ISSN 0378-3634

Commission of the European Communities

Directorate-General for Economic and Financial Affairs

1

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
Directorate-General for Economic and Financial Affairs
Directorate for National Economies and Economic Trends

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COMMISSION
OF THE
EUROPEAN COMMUNITIES

The economic situation in the Community

MARCH 1978

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Brussels, 13 March 1978.

I — Communication from the Commission to the Council concerning the adjustment of the economic policy guidelines for 1978

Foreword

Pursuant to Article 2 of the Council Decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States, the Council must adjust as soon as possible in the first quarter the economic policy guidelines for the current year as required by economic developments. To this end, and in accordance with Article 1 of the same Decision, the Commission is forwarding this communication to the Council.

In accordance with Articles 2 and 12 of the above Decision, the Commission is also forwarding to the Council herewith a summary account of the economic policies pursued in 1977 and a report on the implementation of the Decision and the degree to which the policies pursued were consistent with the objectives laid down.

As for the 'forecasts over five years of the principal macro-economic aggregates', which are mentioned in the third paragraph of Article 2 of the above-mentioned Decision, the revised forecasts underlying the fourth medium-term economic policy programme were presented in September 1977;[1] a further revision carrying the forecasts up to 1983 is currently being prepared.

1. Economic objectives and policy guidelines for 1978 contained in the Annual Report

1.1. The purpose of this Communication is to review economic progress in the Community in relation to the objectives set for 1978 in the Annual Report on the economic situation in the Community, adopted by the Council on 21 November 1977 and, consequently to adapt, if necessary the economic policy guidelines set out in that report.

1.2. The Community objectives fixed for 1978 were:[2]

- a real GDP growth rate for the Community taken as a whole of 4-4 ½ %;
- a halt to the spreading of unemployment and an improvement in the situation on the labour market;
- narrower disparities between the balance of payments positions of the various Member States, and an overall Community payments position either in balance or even in deficit;
- a rate of inflation down to 7-8 % for the Community average (compared with about 9½ % in 1977) and a narrower spread between the extremes, down to a range of under 4-10 % (4-18 % in 1977).'

1.3. The principal general economic policy guidelines for 1978 were set out as follows:[3]

'These objectives are by no means out of reach in 1978 if all the Member States pool their efforts. At the present time, demand is slack all over the world, and no country, however important its contribution to world trade, can hope to revive economic activity by itself. On the other hand, if the Member States coordinate among themselves and work together with the other industrialized countries, they can mutually strengthen the multiplier effects of the measures they take, instil new confidence in managements and consumers on a lasting basis and thus achieve the growth objectives set without jeopardizing fundamental equilibria.

Responsibility for supporting internal demand at an appropriate level lies first and foremost with the Member States whose balance of payments are relatively strong. However, as the adjustment processes gradually evolve, other Community countries will be able to use the room for manœuvre becoming available in order to contribute to reinforcing business activity.'

2. The recent stance of budgetary and monetary policies

2.1. Generally speaking, the economic policies pursued by Member States were in line with the guidelines laid down in the Annual Report.

2.2. The budgetary support policies adopted in the second half of the year were guided by the desire to jeopardize neither the progress already made in restoring equilibria nor the medium-term target of a gradual reduction in public deficits. As a result, they were modest in nature. Most Member States eventually adopted this course, with those still having to contend with severe external constraints generally taking an even more cautious stance.

2.3. Among the Member States enjoying a favourable balance of payments situation, the Federal Republic of

[1] Cf. the report of the study group on the medium-term economic assessments 'Outlook 1980 — One year after drawing up the Fourth Programme of medium-term economic policy' (DOC./11/236/3/77).
[2] Para. 2.5 of the Annual Report
[3] Para. 3.1. of the Annual Report.

Germany announced in September, and adopted in October 1977, a new support programme. This measure, which included tax concessions designed to stimulate investment and private consumption, of which the budgetary cost in a full year was put at over 1 % of gross domestic product will have the effect of suspending the reduction of the deficit which began in 1976. Similarly, in October 1977, a set of budgetary measures was introduced in the Netherlands at a cost equivalent to nearly 1 % of gross domestic product, consisting mainly of fiscal relief for the industry and employment support. The package of measures adopted in Belgium in August was made up of tax concessions for firms, but heavier taxes on households and an action programme to combat unemployment and support investment.

2.4. A number of the other Member States also eased their budgetary policies in the second half of 1977. The United Kingdom, for instance, adopted in October a set of measures designed to stimulate activity in the ensuing eighteen months, combining personal income tax reliefs, additional expenditure on social security payments, and measures to promote employment and public-sector investment. The overall costs will be around 1 % of gross domestic product. In Ireland, the original budget arrangements were relaxed in numerous respects in the summer with the primary aim of creating employment. In France, a few limited measures were introduced, at the same time, to back up those taken in the spring with a view to a rather less rigorous budget. In Denmark, a stabilization programme adopted in September, mainly based on increases in indirect taxation, included a number of measures designed to boost investment and employment.

In Italy, however, no deliberate action was taken to alter the restrictive stance of budgetary policy even though certain unavoidable disbursements, and, above all, a revenue shortfall, caused the public sector cash deficit to exceed the agreed objective.

2.5. As a result of these adjustments, budgetary policies for 1978 are, generally speaking, set on an expansionary tack or, at least, are much less stringent than was the case in 1977. This is in line with the recommendations set out in the last Annual Report.

2.6 Since the autumn, the main developments in **monetary policy** have been a generally more rapid expansion of monetary aggregates in most Member States and the emergence of differing situations with regard to interest rates. On the whole, public-sector financing has scarcely contributed to the acceleration in the growth of the money supply. Developments in this field have rather been influenced by inflows of foreign funds.

In the United Kingdom and in the Federal Republic of Germany, currency sales made to curb the appreciation of sterling and of the mark were, in the closing months of 1977, a factor in the failure to keep the growth in domestic liquidity within the targets set. With a view to reasserting control over the money supply, the United Kingdom authorities, on 30 October, discontinued their attempts to prevent sterling's weighted exchange rate from rising.

With the mark's appreciation against the dollar forcing the other currencies participating in the Community exchange rate scheme down towards the lower limit of the margin of fluctuation, strain built up within the 'snake', but this was then dispelled by the adoption of flexible measures. In the Netherlands, the discount rate was raised from 3.5% to 4.5% towards the middle of November. In the Belgo-Luxembourg Economic Union, it was also raised, in two steps, from 6 % to 9 % in the first half of December. Lastly, in the Federal Republic of Germany, it was cut from 3.5 % to 3 % in mid-December, when the inflow of capital was checked by an increase in the compulsory reserve ratio for capital from abroad. As the strains eased, the discount rate in Belgium was reduced by 2½ percentage points in early January. In the last few months of 1977, the French authorities raised interest rates to counter the tendency for the French franc to depreciate against the other European currencies.

3. Trends and outlook for the European economy

3.1. The starting point from which the economy is working towards the **growth objective** has turned out to be less favourable than expected. The trend as regards demand and production in the Community last autumn was extremely disappointing. Although the industrial climate had improved somewhat after the summer, the

General government borrowing requirement [1]

(% of GDP)

Country	1975	1976	1977	1978
Denmark	– 2.2	– 0.6	– 0.4	0
FR Germany	– 5.8	– 3.7	– 2.9	– 4.3
France	– 2.2	– 0.8	– 1.0	– 1.1
Ireland	– 13.9	– 10.3	– 9.5	– 11.8
Italy	– 11.3	– 9.4	– 9.1	– 8.8
Netherlands	– 2.9	– 2.3	– 2.4	– 4.2
Belgium	– 3.8	– 4.9	– 5.6	– 5.7
Luxembourg	0.2	– 0.7	– 0.7	– 1.7
United Kingdom	– 4.8	– 4.8	– 3.3	– 3.8

[1] National accounts (SEC) definition

Source Services of the Commission

overall level of activity in the fourth quarter of 1977, taking the Community as a whole, probably failed to exceed that recorded in the first quarter of the same year. [1] This had led to the estimate of the rate of growth of the Community's gross domestic product in volume terms, for the whole of 1977, being revised downwards. According to the latest calculations, this rate was probably a bare 2%, instead of 2½ % forecast in the autumn. [2]

3.2. This trend is due partly to the fact that the stimulus given by the **world economic situation** in 1977 has fallen well short of expectations. Thus, the assumptions made in last autumn's Annual Report concerning production and world trade in 1977 — excluding the Community — have also had to be revised downward. The new estimates are 4% (instead of 4½ %) for growth in production and 5% (instead of 7½%) for growth in world trade. [3] The adjustments have been particularly substantial in the case of Japan and the small industrialized countries outside the Community.

Successive forecasts of growth of GDP in real terms for 1977

(change as % of preceding period)

Seasonally adjusted

Country	Forecasts June 1977	Forecasts November 1977	Probable outturn February 1978	Quarterly figures[1] (probable outturn)			
				Quarter 1	Quarter 2	Quarter 3	Quarter 4
Denmark	1½	1	0.9	:	:	:	:
FR Germany	4	3	2.6	1.0	0	0	1.5
France	3	2¾	2.3	2.2	− 1.3	0.2	0.8
Ireland	3¾	5	5.6	:	:	:	:
Italy	3	2	1.8	1.9	− 2.5	− 0.6	0.1
Netherlands	4¼	2½	2.4	:	:	:	:
Belgium	3½	2¾	2.4	:	:	:	:
Luxembourg	2	1¼	1.1	:	:	:	:
United Kingdom[2]	¼	½	− 0.1	− 1.0	0.2	− 0.2	0.8
Community	3	2½	1.9	1.0	− 0.8	0	0.9

[1] Estimates
[2] Quarterly figures based on the average of three measures of GDP in real terms
: Data not available
Source: Commission's departments

3.3. Autonomous factors affecting the **development of demand within the Community** also lacked buoyancy until last summer. This weakness can be explained by the fact that economic policies in general, mainly owing to the continuing impact of earlier decisions, frequently continued to exert a moderating influence. Taking the Community as a whole, the effect of budgetary policy was restrictive through most of 1977 and can be estimated at approximately ½% of gross domestic product. [4]

Internal demand within the Community, however, stopped deteriorating last autumn, although as a result of developments which were by no means the same in each country. The increase in real private disposable income, mainly the result of slackening inflation (United Kingdom, France and Ireland), a less hestitant attitude on the part of firms towards stockbuilding (Federal Republic of Germany) and of strengthening of investment in some Member States (Federal Republic of Germany and Belgium) have all contributed to this relative improvement.

3.4. The latest forecasts concerning the economic trend in the Member States in **1978** show, for the Community as a whole, an average annual rate of growth of gross domestic product of around 3%. [2]

Under present circumstances, this average rate of growth will require growth of 4% to 4½ % during the year. This may be considered ambitious if the aim is to achieve such growth, not on the basis of a short-lived upturn caused by recent stimulatory measures; but through a selfsustaining process of a kind that can support vigorous growth throughout the Community economy for several years.

3.5. In fact, the **new forecasts for 1978** presuppose:

— that the programmes for sustaining economic activity, adopted since last autumn, will be successfully completed;

[1] See the table above.
[2] See table 2.
[3] See table 1.
[4] This estimate is mainly based on the change in the financing requirements of public administrations (see the table on page 4).

— that some improvement will occur in the confidence of producers, dealers and consumers, which does indeed seem to be taking place according to the last harmonized industry and consumer surveys carried out in the Community;

— that the assumption of a moderate expansion in world trade [1] turns out to be correct, although this expansion will definitely be smaller (on a year-on-year basis) than that anticipated in the autumn. [1]

The implementation of the measures announced in Japan in late 1977 and in the United States in early 1978, and the temporary freeze on the price of oil, should reduce the risk of an excessive weakening in world economic activity this year.

However, as regards the Community, the changes which have occurred in the exchange rate structure as a result of the weakness of the dollar could well have the effect of inhibiting economic growth in 1978 to an appreciable extent.

