slowly than energy consumption. The volume of oil imported in 1978 and 1979 should be less than that imported in 1977. In order to discourage excessive consumption of oil and to encourage the movement toward coal, the US remains determined that the prices paid for oil in the US shall be raised to the world level by the end of 1980.

8. We hope that the oil-exporting countries will continue to contribute to a stable world energy situation.

9. Looking to the longer term, our countries will review their national energy programmes with a view to speeding them up. General energy targets can serve as useful measures of the progress achieved.

10. Private and public investment to produce energy and to use it more efficiently within the industrial world should be increased. This can contribute significantly to economic growth.

11. The further development of nuclear energy is indispensable, and the slippage in the execution of nuclear power programmes must be reversed. To promote the peaceful use of nuclear energy and reduce the risk of nuclear proliferation, the nuclear fuel cycle studies initiated at the London Summit should be pursued. The President of the United States and the Prime Minister of Canada have expressed their firm intention to continue as reliable supplies of nuclear fuel within the framework of effective safeguards. The President intends to use the full powers of his office to prevent any interruption of enriched uranium supply and to ensure that existing agreements will be respected. The Prime Minister intends that there shall be no interruption of Canadian uranium supply on the basis of effective safeguards.

12. Coal should play an increasing important role in the long term.

13. Joint or coordinated energy research and development should be carried out to hasten the development of

new, including renewable, energy sources and the more efficient use of existing sources.

14. In energy development, the environment and human safety of the population must be safeguarded with greatest care.

15. To help developing countries, we will intensify our national development assistance programmes in the energy field and we will develop a coordinated effort to bring into use renewed energy technologies and to elaborate the details within one year. We suggest that the OECD will provide the medium for cooperation with other countries.

16. We stress the need for improvement and coordination of assistance for developing countries in the energy field. We suggest that the World Bank explore ways in which its activities in this field can be made increasingly responsive to the needs of the developing countries, and to examine whether new approaches, particularly to financing hydrocarbon exploration, would be useful.

Trade

17. We reaffirm our determination to expand international trade as one of the driving forces for more sustained and balanced economic growth. Through our joint efforts we will maintain and strengthen the open international trading system.

We appreciate and support the progress as set forth in the Framework of Understanding on the Tokyo Round of Multilateral Trade Negotiations made public in Geneva, 13 July 1978, even though within this Framework of Understanding some difficult and important issues remain unresolved.

The successful conclusion of these negotiations, the biggest yet held, would mean not just a major trade liberalization programme extending over the 1980s but the most important progress yet made in the GATT in relation to non-tariff measures. Thus the GATT rules would be brought more closely into line with the requirements of the next decade — particularly in relation to safeguards — in ways which would avoid any weakening of the world trading system and be of benefit to all trading countries developed and developing alike. A substantially higher degree of equity and discipline in the international trading system would be achieved by the creation of new mechanisms in many fields for consultation and dispute settlement. Uniform application of the GATT rules is vital and we shall move in that direction as soon as possible.

In all areas of the negotiations the Summit countries look forward to working even more closely with the developing countries. We seek to ensure for all participants a sound and balanced result, which adequately takes into account the needs of developing countries, for example, through special and differential treatment, and which brings about their greater participation in the benefits and obligations of the world trading system.

At last year's Downing Street Summit we rejected a protectionist course for world trade. We agreed to give a new impetus to the Tokyo Round. Our negotiators have fulfilled that commitment. Today we charge them, in

cooperation with the other participants, to resolve the outstanding issues and to conclude successfully the detailed negotiations by 15 December 1978.

18. We note with satisfaction the renewal of the pledge to maintain an open market oriented economic system made by the OECD Council of Ministers last month. Today's world economic problems cannot be solved by relapsing into open or concealed protectionism.

19. We welcome the statement on positive adjustment policy made by the OECD Ministers. There must be a readiness over a long time, to accept and facilitate structural change. Measures to prevent such change perpetuate economic inefficiency, place the burden of structural change on trading partners and inhibit the integration of developing countries into the world economy. We are determined in our industrial, social, structural, and regional policy initiatives to help sectors in difficulties, without interfering with international competition and trade flows.

20. We note the need for countries with large current accounts deficits to increase exports and for countries with large current accounts surpluses to facilitate increases in imports.

In this context, the United States is firmly committed to improve its export performance and is examining measures to this end.

The Prime Minister of Japan has stated that he wishes to work for the increase of imports through the expansion of domestic demand and various efforts to facilitate imports.

Furthermore, he has stated that in order to cope with the immediate situation of unusual surplus, the Government of Japan is taking a temporary and extraordinary step of calling for moderation in exports with the aim of keeping the total of Japan's exports for the fiscal year of 1978 at or below the level of fiscal year 1977.

21. We underline our willingness to increase our cooperation in the field of foreign private investment flows among industrialized countries and between them and developing countries. We will intensify work for further agreements in the OECD and elsewhere.

22. In the context of expanding world economic activity, we recognize the requirement for better access to our countries' markets for the products of the developing countries. At the same time we look to increasing readiness on the part of the more advanced developing countries to open their markets to imports.

Relations with developing countries

23. Success in our efforts to strengthen our countries' economies will benefit the developing countries, and their economic progress will benefit us. This calls for joint action on the basis of shared responsibility.

24. In the years ahead the developing countries, particularly those most in need, can count on us for an increased flow of financial assistance and other resources for their development. The Prime Minister of Japan has stated that he will strive to double Japan's official

development assistance in three years. We deeply regret the failure of the Comecon countries to take their due share in the financial assistance to developing countries and invite them once more to do so.

25. The poorer developing countries require increased concessional aid. We support the soft loan funds of the World Bank and the three regional development banks. We pledge our governments to support replenishment of the International Development Association on a scale that would permit its lending to rise annually in real terms.

26. As regards the more advanced developing countries, we renew our pledge to support replenishment of the multilateral development banks' resources, on the scale needed to meet the growing needs for loans on commercial terms. We will encourage governmental and private co-financing of development projects with these banks. The cooperation of the developing countries in creating a good investment climate and adequate protection for foreign investment is required if foreign private investment is to play its effective role in generating economic growth and in stimulating the transfer of technology. We also refer to our efforts with respect to developing countries in the field of energy as outlined in paragraphs 15 and 16.

27. We agreed to pursue actively the negotiations on a Common Fund to a successful conclusion and to continue our efforts to conclude individual commodity agreements and to complete studies of various ways of stabilizing export earnings.

International monetary policy

28. The erratic fluctuations of the exchange markets in recent months have had a damaging effect on confidence, investment and growth throughout the world. Essentially, exchange-rate stability can only be achieved by attacking the fundamental problems which have contributed to the present large balance-of-payments deficits and surpluses. Implementation of the policies described above in the framework of a concerted programme will help to bring about a better pattern of world payments balances and lead to greater stability in international exchange markets. This stability will in turn improve confidence and the environment for sustained economic growth.

29. Although exchange rates need to respond to changes in underlying economic and financial conditions among nations, our monetary authorities will continue to intervene to the extent necessary to counter disorderly conditions on the exchange markets. They will maintain extensive consultation to enhance these efforts' effectiveness. We will support surveillance by the International Monetary Fund, to promote effective functioning of the international monetary system.

30. The representatives of the European Community informed the meeting of the decision of the European Council at Bremen on 6 and 7 July to consider a scheme for a closer monetary cooperation. The meeting welcomed the report and noted that the Community would keep the other participants informed.

Conclusion

31. It has been our combined purpose to attack the fundamental economic problems that our countries confront. The measures on which we have agreed are mutually reinforcing. Their total effect should thus be more than the sum of their parts. We will now seek parliamentary and public support for these measures.

We cannot hope to achieve our purposes alone. We shall work closely together with other countries and within the

appropriate international institutions; those among us whose countries are members of the European Community intend to make their efforts within this framework.

We have instructed our representatives to convene by the end of 1978 in order to review this Declaration.

We also intend to have a similar meeting among ourselves at an appropriate time next year.

Communication of the Commission to the Council on the adaptation of public budgets for 1978, and the preparation of public budgets for 1979 in the framework of the Community's concerted action (COM(78)398 final)

Part II: adopted as a Council Decision at the Council meeting of the 24 July 1978

The contributions of individual Member States through budgetary policy to the concerted action of the Community will be as follows:

- (i) In Denmark, the margin for manoeuvre is extremely limited. As a contribution to the concerted action, however, personal income-tax concessions amounting to DKR 500 million, or 0.2 % of GDP, will be made in the 1979 budget (beyond the automatic adjustments that are legally provided for), and this action will be further linked to securing a stability-oriented outcome to forthcoming income negotiations. The public sector borrowing requirement may also be allowed to widen somewhat.
- (ii) In the framework of concerted action the contribution of the Federal Republic of Germany will be to propose by the end of August to the legislative bodies additional and quantitatively substantial measures up to 1 % of GNP, designed to achieve a significant strengthening of demand and a higher rate of growth. The order of magnitude will take account of the absorptive capacity of the capital market and the need to avoid inflationary pressures. The choice of specific measures will have to depend on the time-lags with which the impact on effective demand could be achieved.
- (iii) In France improved economic prospects have been established in recent months, in part through measures to assure a more healthy functioning of the price mechanism. An important aspect of these measures is to make available to enterprises the resources necessary to strengthen investment. In the framework of concerted action the 1978 budget deficit will be increased by 0.5 % of GDP. The framing of the 1979 budget will further contribute to the common strategy, with increases in transfer payments to certain categories of households and deferment of discretionary action to reduce the budget deficit beneath the level foreseen for 1978.
- (iv) In Ireland an expansionary policy in 1978 is sustaining the highest rate of growth in the Community.

Concerted action will help Ireland towards the objectives set out in the recent Government Green Paper 'Development for Full Employment', and, notably achieve in 1979 a continued strong growth of output with a reduction in the central government borrowing requirement to 10½ % of GDP (compared to 13 % in 1978). Ireland's own contribution will therefore be modest. However, some further growth-oriented measures will be taken in 1979, involving a shift of budgetary resources from certain categories of current subsidies into expenditures with greater employment-creating effects. The Community will for its part help strengthen investment through a priority in the allocation of its financial resources.

(v) In Italy the priority objective of concerted action is to attain a durable real growth, with in 1979 an increase in the rate of growth of 1½ % higher than in 1978, through a reduction in the public-sector deficit and the establishment of a sounder financial basis for future development. In 1978 there has already been a substantial increase in the public sector deficit (enlarged definition) from 12.1 % of GDP in 1977. The Italian Government is introducing measures to reduce this deficit significantly in the remainder of 1978, and in 1979. To this end, budgetary measures are now being prepared to raise certain taxes and public tariffs, reduce public expenditure, and so limit the public-sector deficit in 1978 to LIT 31 500 thousand million (15.7 % of GDP). For 1979 further significant progress must, with the support of the social partners, be made in reducing this deficit as a percentage of GDP, principally through measures to stem the nominal growth of social transfer payments and public consumption, and to reduce subsidies to nationalized enterprises. In the context of stronger growth prospects in Europe resulting from concerted action, the objective is to reduce the enlarged public sector deficit by somewhat in excess of 1 % of GDP by comparison with the revised objective for 1978, with further reductions to be planned for the following two years in the context of the new triannual budget-programming envisaged by the Government. The Community will for its part help strengthen investment through a priority in the allocation of its financial resources.

(vi) In the Netherlands, the authorities have recently revised their medium-term budget policy orientations on the basis of a forecast medium-term rate of growth of Dutch real national income of 3%. Although the budgetary policy incentive is to reduce the financial deficit of the public sector to 4.5% of national income in 1982, in the short run, and notably because of the greater margin of manoeuvre made available by the concerted action, the stance of fiscal policy will be expansionary. In mid-1978 the authorities implemented new investment incentives and reduced employers' social security contributions. The deficit will rise as a result of further measures to be taken in the framework of the 1979 budget by 1% of national income by comparison with the 1978 level. These measures will include incentives for energy-saving investment and for improving the functioning of labour markets, and a stabilization of the burden of taxes and social security contributions.

(vii) In Belgium, the rise in the public sector deficit in 1978, due in part to the slower than forecast expansion of activity and of incomes, has led the authorities to propose a series of restrictive measures (increases in tariffs, tightening of certain current expenditure programmes) and to request special powers — lasting to the end of 1978 — to make additional economies in the 1978 budget as well as in the budget for 1979 now under preparation. These measures are intended to provide more room for expenditure-favouring investment and for tax reductions benefiting chiefly small and medium-sized enterprises. Estimates of the overall budget implications of the measures taken or envisaged are not yet available. However, preliminary indications suggest that the deficit for the public sector as a whole may be expected to increase from 5.3% of GDP in 1977 to 5.7% in 1978. In view of the increased margin of manoeuvre deriving from concerted action, the Belgian authorities envisage for

1979 a further increase in means to be devoted to the stimulation of private investment and/or alleviations in the fiscal or para-fiscal domains.

(viii) Luxembourg will be able to contribute with a fiscal stimulus in excess of 1% of GDP, through income-tax cuts, increased transfer payments to certain categories of households and aids to investment and industrial reconversion, these measures principally taking effect through the 1979 budget.

(ix) As a contribution towards the concerted action programme, the United Kingdom Government announced in its April budget proposals for 1978/79, tax cuts of UKL 2,000 million (or 1¼% of GDP). These proposals use the room for manoeuvre created by the stabilization policy of the two preceding years and raise the forecast public sector borrowing requirement (PSBR) for 1978/79 up to the limit communicated to the International Monetary Fund (as confirmed in the stand-by credit renewal in May 1978). Because of the amendments made by Parliament to the budget proposals, which further raised the forecast PSBR the UK authorities were obliged, in early June, to take restrictive fiscal and monetary measures in order to restore the borrowing requirement to the intended level, and to ensure that monetary growth remained within the limits announced. Whether a further modest stimulus could be considered later would depend upon the progress of concerted action and the United Kingdom's financial and economic situation at the time.

The Council will at its forthcoming meetings review the implementation of this programme of concerted action, notably in the context of its third examination of the economic situation in the Community later in 1978 and will establish at that time economic policy guidelines for 1979.

I — The economic situation of the Community in the middle of 1978

In 1977, the recovery of activity in the Community had given way to a period of stagnation, but this lasted only until the autumn. Growth then once again gathered a little momentum, spurred on by the more rapid expansion of internal demand, due to expansionary economic policy measures adopted in most of the Member States. Against an international background of permanent exchange-rate instability and slack world demand, the improvement in Community activity was, however, only modest: for the Member States taken as a whole, the annual real GDP growth rate is put at about 3% for the first half of 1978.¹ Growth as slow as this is not enough to restore sound conditions to the labour market, where slack business investment is the main obstacle to any substantial improvement. In several Member States, temporary factors hampered efforts to curb inflation. For the Community as a whole, the year-on-year increase in consumer prices had nevertheless fallen to about 2%^{1,3} by the spring of 1978. The weakness of exports to non-member countries combined with a recovery of imports in a number of Member States reversed the tendency towards an improvement in the external balance which had been observed since early 1977.

In the period up to the end of the year, the main source of support for economic activity will remain the moderate expansion in domestic expenditure. For the full year, the rate of growth of the Community GDP is expected to reach about 2% in real terms.²

2,5%

Demand components

In contrast with the pattern observed last year, when Community exports in terms of volume expanded more rapidly than imports, the net effect of trade in real terms in the first half of 1978 was to curb the expansion of overall demand. But all the main components of **internal demand** in the Community gathered momentum in the first half of 1978.¹ While the improvement was substantial in some cases, the overall contribution to activity for the Community as a whole was not large.

Investment demand, which has slackened a little in the second half of 1977 as trends weakened in the main Member States, began to grow once again. In the first half of 1978, the annual rate of growth in terms of volume of **fixed investment**, for the Community as a whole, may be put at 3½%.¹ But once again, the pattern from country to country was by no means uniform. In the Federal Republic of Germany, the investment recovery was largely accounted for by building and construction, both in the public sector and with regard to new housing. Elsewhere, particularly in France and Italy, the investment recovery started when manufacturers and dealers stopped running down **stocks** or even — particularly in the case of dealers — began building them up once more. On the other hand, managements were still reluctant to commit themselves to investment in fixed assets, the main exceptions to this general observation being industrial managements in Ireland, the United Kingdom and Luxembourg. Although the situation showed a slight improvement as compared with the autumn, many firms were still operating far below technical capacity.³ In addition, the increase in the relative share of profits in national income was either only modest or ceased altogether. Medium- and long-term interest rates held up firmly in several Member States. Finally, for the Community taken as a whole, the upward movement in wages per unit of output, which had once again gathered momentum in 1977, running at a tempo not far from the

rate of increase of the general price level, is unlikely to slow down to any substantial extent in 1978.⁴

The growth of **consumption** demand tended to gather a little momentum in the first half of the year.⁵ This was partly a matter of a more lively expansion of public-consumption expenditure, but it mainly reflected an improvement in real disposable incomes of households, itself due to the fact that rates of price increases slowed down more than the upward movement of wages expressed in money terms, to tax reliefs conceded in several Member States and to some more rapid improvements in transfer incomes: in the Community taken as a whole, the growth in the wage bill per person in paid employment expressed in real terms could well have exceeded since the beginning of the year the rate of 1.4% recorded as an average for 1977,⁶ and for the first time for many years, the overall tax and “para-fiscal” burden in the Federal Republic of Germany, in the United Kingdom and in Ireland⁷ has been lightened as a result of concessions made. Purchases of private cars, which slackened last year, gathered a little momentum once again from the beginning of 1978 onwards⁸

¹ See Table 2.

² See Tables 1 and 3 and Graph A.

³ See **Table 3, Chapter 3**

⁴ See Table 18 and Annex B on evolution in wage costs in industry until 1977.

⁵ See Table 2 and Graph B.

⁶ See Table 18

⁷ See Table 17.

⁸ See Graph B.

TABLE 1

Development of the main macro-economic aggregates

Country	Gross domestic product (volume) % change					Unemployed as % of labour force				
	1974	1975	1976	1977	1978	1974	1975	1976	1977	1978
Denmark	- 0.5	- 0.1	6.0	1.9	1.0	3.1	5.0	5.1	5.9	7.1
FR Germany	0.5	- 2.6	5.6	2.6	2.7	2.2	4.1	4.1	4.0	4.0
France	2.8	0.3	4.6	3.0	2.9	2.8	4.2	4.4	5.1	5.6
Ireland	1.4	0.4	3.2	5.6	6.0	5.7	7.9	9.4	9.4	8.9
Italy	4.2	- 3.5	5.7	1.7	2.2	(5.2)	(5.7)	(6.0)	7.2	7.6
Netherlands	4.2	- 1.2	4.6	2.7	2.0	2.8	4.0	4.3	4.2	4.3
Belgium	4.8	- 2.2	5.3	2.0	2.6	3.1	5.2	6.7	7.5	8.2
Luxembourg	3.7	- 8.3	2.8	1.1	1.8	—	—	0.3	0.5	1.2
United Kingdom	- 1.2	- 1.9	3.0	0.6	2.7	2.4	3.9	5.2	5.7	6.0
Community	1.7	- 1.7	4.9	2.3	2.6	2.9	4.4	5.0	5.5	5.8
Country	Implied deflator of private consumption % change					Balance on current account (USD '000 million)				
	1974	1975	1976	1977	1978	1974	1975	1976	1977	1978
Denmark	15.3	8.4	9.3	10.9	9.0	- 1.0	- 0.6	- 2.0	- 1.7	- 1.3
FR Germany	7.0	6.3	4.4	3.9	3.3	10.0	4.3	3.7	3.5	3.7
France	13.4	11.7	9.9	9.1	9.0	- 6.0	- 0.1	- 6.1	- 3.2	- 2.1 ¹
Ireland	15.2	21.8	17.0	13.6	7.0	- 0.7	0	- 0.2	- 0.2	- 0.4
Italy	21.0	17.6	17.9	18.0	13.0	- 8.0	- 0.5	- 2.8	2.3	3.7
Netherlands	9.7	10.3	9.2	6.7	4.7	2.1	1.7	2.8	0.4	1.0
Belgium	12.3	12.1	7.7	6.6	5.0	} 0.8	0.3	- 0.3	0	0.1
Luxembourg	9.5	10.7	9.8	6.7	3.5					
United Kingdom	16.4	23.3	15.5	14.3	8.2	- 8.2	- 3.6	- 2.0	0.3	1.0
Community	12.8	12.8	10.0	9.1	7.2	- 11.0	1.5	- 7.0	1.4	5.6

() Estimates not fully comparable with the current series

¹ Latest information points to the likelihood that the current balance of payments will be close to equilibrium in 1978

Source: Departments of the Commission

Production and employment

In the first half of 1978, the recovery in overall demand led to a modest acceleration in the growth rate of the Community's real **gross domestic product**.¹

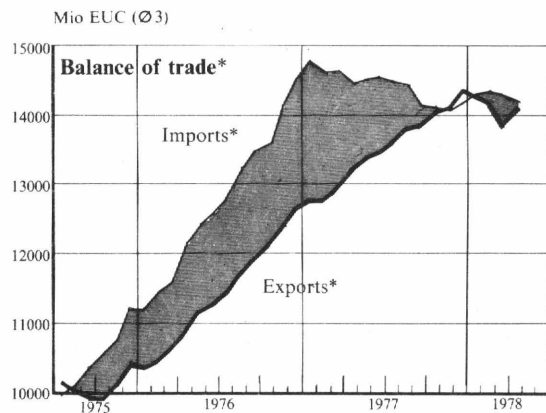
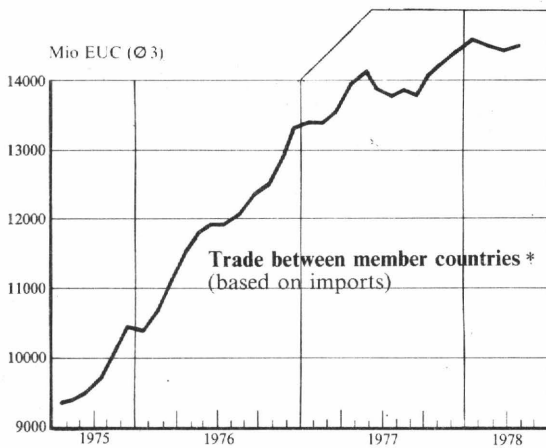
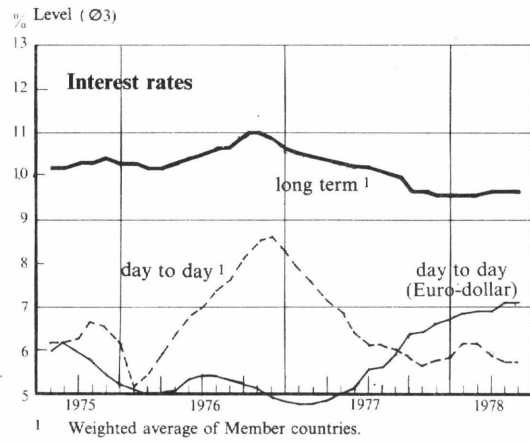
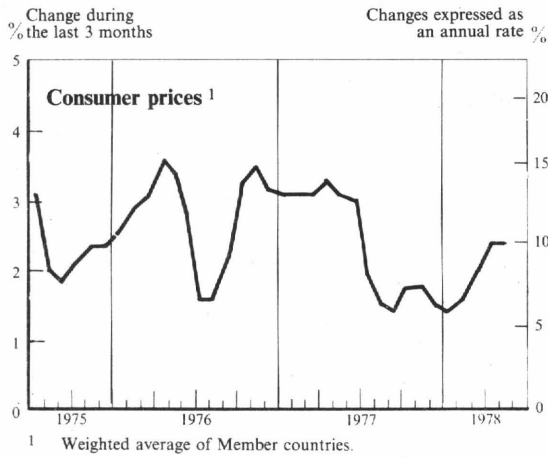
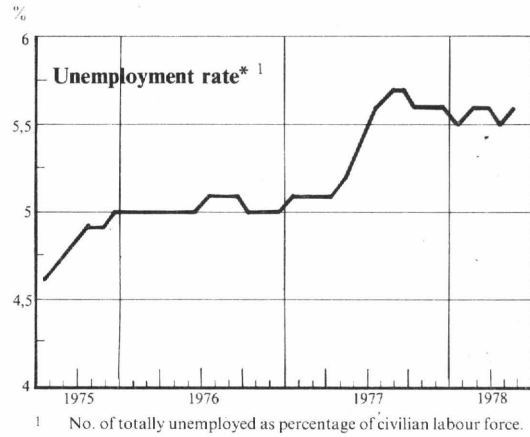
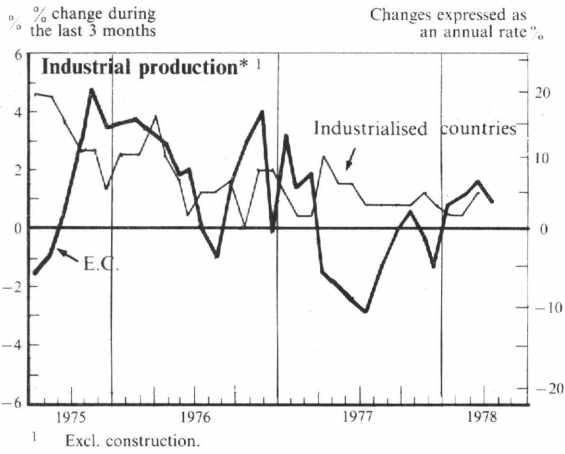
The improvement in activity in the Community was largely due to the renewed expansion of industrial production, which had tended to contract throughout 1977. The industrial production index for the Community as a whole showed an increase (apart from seasonal variations) of 1.8% in the first quarter of 1978 and 0.6% in April.² The improvement was a fairly general one. In the Federal Republic of Germany, however, industrial production marked time from January onwards at a level rather lower than that reached in the fourth quarter of 1977. In April, the overall level was still no better either than that achieved in April 1977, or than that reached before the 1974-75 recession. An improvement in production was recorded in the building and construction

industry, although the weather was bad from the beginning of the year onwards.

The deterioration in the situation on the Community's **labour market** ceased in the autumn. The meagre productivity gains achieved probably had something to do with this, but the main factor was the employment policy implemented. The level of paid employment and the average number of hours worked per person in paid employment rose very slightly, the number of vacancies improved in a few Member States and short-time working often tended to decline. Since September 1977, the unemployment rate (seasonally adjusted number of wholly unemployed workers as a percentage of the civilian labour force) has marked time at a figure of about

¹ See Table 2.

² See Table 4.

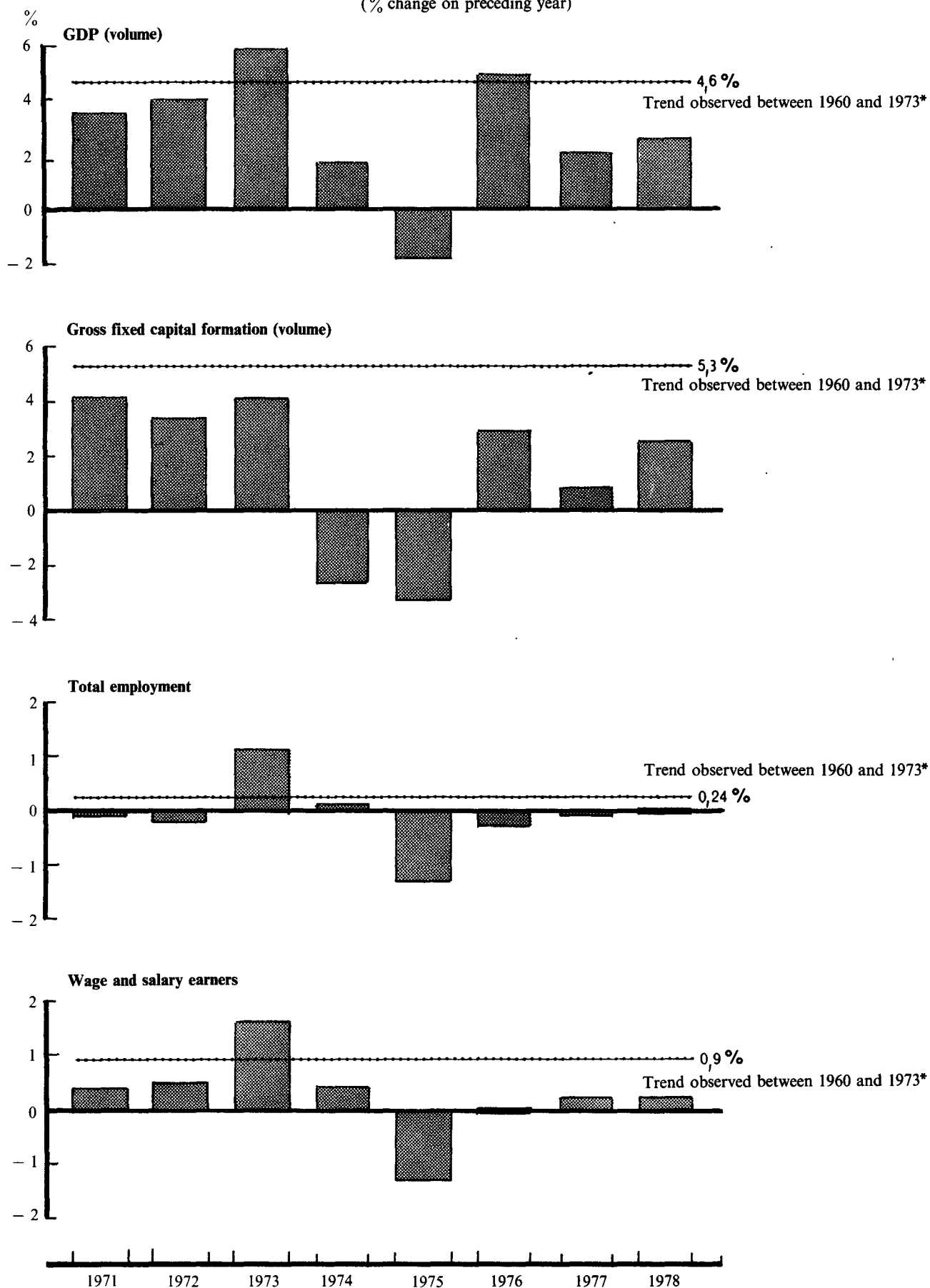


* Seasonally adjusted figures.
Ø3: Three month moving average.
Source: Services of the Commission.

Developments in GDP, investment and employment in the Community (1971-1978)

GRAPH A

(% change on preceding year)



* Geometric mean of annual rates of change between 1960 and 1973.

TABLE 2

Half-yearly development of supply and use of goods and services
 (% change on preceding half-year, annual rates, seasonally adjusted — volume)

	Period	FR Germany	France	Italy	United Kingdom	Other ¹ member countries	EC
Private consumption	1976 II	2.8	4.0	0.7	2.4	1.9	2.6
	1977 I	2.4	1.8	1.6	- 4.5	3.9	1.3
	1977 II	4.2	2.0	3.6	4.0	1.0	3.0
	1978 I	2.5	3.4	2.6	5.6	3.7	3.4
	1978 II	3.0	4.9	0.4	5.0	1.7	3.2
Public consumption	1976 II	- 0.8	4.4	1.2	0.4	3.2	1.3
	1977 I	0.6	2.5	3.3	- 0.4	2.9	1.4
	1977 II	2.0	4.7	1.4	- 0.2	3.0	2.3
	1978 I	3.0	2.6	4.1	1.0	2.5	2.6
	1978 II	3.7	3.2	- 1.5	2.6	2.0	2.6
Gross fixed asset formation	1976 II	5.0	0	3.7	- 0.2	10.2	3.6
	1977 I	3.2	0	3.9	- 7.0	3.6	1.2
	1977 II	- 0.2	- 1.8	- 10.4	- 1.4	- 5.0	- 1.2
	1978 I	6.0	1.4	1.8	5.3	0.4	3.3
	1978 II	6.1	3.0	2.2	7.5	2.5	4.4
Final domestic demand (including stock changes)	1976 II	3.4	4.2	0.5	4.3	5.5	3.7
	1977 I	2.0	0.6	3.1	- 2.1	3.5	1.4
	1977 II	2.2	1.8	- 6.0	- 2.2	0.8	0.2
	1978 I	3.6	3.6	7.0	5.1	3.0	4.2
	1978 II	3.7	4.4	0.8	6.2	2.3	3.7
Exports ²	1976 II	7.3	3.0	18.0	8.9	7.9	8.2
	1977 I	2.7	8.2	2.6	3.9	- 2.5	2.6
	1977 II	4.1	5.9	1.3	4.3	1.4	3.5
	1978 I	3.0	5.5	5.7	2.4	3.6	3.6
	1978 II	3.7	5.7	10.4	3.0	5.8	5.2
Imports ²	1976 II	6.3	1.0	1.6	9.1	9.5	6.1
	1977 I	- 0.2	0.8	2.3	2.0	- 0.4	0.8
	1977 II	8.3	1.2	- 9.6	- 9.1	0.3	- 0.1
	1978 I	4.5	7.1	12.0	13.9	4.9	7.5
	1978 II	5.1	7.5	8.8	6.7	4.7	6.1
Gross domestic product at market prices	1976 II	3.0	3.5	4.1	4.3	4.4	3.7
	1977 I	2.7	3.0	3.2	- 1.5	1.8	2.1
	1977 II	1.2	2.4	- 3.6	1.8	1.5	1.0
	1978 I	3.2	2.8	4.6	2.1	2.4	3.0
	1978 II	3.4	3.6	3.5	5.0	2.9	3.6
Price of GDP ³	1976 II	4.0	9.6	20.7	11.2	7.7	9.1
	1977 I	2.8	8.8	20.1	14.7	7.6	9.0
	1977 II	5.1	9.0	13.2	12.8	7.2	8.5
	1978 I	3.3	9.4	12.1	9.0	7.2	7.3
	1978 II	3.4	10.9	15.3	9.6	6.1	8.1
Gross domestic product at market prices ⁴	1976 II	7.1	13.4	25.7	16.0	12.5	13.2
	1977 I	5.6	12.1	23.8	13.0	9.7	11.2
	1977 II	6.4	11.6	9.1	14.8	8.8	9.6
	1978 I	6.6	12.5	17.3	11.3	9.6	10.5
	1978 II	6.9	14.9	19.3	15.1	9.2	12.0

¹ Denmark, Ireland, Netherlands, Belgium and Luxembourg

² Goods and services

³ Implicit price index

⁴ Value changes

TABLE 3

Yearly development of supply and use of goods and services
(% change on preceding year — volume)

	Year	Denmark	FR Germany	France	Ireland	Italy	Nether- lands	Belgium	Luxem- bourg	United Kingdom	EC
Private consumption	1974	- 3.2	0.3	3.0	- 0.2	2.7	3.1	3.5	4.9	- 1.3	1.3
	1975	4.7	2.5	3.0	- 3.3	- 1.4	3.9	0.6	2.0	- 1.2	1.5
	1976	6.2	3.6	5.1	2.8	3.4	2.7	6.1	3.0	0.4	3.6
	1977	0.2	2.9	2.5	4.5	2.1	4.1	2.0	2.5	- 0.8	2.1
	1978	- 1.0	3.0	3.4	7.5	2.3	3.2	2.5	2.0	5.0	3.2
Public consumption	1974	2.7	4.3	1.2	7.9	2.9	2.2	3.5	2.6	2.1	2.9
	1975	6.6	4.5	4.7	5.6	2.9	4.9	5.2	3.4	5.5	4.7
	1976	5.0	2.4	4.6	2.0	1.7	4.3	4.6	2.2	2.4	2.9
	1977	2.6	0.7	3.8	2.0	2.7	2.5	4.1	2.2	- 0.2	1.7
	1978	2.0	2.9	3.3	5.0	2.0	0.7	5.4	2.1	1.3	2.6
Gross fixed asset formation	1974	- 9.0	- 9.9	0.6	- 5.3	3.5	- 3.6	8.0	2.0	- 2.3	- 3.0
	1975	- 9.5	- 4.2	- 2.6	- 6.5	- 13.0	- 4.2	- 1.5	- 8.6	- 3.6	- 4.8
	1976	17.7	5.0	3.9	4.4	1.9	- 1.9	0.8	- 4.2	- 2.0	3.0
	1977	- 1.8	2.7	- 0.6	8.0	0.1	11.7	0.4	3.2	- 3.9	1.1
	1978	+ 0.0	4.4	1.3	10.0	- 1.3	2.1	1.6	1.1	4.1	2.5
Final domestic demand (excluding stock changes)	1974	- 3.3	- 1.7	2.2	- 0.3	2.9	1.3	4.5	3.8	- 0.8	0.5
	1975	2.1	1.2	1.9	- 2.6	- 3.2	2.1	0.8	- 1.0	- 0.4	0.6
	1976	8.1	3.7	4.8	3.0	2.9	1.9	4.8	0.9	0.4	3.4
	1977	0.4	2.5	1.9	4.8	1.8	5.5	2.0	2.6	- 1.3	1.9
	1978	- 0.0	3.3	2.9	7.6	1.5	2.5	2.8	1.8	4.1	2.9
Final domestic demand (including stock changes)	1974	- 3.6	- 1.9	2.0	0.2	2.8	2.4	5.2	4.3	- 2.2	0.2
	1975	- 0.9	0.3	- 1.0	- 8.0	- 6.1	- 1.7	- 2.4	0.0	- 2.9	- 1.8
	1976	10.5	5.4	6.3	6.7	5.7	4.5	6.1	0.4	2.1	5.3
	1977	0.0	2.3	2.0	4.7	0.1	5.6	1.9	1.7	- 0.6	1.6
	1978	- 0.0	3.2	2.9	8.0	2.2	2.4	2.9	1.7	3.6	2.9
Exports ¹	1974	5.2	12.1	10.3	1.4	9.9	2.4	6.5	5.7	6.1	8.6
	1975	- 2.3	- 7.0	- 2.8	6.6	3.7	- 2.9	- 9.0	- 13.5	- 3.1	- 3.8
	1976	3.4	11.4	9.2	8.4	13.7	10.4	11.4	3.2	7.4	10.2
	1977	4.1	4.2	6.3	14.0	5.8	- 2.2	2.4	1.6	5.2	3.9
	1978	3.5	3.4	5.5	10.6	5.5	2.8	3.8	3.2	2.8	3.9
Imports ¹	1974	- 4.5	2.4	5.5	- 1.3	2.1	- 1.1	7.5	6.5	2.0	2.6
	1975	- 4.2	4.7	- 8.7	- 11.6	- 9.6	- 4.0	- 9.4	- 5.3	- 6.8	- 4.1
	1976	16.5	11.4	19.2	15.4	14.9	10.9	13.0	0.2	3.8	12.2
	1977	- 1.6	3.5	1.0	11.1	- 1.0	2.5	2.1	2.4	0.8	1.8
	1978	- 0.5	5.6	5.4	13.5	5.5	3.3	4.4	2.8	5.8	5.0
Gross domestic product at market prices	1974	- 0.5	0.5	2.8	1.4	4.2	4.2	4.8	3.7	- 1.2	1.7
	1975	- 0.1	- 2.6	0.3	0.4	- 3.5	- 1.2	- 2.2	- 8.4	- 1.9	- 1.7
	1976	6.0	5.6	4.6	3.2	5.7	4.6	5.3	2.8	3.0	4.9
	1977	1.9	2.6	3.0	5.6	1.7	2.7	2.0	1.1	0.6	2.3
	1978	1.0	2.7	2.9	6.0	2.2	2.0	2.6	1.8	2.7	2.6
Price of GDP ²	1974	12.1	6.9	11.6	7.1	18.3	8.6	12.2	17.3	15.1	11.3
	1975	11.2	7.0	13.2	23.5	17.2	11.1	12.6	0.0	28.2	13.8
	1976	8.8	3.2	10.0	18.3	18.3	8.3	7.2	6.1	15.0	9.3
	1977	8.8	3.7	8.7	13.3	18.3	6.6	7.1	4.5	13.6	8.8
	1978	9.0	3.8	9.7	10.3	13.8	6.2	5.9	6.7	9.9	7.9
Gross domestic product at market prices ³	1974	11.5	7.5	14.7	8.7	23.3	13.2	17.5	21.7	13.6	13.2
	1975	11.1	4.3	13.5	24.0	13.1	9.8	10.2	- 8.4	25.7	11.9
	1976	15.3	9.0	15.1	22.0	25.0	13.3	12.9	9.0	18.4	14.7
	1977	10.9	6.4	12.0	19.6	20.3	9.5	9.2	5.7	14.2	11.3
	1978	10.5	6.6	12.9	16.9	16.3	8.4	8.6	8.7	12.9	10.7

¹ Goods and services² Implicit price index³ Value changes

Community

GRAPH B

Indicators of domestic demand

(1973 = 100; seasonally adjusted)

- Retail sales (volume)
 — Number of housing permits
 - - - New car registrations

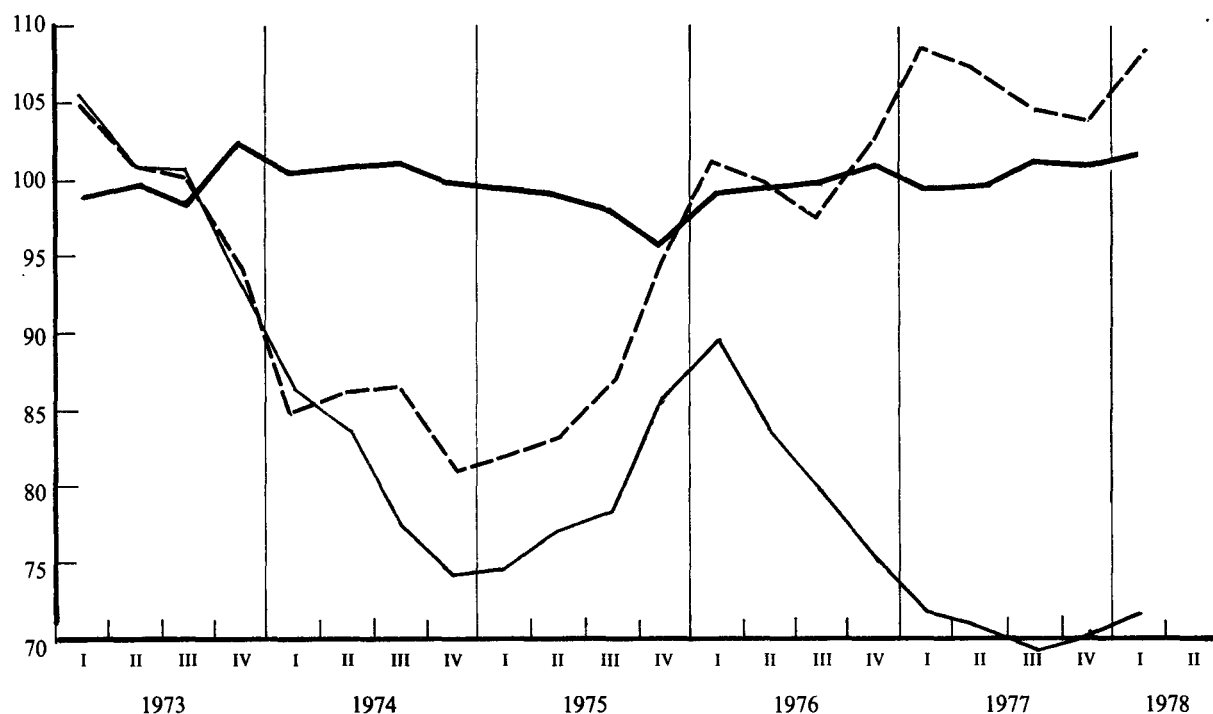


TABLE 4

Development of industrial production (excluding building)
 (% change on preceding period, seasonally adjusted)

Country	Annual figures			Quarterly figures					Monthly figures							
	1975	1976	1977	1977				1978	1977			1978				
				I	II	III	IV	I	Octo-ber	Novem-ber	Decem-ber	Januari	Feb-ruary	March	April	May
Denmark	- 5.7	11.4	0.3	1.3	- 4.3	4.4	- 1.7	- 3.4	- 6.2	4.0	0.2	0.1	- 5.2	- 1.2	8.1	
FR Germany	- 5.7	7.3	3.0	1.7	- 1.1	0.3	1.1	- 0.3	- 0.9	0.9	1.7	0.8	- 3.3	- 0.9	1.7	- 1.7
France	- 8.9	10.6	1.7	1.8	- 2.3	- 0.8	- 0.8	3.2	- 3.2	4.1	- 3.9	3.3	- 0.8	3.2	1.6	
Ireland	- 6.4	9.0	.	2.3	3.7	- 0.7	3.8	.	.	.	.	.	.	.	.	.
Italy	- 9.2	12.4	0.8	2.6	- 7.0	- 0.8	- 2.8	5.3	- 4.8	1.7	- 2.9	4.9	3.2	- 1.0	- 2.8	
Netherlands	- 4.8	5.9	0.1	- 1.0	0.8	- 2.5	1.6	- 0.8	0	- 0.8	4.0	- 3.1	0.8	- 1.6	2.4	.
Belgium	- 9.7	8.9	- 0.4	0.1	0.2	- 2.3	- 0.6	1.6	0.8	0.1	- 0.4	0	1.9	1.0	1.1	.
Luxembourg	- 21.8	6.3	0.4	2.3	2.8	- 4.7	0.1	6.1	- 2.7	6.6	- 3.7	8.5	- 0.2	- 5.0	2.8	
United Kingdom	- 5.0	1.2	1.3	1.0	- 1.4	0.5	- 1.4	1.9	- 1.5	- 0.2	1.1	0.7	0.6	- 0.2	1.6	.
Community	- 6.6	7.3	1.7	2.4	- 1.9	- 1.2	- 0.5	1.8	- 0.6	- 0.5	0.0	1.4	- 0.3	0.6	0.6	

Data not available.

Source: EUROSTAT for figures for Denmark and the Community, national sources for figures for other Member States

5.6%.¹ In May, the only countries in which the seasonally adjusted unemployment rate exceeded the figure recorded at the end of last year were France, Denmark and Belgium. In general, unemployment among young people under 25 has steadily declined since October 1977.

However, the total number of wholly unemployed was about half a million higher in May than in May 1977.

¹ See Table 5.

TABLE 5
Unemployment rates¹

Country	Annual averages			Quarterly averages ²					Monthly figures ²							
	1975	1976	1977	1977				1978	1977			1978				
				I	II	III	IV	I	Octo-ber	Novem-ber	Decem-ber	January	Feb-ruary	March	April	May
Denmark	4.6	4.7	5.8	5.5	5.6	5.8	5.9	6.7	5.9	6.0	5.8	6.4	6.7	6.9	6.5	6.6
FR Germany	4.2	4.1	4.0	3.9	3.9	4.1	4.0	3.9	4.0	4.0	3.9	3.9	4.0	3.9	3.9	3.9
France	3.9	4.3	4.9	4.4	4.8	5.1	5.0	4.8	5.1	5.0	4.9	4.8	4.8	4.9	5.0	5.0
Ireland	8.8	9.8	9.6	9.6	9.6	9.6	9.4	9.1	9.4	9.4	9.3	9.1	9.0	9.1	8.9	8.8
Italy	5.7	6.0	7.0	6.4	6.6	7.4	7.5	7.7	7.5	7.5	7.7	7.5	7.8	7.7	7.6	7.7
Netherlands	4.1	4.4	4.3	4.1	4.2	4.5	4.4	4.1	4.4	4.4	4.3	4.2	4.1	4.1	4.2	4.2
Belgium	5.3	6.8	7.8	7.2	7.4	7.9	8.1	8.3	8.1	8.2	8.1	8.3	8.2	8.3	8.4	8.5
Luxembourg	0.2	0.3	0.6	0.5	0.5	0.6	0.7	0.9	0.6	0.7	0.8	0.9	0.9	0.9	0.8	0.8
United Kingdom	3.8	5.3	5.7	5.4	5.5	6.0	5.9	5.7	5.9	5.9	5.8	5.8	5.7	5.7	5.7	5.7
Community	4.4	5.0	5.4	5.1	5.3	5.7	5.6	5.6	5.6	5.6	5.6	5.5	5.6	5.6	5.5	5.6

¹ Number of registered unemployed as % of civilian labour force. As definitions are not uniform, unemployment rates are not comparable from country to country.

² Seasonally adjusted.

Source: EUROSTAT.

TABLE 6
Development of consumer prices
(% change on preceding period, not seasonally adjusted 1970 = 100)

Country	Annual averages			Quarterly averages					Monthly figures							
	1975	1976	1977	1977				1978	1977			1978				
				I	II	III	IV	I	Octo-ber	Novem-ber	Decem-ber	January	Feb-ruary	March	April	May
Denmark	9.6	9.0	11.1	1.1	3.2	2.5	5.2	1.3	3.5	0.9	0.1	0.3	0.5	0.6	0.4	0.9
FR Germany	5.9	4.6	3.9	1.9	1.4	0.2	0.2	1.3	0.1	0.1	0.3	0.6	0.5	0.3	0.3	0.3
France	11.7	9.6	9.5	1.6	3.1	2.4	1.9	1.6	0.8	0.4	0.3	0.5	0.7	0.9	1.1	1.0
Ireland ¹	20.9	17.9	13.6	3.8	3.8	1.1	1.7	1.5	0.6	0.6	0.5	0.5	0.5	0.3	0.3	0.3
Italy	17.2	16.7	18.6	4.7	3.8	2.5	3.3	2.6	1.3	1.0	0.5	0.8	1.0	1.3	1.0	1.1
Netherlands	9.9	8.9	6.7	0.7	2.9	0.6	1.3	0.3	0.6	0.2	0.0	-0.7	0.4	1.2	1.0	0.6
Belgium	12.8	9.2	7.1	2.0	1.6	1.5	1.2	1.3	0.2	0.4	0.4	0.5	0.4	0.3	0.1	0.1
Luxembourg	10.8	9.8	6.7	2.3	1.6	0.7	0.4	0.7	0.4	0.5	-0.2	0.4	0.2	0.3	0.6	0.1
United Kingdom	24.1	16.7	15.9	5.0	4.5	1.6	1.5	1.7	0.4	0.5	0.5	0.6	0.6	0.6	1.5	0.6
Community	13.8	11.3	11.2	3.1	3.2	1.6	1.7	1.7	0.7	0.5	0.4	0.6	0.7	0.8	0.9	0.7

¹ Only quarterly indices available, the monthly figures are interpolated on this basis.

Source: EUROSTAT.

Prices

Inflation slackened a little in the second half of 1977, but there has been evidence since the autumn that the upward price movements in the Community have grown a little faster once again. At consumer price level, the improvement continued in a few Member States (Belgium, Federal Republic of Germany, Denmark and Luxembourg). But in other countries it either stopped (United Kingdom and Italy), or there was even a renewed acceleration (France). These unwelcome developments may be partly due to temporary factors, to adaptations of officially controlled prices, or to the impact of import prices. In the three-month period ending in May,

consumer prices in the Community increased on average at a monthly rate of 0.8%,¹ corresponding to an annual increase of nearly 10%. However, in May, the year-on-year consumer price inflation rate for the Community as a whole was 7½%; the rates ranged from 2.7% for the Federal Republic of Germany to 12.1% for Italy. This shows that the average inflation rate in the Community has been halved since 1974, when it reached the figure of nearly 15%. None the less, the disparities between the Member States are still wide.

¹ See Table 6.

TABLE 7
Development of world trade
(% change on the preceding period)

	1974	1975	1976	1977	1978
<i>Volume of world trade:</i>					
Total world imports	6.1	— 3	11.5	4½	4½
— excluding the Community	9.6	— 1	9.5	5	4½
Total imports of developed countries	1.1	— 7.4	14.0	4½	4½
— excluding the Community	2.9	— 9.4	13.6	6½	4
Total imports of developing countries	18	9.5	9	6½	6
— Oil producers	38	43	18	14	9
— Non-oil producing developing countries	13	— 4	5	4	5
Imports of State-trading countries	10	6	— 3	— 4	1
<i>Gross domestic product in real terms of developed countries</i> ¹	0.1	— 0.9	5.2	3½	3½
— excluding the Community	— 0.5	— 0.6	5.4	4.3	4

¹ For certain countries gross national product

Source: Departments of the Commission

TABLE 8
Development of intra and extra EEC exports
(% change on an annual basis)¹

Country	1975		1976		1977		1977								1978	
	Intra	Extra	Intra	Extra	Intra	Extra	I		II		III		IV		January-April	
							Intra	Extra	Intra	Extra	Intra	Extra	Intra	Extra	Intra	Extra
Denmark	13.6	4.8	18.0	14.7	4.6	11.0	13.9	42.7	— 18.9	— 24.8	8.7	— 0.1	21.6	1.3	20.6	— 18.7
FR Germany	— 5.7	— 0.5	31.9	21.1	10.9	14.8	13.7	— 1.8	— 2.4	10.0	— 2.8	14.3	23.5	14.2	2.5	— 7.0
France	1.0	18.4	22.4	15.5	10.9	12.1	17.6	9.5	— 4.3	19.7	3.9	5.7	14.3	19.9	7.5	— 16.2
Ireland	23.8	— 5.3	10.4	34.3	30.6	26.6	14.1	47.4	26.2	59.0	75.5	45.9	16.0	— 5.3	14.2	— 5.5
Italy	10.4	11.9	25.0	11.7	15.8	21.9	17.8	87.8	34.0	53.0	— 31	— 17.9	54.4	22.9	— 3.0	— 8.8
Netherlands	3.2	2.0	26.0	22.5	5.5	12.1	4.1	— 30.1	— 12.4	— 5.1	— 7.8	50.0	16.1	— 24.6	7.2	— 5.1
BLEU	— 1.2	— 4.3	32.2	13.1	7.6	20.7	7.8	14.8	— 8.1	32.6	— 11.3	5.3	— 4.7	— 4.3	4.8	— 10.6
United Kingdom	5.5	10.8	29.2	11.7	24.6	19.1	42.7	40.6	26.7	30.0	19.7	27.6	4.7	— 4.8	10.1	9.9
Community	1.1	6.2	27.5	16.6	11.5	16.1	11.8	13.3	1.2	21.3	— 1.3	10.7	14.2	10.7	6.7	— 5.4

¹ % change from period to period expressed at an annual rate. Calculations have been based on figures expressed in EUC, seasonally adjusted

Source: EUROSTAT and departments of the Commission

Trade

After gathering momentum in the second half of 1977, the growth of Community **exports** to non-member countries slowed down, reflecting the lack of buoyancy in the world economy and, to a lesser extent, a slight loss of competitive edge in the Member States.¹ Exports of goods to non-member countries are estimated to have declined in terms of value by about 5½% on an annual basis during the first four months of 1978 compared with the previous four months (seasonally adjusted figures in EUC, customs statistics).² The Community's share in international trade may thus have shrunk a little since the beginning of 1978.

Although purchases by the United States, Canada and Japan have continued to expand, imports by the other industrialized countries outside the Community (accounting for more than 35% of Community exports to non-member countries), and in particular imports by Western European countries, have generally slowed down as a result of lack of domestic growth. In addition, imports by the OPEC countries have increased at a distinctly less rapid rate, while imports by the non-oil-producing developing countries and the State-trading countries have been sluggish since the beginning of the year.

It must be assumed that during the coming months world demand will continue to expand at a moderate rate close to that observed in the first half of the year (about 4½% in volume terms on an annual basis). In most cases, however, the Member States will not be in a position to increase their market shares. In general, Community exports to industrialized countries should move in line with the foreseeable trends of the domestic economic situation in these countries: exports to the United States should grow less rapidly, but in other cases might well improve somewhat, particularly exports to a number of European countries and to Japan. There will probably be little change in the lines along which exports to other countries are developing. But the outlook for exports to the non-oil-producing developing countries is particularly uncertain, especially as the current account positions of these countries seem bound to deteriorate during 1978.