3.6. The objectives set for 1978 in the Annual Report included halting the spread of unemployment and improving the **labour market** situation. It is undeniable that the unemployment trend, since last summer, has tended to stabilize, and that this tendency seems to have been maintained in January. After reaching a peak of 5.7% in the third quarter, the seasonally adjusted unemployment rate (wholly unemployed) in the Community, fell back to 5.5% in January. [2]

The ratio of unfilled vacancies to the number of unemployed also improved in several Member States. This trend seems attributable to the implementation of specific measures and, in some cases, to a drop in the participation rate. All in all, the annual average unemployment rate for the Community as a whole, however, could well increase, but to a much more limited extent than from 1976 to 1977. [3]

3.7. The objective set in the Annual Report with regard to **inflation** was to bring it down to a Community average of 7% to 8% and to reduce the spread between the highest and lowest rates to a maximum of 4% to 10%. The inflation rate trends in most Member States show that this objective, although ambitious, is still by no means unattainable. The increase in the implicit consumer expenditure deflator fell from an annual rate of 11% in the first half of 1977 to about 7½ % in the second half of the year. If this trend is maintained throughout the year 1978, the inflation rate could well fall to under 7% for the Community as a whole. However, the differences between Member States in the rates of increase of consumer prices will probably be slightly greater than originally expected. [3]

3.8. As for the objective regarding the **balance of payments** on current account, the economic situation within the Community has in 1977 produced a slight surplus for the Community as a whole. [3] The monetary authorities of the Member States as a whole also increased their foreign exchange holdings by 22 300 million EMUA [4] in 1977, to reach over 61 500 million EMUA by the end of the year.

Given the prospect of slightly more sustained expansion in internal demand in 1978, the Community's imports should increase as compared to the preceding year, but will probably remain too low to make an effective contribution to the adjustment of payments balances at world level. It is more likely that the Community's balance of payments on current account, boosted by an appreciable improvement in the terms of trade, will close with a larger than expected surplus.

4. General policy guidelines

4.1. The general policy guidelines of the Annual Report are still applicable today:

— the implementation of a coordinated policy to buttress the economy, based on greater recourse to budgetary policy as a growth instrument. [5] This might well include adjusting the tax burden on persons and the effective expansion of public investment programmes. On the other hand an appropriate and steady growth in the main monetary aggregates is needed; [6]

— the moderation of the costs of production with the aid of active cooperation from both sides of industry;[7]

— the pursuit of a specific policy on employment;[8]

— measures for speeding up structural change.[9]

4.2. As regards growth and employment, following the line adopted in the Annual Report, a common effort must be made to consolidate the recovery, notably by gradually extending it to a greater number of Member States.

4.3. In this respect the Community can make a useful contribution. Realizing these guidelines in the Member States in 1978 will be facilited by implementing actions already decided on in principle, such as the widening of the Social Fund's employment policy functions (measures for youth employment, and women), and the entering into effect of an enlarged Regional Development Fund, and of the Community's new financing instrument for promoting investment in the Community.

4.4. All Member States have an interest in exploiting determinedly the gains which accrue from membership of the Community; the Commission has made proposals in this respect in its 'Action Programme for 1978'.[10] Closer coordination of economic and financial policies would soften the constraints imposed on different Member States, would thus increase the chances of success of joint action to bolster economic activity, and permit greater exchange rate stability within the Community and *vis-à-vis* the outside world.

4.5. The Community must energetically resist the trend towards protection, inside itself and at the wider international level. In the present economic situation, it attaches the greatest importance to the liberalization of world trade and will make certain that its contribution to the current multilateral negotiations under GATT is effective.

[1] See table 1
[2] See table 5
[3] See table 2.
[4] European Monetary Units of Account.
[5] See para. 3.2 to 3.5. in the Annual Report.
[6] See para. 3.6. in the Annual Report.
[7] See para. 3.7. in the Annual Report.
[8] See para. 3.8. in the Annual Report.
[9] See para. 3.9. in the Annual Report.
[10] COM Doc. (78)52 final of 10 February 1978.

Conclusions

After nearly a year of torpidity the Community economy showed some signs of life in late 1977 and early 1978. However, even if growth rates were to increase throughout the year, the goal of an average rate of 4% to 4½% set for the Community for 1978 on 1977 would still appear unrealistic. Moreover, recent exchange rate phenomena, particularly the depreciation of the dollar, will on the whole have restrictive effects on the European economy.

In general goals for inflation established by the Community are within reach. Moreover the external constraints have been relaxed now that an appreciable current account surplus is probable in 1978.

Generally, the outlook for improvement in the external situation and as regards inflation and of a narrowing of disparities in economic performance among Member States should help towards a faster growth rate and improvement in the employment situation. For maximum effectiveness, and without compromising progress made in reducing inflation, the enlarged scope for a faster return to lasting growth must be exploited through Community-coordinated efforts.

On the whole it is necessary to ensure the full application of the economic policy guidelines which the Council fixed in approving the Annual Report on 21 November 1977. However, there must be continuing vigilance in assessing the expansionary measures adopted in the autumn of last year and the durability and strength of the recent signs of economic recovery.

Statistical annex

TABLE 1

Development of production and world trade

(% change on preceding year)

	1969-1973 average	1974	1975	1976	1977	1978
Gross domestic product in real terms[1]:						
Total of developed countries	4.7	0.1	− 0.8	5.2	3½	4
Total excluding the Community	4.6	− 0.5	− 0.3	5.4	4	4
Volume of trade:						
Total world imports	10.3	6.1	− 3	11	5	5
— excluding the Community	8.7	9.6	− 1	9½	5½	5
Total imports of developed countries	11.0	1.1	− 7.4	14.0	5	5
— excluding the Community	9.4	2.9	− 9.4	13.6	7	4½
Total imports of developing countries	7.4	20½	9½	9	7	6½
— of which: OPEC	:	38	43	18	15	12
World export prices (in USD):						
Price of basic materials	:	32½	− 5	4	10	3
— of which: fuels	:	205	2	5	9½	3
Price of manufactured products (non-member countries)	:	13	11	1	8½	6

[1] For certain countries, gross national product

: Data not available

Sources N.U., IMF, national statistics and the Commission's departments

TABLE 2

Development of the main macro-economic aggregates

Country	Gross domestic product (volume) % change					Number of unemployed as % of labour force[1]				
	1970-1974	1975	1976	1977	1978	1970-1974	1975	1976	1977	1978
Denmark	2.7	− 1.1	4.8	0.9	1.5	1.3	5.0	5.1	5.9	6.4
FR Germany	3.6	− 2.6	5.6	2.6	3.1	1.1	4.1	4.1	4.0	4.1
France	4.7	0.1	5.2	2.3	2.7	2.7	4.0	4.4	5.1	5.1
Ireland	4.5	0.4	3.2	5.6	6.0	5.9	7.9	9.4	9.4	8.9
Italy	4.0	− 3.7	5.6	1.8	1.7	(5.2)	(5.6)	(5.9)	(6.9)	(7¼)
Netherlands	5.0	− 1.2	4.4	2.4	2.1	2.1	4.0	4.3	4.2	4.5
Belgium	5.2	− 2.0	3.0[2]	2.4	2.3	2.3	5.3	6.7	7.4	7.3
Luxembourg	4.1	− 8.3	2.8	1.1	1.4	0	0.2	0.4	0.8	1.4
United Kingdom	2.7	− 1.6	2.8	− 0.1	3½[3]	2.8	3.9	5.2	5.7	6.0
Community	4	− 1.7	4.8	1.9	2.8	2.7	4.4	4.9	5.4	5.6

Country	Implied deflator of private consumption — % changes					Balance on current account (USD milliards)			
	1970-1974	1975	1976	1977	1978	1970-1974	1975	1976	1977
Denmark	7.9	8.4	8.5	10.5	10.5	− 0.5	− 0.6	− 2.0	− 1.7
FR Germany	5.7	6.3	4.4	3.9	3.5	3.5	4.3	3.7	2.6[4]
France	8.4	12.1	9.9	9.3	7.0	− 1.2	− 0	− 6.1	− 3.0
Ireland	10.8	20.9	17.0	13.6	6.5	− 0.3	− 0	− 0.3	− 0.2
Italy	9.0	17.0	17.5	18.5	12.0	− 1.2	− 0.6	− 2.9	2.0
Netherlands	9.6	10.3	9.2	7.0	5.5	1.0	1.7	2.5	0.5
Belgium	6.3	12.0	8.9	6.5	5.5	1.0	0.3	− 0.3	− 0.1
Luxembourg	6.0	10.7	9.8	6.7	4				
United Kingdom	9.1	23.4	15.4	14.9	8.4	− 1.2	− 3.7	− 2.2	0.3
Community	7.8	12.8	9.8	9.6	6.9	1.2	1.4	− 7.6	0.5

[1] Italy Figures from Ministry of Labour

[2] Provisional figure

[3] Like other rates of growth of GDP in this column, this figures is based on 1977 prices. Official figures take 1970 as the price base, thereby giving little weight to the contribution of North Sea oil to the rate of growth At 1970 prices, growth in 1978 is estimated to be almost 1 % lower

[4] 3 5 according to Bundesbank

Source. Commission's departments

TABLE 3

Development of industrial production

(% change on preceding period)

Seasonally-adjusted figures

	1975	1976	1977	1976 IV	1977 I	1977 II	1977 III	1977 IV	1977 December	December 1976 December 1977[1]
Denmark	– 5.7	11.4	0.4	– 0.4	1.8	– 5.4	4.4	– 1.4	1.0	0.9
FR Germany	– 6.2	7.4	3.1	1.3	2.4	– 0.2	– 1.1	1.1	0.5	4.6
France	– 7.2	8.6	1.0	1.6	2.3	– 2.4	– 2.0	– 0.8	– 2.1	– 2.6
Ireland	– 6.1	7.9	:	0.8	1.2	3.9	0.4	:	:	:
Italy	– 8.8	11.6	– 0.3	5.8	2.2	– 5.9	– 3.6	– 2.2	– 2.6	– 13.3
Netherlands	– 4.9	6.8	1.4	2.3	– 0.2	0.1	– 2.5	0.1	2.9	– 1.4
Belgium	– 9.8	7.8	:	1.1	– 0.1	0.3	– 2.0	– 0.4	0.1	0.7
Luxembourg	– 21.9	6.3	0.5	– 1.0	3.7	2.3	– 4.8	0.5	– 3.6	3.6
United Kingdom	– 4.9	1.0	1.4	1.6	2.9	– 2.2	0.3	– 1.7	1.0	– 1.1
Community	– 6.6	7.3	1.6	1.9	2.4	– 1.8	– 1.5	– 0.6	0.0	– 1.1
Consumer goods	– 4.2	7.6	3.0	2.6	1.8	– 1.6	– 0.9	0.5	0.5	0.0
Intermediate goods	– 10.0	9.7	0.9	1.5	2.7	– 2.4	– 1.8	– 1.6	– 0.1	– 3.5
Investment goods	– 3.8	1.5	1.9	2.0	2.3	– 1.1	– 0.2	– 0.5	– 0.6	0.5
Building and civil engineering										
Community	– 7.0	– 1.0	1.5	1.5	1.3	1.3	0	1.5	:	:

[1] Gross figures

. Data not available

Source. EUROSTAT and Commission's departments

TABLE 4

Cumulative development of industrial production

Country	Minimum 1975 Month	Minimum 1975 1970 = 100	Maximum 1976/1977 Month - Year	Maximum 1976/1977 % change on minimum at an annual rate	December 1977 % change on maximum at an annual rate
Denmark	March	94.7	March 1977	13.5	– 10.0
FR Germany	July	100.1	April 1977	10.6	– 2.3
France	August	111.0	March 1977	10.1	– 7.9
Ireland	III Qu.	112.4	III Qu. 1977	9.3	:
Italy	August	99.4	December 1977	23.7	– 14.2
Netherlands	July	109.7	April 1977	11.4	– 4.9
Belgium	September	104.7	October 1977	15.9	– 6.1
Luxembourg	May	87.5	June 1976	53.8	– 6.3
United Kingdom	August	99.5	January 1977	6.7	– 4.0
Community	July	104.1	January 1977	11.0	– 4.9

Data non available

Source EUROSTAT

TABLE 5

Development of unemployment [1]