After slackening during most of 1977, Community **imports** from non-member countries picked up only very slightly from the autumn onwards; during the first four months of 1978, compared with the last four months of 1977, they grew at an annual rate of only 1% in value terms (seasonally adjusted figures in EUC, customs statistics).³ Imports from other industrialized countries declined in several Member States. Purchases from the OPEC countries and from the State-trading countries increased only marginally. Imports of raw materials grew moderately, as firms and dealers began to build up depleted stocks once again in some Member States.

In most Member States, the growth of imports should continue or even gather a little momentum in some countries in coming months, despite the subdued growth of domestic demand generally expected.

The growth of **intra-Community** trade since the beginning of the year has not entirely reflected the moderate

improvement in the economic situation in the Community. After recovering some of their buoyancy during the autumn of 1977, intra-Community imports subsequently grew distinctly more slowly and less steadily: in December-April, their growth compared with the last four months of 1977 was only 5% at an annual rate (seasonally adjusted figures in EUC, customs statistics).³ In addition, the elasticity of trade in relation to production, influenced no doubt by the general under-utilization of productive capacity, seems to be still running at below its level before the oil crisis.⁴

As a result of the developments in trade described above, the underlying improvement in the Community's **trade balance**, which had continued throughout 1977, was reversed. After achieving a surplus of some USD 800 million in the last quarter of 1977, the trade balance showed a deficit of USD 1 800 million in January-March, and a slight surplus in April.⁵ Generally speaking, the balance continued to benefit from the terms of trade swing in the Community's favour. World prices, for most raw materials, expressed in dollars, have shown little change since the end of last year.

The Community's current account surplus could well reach USD 5 500 million for this year as a whole.⁶ This improvement over 1977 will probably be due solely to an appreciable swing in the terms of trade, since the balance in real terms is likely to deteriorate with imports of goods and services growing faster than exports in volume terms (5% and 4% respectively).⁷ The three member countries which in 1977 had current account deficits (France, Denmark and Ireland) will probably on the whole contribute to the underlying improvement in the Community's external position, but the improvement will be mainly attributable to the consolidation of the situation of the surplus Member States.

Monetary and financial situation

Since the autumn of 1977, the impact of the **budgets** in almost all the member countries has tended to spur on activity. However, this was not due to deliberately expansionary budgetary policies in all the countries. In some countries, the swelling of the deficit was mainly a matter of tax revenue shortfalls (Belgium) or of involuntary excess expenditure (Italy). Thus, in these two countries, the authorities had to introduce, towards the middle of the year, measures designed to temper budgetary disequilibrium. In other countries, including the Federal Republic of Germany, Ireland, the Netherlands and the United Kingdom, the heavier deficits were partly attributable to a more expansionary stance or to an actual reversal of budgetary policy, involving tax cuts or new investment incentives. In June, the United Kingdom,

¹ See Tables 7 and 14, and Graph C

² See Table 8.

³ See Table 9.

⁴ The income elasticity of intra-Community trade (relation between the volume growth of intra-Community trade and that of gross domestic product) has traditionally been of some 2½%.

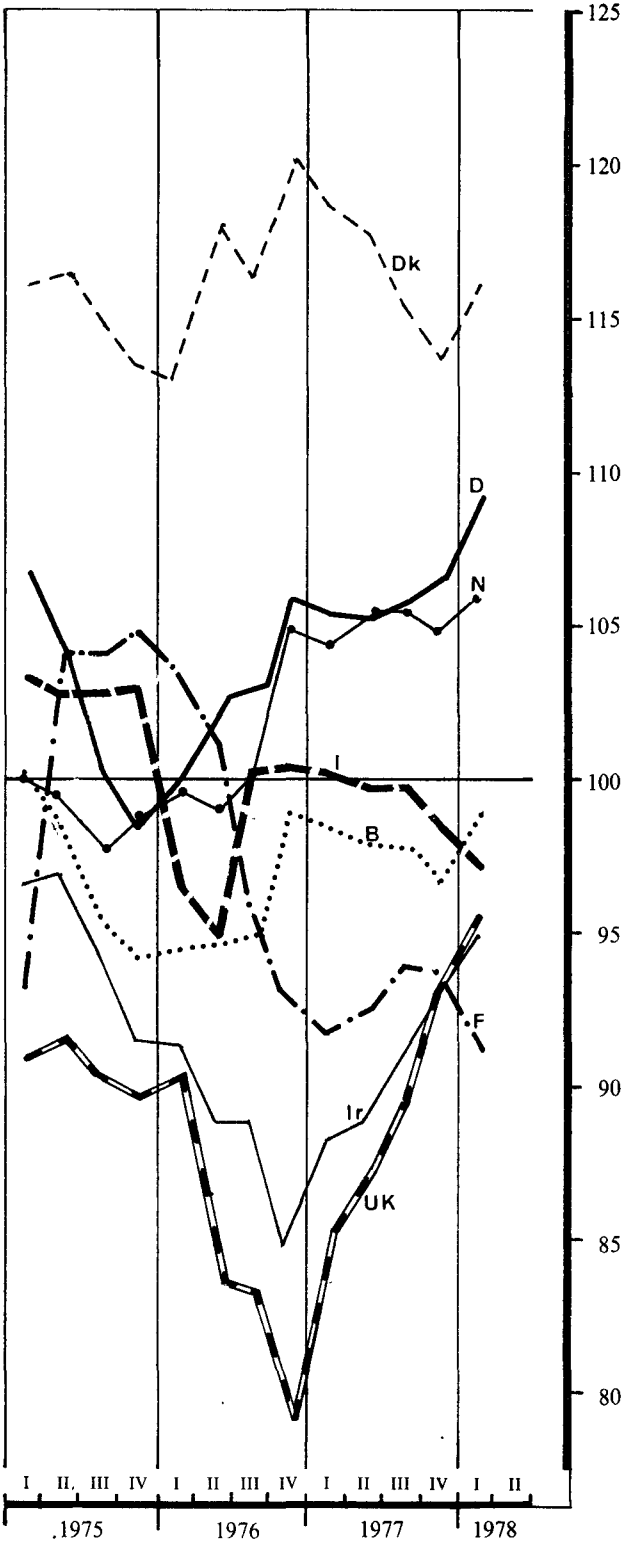
⁵ See Table 10.

⁶ See Tables 1 and 11.

⁷ See Table 3.

GRAPH C

Relative prices
of industrial products



The index of competitiveness shows how the country's prices, corrected for exchange rate changes, have moved against a geometrically weighted average of competitors' prices, also corrected for exchange rate changes — i.e. whether the country has become more or less competitive on international markets. Rising index indicates increase in relative prices, loss of competitiveness.

authorities increased employers' national insurance contributions, thus offsetting the expansionary amendments made by Parliament to the budget proposals for the financial year 1978/79. For the Community as a whole, the increase in the public sector borrowing requirement in 1978 will probably be equivalent to 1 % of total gross domestic product, compared with a fall of about ½ % in 1977. ¹

The growth of **monetary aggregates** in the Community taken as a whole was fairly brisk from the beginning of 1978 onwards, as it had been since the summer of 1977. ² Private-sector demand for bank lending was in general quite strong, while the methods used to the public-sector borrowing requirement generally tended to boost domestic liquidity. However, a factor which, in the Federal Republic of Germany and the United Kingdom, was spurring on the growth of the money supply, namely the inflow of foreign capital, was reversed during the spring. Thus, the Bundesbank had to reduce the minimum reserve ration for banks so as to offset the impact of capital outflows on liquidity. In the United Kingdom, the growth of the money supply (sterling M3) during the financial year ending in March 1978 was much more rapid than anticipated. As a result, the United Kingdom authorities reintroduced the supplementary special deposit scheme ('corset') in June. In Italy, the growth of domestic liquidity remained rapid, while in France the most recent figures available indicate some slowdown. Denmark and the Netherlands are the only Community countries in which money-supply expansion has tended to slacken.

During the first half of 1978, there was no consistent pattern in the movement of **short-term interest rates** in the Community, though a downward trend was predominant. ² Movements were largely determined by external influences. In the Benelux countries, rates rose towards the end of 1977 because of strain on the exchange markets, but reverted practically to previous levels during the early months of 1978. In France too, rates have been falling since the second half of March, when the franc began to recover after a period of decline. In Italy, the downward drift of rates, which has been evident for a year, continued. By contrast, the German money market came under strain until May, mainly as a result of international capital movements. Finally, in the United Kingdom, interest rates tended to rise fairly sharply from April onwards, and this trend too has been due in part at least to external factors. **Long-term interest rates** similarly showed no clear pattern throughout the Community. They moved downwards in some Member States (the Benelux countries, France and Italy), but began to rise in others (United Kingdom, Ireland and the Federal Republic of Germany).

During the first half of 1978, **exchange rates** were still fluctuating widely. ³ After a period of weakness lasting about five months, which was reflected in a depreciation of about 14 % against the 'snake' between the beginning

¹ See Table 17.
² See Table 12.
³ See Graph D.

TABLE 9

Development of intra and extra EEC imports
(% change on an annual basis)¹

Country	1975		1976		1977		1977								1978	
	Intra	Extra	Intra	Extra	Intra	Extra	I		II		III		IV		January-April	
							Intra	Extra	Intra	Extra	Intra	Extra	Intra	Extra	Intra	Extra
Denmark	14	00	36.4	28.8	5.7	3.3	-10.7	5.4	-8.5	-15.4	22.0	-4.6	-4.7	-32.3	-10.4	-8.3
FR Germany	7.1	1.2	27.4	34.3	14.4	10.3	17.9	-7.4	-5.5	-3.2	12.1	11.2	21.1	4.5	6.9	0.7
France	1.3	-3.6	33.6	30.0	6.9	7.6	-2.4	-0.4	-2.4	-11.5	-0.8	-2.0	1.2	2.4	6.9	-6.3
Ireland	-3.6	-7.5	24.0	22.3	34.2	6.4	112.2	-7.0	4.5	1.6	30.4	1.6	19.1	9.9	-0.6	27.0
Italy	-8.2	-10.3	27.2	23.9	5.7	8.1	-4.7	-0.8	12.6	20.6	-51.7	-35.3	88.0	14.3	-5.0	-21.2
Netherlands	1.1	3.0	22.6	31.4	10.6	12.3	-23.6	32.6	23.9	-27.1	1.2	-15.8	-5.9	-10.4	16.0	-1.1
BLEU	0.9	-4.4	25.8	26.6	7.1	9.6	5.1	26.2	-1.2	-10.7	-6.6	-24.9	21.1	13.9	11.9	11.3
United Kingdom	2.1	-8.6	17.0	16.6	31.3	0.9	82.9	-10.7	22.0	27.2	28.2	-32.3	10.4	-1.2	-4.2	22.7
Community	1.4	-4.1	26.6	26.8	12.3	7.4	9.1	-5.6	2.7	-4.8	3.9	-9.0	11.0	0.4	5.0	-1.0

¹ % change from period to period expressed at an annual rate. Calculations have been based on figures expressed in EUC, seasonally adjusted.

Source: EUROSTAT and departments of the Commission

TABLE 10

Development of balance of trade
(fob/cif, USD million)

Country	Annual figures			Quarterly figures ²					Monthly figures ¹							
	1975	1976	1977	1977				1978	1977			1978				
				I	II	III	IV	I	October	November	December	January	February	March	April	May
Denmark	-1 683	-3 269	-3 149	-839	-858	-868	-671	-745	-261	-229	-179	-279	-203	-263	-176	-230
FR Germany	15 180	13 774	16 569	3 463	4 111	3 737	5 007	4 283	1 860	1 408	1 736	1 220	1 367	1 702	1 605	1 331
France	-2 114	-8 578	-6 993	-2 517	-2 121	-1 584	-1 206	-1 590	-205	-779	-218	-765	-404	-418	-352	-645
Ireland	-581	-880	-997	-335	-275	-207	-224	-241	-101	-63	-59	-98	-97	-50	-67	-181
Italy	-3 593	-6 453	-2 555	-1 511	-945	-90	-182	-61	-493	203	117	-37	-7	-17	180	.
Netherlands	169	-252	-1 917	-633	-747	-542	-245	-241	-151	-131	41	-66	-136	-38	-332	:
Belgium/Luxembourg	-2 003	-2 097	-1 278	-423	-279	-10	-512	-837	-113	-253	-146	-154	-409	-275	-56	
United Kingdom	-9 669	-9 897	-6 294	-2 331	-2 124	-986	-1 073	-1 875	-324	-119	-638	-788	-292	-797	92	-909
Adjustments ²	-1 113	-2 479	-1 433	-804	-406	-240	-110	-473	-6	-30	-73	-240	-437	-276	-520	
Community ³	-5 407	-20 131	-8 047	-5 930	-3 644	-790	780	-1 780	206	-7	581	-727	-681	-432	(374)	

¹ Seasonally adjusted

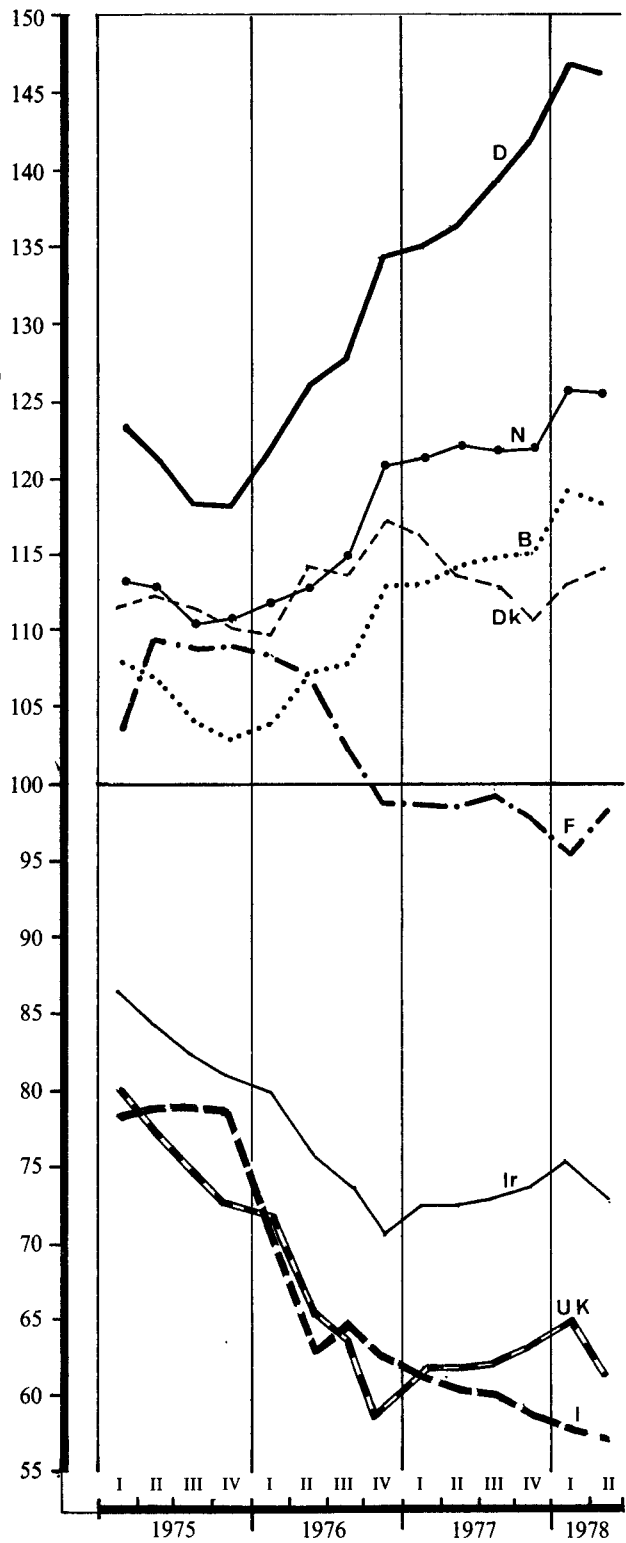
² Total trade balances by country should, in principle correspond to the balance of the Community with third countries. To obtain this result total intra-Community export trade should equal total intra-Community import trade. Nevertheless large differences exist. These are taken into account in the row 'Adjustments' which covers diverse elements: time-lags in trade registrations between Member States; calculation of intra-Community trade on the basis of fob for exports and cif for imports; differences due to the conversion into dollars of national figures, etc.

³ Community. Extra-Community trade
Data not available

Source: EUROSTAT and departments of the Commission

GRAPH D

Effective exchange rates ¹
(1972 I = 100; quarterly average)



¹ Weight: export structure; rising index indicates effective revaluation.

of March and the end of June. The operation of the Community exchange-rate system did not give rise to any major difficulties. However, there were appreciable fluctuations between the currencies of the 'snake' countries and those of the other Member States: sterling fell by some 2% against the 'snake' between mid-March and the end of June, while the French franc appreciated by about 6% over the same period. The lira remained fairly closely in line with the dollar throughout the first half of the year.

TABLE 11
Community balance of payments

	'000 million USD				
	1974	1975	1976	1977	1978
Trade balance (fob/cif) ¹	– 19.7	– 5.4	– 20.1	– 8.0	(– 5 ½)
Trade balance (fob/fob)	– 5.0	9.5	– 2.7	8.3	(11.0)
Services	4.5	4.3	7.8	6.7	(9.0)
Transfers	– 10.5	– 12.2	– 12.0	– 13.6	(– 14.4)
Current balance ²	– 11.0	1.5	– 7.0	1.4	5.6
Balance of capital movements ³	– 2.6	– 3.5	+ 2.6	+ 24.1	:
Overall balance ⁴	– 8.4	– 2.0	– 4.4	+ 25.5	:

¹ See Table 10.

² According to national accounts definitions. See Table 1.

³ Including errors and omissions.

⁴ Corresponding to the change in the net position of the monetary authorities.

Data not available

Source: Departments of the Commission

TABLE 12
Monetary developments

Country	<u>Money supply¹</u> % annual growth				<u>Call money rate</u> in % p.a.			
	1977			1978	1977			1978
	Average	Septem- ber	Decem- ber	Latest month known	Average	Septem- ber	Decem- ber	Latest month known
Denmark	9.2	10.0	9.8	5.5 May	15.1	18.3	20.7	15.6 May
FR Germany	8.5	8.2	11.2	10.7 April	4.1	4.0	3.2	3.5 May
France	12.2	12.7 ²	13.7	12.9 February	9.1	8.3	9.3	8.0 May
Ireland	15.1	15.1	16.3	15.8 April	8.3	7.0	8.0	6.9 March
Italy	20.6	22.4	21.7	22.3 March	14.0	12.3	11.9	11.7 April
Netherlands	13.6	5.5	5.3	1.1 March	3.4	2.7	4.9	4.2 May
Belgium	10.9	10.0	9.9	9.9 December	5.5	4.9	7.2	3.6 May
United Kingdom	7.3	7.0	8.4	16.1 May	7.3	5.8	5.3	6.4 May

¹ Money and near money (M2), United Kingdom and Ireland: M3)

² October

Source: Departments of the Commission

TABLE 13
Main monthly indicators

	Year	January	February	March	April	May	June	July	August	September	October	November	December
Industrial production (1970 = 100)	1976	111.2	113.5	113.0	114.4	115.5	115.3	114.4	114.4	118.4	117.9	118.8	118.2
	1977	121.7	120.4	120.5	119.9	118.2	117.7	116.5	116.7	117.8	117.1	116.4	116.4
	1978	118.1	117.7	118.4	119.1	.	.	.	.	.	.	.	.
Orders	1976	- 40	- 36	- 26	- 25	- 22	- 23	- 25	- 24	- 30	- 31	- 34	- 34
	1977	- 35	- 34	- 33	- 37	- 40	- 41	- 46	- 46	- 46	- 41	- 43	- 44
	1978	- 39	- 38	- 39	- 35	.	.	.	.	.	.	.	.
Unemployment rate	1976	5.0	5.0	5.0	5.0	5.0	5.0	5.1	5.1	5.1	5.0	5.0	5.0
	1977	5.1	5.1	5.1	5.1	5.2	5.4	5.6	5.7	5.7	5.6	5.6	5.6
	1978	5.5	5.6	5.6	5.5	5.6	.	.	.	.	.	.	.
Consumer prices (1970 = 100)	1976	166.2	168.1	169.7	172.2	173.9	174.5	175.0	176.6	178.4	180.8	182.7	184.1
	1977	186.4	188.3	189.8	192.7	194.2	195.6	196.2	197.1	198.4	199.8	200.7	201.4
	1978	202.5	203.9	205.3	207.4	208.9	.	.	.	.	.	.	.
Wholesale prices	1976	1.3	1.4	1.6	2.3	1.3	0.2	1.2	1.0	1.0	1.0	1.3	0.4
	1977	1.5	1.0	0.6	1.1	1.1	- 0.3	- 0.1	0.2	0.8	0	0.2	0.1
	1978	0.1	0.7	0.4	0.4	.	.	.	.	.	.	.	.
Intra-Community trade (mio EUC)	1976	10 261	11 130	12 103	12 038	11 969	12 370	11 926	12 351	13 109	12 652	13 382	14 136
	1977	12 930	13 323	14 974	13 555	13 883	14 241	13 282	13 994	14 050	13 937	14 493	14 817
	1978	14 596	14 142	14 755	(14 671)	.	.	.	.	.	.	.	.
Exports of goods (mio EUC)	1976	10 197	10 176	11 453	10 993	10 989	11 684	11 610	11 871	12 366	11 911	12 621	13 426
	1977	12 142	12 652	13 928	12 953	13 367	14 144	13 306	14 092	14 170	13 901	14 184	14 981
	1978	13 744	13 828	14 018	(14 300)	.	.	.	.	.	.	.	.
Imports of goods (mio EUC)	1976	11 015	11 266	12 439	12 703	12 259	13 056	13 107	13 497	13 927	13 622	14 785	15 229
	1977	14 517	14 216	15 285	13 937	14 354	15 402	13 768	14 156	14 335	13 723	14 179	14 497
	1978	14 337	14 319	14 355	(13 995)	.	.	.	.	.	.	.	.
Trade balance (mio EUC)	1976	- 818	- 1 099	- 986	- 1 710	- 1 270	- 1 371	- 1 497	- 1 627	- 1 561	- 1 710	- 2 163	- 1 803
	1977	- 2 375	- 1 564	- 1 357	- 984	- 987	- 1 258	- 462	- 64	- 165	178	6	484
	1978	- 593	- 491	- 337	(305)	.	.	.	.	.	.	.	.
Gross official reserves (excluding gold) (mio EUC)	1976	.	.	.	.	.	.	.	.	.	.	.	.
	1977	48 606	47 079	48 333	49 632	51 328	52 950	55 995	57 370	59 234	62 947	64 888	60 060
	1978	63 198	63 958	64 337	61 967	.	.	.	.	.	.	.	.
Exchange rate 1 EUC = . USD	1976	1.165	1.158	1.130	1.114	1.108	1.098	1.097	1.101	1.107	1.108	1.110	1.122
	1977	1.121	1.117	1.120	1.125	1.129	1.130	1.149	1.143	1.138	1.154	1.167	1.200
	1978	1.225	1.235	1.253	1.252	1.221	.	.	.	.	.	.	.

No data available.

Source: EUROSTAT and departments of the Commission

Industrial production: excluding construction: seasonally-adjusted figures

Balance of (+) and (-) orders according to expectations of managements

Unemployment rate: numbers unemployed as a proportion of the civilian labour force: seasonally-adjusted figures

Wholesale prices: % change on the preceding month.

Intra-Community trade: import basis: seasonally-adjusted figures

External trade: Extra-Community trade: seasonally-adjusted figures

TABLE 14

Growth of export markets, evolution of export volume and competitiveness
(% change on preceding year)

	Year	Denmark	FR Germany	France	Ireland	Italy	Nether- lands	BLEU	United Kingdom	EC
Growth of export markets ¹	1974	5.8	5.9	5.3	2.5	6.8	3.2	2.7	7.9	11.8
	1975	- 2.1	- 2.0	0.3	- 5.0	1.5	- 1.5	- 2.3	- 0.6	3.5
	1976	10.3	12.6	11.6	9.8	13.7	13.7	14.4	12.6	10.5
	1977	2.6	3.3	3.9	2.7	4.7	3.4	3.1	5.1	5.7
	1978	3.7	4.1	4.9	6.1	5.1	5.1	4.8	4.8	4.0
Export volume ²	1974	7.0	12.5	11.8	5.6	8.3	3.0	6.0	4.7	13 1/4
	1975	- 3.0	- 10.4	- 5.9	7.8	3.7	- 4.6	- 10.7	- 3.6	- 3 1/2
	1976	1.9	13.6	10.3	10.5	12.2	12.5	12.2	7.8	6
	1977	2.6	4.9	5.6	15.5	6.4	- 2.0	0.6	7.2	6 1/4
	1978	3.6	3.5	5.0	11.0	5.5	3.0	3.5	4.0	3 1/2
Evolution of competitive- ness ³	1974	- 0.1	- 1.2	7.5	4.2	2.2	- 4.8	7.2	0	4.0
	1975	- 2.1	4.5	- 10.6	2.9	- 0.8	- 1.4	- 3.6	- 5.3	- 5.8
	1976	- 2.2	0.5	1.8	4.5	9.8	- 4.3	- 0.6	11.0	7.8
	1977	- 0.4	- 3.0	4.6	- 0.6	- 1.8	- 4.4	- 5.2	- 1.2	- 2.6
	1978	- 1.6	- 0.5	- 1.5	- 4.7	- 1.5	- 1.4	- 1.6	- 5.9	- 2.8

¹ Growth of export markets has been obtained by weighting the volume of imports of customer countries according to the export pattern of the exporting countries. For the EC as a whole figures concern exports to non-member countries

² Exports of goods, for the separate countries figures concern total exports, for the EC exports to non-member countries (estimates by Commission's staff)

³ Competitiveness has been based on GDP/GNP price evolution, it compares GDP prices in dollar terms with a weighted GDP/GNP price average of those of its competitors where weights represent the importance of competitors (suppliers) on the country's export markets. For the EC as a whole weights used to obtain the price evolution of competitors (non-member countries) represent the importance of the different non-member countries in world trade (export figures)

(+ improvement in competitiveness),

(- deterioration of competitiveness)

TABLE 15

Evolution of gross fixed asset formation
(Volume terms - % change on preceding year)

	Year	Denmark	FR Germany	France	Ireland (d)	Italy	Nether- lands	Belgium	Luxem- bourg	United Kingdom	EC
General government	1974	- 4.2	7.4	- 3.6	—	- 2.8	- 0.9	- 6.7	2.6	- 12.9	- 1.1
	1975	- 0.6	- 3.0	11.2	—	- 2.0	12.0	8.8	6	- 9.9	1.7
	1976	2.7	- 3.9	5.4	—	0.7	- 2.9	4.8	11.9	- 3.4	0
	1977	0.5	- 3.7	0	—	- 3.3	- 8.8	5.0	4.2	- 17.7	- 4.0
	1978	4.5	6.6	3.8	—	2.2	0.9	8.3	5.7	- 3.4	3.6
Enterprises without dwell- ings ²	1974	- 4.3	- 11.2	0.5	—	4.7	- 0.4	8.6	- 5.3	1.8	- 2.3
	1975	- 10.5	- 1.4	- 8.5	—	- 15.2	- 7.5	- 2.5	- 15.3	- 4.4	- 6.0
	1976	20.1	7.3	5.6	—	4.5	- 3.0	- 5.9	- 9.8	- 2.3	4.0
	1977	- 2.3	4.8	- 0.8	—	1.3	16.8	0.7	4	0.8	2.6
	1978	0.8	4.1	3.0	—	- 1.5	3.1	2.3	- 2	0.1	2.3
Dwellings	1974	- 28.3	- 16.8	4.9	—	2.7	- 12.9	15.2	15	- 7.5	- 4.8
	1975	- 18.2	- 10.4	- 3.5	—	- 10.9	- 6.8	- 4.0	- 7.8	3.9	- 6.4
	1976	26.7	6.7	- 0.1	—	- 3.4	1.9	15.4	- 10	0	3.3
	1977	- 5.0	2.3	- 1.0	—	- 1.8	15.0	- 1.9	0	- 11.3	- 0.4
	1978	- 5.0	4.0	- 1.3	—	0	0	- 3.0	0	11.5	1.7
Total	1974	- 9.0	- 9.9	0.6	- 5.3	3.5	- 3.6	8.0	2.0	- 2.3	- 3.0
	1975	- 9.5	- 4.2	- 2.6	- 6.6	- 13.0	- 4.2	- 1.5	- 8.6	- 3.6	- 4.8
	1976	17.7	5.0	3.9	4.4	1.9	- 1.9	0.8	- 4.2	- 2.0	3.0
	1977	- 1.8	2.7	- 0.6	8.0	0.1	11.7	0.5	3.2	- 3.9	1.1
	1978	0.1	4.4	1.3	10.0	- 1.3	2.1	1.7	1.1	4.1	2.5

¹ Estimates by Commission's staff

² In the ESA system enterprises include non-financial corporate and quasi-corporate enterprises, credit institutions and insurance enterprises

TABLE 16

Changes in active population, participation rate and employment

	Year	Denmark	FR Germany	France	Ireland	Italy	Nether- lands	Belgium	Luxem- bourg	United Kingdom	EC
Active population ¹	1974	1.1	- 0.7	0.9	0.6	1.5	0.6	1.6	2.6	0.4	0.6
	1975	- 0.2	- 1.5	0.1	0.9	1.0	0.7	0.7	0.3	0.9	0.1
	1976	1.7	- 0.9	0.5	0.3	1.1	0.1	0.9	- 1.3	0.9	0.4
	1977	1.4	- 0.5	0.6	0.6	1.4	- 0.1	0.4	- 1.1	0.4	0.4
	1978	1.5	- 0.5	0.4	1.5	0.5	0.1	0.2	- 0.5	0.8	0.3
Total employment ^{1 3}	1974	- 1.5	- 1.9	0.7	0.9	1.5	0.0	1.4	2.6	0.4	0.1
	1975	- 2.4	- 3.4	- 1.1	- 1.5	0.1	- 0.7	- 1.4	0.2	- 0.6	- 1.4
	1976	1.5	- 0.9	0.1	- 1.4	0.8	- 0.3	- 0.6	- 1.5	- 0.5	- 0.2
	1977	0.3	- 0.4	0	0.7	0.4	0.1	- 0.5	- 0.8	- 0.1	- 0.1
	1978	0.1	- 0.5	0	2.0	0	- 0.1	0.4	- 0.8	0.5	0
Participation rate ²	1974	49.0	43.2	42.4	36.6	(37.5) ⁵	35.7	40.2	41.9	45.9	41.9
	1975	49.1	42.7	42.3	36.5	(37.7) ⁵	35.6	40.4	41.9	46.3	41.9
	1976	49.8	42.5	42.4	36.1	37.9	35.3	40.6	41.6	46.7	42.0
	1977	50.6	42.4	42.4	36.0	38.2	35.1	40.7	41.4	47.0	42.1
	1978	51.3	42.3	42.6	36.0	38.2	34.9	40.7	41.4	47.4	42.2
Wage and salary earners ^{1 4}	1974	- 1.7	- 1.8	1.5	—	2.1	0.4	2.0	3.5	0.6	0.4
	1975	- 2.7	- 3.5	- 0.9	—	0.6	- 0.4	- 1.5	0.7	- 0.6	- 1.2
	1976	2.0	- 0.5	0.5	—	1.0	0.1	- 0.5	- 1.4	- 0.6	0
	1977	0.6	0	0.5	—	0.5	0.5	- 0.3	- 0.6	0.2	0.2
	1978	0.3	- 0.1	0.4	—	0	0.1	0.7	- 0.8	0.4	0.2
of which general government ¹	1974	2.1	3.3	2.1	5.5	2.5	1.6	2.4	1.5	0.8	2.3
	1975	2.0	2.0	2.2	3.4	3.1	1.9	1.7	2.9	3.7	2.5
	1976	2.6	1.5	0.7	6.7	1.7	2.9	2.5	0.7	- 1.7	0.8
	1977	2.0	0.5	1.5	3.1	0.7	1.5	2.7	2.1	- 1.5	0.8
	1978	2.0	1.5	1.5	6.0	1.0	1.4	6.9	0.4	0.1	1.4

¹ Percentage change on preceding year² Active population as a percentage of total population³ All persons engaged in some productive activity, whether these persons are civilians or military personnel (domestic concept)⁴ Persons who work for an employer, whether public or private and who receive compensation in the form of salaries or wages (domestic concept)⁵ Estimates not completely comparable with present series

TABLE 17

Evolution of receipts, expenditure and net lending or borrowing of general government
(as % of GDP)

	Year	Denmark	FR Germany	France	Ireland	Italy	Nether- lands	Belgium	Luxem- bourg	United Kingdom	EC ¹
Expenditure	1974	43.9	43.9	39.5	46.9	39.9	49.9	41.6	41.0	44.9	42.9
	1975	47.4	47.9	43.2	51.3	46.9	55.1	46.9	51.4	45.1	46.7
	1976	48.3	47.2	44.0	49.0	46.3	55.8	47.5	55.8	45.7	46.8
	1977	48.6	47.3	44.6	48.5	47.2	56.8	49.2	60.4	44.2	47.0
	1978	49.0	47.6	45.1	48.8	48.7	58.2	50.7	61.2	43.8	47.3
Receipts	1974	49.0	42.5	40.2	38.0	34.0	50.8	39.6	45.6	40.8	41.5
	1975	45.6	42.1	41.0	38.3	34.7	52.3	43.1	51.6	40.4	41.7
	1976	47.6	43.6	43.6	38.8	36.7	53.8	42.7	55.1	40.8	43.1
	1977	48.2	44.7	43.4	38.1	38.1	54.5	43.8	59.7	40.8	43.7
	1978	48.6	43.5	43.8	36.1	37.8	54.6	44.9	59.7	39.5	43.1
<i>of which:</i> Total charge (tax and social welfare contribution)	1974	46.4	39.7	37.1	31.9	31.1	45.8	37.6	41.1	35.3	38.1
	1975	43.1	39.3	37.8	32.0	32.0	46.2	40.8	46.7	35.5	38.3
	1976	43.9	40.6	40.4	35.4	33.7	47.0	40.6	50.0	35.8	39.6
	1977	44.8	41.8	40.8	34.4	35.1	47.2	41.5	54.4	35.9	40.2
	1978	45.6	40.7	41.2	32.6	35.2	47.4	42.6	54.2	35.0	39.8
<i>of which:</i> fiscal charge	1974	45.7	25.4	21.8	28.1	17.2	27.9	26.1	28.5	29.2	25.0
	1975	42.4	24.3	21.3	27.5	16.8	27.8	28.2	31.3	29.1	24.5
	1976	43.2	25.1	22.4	30.6	18.5	28.8	27.9	32.9	28.9	25.2
	1977	44.1	26.3	22.2	29.6	20.3	29.0	28.7	36.1	29.1	25.8
	1978	44.9	25.3	22.4	27.8	20.6	29.3	29.8	35.9	28.3	25.5
<i>of which:</i> direct taxes	1974	31.2	13.0	7.4	9.5	6.5	16.7	14.5	17.4	15.3	12.2
	1975	28.2	12.0	7.2	9.9	7.3	16.5	16.5	18.0	15.7	11.9
	1976	28.0	12.8	8.2	11.0	8.2	17.0	16.1	19.2	15.3	12.4
	1977	27.6	13.8	8.4	11.2	9.2	16.5	17.0	21.7	14.5	12.8
	1978	27.5	12.7	8.4	11.7	9.4	16.8	18.1	21.8	14.1	12.4
Net lending or net borrow- ing ²	1974	5.1	- 1.5	0.6	- 8.9	- 5.9	0.9	- 1.8	4.6	- 4.1	- 1.4
	1975	- 1.9	- 5.8	- 2.3	- 13.0	- 12.2	- 2.9	- 3.8	0.2	- 4.7	- 5.1
	1976	- 0.7	- 3.6	- 0.4	- 10.2	- 9.6	- 2.0	- 4.8	- 0.8	- 4.9	- 3.7
	1977	- 0.4	- 2.7	- 1.3	- 10.4	- 9.1	- 2.2	- 5.4	- 0.7	- 3.4	- 3.3
	1978	- 0.4	- 4.1	- 1.3	- 12.7	- 11.0	- 3.7	- 5.7	- 1.6	- 4.3	- 4.3

¹ Calculated in EUC at 1977 exchange rates

² Receipts = expenditure (national accounts concept)

Receipt = current resources + received capital transfer

Expenditure = current expenditure + uses of capital + gross capital formation

TABLE 18

**Evolution of real compensation of employees per wage and salary earner
and compensation of employees per unit of output**
(% change on preceding year)

	Year	Denmark	FR Germany	France	Ireland ⁴	Italy	Nether- lands	Belgium	Luxem- bourg	United Kingdom	EC
Real compensation of em- ployees per wage and salary earner ¹	1974	4.2	4.8	2.0	1.9	1.8	5.6	4.6	10.5	3.4	3.2
	1975	7.5	1.5	5.5	1.0	4.0	2.8	3.8	3.1	6.2	3.6
	1976	1.8	3.0	3.6	0.8	2.5	1.5	7.0	0.4	- 0.2	2.2
	1977	- 2.3	3.0	2.3	3.9	2.7	1.4	3.9	2.1	- 3.7	1.4
	1978	- 1.1	2.2	2.1	9.3	2.2	2.1	2.6	3.2	4.2	2.2
Production per wage and salary earner ²	1974	0.8	2.4	0.8	0.6	2.3	3.8	2.7	0.3	- 1.2	1.3
	1975	1.1	0.9	- 0.8	- 1.4	- 2.8	- 0.8	- 0.6	- 8.4	- 1.0	- 0.5
	1976	3.9	6.0	4.1	5.2	4.7	4.3	4.8	4.3	3.4	4.9
	1977	1.3	2.4	2.5	3.9	1.2	2.0	2.2	1.7	0.8	2.1
	1978	0.7	2.9	3.5	3.3	2.2	2.1	1.8	2.6	2.3	2.4
Compensation of employees per unit of output ³	1974	18.5	9.4	15.6	18.4	19.7	11.6	14.6	20.6	21.8	14.9
	1975	15.2	6.8	19.3	30.7	26.0	14.3	17.5	24.6	32.3	17.5
	1976	7.1	1.4	8.8	—	15.4	6.2	8.8	7.2	11.4	7.2
	1977	7.0	4.3	8.9	—	19.8	6.1	8.3	7.8	9.2	8.4
	1978	7.2	2.8	8.6	—	13.0	4.8	5.8	4.9	10.2	7.0

¹ Compensation of employees corrected by the consumption price index

² GDP in volume per wage and salary earner

³ Evolution of compensation of employees relative to the evolution of real GDP

⁴ Excluding agriculture

Major economic policy measures

December 1977:

— At its meeting of 5 and 6 December 1977 the European Council approved the Commission Communication on the prospects for economic and monetary union, and reaffirmed its support for EMU. The Council gave its immediate aims as:

- reinforcing the coordination of economic policies;
- reinforcing monetary solidarity;
- developing the Community's financial means;
- finding Community solutions to structural problems.

The Council agreed in principle to the Commission's proposal for setting up a new borrowing instrument to promote investment in the Community. It decided that the Community budget should be drawn upon European Units of Account (EUC) from 1 January 1978.

— On 19 December the Council adopted a decision on the adjustment of medium-term financial aid, doubling the upper limits on the Member States' commitments and adjusting conditions for aid and rules on the supervision of compliance with the conditions imposed.

February 1978:

— At a meeting held on 10 February, the Finance Ministers and the Governors of the Central Banks of the countries participating in the Community exchange-rate system agreed to the devaluation of the Norwegian krone against the EMUA from 13 February.

March:

— On 20 March the Council made its first quarterly examination of the economic situation, pursuant to its decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States, and noted the Commission Communication concerning the economic policy guidelines for 1978.

April:

— At its meeting of 7 and 8 April in Copenhagen, the European Council agreed to develop a common economic policy strategy in the Community

over the next three months. It decided that an annual growth rate of 4.5% should be aimed at for mid-1979.

— On 17 April the Council (Economic and Financial Affairs) adopted the procedure for implementing the overall strategy to achieve the European Council's growth and stability objectives.

May:

— On 22 May the Council (Economic and Financial Affairs) exchanged views on the overall economic policy strategy recommended by the European Council in Copenhagen. Work should continue so that the Ministers could submit recommendations for measures to the European Council in Bremen in July. The Council considered the proposal for a decision authorizing the Commission to contract debts in order to promote investments, and reached a common policy on this issue.

June:

— On 13 June the Commission transmitted to the budgetary authority the draft Community general budget for 1979.

— On 19 June the Council in the light of the preparatory discussions of the Policy Co-ordination Group for Short-term Economic and Financial Policies and the Monetary Committee and Committee of Governors of the Central Banks, drew up its contribution as regards economic and monetary aspects to the report on the preparation of a common strategy to deal with the economic and social situation in the Community, which the Council (Ministers for Foreign Affairs) will be submitting at the next meeting of the European Council on 6 and 7 July in Bremen.

July:

— At its meeting of 6 and 7 July 1978 the European Council decided on a common approach in order to achieve in Europe a considerably higher rate of economic growth and thus reduce the level of unemployment by fighting inflation, establishing a greater measure of monetary stability, expanding international trade, achieving progress in the energy sector, reducing regional disparities and stimulating demand. The Council decided that all Member States will take the necessary measures according to the room for manoeuvre under their respective economic policies. The

European Council has discussed a scheme for the creation of a closer monetary cooperation (European Monetary System) leading to a zone of monetary stability in Europe. It regards such a zone as a highly desirable objective. The European Council envisages a durable and effective scheme. It agreed to instruct the Finance Ministers at their meeting on 24 July 1978 to formulate the necessary guidelines for the competent Community bodies to elaborate by 31 October 1978 the provisions necessary for the functioning of such a scheme — if necessary by amendment.

— On 24 July the Council (Economic and Financial Affairs):

- established guidelines for the elaboration of the European Monetary System;
- approved a Decision on the adjustment of the 1978 official budgets and the preparation of the 1979 official budgets in the framework of the coordinated Community approach;
- established a common approach on the proposal for a regulation concerning the application of the EUC to Community acts;
- approved a Decision and a directive amending the economic policy conditions for Community loans and medium-term financial assistance granted to the Italian Republic in past years.

II — The situation in each of the Community countries

Denmark

Over the past few months the Danish economy has seen a weak rate of activity and a high level of unemployment. There has been a moderation in price increases. The trade balance has improved, but the deficit on the current balance of payments has remained very high.

1. Overall assessment

The overall performance of the Danish economy has remained modest over the past few months. In the first instance, the general weakness of the international situation, in particular unfavourable developments in certain export areas such as the Scandinavian market (which takes nearly one quarter of total exports) and the United Kingdom (for agricultural products) has restrained the progression of Danish exports. In addition, the development of incomes has continued to be affected by the tightening of taxes in October last as well as by the

moderation in pay increases. Thus the expansion of demand and domestic production has remained very weak. Despite selective measures taken to support employment, the number out of work continued to grow markedly up to April, more especially since the increase in the labour force has been very rapid. After absorbing the fiscal shock of last autumn, prices have tended to moderate more recently. Because of the lack-lustre performance of domestic demand the balance of payments deficit has fallen but less so than expected because of the weakness of exports, in particular at the beginning of the year.

TABLE 1

Key indicators

Denmark	Unit	1971-1975 average ^{4 5}	1976 ⁵	1977 ⁵	1978 ⁶
Gross domestic volume	% change	2.1	6.0	1.9	1.0
of which: industry ¹		1.0	8.0	0.6	1.5
Gross domestic product in volume per person in employment	% change	2.0	4.4	1.6	0.9
Total employment (number of persons) ²	% change	0.1	1.5	0.3	0.1
— Self-employed and other		— 1.4	— 0.9	— 1.0	— 0.9
— Wage and salary earners in company sector		— 1.2	1.8	0.1	— 0.4
— General Government		2.5	2.6	2.0	2.0
Unemployment	as % of labour force	2.2	5.1	5.9	7.1
Compensation of employees per wage and salary earner	% change	14.3	11.3	8.4	7.8
Price index of private consumption ³	% change	8.5	9.3	10.9	9.0
Current account balance	Mrd DKR	— 3.2	— 12.0	— 10.4	— 7.2

¹ Including construction

² Domestic concept (survey-figures on a full-time basis)

³ National accounts concept, on annual basis

⁴ Geometric mean of the change from 1970 to 1975, unemployment and current account balance arithmetic mean over the five years

⁵ Source: Danmarks Statistik

⁶ Estimates of Commission's Departments, as at end-June 1978, and on the basis of policies prevailing at that time

Budgetary policy has been committed to excluding measures which could have immediate deleterious effects on the balance of payments and to preventing, by means of taxation policy, any substantial increase in private consumption. Incomes policy, which was fixed for a period of two years, in the spring of 1977, has contributed to wage and salary moderation. Monetary policy has played a role designed to accompany budgetary measures by neutralizing the effects of the budget deficit, keeping

domestic liquidity under strict control (M2 grew by 6½% in April on a year-to-year basis), and encouraging capital inflows.

In total, the direction given to economic policy has permitted some progress to be made towards a better position of internal and external equilibrium with some unfavourable consequences, however, for growth and unemployment.

TABLE 2

Demand for and supply of goods and services

Denmark	1975 ²	1976 ²			1977 ²			1978 ³		
	At current prices Mrd DKR	% change on preceding year								
		Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Private consumption	119.0	6.2	9.3	16.1	0.2	10.9	11.1	— 1.0	9.0	8.0
Public consumption	51.6	5.0	6.7	12.0	2.6	8.2	11.0	2.0	6.5	8.6
Gross fixed asset formation	40.8	17.7	7.2	26.2	— 1.8	8.9	7.0	+ 0.0	7.0	7.0
— Construction	23.8	16.4	7.5	25.1	— 1.4	8.9	7.3	— 0.5	7.5	7.0
— Equipment	17.0	19.4	7.0	27.7	— 2.1	8.8	6.5	1.0	6.0	7.0
Domestic final uses (excluding change in stocks)	211.4	8.1	8.2	17.0	0.4	9.8	10.2	— 0.0	8.0	7.5
Domestic final uses (including change in stocks)	208.1	10.5	8.2	19.6	0.0	9.8	9.8	— 0.0	8.0	7.5
Exports ¹	69.8	3.4	7.7	11.4	4.1	6.7	11.1	3.5	7.0	11.0
Imports ¹	71.1	16.5	6.5	24.1	— 1.6	9.7	7.9	— 0.5	4.0	3.5
Gross domestic product at market prices	206.8	6.0	8.8	15.3	1.9	8.8	10.9	1.0	9.0	10.5
		Contribution to % change in gross domestic product								
Domestic final uses (excluding change in stocks)	211.4	8.3	—	17.4	0.4	—	10.6	0.0	—	8.2
Change in stocks	— 3.3	2.2	—	2.3	— 0.4	—	— 0.4	— 0.2	—	— 0.2
Balance of exports and imports ¹	— 1.3	— 4.5	—	— 4.4	1.9	—	0.7	1.3	—	2.3

¹ Goods and services² Source: Danmarks Statistik³ Estimates of Commission's Departments, as at end-June 1978, and on the basis of policies prevailing at that time.

2. Recent developments

The growth in **exports** has tended to slow down because of a reduction in demand on certain markets, in particular from Sweden. The impact of the appreciation of the kroner ¹ on competitiveness could also have played a major role. From February to May the value of total exports, seasonally adjusted, did not increase over the preceding four months.

Private consumption fell markedly as is shown by the behaviour of retail sales (which are at present at a level below that of last year) and the number of new car registrations (in the first quarter, 21 % below the same period of 1977). This development stems essentially from the fall in real incomes, linked to the moderation of pay increases and rises in indirect taxation last autumn.

Investment has also remained low. Investment in equipment in particular has fallen sharply, partly in reaction to the slight growth which came about in the final months of 1977, as a result of the temporary removal of favourable depreciation provisions expected on 1 January 1978, which was more recently postponed until 1 January 1979. Activity in the residential construction sector (the number of housing starts ² in the period January-April was 7.3 % below that of the preceding four months) has been influenced by the envisaged modification in the tax regime, the fall in incomes and the high level of interest

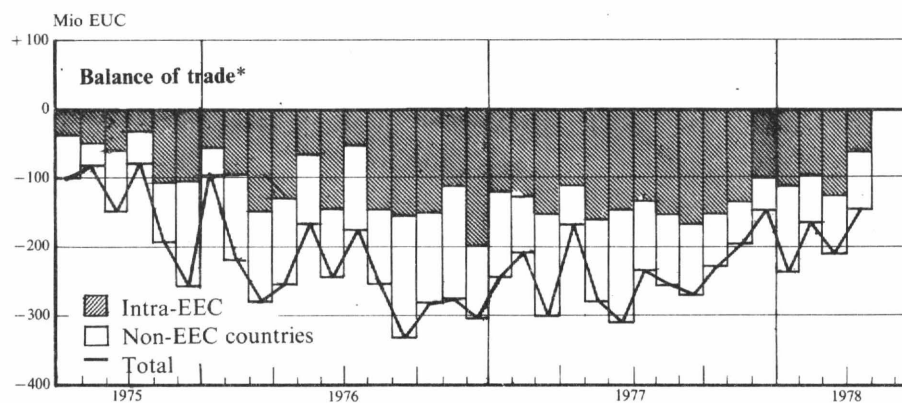
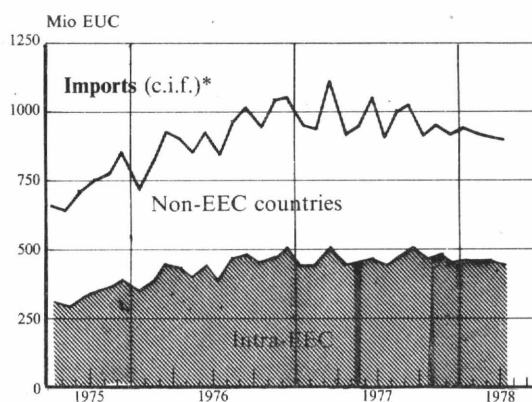
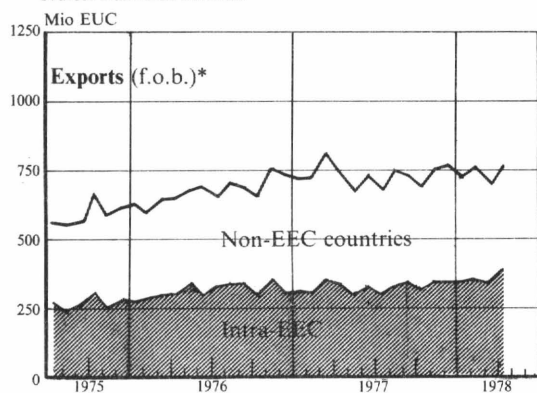
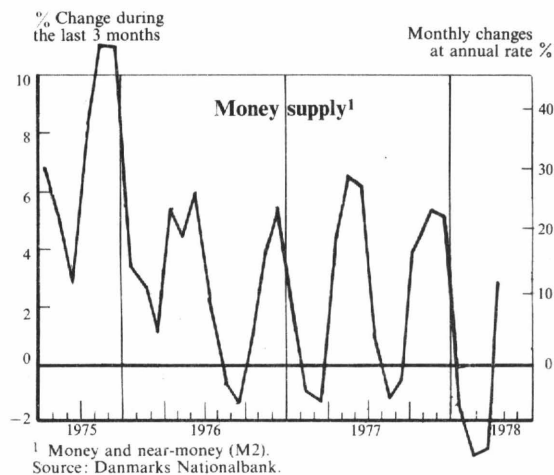
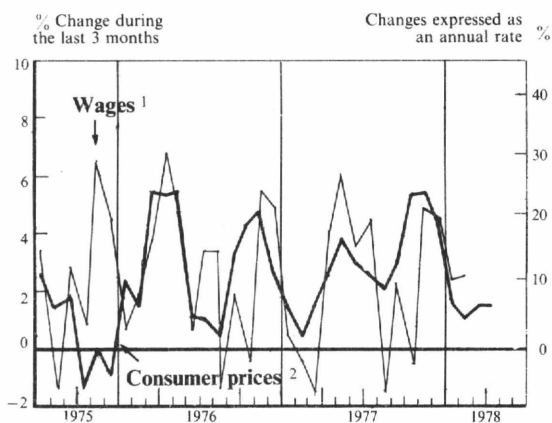
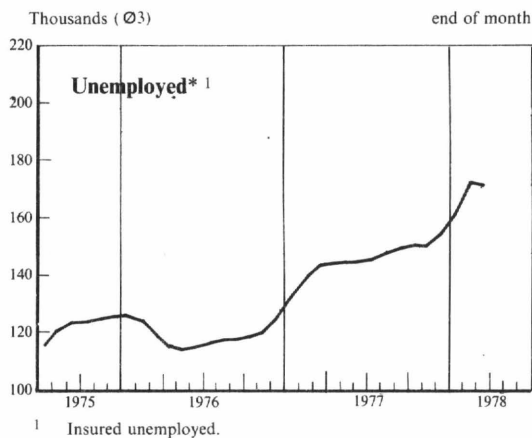
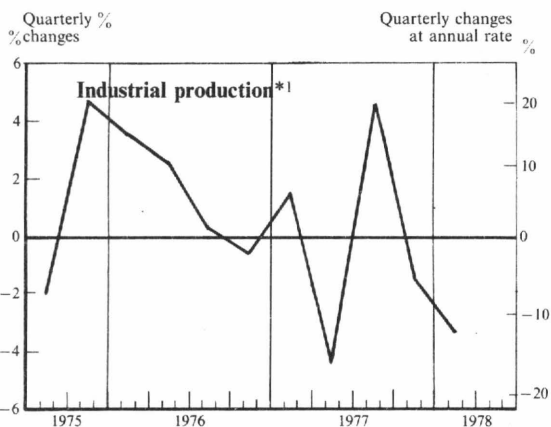
rates. On the other hand, in the agricultural sector, new building has been increasing rapidly while in the industrial sector it has remained buoyant.

In conjunction with the weakness in overall demand, the fall in **industrial production** which began in the fourth quarter of 1977 has continued. Agricultural output has increased substantially.

Total employment has grown a little as a result of growth in the public sector. However, the number out of work, which continued to mount up to the spring, appears more recently to have stabilized; in May unemployment, seasonally adjusted, was 170 400 or 6.5 % of the labour force. As a result of the progressive soaking up of the impact of the tax changes and moderate import prices, the rise in prices has tended to slow down. In May the consumer price index rose at an underlying annual rate of about 6 %.

The fall in **imports** has continued (-2 % for February-May on the preceding four months). Despite an improvement in the terms of trade, the **trade deficit** fell only slightly and in the first quarter was still nearly

¹ Weighted appreciation of 3.9 % from November 1977 to May 1978.² Figures not adjusted for seasonality.



* Seasonally adjusted figures.
Ø3: three month moving average.
Source: EUROSTAT, except where otherwise indicated.

DKR1 300 million in monthly average terms as against DKR1 500 million one year earlier. Since the services balance has deteriorated and external debt interest increased, the current deficit has remained very high. Its financing has been achieved to a large extent by means of public sector borrowing abroad and more recently by private capital inflows. Thus total reserves have continued to rise and at the end of May amounted to DKR14 800 million.

After the adjustment of the Norwegian kroner in mid-February, the **Danish kroner** was situated near the floor of the snake. Since mid-April it rose rapidly and more recently has been at the ceiling of the Community exchange rate system; this improvement can be explained by a calmer climate on the foreign exchange markets as a result of the stabilization of the dollar as well as by the high interest rates in Denmark: both factors encouraging private capital inflows.

TABLE 3
The central government budget

Denmark	1977/1978			1978/1979	
	Original budget		Provisional outturn	Original budget	
	Mio DKR	% change ¹	Mio DKR	Mio DKR	% change ¹
Expenditure	86 857	+ 9.6	88 514	100 915	+ 16.2
of which:					
— current expenditure	:	:	:	:	:
— capital expenditure	:	:	:	:	:
Revenue	77 526	+ 15.7	81 368	89 607	+ 15.6
of which:					
— direct taxes	33 125	+ 4.6	35 117	37 841	+ 14.2
— indirect taxes	42 651	+ 28.7	44 456	51 082	+ 19.8
Net borrowing requirement	9 331	—	— 7 146	— 11 308	—

¹ On the preceding year's original budget.

· No data available.

Major economic policy measures

December 1977:

— On 20 December, the Nationalbanken set the quota for mortgage credits in 1978 at DKR 33.5 mrd, of which DKR 17.5 mrd, may be utilized during the first half of the year.

January 1978:

— From 1 January existing restrictions on dealings in foreign securities were modified. Danish residents will be able to buy and sell quoted securities issued by the EEC institutions, the European Investment Bank and other international financial bodies of which Denmark is a member.

February:

— On 28 February, an interest rate agreement was concluded between the organizations of the commercial banks and savings banks for the period up to 1 April 1979. The main content of the agreement is that as a general rule no interest rate higher than the official discount rate plus 4%, i.e., at present 13%, may be paid on customer deposits.

March:

— Parliament adopted, on 17 March, the State budget for the year 1978. From 1979 the State budget will be based on the calendar year as has been the case with the local authorities' budget since 1977. On a fiscal year basis, total revenue is estimated at DKR 89.6 mrd (81.5 mrd for 77/78) and total expenditure at DKR 100.9 mrd (88.5 mrd for 77/78) resulting in a DKR 11.3 mrd deficit (7 mrd for 77/78) on the balance of current, investment and lending accounts.

— On 21 March it was announced that, as from the end of February, the credit ceiling would be raised by 3%. The existing ceiling had already been exceeded in certain cases.

May

— A parliamentary majority agreed, on the 26 May, on a government housing taxation proposal for 1979.

- (i) The 1977 rateable value will be applied as the basis for the calculation of the imputed renting value of owner-occupied houses and rates will be somewhat modified, resulting in a certain increase in the tax revenue from the imputed value.
- (ii) Land tax retained by the counties will be fixed at 1.5% for 1979 against 1.3% this year.
- (iii) Subsidies paid to social building societies which were due to expire will be continued for 1979 (at a cost of DKR 25 million).

June:

— On 2 June, with a view to re-employing those unemployed persons no longer entitled to unemployment benefits (i.e., those who have worked less than 26 weeks during the past 4 years) Parliament adopted a wage-subsidy scheme, covering a 9-month period for each person concerned. The subsidy amounts to DKR 20 per hour during the first 3 months, decreasing gradually to DKR 10 per hour during the last 3 months, together with a retraining scheme. Those not re-employed in the private sector will be offered a job in the public sector. The scheme will be effective from October 1978 and is expected to cover some 12 000 persons, and a further 18 000 during each of the years 1979 and 1980.

— Parliament adopted, on 2 June, an extension of pensions along the following lines as from January 1979:

- (i) the payment of rent allowances so as to ensure that rents do not pass a maximum of 15% of total family income. The allowance is submitted to income and housing criteria and maximized at DKR 10 000;

TABLE 4
Main economic indicators

Denmark	Year	Jan.	Feb	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov	Dec.
Industrial production* (1970 = 100)	1975	105.3	102.5	94.5	104.2	100.4	101.2	107.4	100.5	104.1	109.7	105.6	111.0
	1976	108.3	112.5	117.0	113.2	114.4	118.8	113.4	115.9	117.8	111.4	116.6	116.9
	1977	114.4	113.7	121.3	105.7	108.9	119.7	108.2	122.2	118.7	111.4	115.8	116.0
	1978	116.1	108.4	107.0									
Unemployed* (1 000)	1975	102.2	107.9	115.6	118.8	114.5	111.2	116.5	121.4	123.8	122.2	121.2	125.3
	1976	127.4	122.9	117.2	114.8	112.2	115.1	118.9	115.3	117.2	119.1	120.2	121.2
	1977	134.3	142.2	141.3	146.1	143.7	143.4	145.2	149.6	148.7	151.2	152.9	147.1
	1978	165.9	173.0	179.8	167.8	170.4							
Construction*	1975	1 749	2 186	1 429	2 443	2 977	2 713	3 016	2 744	2 724	3 137	3 782	3 219
	1976	2 975	3 782	5 696	2 094	2 285	2 878	2 971	2 750	2 623	1 827	3 019	2 895
	1977	4 315	1 961	2 773	2 835	2 924	2 995	3 013	3 380	3 007	2 540	3 142	2 669
	1978	2 271	2 154										
Private consumers' expenditure* (1970 = 100)	1975	160.9	158.0	158.1	160.4	163.2	163.1	168.8	166.1	164.0	182.3	174.2	182.4
	1976	183.8	197.2	174.7	190.2	178.7	192.3	199.1	189.4	194.6	192.7	195.6	217.4
	1977	195.2	197.8	208.3	207.8	200.2	214.9	213.0	218.3	235.7	204.2	217.9	240.2
	1978	177.9	147.3										
Consumer prices (1970 = 100)	1975	151.7	152.1	153.2	153.9	155.8	156.7	157.5	158.0	159.4	155.4	157.9	158.0
	1976	158.9	160.0	167.0	167.5	169.2	168.8	168.9	170.1	174.3	176.2	178.2	178.7
	1977	178.7	178.8	181.4	183.3	186.0	186.9	188.2	189.9	191.9	198.6	200.3	200.6
	1978	201.3	202.3	203.6	204.3								
Visible imports* (million EUC)	1975	662.7	660.5	579.1	708.0	603.2	651.4	664.6	637.5	718.6	755.6	772.1	866.2
	1976	711.9	817.3	933.0	904.0	850.2	936.3	833.0	971.9	1 018.9	944.6	1 034.3	1 046.5
	1977	966.1	941.8	1 118.7	912.7	957.9	1 052.6	909.7	1 004.6	1 019.7	919.6	954.3	918.9
	1978	953.8	923.4	912.4	901.8								
Visible exports* (million EUC)	1975	565.6	576.6	543.2	617.5	552.4	609.2	564.4	549.8	568.1	675.9	583.1	607.4
	1976	614.2	595.1	648.9	644.6	682.9	697.0	654.1	717.5	693.5	663.4	755.6	737.2
	1977	727.9	732.1	817.7	744.9	674.8	742.6	680.5	750.0	743.9	693.6	757.8	769.5
	1978	726.3	759.1	702.4	761.2								
Balance of trade* (million EUC)	1975	- 97.1	- 83.9	- 35.9	- 90.5	- 50.8	- 42.2	- 100.2	- 87.7	- 150.5	- 79.7	- 189.0	- 258.8
	1976	- 97.7	- 222.2	- 284.1	- 259.4	- 167.3	- 239.3	- 178.9	- 254.4	- 325.4	- 281.2	- 278.7	- 309.3
	1977	- 238.2	- 209.7	- 301.0	- 167.8	- 283.1	- 310.0	- 229.2	- 257.6	- 275.8	- 226.0	- 196.5	- 149.4
	1978	- 227.5	- 164.3	- 210.0	- 140.6								
Foreign exchange reserves (million EUC)	1975	499	460	522	465	467	487	435	458	493	523	516	545
	1976	540	528	859	836	733	688	417	524	354	501	510	592
	1977	720	839	1 002	1 399	1 490	1 571	1 384	1 308	1 477	1 628	1 576	1 128
	1978	1 689	1 593	1 594	1 598	1 767							
Money supply (DKR '000 million)	1975	83.9	84.5	86.5	88.8	90.7	95.0	94.8	95.4	97.6	102.7	106.3	108.5
	1976	106.3	109.2	109.6	112.2	114.0	116.2	114.7	113.2	114.6	115.8	117.7	120.0
	1977	117.2	116.7	119.4	122.5	124.3	126.8	123.6	122.8	126.2	128.7	129.6	132.7
	1978	126.8	125.1	128.4	130.5								

. Not available.

* Seasonally adjusted.

Source EUROSTAT (except as otherwise indicated)

— Industrial production volume of sales in manufacturing industry (construction excl.)

— Unemployment Number of registered unemployed

— Construction number of dwellings authorized

— Private consumers' expenditure Retail Sales Index in value

— Imports cif, exports fob

— Balance of trade difference between exports and imports.

— Foreign exchange reserves. Gross official reserves (excl. foreign liabilities of the National bank) position at end of month Danmarks Nationalbank

— Money supply: notes and coins in circulation and sight deposits at post accounts, commercial and major savings banks, position at end of month: Danmarks Nationalbank

(ii) married couples' pensions were increased by DKR 744 annually, per person;

(iii) one-third of the pension supplement subject to an income criterion will be included in the base pension, the other two-thirds will continue to be income related;

(iv) an annual increase of DKR 525 for those in the lowest income category.

The total cost of these measures is estimated at DKR 1 mrd for 1979.

Federal Republic of Germany

Although the reflationary programmes introduced in 1977 provided substantial stimuli, economic activity in the Federal Republic of Germany slackened appreciably in the early months of the year. This was partly due to special factors such as developments on the foreign exchange markets, the strikes in the metal-working industry and weather conditions. The main cause, however, was the decline in export demand, coupled with a sharp increase in imports, and the more subdued trend of business investment.

1. Overall assessment

In the Federal Republic of Germany, the recovery which got under way at the end of 1977 did not continue in the early months of the year. This was in part because of special factors, such as developments on the foreign exchange markets, the labour disputes in the metal-working industry and unfavourable weather conditions, but more particularly because of the decline in export demand coupled with a sharp increase in imports and the more cautious capital spending policy of firms. By

contrast, the public investment programmes and tax reliefs approved last year helped to boost private consumption and to increase activity in building and construction. All in all, however, these measures have so far been unable to halt the decline in aggregate demand. Despite the sluggish growth of domestic demand, imports, especially from other Community countries, continued to rise sharply. This trend was probably partly due to the marked fall in prices for foreign products on German markets as a result of exchange rate movements.

TABLE 1

Key indicators

Federal Republic of Germany	Unit	1971-1975 average ^{4 5}	1976 ⁵	1977 ⁵	1978 ⁶
Gross domestic product volume	% change	1.9	5.6	2.6	2.7
of which: industry ¹		0.8	7.7	2.6	2.7
Gross domestic product in volume per person in employment	% change	2.9	6.6	3.0	3.2
Total employment (number of persons) ²	% change	- 1.0	- 0.9	- 0.4	- 0.5
— Self-employed and other		- 2.3	- 3.5	- 3.2	- 3.0
— Wage and salary earners in company sector		- 1.5	- 0.9	:	- 0.3
— General Government		3.3	1.5	:	1.5
Unemployment	as % of labour force	1.8	4.1	4.0	4.0
Compensation of employees per wage and salary earner	% change	10.9	7.5	7.0	5.6
Price index of private consumption ³	% change	6.3	4.4	3.9	3.3
Current account balance ³	'000 Mio DM	11.1	9.3	8.2	7.5

¹ Excluding construction.

² Domestic concept.

³ National accounts concept, on annual basis.

⁴ Geometric mean of the change from 1970 to 1975; unemployment and current account balance, arithmetic mean over the five years.

⁵ Source: Federal Statistical Office 'National Accounts', Series 18, 1977.

⁶ Estimates of Commission's Departments, as at end-June 1978, and on the basis of policies prevailing at that time.

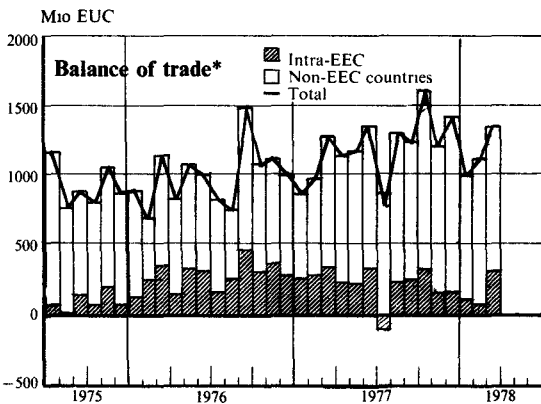
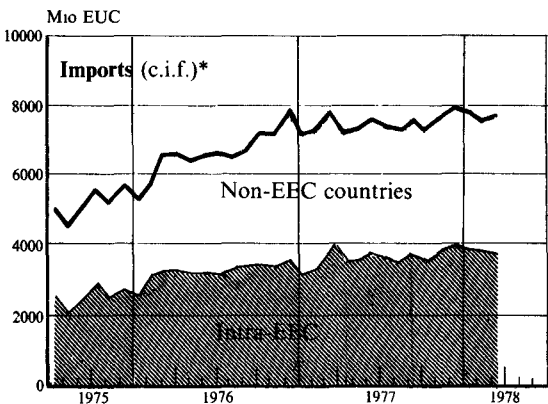
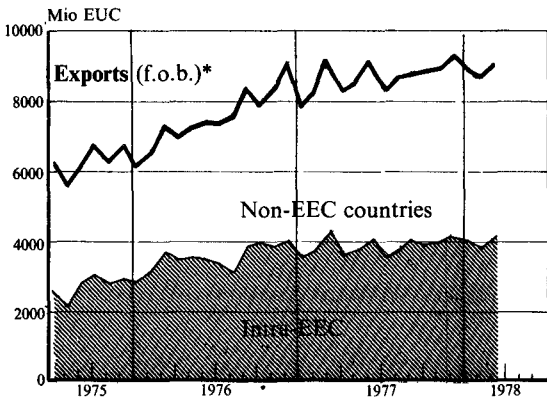
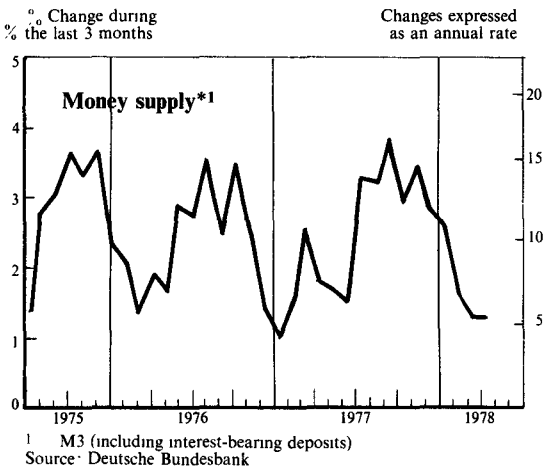
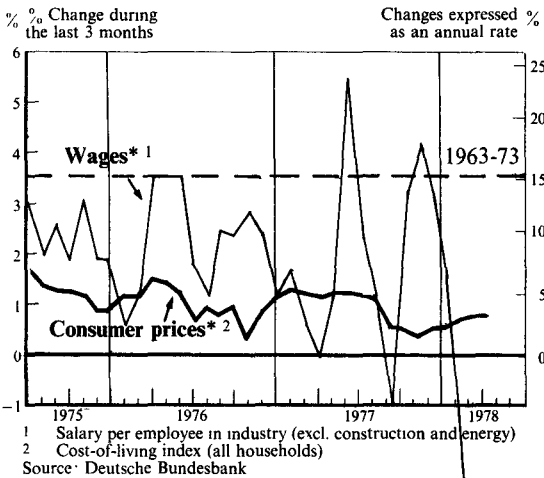
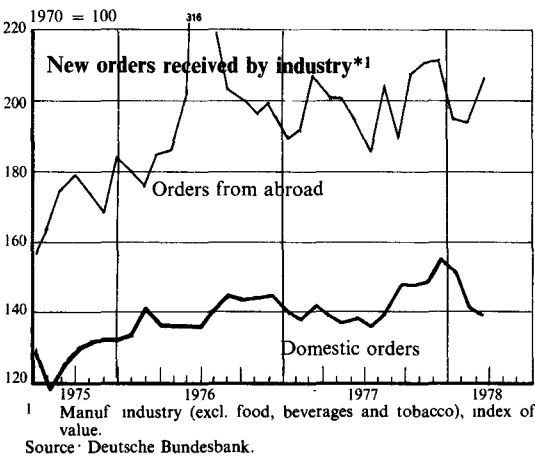
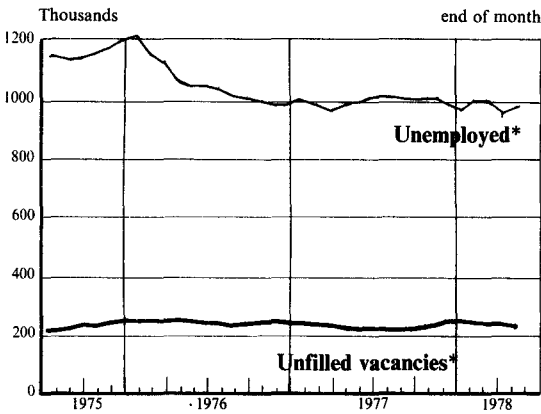
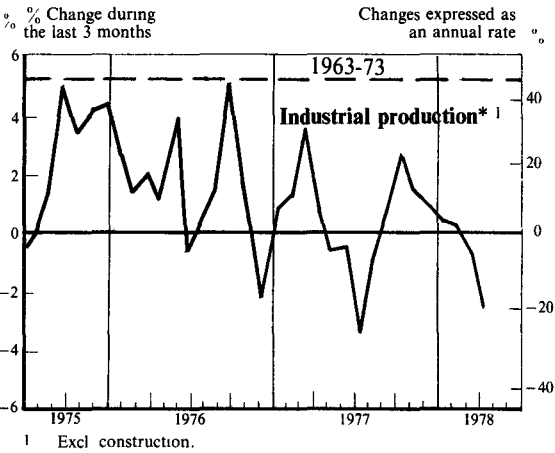
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On the basis of present indications (end June 1978), the growth of real gross domestic product is unlikely to exceed 2½% in 1978 and would thus fall appreciably short of the rate aimed at early in the year. Moreover, this growth assumes that expansionary forces will gather some momentum again once the special factors hampering economic activity in the early months of the year have been overcome. However, it must be borne in mind that the competitiveness of German exporters has deteriorated as a result of the sharp appreciation of the DM.

In particular, assessments of future investment behaviour in private industry continue to be subject to considerable

uncertainty. In view of the level of this year's wage settlements, the relatively slow pace of growth will no doubt mean a renewed squeeze on business profits. In addition, the sharp appreciation of the DM will probably force exporters to make new price concessions, thus eroding profits further. By contrast, the tax reliefs and other investment-promoting measures for firms approved last year, the very favourable terms on which finance is available and the gradual reduction of pent up investment activity are likely to provide additional stimuli. The most recent investment surveys among firms also suggest that private-sector investment in plant and machinery will generally show a further, though modest, increase.

Federal Republic of Germany



*: Seasonally adjusted.
Source: EUROSTAT, except where otherwise indicated.

TABLE 2

Demand for and supply of goods and services

Federal Republic of Germany	1975 ²	1976 ²			1977 ²			1978 ³		
	At current prices '000 Mio DM	% change on preceding year								
		Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Private consumption	574.6	3.6	4.4	8.2	2.9	3.9	6.9	3.0	3.3	6.4
Public consumption	215.2	2.4	3.2	5.7	0.7	4.8	5.6	2.9	4.0	7.0
Gross fixed asset formation	214.5	5.0	3.3	8.5	2.7	3.6	6.4	4.4	3.9	8.5
— Construction	132.2	3.7	3.2	7.0	1.6	3.9	5.6	4.1	4.8	9.2
— Equipment	82.3	7.2	3.6	11.1	4.4	3.2	7.7	4.9	2.5	7.5
Domestic final uses (excluding change in stocks)	1 004.3	3.7	3.9	7.7	2.5	4.0	6.5	3.3	3.6	7.0
Domestic final uses (including change in stocks)	1 000.9	5.4	3.8	9.5	2.3	4.0	6.4	3.2	3.5	6.9
Exports ¹	255.6	11.4	2.7	14.4	4.2	1.3	5.6	3.4	— 0.2	3.3
Imports ¹	227.3	11.4	5.2	17.2	3.5	2.1	5.7	5.6	— 1.6	3.9
Gross domestic product at market prices	1 029.2	5.6	3.2	9.0	2.6	3.7	6.4	2.7	3.8	6.6
		Contribution to % change in gross domestic product								
Domestic final uses (excluding change in stocks)	1 004.3	3.6	—	7.6	2.4	—	6.3	3.2	—	6.8
Change in stocks	— 3.4	1.6	—	1.6	— 0.1	—	— 0.0	— 0.1	—	— 0.1
Balance of exports and imports ¹	28.3	0.4	—	— 0.2	0.3	—	0.1	— 0.4	—	— 0.1

¹ Goods and services² Source: Federal Statistical Office, 'National Accounts', Series 18, 1977³ Estimates of Commission's Departments, as at end-June 1978, and on the basis of policies prevailing at that time.

2. Recent developments

In the early months of the year, the growth of **merchandise exports** lost a good deal of momentum again. Taking the average from January to April, the value of exports was only 3% up on a year earlier, and compared with the previous four months the seasonally adjusted figures actually showed a slight decline of 2.1%. The sluggish business trend in most industrialized countries in Europe was probably the main factor behind the slowdown in German exports. In trade with the other Community countries, purchases by France, Italy and Denmark fell off significantly. By contrast, exports to Japan and the United States remained relatively buoyant, while the developing countries and the OPEC countries also cut back on their imports. Average export prices in DM continued to ease slightly, with their level in the first months of the year 2.7% lower than a year earlier. This decline only partially offset the rapid appreciation of the DM on the exchange markets. The German mark, which in April was almost 20% up against the US dollar and over 10% up against the weighted average of Germany's 22 major trading partners compared with the same month last year, has since fallen again somewhat. All in all, however, the competitiveness of German industry has deteriorated significantly.

After showing a strong increase towards the end of 1977, admittedly helped by some large contracts, business

demand for **investment in plant and machinery** has declined again appreciably since the beginning of the year. The sharp appreciation of the mark and the toughness of the wage negotiations, accompanied by strikes probably explained part of the cautious capital spending policy of firms. In **building and construction**, orders placed under the multiannual public investment programme led to an appreciable revival, particularly where civil engineering and public building projects are concerned. As finance continued to be available on very favourable terms, residential construction was further boosted by the continuing buoyancy of demand for owner-occupied houses. The situation in commercial and industrial building has recently improved a little, but owing to the generally low propensity to invest the flow of new orders is still slack.

Private consumers' expenditure continued to increase appreciably in the first quarter. Retail sales in this period were 6.3% higher than a year earlier. Adjusted for the rise in prices, this still gave a real increase of 3.4%. Though the growth in sales of new cars slowed down noticeably, their level was again slightly up on the already very high figure of a year earlier. In the first four months of the year, new registrations were 2.9% higher than a year earlier. The larger volume of personal spending was probably due to the tax reliefs approved at the end of 1977, coupled with the continued decline in the propensity to save.

With the growth of demand sluggish both at home and abroad, it was no longer possible to maintain industrial **production** at the relatively high level recorded at the turn of the year. In addition, production was hampered by the strike in the metal-working industry, which lasted about three weeks, and the associated effects. In the first four months of the year, output in the manufacturing industry was only 0.5% higher than in the same period last year. Although it picked up again in April it was 0.2% lower on a seasonally adjusted basis, than in the previous four months. The downturn was particularly marked in the capital goods industry.

On the **labour market** the number of unemployed still largely outstrips job vacancies. Even so, the decline in unemployment in the spring was somewhat greater than the seasonal norm despite the cutback in production, the main explanation probably being the distinct improvement in activity in the building industry. At the end of May, there were still 913 000 people out of work, 4.0% of all employees, while job vacancies numbered 255 000.

Merchandise imports expanded on the whole more quickly than might have been expected given the sluggish performance of the domestic economy. In the first four months of the year, their value was only some 3.4% higher than a year earlier. Because of the sharp appreciation of the DM, however, the average value of imports continued to fall distinctly and in the first four months it was 4.6% below the same period last year. The real increase on a year earlier was thus 8%. The strongest growth was in imports from other Community countries, especially Italy and the United Kingdom. The pattern

varied considerably with the type of goods. While imports of raw materials in the first quarter were a good 15% down on the same period last year, imports of capital goods were more than 20% higher than a year earlier.

With sluggish demand and declining import prices, further progress was made in stabilizing **domestic prices**. Industrial producer prices have not risen to any significant extent since the beginning of the year and in May were only 1.0% up on the level of the same month last year. Despite the increase in VAT early in the year, the rise in the cost-of-living index was hardly any faster than in the preceding period. In May, the 12-month rate fell further to 2.7%.

In the period January-April, mainly as a result of the marked improvement in the terms of trade, the **trade balance** showed a surplus of DM 11.9 Mrd, roughly the same as a year earlier. The current account surplus for the same period was DM 4 800 million.

In the early months of the year, due to large-scale interventions by the Bundesbank on the foreign exchange markets, the growth in the **central bank money stock** was substantially faster than the Bundesbank's target of an average of 8% for 1978. Subsequently, capital began to flow out again, and the contractionary effect this had on the money supply was partly offset by the Bundesbank's lowering of minimum reserves. Taking the average for the first four months of the year, the central bank money stock was 11.3% above the level of a year earlier. As the supply of liquidity in the economy was ample, **interest rates** on the bond market maintained their low level.

TABLE 3
The central government budget

Federal Republic of Germany	1977			1978	
	Original budget		Provisional outturn	Original budget	
	'000 Mio DM	% change ²	'000 Mio DM	'000 Mio DM	% change ²
Expenditure	171.3 ³	+ 4.5	170.9	188.7 ³	+ 10.4
of which:					
— current expenditure	144.4	+ 3.0	142.8	158.6	+ 9.9
— capital expenditure	29.4	+ 11.4	28.1	32.6	+ 10.8
Revenue	150.2	+ 14.4	148.7	157.4	+ 5.9
of which:					
— direct taxes	} 145.4	+ 14.6	144.0	149.9	+ 4.1
— indirect taxes					
Net borrowing requirement	— 21.1	—	— 22.2	— 31.2	—

¹ Disregarding debt extinction
² With reference to preceding budget proposals
³ Assumes that, in carrying out the budget, overall reductions in expenditure of DM 2.5 Mrd in 1977 and DM 2.5 Mrd in 1978 will be realized.
Note: The figures in this table are based on the national budgets and are recalculated on the basis of Community definitions

Major economic policy measures

December 1977:
— On 15 December 1977 the Bundesbank took the following decisions:

- (i) The discount rate was lowered from 3.5 to 3% and the rate for advances on securities from 4 to 3½%, with immediate effect
- (ii) The minimum reserve ratios on banks' foreign liabilities were raised with effect from 1 January 1978 to

TABLE 4
Main economic indicators

FR of Germany	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production* (1970 = 100)	1976	109.9	111.5	108.8	112.2	112.7	113.2	111.5	113.2	114.9	117.3	115.2	112.5
	1977	118.4	116.7	116.7	119.2	116.0	116.2	115.3	115.1	116.8	118.5	116.8	117.7
	1978	119.0	117.0	116.7	117.1	.	.	.	.	.	.	.	.
New orders received* (1970 = 100)	1976	147	145	148	148	148	151	175	158	157	155	156	159
	1977	151	150	156	154	152	151	147	154	157	162	164	173
	1978	160	153	159	160	.	.	.	.	.	.	.	.
Of which:	1976	127	130	133	134	128	130	135	144	145	146	145	154
New domestic orders in capital goods industry*	1977	143	141	143	140	138	140	142	143	155	161	167	181
	1978	161	146	150	159	.	.	.	.	.	.	.	.
Unemployed* (1 000)	1976	1 193.7	1 202.5	1 142.2	1 107.6	1 042.0	1 031.6	1 036.5	1 032.0	1 007.5	1 000.2	984.7	980.7
	1977	1 002.4	982.2	967.6	995.7	997.6	1 010.2	1 034.2	1 032.8	1 012.5	1 012.7	1 011.8	994.6
	1978	980.3	1 005.4	1 000.6	976.7	990.9	.	.	.	.	.	.	.
Unfilled vacancies* (1 000)	1976	226.6	223.5	235.7	237.1	245.0	242.7	241.0	232.4	216.5	232.9	244.0	254.2
	1977	247.9	247.0	244.0	235.8	220.9	227.5	225.5	225.8	226.2	233.2	238.3	245.4
	1978	241.6	237.1	236.8	237.0	227.8	.	.	.	.	.	.	.
Construction: permits for residential construction* (1 000)	1976	37.9	39.4	35.4	35.5	34.1	33.8	31.1	28.5	29.0	26.5	28.9	30.9
	1977	28.3	28.5	28.9	28.6	28.9	27.4	28.3	29.1	29.2	30.2	28.7	33.3
	1978	34.3	.	.	.	.	.	.	.	.	.	.	.
Private consumers' expenditure: turnover of retail trade* (1970 = 100)	1976	155	158	156	157	158	158	157	160	162	159	164	164
	1977	166	167	170	160	171	171	172	173	171	171	175	178
	1978	178	177	177	177	.	.	.	.	.	.	.	.
Consumer prices* (1970 = 100)	1976	138.1	138.7	139.3	140.1	140.5	140.9	140.8	141.9	142.0	142.2	142.4	143.1
	1977	143.7	144.2	144.8	145.3	145.9	146.5	146.9	147.3	147.3	147.6	147.7	148.1
	1978	148.3	148.8	149.3	149.5	149.9	.	.	.	.	.	.	.
Visible imports* (million EUC)	1976	5 372	5 816	6 245	6 287	6 158	6 444	6 557	6 796	6 882	6 820	7 151	7 872
	1977	7 014	7 142	7 870	7 005	7 186	7 671	7 424	7 371	7 605	7 294	7 732	7 996
	1978	7 823	7 632	7 688	.	.	.	.	.	.	.	.	.
Visible exports* (million EUC)	1976	6 250	6 500	7 406	7 117	7 193	7 392	7 357	7 509	8 367	7 874	8 230	8 857
	1977	7 882	8 104	9 132	8 120	8 363	9 023	8 174	8 671	8 822	8 905	8 938	9 443
	1978	8 818	8 739	9 047	9 138	.	.	.	.	.	.	.	.
Balance of trade* (million EUC)	1976	878	684	1 161	830	1 035	948	799	713	1 486	1 054	1 079	986
	1977	869	962	1 262	1 115	1 176	1 352	750	1 301	1 218	1 611	1 207	1 448
	1978	996	1 107	1 359	.	.	.	.	.	.	.	.	.
Official gold and foreign exchange reserves (DM '000 million)	1976	86.4	88.4	96.4	95.5	93.6	92.8	91.9	95.1	96.8	98.8	95.9	88.5
	1977	87.8	88.0	88.2	87.8	88.5	87.1	88.9	88.7	87.7	90.1	92.6	90.2
	1978	92.6	94.8	95.1	93.3	90.8	.	.	.	.	.	.	.
Money supply* (DM '000 million)	1976	475.7	479.7	482.4	486.5	488.2	496.7	498.1	505.0	508.3	514.9	516.1	514.2
	1977	520.2	524.2	527.5	529.5	532.9	535.5	547.0	550.0	555.9	562.6	569.6	571.4
	1978	577.1	578.9	579.1	584.8	.	.	.	.	.	.	.	.

· Not available

* Seasonally adjusted.

Source: EUROSTAT (except as otherwise indicated).

— Industrial production, excluding construction.

— New orders received, manufacturing industry (excluding food, beverages and tobacco): value index. Source: Deutsche Bundesbank.

— Unfilled vacancies: position at end of month.

— Construction: number of dwellings authorized.

— Private consumer's expenditure: total retail trade: value index. Source: Deutsche Bundesbank.

— Consumer prices: cost-of-living index (all households). Source: Deutsche Bundesbank.

— Imports cif, exports fob, values

— Balance of trade: difference between the seasonally adjusted values of imports and exports

— Official gold and foreign exchange reserves, including IMF Special Drawing Rights and reserve position at the IMF. Figures are given gross, liabilities to abroad not having been deducted. Position at end of month. Source: Deutsche Bundesbank.

— Money supply: M3 (including interest-bearing deposits); position at end of month. Source: Deutsche Bundesbank.

20% for sight liabilities (from 12.75%)

15% for time liabilities (from 8.95%)

10% for savings deposits (from 5.65%).

(iii) With effect from 1 January 1978, the growth in banks' foreign liabilities compared with the average for the period from 16 September to 15 December 1977 was made subject to a minimum reserve requirement of 100%.

(iv) Non-residents will no longer be issued with authorizations to purchase domestic securities with a maturity between two and four years.

At the same time the Bundesbank fixed the target rate for the growth in the central bank money stock in 1978 at an average of 8% for the year. In view of the sharp increase in money stock in 1977, this means an average rate of 5 to 7% between the fourth quarter of 1977 and the fourth quarter of 1978. The Bundesbank assumes that productive potential will grow by some 3% in 1978 and that the rate of price increase is to be held to 3½%, comparing the average for 1978 with that for 1977.

January 1978:

— On 25 January the Federal Government adopted the 1978 annual economic report. The Federal Government is aiming at a growth rate in real GNP of 3.5% and a rate of consumer price increases held to the same level, i.e. 3.5%. Gross wage and salary income is expected to grow by 5.5% and gross income from entrepreneurship and property by between 9 and 11%. The number of unemployed is forecast to average some 1 million for the year.

— On 27 January the Bundestag adopted the 1978 Federal budget. Total expenditure is DM 188 700 million, while revenue is estimated at some DM 157 400 million. Compared with the provisional outturn for 1977, the increase in expenditure is over 10% and that in revenue nearly 5%. The net borrowing requirement is DM 31 300 million, compared with DM 21 100 million last year.

February:

— In the course of this month employers and unions in the steel industry agreed on wage and salary increases of some 4%, plus DM 200 for the last two months of 1977 and the first month of 1978.

March:

— With effect from 1 March, wage earners and salaried staff in the public service were granted a 4.5% increase and up to two days extra holiday.

— On 8 March the Federal Government approved the 1978 pensions adjustment report together with the draft of the 21st Pension Adjustment Law. The next uprating of pensions is to be deferred from 1 July 1978 to 1 January 1979 and the link with the trend in gross wages is to be broken for three years. Pensions are to go up 4.5% in 1979 and by 4% in both 1980 and 1981. From 1981 onwards, contributions will rise from 18 to 18.5%, and from 1982 onwards pensioners will have to pay contributions to the sickness insurance scheme.

April:

— In the course of this month, wage increases of some 5% were agreed in the metal-working industry. In some districts, additional lump-sum payments will be made for the first few months of the year. It was agreed that workers affected by a change in pay structure will receive financial compensation for a transitional period of several years.

May:

— The Bundestag adopted a supplement to the 1978 Federal budget providing for additional expenditure of some DM 939 million. The extra amount is to be covered in its entirety by cuts in other budgetary expenditure.

— On 18 May, the Bundesbank decided to lower the minimum reserve ratios on foreign liabilities with effect from 1 June, bringing them into line with the ratios on domestic liabilities. At the same time it lifted the obligation to hold minimum reserves for the growth in foreign liabilities. Together with a 7% across-the-board cut in minimum reserve ratios on domestic liabilities, effective from 1 June, these measures released some DM 4 500 million in liquidity.

June:

— The programme to promote energy-saving investment in housing was adopted by Parliament on 18 June, following a compromise in the Mediation Committee. A total of DM 4 350 million is to be made available over a period of five years, in the form of direct grants (some DM 2 000 million) and tax concessions (some DM 2 350 million).

France

Since the end of 1977 activity has revived in France: foreign demand remained favourable while consumption gradually recovered. Conditions on the labour market have led the French authorities to continue the main provisions of the measures taken last year with the aim, in particular, of improving vocational training. Prices policy has been radically revised.

1. Overall assessment

In the early months of 1978, demand and production recovered somewhat; other developments continued along the same lines as during the preceding period; the balance of trade went on improving, but the employment situation deteriorated further and the rate of inflation continued to be high. The upsurge of domestic demand was mainly due to increased real income (from wages and transfer payments) over the past year and to the low level of stocks. The full effects of last year's increase in social transfer payments on private consumer demand began to be felt only a few months ago. Although, the initial budget indicated a likely central government deficit of some FF 10 000 million (0.5% of GDP), it seemed probable in mid-1978 that the deficit would rise to FF 20 000 million. The main causes of the imbalance are a loss of tax revenue due to activity being slacker than expected, and higher expenditure on, for example, civil service salaries and unemployment benefits.

Conditions on the labour market have led, as last year, to a

set of measures (at an estimated total cost of about FF 3 000 million) designed, primarily, to encourage vocational training for young people. Prices policy has been radically revised so as to encourage the setting of prices more in line with the economic laws of a market economy. The measures taken fall into main categories: firstly, public service charges have been increased so as to bring down operating deficits and to bring the prices paid by users of public services more in line with real costs; secondly, the prices of industrial products are to be progressively freed of control between June and November 1978. At first, of course, the rate of increase of consumer prices will accelerate. However, the authorities expect that the ensuing modification of price structures, due to pressure of foreign competition on manufactured products, should lead to lasting relief from inflationary pressures and to a radical change in the behaviour of businessmen. At the same time the financial situation of business undertakings should go on improving, as should the self-financing, of investment, at least in the more dynamic industries. Action to attract savings into productive investment should reinforce this mechanism.

TABLE 1
Key indicators

France	Unit	1971-1975 average ^{4 5}	1976 ⁵	1977 ⁵	1978 ⁶
Gross domestic product volume	% change	3.8	4.6	3.0	2.9
of which: industry ¹		4.0	7.4	3.6	3.5
Gross domestic product in volume per person in employment	% change	3.4	4.5	3.0	2.9
Total employment (number of persons) ²	% change	0.4	0.1	0.0	0.0
— Self-employed and other		— 2.1	— 2.3	— 2.3	— 2.2
— Wage and salary earners in company sector		0.5	0.6	0.2	0.2
— General Government		2.5	0.7	1.5	1.5
Unemployment	as % of labour force	3.0	4.4	5.1	5.6
Compensation of employees per wage and salary earner	% change	13.5	13.3	11.6	11.3
Price index of private consumption ³	% change	8.8	9.4	9.1	9.0
Current account balance	Mio FF	— 5 533	— 29 147	— 16 074	—

¹ Excluding construction.

² Domestic concept.

³ National accounts concept, on annual basis

⁴ Geometric mean of the change from 1970 to 1975; unemployment and current account balance: arithmetic mean over the five years

⁵ Source: Rapport sur les comptes de la Nation de l'année 1977.

⁶ Estimates of Commission's Departments, as at end-June 1978, on the basis of policies prevailing at that time.

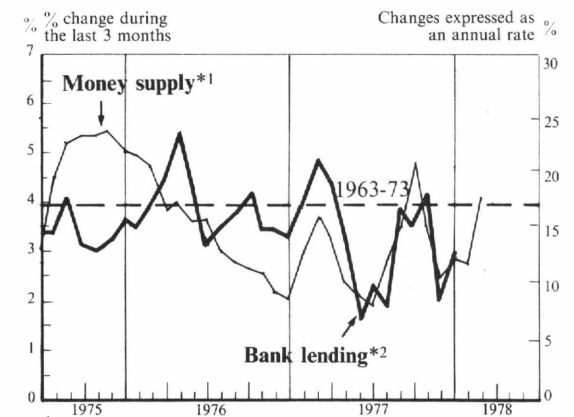
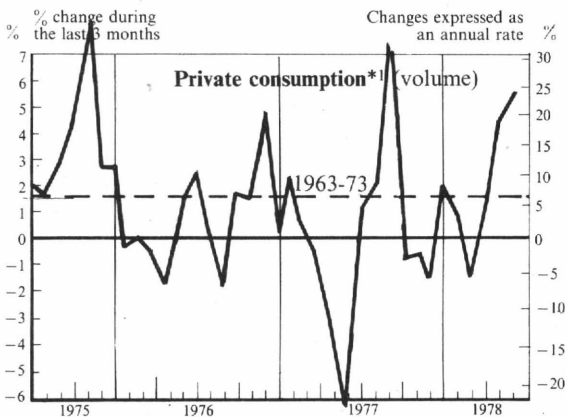
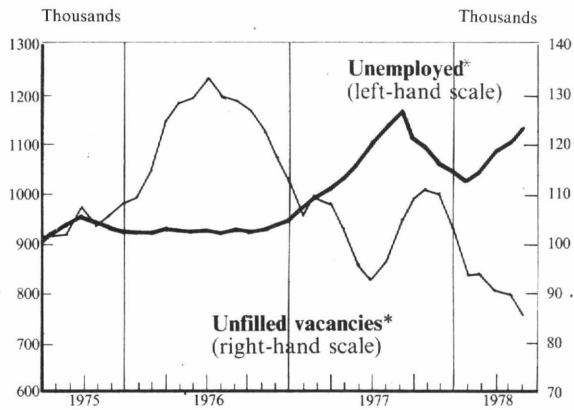
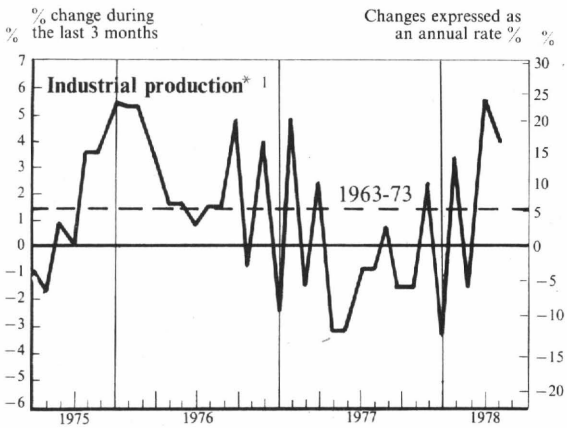
TABLE 2
Demand for and supply of goods and services

France	1975 ²	1976 ²			1977 ²			1978 ³		
	At current prices '000 Mio FF	% change on preceding year								
		Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Private consumption	899.7	5.1	9.9	15.5	2.5	9.1	11.8	3.4	9.0	12.7
Public consumption	209.2	4.6	11.4	16.5	3.8	10.0	14.2	3.3	10.0	13.6
Gross fixed asset formation	337.1	3.9	10.8	15.1	— 0.6	9.3	8.7	1.3	9.2	10.6
— Construction	—	—	—	—	—	—	—	—	—	—
— Equipment	—	—	—	—	—	—	—	—	—	—
Domestic final uses (excluding change in stocks)	1 446.0	4.8	10.3	15.6	1.9	9.3	11.4	2.9	9.2	12.4
Domestic final uses (including change in stocks)	1 440.7	6.3	10.3	17.3	2.0	9.1	11.3	2.9	9.1	12.3
Exports ¹	269.4	9.2	8.7	18.7	6.3	10.2	17.1	5.5	7.0	12.9
Imports ¹	259.2	19.2	10.1	31.2	1.0	11.8	12.9	5.4	4.4	10.0
Gross domestic product at market prices	1 450.9	4.6	10.0	15.1	3.0	8.7	12.0	2.9	9.7	12.9
		Contribution to % change in gross domestic product								
Domestic final uses (excluding change in stocks)	1 446.0	4.8	—	15.6	1.9	—	11.4	2.9	—	12.4
Change in stocks	— 5.3	1.5	—	1.6	0.1	—	0	0	—	0
Balance of exports and imports ¹	+ 10.2	— 1.7	—	— 2.1	1.0	—	0.6	0	—	0.5

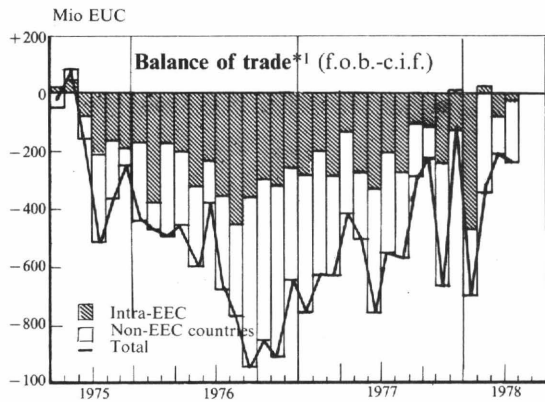
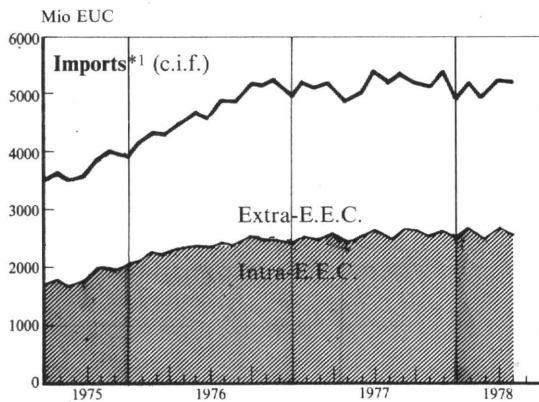
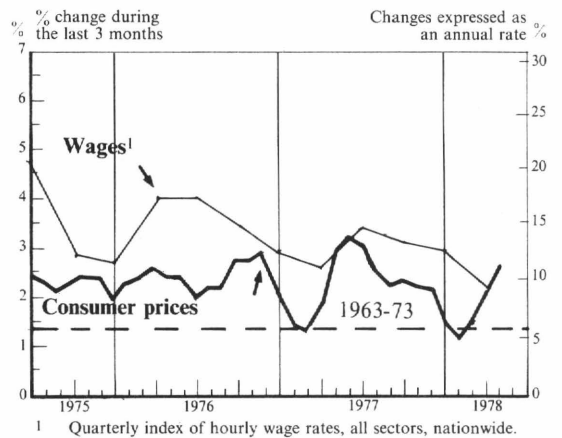
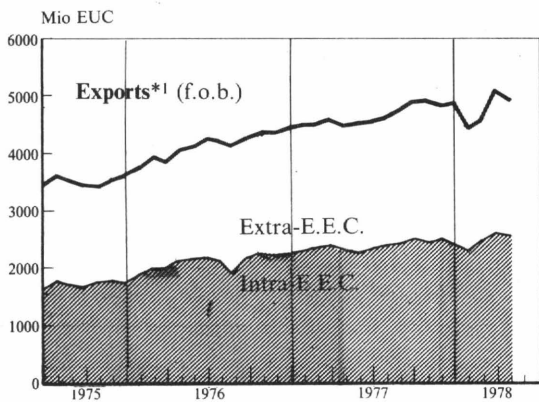
¹ Goods and services.

² Source: Rapport sur les comptes de la Nation de l'année 1977

³ Estimates of Commission's Departments, as at end-June 1978 and on the basis of policies prevailing at that time.



Source: Conseil national du Cr dit.



*: Seasonally adjusted.
Source: INSEE, except where otherwise stated.

2. Recent developments

The recovery of total demand that has occurred since the end of 1977 has stimulated production at the same time as foreign trade was returning to equilibrium.

The value of exports has continued to increase steadily apart from one or two minor fluctuations and in April this year it was 16% up on a year previously.¹ The composition of export sales abroad altered at the same time, with sales of more elaborate products taking a larger share. Sales of finished consumer products were 11% higher in March than they had been a year previously, and sales of raw materials and semi-manufactured goods were 9% higher. Sales of agricultural products abroad have increased very rapidly, accelerating sharply since the final quarter of 1977 (an increase of 26% between March 1977 and March 1978), reflecting a return to normal after the disturbances due to the 1976 summer drought. The revival of agricultural exports is mainly due to sales within the Community. Exports of durable goods to non-industrialized countries, on the other hand, seem to have suffered a setback recently, although they did progress very rapidly during the second half of 1977. **Consumers' expenditure** has been another dynamic factor of demand since, according to INSEE, consumption by households has increased at a rate of about 3% a year since the middle of last year. There are several reasons for this: the purchasing power of the average hourly wage increased at a higher rate when prices were rising more slowly in November, December and January; this improvement in demand continued at the beginning of the year because of increased social transfer payments (representing a total increase of 1.5% in the purchasing power of wage and social income in the first quarter of 1978). This trend in consumption will, however, probably be adversely affected towards the middle of the year when purchasing power stabilizes as consumer prices gather momentum. Altogether, the volume of industrial products consumed in the first five months of the year was 4.5% higher than in the corresponding period of 1977.

Investment remains a somewhat weak factor of demand. Business surveys imply that productive investment should increase by about 3% in real terms in 1978; however, there is doubt whether this rate was actually reached in the early months of the year. As in recent years, the large nationalized undertakings are still the most active investors: the volume of their investments should increase by 8 to 10%. The period of stagnation or slight contraction of activity in residential building seems to be continuing; although the market is suffering less than before from an excess of existing stock, demand is slack because of the cost of loans and the trend of prices. Since the beginning of the year the business stock cycle has clearly reached a turning-point: it is much less frequent for the level of stocks to be considered too high. Stocks of agricultural products, on the other hand, especially cereals, were apparently very large.

Industrial production increased appreciably in relation to the preceding half-year, after slowing down through most of 1977. All branches of industry (except building) shared to varying degrees in the expansion. The best results were recorded for intermediate goods, where the latest surveys show a regular and fairly broad improvement since the

end of last year. This increase in activity should be associated with a gradual rebuilding of stocks by manufacturing industry. The production of consumer goods has also gathered momentum since the low point of last December and January; electrical construction and car production are the most dynamic activities in this sector. According to the INSEE's monthly index (which, however, under-represents certain branches of heavy industry), industrial production speeded up during the early months of the year and reached its highest recorded level, slightly above the previous record level, which was reached in mid-1974 and again in late 1976 and early 1977. According to the same indicator, industrial production, which had dropped by 3.2% over the last four months of 1977, rose by 7.4% between December 1977 and April 1978.

The exceptionally large reserves of labour accumulated in French firms during the period of decline and the ensuing stagnation were more than adequate to deal with increased activity; thus there was no improvement in **employment**. Indeed, the employed population continued to decline (by about 2% altogether between April 1977 and April 1978, and by 2.6% for manufacturing industry alone), whilst the working week was 0.7% shorter in the middle of the first half of 1978 than it had been a year before. The combined effects of reduced manpower, which permits productivity gains more like those observed in the past, and of population trends (including migration) explain why unemployment has remained high. The reduction observed during the second half of 1977 was followed at the beginning of this year by an increase similar to that observed last year but from a higher initial level (allowing for adjustments needed to compensate for changed definitions). The number of jobless available for work was 1 037 000 in May, 6.2% more than in May 1977.

After a short respite (from November 1977 to January 1978) the rise in **prices** gathered momentum rapidly, especially after April, following measures concerning public service charges and industrial prices. In April the consumer price index was 9% up on a year earlier. This rise affected all the main categories of goods. The relevant figures were: foodstuffs +10.3%; manufactured products +8%; services +9.5%.

The revival of domestic demand and consequent stock-building have led to some acceleration of imports of goods. The value of imports during the first four months of 1978 was 7.1% up on the same period in 1977. This modest recovery of foreign purchases, combined with sustained progress of exports, has meant that external trade has been in balance since the beginning of the year (cumulated balance from January to May, fob-fob series), which has not happened since 1975. The trend of France's balance of payments on current account during the first quarter confirmed the improvements observed in preceding quarters; the balance showed a surplus of FF 1 100 million in the seasonally-adjusted figures.

This improvement contributed to the firmness of the French Franc on the exchange market. The weighted

¹ All annual comparisons are based on uncorrected series; trends over shorter periods are based on seasonally adjusted figures.

exchange rate, which was dropping gradually between the end of 1977 and the beginning of March 1978, has since moved upwards, almost reaching the level of the first quarter of 1972. It is worth noting that this appreciation was recorded at a time when price rises were accelerating

and interest rates dropping a little, two factors that are usually considered as favouring depreciation. The target figure of 12% a year set by the authorities for the increase in money supply (M2) seems to have been slightly overshot.

TABLE 3
The central government budget

France	1977			1978	
	Original budget		Provisional outturn	Original budget	
	'000 Mio FF	% change ²	'000 Mio FF	'000 Mio FF	% change ²
Expenditure ¹	349.4	+ 14.0	389.7	414.9	+ 18.7
of which:					
— current expenditure	303.5	+ 16.2	336.6	—	—
— capital expenditure	45.9	+ 1.5	53.1	—	—
Revenue	348.8	+ 13.9	369.9	404.9	+ 16.1
of which:					
— direct taxes	142.5	+ 13.2	150.4	169.1	+ 18.7
— indirect taxes	170.8	+ 15.8	165.2	194.9	+ 14.1
Net borrowing requirement	0.0	—	— 19.7	— 8.9	—

¹ Disregarding debt extinction, and the balance of special accounts but including loans.

² Relative to the original budget of the preceding year

Note The figures in this table are based on the national budgets and are recalculated on the basis of Community definitions

Major economic policy measures

November:

— The third Amending Finance Act for 1977 was approved. It provides, among other things, for a total increase in expenditure of FF 3 000 million, to be spent mainly on public sector pay, social measures and education.

December:

— The minimum hourly wage (SMIC) was raised to FF 10.06, or FF 1 750 a month for a 40-hour week, an increase of 2.1% since 1 October.

— Several welfare benefits were raised: the minimum old age pension by about 10%, and family allowances by between 3% and 75%, depending on family size and income bracket.

— Representatives of employers and trade unions signed an agreement on the extension of payment by the month.

— Pending the publication of implementing decrees, temporary arrangements were made to generalize the social security scheme.

January:

— New bases for valuing foreign exchange assets were adopted for the first six months of 1978 (the kilogram of gold at FF 24 938 instead of FF 23 203, and the dollar at FF 4.7175 instead of FF 4.933).

February:

— The arrangements for take overs of firms quoted on the stock exchange were simplified, in particular when the purchases involve relatively few shares. It was decided in addition that a simpler procedure would be introduced for offers to sell shares.

— Daily rates of unemployment benefit were increased: payments during the first three months now amount to a main allowance of FF 16.50 with an additional FF 6.60 for each dependant.

March:

— The employer's contribution when taking on foreign labour was

tripled, from FF 500 to FF 1 500. It is paid to the national immigration office.

April:

— Arrangements were made for the State to exercise economic and financial control over firms that might later be eligible for public aid, in particular from the Fonds de développement économique et social.

— Credit controls were relaxed to stimulate business investment: insurance companies will again be able to grant loans to firms under certain conditions, as they could before July 1973.

May:

The minimum hourly wage (SMIC) was raised to FF 10.45, or FF 1 813 a month.

Most public service charges and controlled prices were raised on 1 May: the percentage increase was between 10% and 15% on rail transport, 10% on gas and electricity and between 12% and 20% on postal charges. These increases should make it possible to reduce somewhat the subsidies to State bodies.

— A State loan for FF 3 000 million was fully subscribed on the first day of issue. This loan, which has all the traditional features, is the first of a series.

— The 'national employment pact' (a set of measures in favour of training and employment, especially for young people) was partly renewed for 1978; it provides for State aid of FF 3 000 million (The 1977 figure was FF 5 000 million).

— The system of capital gains tax was amended: the new arrangements provide in particular for capital gains on property to be taxed differently for various categories of persons liable to tax.

June:

— The Government adopted a number of measures to encourage savings and to channel them towards industrial investment: the creation of preference shares, tax relief on savings invested in shares.

— A new system removing price control was introduced on 1 June: the prices of all industrial products will be freed in successive stages between now and November.