	1975	1976	1977	1976				1977						1978
				I	II	III	IV	I	II	III	IV	Nov	Dec	Jan
(a) Unemployment [2]														
Denmark	4.6	4.7	5.9	4.9	4.6	4.7	4.8	5.6	5.8	6.0	6.1	6.2	5.9	6.7
FR Germany	4.2	4.1	4.0	4.6	4.1	4.0	3.9	3.8	3.9	4.0	3.9	4.0	3.9	3.8
France	3.9	4.3	4.9	4.4	4.4	4.3	4.3	4.5	4.8	5.2	5.1	5.1	5.0	4.9
Ireland	8.8	9.8	9.7	9.6	9.9	10.0	9.8	9.7	9.7	9.7	9.5	9.4	9.4	9.2
Italy	5.7	6.0	7.0	5.8	6.0	6.1	6.1	6.3	6.5	7.3	7.5	7.5	7.6	7.3
Netherlands	4.1	4.4	4.3	4.5	4.4	4.7	4.4	4.1	4.1	4.4	4.3	4.3	4.2	4.2
Belgium	5.3	6.8	7.8	6.4	6.6	7.0	7.1	7.2	7.4	7.9	8.2	8.3	8.2	8.3
Luxembourg	0.2	0.3	0.6	0.3	0.4	0.3	0.4	0.5	0.5	0.6	0.7	0.7	0.8	0.9
United Kingdom	3.8	5.3	5.8	5.0	5.3	5.8	5.5	5.5	5.5	6.1	5.9	5.9	5.9	5.9
Community	4.4	5.0	5.4	5.0	5.0	5.1	5.0	5.1	5.2	5.7	5.6	5.6	5.6	5.5
(b) Total unemployed in 1 000s	4 614	5 242	5 731	5 256	5 230	5 360	5 295	5 371	5 521	5 956	5 912	5 911	5 879	5 788
Women in 1 000s	1 675	2 031	2 363	1 958	1 999	2 099	2 131	2 187	2 258	2 476	2 482	2 486	2 473	2 447
Women as % of total	36.3	38.7	41.2	37.3	38.2	39.2	40.3	40.7	40.9	41.6	42.0	42.0	42.1	42.3
(c) Vacancies[3]														
Denmark	0.9	1.6	1.1	1.6	1.9	1.6	1.4	1.2	1.1	0.9	1.1	1.0	1.0	1.1
FR Germany	21.9	22.2	22.4	19.6	23.1	21.4	24.4	24.9	22.4	21.8	23.7	23.5	24 7	24.6
France	13.0	13.3	9.7	11.9	13.1	14.2	13.3	11.8	9.7	9.3	9.8	10.2	10.3	9.8
Netherlands	24.2	22.5	27.2	20.0	23.1	18.9	24.7	27.2	26.6	27.2	29.3	29.0	30.2	30.8
Belgium	2.0	1.5	1.1	1.6	1.4	1.4	1.5	1.5	1.4	1.3	1.0	1.0	1.0	1.1
Luxembourg	88.9	57.8	23.3	29.9	32.7	71.2	61.1	32.9	16.2	18.7	22.1	26.1	21.3	16.2
United Kingdom	15.8	9.0	10.4	8.7	8.3	8.3	8.8	11.0	11.3	9.9	10.7	10.9	11.1	12.5

[1] Seasonally adjusted Differences between figures and those in table 2 arise from differences in definition
[2] Number of registered unemployed as % of civilian labour force As definitions are not uniform, unemployment rates are not comparable from country to country
[3] Number of vacancies as a % of the number of unemployed persons
Source EUROSTAT

TABLE 6

Development of consumer price indices

Country	% change on preceding year											December 1976 December 1977
	1974	1975	1976	1977	1976	1977						
					IV	I	II	III	IV	Nov	Dec	
Denmark	15.3	9.6	9.0	11.1	3.9	1.1	3.2	2.5	5.1	1.0	0.1	12.5
FR Germany	7.0	5.9	4.5	3.8	0.5	1.9	1.4	0.2	0.2	0.1	0.3	3.5
France	13.6	11.7	9.6	9.6	2.6	1.6	3.1	2.4	2.1	0.4	0.3	9.3
Ireland[1]	17.0	20.9	17.9	13.6	4.2	3.8	3.8	1.1	1.7	1.7	:	10.8[2]
Italy	19.2	17.0	16.7	18.4	6.4	4.7	3.8	2.5	3.3	1.0	0.5	14.9
Netherlands	9.8	9.9	8.9	6.7	2.5	0.7	2.9	0.6	1.3	0.2	– 0.1	5.5
Belgium	12.7	12.8	9.2	7.1	1.7	2.0	1.6	1.5	1.2	0.4	0.4	6.4
Luxembourg	9.5	10.8	9.8	6.7	1.8	2.3	1.6	0.7	0.4	0.5	– 0.2	4.3
United Kingdom	16.0	24.2	16.5	15.8	4.6	5.0	4.5	1.6	1.5	0.5	0.5	12.1
Community	13.0	13.8	11.3	11.2	3.3	3.1	3.1	1.6	1.5	0.5	0.4	8.9

[1] Quarterly indices
[2] November 1976-November 1977
Data not available
Source EUROSTAT

TABLE 7

Development of balance of trade

(Seasonally-adjusted, US $ million)

Country	1973	1974	1975	1976	1976				1977						
					I	II	III	IV	I	II	III	IV	Oct	Nov	Dec
Denmark	– 1 584	– 2 306	– 1 348	– 3 188	– 663	– 726	– 819	– 981	– 835	– 859	– 867	– 670	– 261	– 225	– 184
FR Germany	12 976	20 260	15 448	12 994	3 075	3 131	3 314	3 473	3 451	4 106	3 744	5 016	1 866	1 412	1 758
France	– 1 428	– 7 141	– 1 894	– 8 291	– 1 460	– 1 480	– 2 400	– 2 951	– 2 518	– 2 121	– 1 487	– 1 112	– 173	– 784	– 155
Ireland	– 684	– 1 211	– 609	– 857	– 274	– 163	– 207	– 214	– 333	– 276	– 207	– 225	– 101	– 64	– 60
Italy	– 5 661	– 11 042	– 3 161	– 6 216	– 1 370	– 1 747	– 1 179	– 1 920	– 1 511	– 945	– 99		– 490	– 199	
Netherlands	– 431	– 145	– 745	– 1 170	122	– 598	– 241	– 453	– 672	– 689	– 471	– 237	– 148	– 135	46
BLEU	369	– 1 580	– 868	– 779	– 256	– 262	– 209	– 52	– 345	– 305	– 95	– 390	– 79	– 225	– 86
United Kingdom	– 8 555	– 15 985	– 9 642	– 9 370	– 1 617	– 2 395	– 2 635	– 2 723	– 2 331	– 2 124	– 998	– 1 092	– 361	– 154	– 577
Community[1]	– 4 585	– 20 554	– 4 370	– 19 446	– 3 295	– 4 780	– 5 071	– 6 299	– 5 905	– 3 649	– 786		148	297	

[1] Community Extra-Community trade
Data not available
Source EUROSTAT and Commission's departments

TABLE 8

Exchange rates: percentage appreciation (+) and depreciation (–)

Country	Last 12 months[1]		Last 6 months[1]		Last 3 months[1]	
	USD	Effective rate	USD	Effective rate	USD	Effective rate
Denmark	+ 5.5	– 2.2	+ 11.2	+ 0.4	+ 10.3	+ 3.3
FR Germany	+ 16.4	+ 9.6	+ 14.1	+ 6.3	+ 9.5	+ 4.5
France	+ 4.7	– 5.4	+ 2.9	– 5.9	+ 2.0	– 4.6
Ireland	+ 13.2	+ 4.7	+ 11.0	+ 4.0	+ 6.6	+ 1.9
Italy	+ 3.6	– 5.1	+ 3.4	– 3.7	+ 2.8	– 2.0
Netherlands	+ 14.8	+ 4.1	+ 12.6	+ 3.0	+ 10.6	+ 3.9
Belgium	+ 16.0	+ 6.1	+ 12.9	+ 3.8	+ 10.9	+ 4.7
United Kingdom	+ 13.2	+ 6.7	+ 11.0	+ 6.1	+ 6.6	+ 3.1

[1] End-February 1978 for rate, against the USD, February 1978 average for the effective exchange rates
Source Commission's departments

Brussels, 13 March 1978.

II — Summary account and degree of convergence of the economic policies pursued in the Member States of the Community in 1977

Foreword

Together with its communication on the adjustment of the economic policy guidelines for 1978 the Commission herewith submits to the Council a report on the economic policies pursued in the Member States last year. In so doing, the Commission is acting in accordance with Article 2 of Council Decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community.

At the same time the report describes, in accordance with Article 12 of the abovementioned Decision, the implementation of the Decision during 1977 and assesses the conformity of the policies pursued with the objectives set.

This report is sent to the European Parliament at the same time as it is transmitted to the Council.

A — The economic policy in the Community in 1977

1. The economic background at the beginning of 1977

1.1. The economic problems facing the Member States of the Community at the beginning of 1977 were serious: the slowing down of dynamic forces, persisting inflation, rising unemployment and large balance of payments disequilibria.

Following a lull during the summer, economic growth continued in the last quarter of 1976 and the first quarter of 1977. The first signs of a weakening of demand and production were already becoming evident at the beginning of 1977, and they became even clearer as the year wore on. The prospects for a strong, self-sustaining and accelerating economic upswing remained (even then) uncertain. For the Community as a whole, assuming no change in economic policies, the forecast was for a 3-3½% growth rate in real GDP (1976: 4.8).[1] As a result, it was anticipated that the unfavourable labour market situation would tend to continue.

1.2. Other major causes for concern at the beginning of the year were the lack of adequate improvement in inflation rates and the increased divergences in price and cost trends and in payments balances among the Member States. An increase in the cost of oil imports, a rise in raw material and food prices (exacerbated by the fall in value of some currencies) and increases in public service charges and taxes resulted once again in accelerating inflation rates, which in turn threatened to push up wage demands and, in some cases, to reduce the growth of real disposable income.

At the beginning of 1977, the average Community growth rate for consumer prices compared to the previous year was still about 11-12%.

Even less satisfactory was the fact that inflation rates were diverging widely between member countries; they ranged from 4% for the Federal Republic of Germany to 21-22% in Ireland and Italy (see table 5). These price divergences were also the cause of sharp changes in exchange rates, which in the autumn of 1976 affected mainly the French franc, the lira and the pound sterling, although an adaption of intervention rates in the snake was also necessary.

1.3. Divergences in the trend of trade balances and payments balances within the Community were just as large as divergences in inflation rates. Balance of trade deficits for France, Italy and the United Kingdom, and for the Community as a whole, had in the fourth quarter of 1976 reached their second high point since 1974, and they improved only very gradually in the first quarter of 1977.

1.4. Since the autumn of 1976, monetary and budgetary policy in the deficit countries had been mainly aimed at holding down price and cost rises, checking the fall in the value of currencies and restoring balance of payments equilibria. The Member States with balance of payments surpluses and low levels of inflation were looked to to bring about a revival in demand and production.[2]

2. Inadequate achievement of economic policy objectives in 1977

2.1. In the Annual Report on the economic situation in the Community laying down the economic policy

[1] See the Commission's report on the economic situation in the Community, December 1976, p. 27 (table 10), and Communication to the Council concerning the adjustment of the economic policy guidelines for 1977, COM(77)58 final of 4 March 1977, p. 5.

[2] Commission Communication to the Council concerning the adjustment of the economic policy guidelines for 1977, OJ L 119 of 12 May 1977, p. 22, paragraph 1 3

guidelines for for 1977 (prepared in the autumn of 1976), it was assumed that, in pursuit of the fourth medium-term economic policy programme, an average growth rate of about 4% for real Community GDP in 1977 was necessary, provided that positive influences, particularly expansionary forces outside the Community, continued to strengthen.[1] However, in adjusting the economic policy guidelines for 1977,[2] growth targets had to be revised downwards. A 3.5% growth rate was forecast for the Community at this time on the assumption that the Federal Republic of Germany and the Netherlands would achieve their target growth rates of 5% and 4% respectively. As the year progressed, it became clear that the target figures would not be achieved by either of these two countries or the Community as a whole.

2.2. In all probability, real Community GDP grew by no more than 2% in 1977. The growth rates for the Federal Republic of Germany, France and the Benelux countries will probably be about 2.5% that for Italy less than 2%, and the United Kingdom's GDP will probably have shown little or no growth. Only Ireland registered a high rate of growth (5½ %) (see table 1).

The difference between growth rates for GDP and final domestic demand shows that in many Member States, the foreign sector contributed to overall growth. Only in Ireland, Luxembourg and, especially, the Netherlands, did real domestic demand increase faster than real GDP. Without the positive contribution of the foreign sector, the growth rate of real Community GDP would have been even lower.[3]

2.3. In 1977 the number of registered unemployed increased by a further 600 000 in the Community to 5.7 million, which corresponds to a rate of 5.4% of the working population (1976: 5.0%). All Member States were not affected by the deterioration in the employment situation. Thus the Federal Republic of Germany, Ireland and the Netherlands succeeded in containing or reducing the numbers out of work and the unemployment rate. However, in certain other Member States the increase in unemployment has been checked in the course of the past few months, thanks to the measures adopted within the framework of the employment policy.