TABLE 4

Main economic indicators

France	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production* (1970 = 100)	1976	120	120	122	122	122	123	124	124	129	123	129	126
	1977	129	127	129	125	123	128	124	124	126	122	127	122
	1978	126	125	129	131								
Production outlook	1976	22	27	31		31	26	14		12	5	5	11
	1977	3	1	+7	+2	5	6	9		2	6	8	11
	1978	0	5	14									
Unemployment* (1 000)	1976	927 0	925 1	933 7	929 5	926 2	928 0	918 5	929 8	925 2	931 3	941 4	952 0
	1977	974 3	998 8	1 017 3	1 037 3	1 065 9	1 104 5	1 139 6	1 174 4	1 132 2	1 091 8	1 065 0	1 050 9
	1978	1 027 7	1 050 3	1 086 1	1 105 7								
Vacancies* (1 000)	1976	109 4	115 1	124 1	128 6	129 6	133 3	130 0	128 7	127 5	122 3	117 8	112 6
	1977	106 5	109 9	108 3	102 8	96 1	92 6	97 2	105 2	109 1	110 9	110 2	102 9
	1978	92 7	92 9	90 5	89 5								
Private consumption: manufactured goods consumption* (1963 FF '000 million)	1976	14 88	14 43	14 61	14 72	14 67	14 86	14 60	14 39	15 11	14 79	15 09	15 40
	1977	15 26	15 23	15 12	14 86	14 30	15 30	15 08	15 73	15 18	14 98	15 49	15 42
	1978	15 11	15 27	15 74	15 78	16 14							
Consumer prices (1970 = 100)	1976	159 9	161 0	162 4	163 8	164 9	165 6	167 2	168 4	170 2	171 8	173 2	173 8
	1977	174 3	175 5	177 1	179 4	181 1	182 5	184 1	185 1	186 7	188 2	188 9	189 4
	1978	190 3	191 7	193 4	195 5								
Wages and salaries (1962 = 100)	1976	395 7			411 6			428 2			442 7		
	1977	455 6			466 0			481 3			496 1		
	1978	510 5			521 8								
Visible imports* (million FF)	1976	21 788	22 647	22 809	23 792	24 765	24 339	26 029	26 694	28 168	28 457	28 902	27 934
	1977	29 032	28 284	28 911	27 132	28 029	29 718	28 720	29 835	28 843	28 605	30 897	28 315
	1978	29 839	29 653										
Visible exports* (million FF)	1976	19 565	20 255	20 228	21 410	21 645	22 348	22 453	22 502	22 999	23 744	23 842	24 333
	1977	24 755	24 834	25 439	24 826	25 192	25 455	25 576	26 601	27 265	27 339	27 119	27 705
	1978	25 880	27 718										
Balance of trade* (million ECU)	1976	- 427	- 462	- 494	- 457	- 598	- 382	- 672	- 767	- 949	- 853	- 912	- 644
	1977	- 767	- 620	- 622	- 412	- 507	- 764	- 564	- 578	- 282	- 226	- 667	- 106
	1978	- 685	- 324										
Intra-EEC trade balance (million ECU)	1976	- 180	- 187	- 178	- 198	- 262	- 222	- 340	- 450	- 372	- 289	- 321	- 257
	1977	- 285	- 199	- 280	- 118	- 268	- 330	- 201	- 267	- 80	- 96	- 248	- 117
	1978	- 470	+ 22										
Gross official reserves (FF '000 million)	1976	99 71	95 62	94 75	88 39	88 21	89 65	85 51	85 21	85 33	86 49	86 52	91 53
	1977	92 20	92 37	92 31	92 94	93 23	103 11	101 59	101 90	101 98	102 06	101 67	106 55
	1978	106 63	105 34	106 26	108 29								
Bank lending* (FF million)	1976	736 1	747 9	761 2	775 5	779 3	784 5	802 3	808 8	817 6	829 3	836 1	844 2
	1977	861 8	876 4	880 5	889 7	891 1	900 5	906 3	926 1	933 0	944 4	944 3	961 2
	1978												
Money and near money (M2)* (FF '000 million)	1976	766 4	779 0	783 9	798 2	807 0	812 8	822 5	829 1	835 0	843 7	847 2	851 4
	1977	869 4	879 2	880 6	890 3	898 3	897 4	915 2	930 7	940 7	947 9	953 3	968 2
	1978	974 7	992 2										
L.T. interest rates	1976	10 16	10 16	10 29	10 24	10 19	10 37	10 51	10 61	10 66	10 95	10 94	11 04
	1977	10 66	10 72	10 88	11 12	11 19	11 11	11 07	11 00	10 97	11 01	11 10	11 07
	1978	11 25	11 36	11 07	10 75								
S.T. interest rates	1976	6 36	7 20	7 64	7 53	7 51	7 60	8 27	9 45	9 25	10 74	10 67	10 44
	1977	9 95	9 83	9 74	9 22	9 09	8 82	8 67	8 52	8 26	8 36	8 97	9 30
	1978	8 88	10 18	9 96	8 48								

: Not available.

* Seasonally adjusted.

Source: INSEE (except as otherwise indicated).

— Industrial production: excluding construction and public works; about 50 % of the comprehensive annual index.

— Production outlook: Balance of replies to monthly business surveys.

— Unemployment: unsatisfied job requests at month-end.

— Vacancies: unfilled vacancies at month-end.

— Private consumption: volume of consumption of manufactured goods; coverage: about 40 % of the quarterly index which covers all goods and services.

— Consumer prices: index covering 295 items.

— Wages and salaries: index of hourly wage rates, all sectors, nationwide, as at first day of quarter.

— Imports cif, exports fob, excluding military supplies.

— Balance of trade: difference between the seasonally adjusted values of imports and exports.

— Gross official reserves: gold and foreign exchange reserves SDRs and position at IMF. Source: EUROSTAT.

— Bank lending: total bank lending, position at end of month. Source: Banque de France.

— Money and near money: position at end of month. Source: Banque de France.

— L.T. interest rates: yield on bonds issued by the public and semi-public sectors.

— Short-term interest rate: overnight rate private loans.

Ireland

The Irish economy has, in the course of the past few months, experienced a strong rate of growth due to the persistent dynamism of exports and an acceleration in domestic demand. Employment has progressed and the external balance and price developments have improved.

1. Overall assessment

The overall performance of the Irish economy has, so far this year, been satisfactory on most fronts. Growth has remained dynamic and is more than double that of other Community countries. Not only have exports continued to progress at an appreciable rate, in difficult trading conditions, but investment activity is continuing at a rapid pace and consumers' expenditure has benefited from the effect of stimulatory fiscal policies. Employment has reacted favourably to this strong expansion in demand and output. Further progress has been registered on the external balance and domestic prices. Thus the

inflation rate has continued its downward course and it seems possible now that, in the absence of a further depreciation in sterling, the official objective of 7% could be achieved for the year as a whole. In addition, the fears—often expressed—of a deterioration in the external deficit have not, so far, come about. This result should be considered positively even if it is in part due to external factors such as the improvement in the terms of trade resulting from the stagnation of import prices. Despite strong growth, the unemployment problem remains more difficult. Although the employment situation has improved the increase in the labour force continues to absorb a large proportion of the additional jobs created.

TABLE 1

Key indicators

Ireland	Unit	1971-1975 average 4 5	1976 5	1977 6	1978 6
Gross domestic volume	% change	3.1	3.2	5.6	6.0
of which: industry ¹		3.0	9.0	8.0	9.0
Gross domestic product in volume per person in employment	% change	3.2	4.7	4.9	4.0
Total employment (number of persons) ²	% change	- 0.1	- 1.4	0.7	2.0
— Self-employed and other		:	:	:	:
— Wage and salary earners in company sector		:	:	:	:
— General Government		:	:	:	:
Unemployment	as % of labour force	6.3	9.4	9.4	8.9
Compensation of employees per wage and salary earner	% change	19.5	20.6	15.7	14
Price index of private consumption ¹	% change	13.5	17.0	13.6	7
Current account balance ³	Mio IRL	- 97.2	- 138.1	- 120	- 210

¹ National accounts concept, on annual basis.

² Domestic concept

³ Source: Irish Statistical Bulletin, December 1977.

⁴ Geometric mean of the change from 1970 to 1975; unemployment and current account balance: arithmetic mean over the five years

⁵ Source: Economic Review and Outlook, June 1977

⁶ Estimates of Commission's Departments, as at end-June 1978, and on the basis of policies prevailing at that time

: No data available

The authorities' strategy has been and remains expansionary. By means of tax concessions (as was the case in 1977 and in the budget of January last) they have improved employment by generating growth without running into external constraints or fuelling domestic prices (except perhaps in the construction sector). However, the price paid for this has been high in terms of Government financing and the borrowing requirement looks set to reach the forecast level of 13% of GNP in 1978 in comparison with the shortfalls recorded in the past two years.

2. Recent developments¹

Total **exports** have accelerated (+10.2% in the period January-April on the preceding four months)—principally due to a more rapid demand from the UK (which takes nearly 50% of Irish exports). This development has compensated for the fall in sales to Japan (- 15%) as well as the reduction or stagnation of deliveries to certain EEC

¹ Unless otherwise stated, this analysis is based on seasonally adjusted data

TABLE 2

Demand for and supply of goods and services

Ireland	1975 ²	1976 ²			1977 ³			1978 ³		
	At current prices Mio IRL	% change on preceding year								
		Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Private consumption	2 366	2.8	17.0	20.2	4.5	13.6	18.7	7.5	7.0	15.0
Public consumption	700	2.0	19.7	22.1	2.0	15.7	18.0	5.0	12.0	17.6
Gross fixed asset formation	873	4.4	17.9	23.1	8.0	18.1	27.5	10.0	9.0	20.0
— Construction	524	0	20	20	2	15½	18	9	12	22
— Equipment	349	12	15	28½	16½	21½	41	11	5½	17½
Domestic final uses (excluding change in stocks)	3 939	3.0	17.7	21.2	4.8	15.0	20.6	7.6	8.4	16.6
Domestic final uses (including change in stocks)	3 870	6.7	16.4	24.3	4.7	15.0	20.4	8.0	8.3	17.0
Exports ¹	1 631	8.4	21.8	32.1	14.0	15.6	31.8	10.6	9.0	20.6
Imports ¹	1 835	15.4	17.6	35.7	11.1	18.6	31.7	13.5	6.0	20.3
Gross domestic product at market prices	3 666	3.2	18.3	22.0	5.6	13.3	19.6	6.0	10.3	16.9
		Contribution to % change in gross domestic product								
Domestic final uses (excluding change in stocks)	3 939	3.2	—	22.8	5.1	—	22.0	8.2	—	17.9
Change in stocks	— 69	3.9	—	2.8	— 0.1	—	0	0.4	—	0.5
Balance of exports and imports ¹	— 204	— 4.0	—	— 3.6	0.5	—	— 2.3	— 2.6	—	— 1.4

¹ Goods and services² Source: Economic Review & Outlook, June 1977.³ Estimates of Commission's Departments, as at end-June 1978, and on the basis of policies prevailing at that time.

partner countries; in particular BLEU (−13%), the Netherlands (−1.5%), Federal Republic of Germany (+1%). Exports of raw materials (ores) and manufactured goods experienced the most rapid progress (+23% and +15% respectively).

Domestic demand has accelerated markedly. As is shown by the development of retail sales and in particular the large increases in new car registrations (+13% in January-April on the preceding four months), **consumers' expenditure** has grown strongly. Its development can be explained by the favourable impact of the improvement in the conjunctural climate and by a fall in the savings ratio linked in particular to anticipation of tax cuts and pay increases.

Stimulated by an increase in public capital expenditure, **investment** activity has remained rapid. Judging from imports of capital goods (+18% in the period January-April) this category of investment has progressed sharply. In addition, the construction sector has been particularly dynamic, spurred on by more favourable financial conditions (loan availability, interest level and the abolition of local authority rates).

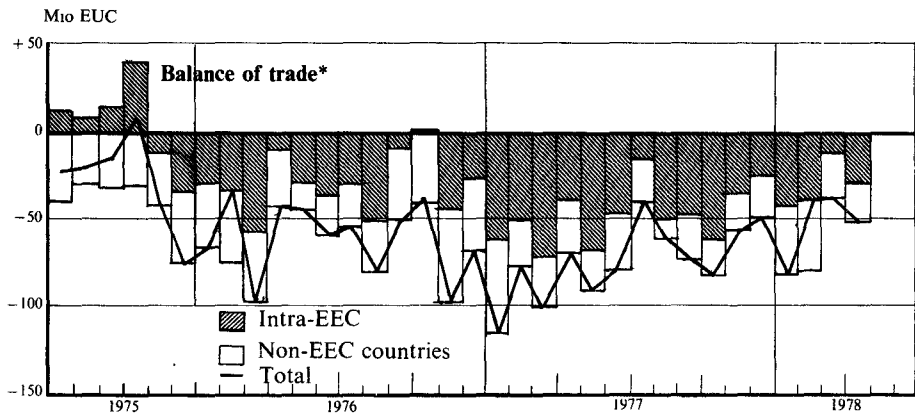
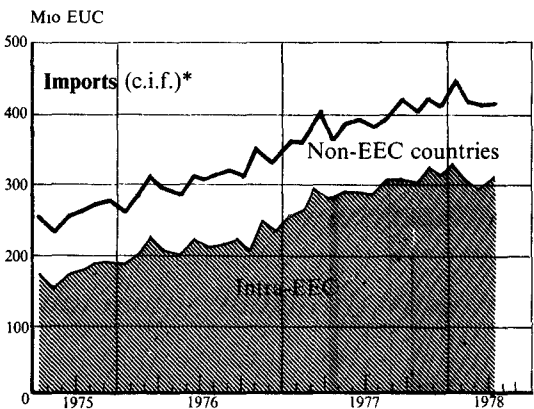
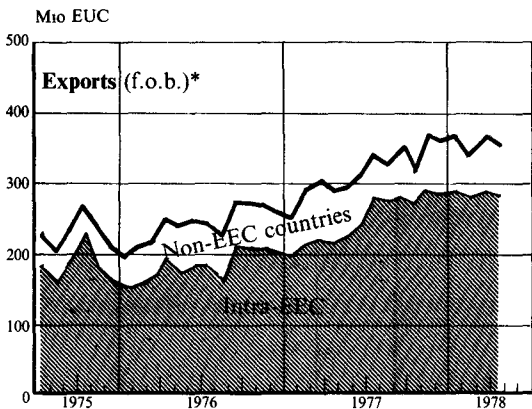
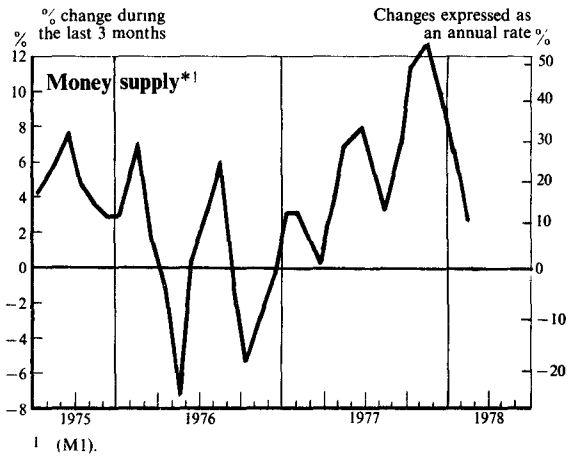
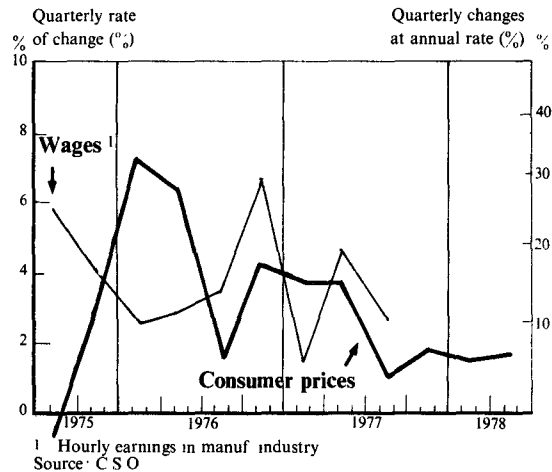
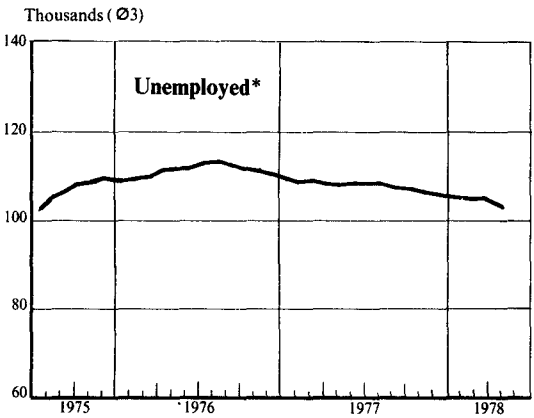
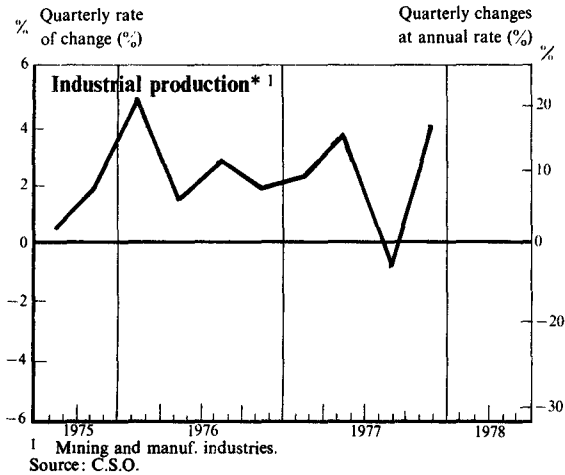
In conjunction with the expansion of overall demand, **industrial production** has continued to progress. Agricultural production has been restrained somewhat by relatively weak cattle output but milk yields have been substantially higher.

Employment has improved. Helped probably by an increase in emigration which has kept the growth of the labour force within more modest bounds, unemployment has fallen in recent months; in May the numbers out of work were still 101 000¹ as against 106 000 in December. The fall in female unemployment has been less pronounced, reflecting persistent difficulties being experienced by industries with a preponderantly female work force.

The rise in **prices** has continued to slow down due to the stability of food prices up to mid-May and the moderation of import prices. This latter factor has influenced the development of **imports** in value, the growth of which weakened (+2.1% in the period January-April). Imports of oil products were particularly slow declining by 16½% in the period mentioned. A similar, though less marked contraction was evident for other raw materials. Imports in volume are likely, however, to have remained high, since exchange rate changes take some months to be reflected in import prices.

The **trade balance** has improved due to the rapid progress of exports and the more favourable terms of trade. The monthly average trade deficit fell from IRL 50 million in the period September-December to IRL 30 million for January-April.

¹ 8.7% of the total labour force



* Seasonally adjusted figures.
Source: EUROSTAT, except where otherwise indicated.

Despite this development, reserves have scarcely increased due to the ebb of capital flows provoked by differentials in interest rates with the UK. Consequently the money supply grew less rapidly. After appreciating

from mid-October to the end of January, the weighted exchange rate of the pound has depreciated by 5% since then.

TABLE 3
The central government budget

Ireland	1977			1978	
	Original budget		Provisional outturn	Original budget	
	Mio IRL	% change ²	Mio IRL	Mio IRL	% change ²
Expenditure ¹	2 563	18.4	2 501	3 005	+ 17.2
of which:					
— current expenditure	2 118	21.0	2 057	2 470	+ 16.6
— capital expenditure	445	7.7	444	535	+ 20.2
Revenue	2 000	32.3	1 960	2 186	+ 9.3
of which:					
— direct taxes	877	32.9	859	983	+ 12.1
— indirect taxes	878	29.7	844	913	+ 4.0
Net borrowing requirement	563	— 13.7	541	819	+ 45.5

¹ Disregarding debt extinction
² On the preceding year's original budget

Major economic policy measures

November 1977

— On 1 November, a new scheme of grants and loans for house improvement and reconstruction was announced.

January:

— On 1 January, an 'Enterprise Development programme' to encourage prospective entrepreneurs by providing grants and assistance was introduced.

— On 1 January, exchange control rules were eased by the removal of the 25% surrender rule on portfolio investment outside the Sterling Area.

— Employee contributions to social insurance for workers earning less than IRL 50 per week were reduced by IRL 1, on 2 January. The cost of this measure will be IRL 13 million in a full year and it will benefit some 300 000 insured persons.

— A White Paper on the economy 'National Development 1977-1980' was published on 12 January. It established the government's intentions for economic and social development and set the following policy objectives:

- (a) a reduction in the government borrowing requirement as a percentage of GNP to 8% in 1980;
- (b) 7% growth in GNP to 1980;
- (c) a reduction of inflation to 5% in 1980;
- (d) the creating of 29 000 net non-agricultural jobs per annum;
- (e) a reduction in the tax burden and reforms and limitations of public expenditure;
- (f) a land structure reform;
- (g) the encouragement of income restraint.

— On 18 January, a programme with the target of switching 3% of total consumer spending from imports was inaugurated.

February:

— The Budget for 1978 presented by the Minister for Finance on 1 February, included the following measures:

Corporate taxation

- (a) continuation of stock relief;
- (b) easing of qualifications for the special reduced rate of tax;
- (c) free depreciation on new industrial buildings and on new plant and machinery;
- (d) a raising of reduced tax thresholds for small companies;
- (e) interest relief on borrowings by individuals to acquire ordinary shares in private companies;
- (f) underwriting by the Exchequer of the exchange rate risk on EIB loans to small firms.

Income, capital and other taxation

- (a) increases in personal income tax allowances;
- (b) changes in reliefs for life insurance and retirement annuity policies and exemption from income tax of interest on awards to thalidomide children;
- (c) abolition of wealth tax and easing of capital gains and acquisition tax;
- (d) increase in multiplier for agricultural taxation and broadening of tax base;
- (e) modification of excise duty on beer and duty-free facilities introduced between Ireland and Britain which had already been announced.

Expenditure

- (a) increase in social transfers and improvements from April 1978;
 - (b) job-creating schemes for 20 000 jobs were allocated a total of IRL 100 million of which IRL 90 million is expected to be committed in 1978;
 - (c) abolition of domestic rates (property tax);
 - (d) grants and loans for house construction increased;
 - (e) an extra IRL 11.5 million to be spent on health education and removal of discrimination against women in the public service;
 - (f) the public capital programme was increased by IRL 107 million.
- The projected borrowing requirement at IRL 821 million represents 13% of GNP as against 10.2% in 1977.

March:

— On 22 March, the 1978 national pay agreement was agreed upon. It lasts for a period of 15 months and includes a first phase of 8% with a minimum of IRL 3.50 per week covering the first 12 months and a second phase giving an additional 2%. The agreement also provides for an additional 2% which is negotiable at local level, certain restrictions on the right to strike and a clause providing for firms unable to pay the increases. The pay pact will come into operation for the majority of workers from 1 March 1978, but is backdated to 1 January for others.

April:

— On 1 April, the Industrial Development Authority published its four-year plan covering the period 1977-1980. It envisages the creation of 47 000 new jobs in manufacturing industry and a further 2 500 in grant-aided services. This will involve fixed capital investment of IRL 1 200 million of which IRL 300 million will come from government grants.

May:

— The Central Bank announced, on 11 May, that it had agreed to provide up to IRL 100 million in credit to the Government if required.

TABLE 4

Main economic indicators

Ireland	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production* (1970 = 100)	1975	:	113.9	:	:	112.8	:	:	113.2	:	:	115.2	:
	1976	:	120.7	:	:	122.8	:	:	125.5	:	:	126.6	:
	1977	:	129.5	:	:	134.3	:	:	133.3	:	:	138.9	:
	1978	:	:	:	:	:	:	:	:	:	:	:	:
Unemployed* (1 000)	1975	83.4	85.4	88.6	92.9	96.9	99.6	101.9	104.3	105.8	107.2	107.4	109.2
	1976	107.4	108.9	110.4	111.7	112.0	112.2	114.3	114.1	112.9	112.0	111.5	110.9
	1977	109.6	109.0	109.5	109.0	108.6	109.0	109.2	109.2	107.7	107.1	106.3	106.1
	1978	104.9	104.3	104.9	102.3	:	:	:	:	:	:	:	:
Private consumer's expenditure* (1970 = 100)	1975	180.1	178.1	184.0	186.0	189.9	187.9	193.8	197.7	201.6	203.6	213.4	217.3
	1976	221.2	229.0	215.3	229.0	229.0	231.0	215.3	229.0	244.7	246.7	260.4	260.4
	1977	253.1	260.9	264.5	268.8	278.2	276.2	278.8	289.7	288.2	292.5	300.3	305.0
	1978	308.7	295.8	:	:	:	:	:	:	:	:	:	:
Consumer prices (1970 = 100)	1975	:	177.7	:	:	188.5	:	:	187.1	:	:	192.2	:
	1976	:	206.3	:	:	219.1	:	:	222.4	:	:	231.8	:
	1977	:	240.6	:	:	249.7	:	:	252.4	:	:	256.8	:
	1978	:	260.5	:	:	265.0	:	:	:	:	:	:	:
Visible imports* (million EUC)	1975	275.4	272.1	219.9	252.1	240.1	228.4	252.1	228.6	253.7	262.2	274.1	282.1
	1976	266.4	287.3	316.8	294.2	287.8	311.2	304.4	311.5	331.9	310.0	359.6	329.0
	1977	369.8	363.6	402.7	364.6	389.3	395.4	388.9	395.5	422.0	405.5	429.2	414.0
	1978	453.1	:	:	:	:	:	:	:	:	:	:	:
Visible exports* (million EUC)	1975	215.3	203.3	174.8	211.2	211.7	180.0	225.7	206.5	234.6	272.1	230.8	206.9
	1976	199.7	213.0	219.7	251.6	243.2	250.5	247.6	229.7	280.9	272.7	272.4	261.0
	1977	252.5	282.4	301.8	292.4	295.8	317.5	341.7	332.9	350.4	317.8	375.3	364.6
	1978	372.9	:	:	:	:	:	:	:	:	:	:	:
Balance of trade* (million EUC)	1975	60.1	68.8	45.1	40.9	28.4	48.4	26.3	22.1	19.1	— 9.9	43.2	75.2
	1976	66.7	74.2	97.1	42.6	44.6	60.7	56.9	81.7	50.9	37.4	87.1	68.1
	1977	117.2	81.2	101.0	72.2	93.4	77.9	47.1	62.6	71.6	87.7	54.0	49.4
	1978	80.2	:	:	:	:	:	:	:	:	:	:	:
Official foreign exchange reserves (million EUC)	1975	952	929	929	932	974	1 025	1 106	1 095	1 140	1 097	1 139	1 298
	1976	1 422	1 403	1 495	1 491	1 463	1 382	1 313	1 362	1 490	1 476	1 560	1 609
	1977	1 669	1 604	1 665	1 584	1 588	1 552	1 619	1 728	1 842	1 869	1 766	1 920
	1978	1 714	1 800	1 821	1 619	:	:	:	:	:	:	:	:
Money supply* (million EUC)	1975	981	983	1 104	1 017	1 010	1 024	1 058	1 068	1 104	1 107	1 105	1 134
	1976	1 139	1 185	1 157	1 124	1 098	1 161	1 161	1 163	1 148	1 096	1 104	1 146
	1977	1 131	1 139	1 149	1 172	1 220	1 242	1 240	1 258	1 333	1 384	1 423	1 465
	1978	1 476	1 461	:	:	:	:	:	:	:	:	:	:

· Not available.

* Seasonally adjusted.

Source: EUROSTAT (except as otherwise indicated).

— Industrial production: CSO, Mining and manufacturing industry

— Unemployment: Number of registered unemployed.

— Private consumers' expenditure: CSO Retail Sales Index in value.

— Visible trade: Imports cif, exports fob.

— Balance of trade: difference between values of imports and exports

— Official Foreign Exchange Reserves: Official External Reserves, Monetary Authorities' reserves of convertible currency, holdings of special drawing rights and reserve position in the IMF

— Money Supply: Currency and current accounts.

Italy

Output was still tending downwards in the fourth quarter of 1977, but the early months of 1978 saw a vigorous upturn in activity, with stockbuilding and private consumption the key factors. The margin of slack in the economy narrowed a little. Prices began to climb more steeply while the balance of payments continued to show a surplus. There is an unusually high degree of liquidity in the economy, due mainly to the rapidly widening deficit of the enlarged public sector.

1. Overall assessment

Following a decline in output during three-quarters of a year, economic activity picked up significantly in early 1978. This was mainly, if not exclusively, the result of larger stockbuilding and a sharp expansion in private

consumption, itself due to the very rapid increase in the deficit of the enlarged public sector. With the average number of hours worked per employee rising, the level of employment tended upwards. The rate of price increases accelerated in the first four months of the year. The balance of payments continued to show a surplus.

TABLE 1
Key indicators

Italy	Unit	1971-1975 average ^{4 5}	1976 ⁵	1977 ⁵	1978 ⁶
Gross domestic product, volume	% change	2.4	5.7	1.7	2.2
of which: industry ¹		2.1	12.0	1.4	2.5
Gross domestic product in volume per person in employment	% change	2.3	4.9	1.3	2.2
Total employment (number of persons) ²	% change	0.1	0.8	0.4	0
— Self-employed and other		— 1.8	0.3	0	0.1
— Wage and salary earners in company sector		:	0.8	0.5	0
— General government		:	1.7	0.7	0.9
Unemployment	as % of labour force	3.3	3.7	7.2 ⁷	7.6 ⁷
Compensation of employees per wage and salary earner	% change	17.6	20.8	21.1	15.5
Price index of private consumption ³	% change	12.5	17.9	18.0	13.0
Current account balance	'000 Mio LIT	— 961	— 2 343	2 014	3 200

: Not available.

¹ Excluding construction.

² Domestic concept

³ National accounts concept, on annual basis.

⁴ Geometric mean of the change from 1970 to 1975; unemployment and current account balance: arithmetic mean over the five years.

⁵ Source: Relazione Generale sulla situazione economica del Paese, Annual Report of the Governor of the Banca d'Italia (May 1978).

⁶ Estimates of Commission's departments as at end-June 1978, and on the basis of policies prevailing at that time

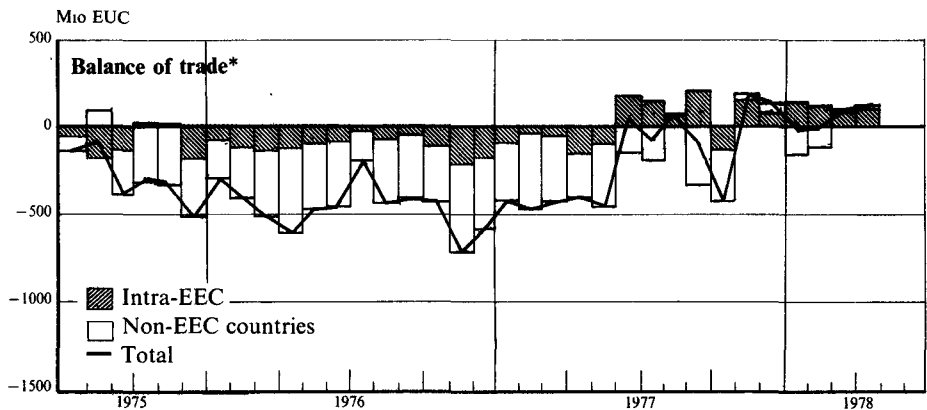
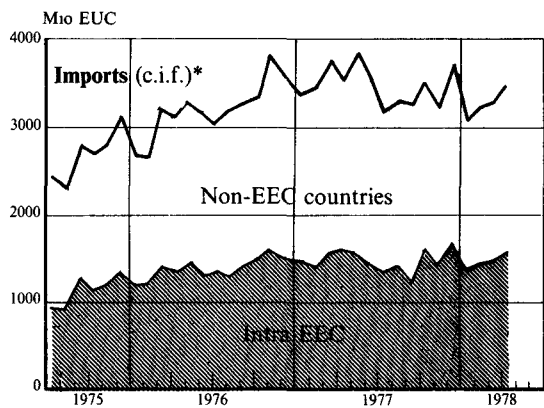
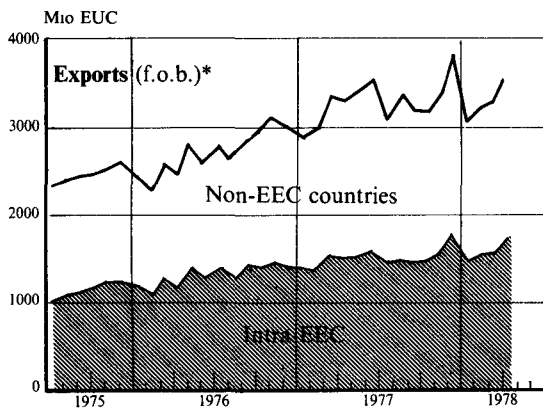
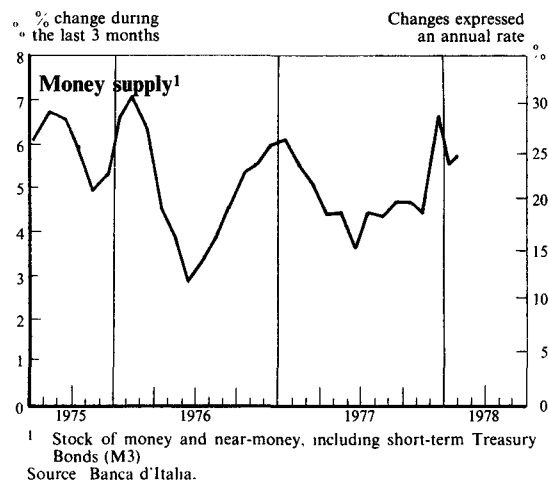
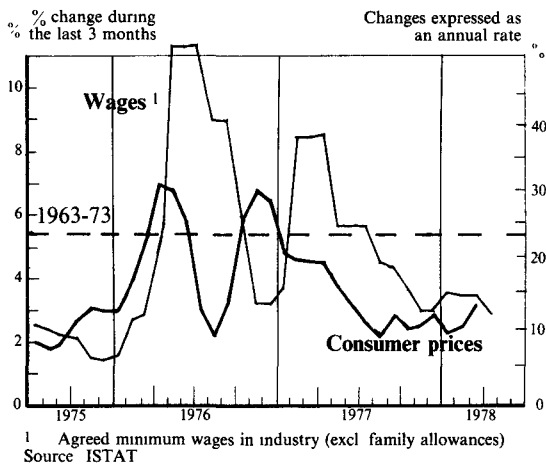
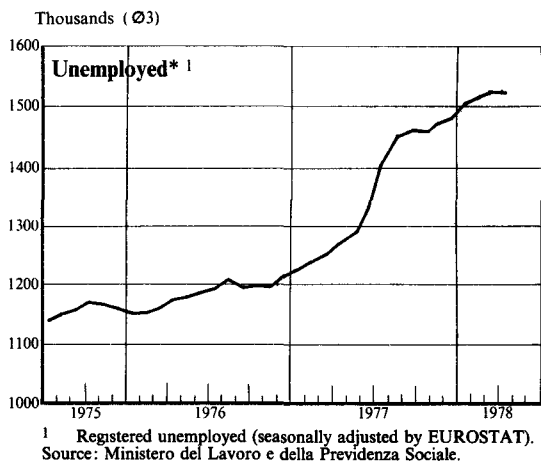
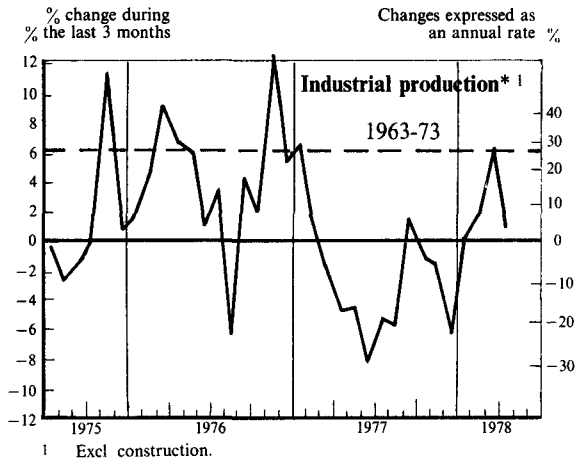
⁷ New series, not comparable with earlier years

The new Government that was formed after a crisis lasting almost two months and that enjoys a broad-based parliamentary majority, has announced its intention of taking action in the fields of public service charges, taxation and public spending so as to hold the soaring deficit of the enlarged public sector well below the LIT 30 825 000 million level, ¹ indicated by the Treasury Minister (15.5% of gross domestic product in value terms, as against 12.1% last year). At the same time, the economic recovery is to be underpinned, with investment, if possible, to take over from private consumption as the main expansionary factor. The Government does not expect price rises in 1978 to exceed an average of 13% and the balance of payments on current account is to show a surplus of the same order of magnitude as in 1977, that is to say around LIT 2 000 000 million.

2. Recent developments

After growing rapidly in the autumn of 1977, the value of merchandise **exports** fell slightly in the first four months of 1978 according to the foreign trade figures adjusted for seasonal variations by ISCO. This movement would seem, however, to owe much to a number of special factors relating to the collection and processing of statistics suggesting that the actual trend continued

¹ See Table 3 below. The Government's policy statement of 16 March still mentioned a target figure of LIT 24 000 000 million. Since then, however, it has been acknowledged that this figure could no longer be achieved. A ceiling of LIT 14 450 000 million had been agreed with the IMF and the Community in the spring of 1977. See Quarterly Report 2/1977, p. 64.



Seasonally adjusted figures.
Ø3: three month moving average.
Source: EUROSTAT, except where otherwise indicated.

TABLE 2
Demand for and supply of goods and services

Italy	1975 ²	1976 ²			1977 ²			1978 ³		
	At current prices '000 Mio LIT	% change on preceding year								
		Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Private consumption	77 492	3.4	17.9	21.9	2.1	18.0	20.5	2.3	13.0	15.6
Public consumption	15 832	1.7	17.8	19.8	2.7	21.8	25.1	2.0	16.7	19.0
Gross fixed asset formation	23 753	1.9	18.7	21.0	0.1	18.9	19.0	— 1.3	12.5	11.1
— Construction	14 003	— 2.4	19.5	16.6	— 0.8	20.7	19.7	0	13.0	13.0
— Equipment	9 750	8.0	17.8	27.2	1.3	16.6	18.1	— 3.0	12.0	8.6
Domestic final uses (excluding change in stocks)	117 077	2.9	18.0	21.4	1.8	18.7	20.8	1.5	13.4	15.2
Domestic final uses (including change in stocks)	116 591	5.7	19.9	26.8	0.1	17.7	17.8	2.2	13.4	15.9
Exports ¹	26 313	13.7	20.0	36.4	5.8	19.1	26.0	5.5	8.0	13.9
Imports ¹	27 832	14.9	24.6	43.2	— 1.0	17.6	16.4	5.5	6.5	12.4
Gross domestic product at market prices	115 072	5.7	18.3	25.0	1.7	18.3	20.3	2.2	13.8	16.3
		Contribution to % change in gross domestic product								
Domestic final uses (excluding change in stocks)	117 077	2.8	—	21.8	1.7	—	20.6	1.5	—	15.1
Change in stocks	— 172	2.7	—	5.3	— 1.6	—	— 2.3	0.7	—	0.9
Balance of exports and imports ¹	— 1 519	0.2	—	— 2.1	1.6	—	2.0	0	—	0.3

¹ Goods and services

² Source. Relazione Generale sulla situazione economica del Paese 1977.

³ Estimates of Commission's departments as at end-June 1978, and on the basis of policies prevailing at that time

upwards. In terms of volume, however, merchandise exports clearly failed to contribute to economic growth. The value of merchandise exports in the first four months of the year was only 11.2% up on a year earlier, compared with an increase of 19.2% in the fourth quarter of 1977. Receipts from tourism in the first quarter were 50% higher than in the same quarter last year.

The real growth in domestic demand noted in the fourth quarter of 1977 gathered further momentum in the early months of 1978. The main, if not exclusive, source of this acceleration was a rapid increase in stockbuilding and in private consumption.

After a sluggish performance towards the end of last year, **private consumption** indeed expanded appreciably in the first quarter of 1978. There would appear to have been three main reasons for this development: an extremely sharp increase in pensions (up some 30%); the abolition, promised for May, of the forced saving scheme for higher incomes, which had been introduced in October 1976; ¹ and perhaps also the expectation of more rapidly rising prices, which is clearly suggested by the EEC business surveys.

Fixed **investment**, which was still declining in the fourth quarter of 1977, is thought to have at least held steady in the first few months of 1978. This is suggested by the trend

of production and of domestic orders in the capital goods industry. After falling sharply for three-quarters of a year, stockbuilding has been growing strongly since the fourth quarter of 1977, with the emphasis probably on raw materials towards the end of last year and on finished goods in the early months of 1978.

On the supply side, **industrial production**, after showing a further fall in the closing months of 1977, expanded briskly in the first quarter of 1978 in all the major sectors. According to the ISTAT indices—seasonally adjusted by ISCO—it was no less than 5.3% higher than in the preceding quarter, compared with a drop of 2.7% in the fourth quarter of 1977. Above-average rates of growth were recorded in the transport equipment, chemical and metal-working industries. The unadjusted level of industrial production in the first quarter of 1978 was, however, still distinctly lower than a year earlier (down 4.9%). ²

According to the seasonally adjusted foreign trade statistics, merchandise **imports** expanded sharply in the fourth quarter of 1977 yet showed an absolute fall in the

¹ Cf. Quarterly Report 4/1976, p. 64.

² On the basis of still provisional data, the unadjusted index for April was somewhat lower than the March index.

first four months of 1978. However, as with merchandise exports, special factors of a purely technical nature (strike by the ISTAT staff, temporary breakdown of data-processing equipment) appear to have distorted considerably the import statistics for the first few months of the year; the effective trend in imports during this period was certainly not as sluggish as suggested by the official figures. This assumption is made plausible not only by the growth in demand and production in the early months of 1978 but is also supported by the statistics compiled by the Foreign Exchange Office, which point to an appreciably firmer trend in imports than the foreign trade statistics. According to the latter, merchandise imports in the first four months of the year were 1.3% down on a year earlier, while they had been 3% up in the fourth quarter of 1977.

The degree of utilization of the factors of production, which had still been declining at the end of 1977, showed something of an improvement in the first few months of 1978. According to the EEC business surveys, the degree of **plant utilization** in industry in March stood at 72.1% (as against 71.5% in December 1977 and 75.1% in March 1977), showing the first increase for a year. The **level of employment**¹ in the first quarter of 1978 also tended upward again, at least in industrial firms with 500 or more employees. The numbers employed, however, might well have levelled off or declined slightly. With the expansion in the labour force, this led to a further increase in the number of unemployed, which, according to the latest ISTAT sample survey, conducted in January 1978, stood at 1 520 000, of which 75.2% were persons between 14 and 29 years of age. At 7.1%, the unemployment rate in January was somewhat higher than a year earlier (6.8%) but down slightly on the level recorded in October 1977 (7.4%). The figures for female unemployment and for unemployment in the Mezzogiorno were appreciably higher than the average (12.2% and 9.7% respectively).

After slackening somewhat in the fourth quarter of 1977, the upward movement of **prices** accelerated again in the first four months of 1978. Expressed at an annual rate, wholesale prices climbed by 10.3% and consumer prices by 12.9% between December 1977 and April 1978, as against 5.9% and 11.8% respectively between September and December 1977. In April, wholesale prices and consumer prices were 8.0% and 12.2% higher respectively than a year earlier.

According to the foreign trade statistics the **trade balance** showed a tendency to deteriorate in the first four months of 1978; it closed with a deficit of LIT 388 000 million, compared with one LIT 1 888 000 million a year earlier and one of LIT 484 000 million in the last four months of 1977. With the surpluses on the services account and on capital movements narrowing, the **overall balance of payments** surplus in the period January to April shrank, partly because of seasonal factors, to LIT 866 000 million (as against a surplus of LIT 1 670 000 million in the last four months of 1977); nevertheless, this result continued the uninterrupted series of monthly balance of payments surplus recorded since June 1977.

Although official net foreign exchange reserves, which had still been rising sharply between September and

December 1977 (up LIT 742 000 million), fell somewhat in the first four months of 1978 (by LIT 318 000 million), the monetary authorities medium-term external position improved significantly, by LIT 1 076 000 million, thanks to substantial repayments of debt notably to the Bundesbank (USD 500 million), the IMF (USD 400 million) and the Community (USD 350 million). In addition, the commercial banks net short-term indebtedness abroad again fell (by LIT 187 000 million, to LIT 5 542 000 million at the end of April). Taking into account the recent further quarterly revaluation of gold reserves, official **gold and foreign exchange reserves**³ rose by LIT 838 000 million to LIT 17 526 000 million (USD 20 400 million) between the end of December 1977 and the end of April 1978. The weighted **exchange rate** of the lira against all other currencies weakened by 3% between September and December; minor fluctuations apart, it subsequently remained virtually steady until May. Taking the dollar rate, the lira strengthened slightly throughout the fourth quarter of 1977 and the first quarter of 1978, but then weakened somewhat in April and in May.

Cash disbursements under the **central government budget** expanded very sharply in the first quarter of 1978, yet were in line with the rate of increase forecast by the Commission's staff for 1978. Cash receipts grew much more slowly than disbursements, producing a significantly larger cash deficit than a year earlier. Although a substantial surplus was recorded on the Treasury transactions, the Treasury's net borrowing requirement in the first quarter amounted to LIT 6 643 000 million, as against LIT 2 870 000 million a year earlier; this sharp increase partly reflected the fact that the taxes on interest earnings were collected only in April instead of in March, when they were theoretically due.

Under the impact of the balance of payments trend described above and, in particular, the large Treasury deficit, the growth in the **monetary base**⁴ remained decidedly brisk in the period under review and actually gathered further momentum in the first quarter.⁵ Although the **demand for credit** picked up in the first few months of the year as the economy improved, bank liquidity grew at a faster rate in February and March. The volume of notes and coin in circulation also rose more rapidly. As a result, **interest rates** continued to tend slightly downward. Interest rates on interbank deposits eased from 12.25% in September 1977 to 11.91% in December and to 11.73% in April 1978; the corresponding figures for the yield on bonds issued by the institutions lending against goods and securities were 14.44%, 13.98% and 13.53%. The downward trend of interest rates continued in May.

¹ Number of persons employed multiplied by the average number of hours worked per employee

² According to provisional data a surplus of LIT 715 000 million was recorded in May.

³ Excluding short-term debts of the monetary authorities.

⁴ Mainly notes and coins in circulation and assets convertible into central bank money at short term. The Treasury-induced expansion in the monetary base at the end of 1977 was attributable to seasonal factors.

⁵ According to provisional information, the growth in the monetary base came to a halt in April.

TABLE 3

Cash transactions of the enlarged public sector ¹ (1977 - 1978)

(in LIT '000 million)

Italy	1977		1978	
	Outturn	% change	Forecasts ³	% change
<i>Central government budget:</i>				
Revenue	42 371	+ 34.8	50 100	+ 18.2
Expenditure	53 560	+ 28.0	76 230	+ 42.3
Financial balance	- 11 189	—	- 26 130	—
<i>Other Treasury transactions:</i>				
Balance	- 5 213	—	- 900	—
Financial balance of the Treasury	- 16 402	—	- 27 030	—
Transfers to the specialized credit institutions	+ 192	—	+ 450	—
Adjusted financial balance of Treasury	- 16 210	—	- 26 580	—
Financial balance of the other bodies making up the enlarged public sector	- 4 790 ²	—	- 4 245	—
Enlarged public sector deficit	- 21 000 ²	—	- 30 825	—

¹ The enlarged public sector comprises general government, municipal undertakings, the autonomous State-owned enterprises (essentially, the Post Office and the railways) and the State-owned electricity company (ENEL)

² Estimates of Commission's departments

³ Source: Parliamentary report of the Treasury Minister dated 20 May 1978

Major economic policy measures

November 1977:

— Under an agreement signed on 22 November, Italy granted the USSR a USD 650 million loan tied to the export of manufactures and the establishment of industrial infrastructure by Italian firms in the period 1977-79. For Italy this loan does not necessarily mean reduced foreign exchange receipts since commercial bills will be issued that can be used if necessary to guarantee international loans.

December:

— On 18 December a law entered into force intended to encourage the supply of risk capital. Its main provisions are:

- (a) a tax credit, for the benefit of shareholders, of 30% of dividends received;
- (b) reduction to 30% of the flat-rate tax on dividends ('cedolare secca'), which had been increased to 50% in October 1976;
- (c) reduction of the tax on appreciation of immovable property.

— On 23 December, the prices of the main petroleum products other than petrol were increased (by up to 13%).

— On the same date, the Government approved a national plan on energy supplies. From 1978 to 1981 investments totalling almost LIT 15 300 000 million will be made by the State-owned electricity undertaking (ENEL), to build 14 new nuclear power-stations among other projects. At the same time ENEL's endowment fund will be increased by LIT 3 000 000 million. ENI (Ente Nazionale Idrocarburi) for its part is to make investments worth LIT 3 703 000 million between now and 1981.

— On 29 December the obligation on banks to invest at least 30% of the growth of their deposits in fixed-interest securities was extended for the first half of 1978, with the details left unchanged.

— By a Decree Law of 29 December, transformed into a Law on 27 February 1978, the Government authorized certain banks to grant short-term State-guaranteed loans totalling LIT 300 000 million, to assist

undertakings in the chemical and steel industries in credit with the State which might otherwise have been unable to make wage payments in January. The endowment funds of the State holding companies were increased by LIT 100 000 million to cope with the difficulties experienced by the undertakings they control.

— Another Decree Law of the same date and also transformed into a Law on 27 February 1978 contained certain transitional measures for putting local finance on a sounder basis. Its main provisions are:

- (a) a ceiling of 7% (10% in some cases) on the increase in certain types of current expenditure;
- (b) a ban on borrowing to cover current expenditure;
- (c) transfer to the State, from 1 January 1978, of responsibility for the repayment of loans granted, in the past, to local authorities to finance their deficits;
- (d) the ban on recruiting new officials to be extended for 1978;
- (e) communal and provincial taxes to be increased by between 50% and 100%;
- (f) municipal transport undertakings to put up charges so as to cover the increase in their deficits.

— A Decree Law which entered into force on 30 December 1977, transformed into a Law on 23 February 1978, amends tax legislation; the main changes are the followings:

- (a) the withholding tax on bank interest is increased from 16 to 18%;
- (b) local income tax (ILOR) will in future be due when income is declared; in addition an advance payment amounting to 75% of the tax paid for the previous year must be made each November (a similar system was introduced in 1977 for tax on the income of self-employed workers and companies).¹
- (c) the quarterly payment of VAT is extended to smaller traders;

¹ See Quarterly Survey 4/1976, p. 64.

TABLE 4
Main economic indicators

Italy	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1970 = 100)	1976	109.5	115.9	117.7	116.9	122.8	119.9	121.2	114.8	125.2	123.6	129.0	132.0
	1977	131.8	131.3	129.6	125.2	125.3	118.9	118.6	118.1	120.7	117.0	116.2	113.2
	1978	117.1	118.3	120.4	118.2	:	:	:	:	:	:	:	:
Unemployed (1 000)	1976	1 147.4	1 149.7	1 166.4	1 170.4	1 186.5	1 182.2	1 203.6	1 200.2	1 215.9	1 179.3	1 203.2	1 215.2
	1977	1 250.8	1 235.7	1 255.1	1 260.7	1 285.5	1 336.8	1 405.4	1 482.7	1 472.7	1 470.0	1 477.0	1 500.9
	1978	1 485.3	1 530.8	1 511.7	1 506.8	1 516.9	:	:	:	:	:	:	:
Construction: Housing starts (1 000)	1976	13 601	35 485	21 377	19 692	18 291	14 877	14 591	15 939	15 412	14 584	16 263	17 898
	1977	13 056	14 385	16 411	17 119	16 985	17 480	16 360	15 196	17 264	16 647	15 813	14 865
	1978	(13 307)	(12 567)	(14 027)	:	:	:	:	:	:	:	:	:
Private consumers' expenditure: retail sales (1970 = 100)	1976	224.6	225.8	223.1	245.2	237.5	248.9	238.8	251.7	256.5	261.5	265.9	276.3
	1977	280.2	277.8	281.2	295.1	295.4	311.7	303.6	309.6	315.2	298.2	312.8	328.2
	1978	320.8	320.1	333.6	:	:	:	:	:	:	:	:	:
Consumer prices (1970 = 100)	1976	181.1	185.1	188.8	193.8	197.7	198.6	199.6	201.8	205.2	211.1	215.7	218.6
	1977	221.4	225.7	228.5	231.3	234.2	235.8	237.2	239.4	242.5	245.7	248.1	249.3
	1978	251.4	254.0	257.2	259.7	:	:	:	:	:	:	:	:
Visible imports (million EUC)	1976	2 682	2 671	3 182	3 095	3 305	3 140	3 011	3 146	3 256	3 371	3 843	3 579
	1977	3 352	3 484	3 789	3 684	3 877	3 572	3 163	3 257	3 226	3 559	3 248	3 725
	1978	3 065	3 200	3 244	3 472	:	:	:	:	:	:	:	:
Visible exports (million EUC)	1976	2 417	2 255	2 670	2 490	2 822	2 650	2 815	2 686	2 843	2 957	3 109	3 002
	1977	2 921	3 000	3 354	3 280	3 428	3 587	3 094	3 319	3 147	3 132	3 422	3 823
	1978	3 035	3 194	3 231	3 615	:	:	:	:	:	:	:	:
Balance of trade (million EUC)	1976	- 266	- 416	- 512	- 604	- 483	- 490	- 196	- 460	- 413	- 414	- 734	- 576
	1977	- 431	- 484	- 435	- 404	- 450	15	- 69	62	- 79	- 427	174	98
	1978	- 30	- 6	- 13	143	:	:	:	:	:	:	:	:
Official foreign exchange reserve (million)	1976	847	895	1 257	1 378	1 313	1 607	2 466	2 595	1 451	1 729	2 730	2 852
	1977	2 971	2 707	2 650	2 913	3 896	5 526	6 157	6 288	5 863	6 566	7 107	6 617
	1978	6 421	6 269	5 719	6 330	:	:	:	:	:	:	:	:
Monetary base (LIT. '000 million)	1976	41 774	42 455	43 413	43 630	43 958	44 861	45 393	45 677	45 045	46 930	47 188	49 819
	1977	49 871	50 571	51 506	51 891	52 432	52 247	54 262	54 496	54 317	54 822	55 758	58 989
	1978	59 668	60 473	(62 853)	(61 528)	:	:	:	:	:	:	:	:

() Provisional figure.

Source: EUROSTAT (except as otherwise indicated).

- Industrial production, excluding construction adjusted for seasonal variations
- Unemployed series provided by the Ministero del Lavoro e della Previdenza Sociale adjusted for seasonal variations by EUROSTAT
- Construction: private and public housing starts in Italy. Source: ISTAT.
- Private consumers' expenditure: value index of the turnover of major retail outlets, adjusted for seasonal variations.
- Consumer prices: unadjusted index.
- Imports cif. exports fob, adjusted for seasonal variations.
- Balance of trade: difference between values of exports and imports, seasonally adjusted.
- Official gold and foreign exchange reserves: position at end of month.
- Monetary base: Includes, in particular, the fiduciary issue; sight deposits with the Banca d'Italia, the Treasury and the savings and loans bank; deposits with the Post Office; unused facilities for ordinary advances with the Banca d'Italia, unused liquid assets abroad, in convertible currencies, that banks can freely use.

(d) the special surtax on diesel-engined cars introduced in October 1976 is raised to LIT 18 000 per h.p. (engine rating for tax purposes);

(e) the duty on certain petroleum products is increased.

January 1978:

— By a Decree Law which entered into force on 30 January, the Government extended by two months the scheme under which the State takes over part of the burden of firms' social security contributions, originally due to come to an end on 31 January 1978.

February:

— In early February, the Deutsche Bank granted the IMI credit institution a USD 100 million eight-year loan, which will be used to finance export credit operations and to carry out investments. A further USD 100 million loan was granted to IMI by the First Boston Bank.

— On 27 February, Parliament approved the changes introduced at the end of 1977 by the Government to the special indexation arrangements for pensions. The main points are:

- (a) the repeal of certain preferential sliding scale rules;
- (b) the discontinuance, for pensions exceeding LIT 840 000 per month, of indexation to the real trend of wages.

March:

— On 16 March, following the formation of the new Christian Democrat Government Mr Andreotti announced his economic policy programme. The main points of the programme were:

- (a) annual GDP growth in real terms should rise during the year to about 4.5% at the end of 1978;

- (b) the annual average increase in prices should not exceed 13 % in 1978, this requires that wages should not rise faster than the cost of living;
- (c) expenditure would be reduced or postponed, while total tax receipts and public service charges would increase, thus reducing the deficit of total public administration in 1978 to LIT 24 000 000 million in spite of some LIT 4 000 000 million in additional investment expenditure;
- (d) pluriannual planning to ensure more balanced development of the Italian economy, achieved mainly through precise information about the trend of public expenditure and wages.

— On 30 March the Banca d'Italia decided to apply for a further four months the ceilings on bank lending due to expire at the end of March. Lira lending by individual credit institutions to all domestic customers whose borrowings exceed LIT 30 million may not grow by more than specified percentages compared with the average level in the reference period, which remains March-September 1976

— On the same date, the Government again extended, until 31 May, the scheme under which the State shoulders part of the 'burden of firms' social security contributions.

April:

— On 28 April, as part of the reorganization of the social security system, which is in heavy deficit, the Government approved a draft law proposing stricter rules for the granting of an invalidity pension. The excessive

relaxation of these rules in 1969 had led to a 340 % increase in the number of invalidity pensions between 1969 and 1977 (compared with a 54 % increase for old-age pensions).

May:

— On 5 May, the Government presented Parliament with a draft law on the definitive transfer to the State, from 1 July 1978, of the burden of certain social security contributions paid by industrial firms. The 'fiscalization' of these social security charges, applied since early 1977 and extended until 31 May 1978, will remain in force until 30 June, pending Parliament's approval of the draft law on the definite transfer. This transfer would come to 5 % (for male employees) and 12.5 % (for female employees) of the pay which serves as a basis for calculating sickness insurance contributions. The reduction of the burden should not, however, be less than LIT 24 500 per wage-earner and per month. For 1978, social security charges 'fiscalized' in this way would amount to LIT 1 750 000 million, equivalent to 1.8 % of the total wage and salary bill for 1977

— Towards the end of May, the Government approved measures to increase certain taxes and charges, and to increase expenditure to support the revival of activity. The measures will mean an increase in the deficit of the enlarged public sector (which is already excessive) of some LIT 800 000 million

Netherlands

Following the rapid upturn in the first half of 1977 domestic demand expanded more smoothly up to mid-1978. The growth in output remained modest and, after having improved in the second half of 1977, the current external account again fell into deficit in the first quarter of the current year. Unemployment resumed an upward tendency but the rate of increase in consumer prices slowed down further, partly due to special factors.

1. Overall assessment

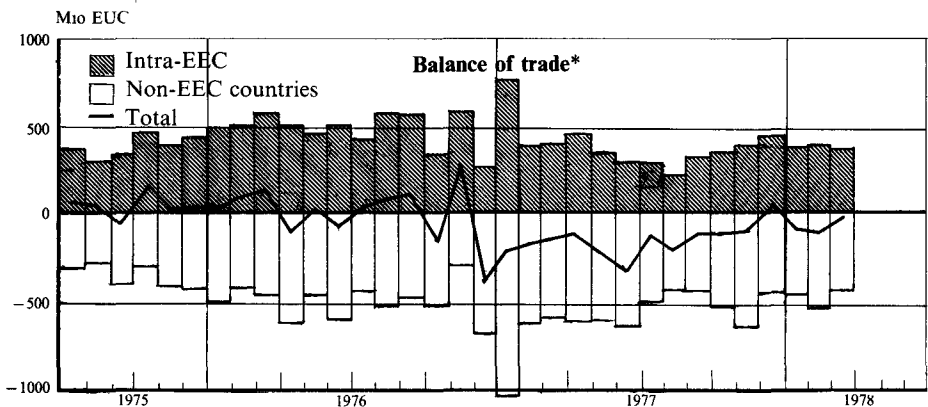
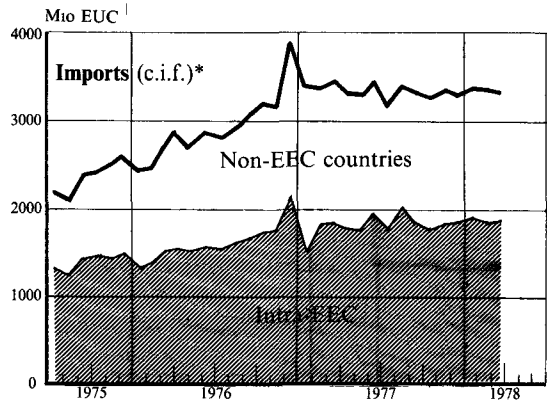
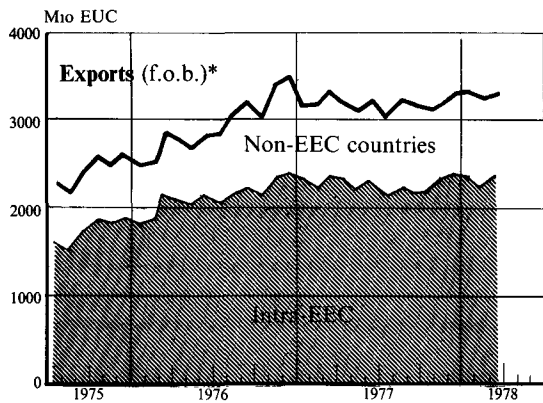
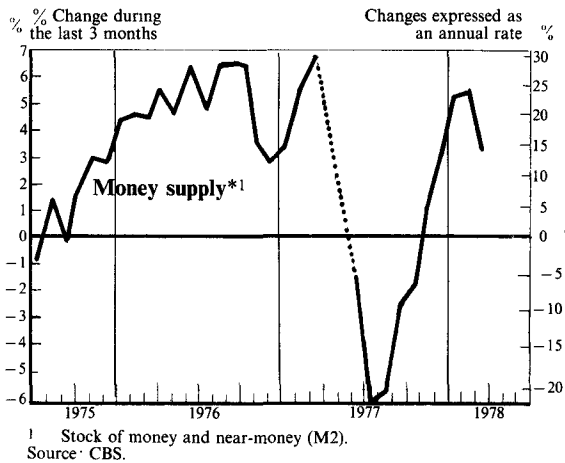
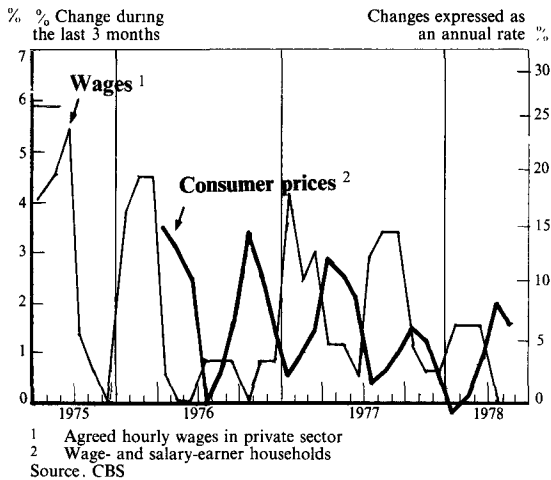
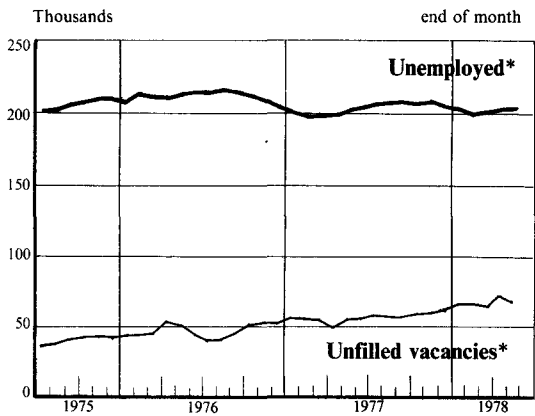
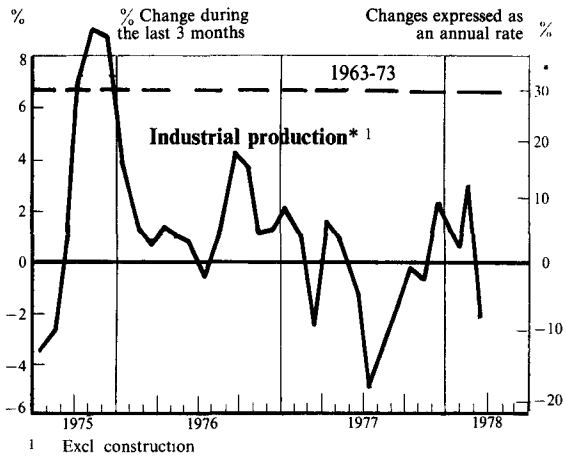
The cost performance of the Netherlands has improved over the last two years and the rate of price increases is now lower than earlier in the seventies. But part of this improvement has been obtained through an appreciation of the effective exchange rate of the guilder and has been accompanied by a marked squeeze of profit margins in export industries, a loss of market shares for traditional exports and a deterioration of employment prospects in many sectors. Thanks to energy exports and import substitution of energy products the current balance of payments has remained in surplus but the underlying position at present is not far from equilibrium. The nominal rate of unemployment—at some 4.3 % of the active population—is among the lowest in the Community but the number of persons covered by various other social security schemes for persons in the active age-groups—such as in particular the work inability pension—is much larger than earlier and actually now more than twice as high as the number of unemployed.

In order to finance the ensuing rise in social transfers—and despite the fact that the budget has been allowed to fall into heavy deficit—the tax pressure—taxes and social security contribution taken together—rose sharply in the mid-seventies. This seems to have contributed to the inflationary tendencies directly via the rise in social security contributions and indirectly via higher wage claims than might otherwise have been made.

The Dutch authorities were aware of the dangers involved in this development and have in recent years taken measures to limit the increase in the tax pressure, strengthen the competitive position of Dutch enterprises, reverse the rise in the labour income ratio (labour income

as a per cent of national income) and—more generally—improve the control over fiscal and monetary aggregates. Such measures as have been taken have nevertheless been timed with due attention to the need for a sustained stimulus to private demand in a period with a low rate of capacity utilization. In 1978 and 1979 short-run demand stimuli will thus be greatly stepped up mainly through the implementation of the new investment support scheme (in force as from 23 May) replacing various special fiscal allowances introduced in recent years. Although, at the time of writing, measures were being prepared aimed at dampening the growth of current expenditure of general government, budgetary policy may on the whole be expected to exert a strong expansionary impact on activity over the next six to twelve months.

Within this general framework of policy objectives and constraints the task of the monetary authorities has been that of designing a policy mix capable of stimulating capital exports in order to avoid a too strong appreciation of the guilder and/or a high rate of increase in domestic liquidity and to ensure appropriate financing of the net borrowing requirement of the public sector without losing control of the monetary aggregates. In May 1977 the Nederlandsche Bank in addition to its traditional instruments has used restrictions upon the growth of bank credits as an additional instrument to control the development of liquidity. According to an agreement between the Nederlandsche Bank and the commercial banks short-term bank credits to the private sector as well as long-term credits not covered by long-term resources should only increase by 8 % in the period from the second quarter of 1978 through the first quarter of 1979. This development would be consistent with maintenance of the liquidity ratio (M2 in proportion to national income) to the level reached at the end of 1977.



* Seasonally adjusted figures.
Source: EUROSTAT, except where otherwise indicated.

TABLE 1

Key indicators

Netherlands	Unit	1971-1975 average ^{4 5}	1976 ⁵	1977 ⁶	1978 ⁶
Gross domestic product, volume	% change	+ 3.4	+ 4.6	+ 2.4	+ 2.0
of which: industry ¹		+ 3.6	+ 6.8	+ 0.1	+ 1.2
Gross domestic product in volume per person in employment	% change	+ 3.6	+ 4.9	+ 2.4	+ 2.1
Total employment (number of persons) ²	% change	- 0.2	- 0.3	+ 0.1	- 0.1
— Self-employed and other		- 1.7	- 2.1	- 2.5	- 1.5
— Wage and salary earners in company sector		- 0.2	- 0.5	+ 0.3	- 0.2
— General government		+ 2.1	+ 2.9	+ 1.6	+ 1.4
Unemployment	as % of labour force	2.5	4.3	4.2	4.3
Compensation of employees per wage and salary earner	% change	+ 14.1	+ 10.8	+ 8.2	+ 6.8
Price index of private consumption ³	% change	+ 9.1	+ 9.2	+ 6.7	+ 4.7
Current account balance ³	Mrd HFL	+ 4.0	+ 7.5	+ 1.0	+ 2.2

¹ Excluding construction.² Domestic concept.³ National accounts concept.⁴ Geometric mean of the change from 1970 to 1975; unemployment and current account balance: arithmetic mean over the five years.⁵ Source: Nationale Rekeningen 1976, CBS.⁶ Estimates of Commission's departments as at end-June 1978, and on the basis of policies prevailing at that time.

TABLE 2

Demand for and supply of goods and services

Netherlands	1975 ²	1976 ²			1977 ³			1978 ³		
	At current prices Mrd HFL	% change on preceding year								
		Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Private consumption	120.80	+ 2.7	+ 9.2	+ 12.1	+ 4.1	+ 6.7	+ 11.1	+ 3.2	+ 4.7	+ 8.1
Public consumption	38.37	+ 4.3	+ 8.5	+ 13.1	+ 2.4	+ 7.4	+ 10.1	+ 0.7	+ 6.7	+ 7.4
Gross fixed asset formation	43.96	- 1.9	+ 8.2	+ 6.2	+ 11.3	+ 6.9	+ 18.9	+ 2.0	+ 5.0	+ 7.1
— Construction	25.24	0.0	+ 9.1	+ 9.1	+ 8.2	+ 9.7	+ 18.7	+ 1.7	+ 6.5	+ 8.3
— Equipment	18.72	- 4.5	+ 7.0	+ 2.2	+ 15.8	+ 3.0	+ 19.2	+ 2.4	+ 2.9	+ 5.3
Domestic final uses (excluding change in stocks)	203.13	+ 2.0	+ 8.8	+ 11.0	+ 5.3	+ 6.9	+ 12.5	+ 2.5	+ 5.1	+ 7.7
Domestic final uses (including change in stocks)	201.63	+ 4.4	+ 8.7	+ 13.5	+ 5.4	+ 6.8	+ 12.6	+ 2.3	+ 5.0	+ 7.4
Exports ¹	109.47	+ 10.4	+ 6.3	+ 17.4	- 2.2	+ 3.1	+ 0.8	+ 2.8	+ 1.2	+ 4.0
Imports ¹	102.17	+ 11.0	+ 6.5	+ 18.1	+ 2.5	+ 3.5	+ 6.0	+ 3.3	- 1.2	+ 2.1
Gross domestic product at market prices	208.93	+ 4.4	+ 8.6	+ 13.3	+ 2.7	+ 6.6	+ 9.5	+ 2.0	+ 6.2	+ 8.4
		Contribution to % change in gross domestic product								
Domestic final uses (excluding change in stocks)	203.13	+ 1.9	—	+ 10.7	+ 5.0	—	+ 11.9	+ 2.4	—	+ 7.6
Change in stocks	- 1.50	+ 2.3	—	+ 2.3	+ 0.2	—	+ 0.2	- 0.2	—	- 0.2
Balance of exports and imports ¹	+ 7.30	+ 0.1	—	+ 0.3	- 2.5	—	- 2.7	- 0.3	—	+ 0.9

¹ Goods and services² Source: Nationale Rekeningen 1976, CBS.³ Estimates of Commission's departments as at end-June 1978, and on the basis of policies prevailing at that time.

2. Recent developments

Trends in demand and output have been somewhat divergent over the last twelve months with the first half of 1978 marked by some acceleration of the output of the service industries and stagnation of production in manufacturing industries.

Among the components of domestic demand, the growth of private consumption has accelerated: given a further marked deceleration of consumer prices and a continued increase of hourly earnings and social security benefits, real disposable income of households is likely to have increased rather fast so far in 1978. **Gross fixed asset formation**, on the other hand, may have lost some momentum after the marked increase in 1977. Dwelling construction may have stagnated in response to a sharp decline in housing starts and investment in the enterprise sector may have increased only slightly. Public investment on the contrary was probably more buoyant following a sharp decline in 1976 and 1977. The rate of **stockbuilding** may also have been somewhat higher than in the second half of 1977.

With slow growth of exports and an accelerated expansion of **imports** the external balance deteriorated in volume terms. Despite an improvement in the terms of trade partly, in response to the effective appreciation of the guilder the nominal trade deficit widened substantially as compared with the fourth quarter of 1977.

Reflecting these trends in domestic and foreign demand the growth of **output** accelerated somewhat in the first half of 1978 with a relatively fast expansion in the service industries, despite the stagnation of industrial pro-

duction, which in the first four months of the year (seasonally adjusted) actually was down some 1 % over a year earlier.

Reacting with delay to the slowdown of growth of industrial production, **unemployment** (seasonally adjusted) which had been falling from September 1977 to February 1978 rose again to 202 000 (4.2 % of the active population) at the end of May. The number of vacancies outstanding, nevertheless, tended upwards—albeit with some fluctuations—in the most recent months.

The marked slowdown of inflation is a most positive feature of recent developments. To some extent this is due to the impact of the effective appreciation of the guilder, the short-term fluctuations in world market prices and in domestic prices for fresh foodstuffs, but the rate of increase in domestic unit labour costs has also come far down from the two-digit figures of 1974 and 1975. The **consumer price index** for wage and salary earners in June 1978 was some 3.5 % higher than a year earlier. However, the underlying tendency may have been marginally higher as the annual increase of rents (with an estimated impact on the index of some 0.8 %) was postponed from April to July this year.

The expansion of **liquidity** has been rather well in line with policy objectives: foreign exchange reserves have remained stable and monetary financing of the budget deficit has been kept to a comparatively low level. Long-term interest rates after a temporary increase in late 1977 in response to the increase in the discount rate in November as from January 1978 resumed the declining trend and in April stood about 1 percentage point lower than a year earlier.

TABLE 3
The central government budget

Netherlands	1977			1978	
	Original budget		Provisional outturn	Original budget ³	
	Mrd HFL	% change ²	Mrd HFL	Mrd HFL	% change ²
Expenditure ¹	84.8	+ 10.8	81.5	93.8	+ 10.6
of which:					
— current expenditure	72.3	+ 13.8	69.6	81.1	+ 12.2
— capital expenditure	12.5	— 3.7	11.8	12.6	+ 0.1
Revenue	72.0	+ 14.6	75.8	83.7	+ 16.3
of which:					
— direct taxes	34.1	+ 14.8	35.7	38.6	+ 13.2
— indirect taxes	24.2	+ 16.9	25.0	27.1	+ 12.0
Net borrowing requirement	— 12.8	—	— 5.6	— 10.0	—

¹ Disregarding debt extinction
² On the preceding year's original budget
³ Excluding the programme of 13 2 1978: 2 250 mio HFL (Arbeidsvoorwaardenbeleid 1978).
Note: The figures in this table are based on the national budgets and are recalculated on the basis of Community definitions.

Major economic policy measures

December 1977:

— The scheme under which Dutch firms may obtain junior-ranking loans, with full State guarantee, was extended until 31 December 1978. In future, greater emphasis would be placed on lending to firms making a substantial contribution to exports.

— Credit restriction: the growth in short-term lending to the private sector and in long-term loans not financed directly through the capital market must not exceed 2.5% in the first quarter of 1978.

— Publication of the 1978 Price Regulation for goods and services, under which industrial firms will be able to pass on in domestic selling prices the following increases in costs since the reference date (12 December 1977): (a) increases in raw materials, auxiliary materials, semi-finished products, freight rates and indirect taxation; (b) any other increases in external costs

(excluding interest payments) where the resulting price increase does not exceed 0.5%; (c) a 2% increase in the wage and salary bill. In the services sector, increase in the costs of components, materials and auxiliary materials, freight charges and indirect taxation may be passed on in full while there is an overall ceiling of 2.5% for all other cost increases.

— Publication of the 1978 Regulation on the notification of changes in the prices of goods and services, under which larger firms are still required to give at least one month's notice of intended price increases.

January 1978:

— A draft law was tabled on 18 January under which the increase in rents for 1978 was to be postponed from 1 April to 1 July.

February:

— In a letter sent to the Second Chamber on 13 February concerning the policy on wages and other conditions of employment in 1978, the Government gave further details of the policy programme announced in

TABLE 4

Main economic indicators

Netherlands	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production* (1970 = 100)	1976	124	124	124	126	125	126	124	127	131	128	127	131
	1977	129	126	127	132	127	126	124	124	126	126	125	130
	1978	126	127	125	128								
Unemployed* (1 000)	1976	207.5	212.7	210.9	210.7	212.0	213.7	213.6	215.8	213.1	209.8	206.7	203.9
	1977	201.3	197.2	198.6	199.8	202.5	204.3	205.4	206.9	207.1	206.2	207.7	208.0
	1978	202.7	198.7	200.5	201.9	202.2							
Permits for residential construction* (1 000)	1976	9.8	10.1	8.3	10.0	9.4	10.1	8.9	12.6	10.3	10.5	8.7	12.3
	1977	9.7	10.7	7.6	12.4	10.8	5.3	8.8	8.4	7.7	8.7	11.1	8.1
	1978	8.7	11.3	7.6	7.6								
Retail turnover* (1970 = 100)	1976	182.4	179.9	178.0	190.9	184.7	190.3	192.2	187.7	206.1	191.8	192.6	206.6
	1977	195.2	197.7	208.1	207.4	203.4	214.3	207.8	212.7	214.3	206.6	215.0	219.9
	1978	209.1	208.5										
Consumer prices (1969 = 100)	1976	104.5	105.4	106.1	108.3	108.7	108.7	108.3	109.3	110.5	111.9	112.1	112.1
	1977	112.3	113.1	113.6	115.6	115.9	116.0	116.0	116.5	117.2	117.7	117.9	117.9
	1978	117.5	118.0	119.0	119.8	120.0							
Visible imports* (million HFL)	1976	7 500	7 847	8 168	8 699	8 033	8 702	8 379	9 133	8 643	9 141	8 828	10 378
	1977	9 386	9 433	9 427	9 311	9 044	9 911	8 627	9 552	9 289	9 063	9 518	9 410
	1978	9 356	9 123	9 104									
Visible exports* (million HFL)	1976	7 689	8 047	8 897	8 633	8 072	8 672	8 743	8 622	9 108	8 975	10 029	9 659
	1977	8 694	8 773	9 379	9 112	8 338	9 029	8 266	8 843	8 949	8 879	9 583	9 532
	1978	9 119	8 790	9 101									
Balance of trade (million HFL)	1976	+ 189	+ 200	+ 729	- 66	+ 39	- 30	+ 364	- 511	+ 465	- 166	+ 1 201	- 719
	1977	- 692	- 660	- 38	- 199	- 706	- 882	- 361	- 709	- 340	- 184	+ 65	+ 122
	1978	- 237	- 333	- 3									
Official gold and foreign exchange reserves (million HFL)	1976	19 825	21 366	20 522	19 981	19 599	17 586	17 465	17 691	17 832	18 506	19 484	19 607
	1977	19 180	18 886	19 151	18 966	20 769	20 428	20 508	20 877	20 981	20 746	20 692	20 016
	1978	19 422	19 094	19 413	(19 400)	(19 600)							
Money supply* (million HFL)	1976	75 746	77 005	77 290	80 026	80 634	82 124	83 841	85 994	87 633	89 179	89 110	90 074
	1977	92 100	94 169	96 187	98 901	96 780	94 830	93 050	91 273	92 459	91 352	92 381	95 363
	1978	96 177	97 344	98 445									

: Not available

* Seasonally adjusted.

Source: EUROSTAT (except as otherwise indicated).

— Industrial production: excluding construction. Source: CBS

— Unemployed: end-of-month figures. Source: CBS.

— Number of dwellings authorized.

— Value index of retail turnover.

— Consumer prices: wage-and salary-earner households Source: CBS

— Imports cif, exports fob. value. Source: CBS.

— Balance of trade: difference between figures for imports and exports

— Official gold and foreign exchange reserves: gross reserves of gold and foreign exchange in the Nederlandsche Bank at end of month. Source: CBS.

— Money supply: Stock of money and near money at end of month. Since April 1977, new series. Source: CBS.

the autumn. In particular, it stated that, subject to certain conditions, financial support would be forthcoming to facilitate the conclusion of employment contracts between employers and workers.

March:

— An experimental scheme on the employment of the long-term unemployed in industry and commerce was adopted on 2 March. Provided certain conditions are met, subsidies will be available for one year to firms that are located in a restricted area and take on workers who had been on the unemployment register for a continuous period of one

year. The subsidy is equivalent to 100 % of wage costs in the first half-year and 50 % in the second half-year.

— Credit restriction: the growth in short-term lending to the private sector and in long-term loans not financed directly through the capital market from savings deposits or other long-term funds must not exceed 8 % between the second quarter of 1978 and the first quarter of 1979.

April:

— The Nederlandsche Bank lowered its discount rate from 4½ % to 4 % with effect from 17 April

Belgo-Luxembourg Economic Union

Belgium

Economic activity picked up somewhat in early 1978, stimulated by a strengthening of exports and more dynamic private consumption. The rate of increase of consumer prices, continued to slacken, whereas the employment situation showed no tendency to improve.

1. Overall assessment

Although the Belgian economy has been hard hit by the recession and the consequent structural changes that have accompanied it, nevertheless it has been able to keep up with general Community trends over the past few years thanks to the dynamism of its advanced technology industries and the continued expansion of the services sector. Unemployment, however, has grown at an alarming rate, particularly among women, and the

consequent increase in welfare transfer payments has been a heavy burden on the central government's budget. The average surplus on the balance of payments on current account from 1970 to 1973 was equal to about 2.5 % of GDP; it has since deteriorated perceptibly and the present position is one of approximate equilibrium, if not slight deficit. After a difficult period the relative performance of prices and costs recently improved, probably as a result of the determination with which the par value of the Franc was defended.

TABLE 1

Key indicators

Belgium	Unit	1971-1975 average ^{4 5}	1976 ⁵	1977 ⁶	1978 ⁶
Gross domestic product, volume	% change	3.7	5.4	2.0	2.6
of which: industry ¹		4.3	7.9	1.0	2.4
Gross domestic product in volume per person in employment	% change	3.3	6.1	2.5	2.2
Total employment (number of persons) ²	% change	0.4	— 0.6	— 0.5	0.4
— Self-employed and other		— 1.8	— 1.2	— 1.5	— 1.4
— Wage and salary earners in company sector		0.7	— 1.2	— 1.0	— 0.8
— General government		2.2	2.5	2.7	6.9 ⁷
Unemployment (registered wholly unemployed)	as % of labour force	3.2	6.7	7.5	8.2
Compensation of employees per wage and salary earner	% change	14.7	15.2	10.8	7.7
Price index of private consumption ³	% change	8.0	7.7	6.6	5.0
Current account balance ³	Mrd BFR	34.0	— 6.2	— 0.6	1.0

¹ Excluding construction.

² Domestic concept

³ National accounts concept

⁴ Geometric mean of the change from 1970 to 1975 unemployment and current account balance. arithmetic mean over the five years.

⁵ Source Institut national de Statistique, National accounts.

⁶ Estimates of Commission's departments as at end-June 1978, and on the basis of policies prevailing at that time.

⁷ Including persons on training, working under employment programmes with the public administrations or special temporary employment (Plan Spitaels)

External and internal constraints, combined with the automatic nature of certain categories of current expenditure, have restricted the margin of manoeuvre for a discretionary tax and budgetary policy. The authorities made no attempt to boost demand further (since powerful built-in tax stabilizers made this unnecessary), but endeavoured several times to increase the efficiency of public expenditure and in particular to encourage public and private investment and to reduce recorded unemployment. A set of specific measures was implemented to increase the number of unemployed workers participating in the public authorities' special employment schemes, to provide training courses for young people, and to encourage early retirement for older unemployed workers. A certain number of measures were proposed in June with the aim of stabilizing public sector current expenditure and strengthening economic structures. At the time of writing the nature and scope of these measures had not been finally decided.

Monetary policy in Belgium is geared essentially to exchange rate objectives, and gives no direct control over domestic demand. However, because of the determined way in which par values were defended, monetary policy has contributed to lowering the rate of inflation, which in turn should eventually lead to a drop in long-term interest rates, thus encouraging the revival of investment. The long-term interest rate, after dropping slightly in 1977 and 1978, was still 8.25% in May, considerably higher than during the boom years of 1972 and 1973, when inflationary pressures were strong. The liquidity rate (M2 as a percentage of GDP) continued to rise in 1978, and savers seemed to prefer deposits for terms of between a month and a year. Primary liquidity probably increased less rapidly than in 1977.

TABLE 2
Demand for and supply of goods and services

Belgium	1975 ²	1976 ²			1977 ³			1978 ³		
	At current prices Mrd BFR	% change on preceding year								
		Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Private consumption	1 416.8	6.1	7.7	14.3	2.0	6.6	8.8	2.5	5.0	7.6
Public consumption	387.2	4.6	8.7	13.6	4.1	7.5	11.8	5.4	6.4	12.1
Gross fixed asset formation	511.9	0.8	8.7	9.6	0.4	6.8	7.2	1.6	6.1	7.7
— Construction	337.6	5.9	9.8	16.4	— 0.4	8.6	8.2	1.2	6.7	8.0
— Equipment	174.3	— 6.7	3.5	— 3.4	2.0	2.9	5.0	2.5	4.6	7.2
Domestic final uses (excluding change in stocks)	2 315.9	4.8	7.9	13.1	2.0	6.8	9.0	2.8	5.5	8.4
Domestic final uses (including change in stocks)	2 301.1	6.1	7.8	14.3	1.9	6.8	8.8	2.9	5.5	8.5
Exports ¹	1 065.2	11.4	5.9	17.9	2.4	3.8	6.3	3.8	2.5	6.4
Imports ¹	1 061.1	13.0	7.1	20.9	2.1	3.3	5.5	4.4	1.6	6.1
Gross domestic product at market prices	2 305.1	5.3	7.2	12.9	2.0	7.1	9.2	2.6	5.9	8.6
		Contribution to % change in gross domestic product								
Domestic final uses (excluding change in stocks)	2 315.9	4.7	—	13.2	2.0	—	9.0	2.8	—	8.5
Change in stocks	— 14.9	1.3	—	1.1	— 0.1	—	— 0.1	0.1	—	0.1
Balance of exports and imports ¹	4.1	— 0.7	—	— 1.4	0.1	—	+ 0.3	— 0.3	—	0.1

¹ Goods and services

² Source: INS, National Accounts.

³ Estimates of Commission's departments as at end-June 1978, and on the basis of policies prevailing at that time.

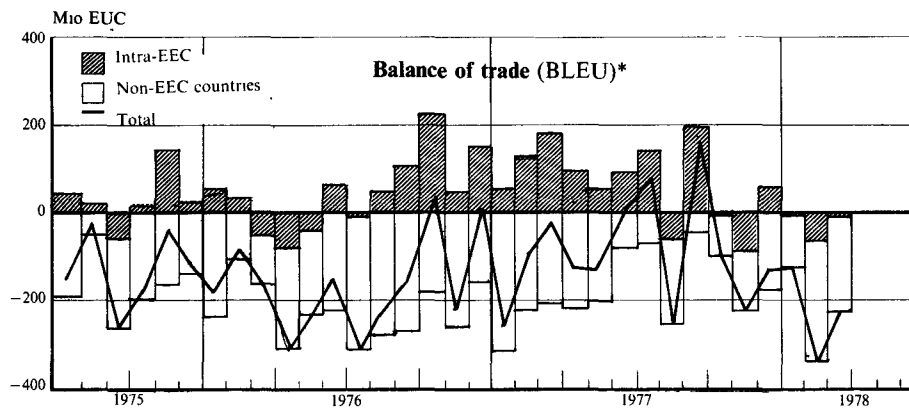
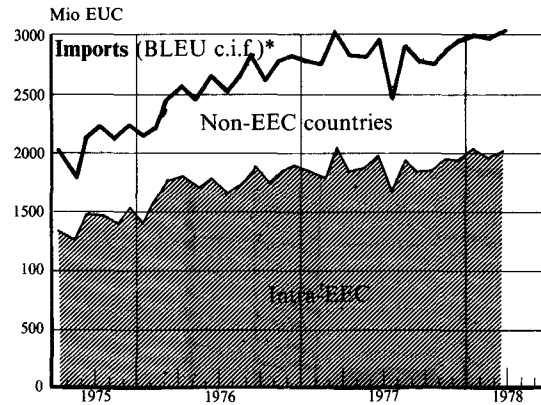
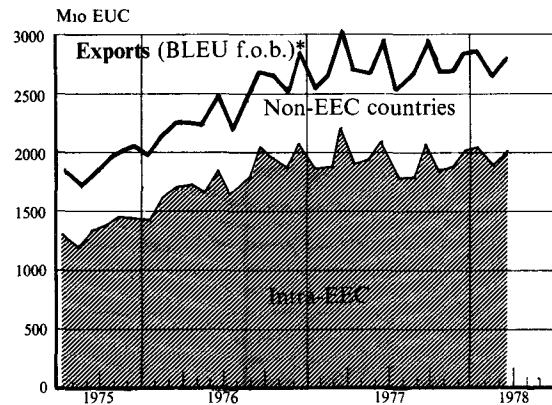
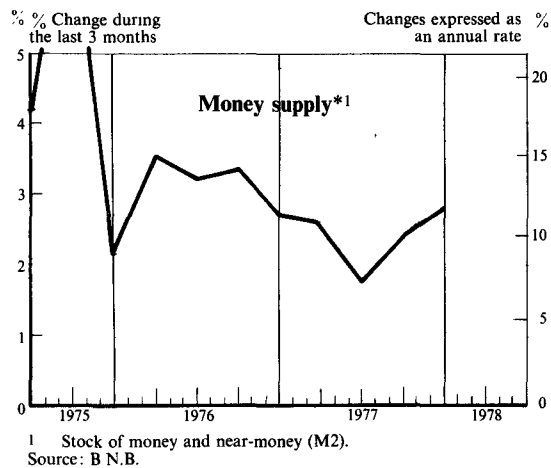
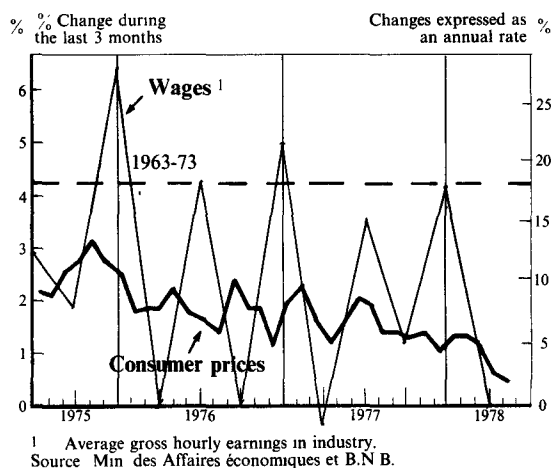
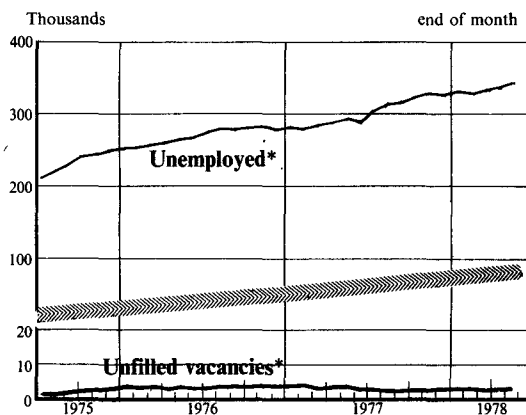
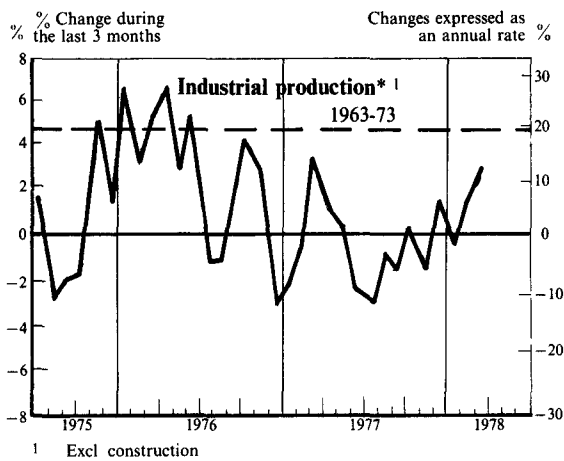
2. Recent developments

After the stagnation of the second six months of 1977, activity showed some signs of improvement in early 1978. Although this certainly did not constitute a vigorous economic upturn.

Thus **exports** in the fourth quarter of 1977 decreased in terms of value (seasonally adjusted BLEU customs

statistics), but rose again in the first quarter of 1978; some components of **domestic demand** also picked up.

Consumption expenditure by households again increased, particularly on private cars, perhaps an effect of the temporary drop in the rate of saving. **Fixed investment** by the company sector probably increased too, no doubt as a result of temporary stimulatory measures. Public investment remained firm, but residential building slowed down



* Seasonally adjusted figures.
Source: EUROSTAT, except where otherwise indicated.

on the whole in spite of an expansion in public-sector housing. Construction for the purposes of renting has become less attractive, and this was probably a factor contributing to the slowdown, although the high cost of building and of building loans was, without doubt, also important.

On the whole economic growth probably speeded up a little: industrial **production** (seasonally adjusted) in the first quarter was 1.2% up on the fourth quarter of 1977.

In spite of the effects of the measures to combat unemployment the **labour market** situation hardly improved. The seasonally adjusted figures for registered unemployed continued to rise during the first five months of the year. At the end of April there were 311 600 registered unemployed, 23 600 trainees, 39 400 workers in early retirement, and 900 workers participating in special employment schemes. Short-time working was still widespread. The unemployment rate (registered unemployed as a proportion of the labour force) was 8.1% at the end of April.

The downward movement of the **wholesale price index** that began in March 1977 came to an end in February 1978 when the index began to rise again; none the less in April it was 3.7% below the level of twelve months previously. In spite of increased VAT rates on some products and on rents, the rise in **consumer prices** continued to slacken during the first five months of 1978 as it had in 1977, a result not only of the fairly low rate of increase in the prices of imports but also of stiffer competition due to slack demand. In May the rate of inflation over the twelve-month period was down to 4.4% compared with 7.3% in May 1977.

During the first quarter of 1978 the large deficit on transactions in goods meant a deficit on **current account** for the BLEU of BFR 3 200 million, compared with a surplus of BFR 500 million for the same period in 1977. The bonus on capital movements contracted, and the overall balance of payments showed a surplus of BFR 8 300 million compared with BFR 12 500 million in the first quarter of 1977.

27 600 unemployed people at work in public sector schemes and a further 900 workers participating in special temporary public administration schemes.

TABLE 3

The central government budget

Belgium	1977			1978	
	Original budget		Provisional outturn	Original budget	
	Mrd BFR	% change 2	Mrd BFR	Mrd BFR	% change 2
Expenditure ¹	993.4	+ 16.7	1 036.6	1 140.2	+ 14.8
of which:					
— current expenditure	852.0	+ 16.3	894.1	980.2	+ 15.0
— capital expenditure	141.4	+ 19.5	142.5	160.7	+ 13.6
Revenue	863.2	+ 18.0	830.3	967.9	+ 12.1
of which:					
— direct taxes	504.5	+ 21.4	458.7	539.6	+ 7.0
— indirect taxes	326.2	+ 16.2	332.4	392.3	+ 20.3
Net borrowing requirement	— 130.2	—	— 206.3	172.3	—

¹ Disregarding debt extinction

² On the preceding year's original budget.

Note The figures in this table are based on the national budgets and are recalculated on the basis of Community definitions

Major economic policy measures

December 1977:

- The Banque Nationale decided to put up the official discount rate and the rate on advances from 6% to 7% with effect from 2 December
- The Banque Nationale raised the official discount rate and the rate on advances from 7% to 9% with effect from 14 December; the rate charged on special advances outside the quota went up from 7.25% to 9.25%.
- The law concerning the budget proposals for 1977/78 was published, as were various implementing royal decrees relating, among other things, to the programme to combat unemployment, replacement of the 14% and 18% VAT rates by a single 16% rate, replacement of the VAT charged on the sale of secondhand motor vehicles by a 25% registration tax and extension of the rules providing for the levying of a 4.8% 'solidarity' contribution on exceptional profits (31 December).

- A royal decree was published that extended exemption from personal income tax, corporation tax and the tax on non-residents to capital gains realized by industrial firms between 1 March 1977 and 31 December 1978; an amount equal to the realization price must be reinvested within three years (30 December).
- A royal decree was published concerning the granting of loans to firms in the textile industry, with the cost of interest borne by the central government. The facility is available for loans that do not exceed BFR 20 000 per person employed (the total cost is put at around BFR 700 million) (24 December).
- A law was published governing, for 1978, leases and other agreements on the use immovable property and authorizing a 5% rent increase.
- A number of royal decrees were published extending from 1 January to 31 December 1978 the schemes providing among other things for tax reliefs designed to encourage private investment: exemption from corporation tax for profits — up to 5% of capital — distributed to

TABLE 4
Main economic indicators

Belgium	Year	Jan.	Feb.	Mar	Apr	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec
Industrial production* (1970 = 100)	1976	111.6	114.7	111.4	119.2	117.7	117.4	117.8	116.4	119.2	122.9	119.7	115.5
	1977	120.2	119.2	119.2	121.2	119.2	116.4	117.5	118.6	114.2	116.5	117.0	117.2
	1978	116.1	118.3	119.5	120.8								
Unemployed* (1 000)	1976	251.6	252.1	254.5	257.7	263.0	264.8	276.2	279.4	277.9	281.8	284.6	278.8
	1977	283.5	281.6	286.0	289.3	295.9	293.5	306.8	311.4	315.0	321.7	325.9	321.7
	1978	327.4	325.8	328.2	331.1	337.3							
Construction	1976	7 909	8 201	8 116	7 159	7 895	8 169	6 598	8 426	7 985	8 205	7 523	9 636
Permits for residential construction*	1977	5 923	5 882	6 657	7 392	5 928	7 226	6 731	6 629	5 703	6 023	6 988	6 036
	1978	6 941	7 040										
Private consumption: Retail turnover* (1970 = 100)	1976	133.6	132.3	131.1	136.8	129.0	132.4	135.3	132.7	135.2	131.2	132.7	136.1
	1977	137.3	136.9	137.6	141.0	132.6	135.2	130.9	135.8	138.5	133.5	136.9	138.5
	1978	141.1	144.8										
Consumer prices (1970 = 100)	1976	158.0	158.5	159.5	161.0	162.2	162.4	163.7	164.4	166.5	166.9	167.5	168.4
	1977	170.1	171.4	171.3	172.2	173.9	175.0	175.5	176.1	177.3	177.7	178.4	179.1
	1978	180.0	180.7	181.1	181.3	181.5							
Visible imports* (BFR '000 million)	1976	104.76	102.62	109.93	119.96	112.75	117.73	110.73	117.24	122.30	111.63	118.91	118.81
	1977	116.94	118.63	128.98	124.82	120.22	126.86	103.21	125.48	122.48	117.07	120.52	118.22
	1978	123.26	122.73	122.13									
Visible exports* (BFR '000 million)	1976	90.03	100.76	102.52	104.71	102.17	109.48	97.05	113.80	117.88	110.11	103.16	114.70
	1977	100.24	112.37	120.78	112.74	109.63	119.44	101.51	117.88	123.40	106.34	107.54	113.63
	1978	112.65	113.78	112.55									
Balance of trade (BFR '000 million)	1976	- 14.73	- 1.86	- 7.41	- 15.25	- 10.58	- 8.25	- 13.68	- 3.44	- 4.43	- 1.51	- 15.75	- 4.11
	1977	- 16.70	- 6.26	- 8.20	- 12.08	- 10.60	- 7.42	- 1.70	- 7.60	+ 0.92	- 10.72	- 12.98	- 4.59
	1978	- 10.61	- 8.95	- 9.57									
Official gold and foreign exchange reserves (BFR '000 million)	1976	223.0	218.4	216.0	208.2	207.8	207.2	200.5	199.4	185.7	185.5	192.3	205.1
	1977	209.1	212.7	215.9	218.5	222.1	223.1	225.8	226.2	226.6	226.9	224.8	221.5
	1978	223.1	225.0	226.5	(226.7)	(227.0)							
Money supply* (BFR '000 million)	1975	.	.	1456.1	.	.	1517.5	.	.	1685.0	.	.	1648.8
	1976	.	.	1706.6	.	.	1761.2	.	.	1818.9	.	.	1868.6
	1977	.	.	1917.9	.	.	1951.7	.	.	1998.4	.	.	2053.9

Not available.

* Seasonally adjusted

Source: EUROSTAT (except as otherwise indicated)

— Industrial production, excluding construction.

— Unemployed: end-of-month figures.

— Construction: number of residential buildings authorized.

— Private consumption: volume index of retail turnover.

— Consumer prices: all households.

— BLEU: Imports cif, exports fob: value. Source: INS.

— BLEU: Balance of trade: difference between figures for imports and exports

— Official gold and foreign exchange reserves: gross reserves of gold and foreign exchange held by the monetary authorities; position at end of month. Source: BNB.

— Money supply: Stock of money and near-money at end of quarter. Source: BNB

remunerate new capital subscribed and paid up during 1978: extension to additional investment undertaken before 30 June of the arrangement under which firms are free to choose the depreciation method to be applied and of the arrangement permitting 110% depreciation of the investment value.

January 1978:

— The Banque Nationale reduced the official discount rate and the rate on advances from 9% to 8.50% with effect from 5 January

— The Banque Nationale reduced the official discount rate on advances from 8.50% to 7.50% with effect from 19 January.

— The Government decided to increase the number of unemployed to be given work in 1978 by the public authorities from 25 000 to 35 000

— The law exempting employers from paying social security contri-

butions for two consecutive quarters in respect of workers taken on during the year, provided such workers represent a net increase in the workforce as compared with the second quarter of 1977, was extended from 1 January to 31 December 1978

February:

With effect from 2 February the Banque Nationale lowered its base rate by 1 point; this brought the official discount rate and the rate on advances down from 7.5% to 6.5%.

March:

The Banque Nationale reduced, in two stages, the official discount rate and the rate on advances: the cuts, each of 0.50 points, took effect on 16 and 30 March, bringing the rates down from 6.50% to 5.50%, their lowest

level since 5 July 1973. The financial intermediaries rediscount ceilings with the Banque Nationale were raised on 1 March from BFR 77 400 million to BFR 80 500 million.

April.

— The Government announced a number of measures designed to scale down the budget deficit: no tax increases in 1978 but a 2% across-the-board reduction in budget appropriations, cuts of 5% in current expenditure, of 10% in the amounts earmarked for the purchase of durable goods and of 20% in foreign travel allowances; situation unchanged from 1977 as regards optional subsidies; any additional appropriations must be offset by equivalent cuts elsewhere (13 April)

May:

The Government and the public servants' representatives concluded a new collective agreement for 1978 and 1979. The agreement includes a reduction in the working week to thirty-eight hours with effect from 1 October 1979, an increase in the end-of-year bonus, which will be raised by BFR 1 000, to BFR 7 000, in 1978 and by a similar amount, to BFR 8 000, in 1979, plus 2.5% of annual gross salary; an increase of BFR 2 000 in the holiday allowance in 1978 (by 1979, this allowance is to reach an indexed BFR 20 000, plus 1% gross annual salary; an increase in salaries below the legal minimum and possibility of retiring as of the age of sixty, after twenty years' employment. The direct cost of these measures in 1978 is put at BFR 3 300 million (5 May).

Luxembourg

During the first half of 1978, Luxembourg's economy experienced some strengthening of foreign demand, while domestic demand lost momentum. The rate of consumer price increases continued to decline, and the external balance improved.

1. Overall assessment

The Luxembourg economy, seriously affected by the direct and indirect consequences of the steel crisis, has recently demonstrated its resistance and adaptability. The continuing dynamism of the tertiary sector and of certain industrial branches has meant an increase in real gross domestic product (GDP)—although the rate of growth

has been so modest that the level of GDP is still below that reached in 1974. Unemployment has increased relatively little over the country as a whole, a consequence both of the reversal of migratory flows and of an active policy to protect employment, worked out in consultation with both sides of industry, and involving special work schemes and short-time working.

TABLE 1

Key indicators

Luxembourg	Unit	1971-1975 average ⁴ 5	1976 ⁵ 6	1977 ⁶	1978 ⁶
Gross domestic product, volume	% change	1.8	2.8	1.1	1.8
of which: industry ¹	:	:	6	0.8	2.3
Gross domestic product in volume per person in employment	% change	- 0.3	4.4	1.9	2.6
Total employment (number of persons) ²	% change	2.1	- 1.5	- 0.8	- 0.8
— Self-employed and other	% change	- 3.3	- 1.8	- 1.8	- 0.9
— Wage and salary earners in company sector		3.1	- 1.7	- 1	- 1
— General government		2.2	0.7	2.1	0.7
Unemployment	as % of labour force	—	0.3	0.5	1.2
Compensation of employees per wage and salary earner	% change	13.3	10.2	9	6.8
Price index of private consumption ⁴	% change	7.2	9.8	6.7	3.5
Current account balance ³	Mio LFR	:	:	:	:

¹ Excluding construction

² Domestic concept.

³ National accounts concept.

⁴ Geometric mean of the change from 1970 to 1975; unemployment and current account balance: arithmetic mean over the five years.

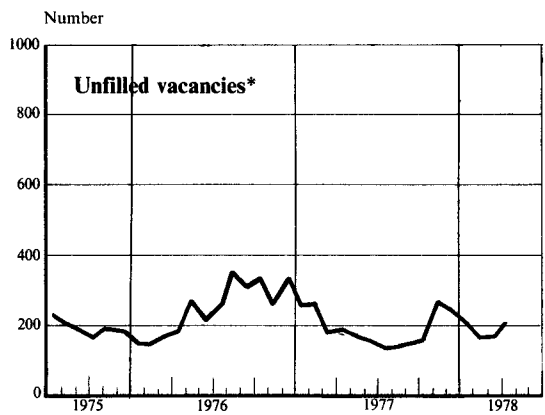
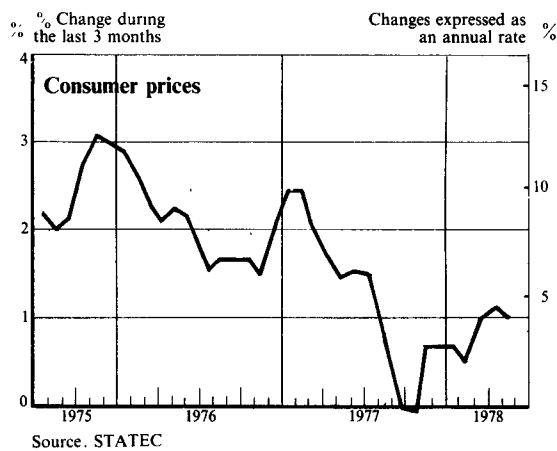
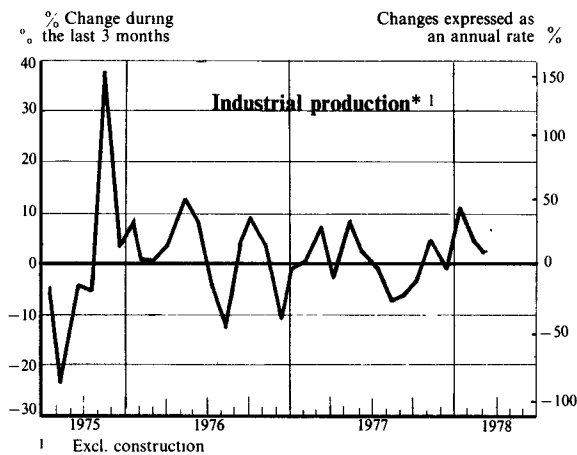
⁵ Source: STATEC.

⁶ Estimates of Commission's departments as at end-June 1978, and on the basis of policies prevailing at that time.

Note: Most recent revised national accounts statistics compiled by the STATEC have not been included in the above estimates

The tax base has been strengthened, thanks to a solid tertiary sector, so that the trend of tax revenue has been fairly favourable. This has meant that—contrary to expectations two years ago—the State has been able to implement various specific readjustment and support measures without going heavily into debt. Although the

longer-term problems Luxembourg will have to face should not be underestimated, short-term developments have afforded the authorities some room for manoeuvre in pursuing a policy to support activity, to improve employment prospects for young people and to strengthen the structural foundations of the economy.



* Seasonally adjusted figures.
Source: EUROSTAT, except where otherwise indicated.

TABLE 2
Demand for and supply of goods and services

Luxembourg	1975 ²	1976 ³			1977 ³			1978 ³		
	At current prices Mio LFR	% change on preceding year								
		Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Private consumption	48.390	3	9.8	13.1	2.5	6.7	9.4	2	3.5	5.6
Public consumption	12 099	2.2	12.2	14.6	2.2	11.8	14.3	2.1	7.1	9.3
Gross fixed asset formation	25 545	— 4.2	8.7	4.2	3.2	8.6	12.1	1.1	6.6	7.7
of which: — Construction	17 709	— 4.3	9.8	5.1	1.6	8.1	9.9	2	7.3	9.5
— Equipment	6 857	— 4.5	6.3	1.5	7.3	10	18	— 2	5	2.9
Domestic final uses (excluding change in stocks)	84 034	0.9	9.9	10.8	2.6	8	10.8	1.8	4.9	6.7
Domestic final uses (including change in stocks)	85 944	0.4	9.7	10.1	1.7	7.9	9.8	1.7	4.8	6.6
Exports ¹	65 130	3.2	1.4	4.7	1.6	— 2.4	— 0.8	3.2	3.2	6.5
Imports ¹	69 483	0.2	6.1	6.3	2.4	2.5	5	2.8	1.1	4
Gross domestic product at market prices	81 591	2.8	6.1	9	1.1	4.5	5.7	1.8	6.7	8.7
		Contribution to % change in gross domestic product								
Domestic final uses (excluding change in stocks)	84 034	0.9	—	11.1	2.8	—	11.3	1.9	—	7.4
Change in stocks	1 910	— 0.5	—	— 0.5	— 0.9	—	— 0.9	— 0.1	—	— 0.1
Balance of exports and imports ¹	— 4 353	2.4	—	— 1.6	— 0.8	—	— 4.7	0	—	1.4

¹ Goods and services

² Source STATEC

³ Estimates of Commission's departments as at end-June 1978, and on the basis of policies prevailing at that time

Note: Most recent revised national accounts statistics compiled by the STATEC have not been included in the above estimates

TABLE 3
The central government budget ¹

Luxembourg	1977			1978	
	Original budget		Provisional outturn	Original budget	
	Mrd LFR	% change ⁴	Mrd LFR	Mrd LFR	% change ⁴
Expenditure ²	35.1	+ 16.9	36.9	38.9	+ 10.8
Revenue ³	34.4	+ 16.6	37.4	37.7	+ 9.6
of which:					
— direct taxes	18.7	+ 13.3	20.5	20.4	+ 9.1
— indirect taxes	10.7	+ 13.8	10.6	11.8	+ 10.3
Net borrowing requirement	— 0.7	—	+ 0.5	— 1.2	—

¹ Ordinary and extraordinary budget

² Disregarding debt extinction.

³ Excluding borrowing

⁴ On the preceding year's original budget.

⁵ Estimates.

2. Recent developments

Since the beginning of 1978 foreign demand has revived somewhat, while domestic demand has lost momentum.

Exports of goods have increased slightly, in particular because of stronger demand for steel products.