The proportion of female unemployment rose everywhere in 1977. The number of young people out of work reached 2 million in the Community. Their percentage of the total exceeded 40% in the majority of countries with the exception of the Federal Republic of Germany (see table 5).

2.4. The targets set in the Annual Report for reducing the rise in consumer prices in 1977 (from 10% to about 7-8% as a Community average) also rapidly proved too ambitious (see table 1). Certain special factors (rise in raw materials prices, delayed effects of the depreciation of some currencies, increases in public sector charges and taxes) continued to make themselves felt during the first part of the year. In the first half of 1977, the growth rate in the consumer price index (recalculated as an annual rate) was still as high as 11% for the Community as a whole. In the second half of the year, the effects of the stabilization measures taken began to make themselves felt; the annual rate for this period was some 7.5%. Cost and price increases slowed down, particularly in the United Kingdom, Ireland and the Benelux countries.

If one takes the trend of inflation rates throughout the year, and not the annual averages, it appears that the targets for reducing the rise in prices in 1977 in comparison with the initial figures have been achieved, except in Denmark and France. The inflation rate in the Federal Republic of Germany was about 3.5% at the end of 1977, which is equivalent the annual average inflation rate in 1970. For the United Kingdom the rate was 12% and for Ireland 11% (see table 4). In France the rise in prices slowed down substantially in the last quarter of 1977: calculated at an annual rate it was some 7%. In Italy, too, the upward trend in consumer prices has slackened markedly.

3. Improved convergence of economic trends in the Community

3.1. Progress achieved in reducing balance of payments disequilibria was also impressive. The Community's trade balance (fob/fob) in 1977 will show an improvement of some USD 10 000 million over 1976, and the current account balance an improvement of some USD 8 000 million (see table 6). Most striking of all has been the progress achieved by Italy and the United Kingdom, both of whom had a current account surplus at the end of 1977 (some USD 2 000 million and USD 300 million respectively), and also by France, which cut its deficit by almost half. The overall current account surplus of the Netherlands was reduced by some USD 2 000 million compared with the previous year, while that of the Federal Republic of Germany was brought down only slightly.

3.2. The reduction in the current account deficit in 1977 was almost as spectacular as in 1975, when the Community's current improved by just under USD 10 000 million. The total deficit of the deficit countries fell to USD 5 000 million in 1977, compared with almost USD 14 000 million in 1976. As in 1975, the main factor behind this improvement was the very marked decline in domestic demand in most of the countries. Other special factors played a role, factors which were partly responsible for the large deficits in 1976 (severe winter, anticipative purchases of oil, poor harvests) but had a further impact in 1977. Finally, North Sea oil began to play a key role in 1977.

In 1976 Community imports of goods and services had risen by almost 11½ % in real terms (compared with a 5% increase in domestic demand). In 1977, by contrast, the growth of total imports was down to only 2% (with domestic demand rising by 1.3%). The Netherlands is the only country where the development of imports has been faster than that of exports. The Community's real exports increased by about 4.3% (as against 9.7% in 1976). Italy and the United Kingdom each increased their total exports in 1977 by about 5½% in real terms, France by 6.3% and Ireland by about 14%, while the expansion in world trade at constant prices was only 5%. The question

[1] Annual Report on the economic situation in the Community and economic policy guidelines for 1977, OJ L 358 of 29 December 1976, paragraph 3 4

[2] Commission Communication to the Council concerning the adjustment of the economic policy guidelines for 1977, OJ L 119 of 12 May 1977.

[3] The foreign sector contribution (difference between imports and exports of goods and services) to the growth of real GDP was negative (—0.4%) in 1976

rises, however, whether the absorption of balance of payments deficits in the deficit countries has not been accomplished too quickly or whether the reduction of surpluses in the other countries has not been too small.

3.3. The marked worsening in the exchange rate parities of the currencies of the deficit countries in 1976 — more than 20 % for Italy, a little less than 17 % for the United Kingdom and around 10 % for France — undoubtedly made an appreciable contribution to the improvement in the payment's balances of these countries in 1977. The monetary depreciations which came about in the above-mentioned countries, followed as they were by tighter incomes policies resulted in an increased effectiveness of the balance of payments adjustment mechanisms. In comparison with these fluctuations, the variations in exchange rates in 1977 were more moderate at the end of the year. On a year-to-year basis, the Italian lira registered an effective decline of 6.5 % and the Danish krone, which in 1976 appreciated by about the same order of magnitude, fell by 6 %. On the other hand the parity of the French franc remained practically unchanged (—1.5 %) while the pound sterling experienced an effective appreciation of around 5½ %, nearly as much as the DM (see table 7).

Developments in international competitiveness may be set out if account is taken of both changes in domestic prices as well as exchange rates, although the results obtained are subject to severe limitations. Between the final quarter of 1976 and the last quarter of 1977 the United Kingdom and Ireland lost the competitivity that they had gained in the previous year; as in 1976 the improvement in Italian competitivity was only minor, the rise in domestic prices having gone almost hand in hand with the depreciation of the lira, while in France the situation, which had improved markedly in the previous year, did not change very much in 1977. The position of the Federal Republic of Germany — after the worsening experienced the previous year — deteriorated again (see table 7).

3.4. Monetary policy has contributed substantially to this increased convergence of economic development. The bitter experience drawn from monetary depreciations of preceding years has largely influenced monetary policy in the Member States, whether grouped together, or not, in the snake. To shatter the dangerous devaluation spiral — rises in domestic costs, inflationary pressures and a further devaluation — the governments of the floating countries (United Kingdom, France, Italy) have, since the autumn of 1976 and throughout 1977, directed their monetary policy at the stabilization of exchange rates. The realization of this objective has necessitated a more restrictive monetary policy, but the countries in question have at the same time developed the convergence of their economic policy at a Community level. Likewise the monetary policy authorities of the Member States participating in the Community exchange-rate system have reacted immediately to the downward pressures exerted on their currencies by increases in money market rates, even if this policy has not been in accordance with the immediate needs of domestic economic activity; it was in this direction that the Benelux countries acted at the end of the year. Denmark, while pursuing a restrictive monetary policy, adapted the external value of its currency to the rise in the level of domestic costs by two devaluations in April and August.

The publication in the United Kingdom, France and the Federal Republic of Germany of objectives for the money supply have also contributed to a closer convergence. In these three countries the magnitude of the increases aimed at ranged from 8 to 13 %. Even though these norms refer to monetary aggregates defined and calculated in a different manner, these figures have made, in comparison with the trends observed in the past, a greater contribution to a more balanced development.

The progress accomplished in the field of monetary policy harmonization was reflected in a closer alignment of liquidity expansion in the various Member States. With the exception of Italy where money supply was growing at an annual rate of about 20 % and Ireland, where growth accelerated towards the end of the year, the movements of the broadly defined money supply (M_2 or M_3) was maintained, in 1977, within a relatively narrow range from 8 % (Netherlands) to 12½ % (France) (see table 8). On the other hand no narrowing of the gap, in comparison with the previous year, was observed in both long-term and short-term interest rates. This result is not, however, surprising since it has, to a large extent, been the consequence of a monetary policy aimed at obtaining a greater degree of convergence (see table 9).

3.5. Budgetary policy has played a very important role in the adjustment processes which have tended to reduce the disparities as far as balance of payments and price developments are concerned. In Italy, and in the United Kingdom, in particular, the control of public finances has served to slow down the growth of internal demand, albeit in different ways: in Italy, this effect was achieved by a strengthening of fiscal pressure, whereas in the United Kingdom a strict limit to the growth of expenditure enabled direct tax reductions to be made in support of the policy of moderating the rate of growth of nominal incomes. In Denmark and in France, the budgetary process has also tended to have the restrictive effects required by the need for adjustment, although to a lesser degree. The other countries, with the exception of Belgium, have maintained a budgetary policy stance more restrictive than the conjunctural situation required. These countries in 1977, have therefore taken a lead on the way towards gradually reducing public sector deficits — a medium-term objective for all Member States (see table 10).

3.6. The reduction in inflation rates, in Community average terms, has also, in 1977, resulted in a narrowing of the gap of these rates within the Community (see table 1 and 4). In January 1977 the gap between annual increases in consumer prices among member countries was still 18 percentage points; in December it had fallen to 11 points, the extreme values in this period being registered in the Federal Republic of Germany and in Italy.

The improved convergence of the developments noted for some months, appears even clearer if the shorter term price rises are considered, instead of the year-to-year increases.

The price lull was already signalled in the first half of the year in the majority of member countries, by a strong weakening of the rise in wholesale prices. During the second half of the year the corresponding indices have even, in some Member States, fallen for several consecutive months. In 1977 wholesale prices remained practically stable in Belgium, the Federal Republic of

Germany and in France. In the other countries as well, with the exception of the United Kingdom and Ireland, their upward movement has been substantially less than that of the consumer price index. Towards the end of the year their development, together with that of consumer prices, has shown a substantial convergent trend as between the different Member States (see table 4).

4. Why the economic recovery did not continue in 1977

4.1. Looking back over economic developments and policies in 1977, one inevitably comes up against the question why the recovery faltered, why economic activity in almost all the Member States levelled off and in some cases even declined for a period and why expectations even during the second half of the year were not fulfilled. Was the growth of aggregate demand too low and did the responsibility for this lie with the private or public sector, domestic demand, or the slowdown in the growth of world trade? On the other hand, must one assume from the hesitancy and uncertainty of the cyclical trend that supply and growth were in general too weak, a weakness which could not be overcome by demand stimulation alone?

The following attempt to analyse the weakness of economic activity in 1977 is restricted to the main factors involved. Specific factors are dealt with in the chapters on each country.

The growth of demand and production in the Community was in general disappointing for three basic reasons:

— the weakness of the world economy and the slowdown in the growth of world trade outside the Community compared with the previous year;

— the generally more restrictive stance of economic policy than foreseen in those countries which had large-scale balance of payments problems, a high level of inflation, and a depreciation in their currency;

— the lag in the revival of economic activity in those Member States, such as the Federal Republic of Germany, which for a long period overestimated the self-sustaining dynamic forces in the private sector and the ability of the public sector to pursue an anticyclical budgetary policy.

4.2. The disappointing growth rates in the Community are no doubt in large part due to the fact that the expansion in the **volume of world trade** was lower than expected. Even in the Annual Report relating to 1977, it was assumed that the volume of world imports outside the Community in 1977 would be about 7½%.[1] This forecast had very quickly to be revised downwards. The real growth rate of world trade (imports) is now put at about 5.5% and the growth in the volume of imports by the industrialized countries (excluding the Community) at about 7%, i.e. half the level of growth in 1976. One reason for this situation was that levels of demand and growth rates in the industrialized countries were lower than expected (4% instead of 5-5.5%), especially in Japan, but also in the smaller industrialized countries, whose balance of payments difficulties forced them to pursue restrictive economic policies. Since the policy of the developing countries and the State-trading countries was to reduce their high level of foreign indebtedness, there was a slowdown in the growth of imports by developing countries, while imports by the State-trading countries dropped still further.

The slowdown in the world economy in 1977 had other causes, however, the most important being: the ending of impulses emanating from stockbuilding and from raw material and oil imports (which had partly been brought forward in 1976 because of expected price rises), and uncertainties and constraints in world trade caused by the spread of protectionism and by exchange-rate fluctuations.

4.3. However, it would be an oversimplification to attribute the inadequate level of economic recovery in the Community to the marked slowdown in the growth of world trade alone. The Community accounts for about 30% of world trade and thus exercises a significant influence on its development. Equally important is the fact that almost 50% of the foreign demand of each Member State (and almost two-thirds in some cases) comes from the other Community countries. It was indeed mainly the low growth of domestic demand in the member countries which caused the lack of growth in foreign demand for each member country in 1977 compared with 1976. This general weakness of foreign demand from the Community countries is reflected in the abrupt drop in the growth of intra-Community trade. In 1977, intra-Community trade in real terms probably only increased by just under 2¼% whereas in 1976 it grew by almost 15½.

[1] Annual Report on the economic situation in the Community and economic policy guidelines for 1977, OJ L 358 of 29 December 1976

World trade and intra-Community trade

(Annual growth rates in % and at constant prices)

	1970-1974 (5 years average)	1975	1976	1977
World trade (outside the Community, imports)	8	– 1	9½	5½
Intra-Community trade	9	– 7.0	15½	2¼
Imports from non-Community countries	7.5	– 2½	13½	1½
Exports to non-Community countries	7.8	– 3½	6	6¼

4.4 The growing economic interdependence of the industrialized countries and particularly the Community countries is confirmed by another phenomenon. In recent years, the synchronization of cyclical movements, as evident particularly in the trend of industrial production, has clearly increased.

The quarterly trend of industrial production in the Member States does indeed point to a convergence of seasonal fluctuations even where economic policies are quite different. In most of the countries, the recession in the third quarter of 1976 (or in some cases in the second and third quarters of 1977) and the pickup after the long slack summer period occurred more or less simultaneously. A similar pattern of parallel cyclical trends is reflected in the quarterly growth rates for real GDP, available for four of the Community countries. [1]

Though it is regarded as necessary that cyclical trends in the 'strong' and 'weak' countries should be out of phase, this did not happen in 1977, with the exception of the United Kingdom.

4.5. The real average growth rates of the various components of demand in the Community taken as a whole, conceal a number of divergences in trend between Member States. Nonetheless, some basic similarities of trend can be seen for most of the countries in comparison with 1976 (see table 2):

— in all the countries except the Netherlands and Ireland, the growth of real domestic demand, especially gross fixed capital formation, declined; private demand provided the main support for economic activity, with the exception of the United Kingdom and Denmark;
— whereas in 1976 stockbuilding had contributed on average 2 % to the growth rate of real GDP, in 1977 the figure fell to zero or was even negative, once again with the exception of the Netherlands, Ireland and also the United Kingdom;
— the external sector in the countries with large deficits in previous years accounted for about 1-1½ % (for Italy even almost 2 %) of real growth; the contribution was negative for the Netherlands and only of a small order for Germany and Belgium.

4.6. The growth rates of real private consumption have become generally subdued in the 1970s and have weakened further between 1976 and 1977. This weakness was most marked in the United Kingdom, Denmark and Italy, as a consequence of restrictive fiscal policies and falls in real income. In the remaining member countries real disposable income has increased further, a result of both growth in the compensation of employees and increased rates for current grants from general government. The personal sector's savings ratio remains at the high level attained in the early years of the recession. The declines in the savings ratio in the Federal Republic of Germany and in the United Kingdom are the results of special factors such as above average withdrawals from saving contracts, partly compensated for by contractions in the incomes of wages and salary earners.

Apart from the Federal Republic of Germany, Luxembourg and Italy compensation of employees *per capita* grew more slowly in 1977 than in 1976. However, at the same time there was a marked slowing down in the rate of productivity growth. As a result in the majority of member countries there was a further increase in unit labour costs, in some cases even an acceleration was registered (Federal Republic of Germany and Italy). Only in the United Kingdom was a slowing down observed (see tables 3 and 4). Because of weak demand the increased wage costs could not be passed on, so that the continual increase in unit labour costs has prevented an improvement in the profitability in firms and enterprises. In the Federal Republic of Germany the deterioration in property and entrepreneurial income has shown itself most clearly.

4.7. As from the summer of 1976, i.e. already at an early stage in the cyclical upswing, more and more Community countries were obliged to adopt a restrictive line in monetary and budgetary policy. The stabilization programmes introduced by the United Kingdom (July 1976), France and Denmark (August 1976) and Italy (September 1976) had to be maintained far into 1977, and, in some cases (United Kingdom), could only be relaxed after the first signs of lasting success began to appear.

As a result of the unfavourable employment situation, high inflation rates and the slow growth of earnings, the level of private consumption also remained low for a long time.

The necessary reduction of balance of payments disequilibria in the deficit countries should have been accompanied by a strong expansion in foreign demand inside and outside the Community if a marked slowdown in the recovery was to be avoided. The annual report adopted towards the end of 1976 pointed to the dangers and possible conflict of objectives inherent in the adjustment strategy being pursued: 'If the present weakness in economic growth happened to coincide with effects of stabilization programmes introduced in the Member States, the result could be a cumulative contraction of internal demand'. [2]

4.8. It is now clear that this is no longer a risk but a reality, partly because the economic recovery in the Federal Republic of Germany was not sustained in 1977, as a result of short-term and structural factors. The impact of the measures taken in the public sector have been less than expected and have had, taken overall, a contractionary effect. The borrowing requirement of General Government has been rapidly reduced from DM 60 000 million in 1975 to DM 34 000 million in 1977, that is to say from nearly 6 % to less than 3 % of gross national product (see table 10). Public investment in real terms, has fallen both in 1976 and 1977. The self-reinforcing effects resulting from short-term movements in private investment, which have characterized previous phases of expansion have not, this time, been in evidence. The reasons for this lie in the degree of spare productive capacity, and the uncertainties about future economic development, a result of accumulating administrative bottlenecks and environmental policy. But it is essentially the profitability of private enterprises which has deteriorated again in 1977, a result of increases in wage and salary costs and the appreciation of the DM. The extent of the latter has exceeded somewhat the difference in cost and inflation rates between the Federal Republic and its competitor countries.

[1] The real GDP of these countries taken together rose by 1 % in the fourth quarter of 1976 and in the first quarter of 1976 and in the first quarter of 1977, subsequently fell and probably rose again by just under 1 % in the fourth quarter of 1977.

[2] Annual report on the economic situation in the Community and economic policy guidelines for 1977, OJ L 358 of 29 December 1976, paragraph 4 3.

B — The economic policy in the various Member States

Denmark

5.1. The guidelines laid down in March 1977 were based on the outlook for the year as a whole of very modest growth, an increase in unemployment and the continuation of a severe external constraint. A prudent **economic policy** was therefore advised, which implied the maintenance of a restrictive budgetary policy, excluding any stimulatory measures with the exception of certain forms of investment. A tight incomes' policy was of over-riding importance with the aim of moderating the growth of costs, and the guidelines emphasised the necessity for monetary policy to take account of the objective for the balance of payments.

On the whole, the **outturn for 1977** was in line with both the forecasts and the broad intentions of the guidelines for economic policy. Growth has remained weak as a result of a lack of export demand, and was aggravated by the deterioration of the economic situation in neighbouring Scandinavian countries. Unemployment has increased. In such circumstances, and taking into account the need for an improvement in the current account of the balance of payments which had suffered from the effects of the bad harvests of the previous year, a deterioration in the terms of trade and an increase in external debt servicing payments, the authorities steadily increased the restrictive nature of their economic policy by stricter control of internal demand.

Budgetary policy has had two-fold objective. On the one hand, the tax burden has been increased (higher rate of value added tax raised from 15 % to 18 %, an increase in specific taxes on certain goods and services, increases in public tariffs and registration duties) with the effect of reducing private consumption and limiting imports. On the other hand, it sought to stimulate investment and increase employment. There resulted, in the fourth quarter of 1977, a fall in consumers' expenditure and an improvement in the balance of trade caused by a slowing down of imports. Despite the measures taken to stimulate employment and to strengthen investment, the borrowing requirement for 1977/78 will be, as a result of higher taxation, in conformity with the Community guidelines.

During the negotiations for a new pay agreement on 15 April 1977, the role of **incomes policy** was to attempt to ensure that the strict framework laid down by Parliament in August 1976 was respected (pay increases limited to 6 % per year until March 1979; only a single slice [1] of any cost-of-living increases to be paid, all other 'slices' becoming due to be paid to the credit of individual employees' accounts with the complementary retirement pension fund). Even though, in fact, the increase in pay (8 % to 9 % for 1977 as a whole) somewhat exceeded the target, nevertheless it represents a distinct deceleration. This development has led to a significant deceleration in the growth of costs, in conformity with the aim of re-establishing external equilibrium.

Monetary policy remained relatively restrictive. Despite certain relaxations, domestic credit was kept under strict control in order to encourage capital inflows. Interest rates tended to rise during the year. The financing of the external deficit was accomplished with little difficulty as there was a ready supply of funds on world markets. In accordance with the adopted guidelines, the growth of the domestic money supply was contained within narrow limits.

The authorities did not pursue an active **exchange rate policy.** The two devaluations of the crown, compared to the European unit of account, which occurred in 1977 (the first of 3 % in April, the second of 5 % in August) were caused by external forces, as a part of the voluntary process of adjustment of internal demand and in order to soften the effects of the depreciation of other Scandinavian currencies (especially the Swedish crown) on Danish exports. During the first nine months of 1977, the competitive position of the Danish economy improved significantly. From October, the strong appreciation of the Germain mark caused the other 'snake' currencies to appreciate also. The relative competitive advantage lost during the fourth quarter, especially compared with the dollar and the weakened Scandinavian currencies, was however offset by the effect of the devaluations on reducing import prices and by the maintenance of the Danish crown in a more stable monetary group.

In **conclusion,** the stance of economic policy in 1977 has enabled significant progress to be made towards reaching the priority objective of an improvement in the balance of payments. The amount of deflation inherent in such a policy has, however, led to an increase in unemployment which, despite the measures taken to improve the situation, continued until the end of the year.

Federal Republic of Germany

5.2. In 1977, real GDP in the Federal Republic of Germany grew by 2.6 %. This was well below the 5 % **target** announced by the Federal Government at the beginning of the year. The economic upturn which got under way in late 1976 and early 1977 came to a standstill from spring onwards. Consequently, there was no improvement in the labour market situation. Price rises, by contrast, were roughly in line with the target; measured in terms of consumer prices, the annual average rise was only 3.9 %. In foreign trade, the year saw the highest balance of trade surplus (DM 38 400 million) since 1974. However, because of increasing deficits for services and transactions, the current balance of payment's surplus (DM 8 200 million) was somewhat lower than in the previous year. This surplus has been more than compensated by long-term capital exports.

An important **exogenous factor** in the slowdown in economic activity was the unexpectedly sluggish growth of foreign demand. This sluggishness was mainly due to slower growth in the volume of world trade. Exports to other Community countries, especially France, Italy and Denmark, were much lower than expected, no doubt as a result of the efforts made by these countries to improve their balance of payments positions. However, despite the increasing burden imposed by the appreciation of the German mark (6.6 % from December 1976 to December

[1] A 'slice' corresponds to an increase of three points in the index of consumer prices (excluding any effects of changes in taxation).

1977 on average against other currencies,[1] German exports showed a further slight increase in their share of the volume of world trade.

The optimistic growth forecasts made at the beginning of 1977 probably influenced the level of **wage demands and settlements.** Provided that real growth of around 5 % had been achieved, wage settlements of around 7 % might have been expected to result in a further slowdown in the rise in wage costs and a further slight improvement in firms' profits. With no increase in production since the spring, however, the level of wage increases granted very quickly led to a marked acceleration in wage costs and a rapid slowdown in the growth of firms' profits. Because of the weakness of demand, it was not possible to offset this through price increases, either at home or abroad. The severe squeezing of profits was probably, in addition to the general weakness of demand, the main reason for the slowdown in private investment activity.

The weakness of demand and the appreciable rise in wage costs probably had an unfavourable effect on employment, though the stepping up of the Federal Government's labour market policy programmes and a further fall in the number of foreign workers prevented a rise in unemployment. Besides such economic factors, there are also structural factors such as the renewed growth in the working population, difficulties of matching the demand and supply for labour and the increased tendency of firms to carry out rationalization, which make it difficult to achieve any improvement in the labour market situation.

In adopting its target for economic growth in 1977, the Federal Government assumed that, providing the recovery continued, a growth rate of 5 % could be achieved without any additional stimulation of domestic demand. **Economic policy** therefore continued initially to be directed towards reducing public budget deficits, overcoming specific structural labour market problems and consolidating progress made towards achieving stability. However, in adjusting the economic policy guidelines for the Federal Republic of Germany in March 1977, the Council pointed out that 5 % growth could be achieved only if economic policy were made more expansionary. From the spring onwards, as the weakning of demand became evident, there was a gradual change of course in budgetary and financial policy. The measures taken will for the most part make themselves felt only in 1978.

Budgetary policy for 1977 was initially geared towards pursuing the course of reducing deficits embarked upon in 1975. In the spring, however, their was a change of course with the introduction of a supplementary public investment programme for 1977-80 amounting to some DM 16 000 million. DM 4 500 million of this programme, in which the Länder and local authorities are also involved, was committed in 1977, though only DM 500 million of this amount was actually disbursed in 1977. The weakening of the recovery was also taken into account in the Tax Amendment Law passed in June. The planned 2 % and 1 % increases in VAT were reduced to 1 % and 0.5 %. In addition, a number of tax reliefs for firms and individuals were granted, thereby foregoing the DM 5-6 000 million increase in revenue originally planned. Finally, tax reliefs worth some DM 10 800 million were approved in the autumn, of which just under DM 2 000 million took effect in 1977.