On the basis of the trend in purchase of consumer durables and of private sector investment indicators, **domestic demand** as a whole would seem to have developed more slowly than before. The only stimulus of any importance to activity came from investment by the authorities.

The STATEC index of **industrial production** shows, on the whole, an appreciable improvement in activity during the first four months of the year (6.1% on a year earlier). However, if the steel sector is excluded the index shows an increase of only 0.6%. Indicators for the construction industry, although only partial, confirm the impression of persistent stagnation, particularly in the building industry.

Employment has continued to decline, in particular in the steel industry, where it affected workers of Luxembourg nationality as older workers reaching retirement were not replaced. During the first four months of the year, seasonally adjusted figures for job vacancies were 14.1% lower than at the same time last year. The deficit was only slightly offset by an expansion of employment in some developing service industries.

The year-on-year rate of **price rise** continued to decline, and stood at 2.9% in May, compared with 7.4% a year earlier and 4.3% in December 1977. The price trend was most favourable in foodstuffs, which increased by only 0.9% in a year.

The figures may show a surplus on the **balance of payments (current account)**, due to the solidity of the Franc on exchange markets, and to a considerable surplus in income from factors of production.

Major economic policy measures

December 1977:

— The law fixing the level of central government revenue and expenditure for the financial year 1978 was adopted. It provides for revenue totalling LFR 39 200 million, of which LFR 37 800 million will be ordinary revenue and LFR 1 400 million supplementary revenue; expenditure totals LFR 39 700 million (LFR 34 100 million ordinary and LFR 1 400 million supplementary) giving an aggregate deficit of some LFR 500 million (Law of 17 December).

— To make it easier for students to take higher education courses, whether or not at universities, the Government may make available financial assistance, in the form of grants or loans; interest on the loans may or may not be charged depending on the financial situation of the recipient and of his family (Law of 8 December).

— Under the Law of 24 December, the Government is authorized to take the measures necessary to stimulate economic growth and to maintain full employment. These measures will be introduced gradually depending on the seriousness of the general economic situation, the short-term economic situation and the structural situation. In addition to immediate action, more far-reaching measures will be taken in the form of regulations once unemployment rises above certain levels. Action may range from a straightforward central government guarantee in respect of investment loans to measures to reduce production costs in the interests of safeguarding jobs. Provision has also been made for measures aimed at improving the pattern of work allocation and for the grant of a waiting allowance in the event of early retirement, from which certain categories of workers in the steel industry have already benefited.

— It was decided to increase the premium payable under the economic and social conversion programme to owners on unprofitable business in farming, the distributive trades and the small craft industries who cease working (Regulation of 19 December).

February 1978:

— The Government decided to set up vocational guidance and introductory courses and also training, re-training and general courses for the unemployed and for workers in danger of losing their jobs (Regulation of 21 February).

March:

— The prices of solid mineral fuels other than coke were put up by 10% (Regulation of 10 March).

April:

— It was decided that the funds of the Del Credere Office could be increased by LFR 400 million (Law of 21 April).

— The Government was authorized to float, if necessary, one or more loans totalling LFR 1 000 million in all (Law of 21 April)

TABLE 4
Main economic indicators

Luxembourg	Year	Jan.	Feb.	Mar.	Apr	May	June	July	Aug.	Sept	Oct.	Nov.	Dec.
Industrial production* (1970 = 100)	1976	94.1	93.7	94.8	97.4	105.9	102.3	94.2	93.7	107.0	103.3	96.9	95.8
	1977	102.7	97.2	103.0	100.1	105.6	105.7	99.9	98.1	98.8	96.1	102.4	98.6
	1978	107.0	106.81	101.5	.	.	.	.	.	:	:	.	:
Unfilled vacancies*	1976	152	143	174	192	271	210	258	353	309	334	247	333
	1977	255	260	180	191	178	159	138	150	160	170	271	243
	1978	208	170	178	205	217	.	.	.	.	:	:	.
Consumer prices (1970 = 100)	1976	150.5	151.3	151.6	153.8	154.7	154.9	156.1	157.3	157.5	158.7	159.7	160.8
	1977	162.4	163.5	164.2	165.2	165.8	166.7	167.4	167.0	166.6	167.3	168.1	167.8
	1978	168.5	168.9	169.4	170.4	170.6	.	.	.	.	:	.	.

: Not available
* Seasonally adjusted
Source EUROSTAT (except as otherwise indicated)
— Industrial production, excluding construction.
— Unfilled vacancies, end-of-month figures
— Consumer prices: all households.

United Kingdom

At the beginning of 1978, the United Kingdom's exchange rate and official reserves position was strong, the underlying rate of inflation had fallen sharply and the current account of the balance of payments was in surplus; on the other hand, output growth was sluggish. Against this background the UK authorities announced, in the April budget, measures designed to raise the level of demand and the rate of economic growth. Subsequently, further adjustments to fiscal and monetary policies have been made, in the light of parliamentary amendments to the budget and developments in financial markets, so as to keep to the intended policy targets.

1. Overall assessment

At the start of 1978, the United Kingdom's financial position was strong, largely a result of the firm fiscal and monetary measures taken in 1976 and 1977. The current account of the balance of payments had moved signi-

ficantly into surplus in the second half of 1977, and the underlying rate of inflation had fallen below 10% by the fourth quarter of the year. On the other hand there were no signs of any significant growth of economic activity—industrial production in particular remained stagnant.

TABLE 1
Key indicators

United Kingdom	Unit	1971-1975 average ⁴ 5	1976 ⁵	1977 ⁵	1978 ⁶
Gross domestic product volume	% change	+ 1.5	+ 3.0	+ 0.6	+ 2.7
of which: industry ¹	% change	+ 0.4	+ 1.2	+ 1.0	+ 1.5
Gross domestic product in volume per person in employment	% change	+ 1.4	+ 3.5	+ 0.7	+ 2.2
Total employment (number of persons) ²	% change	+ 0.2	— 0.5	— 0.1	+ 0.5
— Self employed and other	% change	— 0.1	—	+ 0.7	+ 2.6
— Wage and salary earners in company sector	% change	+ 0.2	— 0.5	— 0.2	+ 0.4
— General government	% change	+ 2.2	— 1.7	— 0.5	+ 0.1
Unemployment	as % of total labour force	2.7	5.2	5.7	6.0
Compensation of employees per wage and salary earner	% change	+ 17.5	+ 15.2	+ 10.1	+ 12.7
Price index of private consumption ³	% change	+ 12.4	+ 15.5	+ 14.3	+ 8.2
Current account balance	Mio UKL	— 962	— 1 107	+ 165	+ 500

¹ Manufacturing industry only.

² Domestic concept.

³ National accounts concept, on annual basis

⁴ Geometric mean of the change from 1970 to 1975; unemployment and current account balance: arithmetic mean over the five years

⁵ Source: Central Statistical Office.

⁶ Estimates of Commission's departments, as at end-June 1978, and on the basis of policies prevailing at that time

It was against this background that the authorities decided to introduce measures that would increase the rate of economic growth and improve employment prospects. In particular:

— the Government's public expenditure plans published in January ¹ pointed to a marked increase in the planned volume of expenditure in 1978/79 after sharp falls in the two preceding years;

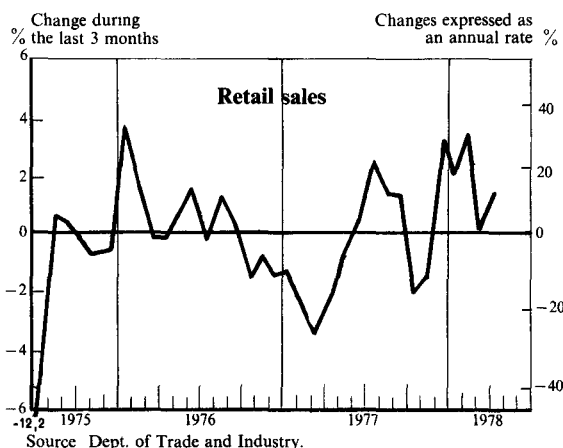
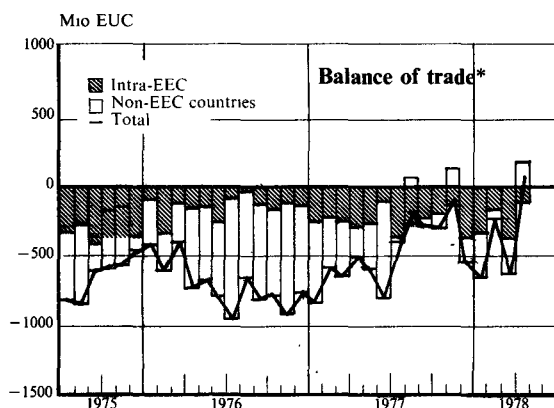
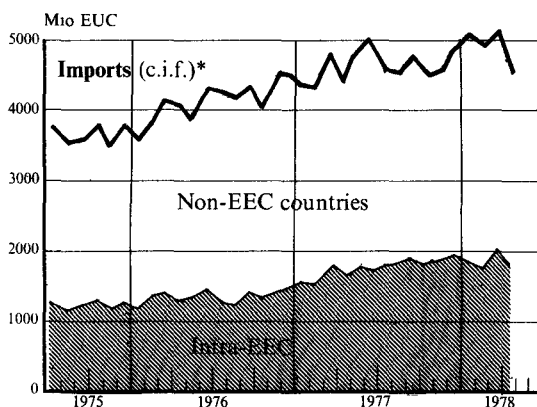
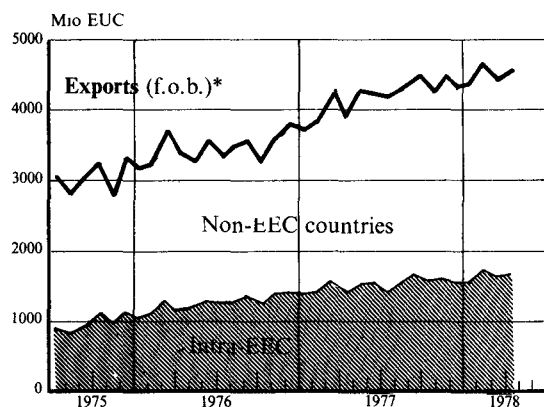
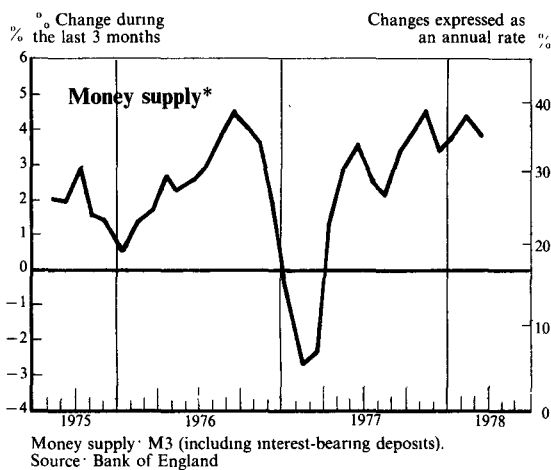
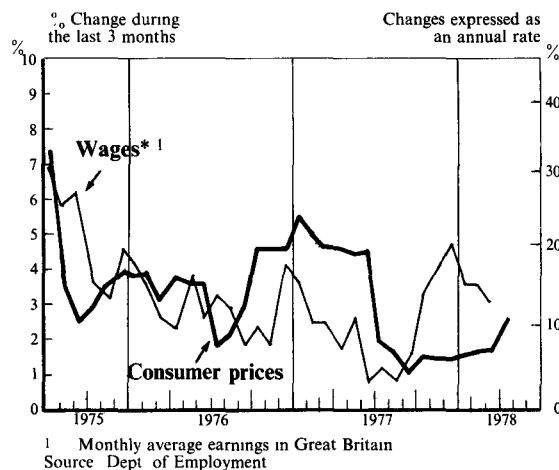
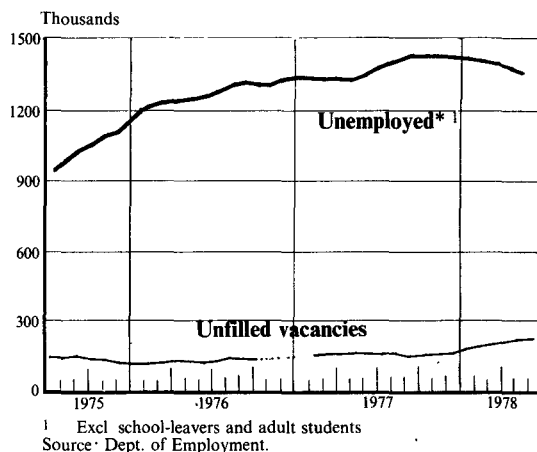
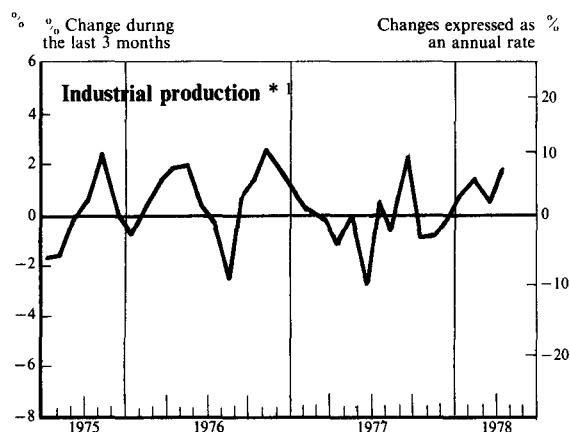
— the Chancellor of the Exchequer announced in his budget ² on 11 April proposals for a fiscal stimulus for 1978/79 equivalent to UKL 2 000 million or 1.25% of gross domestic product (GDP). It was officially estimated that the measures, largely reductions in direct taxation on personal incomes, would raise the rate of growth of gross domestic product (GDP) from 2.25% to 3% between the first halves of 1978 and 1979. The public sector borrowing requirement (PSBR) is estimated to rise from UKL

5.7 000 million in 1977/78 to UKL 8.5 000 million (5.25% of GDP) in 1978/79.

However, recent indicators suggest that the growth in economic activity during the first half of 1978 has perhaps been somewhat faster than anticipated at the time of the budget. In particular, recent national accounts data point to a growth rate of GDP of over 4% at an annual rate during the first quarter, largely because of the continued recovery in private consumption, resulting from an acceleration in earnings, a fall in the rate of inflation and the direct tax cuts introduced in 1977. In 1978, as a whole, the growth of GDP is likely to amount to 3%.

¹ *The Government's Expenditure Plans to 1981-1982*. Cmnd 7094

² For further details of the budget, see 'Major economic policy measures' below



At the same time external and financial constraints have recently reappeared. Visible trade figures point to strong import penetration and to sluggish export growth. Despite the large and growing contribution of North Sea oil to the balance of payments (in 1978 the output of North Sea oil should be equivalent to about two-thirds of domestic consumption), the current account was only slightly in surplus in the first half of the year. Since February the downward pressure on sterling led to more rapid increases in wholesale input prices.

An acceleration of the money supply occurred in the latter months of the financial year 1977/78, bringing the growth of sterling M3 during the year to 16%, well above the official target range of 9-13%. In addition Parliament made amendments to the budget proposals in the form of

direct tax cuts which will increase the PSBR by UKL 500 million in 1978/79.

In response to these developments, the UK authorities introduced measures aimed at ensuring that the rate of growth of the monetary aggregates remained within the limits announced most recently in the UK Government's Third Letter of Intent to the IMF to renew the stand by credit, which was published on 25 May. Minimum Lending Rate was raised in a number of steps to 10%. Also, on 8 June, the Government announced a 2.50% surcharge, later reduced to 1.50%, on employers' National Insurance contributions with the aim of offsetting the impact of the budget amendments on the PSBR, and reintroduced the supplementary special deposit scheme designed to restrict the level of bank deposits.

TABLE 2
Demand for and supply of goods and services

United Kingdom	1975 ²	1976 ²			1977 ²			1978 ³		
	At current prices Mio UKL	% change on preceding year								
		Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Private consumption	63 303	+ 0.4	+ 15.5	+ 16.0	- 0.8	+ 14.3	+ 13.4	+ 5.0	+ 8.2	+ 13.6
Public consumption	22 908	+ 2.4	+ 13.0	+ 15.7	- 0.2	+ 10.1	+ 9.9	+ 1.3	+ 9.6	+ 11.0
Gross fixed asset formation	20 708	- 2.0	+ 15.9	+ 13.6	- 3.9	+ 11.0	+ 6.7	+ 4.1	+ 7.5	+ 11.9
— Construction	11 946	- 3.1	+ 12.7	+ 9.2	- 8.4	+ 7.1	- 1.9	:	:	:
— Equipment	8 762	- 0.9	+ 20.7	+ 19.6	+ 0.6	+ 16.3	+ 17.0	:	:	:
Domestic final uses (excluding change in stocks)	106 919	+ 0.4	+ 15.0	+ 15.5	- 1.3	+ 12.7	+ 11.3	+ 4.1	+ 8.3	+ 12.7
Domestic final uses (including change in stocks)	105 275	+ 2.1	+ 15.2	+ 17.6	- 0.6	+ 12.7	+ 12.0	+ 3.6	+ 8.3	+ 12.2
Exports ¹	26 899	+ 7.4	+ 21.0	+ 30.0	+ 5.2	+ 17.3	+ 23.4	+ 2.8	+ 7.0	+ 10.0
Imports ¹	28 938	+ 3.8	+ 21.6	+ 26.2	+ 0.8	+ 14.8	+ 15.7	+ 5.8	+ 1.8	+ 7.7
Gross domestic product at market prices	103 236	+ 3.0	+ 15.0	+ 18.4	+ 0.6	+ 13.6	+ 14.2	+ 2.7	+ 9.9	+ 12.9
		Contribution to % change in gross domestic product								
Domestic final uses (excluding change in stocks)	106 919	+ 0.4	—	+ 16.0	- 1.3	—	+ 11.5	+ 4.1	—	+ 12.5
Change in stocks	- 1 644	+ 1.7	—	+ 1.9	+ 0.6	—	+ 0.7	- 0.5	—	- 0.4
Balance of exports and imports ¹	- 2 039	+ 0.9	—	+ 0.5	+ 1.3	—	+ 2.0	- 0.9	—	+ 0.8

No data available

¹ Goods and services.

² Source: Central Statistical Office

³ Estimates of Commission's departments, as at end-June 1978, and on the basis of policies prevailing at that time

2. Recent developments ¹

There was a recovery in economic activity in the first half of 1978, and the level of **gross domestic product** (GDP) is likely to have increased between 1.50% and 2% as compared to the previous half-year. This acceleration in the rate of growth of the economy can be largely attributed to a continued recovery in private consumption.

This stronger growth of **private consumption**, which could well have reached a level in the first half of 1978 some 3%

¹ Unless otherwise stated, this analysis is based on seasonally-adjusted data. In addition, volume changes are calculated on the basis of prices of the preceding year (or half-year) rather than at constant 1970 prices as in the official national accounts. As the use of a more recent price basis increases the relative impact of North Sea oil, estimates of growth of GDP and exports will be higher, and of imports lower, than when using the 1970 price basis.

above that of the previous half-year, occurred as a result of a distinct acceleration in the rate of increase of earnings at a time when the rate of inflation fell dramatically, coupled with the impact of direct tax reductions. Nevertheless, because of the fast rate of growth of real disposable income, the savings ratio has remained at a high level. The sectors that benefited most from this increased expenditure were cars and motorcycles and durable household goods. Indeed, registrations of new private cars and vans in the four months to April 1978 were over 24% higher than during the corresponding period in 1977.

The level of **public consumption** continued virtually unchanged in the opening months of 1978 as a consequence of earlier budgetary measures although some modest growth is to be expected from the beginning of the new financial year.

On the basis of somewhat disappointing estimates for the first quarter, the growth of **fixed capital formation** is likely to have been modest in the first half of the year. This is partly attributable to a further reduction in investment

related to North Sea oil activities. However, manufacturing investment, after falling somewhat in the first quarter, is expected to have strengthened again in the second quarter in line with the relatively optimistic tone of the investment intentions surveys. Recent indicators suggest that renewed **stockbuilding** made a significant contribution to growth in the early months of the year.

The marked shift of resources into the balance of trade which had characterized 1977 did not continue in the first half of 1978. Indeed, the volume of **exports** showed only very modest growth (about 2% above the level of the previous half-year) reflecting the disappointing growth of world economic activity and trade. The appreciation of sterling during 1977 is unlikely to have had any marked effects on UK exports so far. At the same time, the increase in **import** volume is likely to have been in the region of 4%, with particularly high rates of growth of imports of industrial materials, as stocks were rebuilt, and of finished manufactures, in response to rising private consumer demand. There was no further reduction in the deficit on oil trade largely because various difficulties associated with North Sea oil installations prevented the

TABLE 3
The budget

United Kingdom	1977-1978			1978-1979	
	Budget forecast		Estimated outturn	Budget forecast	
	Mio UKL	% change ¹	Mio UKL	Mio UKL	% change ¹
Central government					
<i>Expenditure</i>	57 152	+ 4.8	55 482	64 585	+ 13.0
of which: — current	51 020	+ 11.4	51 224	57 682	+ 13.1
— capital	6 132	— 29.7	4 258	6 903	+ 12.6
<i>Receipts</i>	50 293	+ 14.0	50 988	56 648	+ 12.6
of which: — direct taxes	20 480	+ 4.8	20 649	23 680	+ 15.6
— indirect taxes	16 018	+ 34.0	16 066	17 830	+ 11.3
<i>Borrowing requirement</i>	6 859	— 34.2	4 494	7 937	+ 15.7
<i>less:</i>					
Loans within public sector	2 770	— 41.5	1 628	3 015	+ 8.8
<i>equals:</i>					
Central government contribution to public sector borrowing requirement	4 089	— 28.1	2 866	4 922	+ 20.4
<i>plus:</i>					
Borrowing requirement of:					
— local authorities	1 590	— 36.5	1 419	1 822	+ 14.6
— public corporations	2 792	— 25.9	1 428	1 793	— 35.8
<i>equals:</i>					
Public sector borrowing requirement	8 471	— 29.2	5 713	8 537	+ 0.8

¹ As compared with initial budget estimates for previous year.
Note. On 26 October 1977 (after the initial budget on 29 March 1977) direct taxes were reduced by a further UKL 1 000 million with respect to 1977-1978

output of oil increasing as fast as originally planned. With the terms of trade showing little further improvement, and with net earnings on invisibles account somewhat lower than in the second half of 1977, it is possible that the surplus on the **current account** of the balance of payments will fall to below UKL 250 million for the first half of 1978, compared to UKL 834 million for the preceding half-year.

There was a recovery in **industrial production** in the first quarter of 1978 (+1.7% on the previous quarter) with output rising particularly fast in public utilities, and in the extractive industries. The slow but persistent decline in the number of registered **unemployed**, which began in October 1977, continued during the first half of 1978; by May 1978, unemployment had fallen to 1 366 400 equivalent to 5.7% of all employees. The reasons for this fall are still unclear; certainly the present upswing in economic activity is too recent to be considered as a satisfactory explanation of this downward trend.

The rate of **inflation** decelerated further in the opening months of the year as the beneficial effects of the fall in commodity prices and of sterling appreciation during 1977 continued to affect prices at the retail level. Indeed the all-items index of retail prices¹ in April was only 7.9% above the level of a year earlier and, until recently, the underlying rate of inflation was in line with the average for the OECD area as a whole. The trend of **average earnings** suggests a rate of growth of 13% to 14% for the twelve months ending in July 1978.

The outturn for **public sector borrowing** for 1977/78 (Table 3) fell well below the level foreseen at the time of the March 1977 budget. This was largely due to a significant shortfall on expenditure, associated with the effect of the system of cash limits applied to the major part of central government and local authorities' expenditure. In particular a very marked fall below planned levels occurred for central government expenditure on capital account.

The exchange rate came under some pressure in the spring, in part a reaction to a deterioration in the financial situation. In particular, it became clear that the money supply was growing at a rate that was inconsistent with the Government's target range of 9-13% for the fiscal year 1977/78. Indeed, in the three months to April 1978, the money supply (sterling M3) grew at an annual rate of nearly 25%. Support operations by the Bank of England, together with early repayments of certain foreign debts, including USD 943 million to the IMF in April, contributed to the fall in **foreign exchange reserves** of USD 3 000 million in the first five months of the year.

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Major economic policy measures

November 1977:

— On 8 November, the Bank of England agreed to sterling denominated securities being issued on international markets. The first issue was for UKL 15 million of 12-year bonds for the European Coal and Steel Community.

On 9 November, the Secretary of State of the Environment outlined a package of additional expenditure for the construction industry amounting to UKL 400 million in 1978/79.

December:

— On 12 December, the Department of Energy launched a programme of

energy conservation measures involving expenditure of UKL 320 millions over the next four years.

— The second Letter of Intent, sent by the Chancellor of the Exchequer to the IMF, was published on 15 December. In the letter, the growth of sterling M3 in 1977/78 was forecast to be in the range 9-13%, the expansion of domestic credit in 1977/78 and the first quarter of 1978/79 (15 months) was expected to be within a total of UKL 7.7 thousand million, and the public sector borrowing requirement for 1978/79 was not expected to exceed UKL 8.6 thousand million.

Following discussions between the Government and the Commission on capital movements covered by Article 124 of the Act of Accession, modifications to UK exchange control rules were announced on 21 December. The changes, which took effect on 1 January 1978, included the abolition of the '25% surrender rule' on dealings in foreign currency securities, and relaxation of certain rules governing direct investment and personal capital movements.

January 1978:

The annual White Paper on 'The Government's Expenditure Plans 1978/79 to 1981/82' was published on 12 January. It was forecast that the volume of public expenditure would grow by 2.25% in 1978/79, and that the rate of growth in the following four financial years would be lower than that of real GDP.

— On 23 January, a Government proposal to devalue the 'green pound' by 5% was defeated in the House of Commons in favour of a 7.50% devaluation proposed by the Opposition.

On 26 January, the Chancellor of the Exchequer announced that the Government intended to pursue a policy of spreading the hump of external debt repayments falling due in 1979 to 1984 by combining early repayment of certain loans (including part of the IMF loan) with new borrowing at later maturity dates.

— On 31 January, EEC Agricultural Ministers reached agreement on a two-stage devaluation of the 'green pound'.

February:

— On 7 February, the Secretary of State for Prices announced that all future contracts between the Government and private companies would include a clause to ensure that the Government's guidelines on pay were observed.

— On 25 February, the Government announced the imposition of a maximum wholesale price on tea, following a report by the Price Commission.

— On 28 February, the Manpower Services Commission announced a programme of aid for young unemployed people, called the Youth Opportunities Programme. It is designed to provide about 234 000 people with training or work experience, at a cost of UKL 140 million in the first financial year (1978/79).

March:

— On 15 March, the Secretary of State for Employment announced a UKL 300 million package of new and extended geographical coverage of the Small Firms Employment Subsidy and the Job Release Scheme, modifications to the Temporary Employment Subsidy that were agreed with the Commission of the European Communities and the announcement of a new scheme of support for short-time working in the textiles, clothing and footwear industries.

— On 21 March the Government published a White Paper (The Challenge of North Sea Oil, Cmnd 7143) explaining how it intends that the benefits of North Sea Oil should be used. It outlined four uses of the revenue:

- (i) a sustained increase in industrial investment;
- (ii) improved industrial performance,
- (iii) investment in energy, from conventional and alternative sources;
- (iv) to improve essential services and infrastructure.

The Prime Minister summarized the Government's objectives as the strengthening of the country's industrial and social base.

April:

— On 3 April, the National Enterprise Board outlined a new UKL 1.3 thousand million investment programme for British Leyland, which was fully approved by the Government, and will include UKL 850 million of State funds over the next four years.

— On 5 April, a White Paper on the Nationalized Industries (Cmnd 7131) was published as a response to the National Economic Development Office's 1976 report. The White Paper dealt with the control of the nationalized industries, their financial and economic objectives, and their relations with Government.

¹ Not seasonally adjusted.

TABLE 4

Main economic indicators

United Kingdom	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1970 = 100)	1976	99.2	100.7	100.5	101.1	102.7	100.8	100.9	100.3	101.5	102.5	103.0	103.2
	1977	103.2	103.2	103.1	102.3	103.2	100.3	102.8	102.7	102.6	102.0	101.9	102.8
	1978	102.9	103.5	103.2	104.8	.	.	.	.	.	.	.	.
Unemployment (1 000)	1976	1 203.5	1 225.8	1 231.6	1 241.8	1 253.3	1 261.1	1 288.9	1 308.8	1 318.7	1 307.9	.	1 325.7
	1977	1 329.9	1 330.0	1 328.5	1 333.8	1 323.8	1 364.3	1 398.5	1 410.3	1 434.9	1 431.5	1 429.6	1 422.3
	1978	1 419.2	1 409.0	1 400.0	1 387.1	1 366.4	.	.	.	.	.	.	.
Construction. Housing starts (1 000)	1976	31.5	29.1	31.1	28.6	29.8	28.5	29.5	27.7	27.6	22.0	22.0	20.0
	1977	21.0	18.0	21.2	22.3	22.3	22.8	23.8	20.7	25.4	24.7	21.9	22.8
	1978	22.1	18.4	20.9	23.5	.	.	.	.	.	.	.	.
Average earnings (1970 = 100)	1976	248.3	250.0	254.4	255.0	259.6	261.2	263.1	267.2	266.1	269.0	272.2	277.1
	1977	278.1	278.7	283.8	283.1	286.2	286.2	286.5	288.7	291.0	295.8	300.5	304.8
	1978	306.3	311.2	314.2	.	.	.	.	.	.	.	.	.
Private consumers' expenditure. value of retail sales (1971 = 100)	1976	191.2	188.5	189.2	196.9	194.6	196.6	199.8	203.7	206.1	208.4	212.8	212.7
	1977	215.7	217.4	216.1	219.9	222.9	222.9	231.5	235.8	235.0	234.2	236.3	246.0
	1978	241.0	246.5	249.8	250.3	.	.	.	.	.	.	.	.
Retail prices (January 1974 = 100)	1976	147.9	149.8	150.6	153.5	155.2	156.0	156.3	158.5	160.6	163.5	165.8	168.0
	1977	172.4	174.1	175.8	180.3	181.7	183.6	183.8	184.7	185.7	186.5	187.4	188.4
	1978	189.5	190.6	191.8	194.6	195.7	.	.	.	.	.	.	.
Wholesale prices ¹ (1970 = 100)	1976	261.5	263.9	274.2	286.3	292.0	299.6	302.0	304.0	314.4	327.7	331.8	330.2
	1977	337.9	339.5	347.2	349.7	348.3	345.2	344.6	338.8	338.1	333.8	329.9	328.0
	1978	324.9	324.2	331.0	337.5	341.8	.	.	.	.	.	.	.
Wholesale prices ² (1970 = 100)	1976	204.8	207.3	208.6	211.5	214.8	217.0	219.8	223.4	226.3	230.0	234.6	237.2
	1977	244.9	248.2	250.8	255.4	259.8	262.4	265.8	268.1	269.2	271.0	272.0	273.3
	1978	277.1	279.2	280.6	282.8	284.4	.	.	.	.	.	.	.
Exports (million EUC)	1976	3 187	3 242	3 396	3 275	3 377	3 421	3 359	3 569	3 488	3 454	3 411	3 664
	1977	3 791	3 796	3 897	3 959	3 942	4 185	4 188	4 340	4 435	4 227	4 157	4 301
	1978	4 140	4 698	4 311	4 438	4 282	.	.	.	.	.	.	.
Imports (million EUC)	1976	3 556	3 648	3 567	3 700	3 910	3 946	4 126	3 999	4 051	3 885	4 064	4 003
	1977	4 570	4 078	4 284	4 215	4 366	4 667	4 431	4 095	4 351	4 145	4 051	4 419
	1978	4 674	4 630	4 736	4 109	4 534	.	.	.	.	.	.	.
Balance of trade (million EUC)	1976	- 369	- 406	- 170	- 425	- 533	- 525	- 767	- 431	- 563	- 430	- 653	- 340
	1977	- 779	- 282	- 388	- 257	- 425	- 483	- 243	245	84	81	106	- 118
	1978	- 534	68	- 425	330	- 252	.	.	.	.	.	.	.
Terms of trade	1976	100.2	100.3	99.2	98.2	98.0	97.6	98.0	99.0	99.1	97.2	97.2	97.6
	1977	99.3	99.1	98.4	99.8	100.7	100.4	99.9	101.5	101.7	101.7	102.4	103.1
	1978	105.5	104.8	104.8	104.0	105.2	.	.	.	.	.	.	.
Exchange rate	1976	72.8	72.7	70.5	67.2	65.8	64.3	65.1	64.8	62.5	59.2	59.1	60.5
	1977	61.8	61.7	61.9	61.7	61.6	61.5	61.0	62.0	62.4	62.5	63.6	63.8
	1978	66.0	66.0	64.1	61.8	61.5	.	.	.	.	.	.	.
Official foreign exchange reserves (million EUC)	1976	5 871	6 085	5 244	4 367	4 920	4 813	4 884	4 551	4 664	4 291	4 620	3 661
	1977	6 462	6 947	8 573	8 970	8 757	10 207	11 693	13 028	15 022	17 245	17 429	16 699
	1978	16 968	16 521	16 088	.	.	.	.	.	.	.	.	.
Money supply (million EUC)	1976	63 660	64 272	62 512	61 775	59 818	61 025	62 192	62 569	59 498	57 738	59 747	60 621
	1977	61 044	59 933	60 187	61 108	61 389	61 727	62 346	63 068	64 393	67 240	66 957	67 841
	1978	70 579	69 516	66 653	.	.	.	.	.	.	.	.	.

· Not available.

Seasonally adjusted unless otherwise stated.

Key to sources. (a) Central Statistical Office.

(b) Department of Employment.

(c) Bank of England.

(d) Department of Manpower Services (Northern Ireland).

(e) Department of Trade and Industry.

(f) Department of the Environment.

(g) EUROSTAT.

— Index of industrial production (all industries) (a)

— Unemployment: wholly unemployed, excluding school-leavers and adult students (b + d)

— Construction: private and public housing starts in Great Britain (f).

— Average earnings. (all industries) Great Britain (b).

— Retail sales: index numbers of the value of sales at current prices (e).

— Retail price index (all items) (not seasonally adjusted) (b).

— Wholesale prices. ¹ Input prices (all manufacturing industries) (not seasonally adjusted) (a).

² Output prices (home sales, all manufactured products) (not seasonally adjusted) (a).

— Exports (fob) and imports (fob) of goods on a balance of payment basis (e + g).

— Balance of trade: difference between the seasonally adjusted figures of imports and exports (e + g).

— Exchange rate: effective exchange rate on Smithsonian basis (21 December 1971 = 100) (c).

— Official foreign exchange reserves: end-month figures (not seasonally adjusted) comprising gold IMF Special Drawing Rights, convertible currencies and the UK's reserve position at the IMF. Before conversion into EUC, values have been converted into sterling at closing market rates (c + g)

— Money supply. Sterling M3 (including interest-bearing deposits) (c + g)

— On 11 April, the Chancellor of the Exchequer presented his budget proposals for the fiscal year 1978/79. The measures proposed included.

- (i) reductions in direct personal taxation, amounting to UKL 2.4 thousand million in a full year, in particular by means of a new lower rate of tax (25%) on the first UKL 750 of taxable income, and increased tax-free personal allowances;
- (ii) corporation tax rates to remain unchanged but the profit limits, below which the preferential rate of 42% is charged, to be raised from UKL 40 000 to UKL 50 000 p.a.;
- (iii) allowances to be introduced for capital expenditure on agricultural buildings and hotels;
- (iv) individuals to benefit from an increase in the limit below which capital gains are exempt from tax and from new lower rates of tax on gains up to UKL 9 500 p.a.;
- (v) an increase in the excise duty on cigarettes with a high tar content (of UKL 2.25 per 1 000 cigarettes);
- (vi) the allocation of UKL 550 million from the Contingency Reserve for 1978/79 to specific programmes including the additional measures to support employment announced in March 1978, (UKL 156 million) and an increase in child benefit (UKL 165 million).

The public sector borrowing requirement for 1978/79 was estimated to be UKL 8 537 million, compared with an estimated outturn for 1977/78 of UKL 5 713 million.

The Chancellor also reaffirmed the Government's policy of spreading the burden of external debt repayments, and announced that arrangements would be made to repay a further USD 1 000 million to the IMF (in addition to the USD 1 000 million advance payment announced in

January) and that an issue of British Government Bonds totalling USD 350 million would be made on the New York market

May

— On 23 May, the Government published a White Paper (Cmnd 7231) detailing its policy on industrial democracy, including giving employees the right to representation on the board of their companies.

— On 25 May, the Government announced that it had reached agreement with the IMF on the terms for continuing the standby credit until 2 January 1979. In announcing this agreement, the Chancellor reasserted his determination to observe the limits, of UKL 8.5 thousand million for the public sector borrowing requirement and of UKL 6 000 million for domestic credit expansion in the financial year 1978/79, which he announced when presenting the budget on 11 April.

— Also on 25 May, the Bank of England announced that it was abandoning its market related formula for determining the official Minimum Lending Rate used over the last 5½ years. Instead, the rate will be determined by administrative decision, and changes will normally be announced on a Thursday.

June

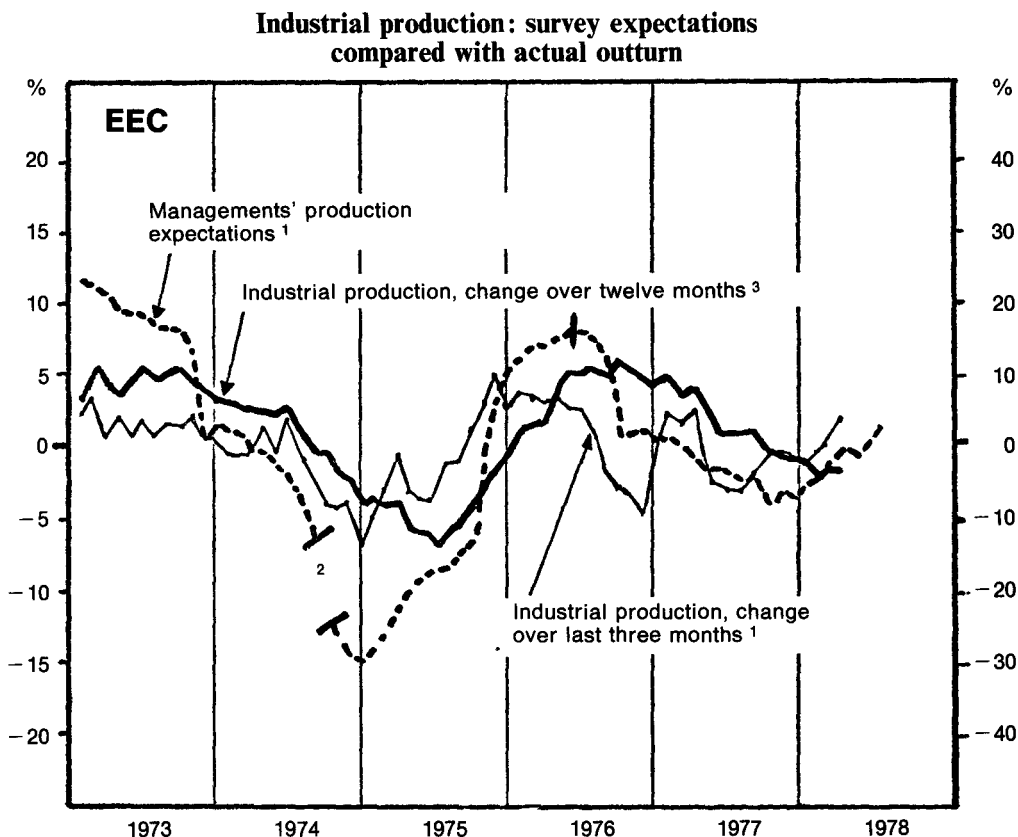
— On 8 June, the authorities announced a set of measures designed to reaffirm the stance of monetary policy and to offset the cost (UKL 500 million in 1978/79) of the amendments to the budget, introduced by the Opposition, which further reduced income tax. These measures included a surcharge of 2.50% on employers' national insurance contributions, the reintroduction of the supplementary special deposits scheme which penalizes excessive growth of bank deposits, and the raising of Minimum Lending Rate by 1% to 10%.

III — Results of the business and consumer surveys

Since 1962, the Commission of the European Communities has been conducting business surveys in Member States, on the basis of standardized questionnaires and methods. A corresponding survey of consumers was launched in 1972. The surveys, which are based on representative samples, are designed to elicit the opinions and assessments of managements in industry and of heads of household on various aspects of the economic situation as they see it. For the Community as a whole, the picture given by recent surveys is one of managements and consumers showing a fair degree of confidence as regards the outlook for industrial production and as regards economic and financial developments in the second half of this year.

The short-term outlook for industrial production in the Community improved gradually from November 1977 to April of this year, according to the results of the Community survey of chief executives in the non-food manufacturing sector. In May and June, the replies to the

production outlook question indicated that confidence had stabilized at about the April level which was, however, still relatively low, owing to the substantial deterioration in industrialists' production expectations which had occurred between May 1976 and October 1977



Source: EUROSTAT and harmonized survey among industrialists in the Community.

¹ Seasonally adjusted series.

² EEC - 6 until August 1974; since September 1974, including Ireland.

³ Since May 1976, including the United Kingdom.

N.B.: Left-hand scale: industrial production expressed as a rate of change over the preceding three months.

Right-hand scale: industrial production expressed as a rate of change over twelve months and percentage balances of positive over negative replies to the question in the harmonized survey among industrialists in the Community.

TABLE 1

Managements' views on the industrial situation — the Community as a whole
Balances of positive over negative replies (%) to the questions asked in the monthly business survey
(seasonally adjusted series)

	1977							1978					
	June	July	August	September	October	November	December	January	February	March	April	May	June
Production expectations for the 3 to 4 months ahead	- 3 - 4 - 5 - 4 - 8 - 6 - 7							- 5 - 4 - 2 0 - 1 + 1					
Assessment of total order-books	- 41 - 42 - 46 - 47 - 50 - 47 - 47							- 47 - 44 - 44 - 47 - 42 - 39					
Assessment of stocks of finished products	22 24 26 27 31 29 29							27 26 26 24 23 23					
Assessment of production capacity	35 41							39					

Community business surveys among industrialists, which were first conducted in 1962, are carried out at the Commission's request in all Member States except Denmark. On the basis of a harmonized questionnaire and nomenclature, almost 20 000 industrialists are asked each month for their views on, among other things, their order-book situation, the level of their stocks and their expectations on the production and prices fronts. The sample taken in each country is made up in such a way as to represent manufacturing industry as a whole (excluding the food industry). The surveys are conducted in the Federal Republic of Germany by the IFO (Institut für Wirtschaftsforschung) among 5 000 firms, in France by the INSEE (Institut National de la Statistique et des Études Économiques) among 3 500 firms, in Ireland by the CII (Confederation of Irish Industry) and the ESRI (Economic and Social Research Institute) among 500 firms, in Italy by the ISCO (Istituto Nazionale per lo Studio della Congiuntura) among 5 000 firms, in the Netherlands by the CBS (Centraal Bureau voor de Statistiek) among 1 000 firms, in Belgium by the Banque National de Belgique among, 1 400 firms, in Luxembourg by the STATEC (Service Central de la Statistique et des Études Économiques) among 100 firms, and the United Kingdom by the CBI (Confederation of British Industry) among 1 800 firms. Business surveys are also carried out in Denmark but these are comparable only in some respects with the Community surveys.

The monthly surveys among managements, the results of which are given below, contain the following questions :

1. Do you think that over the next three or four months your firm's seasonally-adjusted production trend will be : up, unchanged, down ?
2. Do you consider that your present total order-book is, for the season : above normal, normal, below normal ? (Firms having no order-books are requested to estimate the level of demand.)
3. Do you consider that your present stocks of finished products are, for the season : above normal, normal, below normal (no stocks of finished products) ?
4. Taking into account your present order-book and the probable trend of orders over the next twelve months, do you consider that your present capacity is : not sufficient, sufficient, more than sufficient ?

The detailed results are published each month, except September, in the publication 'Results of the business survey carried out among management in the Community' (reference ISS-N 0378.4479) by the Office for Official Publications of the European Communities, Boîte Postale 1003, Luxembourg. [Annual subscriptions or subscriptions for individual issues are available and details can be obtained from the Sales Offices (see last-but-one page of this publication).] The results are broken down by twenty-one industrial sectors and are also given for the consumer goods, intermediate goods and capital goods industries.

(see chart on p. 79). Between these two dates, the difference between the percentage of chief executives indicating that production would increase over the following three or four months as against the percentage forecasting a decline, represented a shift of 22 points. By comparison, the extent of the recent improvement in the production outlook has been fairly small: +9 points from the low point in October 1977 to June of this year. This improvement may also be compared, for example, with the +44 point (net) change in production expectations recorded from January 1975 to June 1976; this exceptionally large swing in production expectations was itself followed with a few month's lag, by an increase in the industrial production index of 13.4% from mid-1975 to September 1976. The present recovery in industrial production, which had been predicted by the earlier improvement in the (survey) production outlook, amounts to a rise of 2% from the low point in November 1977 to April 1978.

The stronger production trend of early 1978 appears, moreover, to have reduced somewhat the margin of unused production capacity and to have stimulated planning for industrial investment (building excluded) (see Tables 1 and 2). In the context of the recession, the investment outlook is relatively positive. Among the different sectors of industry, it is in the mechanical and electrical branches, in particular, that investment activity will be most buoyant.

TABLE 2
Results of the industrial investment
survey for 1978

Country	Investment survey industrialists' forecasts of gross fixed capital formation, in money terms, in industry in 1978 (% change on preceding year)	
	November 1977 survey	April 1978 survey
FR of Germany	7	8
France	12	12
Ireland	21	41
Italy	10	2
Netherlands	3	6
Belgium		- 1
Luxembourg	6	48
United Kingdom	26	26

The Community investment surveys, which have been conducted since 1963, normally cover all industrial activities, with the exception of building and construction. Two surveys a year are carried out, one in March/April and one in October/November. The March/April questionnaire concerns investments made during the preceding year and the current year, while the October/November questionnaire also asks for forecasts covering the year ahead.

The consumer surveys, which were first conducted in 1972, are carried out, on the Commission's initiative, in all Member States, except Luxembourg. Three surveys are carried out each year: in January and in May among 2 500 heads of household in each country, and in October among a larger sample of 5 000 heads of household in each country. The questionnaire includes questions relating to heads of households' expectations and views regarding the general economic situation, trends in unemployment and prices, their own financial position, savings, etc. and their purchasing intentions. The surveys are conducted in the Federal Republic of Germany by the GfK (Gesellschaft für Konsum-Markt- und Absatzforschung) and by the FES (Forschungsstelle für Empirische Sozialökonomik), in France by the INSEE (institut National de la Statistique et des Études Économiques), in Italy by the ISCO (Istituto Nazionale per lo Studio della Congiuntura), in the United Kingdom by the CSO (Central Statistical Office), in the Netherlands by the CBS (Centraal Bureau voor de Statistiek), in Belgium by the INS (Institut National de la Statistique), in Ireland by the Agricultural Institute and in Denmark by Danmarks Statistik.

The consumer survey questions of which the results are given below, are the following:

1. How do you think the general economic situation in this country has changed over the last twelve months: got a lot better, got a little better, stayed the same, got a little worse, got a lot worse, don't know?
2. How do you think the general economic situation in this country will develop over the next twelve months: get a lot better, get a little better, stay the same, get a little worse, get a lot worse, don't know?
3. How do you think the level of unemployment in the country will change over the next twelve months: increase sharply, increase slightly, remain the same, fall slightly, fall sharply, don't know?
4. Compared to what they were twelve months ago, do you think that prices in general are now: much higher, moderately higher, a little higher, about the same, lower, don't know?
5. By comparison with what is happening now, do you consider that in the next twelve months: there will be a more rapid increase in prices, prices will increase at the same rate, prices will increase at a slower rate, prices will be stable, prices will fall slightly, don't know?
6. How does the financial situation of your household now compare with what it was twelve months ago: got a lot better, got a little better, stayed the same, got a little worse, got a lot worse, don't know?

7. How do you think the financial position of your household will change over the next twelve months : get a lot better, get a little better, stay the same, get a little worse, get a lot worse, don't know ?

8. Do you think that there is an advantage for people to make major purchases (furniture, washing-machines, TV sets, etc.) at the present time ? : yes, now is the right time ; it is neither the right time nor the wrong time ; no, it is the wrong time, the purchase should be postponed ; don't know.

9. In view of the general economic situation at the present time, do you think that this is a reasonable time to save ? : yes, certainly ; yes, perhaps ; probably not ; certainly not ; don't know.

10. Over the next twelve months do you think that you, or any member of your household, will manage to save some money ? : yes, certainly ; yes, perhaps ; probably not ; certainly not ; don't know.

The results are published in the form of press releases ('Results of the ... economic survey among European consumers'), circulated among journalists accredited to the Commission. The press releases are also available from the Commission's Information Offices.

The consumer confidence index is based on five questions dealing with the financial positions and expectations of households, the general economic situation and outlook, and the advisability of making major purchases. (See Questions Nos 1, 2, 6, 7 and 8 above.) The index is calculated as follows : first, a weighted total of the different replies to each question (see the notes on the statistical appendix) is calculated ; since the weighted total is, in most cases, negative and since this negative figure can be as low as but not below - 200, a figure of 200 is added to the weighted reply to each question ; the index is then constructed by calculating the average balance, adjusted in this way, for the five questions.

The confidence of Community consumers regarding the economic situation and their personal financial circumstances, as well as their attitudes to major purchases, is summarized in the confidence index presented in the following chart and table (see, also, the box-insert, Consumer confidence, as measured by this index, reached its last cyclical peak in January 1973. The decline began in May of that year, already before the oil crisis, as consumers appeared to react to the rising inflation rates and may have begun, perhaps, to conclude that the very high rate of economic activity was unsustainable. The downward movement was then accentuated by the oil crisis and consumer sentiment remained depressed in 1974 and into the early part of 1975. Consumer confidence improved moderately in mid-1975 however,

and this movement continued until the corresponding period of 1976, during which time industrialists' production outlook was also rising. The confidence of both groups deteriorated thereafter, until mid- to late 1977, according to country. The surveys of October 1977, and of January and May 1978 indicate a distinct recovery in the mood of European consumers. The overall improvement over the year to May 1978 has been strongest in Italy, the United Kingdom and Ireland. In the Federal Republic of Germany, there has been a moderate improvement in the survey of May 1978. For other Member States, that is in Denmark, France and Belgium, the trend of consumer sentiment is rather flat, though remaining at a high level in Denmark.

European consumer confidence index (May 1974 = 100)

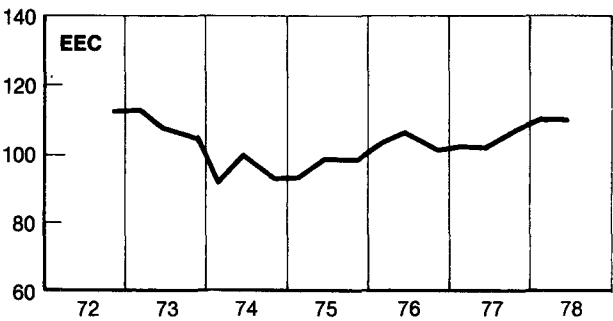


TABLE 3

	1972	1973	1974	1975	1976	1977	1978
January	-	114.8	92.5	94.7	104.7	103.7	111.1
May		109.2	100.0	99.7	107.4	102.4	111.4
October	113.8	106.2	94.5	99.2	101.7	109.1	

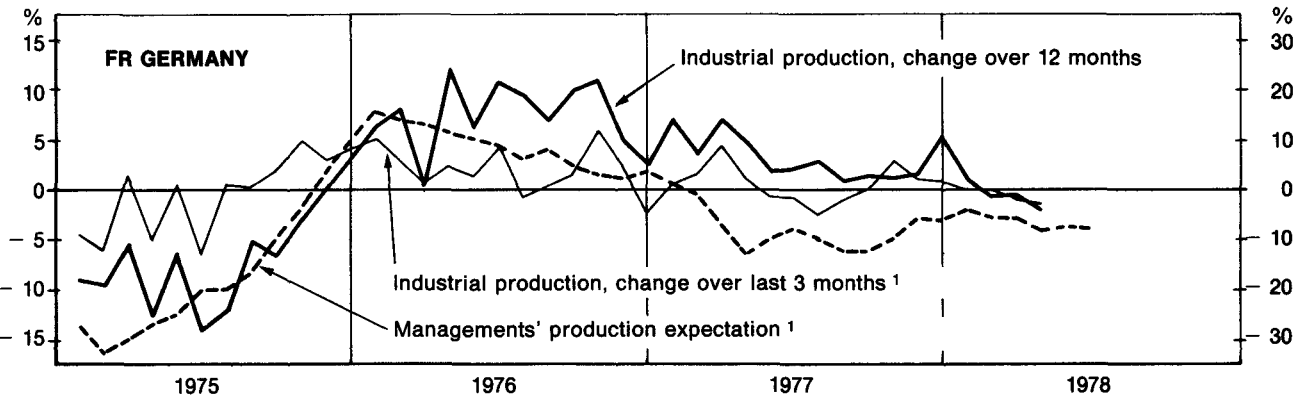
The overall impression given by recent trends by the business and consumer surveys is that of a distinct recovery following the 1976/1977 period of stagnation. The survey indicators now project the resumption of a higher but still not very strong rate of increase in economic activity in the months ahead.

In the following paragraphs, recent developments in the opinions of industrialists, as to the outlook for production and investment, and of consumers, as to the economic and financial situation, are described for each individual member country.

Following an almost continuous decline between January

1976 and April 1977, production expectations as indicated by the survey carried out among industrialists in the **Federal Republic of Germany** improved, although somewhat hesitantly, between September 1977 and January 1978. During the following months, expectations deteriorated once again. Nevertheless, and despite a low level of demand (stocks of finished products still too high and order levels too low), expectations and assessments stabilized in May and June 1978. In the consumer durables and capital goods sectors, the outlook has even been tending to improve. However, the state of German industrial opinion, based on the mid-June 1978 surveys, does not yet suggest any sustained upturn in production.

Industrial production: survey expectations compared with actual outturn



Source: EUROSTAT and harmonized survey among industrialists in the Community.