At just under 5½ %, the rise in expenditure by central and local Government remained very modest in 1977. While current expenditure rose by about 6 %, capital expenditure increased by only 2 %. The federal structure of the country was no doubt an impeding factor in pursuing a more expansionary line on expenditure. While Federal current expenditure provided direct support for demand, particularly in the second half of the year, local government contributed only slightly to supporting the economy.

The relatively modest growth of expenditure was in contrast to an unexpectedly high level of growth in revenue (almost 10½ %). 1977 showed once again that the built-in compensatory effects of the tax system are either very limited in their impact or produce a delayed and therefore if anything procyclical effect. Thus, the favourable profits situation in 1976 as a basis of assessment for income and corporation tax in 1977 had the effect of increasing the tax burden on firms on top their already weak profits situation. Wages tax too increased disproportionately because the tax reform of 1975, while granting reliefs for lower income groups, increased the progressive effect of the system.

All in all, budget management by the public authorities in 1977 had a markedly restrictive effect. The financial deficit of central and local government fell from DM 48 000 million in 1976 to DM 34 000 million in 1977.

In the field of **monetary policy,** the target for the growth of central bank money set by the Bundesbank at the end of 1976 (+8 % as an annual average for 1977) assumed 5 % real growth in GNP and 4 % inflation. Though current price GNP grew more slowly than expected (6.1 %), the Bundesbank maintained its money supply target unchanged throughout the year. Up to August 1977, it made an extra DM 14 000 million in liquidity available to the economy through various relaxation measures. During the remainder of the year, the unrest on the exchange markets caused by the weakness of the dollar and the interventions made in this connection resulted in considerable inflows of currency (DM 8 200 million from July to December), which increased liquidity substantially. There was thus in general in 1977, a relatively easy situation as regards liquidity, in line with the weakness of the economy, and so the money supply target was slightly exceeded (by 1 %); there was at the same time a marked drop in interest rates.

In the second half of the year, monetary policy was increasingly in conflict with exchange rate policy. Interventions by the Bundesbank, mainly against the dollar, remained within the framework of day-to-day exchange rate adjustments without entailing massive support. Nevertheless, a considerable volume of intervention built up over time. The lowering of domestic interest rates produced hardly any reduction in the upward pressure on the German mark.

In addition to overall budgetary, financial and monetary policy measures, a number of **selective programmes** were further pursued or in some cases stepped up by the Federal Government. In order to support the building and construction industry, the Federal Government's regional programme for subsidized housing was extended

[1] *Source*: Commission departments

and carried forward into 1978. Grants for capital expenditure on research and funds to promote small and medium-sized firms were increased. In addition, substantial funds were again made available to continue the labour market policy programmes of the Federal Institute for Labour.

France

5.3. The Council decision of 17 March 1977 laid down the following priorities for French policy: the reduction of inflation and the gradual restoration of balance in external trade, while at the same time avoidance of a contraction in domestic demand which might aggravate the unemployment situation. Assumptions about the growth of world trade at the time fully justified this stance.

The information at present available suggests that the general objectives pursued by the French authorities have been attained, even though the favourable results anticipated appear to have been achieved only at the end of the period. Taking the two basic objectives, the reduction of inflation and balance of trade equilibrium, the improvement took place later than anticipated; this explains the difference between the quantified objectives and the actual figures. Finally, it should be stressed that this reversal of trend did not halt the growth of the purchasing power of the hourly wage rate but merely slowed it down.

The time-lag in achieving the objectives set, which were in any case fairly ambitious, does not appear to be particularly long if one looks at the economic situation at the end of 1976 and the criteria which the authorities set themselves in rectifying the situation.

As regards external trade, the volume of imports showed virtually no change from 1976 to 1977 and the rise in import prices was not further increased by variations in the weighted exchange rate. It was therefore only the lack of growth in foreign demand which prevented equilibrium from being achieved earlier, since there were indeed some gains in market shares in 1977. In addition exports of agricultural and food products remained low until the middle of the year as a result of the poor harvests in 1976.

With regard to curbing inflation, several decisions taken at the beginning of the period influenced the underlying trend of prices: the price index reflected successively the effects of the freeze imposed in the last quarter of 1976, then the effects of the cut in the rate of VAT and finally the impact of the rises in public utility charges, delayed until April and then all implemented at once. It was, therefore, not until May that the effects of the stabilization policy began to make themselves really felt; from May to December 1977, the rate of consumer price rise expressed at an annual rate came down from 13½ % to under 6 %. So, although the average year-on-year rise in prices remains high, the slowdown has been marked.

The rise in unemployment during the first half-year may be regarded as the result of a decline in activity. The fall in the number of job-seekers during the second half of the year cannot, however, be considered as the result of an overall increase in the demand for labour, but as a sign of the success of the specific measures taken from the middle of the year onwards.

Analysis of the various aspects of the economic policy pursued in 1977 shows to what extent the measures taken have helped to restore the situation:

— general **short-term economic policy** has proved well-judged with the exception that external demand was considerably overestimated (also true of the forecasts of most of France's trading partners);

— **budgetary policy** has been variable in its impact: at the beginning of the period, the reduction in the standard rate of VAT (bringing a 2 % reduction in retail prices for the products concerned) probably helped to support consumer demand; for the year as a whole, with consumption increasing less than expected, indirect tax revenue was lower than forecast; finally, the increase in family allowances and social benefits had only a slightly expansionary effect since a large part of the extra expenditure was financed by raising some indirect taxes and in particular by issues of bonds;

— **monetary policy** has played a moderately restrictive role. While the 12.5 % growth target for money supply (set on the assumption that economic growth would be higher) has probably been respected, the real increase in GDP should not much have exceeded 12 %. By contrast, the high level of interest rates, made necessary by the objective adopted on exchange rates, has obviously been unfavourable to that investment which could not benefit from state aids;

— on the **prices front,** the success of the policy pursued has been restricted by a number of factors:

  — the effectiveness of price controls has in practice been limited to industrial goods' prices only;

  — exchange rates have not been a counter-inflationary factor as has been the case in countries with appreciating currencies;

  — the rise in wage costs has slowed down only gradually, and the working through of this slowdown on to prices is subject to complex factors;

  — it was difficult to remove quickly the upward pressures (such as excess creation of money) which had built up before the plan was introduced.

All in all, the real though limited effectiveness of the measures has been reflected in slower growth of earnings, while price controls have prevented the recovery of profit margins;

— the clear improvement in the **external balance** must be attributed to the overall economic policy rather than to specific measures; the gain in market share observed in 1977 (in the region of 1.5 %) was probably mainly due to the weakness of domestic demand. Furthermore one of the objectives set with regard to trade, namely holding down the value of oil imports, has been easily achieved as a result of the depreciation of the dollar in 1977.

All in all, it would appear that the measures introduced in the autumn of 1976 and supplemented during 1977 have on the whole had favourable results. The combination of restraint on credit and wage costs and measures to support consumer demand by increasing social transfers has led to some initial progress towards restoring equilibrium, without making it necessary to apply too sharp a brake to the expansion of demand. It would of course have been vain to hope that an overall policy drawn up in the light of the macroeconomic objectives described above could have eliminated unemployment within such a short period. The increased underemployment during recent years, like the inflation rates, also reflect factors unconnected with the business cycle, and which restrict the chances of success of short-term policies.

Ireland

5.4. The guidelines of spring 1977 were based on the favourable **outlook** for the year as a whole both for growth (export, investment and private consumption development) and for employment (slight reduction in unemployment) and internal equilibrium (moderation of the inflation rate). They stressed, as a consequence, the importance of budgetary policy as an instrument accompanying a better balanced growth and reducing progressively the deficit in the coming years. They also put emphasis on the necessity for pay moderation in order to improve the outlook for the development of employment.

Growth in 1977 was greater than had been foreseen. A certain number of exogenous factors have contributed to this result (improved confidence, impact of the prior depreciation of the pound on exports, employment support measures). Although the reduction in unemployment has been small (from end-1976 to end-1977 the number out of work declined from 111 000 to 106 000), this must be attributed to certain special factors such as the increase in the labour force, the relatively low level of emigration and the drift of workers from the agricultural sector. The inflation rate slowed down substantially: from 20.6 % in November 1976 it fell to less than 11 % in mid-November 1977.

The major direction of **economic policy** has been in accordance with the guidelines traced out in March last. In the middle of the year it was modified in a more expansionary direction to implement the electoral programme of the new government and the priority given to the employment problem.

Budgetary policy already at the beginning of the year provided for a supplementary effort to encourage investment, tax reliefs, higher social welfare benefits, the maintenance of food subsidies as well as a transfer to the Exchequer of part of the local authority rates. Further stimulatory measures were taken in the middle of the year such as the abolition of road tax, increased transfers for house purchase and higher public expenditure (creation of additional jobs). Overall, these measures enabled the achievement of growth about 5 % in 1977. At the same time and despite the additional expenditure and reduced taxation due to the measures taken, the net borrowing requirement which fell in 1976 was below the forecast level being brought down to 10.2 % of gross national product, due in particular to lower interest cost.

Monetary policy has been relatively neutral. The achievement of the norm fixed for the growth in the money supply was facilitated by the fall in interest rates which increased the attractiveness of gilts during the period and resulted in a limited amount of short-term borrowing by the government.

Incomes policy played an important role even though a large amount of wage drift was observed during the year. The relatively moderate national pay agreement brought about in 1977 a reduction in inflationary pressures and a more satisfactory development in costs.

Since mid-October the **exchange rate** of the pound has risen substantially and this has been a favourable factor reducing domestic costs. As a result of the performance of exports, delayed transfers from the Community and invisibles, the current balance of payments deficit IRL 150 million in 1977) has been substantially less than first expected.

In total, policy followed in 1977 has been appropriate to the economic situation and has conformed to the guidelines set out. It has stimulated growth and permitted the Irish economy to obtain far better results than other Community countries.

Italy

5.5. Under the Council Decision of 17 May 1977,[1] laying down the economic policy conditions to be observed by Italy in 1977 in connection with the grant of medium-term financial assistance and two Community loans, two **main objectives** were to be attained last year: eliminating the current balance of payments deficit and limiting the year on year rate of increase in consumer prices to 16 % by December 1977. Both objectives were attained. The balance of payments on current account actually closed with a large surplus (approximately LIT 1 800 000 million, compared with a deficit of LIT 2 340 000 million in 1976), and the increase in consumer prices was down to 14.1 %.

In contrast, the upper limits which the same Council Decision laid down in the area of both budgetary policy and credit policy to serve as **'instrumental' objectives** in attaining the main objectives, were mostly exceeded.

While the growth of real gross domestic product in 1977 was correctly forecast a year ago at some 2 %,[2] the improvement in the **balance of payments on current account** went far beyond expectations, essentially for three main reasons. First, net receipts from tourism were even higher than the very expansionary forecasts. Second, stocks were run down more sharply, than expected, resulting in a decline in absolute terms in the volume of merchandise imports. Lastly, the terms of trade improved considerably in 1977, owing to relatively stable commodity prices and the fairly stable exchange rate of the lira.

From autumn 1976 to around the middle of 1977 the Italian authorities pursued a restrictive **short-term economic policy,** in line with the main objectives mentioned above. With the improvement in the prospect of attaining these objectives, monetary policy in particular was relaxed in the second half of last year (see below). A contributory factor was that the recession in production expected at the beginning of 1977 for the second and the third quarters in the event proved somewhat more severe than anticipated.

The social costs of attaining the abovementioned main economic policy objectives would not have been so high if world trade in 1977 had expanded as sharply as had been assumed at the beginning of last year (8 % in volume

[1] Decision No 77/359/EEC (OJ L 132 of May 1977).
[2] See Council Decision No 77/340/EEC of March 1977 (OJ L 119 of 12 May 1977)

terms). Instead, world trade grew only by some 5 % and as a result the expansion of Italian exports fell short of expectations.

Budgetary policy had a restrictive effect until roughly the middle of the year. In this period the upper limits — mentioned above — were observed for all budgetary variables (expansion of total central government cash expenditure, deficit of Treasury alone and deficit of Treasury and local government together). The tax ratio again rose. In the second half of the year and especially towards the end of 1977, however, the upper limits for the Treasury deficit and the deficit of the public sector broadly defined were considerably exceeded, mainly because the economic slowdown meant a loss of tax revenue. In the second half of 1977, therefore, budgetary policy again had the effect of sustaining economic activity.