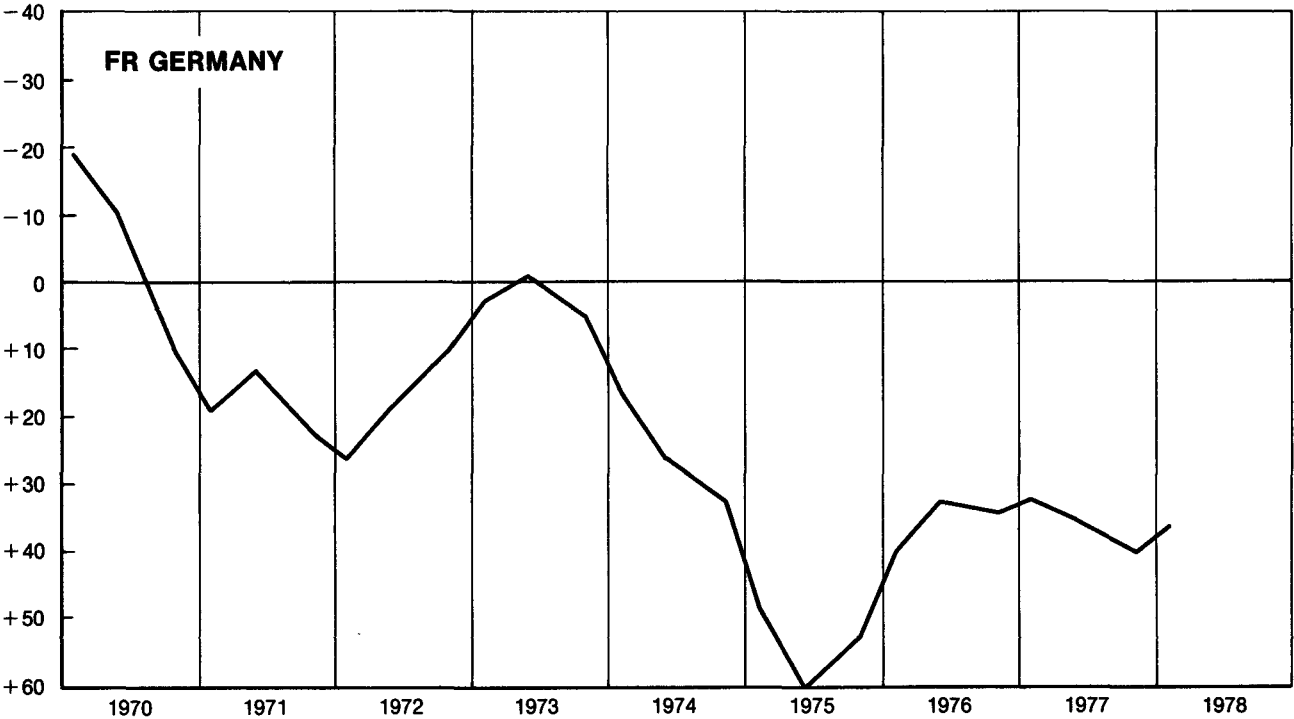
¹ Seasonally-adjusted series.

N.B.: Left-hand scale: industrial production, expressed as rates of change.

Right-hand scale: percentage balances of positive over negative replies to the question in the harmonized survey carried out among industrialists in the Community.

Assessment of production capacity

Balance (%) of positive over negative replies to question No 4 (see the box-insert above, relating to the monthly business survey). Inverted scale.



The modest improvement in the economic climate in the capital goods sector seems to be confirmed by the results of the March/April investment survey. German industrialists expect for 1978 a growth in investment of the order of 8% in value terms, a percentage already suggested by the October/November 1977 survey. It also

seems that this will largely be accounted for by rationalization investment, since industrialists anticipate a smaller increase in production capacity in 1978 than in 1977, whereas the growth in investment is likely to be more rapid.

TABLE 4
German managements' view on the industrial situation
 Balances (%) of positive over negative replies to the questions in the monthly business survey
 (seasonally-adjusted series)

	1977							1978					
	June	July	August	September	October	November	December	January	February	March	April	May	June
Production expectations for the 3 to 4 months ahead	- 9	- 10	- 13	- 13	- 10	- 6	- 6	- 4	- 6	- 6	- 9	- 8	- 8
Assessment of total order-books	- 40	- 42	- 45	- 45	- 42	- 43	- 44	- 42	- 43	- 44	- 45	- 42	- 44

NB For the wording of the questions, see the box-insert on the business survey.

The decline in industrial confidence at the beginning of 1978 in the Federal Republic of Germany was matched by a drop in consumers' confidence, although the results of the May consumer survey were distinctly more favourable. More German consumers now anticipate an

improvement in the months ahead in the general economic situation and in their financial situation, despite the fact that the fear of worsening unemployment has definitely not been dispelled.

German consumer confidence index (May 1974 = 100)

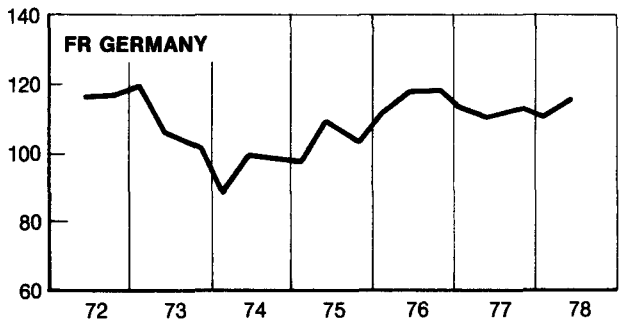


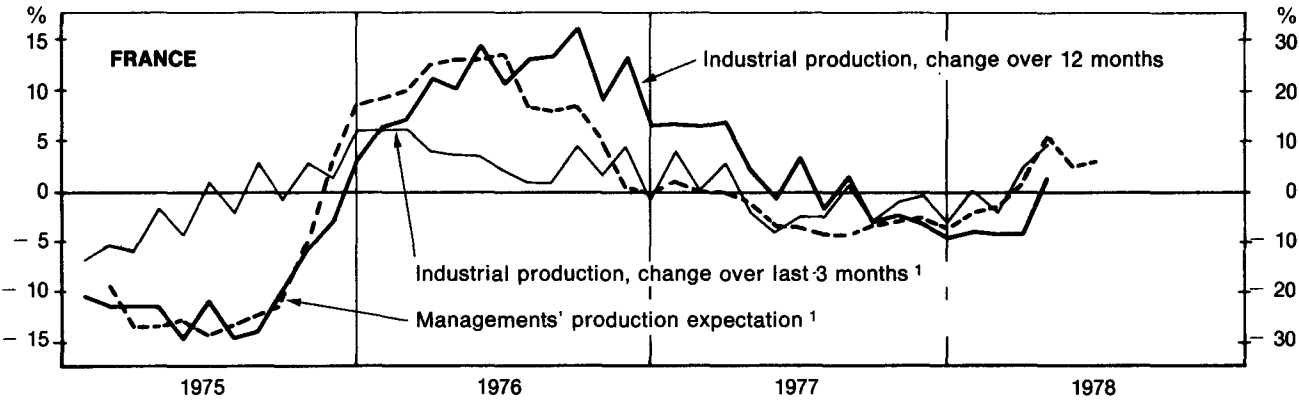
TABLE 5

	1972	1973	1974	1975	1976	1977	1978
January	—	120.1	89.7	98.3	112.9	113.5	112.3
May	115.3	107.4	100.0	110.1	118.2	111.4	116.0
October	117.7	103.4	99.2	104.1	119.1	113.3	

The pattern of managements' expectations as to the trend of short-term production in **France** strongly resembles that of the Federal Republic of Germany for the period 1974-1977. In France, however, there was a sharp upturn in industrial confidence in April, following the elections. This movement was corrected somewhat in May,

although managements remained optimistic; this is confirmed by the June survey. Judgments as to order-book levels have become generally more favourable since March, due mainly to more optimistic views concerning export demand.

Industrial production: survey expectations compared with actual outturn



Source: EUROSTAT and harmonized survey among industrialists in the Community.

¹ Seasonally-adjusted series.

N.B.: Left-hand scale: industrial production, expressed as rates of change.

Right-hand scale: percentage balances of positive over negative replies to the question in the harmonized survey carried out among industrialists in the Community.

In France, managements expect a rate of growth of industrial investment (excluding building and construction) in 1978 of some 12% in value terms, compared with 1977. In line with the results of the investment survey, order books in the capital goods sector improved in May and June.

Although French industrialists are fairly optimistic in

their expectations, consumers are less so. The stability of the confidence index since October 1977 nevertheless represents an improvement compared with the first half of last year. The views of French consumers regarding inflation coincide with those of industrialists, who expect an increase in selling prices, particularly in the consumer durables sector.

Assessment of production capacity

Balance (%) of positive over negative replies to question No 4 (see the box-insert above, relating to the monthly business survey). Inverted scale.

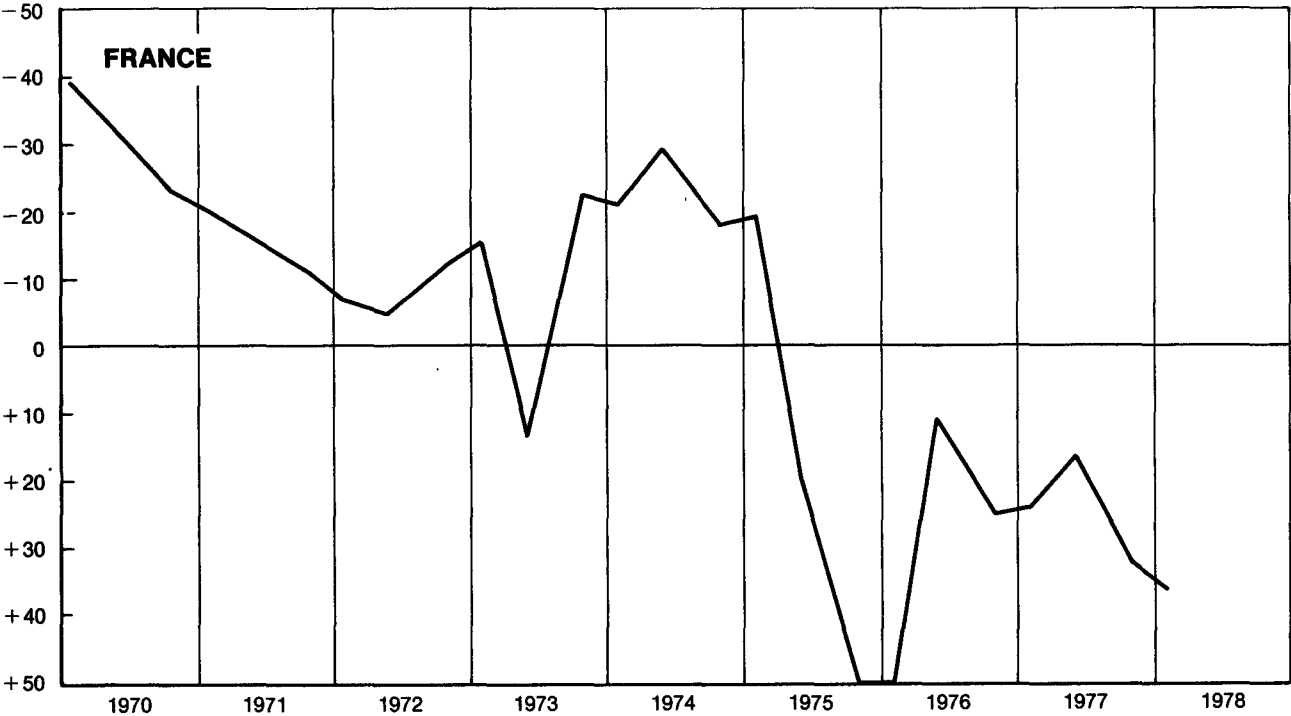


TABLE 6

French managements' views on the industrial situation

Balances (%) of positive over negative replies to the questions in the monthly business survey
(seasonally-adjusted series)

	1977							1978					
	June	July	August	September	October	November	December	January	February	March	April	May	June
Production expectations for the 3 to 4 months ahead	- 7	- 8	- 8	- 7	- 6	- 5	- 7	- 4	- 3	2	11	5	6
Assessment of export order-books	- 32	- 34	- 37	- 37	- 35	- 34	- 33	- 30	- 36	- 29	- 20	- 16	- 21

NB For the wording of the questions, see the box-insert on the business survey

French consumer confidence index (May 1974 = 100)

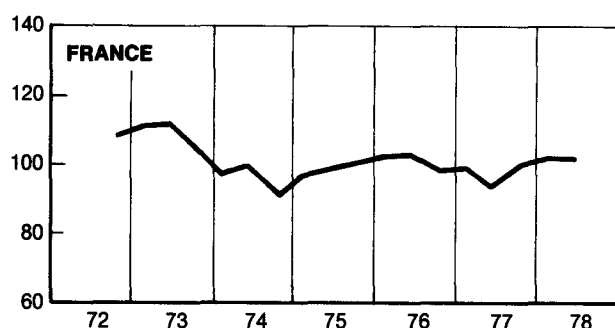


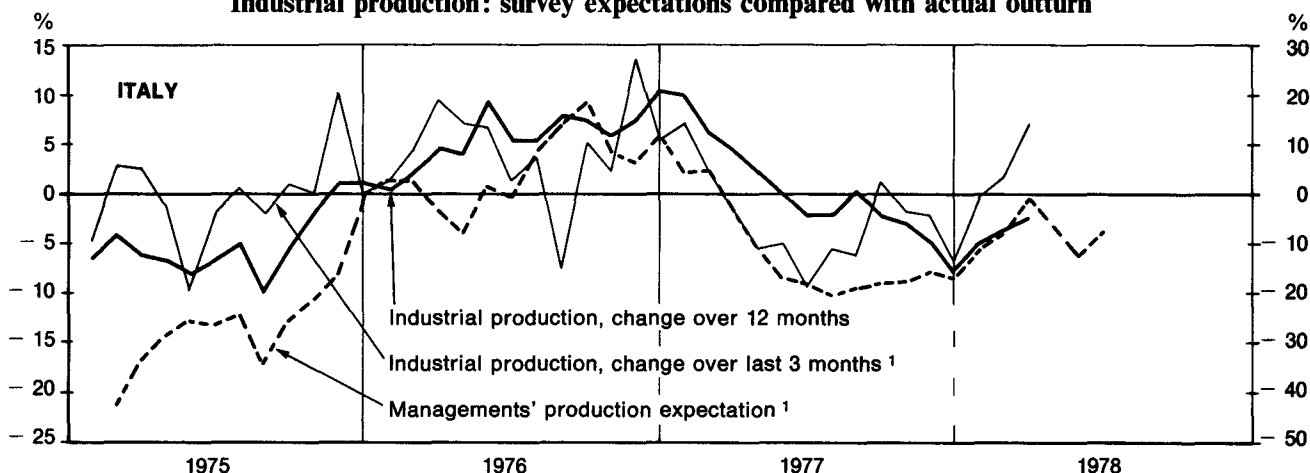
TABLE 7

	1972	1973	1974	1975	1976	1977	1978
January	—	111.8	96.6	96.8	102.3	99.3	101.3
May	—	112.5	100.0	98.7	103.5	94.9	101.6
October	109.5	104.3	91.1	100.5	97.8	100.0	—

In Italy, expectations regarding production in manufacturing industry improved in the second half of 1977. This upturn in confidence on the part of managements, which was reflected in a distinct increase in production at the beginning of 1978, accelerated in the first quarter of this year.

The results of the April and May 1978 surveys nevertheless showed that industrialists had become much more hesitant in their expectations, particularly with regard to the consumer durables sector. This development was only partly reversed by the better June results.

Industrial production: survey expectations compared with actual outturn



Source: EUROSTAT and harmonized survey among industrialists in the Community.

¹ Seasonally-adjusted series.

N.B.: Left-hand scale: industrial production, expressed as rates of change over the preceding 3 months.

Right-hand scale: industrial production, expressed as an annual rate of change and percentage balances of positive over negative replies to the question in the harmonized survey among industrialists in the Community.

TABLE 8

Italian managements' views on the industrial situation

Balances (%) of positive over negative replies to the questions in the monthly business survey
(seasonally-adjusted series)

	1977							1978					
	June	July	August	September	October	November	December	January	February	March	April	May	June
Production expectations for the 3 to 4 months ahead	- 18	- 21	- 19	- 18	- 18	- 16	- 17	- 11	- 7	- 1	- 7	- 13	- 7
Assessment of total order-books	- 42	- 41	- 48	- 44	- 51	- 55	- 54	- 53	- 50	- 56	- 52	- 47	- 40

NB. For the wording of the questions, see the box-insert relating to the business survey

The view of Italian consumers, while still somewhat cautious, have clearly improved since January 1977. Thus, in May 1978, the confidence index reached its

highest level since 1973. This was largely due to a substantial fall in the number of people expressing pessimism concerning the general economic trend.

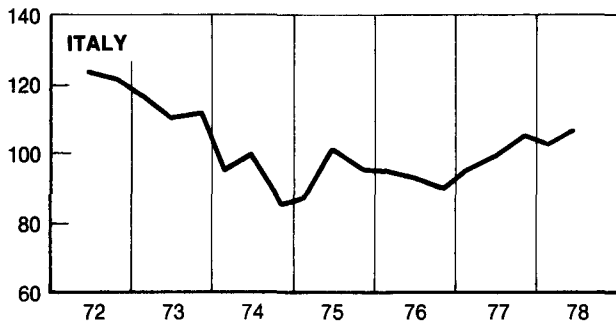
Italian consumer confidence index (May 1974 = 100)

TABLE 9

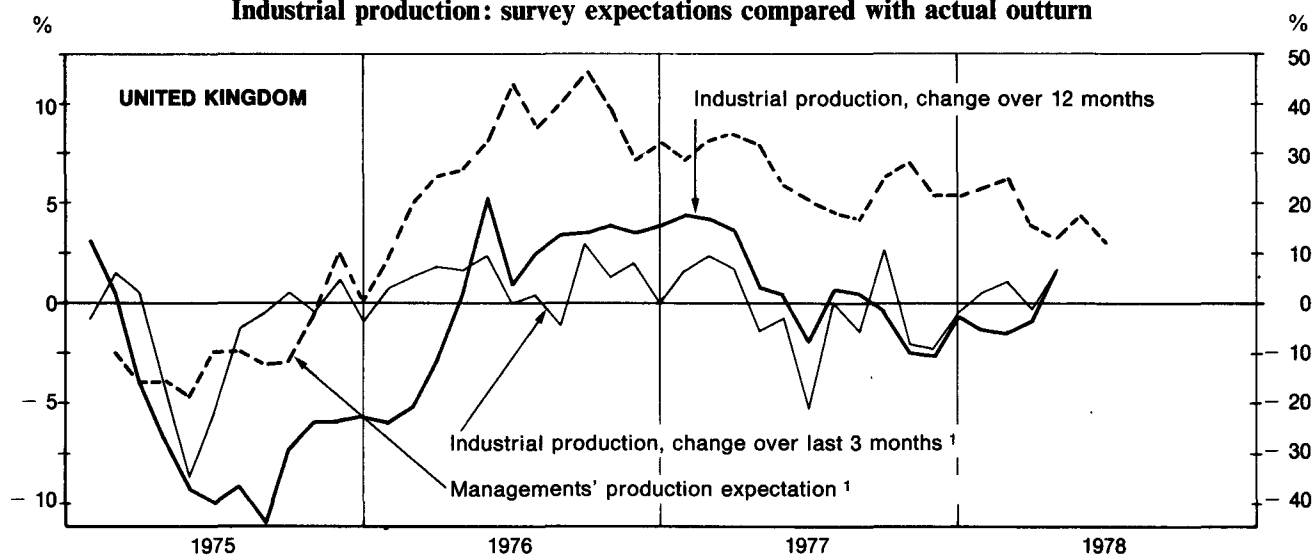
	1972	1973	1974	1975	1976	1977	1978
January	—	117.1	95.4	88.0	95.2	95.8	104.3
May	125.0	111.1	100.0	101.4	94.6	99.5	109.1
October	121.2	114.0	66.0	95.8	90.3	106.1	

Managements' assessments and expectations in the **United Kingdom**, as elsewhere in the Community, reflected an upturn in confidence in 1975/1976, but optimism flagged with regard to industrial output which emerged in September and October of 1977 subsequently moderated, and declined in the spring of this year. In the United Kingdom, however, the actual level of industrial confidence still remains positive, as is also the case in Ireland. The results of the surveys also point to somewhat higher selling prices in the United Kingdom in the coming months.

The favourable climate is echoed in the field of investment: according to the last investment survey (spring 1978), managements anticipated an increase in value terms of 26% in investment spending in 1978.

United Kingdom consumers displayed growing optimism during 1977 and early this year. The May 1978 survey indicates, despite a slight downward movement, that their assessments and attitudes remained at a high level of optimism. Like the industrialists, United Kingdom consumers expect the upward price movement to gather a little momentum.

Industrial production: survey expectations compared with actual outturn



Source: EUROSTAT and harmonized survey among industrialists in the Community.

¹ Seasonally-adjusted series.

N.B.: Left-hand scale: industrial production, expressed as rates of change.

Right-hand scale: percentage balances of positive over negative replies to the question in the harmonized survey carried out among industrialists in the Community.

TABLE 10

UK managements' views on the industrial situation

Balances (%) of positive over negative replies to questions in the monthly business survey (seasonally-adjusted series)

	1977							1978					
	June	July	August	September	October	November	December	January	February	March	April	May	June
Production expectations for the 3 to 4 months ahead	20	18	17	26	28	21	22	23	24	15	13	17	12
Assessment of total order-books	—	—	—	—	—	—	18	18	—	30	—	20	25

NB For the wording of the questions, see the box-insert relating to the business survey

United Kingdom consumer confidence index (May 1974 = 100)

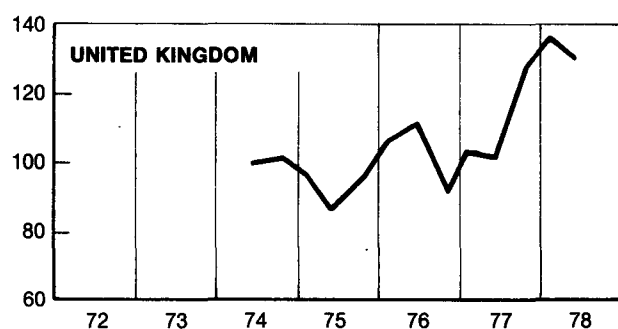


TABLE 11

	1974	1975	1976	1977	1978
January	—	96.0	106.1	103.3	136.6
May	100.0	85.6	111.5	100.9	130.1
October	100.6	96.0	90.6	128.6	

In **Denmark**, the present low level of economic growth is accompanied by market fluctuations in industrialists' expectations. However, the results of the first-quarter survey in 1978 held out the prospect of a modest recovery in industrial output in the second half of the year.

Danish consumers continue to be cautious in their

attitudes to the general economic situation and unemployment. Their financial assessments and expectations nevertheless remain fairly favourable. Furthermore, most consumers believe that the time is ripe for making major purchases.

Danish consumer confidence index (May 1974 = 100)

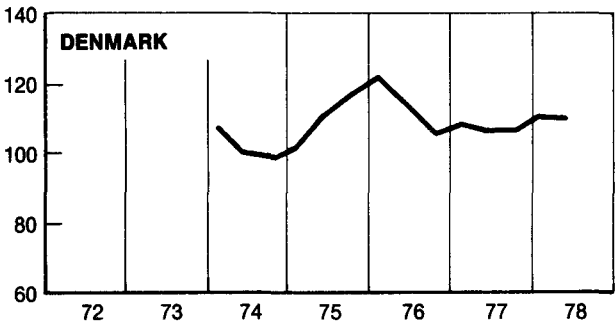


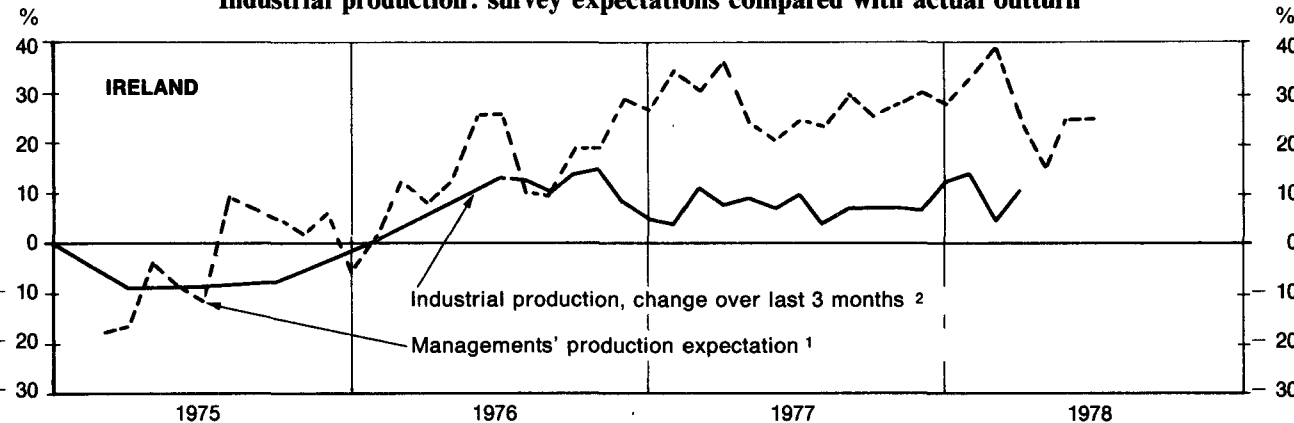
TABLE 12

	1974	1975	1976	1977	1978
January	100.8	101.8	123.3	109.9	111.8
May	100.0	112.2	116.4	109.1	111.5
October	99.4	119.3	106.4	108.5	

In **Ireland**, the trend of the climate of industrial confidence has differed from the other member countries since 1976, foreshadowing a period of sustained growth in industrial production since that time. Thus, as from the beginning of 1976, the number of optimistic replies in the

industrial survey has far exceeded the number of pessimistic opinions. There was a decline in industrial confidence in March and April 1978, but this was partly reversed in May.

Industrial production: survey expectations compared with actual outturn



Source: EUROSTAT and harmonized survey among industrialists in the Community.

¹ Seasonally-adjusted series.

² Quarterly figures before July 1976, monthly figures thereafter.

N.B.: Left-hand scale: industrial production, expressed as rates of change.

Right-hand scale: percentage balances of positive over negative replies to the question in the harmonized survey carried out among industrialists in the Community.

The replies concerning the level of order-books and stocks of finished products show that these appear to be running at virtually a normal level, and production expectations remain very favourable. On investment, industrialists' forecasts improved spectacularly in April. Whereas, in November 1977, growth in terms of value was forecast at 21 % for 1978, the figure was 41 % in the investment survey of March/April this year.

The acceleration in the growth of private consumption in 1977 was also spectacular. Some of the answers in the May survey indicate, however, a moderation in consumer optimism, but the level of the confidence index remains very high.

TABLE 13

Irish managements' views on the industrial situation

Balance (%) of positive over negative replies to the question in the business survey
(seasonally-adjusted series)

	1977							1978					
	June	July	August	September	October	November	December	January	February	March	April	May	June
Production expectations for the 3 to 4 months ahead	25	24	30	26	28	30	28	34	40	26	15	26	25

NB For the wording of the question, see the box-insert on the business survey

Irish consumer confidence index (May 1974 = 100)

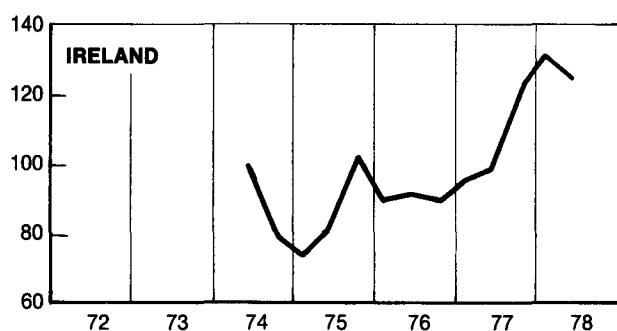


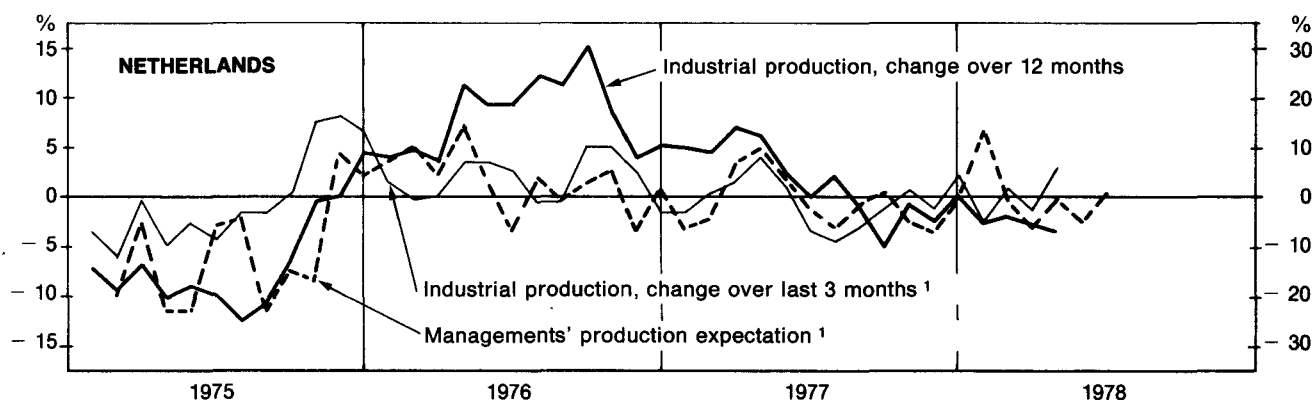
TABLE 14

	1974	1975	1976	1977	1978
January	—	74.2	90.0	95.7	131.9
May	100.0	81.6	90.9	98.6	125.6
October	77.8	102.5	90.1	124.5	

In the Benelux countries, uncertainty continues to prevail amongst industrialists. In the **Netherlands**, after a brief upturn at the end of 1975 and the beginning of 1976, the

trend of industrial production expectations has been marking time since the middle of 1976.

Industrial production: survey expectations compared with actual outturn



Source: EUROSTAT and harmonized survey among industrialists in the Community.

¹ Seasonally-adjusted series.

N.B.: Left-hand scale: industrial production, expressed as rates of change.

Right-hand scale: percentage balances of positive over negative replies to the question in the harmonized survey carried out among industrialists in the Community.

By contrast, production expectations in **Belgium** have been declining since the first quarter of 1976, though there

was a short-lived recovery at the end of 1977.

TABLE 15

Benelux managements' views on the industrial situation

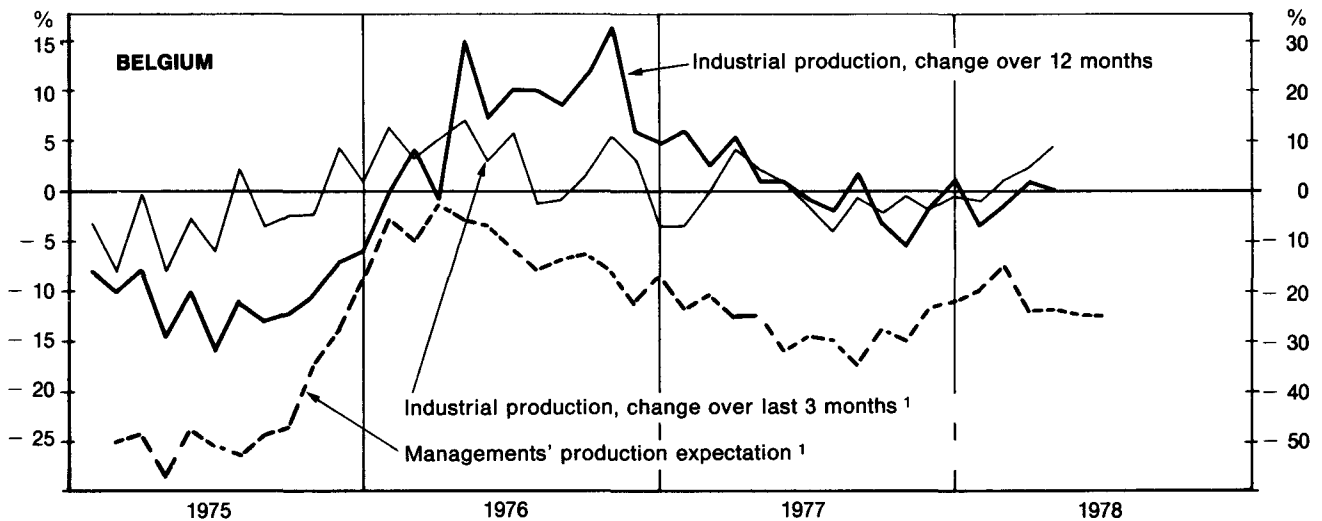
Balances (%) of positive over negative replies to questions in the monthly business survey
(seasonally-adjusted series)

	1977							1978					
	June	July	August	September	October	November	December	January	February	March	April	May	June
Belgium — production outlook	- 29	- 30	- 35	- 28	- 29	- 23	- 22	- 20	- 15	- 24	- 23	- 25	- 25
Netherlands — production outlook	- 2	- 6	- 1	1	- 5	- 7	0	14	- 1	- 5	0	- 5	1
Luxembourg — production outlook	- 12	- 2	- 12	- 8	9	16	- 7	- 18	- 3	- 5	- 16	- 4	- 4

NB: For the wording of the questions, see the box-insert relating to the business survey.

This recovery of confidence among Belgian industrialists came to a halt in the spring of 1978, and the results of the

surveys in May and June 1978 showed a further deterioration in industrial production expectations.

Industrial production: survey expectations compared with actual outturn

Source: EUROSTAT and harmonized survey among industrialists in the Community.

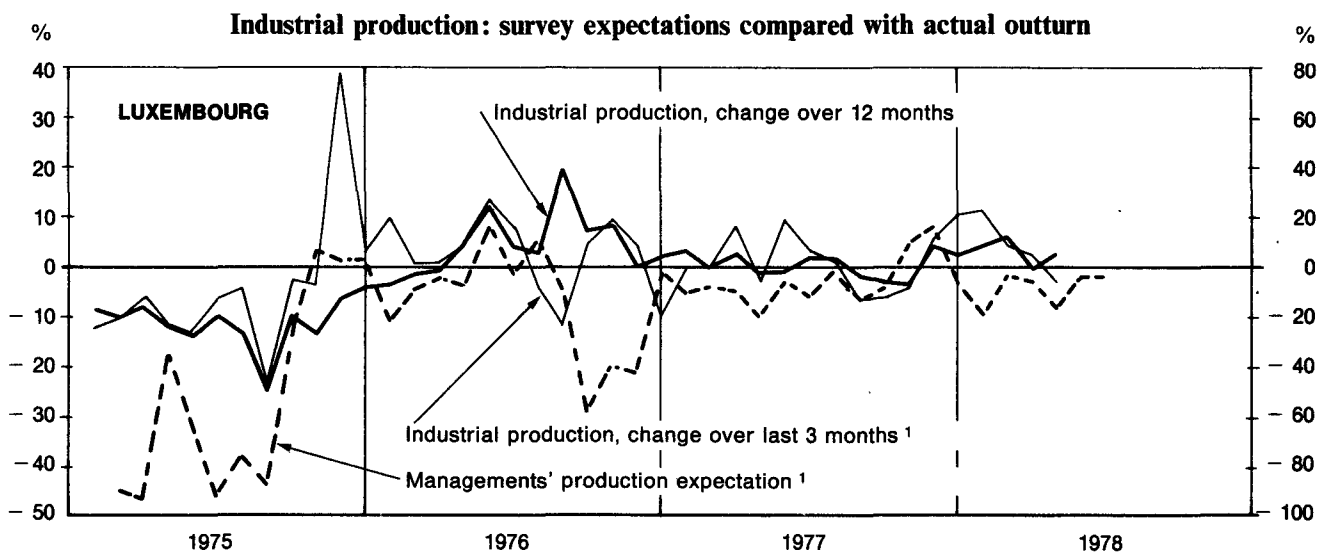
¹ Seasonally-adjusted series.

N.B.: Left-hand scale: industrial production, expressed as rates of change.

Right-hand scale: percentage balances of positive over negative replies to the question in the harmonized survey carried out among industrialists in the Community.

As regards industrial production expectations, the trend in the Netherlands and in Luxembourg is almost the same, with very little cyclical movement, reflecting uncertainty. The promising results of the period from September to

November 1977 did not continue in 1978, the expectations of Luxembourg industrialists showing appreciable fluctuations, without any definitive trend.



Source: EUROSTAT and harmonized survey among industrialists in the Community.

¹ Seasonally-adjusted series.

N.B.: Left-hand scale: industrial production, expressed as rates of change over the previous three months.

Right-hand scale: industrial production, expressed as annual rates of change, and percentage balance of positive over negative replies to the question in the harmonized survey among industrialists in the Community.

The reserved industrial climate in the Benelux countries is also reflected in the industrial investment forecast for 1978. In Belgium, the forecasts (pointing to a drop of 1 % in value) are distinctly less favourable than in the

Netherlands, where managements forecast 6 % growth in the value of industrial investment in 1978. Taking industry alone, the growth in the value of investment in Belgium is expected to be higher.

Belgian consumer confidence index (May 1974 = 100)

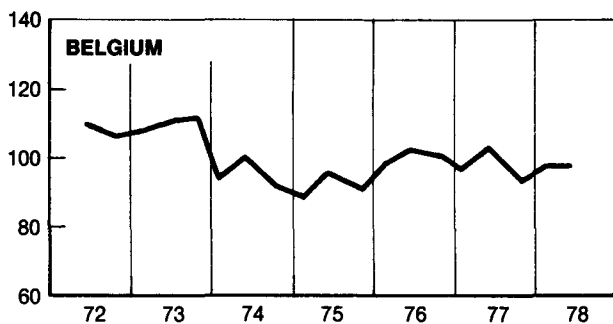


TABLE 16

	1972	1973	1974	1975	1976	1977	1978
January	—	109.2	95.1	88.9	98.8	96.2	97.8
May	110.6	111.5	100.0	95.7	102.8	103.5	98.0
October	107.5	112.8	90.7	91.0	100.7	94.3	

Heads of household in the Benelux countries, like industrial managements, are guarded in their views on the economic future. Though heads of household in Belgium are less inclined to expect an increase in inflation and unemployment, which is a favourable sign, they do not anticipate any increase in their real incomes, thus restricting the scope for expansion in private con-

sumption. Dutch consumers show little optimism on the trend of economic activity.

Their financial expectations, though not pessimistic, are less buoyant than at the beginning of the year, but fewer persons expect an acceleration in inflation. These factors are generally reflected in a decline in the consumer confidence index in May 1978.

Dutch consumer confidence index (May 1974 = 100)

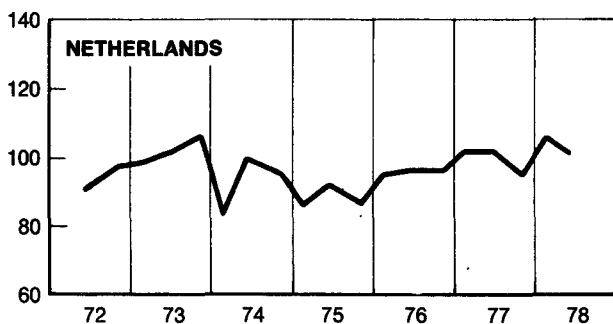


TABLE 17

	1972	1973	1974	1975	1976	1977	1978
January	—	99.4	84.1	86.9	95.5	102.1	106.7
May	91.0	101.7	100.0	93.2	96.6	103.2	101.5
October	98.2	107.6	96.6	87.1	96.1	95.2	

Selected results of the business and consumer surveys

Notes on the indicators of opinions and attitudes of heads of household

The results presented in the tables on the consumer survey are based on the following questions, the indicators having been calculated according to the weighting method shown below.

Weighting of the percentage of total replies	Wording of the questions	Weighting of the percentage of total replies	Wording of the questions
	— <i>How do you think the general economic situation in this country has changed over the last twelve months?</i>		— <i>How do you think the financial position of your household will change over the next twelve months?</i>
+ 2	1. Got a lot better.	+ 2	1. Get a lot better.
+ 1	2. Got a little better.	+ 1	2. Get a little better.
0	3. Stayed the same.	0	3. Stay the same.
– 1	4. Got a little worse.	– 1	4. Get a little worse.
– 2	5. Got a lot worse.	– 2	5. Get a lot worse.
0	6. Don't know.	0	6. Don't know.
	— <i>How do you think the general economic situation in this country will develop over the next twelve months?</i>		— <i>How do you think the level of unemployment in the country will change over the next twelve months?</i>
+ 2	1. Get a lot better.	– 2	1. Increase sharply.
+ 1	2. Get a little better.	– 1	2. Increase slightly.
0	3. Stay the same.	0	3. Remain the same.
– 1	4. Get a little worse.	+ 1	4. Fall slightly.
– 2	5. Get a lot worse.	+ 2	5. Fall sharply.
0	6. Don't know.	0	6. Don't know.
	— <i>Compared to what they were 12 months ago, do you think that prices in general are now:</i>		— <i>Do you think that there is an advantage for people to make major purchases (furniture, washing machines, TV sets, etc.) at the present time?</i>
– 3	1. Much higher.		1. Yes, now is the right time.
– 2	2. Moderately higher.		2. It is neither the right time nor the wrong time.
– 1	3. A little higher.	+ 1	3. No, it is the wrong time, the purchase should be postponed.
0	4. About the same.	0	4. Don't know.
+ 1	5. Lower.	– 1	
0	6. Don't know.	0	
	— <i>By comparison to what is happening now, do you consider that in the next twelve months:</i>		— <i>In view of the general economic situation at the present time, do you think that this is a reasonable time to save?</i>
– 3	1. There will be a more rapid increase in prices.		1. Yes, certainly.
– 2	2. Prices will increase at the same rate.	+ 2	2. Yes, perhaps.
– 1	3. Prices will increase at a slower rate.	+ 1	3. Probably not.
0	4. Prices will be stable.	– 1	4. Certainly not.
+ 1	5. Prices will fall slightly.	– 2	5. Don't know.
0	6. Don't know.	0	
	— <i>How does the financial situation of your household now compare with what it was twelve months ago?</i>		— <i>Over the next twelve months do you think that you, or any member of your household, will manage to save some money?</i>
+ 2	1. Got a lot better.		1. Yes, certainly.
+ 1	2. Got a little better.	+ 2	2. Yes, perhaps.
0	3. Stayed the same.	+ 1	3. Probably not.
– 1	4. Got a little worse.	– 1	4. Certainly not.
– 2	5. Got a lot worse.	– 2	5. Don't know.
0	6. Don't know.	0	

TABLE I
The EEC Consumer Survey
Indicators ¹ of the opinions and views of heads of household
Denmark

QUESTIONS	1972		1973			1974			1975			1976			1977			1978	
	May	October	January	May	October	January	May	October	January	May	October	January	May	October	January	May	October	January	May
Opinion on the general economic situation over the last twelve months						- 98	- 116	- 118	- 125	- 70	- 50	- 46	- 64	- 92	- 80	- 89	- 79	- 64	- 65
Opinion on the general economic situation over the next twelve months						- 58	- 66	- 39	- 10	- 2	- 9	- 3	- 26	- 46	- 41	- 55	- 49	- 46	- 48
Opinion on the price level compared with twelve months ago						- 242	- 248	- 251	- 230	- 221	- 184	- 178	- 201	- 217	- 206	- 220	- 205	- 202	- 189
Opinion on price trends over the next twelve months						- 184	- 192	- 175	- 121	- 140	- 119	- 137	- 145	- 160	- 160	- 183	- 156	- 152	- 152
Opinion on the financial situation of the household compared with twelve months ago						- 1	- 3	- 10	- 5	+ 3	+ 12	+ 16	+ 14	+ 3	+ 4	+ 10	0	+ 3	+ 3
Opinion on the outlook for the financial situation of the household over the next twelve months						- 7	- 3	+ 1	+ 8	+ 9	+ 19	+ 20	+ 21	+ 6	+ 11	+ 13	+ 7	+ 12	+ 12
Opinion on the trend of employment over the next twelve months						- 66	- 66	- 29	+ 32	+ 51	+ 11	+ 15	+ 12	- 27	- 41	- 56	- 70	- 58	- 53
Advisability of making major purchases (furniture, washing machines, TV sets, etc.) at the present time						+ 16	+ 33	+ 6	- 8	+ 4	+ 36	+ 55	+ 39	+ 28	+ 35	+ 43	+ 38	+ 40	+ 40
Advisability of saving in view of the general economic situation at the present time						+ 7	- 43	+ 5	+ 30	+ 27	+ 55	+ 42	+ 55	+ 30	+ 24	+ 18	+ 9	+ 13	+ 6
Ability to save over the next twelve months						- 42	- 53	- 53	- 41	- 36	- 9	- 11	- 5	- 26	- 24	- 18	- 28	- 23	- 28

¹ See introductory notes.

TABLE 2

The EEC Consumer Survey
Indicators ¹ of the opinions and views of heads of household
Federal Republic of Germany

QUESTIONS	1972		1973			1974			1975			1976			1977			1978	
	May	October	January	May	October	January	May	October	January	May	October	January	May	October	January	May	October	January	May
Opinion on the general economic situation over the last twelve months	- 20	- 16	± 0	- 38	- 47	- 94	- 72	- 76	- 92	- 53	- 70	- 34	+ 1	+ 11	- 17	- 25	- 21	- 30	- 13
Opinion on the general economic situation over the next twelve months	- 2	+ 3	+ 5	- 23	- 26	- 67	- 31	- 42	- 25	+ 6	- 13	+ 12	+ 21	+ 10	- 10	- 11	- 7	- 11	- 3
Opinion on the price level compared with twelve months ago					-232	-217	-228	-210	-194	-171	-192	-168	-182	-161	-160	-162	-140	-138	-134
Opinion on price trends over the next twelve months					-153	-203	-179	-176	-156	-143	-166	-151	-163	-161	-168	-169	-156	-166	-161
Opinion on the financial situation of the household compared with twelve months ago	+ 5	+ 6	+ 9	- 14	- 22	- 30	- 19	- 13	- 20	- 7	- 18	- 12	- 9	- 1	- 3	- 7	- 1	- 4	- 0
Opinion on the outlook for the financial situation of the household over the next twelve months	+ 4	+ 10	+ 8	- 11	- 8	- 24	- 14	- 11	- 10	- 1	- 12	- 2	+ 3	+ 4	+ 2	- 1	+ 2	+ 1	+ 3
Opinion on the trend of employment over the next twelve months	- 16	- 6	- 1	- 12	- 39	- 82	- 54	- 61	- 24	+ 11	+ 3	+ 18	+ 23	+ 27	- 11	- 22	- 13	- 36	- 28
Advisability of making major purchases (furniture, washing machines, TV sets, etc.) at the present time	+ 24	+ 29	+ 31	+ 28	+ 10	+ 2	+ 13	+ 12	+ 9	+ 20	+ 26	+ 26	+ 21	+ 21	+ 23	+ 21	+ 21	+ 27	+ 31
Advisability of saving in view of the general economic situation at the present time	+ 65	+ 57	+ 72	+ 23	+ 45	+ 64	+ 43	+ 66	+ 94	+108	+ 88	+ 96	+ 77	+ 96	+ 94	+ 82	+ 76	+ 50	+ 63
Ability to save over the next twelve months	+ 62	+ 72	+ 73	+ 56	+ 50	+ 59	+ 50	+ 80	+ 81	+ 88	+ 91	+ 92	+ 71	+ 85	+ 93	+ 84	+ 77	+ 79	+ 82

¹ See introductory notes

TABLE 3

Business survey among industrial managements in the European Community
Federal Republic of Germany
Percentage balance of positive over negative replies ¹

Year Quarter Month		Total order books BALANCES ²	Stocks of finished products BALANCES ²	Production expectations BALANCES ²	Assessment of production capacity BALANCES
1968		- 2	- 2	+ 23	+ 6
1969		+ 28	- 16	+ 20	- 21
1970		+ 7	0	+ 4	- 7
1971		- 27	+ 15	- 8	+ 16
1972		- 26	+ 14	+ 6	+ 18
1973		- 6	+ 1	+ 4	+ 4
1974		- 32	+ 19	- 17	+ 26
1975		- 60	+ 33	- 10	+ 52
1976		- 34	+ 11	+ 5	+ 35
1977		- 42	+ 18	- 8	+ 37
1977	Q.1	- 34	+ 12	- 8	+ 35
	Q.2	- 41	+ 17	- 10	+ 36
	Q.3	- 45	+ 21	- 12	
	Q.4	- 42	+ 20	- 5	
1978	January	- 42	+ 22	- 4	
	February	- 43	+ 18	- 6	
	March	- 44	+ 19	- 6	
	April	- 45	+ 19	- 9	
	May	- 42	+ 19	- 8	
	June	- 44	+ 20	- 8	

For the wording of the questions asked, see notes on page 80
The sub-annual figures are seasonally adjusted

TABLE 4

The EEC Consumer Survey
Indicators ¹ of the opinions and views of heads of household
France

QUESTIONS	1972		1973			1974			1975			1976			1977			1978	
	May	October	January	May	October	January	May	October	January	May	October	January	May	October	January	May	October	January	May
Opinion on the general economic situation over the last twelve months	- 6	- 1	+ 10	+ 13	- 16	- 27	- 47	- 65	- 52	- 46	- 39	- 35	- 32	- 42	- 41	- 57	- 38	- 33	- 28
Opinion on the general economic situation over the next twelve months	- 4	+ 4	+ 14	+ 9	- 26	- 72	- 23	- 64	- 33	- 25	- 24	- 22	- 17	- 36	- 28	- 43	- 20	- 12	- 25
Opinion on the price level compared with twelve months ago					- 275	- 272	- 286	- 278	- 265	- 246	- 240	- 245	- 246	- 261	- 244	- 257	- 231	- 204	- 223
Opinion on price trends over the next twelve months					- 248	- 223	- 144	- 148	- 129	- 127	- 146	- 151	- 162	- 138	- 133	- 156	- 136	- 129	- 199
Opinion on the financial situation of the household compared with twelve months ago	- 1	+ 4	+ 9	+ 8	- 1	- 6	- 9	- 15	- 10	- 7	- 5	- 3	- 2	- 10	- 6	- 10	- 8	- 4	- 4
Opinion on the outlook for the financial situation of the household over the next twelve months	+ 14	+ 18	+ 21	+ 21	+ 12	- 7	+ 6	- 5	+ 7	+ 9	+ 9	+ 14	+ 13	+ 4	+ 8	+ 3	+ 9	+ 12	+ 7
Opinion on the trend of employment over the next twelve months		- 21	- 13	- 21	- 32	- 83	- 40	- 108	- 74	- 69	- 58	- 32	- 12	- 47	- 45	- 57	- 34	- 26	- 49
Advisability of making major purchases (furniture, washing machines, TV sets, etc.) at the present time		+ 37	+ 30	+ 40	+ 43	+ 49	+ 43	+ 31	+ 27	+ 26	+ 34	+ 38	+ 42	+ 33	+ 30	+ 28	+ 27	+ 25	+ 36
Advisability of saving in view of the general economic situation at the present time		+ 25	+ 44	+ 36	+ 8	- 3	- 3	- 4	+ 11	+ 16	+ 15	+ 10	+ 7	- 3	+ 10	+ 7	+ 17	+ 24	+ 18
Ability to save over the next twelve months	- 52		- 47	- 50	- 64	- 74	- 70	- 79	- 64	- 62	- 60	- 55	- 59	- 63	- 54	- 58	- 59	- 46	- 54

¹ See introductory notes.

TABLE 5

Business survey among industrial managements in the European Community
France
Percentage balance of positive over negative replies ¹

Year Quarter Month		Total order books BALANCES ²	Stocks of finished products BALANCES ²	Production expectations BALANCES ²	Assessment of production capacity BALANCES
1968		- 4	+ 2	+ 23	+ 2
1969		+ 30	- 15	+ 28	- 32
1970		+ 1	+ 7	+ 16	- 31
1971		- 12	+ 17	+ 19	- 13
1972		- 3	+ 6	+ 24	- 10
1973		+ 19	- 9	+ 25	- 22
1974		- 1	+ 6	- 2	- 20
1975		- 52	+ 36	- 11	+ 39
1976		- 20	+ 6	+ 12	+ 22
1977		- 38	+ 28	- 5	+ 26
1977	Q.1	- 23	+ 15	- 1	+ 21
	Q.2	- 37	+ 26	- 7	+ 23
	Q.3	- 41	+ 31	- 7	
	Q.4	- 43	+ 34	- 6	+ 34
1978	January	- 43	+ 31	- 4	
	February	- 38	+ 31	- 3	
	March	- 38	+ 27	+ 2	
	April	- 32	+ 25	+ 11	
	May	- 31	+ 29	+ 5	
	June	- 29	+ 31	+ 6	+ 29

¹ For the wording of the questions asked, see notes on page 80.

² The sub-annual figures are seasonally adjusted.

TABLE 6

The EEC Consumer Survey
Indicators ¹ of the opinions and views of heads of household
Ireland

QUESTIONS	1972		1973			1974			1975			1976			1977			1978	
	May	October	January	May	October	January	May	October	January	May	October	January	May	October	January	May	October	January	May
Opinion on the general economic situation over the last twelve months							- 84	- 146	- 165	- 143	- 89	- 117	- 121	- 116	- 111	- 92	- 25	+ 2	- 10
Opinion on the general economic situation over the next twelve months							- 38	- 77	- 83	- 82	- 41	- 79	- 55	- 74	- 50	- 43	+ 19	+ 27	+ 1
Opinion on the price level compared with twelve months ago							- 280	- 289	- 290	- 289	- 237	- 268	- 279	- 273	- 274	- 279	- 229	- 190	- 218
Opinion on price trends over the next twelve months							- 202	- 223	- 234	- 245	- 193	- 193	- 178	- 213	- 206	- 198	- 148	- 124	- 163
Opinion on the financial situation of the household compared with twelve months ago							- 71	- 99	- 103	- 84	- 44	- 54	- 75	- 70	- 68	- 70	- 28	- 15	- 20
Opinion on the outlook for the financial situation of the household over the next twelve months							- 24	- 55	- 52	- 51	- 23	- 42	- 36	- 46	- 35	- 34	+ 5	+ 14	- 1
Opinion on the trend of employment over the next twelve months							+ 1	- 85	- 91	- 56	- 53	- 86	- 60	- 69	- 39	- 37	+ 7	+ 1	- 16
Advisability of making major purchases (furniture, washing machines, TV sets, etc.) at the present time							+ 28	+ 8	+ 5	+ 22	+ 28	+ 22	+ 24	+ 37	+ 40	+ 39	+ 39	+ 42	+ 49
Advisability of saving in view of the general economic situation at the present time							+ 11	- 5	- 1	- 7	- 2	- 11	- 16	- 6	- 21	- 3	+ 4	+ 24	+ 29
Ability to save over the next twelve months							- 9	- 35	- 42	- 34	- 14	- 45	- 45	- 31	- 26	- 39	- 21	- 12	- 11

¹ See introductory notes

TABLE 7

Business survey among industrial managements in the European Community
Ireland
Percentage balance of positive over negative replies ¹

Year Quarter Month		Total order books BALANCES ²	Stocks of finished products BALANCES ²	Production expectations BALANCES ²	Assessment of production capacity BALANCES
1968					
1969					
1970					
1971					
1972					
1973					
1974					
1975		- 56	+ 21	- 3	+ 25
1976		- 22	+ 10	+ 19	+ 21
1977		- 13	+ 4	+ 29	+ 1
1977	Q 1	- 7	+ 2	+ 31	+ 6
	Q 2	- 14	+ 4	+ 23	+ 8
	Q 3	- 14	+ 6	+ 29	
	Q 4	- 18	+ 6	+ 31	- 3
1978	January	- 20	+ 8	+ 34	
	February	- 2	+ 12	+ 40	
	March	- 14	+ 13	+ 26	
	April	- 14	+ 1	+ 15	
	May	- 5	+ 2	+ 26	
	June	- 4	+ 1	+ 25	+ 5

For the wording of the questions asked, see notes on page 80

The sub-annual figures are seasonally adjusted

TABLE 8

The EEC Consumer Survey

Indicators ¹ of the opinions and views of heads of household
Italy

QUESTIONS	1972		1973			1974			1975			1976			1977			1978	
	May	October	January	May	October	January	May	October	January	May	October	January	May	October	January	May	October	January	May
Opinion on the general economic situation over the last twelve months	- 52	- 55	- 56	- 89	- 84	- 133	- 131	- 158	- 155	- 114	- 130	- 134	- 154	- 152	- 140	- 187	- 90	- 105	- 92
Opinion on the general economic situation over the next twelve months	+ 20	- 6	- 8	- 23	- 14	- 70	- 52	- 70	- 60	- 24	- 51	- 57	- 41	- 56	- 47	- 44	- 34	- 37	- 25
Opinion on the price level compared with twelve months ago					- 267	- 271	- 279	- 283	- 277	- 258	- 257	- 255	- 272	- 271	- 271	- 261	- 244	- 237	- 231
Opinion on price trends over the next twelve months					- 187	- 229	- 195	- 181	- 165	- 142	- 173	- 182	- 162	- 194	- 186	- 180	- 179	- 174	- 171
Opinion on the financial situation of the household compared with twelve months ago	- 9	- 17	- 17	- 27	- 23	- 36	- 32	- 57	- 53	- 44	- 45	- 43	- 50	- 54	- 46	- 40	- 34	- 34	- 28
Opinion on the outlook for the financial situation of the household over the next twelve months	+ 13	+ 3	+ 1	- 4	- 4	- 23	- 14	- 31	- 26	- 11	- 21	- 23	- 18	- 31	- 23	- 21	- 18	- 16	- 10
Opinion on the trend of employment over the next twelve months	- 52	- 59	- 51	- 52	- 37	- 97	- 60	- 131	- 122	- 85	- 100	- 114	- 78	- 80	- 84	- 79	- 79	- 89	- 74
Advisability of making major purchases (furniture, washing machines, TV sets, etc.) at the present time	- 16	+ 2	- 24	- 7	- 3	- 8	- 6	- 26	- 33	- 31	- 20	- 15	- 13	- 16	- 11	- 7	- 12	- 10	- 10
Advisability of saving in view of the general economic situation at the present time	+ 79	+ 56	+ 69	+ 2	- 7	- 16	- 19	- 14	+ 2	+ 9	+ 2	- 9	- 15	- 6	+ 4	- 3	+ 11	+ 9	+ 6
Ability to save over the next twelve months	- 50	- 53	- 51	- 77	- 72	- 89	- 69	- 95	- 94	- 85	- 86	- 88	- 88	- 84	- 78	- 77	- 69	- 68	- 61

¹ See introductory notes.