Monetary and credit policy also followed a distinctly restrictive course up to the middle of last year, although in the first quarter the upper limit for total domestic credit expansion agreed between the Italian authorities and the Commission was considerably exceeded as a result of the abolition of the interest-free cash deposit and the special surcharge on purchase of foreign exchange. The level of interest rates, especially short-term interest rates, was lowered by stages to take account of the less expansionary outlook for prices. But even taking into account the remarkably stable lira exchange rate trend, interest rate levels throughout the year remained considerably above those in the principal partner countries. This fact and the ceilings on bank credit have meant that the banks imported money on a large scale. [1] The ceiling controls on the expansion of lira lending by the banks were maintained in 1977.

In the second half of the year monetary and credit policy was relaxed. The discount rate and the rate for advances against securities were lowered from 15 % to 13 % in June and to 11.5% in August. The main development, however, was a very sharp increase in lending in the fourth quarter of 1977, brought about by the rapid rise in the public sector deficit. The upper limit for domestic credit expansion was once more considerably exceeded, so that the growth of money supply accelerated significantly. Taking the year as a whole, the limit may well have been exceeded by some LIT 4 500 000 million, almost the whole of which was attributable to the public sector broadly defined.

In the area of **incomes policy,** agreements were concluded early in 1977 between unions and employers which — through certain changes in the operation of the sliding wage scale — were intended to moderate the rise in average unit wage costs. Nevertheless, and although in 1977 the upsurge in prices remained within the agreed limits (see 1 above), the growth rate of the wage and salary bill at around 24% was far higher than that of gross domestic product in money terms (up 21.5 %). The share of profits in national income and the average profit margin per unit of output therefore declined last year despite the 'fiscalization', in February 1977, of part of industry's social security contributions.

Because of the abovementioned rise in the tax ratio, personal disposable income increased more slowly than gross domestic product (by roughly 19½ %). But this was partly offset by a decline in the savings ratio.

By intervening on the foreign exchange market and by maintaining a wide differential between interest rates at home and those abroad, the Italian monetary authorities succeeded in keeping the **exchange rate** of the lira against the dollar steady on average from January to December 1977, while it fell by only 3.5 % against foreign currencies as a whole. Between 1976 and 1977, by contrast, the weighted depreciation of the lira had been almost 7 %.

From a short-term point of view, the economic policy pursued by the Italian authorities last year was quite successful, both as regards the fight against inflation and in particular as regards the balance of payments on current account. From a more long-term point of view, however, the verdict cannot be so favourable. The level and momentum of the 1977 public sector deficit of LIT 20 000 000 million are such that they hold serious dangers for the future. In addition, the growth rate of average unit wage costs remained far too fast despite a variety of counter-measures. Not least, too little has been done to improve the structure of production and to adapt it to the changed pattern of demand.

Netherlands

5.6. In the Netherlands, budgetary and monetary policy in 1977 was in line with the **guidelines** adopted by the Council. The support for economic activity provided by budgetary policy — for general government as a whole — maintained at approximately the same level as in 1976.

1977 was also marked by a very sharp expansion in investment by firms (+16% in volume terms) and investment in dwellings (+15 %). This expansion was due in part to the support measures taken in 1975 and 1976, especially tax reliefs and selective aids to building and construction. As a result, the building and construction industry was fairly buoyant, and there was a significant fall in unemployment in this sector. The relative firmness of private sector demand is one of the reasons for the fall in public sector capital spending; a number of public sector projects had to be deferred to avoid excessive demand on productive capacity. (In the summer of 1977, the number of vacancies in building and construction was equal to the number of unemployed).

There was nonetheless a considerable shortfall in achieving the objective set for economic growth, and the sole reason for this was the weakness of external demand and the resulting worsening of the external balance. The result of the deterioration of the external balance (in real terms) was to decrease the Netherlands' GDP by 2.4 %, and the GDP of the Community as a whole by 0.15 %. This latter figure may indeed be taken as an indicator of the positive effect of the worsening of the Netherlands' external balance on activity in other countries.

Monetary and financial policy achieved its objectives on the whole, benefiting from the relative fall in short-term interest rates, which encouraged the switching of funds to long-term investments. Thus, a reduction in the rate of liquidity of the Dutch economy — one of the objectives which lay behind the tightening of bank lending in May 1977 was largely achieved: in October 1977, domestic

[1] It was mainly as a result of these money imports and the heavy surplus on current account that official gold and foreign exchange reserves rose rapidly in 1977 (by LIT 5 800 000 million, to LIT 16 680 000 million)

liquidity, which was up only 1.2 %[1] compared with October 1976, showed a seasonally adjusted decrease of 7.6 % compared with the end of April 1977.

Because of this change in the composition of investment, the general government borrowing requirement (2.4 % of GDP) was for the most part covered, despite the appreciable decline in the financing capacity of the private sector (2.7 % of GDP as against 5 % in 1976). The fall in long-term rates observed since the middle of 1976 came to a halt in August 1977 and was followed by a slight rise during the last three months of the year.

After having pursued a comprehensive and energetic **incomes policy** in 1974 and 1975, the Dutch authorities gradually relaxed their attitude. However, they maintained until 1977 fairly strict price controls and statutory rules concerning the effects on prices of increases in wage and salary costs in certain sectors which were relaxed in 1978. As regards compensation of employees, only the rules on the statutory minimum wage were maintained in force; in other cases, the trend of wages and salaries was determined by negotiations at sectoral or company level without any general agreement between the two sides of industry.

Belgo-Luxembourg Economic Union

Belgium

5.7. In Belgium, economic policy was on the whole in line with the general guidelines adopted by the Council. Budgetary policy continued to provide very considerable support for purchasing power and activity, and this support indeed increased between 1976 and 1977. It should be stressed that the growth of expenditure was largely due to current transfers to households. The increase of private consumption was mainly due to the growth of social transfers: by contrast, the impact of public capital expenditures, remained modest, partly because of a substantial fall in fixed investment by the communes following the implementation of the merger plan at the beginning of 1977. Thus, the general government borrowing requirement rose from 4.9 % of GDP in 1976 to 5.6 % in 1977.

The fact that, despite the expansionary stance of budgetary policy, the growth target adopted by the Council (4 %) was not achieved was mainly the result of the weakness of external demand and the loss of buoyancy in Belgian exports — exports of goods rose only 2.4 % in volume. In addition to the weakness of external demand, there was a decline in investment by firms and investment in dwellings which resulted in a 1 % fall in gross fixed capital formation despite the measures to support investment introduced in 1976 and early 1977.

Against a background of low growth, employment declined further. Though a number of measures were taken in 1976 and February 1977 to promote employment of young people and early retirement of older workers, unemployment continued to rise, affecting 7.8 % of the civilian population on average in 1977 (6.8 % in 1976).

Monetary policy was gradually relaxed during 1977. The discount rate came down from 9 % at the end of 1976 to 6 % in June 1977, and the ceilings for rediscounting at the Banque National were raised. It should be noted that the discount rate was temporarily raised in December 1977 to deal with pressure on the franc resulting from the weakness of the dollar.

Interest rates fell somewhat during 1977. With long-term rates remaining relatively high, there was a shift from short-term to long-term investments. The governement loans issued during the year were thus very favourably received.

Luxembourg

5.8. According to the latest available estimates, general government accounts for 1976 and 1977 will probably show a more favourable outturn than was anticipated when the preliminary economic budget for 1977 was drawn up. The general government borrowing requirement will probably be equivalent to 0.7 % of GDP, as in 1976. Central government will probably show a net lending capacity a little above the level in 1976. Overall, **budgetary policy** in 1977 has therefore, as in 1976, contributed to supporting demand, in accordance with the Council guidelines. In the economic policy area, government efforts have of course concentrated on the problems resulting from the crisis in the steel industry and its effects on the longer-term outlook for the Luxembourg economy.

United Kingdom

5.9. In the Commission proposal to the Council on the **economic policy guidelines** for 1977, adopted on 22 November 1976, [2] it was stressed that the main aims of the UK Government's economic policy should be to:

- — reduce the rate of inflation;
- — improve the balance of payments.

The elements of the strategy, consistent with the Council's recommendations, were laid down in late 1976, when the UK authorities sought:

- — to reduce the level of public expenditure and thereby the size of the PSBR;
- — to ensure controlled expansion of the monetary aggregates;
- — to secure the external position by gaining International Monetary Fund approval for a stand-by credit of SDR 3.36 milliard.

In particular, in the Chancellor of the Exchequer's Letter of Intent to the IMF, published on 15 December 1976, prior to the approval by the Fund of the stand-by credit, it was announced that in 1977/78: [2]

- — the PSBR would be held to UKL 8.7 milliard;
- — Domestic Credit Expansion would be limited to UKL 7.7 milliard.

It was subsequently announced in April 1977, that the authorities would aim to keep the growth of the sterling

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[1] After correction to take account of a statistical change in the series.

[2] OJ L 358 of 29 December 1976.

[3] In the United Kingdom the main decisions concerning budgetary and monetary policy are taken for financial years rather than calendar years. It is, therefore, unavoidable that much of the discussion in this note will concern the financial year 1977/78 For practical purposes the financial year is the sum of the second, third, fourth, and first quarters of the calendar year

money supply as broadly defined (Sterling M_3), during 1977/78, within the range 9 to 13 %.

At the outset of 1977, both budgetary and monetary policy could be considered restrictive. This position was reinforced by a very firm incomes policy from August 1976 to July 1977.

Partly as a result of this policy stance, which was relaxed as the year progressed, there was little economic growth in the first half of 1977. In contrast, a recovery in demand is likely to have occurred in the second half of the year, although there is no sign of a substantial rise in output. In addition, the underlying rate of inflation fell very markedly, from 20 % in the first half of 1977, to 7½ % in the second. For the same two periods, the current account moved from a deficit of UKL 800 million to a surplus of UKL 900 million. Special employment support policies clearly helped to soften the impact of low economic growth on unemployment. However, as the year progressed, the authorities experienced increasing difficulties in reconciling their exchange rate and monetary policies.

Following the budgetary posture established in December 1976, the UK Government announced three major adjustments to taxation. These adjustments were possible because of the progressive strengthening of the UK's financial position during the year and the improved outlook for the PSBR. An important aim of the adjustments was to reduce the burden of direct taxation with the view, of obtaining Trades' Union Congress agreement to a further round of incomes' policy. In this regard UK economic policy was in line with the adaptions to the economic policy guidelines adopted by the Council in March 1977. [1] The measures may be summarized as follows:

- in March 1977, the Chancellor of the Exchequer announced direct tax reductions (UKL 1.3 milliard in a full year) partly offset by indirect tax increases (UKL 0.8 milliard). At the same time, further direct tax reductions were proposed.
- in July 1977, the UK Government implemented significant direct tax reliefs somewhat different in structure from those announced in the March Budget, at a further cost of about UKL 1 milliard.
- concerned at the sluggish rate of economic growth, the UK Government announced further fiscal measures, in October 1977, designed to stimulate economic activity both by reducing the burden of direct taxation and by increasing public expenditure programmes in 1978/79. The tax adjustments were estimated to add about UKL 1 milliard to the 1977/78 borrowing requirement.

Even after the tax reductions, the PSBR for 1977/78, will still remain well within the level communicated to the IMF (UKL 8.7 milliard).

Although these adjustments, in particular the third, amount to some relaxation of the stance of budgetary policy, economic growth has remained somewhat lower than anticipated at the time of the March Budget.

During 1977/78, the UK authorities endeavoured to keep the growth of the **money supply** as broadly defined, (Sterling M_3), between 9 % and 13 %. In the event, growth is likely to be at the top end of this range or slightly above. The main stimulus to monetary expansion has been the massive inflow of funds into the United Kingdom that has followed the restoration of financial confidence, partly offset by the Government's success in funding the borrowing requirement outside the banking system. Indeed, the level of official reserves rose from just over UKL 4 milliard at the end of 1976 to UKL 20.2 milliard by October 1977. In the late summer of 1977, this inflow threatened to provoke massive monetary expansion, unless the UK authorities abandoned their policy of preventing any appreciation of the weighted exchange rate to preserve export price competitiveness. This step was virtually forced on the Government at the end of October 1977.

At the same time as the capital inflow took place, the Bank of England's minimum lending rate fell rapidly from 9½ % at the end of March to a low point of 5 % in October. Following the change in exchange rate policy, minimum lending rate was raised to 7 % but then fell to 6½ % on 6 January 1978.