TABLE 9

Business survey among industrial managements in the European Community

Italy

Percentage balance of positive over negative replies ¹

Year Quarter Month		Total order books BALANCES ²	Stocks of finished products BALANCES ²	Production expectations BALANCES ²	Assessment of production capacity BALANCES
1968		- 6	+ 7	+ 11	+ 21
1969		+ 18	- 11	+ 24	+ 1
1970		- 9	- 2	+ 10	+ 3
1971		- 43	+ 28	- 7	+ 37
1972		- 23	+ 11	+ 7	+ 29
1973		+ 12	- 15	+ 25	+ 10
1974		- 21	+ 4	- 8	+ 21
1975		- 68	+ 39	- 19	+ 57
1976		- 25	+ 12	+ 3	+ 41
1977		- 46	+ 31	- 15	+ 40
1977	Q.1	- 28	+ 19	- 4	+ 35
	Q.2	- 40	+ 31	- 19	+ 38
	Q.3	- 46	+ 35	- 18	
	Q.4	- 53	+ 34	- 15	+ 48
1978	January	- 53	+ 31	- 11	+ 53
	February	- 50	+ 29	- 7	
	March	- 56	+ 32	- 1	
	April	- 52	+ 32	- 7	
	May	- 49	+ 30	- 13	
	June	- 40	- 25	- 7	

¹ For the wording of the questions asked, see notes on page 80² The sub-annual figures are seasonally adjusted

TABLE 10

The EEC Consumer Survey

Indicators ¹ of the opinions and views of heads of household
Netherlands

QUESTIONS	1972		1973			1974			1975			1976			1977			1978	
	May	October	January	May	October	January	May	October	January	May	October	January	May	October	January	May	October	January	May
Opinion on the general economic situation over the last twelve months	- 91	- 62	- 56	- 48	- 16	-110	- 50	- 63	-115	- 95	-116	- 93	- 78	- 76	- 46	- 47	- 77	- 31	- 44
Opinion on the general economic situation over the next twelve months	- 64	- 44	- 40	- 29	- 12	- 83	- 32	- 53	- 71	- 43	- 73	- 26	- 21	- 34	- 21	- 13	- 54	- 8	- 31
Opinion on the price level compared with twelve months ago					-260	-292	-284	-282	-281	-269	-274	-267	-280	-274	-265	-272	-228	-208	-187
Opinion on price trends over the next twelve months					-157	-232	-201	-212	-204	-194	-213	-192	-199	-193	-182	-192	-174	-169	-158
Opinion on the financial situation of the household compared with twelve months ago	+ 6	+ 4	+ 6	+ 6	+ 12	- 6	± 0	+ 2	- 5	- 2	- 5	- 1	- 9	- 9	- 4	+ 2	+ 1	+ 9	+ 8
Opinion on the outlook for the financial situation of the household over the next twelve months	- 1	- 4	- 1	+ 1	+ 4	- 23	- 2	- 9	- 15	- 9	- 17	- 13	- 16	- 9	- 1	+ 3	- 3	+ 5	+ 2
Opinion on the trend of employment over the next twelve months	-106	-109	- 84	- 60	- 52	-129	- 81	-137	-133	- 96	-137	- 92	- 47	- 87	- 54	- 83	-113	- 47	- 91
Feasibility of making major purchases (furniture, washing machines, TV sets, etc.) at the present time	+ 18	+ 37	+ 33	+ 34	+ 32	+ 19	+ 32	+ 39	+ 30	+ 33	+ 37	+ 38	+ 40	+ 39	+ 40	+ 33	+ 35	+ 37	+ 27
Feasibility of saving in view of the general economic situation at the present time	+ 42	+ 41	+ 44	+ 39	+ 46	+ 41	+ 29	+ 30	+ 31	+ 15	- 1	+ 13	+ 3	+ 2	+ 11	+ 9	+ 19	+ 25	+ 27
Ability to save over the next twelve months	+ 15	- 2	+ 4	+ 3	+ 4	- 8	± 0	+ 8	+ 4	+ 6	- 3	+ 5	- 14	- 3	+ 8	± 0	+ 1	+ 12	+ 13

See introductory notes.

TABLE 11

Business survey among industrial managements in the European Community

Netherlands

Percentage balance of positive over negative replies ¹

Year Quarter Month		Total order books BALANCES ²	Stocks of finished products BALANCES ²	Production expectations BALANCES ²	Assessment of production capacity BALANCES
1968					
1969					
1970					
1971					
1972		- 19	+ 16	+ 12	0
1973		0	+ 3	+ 20	+ 3
1974		- 9	+ 13	+ 5	+ 10
1975		- 43	+ 49	- 10	+ 52
1976		- 31	+ 31	+ 1	+ 43
1977		- 29	+ 22	+ 1	+ 45
1977	Q 1	- 27	+ 16	+ 4	+ 47
	Q 2	- 24	+ 16	- 1	+ 44
	Q 3	- 29	+ 25	- 1	
	Q 4	- 33	+ 25	+ 2	+ 45
1978	January	- 31	+ 22	+ 14	
	February	- 29	+ 25	- 1	+ 45
	March	- 26	+ 20	- 5	
	April	- 28	+ 18	0	
	May	- 24	+ 18	- 5	
	June	- 28	+ 16	+ 1	

²For the wording of the questions asked, see notes on page 80¹The sub-annual figures are seasonally adjusted

TABLE 12
The EEC Consumer Survey
Indicators ¹ of the opinions and views of heads of household
Belgium

QUESTIONS	1972		1973			1974			1975			1976			1977			1978	
	May	October	January	May	October	January	May	October	January	May	October	January	May	October	January	May	October	January	May
Opinion on the general economic situation over the last twelve months	- 35	- 43	- 40	- 30	- 23	- 87	- 76	- 104	- 122	- 111	- 121	- 109	- 88	- 84	- 98	- 75	- 97	- 93	- 8
Opinion on the general economic situation over the next twelve months	- 16	- 36	- 36	- 28	- 27	- 92	- 64	- 81	- 81	- 47	- 57	- 22	- 20	- 36	- 52	- 19	- 64	- 40	- 4
Opinion on the price level compared with twelve months ago					- 276	- 285	- 291	- 291	- 292	- 289	- 286	- 285	- 283	- 280	- 278	- 273	- 255	- 228	- 20
Opinion on price trends over the next twelve months						- 198	- 172		- 167	- 133	- 151	- 139	- 158	- 149	- 163	- 137	- 152	- 135	- 12
Opinion on the financial situation of the household compared with twelve months ago	+ 2	- 1	+ 2	- 1	- 0	- 8	- 13	- 27	- 23	- 18	- 23	- 20	- 20	- 23	- 26	- 21	- 25	- 20	- 2
Opinion on the outlook for the financial situation of the household over the next twelve months	+ 12	+ 5	+ 6	+ 7	+ 7	- 7	- 3	- 12	- 11	- 2	- 6	- 2	- 2	- 1	- 7	- 0	- 8	- 5	-
Opinion on the trend of employment over the next twelve months	- 47	- 46	- 46	- 36	- 34	- 79	- 71	- 123	- 139	- 88	- 104	- 56	- 24	- 63	- 75	- 21	- 89	- 86	-
Advisability of making major purchases (furniture, washing machines, TV sets, etc.) at the present time	+ 26	+ 36	+ 44	+ 49	+ 51	+ 44	+ 50	+ 35	+ 32	+ 34	+ 25	+ 36	+ 45	+ 44	+ 43	+ 40	+ 37	+ 42	+
Advisability of saving in view of the general economic situation at the present time	+ 88	+ 93	+ 93	+ 88	+ 89	+ 68	+ 45	+ 58	+ 65	+ 74	+ 59	+ 70	+ 58	+ 54	+ 68	+ 67	+ 62	+ 65	+
Ability to save over the next twelve months	- 23	- 22	- 22	- 29	- 16	- 27	- 22	- 34	- 33	- 26	- 21	- 23	- 28	- 13	- 29	- 17	- 24	- 25	-

¹ See introductory notes.

TABLE 13
Business survey among industrial managements in the European Community
Belgium
Percentage balance of positive over negative replies ¹

Year Quarter Month		Total order books BALANCES ²	Stocks of finished products BALANCES ²	Production expectations BALANCES ²	Assessment of production capacity BALANCES
1968		- 18	+ 4	+ 6	+ 26
1969		+ 13	- 8	+ 22	- 6
1970		- 11	+ 7	- 2	- 5
1971		- 20	+ 12	- 9	+ 14
1972		- 19	+ 7	+ 6	+ 20
1973		+ 4	- 4	+ 16	- 2
1974		- 17	+ 3	- 19	+ 8
1975		- 61	+ 24	- 36	+ 54
1976		- 41	+ 6	- 16	+ 51
1977		- 54	+ 18	- 27	+ 61
1977	Q 1	- 48	+ 5	- 24	+ 57
	Q 2	- 56	+ 20	- 32	+ 62
	Q 3	- 57	+ 24	- 30	
	Q 4	- 52	+ 18	- 22	+ 64
1978	January	- 50	+ 16	- 20	+ 61
	February	- 50	+ 25	- 15	
	March	- 51	+ 22	- 24	
	April	- 55	+ 26	- 23	
	May	- 50	+ 26	+ 25	
	June	- 52	+ 24	- 25	

¹ For the wording of the questions asked, see notes on page 80

² The sub-annual figures are seasonally adjusted

TABLE 14

Business survey among industrial managements in the European Community

Luxembourg

Percentage balance of positive over negative replies ¹

Year Quarter Month		Total order books BALANCES ²	Stocks of finished products BALANCES ²	Production expectations BALANCES ²	Assessment of production capacity BALANCES
1968		- 3	- 2	+ 3	+ 2
1969		+ 75	- 4	+ 7	- 2
1970		+ 7	+ 4	- 15	- 1
1971		- 28	+ 1	- 10	+ 28
1972		- 10	0	+ 18	0
1973		+ 57	0	+ 39	- 27
1974		+ 27	+ 11	- 18	- 21
1975		- 81	+ 24	- 40	+ 51
1976		- 72	+ 8	- 17	+ 72
1977		- 73	+ 13	- 8	+ 72
1977	Q 1	- 60	+ 5	- 13	+ 71
	Q.2	- 66	+ 6	- 6	+ 72
	Q.3	- 87	+ 29	- 7	
	Q.4	- 64	+ 11	- 9	+ 72
1978	January	- 63	+ 10	- 18	+ 69
	February	- 61	+ 17	- 3	
	March	- 68	+ 12	- 5	
	April	- 72	+ 14	- 16	
	May	- 64	+ 17	- 4	
	June	- 63	+ 9	- 4	

For the wording of the questions asked, see notes on page 80

The sub-annual figures are seasonally adjusted

TABLE 15

The EEC Consumer Survey

Indicators ¹ of the opinions and views of heads of household
United Kingdom

QUESTIONS	1972		1973			1974			1975			1976			1977			1978	
	May	October	January	May	October	January	May	October	January	May	October	January	May	October	January	May	October	January	May
Opinion on the general economic situation over the last twelve months							- 107	- 117	- 132	- 147	- 128	- 102	- 88	- 142	- 114	- 104	- 8	+ 15	+ 2
Opinion on the general economic situation over the next twelve months							- 34	- 49	- 61	- 74	- 40	- 3	- 16	- 52	- 1	- 11	+ 44	+ 47	+ 10
Opinion on the price level compared with twelve months ago							- 228	- 224	- 231	- 236	- 215	- 207	- 204	- 232	- 241	- 241	- 198	- 178	- 168
Opinion on price trends over the next twelve months							- 170	- 184	- 188	- 190	- 152	- 152	- 122	- 167	- 197	- 187	- 133	- 139	- 164
Opinion on the financial situation of the household compared with twelve months ago							- 59	- 33	- 43	- 54	- 55	- 54	- 58	- 68	- 69	- 86	- 50	- 23	- 19
Opinion on the outlook for the financial situation of the household over the next twelve months							- 15	- 20	- 29	- 36	- 25	- 17	- 5	- 43	- 28	- 26	+ 13	+ 14	+ 7
Opinion on the trend of employment over the next twelve months							- 20	- 80	- 113	- 125	- 76	- 70	- 16	- 65	- 60	- 35	- 31	- 19	- 40
Advisability of making major purchases (furniture, washing machines, TV sets, etc.) at the present time							+ 15	+ 24	+ 33	- 4	+ 16	+ 25	+ 27	+ 30	+ 36	+ 34	+ 30	+ 40	+ 41
Advisability of saving in view of the general economic situation at the present time							+ 43	+ 28	+ 16				- 45	- 51	- 37	- 37	- 22	- 8	- 24
Ability to save over the next twelve months							- 9	- 7	- 9	- 9	- 11	- 14	- 11	- 24	- 24	- 44	- 19	- 2	- 7

¹ See introductory notes.

TABLE 16

Business survey among industrial managements in the European Community

United Kingdom

Percentage balance of positive over negative replies ¹

Year Quarter Month		Total order books BALANCES ²	Stocks of finished products BALANCES ²	Production expectations BALANCES ²	Assessment of production capacity BALANCES
1968					
1969					
1970					
1971					
1972					
1973					
1974					
1975				- 8	
1976				+ 33	
1977				+ 24	
1977	Q.1			+ 33	
	Q.2			+ 20	
	Q.3			+ 24	
	Q.4	- 22	+ 4	+ 22	
1978	January	- 30	+ 3	+ 23	
	February	- 20	+ 4	+ 24	
	March	- 20	+ 16	+ 15	
	April	- 35	+ 14	+ 13	
	May	- 27	+ 14	+ 17	
	June	- 25	+ 12	+ 12	

¹ For the wording of the questions asked, see notes on page 80

² The sub-annual figures are seasonally adjusted

TABLE 17

Business survey among industrial managements in the European Community

Community as a whole

Percentage balance of positive over negative replies ¹

Year Quarter Month		Total order books BALANCES ²	Stocks of finished products BALANCES ²	Production expectations BALANCES ²	Assessment of production capacity BALANCES
1968		- 5	+ 1	+ 20	+ 8
1969		+ 26	- 15	+ 23	- 20
1970		+ 1	+ 3	+ 8	- 3
1971		- 24	+ 18	+ 1	+ 14
1972		- 18	+ 10	+ 12	+ 14
1973		+ 6	- 5	+ 16	- 4
1974		- 19	+ 12	- 10	+ 13
1975		- 58	+ 35	- 13	+ 49
1976		- 29	+ 11	+ 10	+ 33
1977		- 40	+ 22	- 3	+ 36
1977	Q.1	- 34	+ 16	- 1	+ 33
	Q.2	- 39	+ 21	- 3	+ 35
	Q.3	- 43	+ 24	- 2	
	Q.4	- 46	+ 27	- 5	+ 41
1978	January	- 47	+ 27	- 5	
	February	- 44	+ 26	- 4	
	March	- 44	+ 26	- 2	+ 39
	April	- 47	+ 24	0	
	May	- 42	+ 23	- 1	
	June	- 39	- 23	+ 1	

For the wording of the questions asked, see notes on page 80

The sub-annual figures are seasonally adjusted.

Multiplier effects of concerted action

I. The principles of concerted action

1. The underlying principle behind an internationally coordinated expansionary programme is that through reducing the sources of leakage by way of imports the final effects in the participating countries of any given stimulus to demand are greatly increased. The stimulus to domestic demand is reinforced by an increase in exports generated by the demand stimuli in the partner countries. Because the multipliers — the ratios between the initial demand stimulus and the final increase in GNP — are substantially enhanced, to achieve any final increment in growth the initial stimuli need to be correspondingly smaller. This in turn implies that the temporary worsening in the public deficits — which is a serious constraint in several Member States — need be smaller. In quantitative terms, an isolated stimulus in the form of an increase in domestic demand equivalent to 1 % of GDP is calculated to have an effect on real GDP on average in the second year after the impetus of about 1 % in the more open economies among the Member States (the Netherlands and the Belgo-Luxembourg Economic Union) and of the order of 1²/₃ % in the other economies for example in France and in the Federal Republic of Germany. If on the other hand all the Member States apply the same stimulus together, the average second-year GDP effects are generally greater than 2 %, and rise to 2.50 % for the open economies and come to 2.25 % for the Community as a whole. This last figure is close to those usually cited for the second year multiplier in the United States where the marginal propensity to import is probably similar to that of the Community's. The 'mechanical' effects of coordinated as opposed to unilateral action are illustrated in the accompanying table. The model on which the calculations are based is briefly described in the box.

2. The second major justification for concerted expansionary action lies in concern with the balance of payments as a constraint on expansion. To the extent that the initial stimulus derives from export demand this constraint is attenuated. As can be seen in the table, individual stimulatory action leads to a deterioration in the trade balance as a percentage of GDP which ranges in the second years from about 0.9 % in the case of Ireland to 0.5 % in the case of Germany. Coordinated action reduces the deterioration by as much as a half in the case of the Netherlands and in all cases by a significant amount, even though GDP, as has been pointed out, grows considerably faster.

3. A third strand among the arguments in favour of concerted action lies in its potential impact on the behaviour of firms and households. It may be argued that the advantages of a well-presented programme of action throughout the Community, particularly from the points of view of the government budget and the balance of payments, and by implication the exchange rate, will encourage both consumers and investors to become less

reticent as regards their consumption and investment propensities, which are currently below their normal levels in most countries. These increases in expenditure could considerably enhance the effectiveness of the action, both through magnifying the strength of the initial impulse and through augmenting the size of the multiplier. On the other hand, independent action in certain countries might contribute to a rise in the savings rate or further depress investment through increasing instability in the exchange and domestic financial markets.

The 'mechanical' effects of concerted action described earlier are likely to be supplemented by additional accelerator effects. It is clear from the EEC business survey that sectors which depend largely on exports are at present experiencing above-average capacity utilization and thus are more likely to respond to increased demand through capital investment. This suggests that the greater the extent to which the stimulus is generated by export growth, the greater will be the final effect on GNP. These additional effects are not included in the illustrative figures in the accompanying table.

2. Concerted action and the inflation problem

1. The experience of the expansionary years, 1972/1973, might generate concern about the implications of a synchronized boom among the developed countries for inflation. In the present environment the greatest danger may lie in the deterioration of the balance of payments of the weaker countries and consequent exchange rate depreciation, leading to increases in the price of imported goods. A major part of the justification for concerted action lies in the additional degree of freedom it offers *vis-à-vis* the balance of payments. But clearly the contributions of different countries to concerted action need to be differentiated according to the balance of payments situation in each country. In this context, measures to render the international monetary system less sensitive to erratic short-term fluctuations and the further development of loan mechanisms to alleviate temporary balance of payments difficulties also have major roles to play.

2. The other main source of inflation might derive from the sensitivity of raw material prices to the business cycle in the industrialized world. According to estimates made by the services of the Commission a 1 % increase in industrialized production in the OECD area will lead to a rise of somewhat less than 3 % in industrial raw material price. This suggests that a 1 % increase in the Community's growth rate of GDP (with the rest of the OECD area's growth rate unchanged except for the impact of additional exports to the Community) would increase industrial raw material prices by only about 1 %, equivalent, on average, to an increase in the import price index of less than 0.1 %.

The Model

The model on which the figures in the table is based is to be considered as illustrative. Fifteen countries or groups of countries (the Member States, treating the Belgo-Luxembourg Economic Union as a single Unit, Canada, Japan, USA, other European OECD member countries divided into two groups — North and South, OPEC and the raw-material producing countries) are linked by a matrix of average 1977 import-shares which is assumed constant over the simulation. An impulse in the form of a sustained rise in autonomous demand in any one country is then translated through a quarter-by-quarter domestic multiplier profile into rises in domestic demand, which given an import elasticity and its import-share matrix, imply a set of quarterly export increases in the partner countries. The increases in demand are then subjected to quarterly multiplier profiles to generate additional imports which generate further demand increases in all their trading partners. In the case of OPEC countries and the raw-material-producing countries domestic multipliers were not used, but for these purposes it was simply assumed that the former spent none and the latter all of their increased export earnings on additional imports. The total increases in GNP, exports and imports for each country are solved simultaneously for each successive quarter.

The import elasticities and domestic multipliers were based on a review of the available econometric work for each country, especially the annual econometric models, COMET and METEOR, constructed for the use of the Commission services, and in some cases discussions with model-builders in the Member States. The following table gives a view of the essential parameters:

Country	Import elasticity with respect to GDP	Domestic Multipliers	
		Average 1 st half year	Final
Denmark	1.9	1.0	1.1
FR of Germany	2.0	1.0	1.5
France	2.3	0.9	1.7
Ireland	2.0	0.7	0.8
Italy	2.6	0.8	1.3
Netherlands	2.0	0.8	0.9
BLEU	2.0	0.8	0.9
United Kingdom	1.8	0.8	1.4
United States	2.1	1.5	2.0
Japan	1.8	1.5	2.0
Canada	1.8	1.0	1.5
Other OECD Europe:			
North	2.0	1.0	1.5
South	1.9	0.9	1.7

Estimates of GDP and trade balance effects under alternative assumptions

(average of quarterly increments relative to no change situation)

Country	I Each Member State 1 % GDP stimulus independently ¹				II All Member States 1 % GDP stimulus together ¹			
	Year I		Year II		Year I		Year II	
	% GDP	TB as % GDP	% GDP	TB as % GDP	% GDP	TB as % GDP	% GDP	TB as % GDP
Denmark	1.01	— 0.58	1.10	— 0.62	1.43	— 0.41	1.82	— 0.38
FR of Germany	1.19	— 0.39	1.62	— 0.50	1.58	— 0.21	2.35	— 0.28
France	1.15	— 0.45	1.71	— 0.65	1.50	— 0.30	2.41	— 0.51
Ireland	0.76	— 0.86	0.80	— 0.91	1.45	— 0.75	1.95	— 0.78
Italy	0.93	— 0.56	1.29	— 0.76	1.30	— 0.40	2.04	— 0.62
Netherlands	0.84	— 0.68	0.95	— 0.74	1.70	— 0.36	2.37	— 0.36
BLEU	0.84	— 0.73	0.94	— 0.81	1.76	— 0.46	2.48	— 0.50
United Kingdom	0.93	— 0.40	1.38	— 0.59	1.24	— 0.23	2.02	— 0.40
EC	2	—	2	—	1.49	— 0.29	2.26	— 0.42
Other OECD Europe	—	—	—	—	0.40	0.15	0.75	0.17

¹ Under scenarios I und II expansionary measures are assumed to be applied simultaneously at the beginning of Year I.

² The effects on the EC range from about 0.01 in both years when Ireland expands unilaterally to 0.51 in Year I and 0.75 in Year II when Germany expands unilaterally

Trend of industrial wage costs

In 1976, the rate of increase in wage costs per unit of value added slackened everywhere in the Community. This trend did not continue in the following year; indeed, except in Ireland and the United Kingdom, rates began to rise again although they did not reach the particularly high level of the period 1972/1975. The acceleration in 1977 can be attributed mainly to production expanding more slowly, while gross remunerations progressed moderately in all the Member States.

On the basis of calculations in national currencies, the 1977 growth of unit costs in industry was fastest in Italy at 18.50%. The figures for France, Ireland and the United Kingdom were between 7.50% and 10%. The lowest rate were found in the Federal Republic of Germany, Belgium, the Netherlands and Denmark: from 4% (Germany) to 6.50%. The upward movement gathered momentum in the USA too, with an increase of 5% in 1977.

Trends in the Member States diverged slightly further in 1977, although the average difference between rates of change was inflated by the very high figure recorded for Italy. If this figure is excluded, divergencies within the Community are no wider in than in 1976; at all events, they are still narrower than they were from 1973 to 1976,

when costs per unit progressed very rapidly everywhere but at considerably different rates from one country to another.

The revival of the rise in industrial wage costs in the Community can be attributed mainly to slower economic expansion. The growth of gross value added in industry slackened perceptibly in 1977, with rates between 0.50% and 2.50%, except in Ireland: 6%. Productivity progressed very slowly, despite the fact that the labour force contracted everywhere but in Ireland and in the United Kingdom.

Gross value added per person employed increased by between 2.50% and 3% in 1977, except in the United Kingdom, where productivity remained unchanged, and in Ireland, where it increased by 6%. At the same time, employment in most Member States contracted by between 0.50% and 2.50%. However, there was a slight increase in the number of industrial wage earners in two countries: the United Kingdom (+.50%) and Ireland (+3%).

Gross remuneration per wage earner again grew more slowly in all the Community countries except Italy, where the rate of increase again reached 20%. The rate for

Industrial wage costs per unit of gross value added at constant prices
(including building)

Country	In national currency			In dollars ¹			In EUA ²		Adjusted for weighted ³ exchange-rates movements preceding year	
	Total change	Change on preceding year		Total change	Change on preceding year		Change on preceding year			
	1970-1977	1976	1977	1970-1977	1976	1977	1976	1977	1976	1977
Denmark	187	4.8	6.5	233.5	— 0.4	7.1	10.4	5.3	7.1	5.9
FR of Germany	143.5	0.9	4.0	225.5	— 1.4	12.5	9.2	10.2	6.8	12.7
France	184	6.3	7.5	207.0	— 4.7	4.8	5.8	3.0	2.5	2.4
Ireland	248.5	10.7	8.0	177	— 10.1	4.7	— 0.3	2.5	— 0.6	4.7
Italy	283.5	11.4	8.5	201.5	— 12.6	11.5	— 2.9	9.6	— 7.6	8.9
Netherlands	162	2.5	5.5	238.5	— 2.0	13.9	8.7	11.6	5.3	11.9
Belgium	178	5.3	7.2	241.5	0.3	15.4	11.2	13.1	7.6	13.7
United Kingdom	266.5	14.4	10.0	189.6	— 7.1	6.6	3.1	4.3	— 2.5	4.7
Community ⁴	199	7.5	9.0	212.5	— 0.5	9.8				
United States	138.5	2.8	5.0	138.5	2.8	5.0	14.1	3.5	8.1	3.5

Figures based on data expressed in national currency adjusted for exchange rate with dollar

Figures based on data expressed in national currency adjusted for exchange rate with EUC

Figures based on data expressed in national currency, adjusted for exchange rate weighted for the structure of foreign trade in 1974.

1970 Weights

Source: Commission's Departments

Ireland was 14%, that for France 12%, and those for the Federal Republic of Germany, the Netherlands, Denmark, Belgium and the United Kingdom between 7% and 10%. In 1976, most of the Member States had rates of about 11%, except France (15%), Italy and Ireland (both over 22%).

If these rates based on national currencies are adjusted for exchange rate trends, the position of the Community countries in terms of relative costs shows a considerable deterioration. The series adjusted for exchange rate variations relative to the dollar show that the drop in unit costs recorded in 1976 in all the Member States was followed by a considerable rise in 1977. In comparison with the figures calculated on the basis of national currencies, the adjusted figures show a smaller increase in 1977 in France, Ireland, Italy and the United Kingdom; however, they show a greater increase in the other Member States, whose currencies have increased considerably in value against the dollar. Adjusting the national currency series for weighted exchange rate trends also increases the rise in industrial costs per unit; moreover, in all the Member States, it shows an acceleration in 1977 relative to 1976, especially in the Federal Republic of Germany, the Netherlands, Italy and Belgium.

The rise in the USA's wage costs per unit of gross value added is lower when expressed in figures adjusted for weighted exchange rate variations than when expressed in dollars; it is also lower than in any Community country except France, whereas in 1976 it was higher.

Notes on methods

The definitions and methods of calculation used are as follows:

Compensation per employee covers wages, salaries and social security contributions. The series for gross value added are calculated at market prices. For the calculation of gross value added at constant prices, 1970 has been used as the reference year. Although it would have been preferable to take as a base changes in gross compensation of employees and gross value added at constant prices per hour worked, this proved impossible because the statistics on the number of hours worked in the Community countries are not complete. Consequently, these two items could only be calculated per employee.

Labour costs per unit of gross value added at constant prices have been calculated by dividing the index for gross compensation of employees by gross value added at

constant prices. These figures can also be obtained by dividing *per capita* compensation of employees by gross value added per person employed.

The Annex gives figures showing labour costs adjusted for changes in exchange rates. *Until 1971*, these were calculated on the basis of parities declared to the International Monetary Fund. After 1971, the data were converted into dollars on the basis of market rates and into EUC (European unit of account — for definition see EUROSTAT Monthly General Statistics Bulletin No 3 1977, Table 753-annex; they have also been corrected on the basis of exchange rates weighted by the geographical structure of exports of member countries of the Community.

The implicit price index is obtained by dividing gross value added at current prices by gross value added at constant prices.

The figures for 1977 are based wholly or partly on estimates.

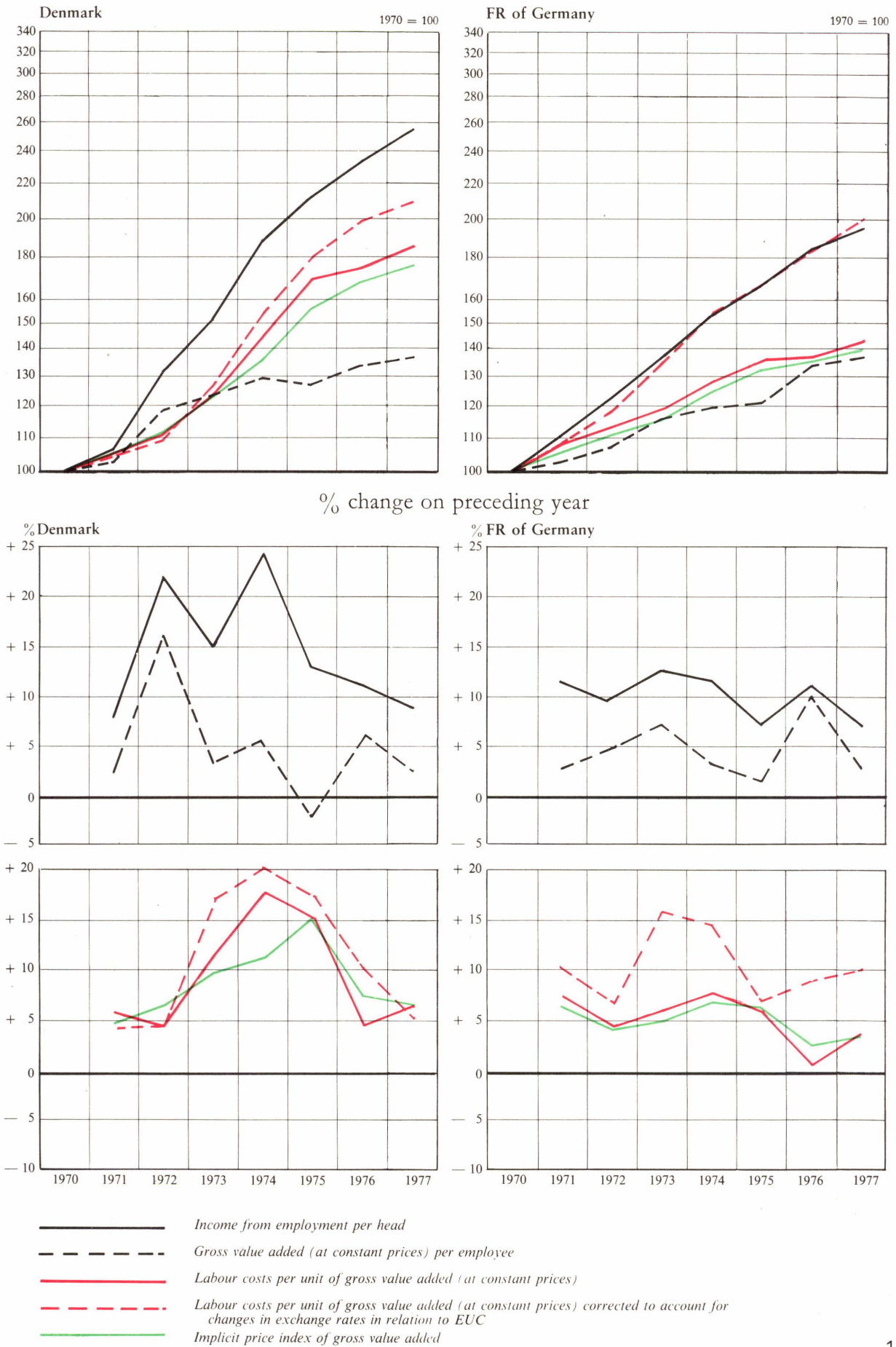
As to the significance of the series used the statistics have, as far as possible, been drawn from the publication 'National Accounts ESA (1970-1975)' of the Statistical Office of the European Communities. However, comparability is established only in respect of changes in the indices within each country.

Use of national accounts has meant that only annual figures could be referred to. Changes in the course of the year are reflected only in part in the corresponding annual figures and also influence the results for the following year. This makes assessment of a short-term change particularly difficult.

The notion of value added differs from that of 'industrial production' as generally applied in calculating monthly indices of industrial production. The difference between value added and industrial production (as defined for production indices) appears most clearly in the implicit price index for gross value added. In respect of effective market prices, this index neglects two important factors, namely firm-to-firm supplies within an industry and supplies from other industries, including abroad. The implicit price index is therefore not in line with the market prices index; the discrepancy varies from one country to another as a function of the relative share of value added in the gross production of industry.

As these remarks suggest, the series which follow should be used cautiously. They are not fully comparable from country to country, and their variations over time are different from those of series which are based on value added rather than on gross output.

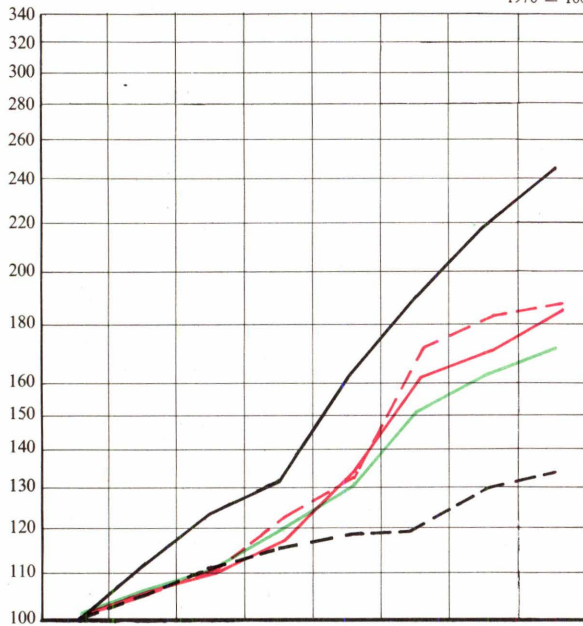
LABOUR COSTS IN INDUSTRY



LABOUR COSTS IN INDUSTRY

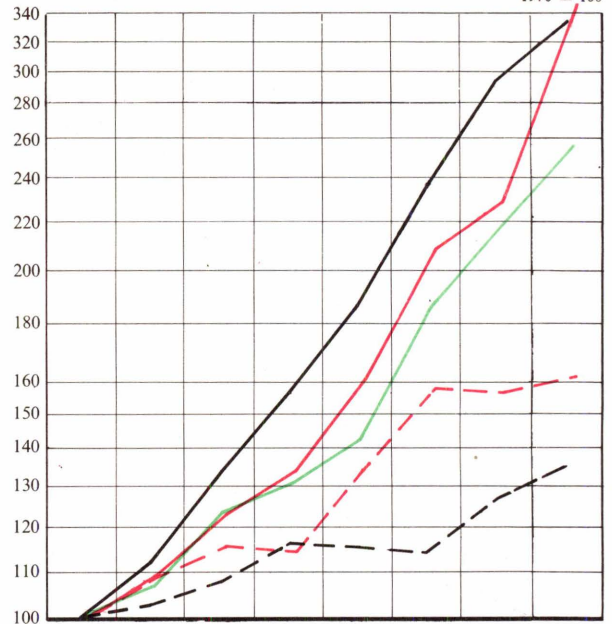
France

1970 = 100



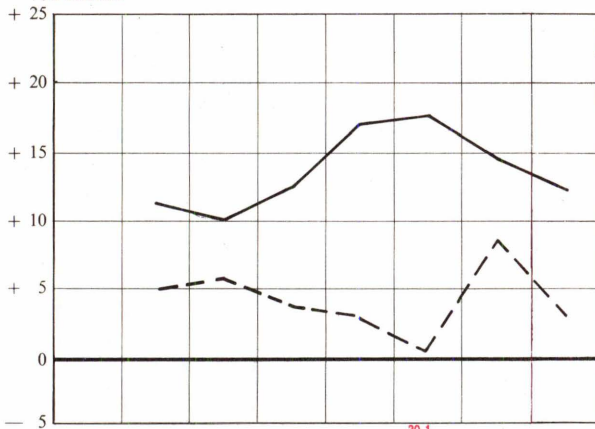
Ireland

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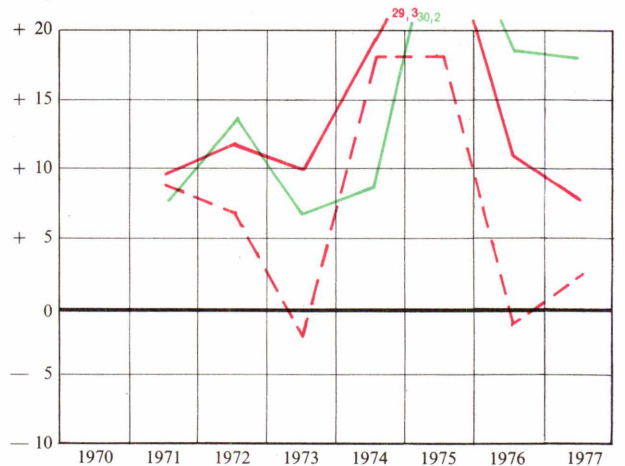
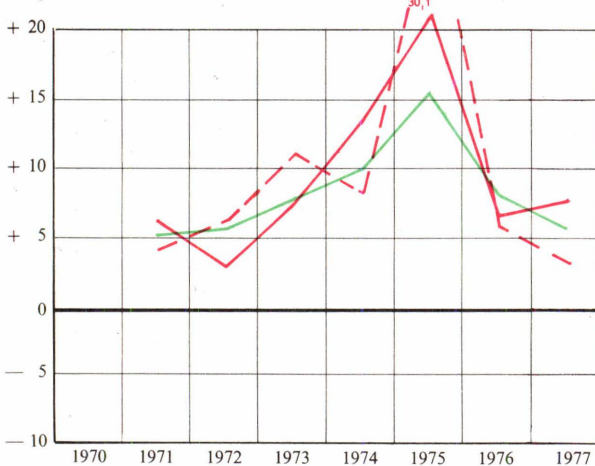
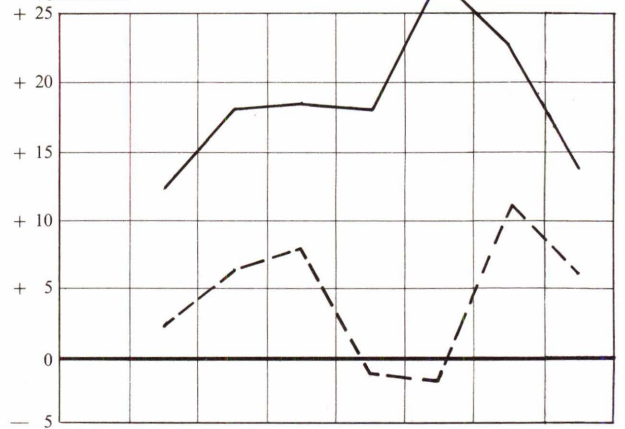


% change on preceding year

% France



% Ireland

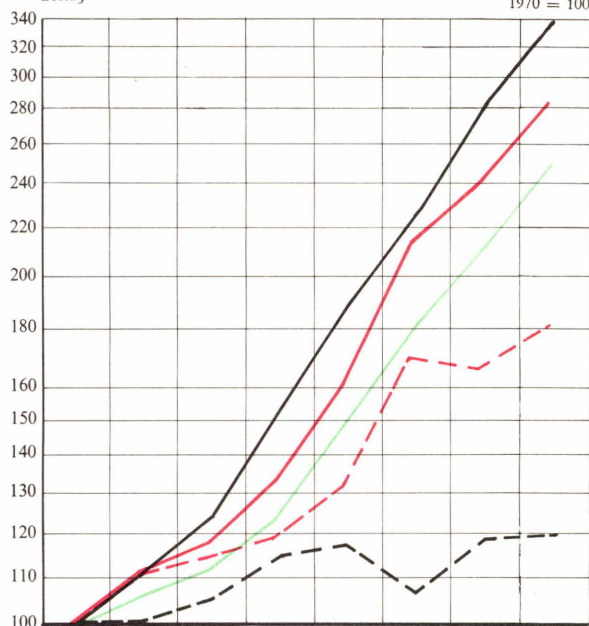


- Income from employment per head
- - - - - Gross value added (at constant prices) per employee
- Labour costs per unit of gross value added (at constant prices)
- - - - - Labour costs per unit of gross value added (at constant prices) corrected to account for changes in exchange rates in relation to EUC
- Implicit price index of gross value added

LABOUR COSTS IN INDUSTRY

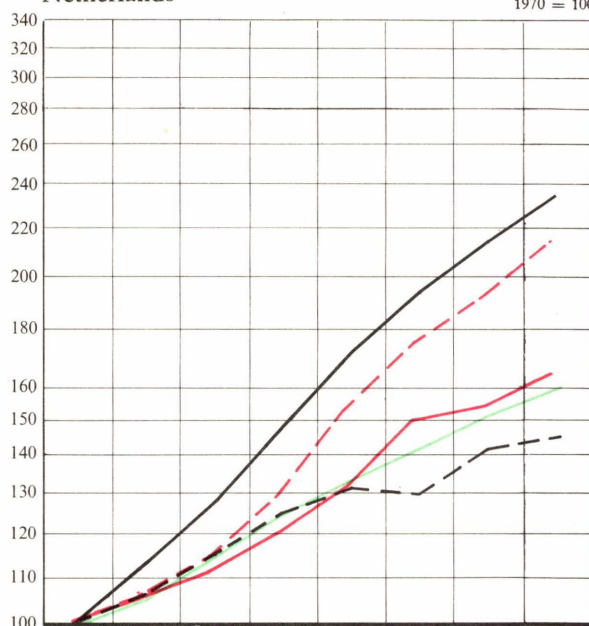
Italy

1970 = 100



Netherlands

1970 = 100

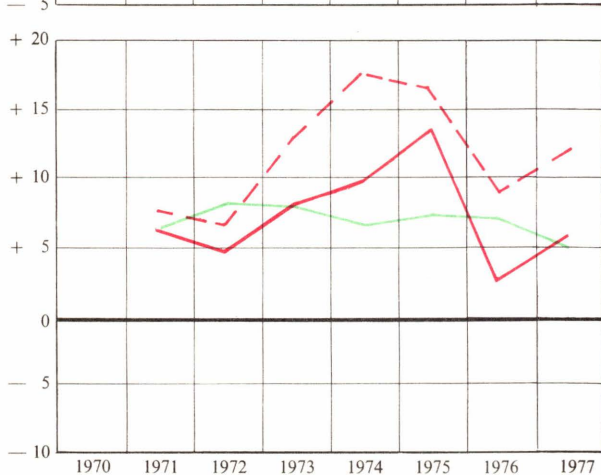
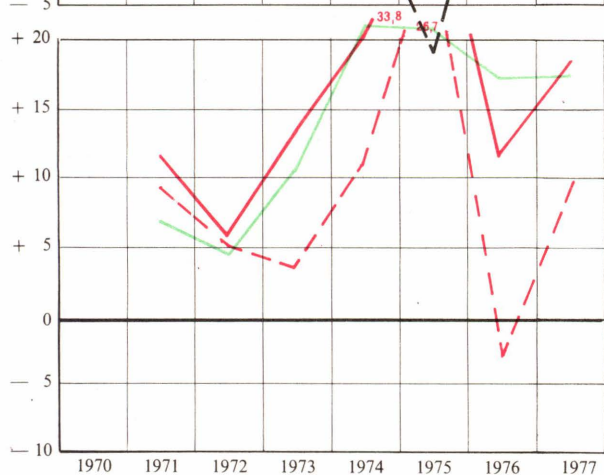
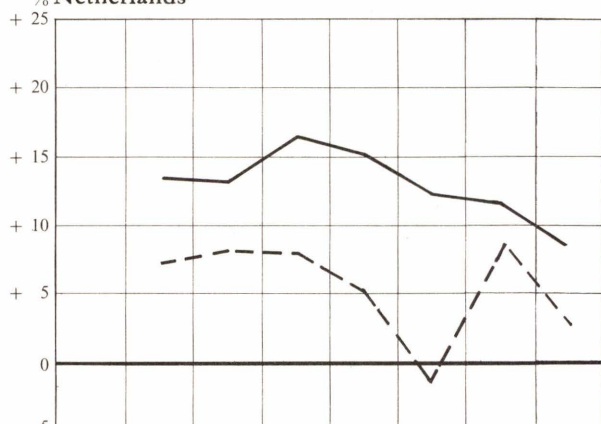


% change on preceding year

%Italy

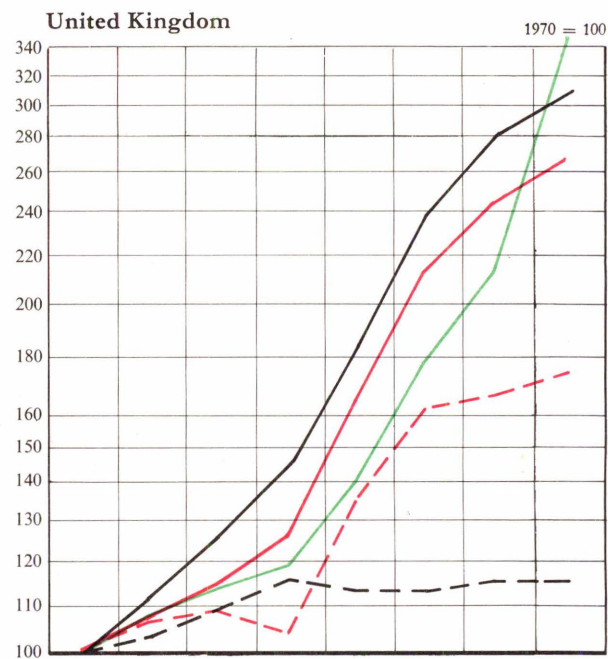
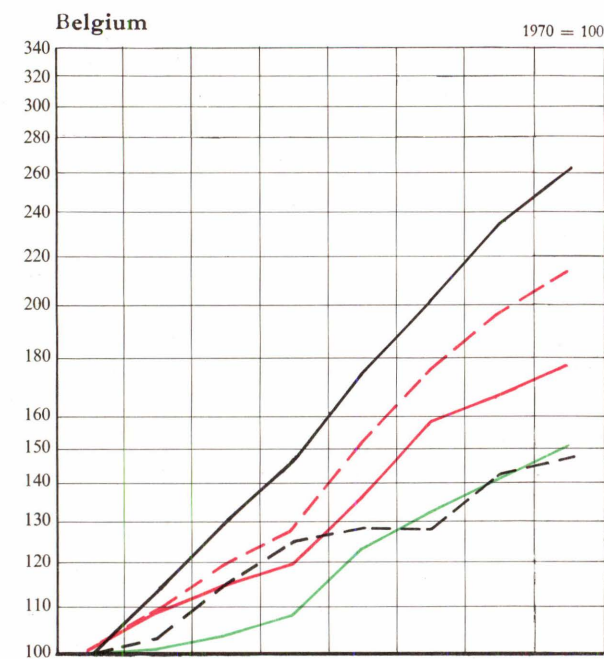


%Netherlands

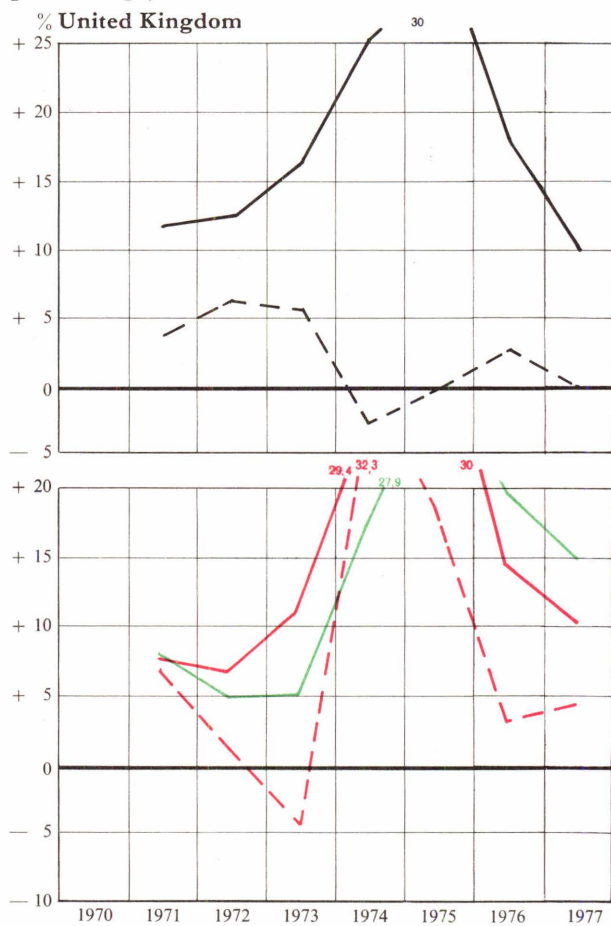
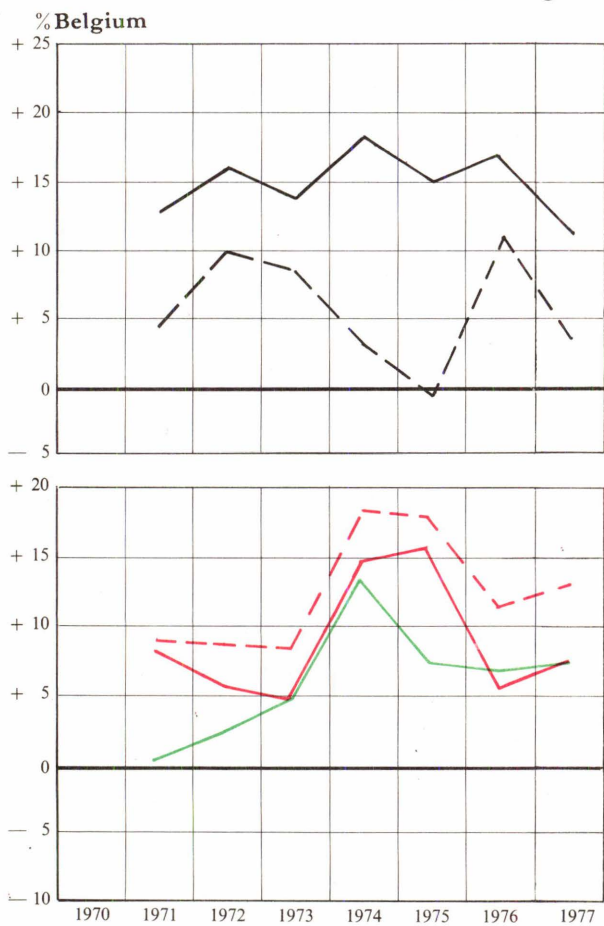


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LABOUR COSTS IN INDUSTRY

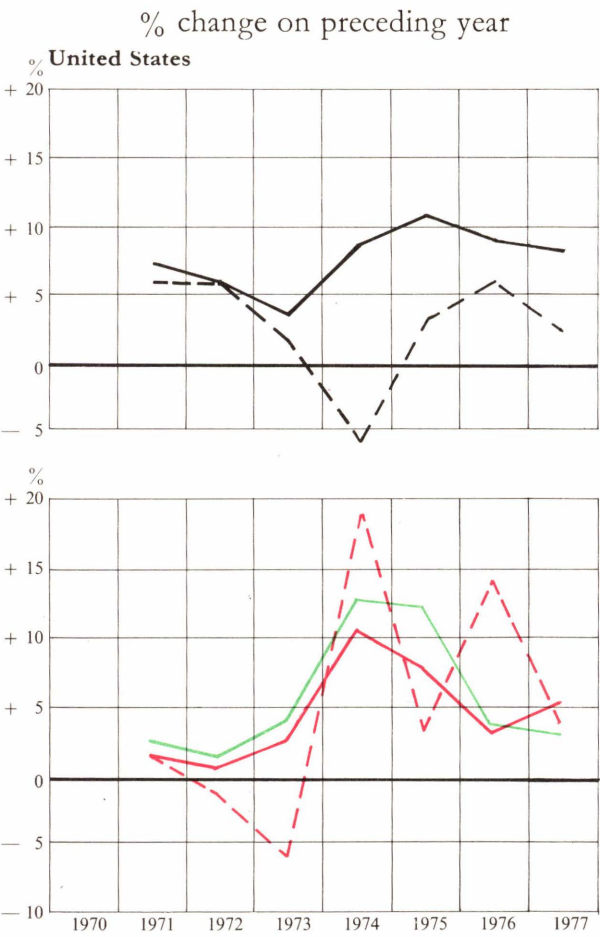
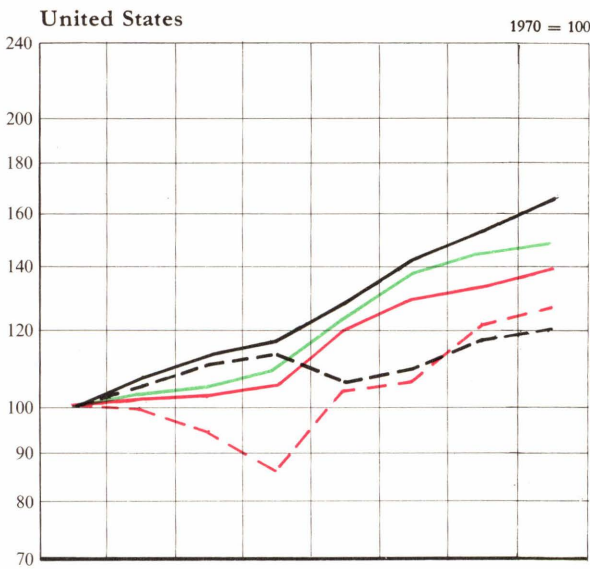


% change on preceding year



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