The second stage of **incomes policy,** which ran from August 1976 to July 1977, was successful in keeping the annual increase in average earnings to 8 %. The impact of this policy on unit costs is, at present, helping to lower the rate of retail price inflation. On the basis of the retail price index (excluding seasonal food items), prices have risen at an annual rate of only 7½ % over the second half of 1977 compared with 20 % for the first half, a very significant improvement. By January 1978, the year-on-year rate of retail price inflation had fallen to 9.9 %.

Under Stage 3, it was hoped to restrict the increase in average earnings to 10 % nationally. Latest figures show that earnings have risen by 4.6 % in the first five months of the policy. Since some unions have judged it preferable to defer the presentation of their pay claims, variations have been produced in the pattern of settlements. Thus it is not easy to annualize the figures for average earnings but they do point to the possibility that earnings may increase by more than 10 % in the present round of incomes policy.

Largely due to North Sea Oil, the UK's balance of payments on current account moved into surplus in the second half of 1977.

As regards exchange rate policy, during most of 1977 the UK authorities aimed at ensuring stability in exchange markets consistent with the need to maintain competitivity. In the circumstances, the authorities pursued a policy of a stable exchange rate in effective terms. However, as capital inflows in the autumn continued on a large scale, it became increasingly likely that this development would threaten the control of the monetary aggregates and the authorities finally allowed sterling to rise against other currencies from the end of October 1977. In the view of the Commission it might have helped the UK authorities in their anti-inflationary policy if such a move had been considered somewhat earlier in the year in accordance with the guidelines adopted by the Council in March 1977.

[1] OJ L 119 of 12 May 1977

C — Implementation of the Council Decision of 18 February 1974

6.1. In accordance with the Council Decision of 18 February 1974 the Commission is obliged to report to the Council on Member States' compliance with the procedures and the timetable that aim at achieving a high degree of convergence of the economic policies of the Member States of the Community.

In the year 1977 the Council held ten meetings, [1] two more than in 1976, in order to examine the economic and monetary situation and to lay down guidelines for economic policy so as to form the basis of a coordinated economic policy.

The first yearly examination of the economic situation, which is required to take place in the first quarter, was held on 14 March. The Council approved a Decision adjusting the economic policy guidelines. However the Decision was finally adopted only on 25 April. [2] On 14 March, in accordance with Article 6, the Council and representatives of the governments of Member States, endorsed, after consulting the Economic and Social Committee [3] and the European Parliament [4] a resolution adopting the fourth Medium Term Economic Policy Programme [5] relating to the period 1976-1980.

The second yearly examination of the economic situation of the Community was undertaken on 18 July and, following a proposal of the Commission, a Decision on the preparation of public budgets for 1978 was adopted. [6]

For the third examination of the economic situation the Commission presented to the Council, on 18 October, its proposed Annual Report on the Economic Situation in the Community[7] together with economic policy guidelines for each Member State for 1978. These proposals were discussed by the Economic and Social Committee[8] and the European Parliament[9] and definitively endorsed by the Council on 21 November.[10]

6.2. The European Council, on each of the three occasions that it met,[11] also considered the major problems raised by the monetary, economic and social situation.

A third Tripartite Conference took place on 27 June. Like those of 1975 and 1976 it brought together the Ministers of Economic Affairs and of Employment, the Commission, and representatives of the two sides of industry. The object of the exhaustive discussions was a critical examination of the effectiveness of economic policy in the Member States since 1976, and the setting up of a common list of themes, each to be examined as a matter of urgency, and which aimed essentially at tackling the problem of employment in the Community.

6.3. Nevertheless, despite certain partial successes, the attempts at coordination made within the Community institutions have remained insufficient. In general, these attempts have lacked continuity and coherence: the monitoring, during the year in question, of the jointly-agreed targets have very often appeared to be too formal; the Council debates have rarely led to an open exchange of views on the fundamental problems.

In addition, the meetings of Ministers of those countries which adhere to the Community exchange rate system have always taken place outside the framework of Community institutions, and the obligation of prior consultation was not respected at the time of the two realignments of parities within the Community intervention system.

6.4. The multifarious dangers which threaten the current economic situation and the important problems of structural change have — given the current degree of economic interdependance of Member States — underlined the need for a more effective coordination at Community level of economic policies, both in the short and long term. Thus, in a Communication made to the Council in October 1977, the Commission requested that the Decision of 18 February 1974 should be put into practice in a more satisfactory manner and, with this aim in mind, proposed an improvement in the machinery for coordinating budgetary, monetary and exchange rate policies.[12] The pursuit of more effective coordination of national economic policies is also in conformity with the aim of relaunching the idea of economic and monetary union which was proposed by the Commission in its Communication to the European Council in Brussels in December 1977.[13]

6.5. At the Council meeting held on 21 November 1977, all the delegates expressed the desire to see a strengthening of the coordination of the economic and financial policies of Member States. The competent committees (the Economic Policy Committee, the Monetary Committee, the Coordination Group, the Committee of the Governors of Central Banks) were given the task of examining the Commission's proposals. The Council will discuss the conclusions of this examination in the coming months.

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1 On 14 February, 14 March, 5 April, 18 April, 20 June, 18 July, 19 September, 17 October, 21 November and 19 December.
2 OJ L 119 of 12 May 1977
3 OJ C 56 of 7 March 1977
4 OJ C L 83 of 4 April 1977.
5 OJ L 101 of 25 April 1977.
6 OJ L 204 of 10 August 1977.
7 COM(77) 494, final
8 OJ C 18 of 23 January 1978.
9 OJ L 299 of 12 December 1977
10 OJ L 323 of 19 December 1977.
11 25 and 26 March, 29 and 30 June, 5 and 6 December.
12 'Improving coordination of the national economic policies'; COM(77) 443 Final.
13 'Communication on the prospect of economic and monetary union'; COM(77) 620 Final.

Conclusions

Although in 1977 progress was made in reducing the high levels of inflation and in reducing balance of payments deficits, other important economic policy objectives were not achieved. The economic recovery ground to a halt, and unemployment increased sharply until the middle of the year.

A self-sustaining and self-reinforcing recovery has not taken place, although the trend of the Member States' economic policies was in line with the general economic policy guidelines laid down by the Council.

There are many reasons for the continued weakness of economic activity. The growth of world trade outside the Community slowed down more than expected, and the growth of intra-community trade proved even weaker. The coincidence of cyclical trends has been greater; differentiation in growth rates between Community countries with strong currencies and those with weak currencies was not achieved (with the exception of the United Kingdom). Expansionary forces, particularly in the Federal Republic of Germany, were for a long time overestimated. The short-term economic policy measures taken to stimulate private and public consumption came too late to give firm support to the recovery in 1977.

Once again, the Member States of the Community have underestimated the effects of the large degree of economic interdependence among the European economies. The intensity and effectiveness of economic policy coordination within the Community were not sufficient to meet the challenge of the present stabilization and restructuring crisis affecting all the Member States.

Statistical annex

Except for the Federal Republic of Germany the national accounts figures for 1977 are estimates of the Commission's Departments. The figures for Belgium do not take account of the recent revision to the National Accounts.

TABLE 1

Economic policy targets and outturns for 1977

(% change on preceding year)

Country	Gross domestic product (volume)			Domestic demand[3 4]	Consumer prices (Implied deflator of private consumption)			
	1977 targets[1] - Annual report, November 1976	1977 targets[2] - Adjustments to the guidelines, March 1977	1977 Outturn[3]		1977 targets - Annual report, November 1976	1977 Outturn[3]	1st half 1977[5]	2nd half 1977[5]
Denmark	3	2	1	– 0.8	8	10½	9.0	13.4
FR Germany	5	5	2.6	2.5	4½	3.9	4.0	3.7
France	4½	(3)	2.3	1.3	7-8	9.3	8.9	8.8
Ireland	3	3	5.6	5.0	13	13.6	16.6	7.8
Italy	(0)	3	1.8	– 0.2	17.5	18.5	21.1	12.9
Netherlands	4½	4	2.3	4.9	7	7.0	7	7
Belgium	4½	3	2.4	2.0	8-9	6.5	7.5	5.9
Luxembourg	4½	3	1.1	1.7	8-8½	6.7	6.7	5
United Kingdom	3	1.5	– 0.1	– 1.5	11	14.9	19.9	7.5
Community	4	3.5	1.9	1.3	7-8	9.6	10.9	7.5
USA	5		4.9	5		5.6		
Japan	6½		5½	4(½)		7¼		

[1] Guidelines on economic policy fixed in the annual report of November 1976

[2] Adjustments to the guidelines on economic policy for 1977 (March 1977).

[3] Estimates of Commission's departments.

[4] Private and public consumption, gross investment, stock changes.

[5] Changes on preceding periods at annual rates

TABLE 2

Development of domestic demand in 1977[1]

(% volume changes on 1976)

	DK	D	F	IRL	I	NL	B	L	UK	EEC
Private consumption	– 0.2	2.9	2.2	4.5	1.5	3.5	3.0	2.5	– 0.9	1.9
Public consumption	2.3	1.0	4.0	2.0	1.8	2.4	2.6	2.1	0	1.7
Gross fixed asset formation	– 3.7	2.8	0.3	9.0	3.0	9.9	– 1.0	3.2	– 6.3	0.9
— Enterprises	– 1.8	4.9	– 0.6		4.5	16	– 1.6	4.4	0.6	3.0
— Dwellings	– 12	2.3	– 0.6		1.0	15	– 2	0	– 13.7	– 0.5
— Central government	1.2	– 3.4	1.8		1.6	– 8.9	3.0	4.2	– 24.5	– 4.0
Domestic demand (including change in stocks)	– 0.8	2.5	1.3	5.0	– 0.2	4.9	2.0	1.6	– 1.5	1.3
Contribution of the different components to the growth of GDP:										
— Domestic demand	– 0.4	2.4	2.0	5.4	1.8	4.4	2.0	2.8	– 1.7	1.6
— Changes in stocks	– 0.4	0	– 0.7	0	– 2.0	0.3	0	– 0.9	0.2	– 0.4
— External balance	1.7	0.2	1.0	0.3	1.9	– 2.3	0.4	– 0.8	1.4	0.7
Gross domestic product	0.9	2.6	2.3	5.6	1.8	2.4	2.4	1.1	– 0.1	1.9

[1] Estimates (national sources and Commission's departments.

TABLE 3

Development of incomes and the savings ratio

(% change on preceding year)

Country	Compensation of employees (gross)		Income from property and businesses (gross)		Compensation of employees per employee				Productivity (per employee)		Personal sector			
					Nominal		Real				Disposable income		Savings ratio	
	1976	1977	1976	1977	1976	1977	1976	1977	1976	1977	1976	1977	1976	1977
Denmark	13.5	9.0	13.8[1]	10.0[1]	11.5	8.5	2.8	– 1.8	2.7	0	6.3[1]	6.5[1]	16.4	15.9
FR Germany	7.1	7.0	15.4	2.5	7.6	7.0	3.1	3.0	6.1	2.6	6.4	5.9	14.3	13.4
France	15.4	12.4	12.3	11.7	14.7	11.8	4.4	2.3	4.6	1.8	13.0	12.0	16.8	17.0
Ireland	20.6[2]	17.7[2]	24.8	26.1	(20.6)[2]	(15.4)[2]	(3.1)[2]	(1.6)[2]	(3.2)[2]	(3.6)[2]	18.7	19.3	22.0	22.0
Italy	22.6	22.0	25.1	31½	21.3	21.5	3.2	2.5	4.5	1.3	21.8	19.7	26.8	26.6
Netherlands	10.9	8.8	19.2	10.1	10.8	8.3	1.5	1.2	4.3	1.9	13.8	10.3	12.8	12.4
Belgium	10.7	8.7	13.0	11.9	11.7	9.1	2.6	2.4	3.9	2.8	12.3	9.8	17.0	17.1
Luxembourg	8.8	8.7	31.2	– 23.1	10.1	10.0	0.3	3.1	4.3	2.5	10.2	4.3		
United Kingdom	14.5	9.3	32.1	17.8	15.2	9.5	– 0.2	– 4.7	3.4	0.1	15.2	12.1	14.6	13.3
Community	12.8	10.9	18.6	11.9	12.8	10.6	2.7	0.9	4.8	1.7	12.4	10.9		

[1] Total of private sector
[2] Excluding agriculture
Data not available
Source Commission's departments

TABLE 4

Development of price and cost indicators

(% change on preceding year)

Country	Consumer prices (implied index of private consumption)		Development of consumer prices		Wholesale prices		Compensation of employees per unit of output		Import prices (implied index)	
	1976	1977[1]	December 1976 / December 1975	December 1977 / December 1976	December 1976 / December 1975	December 1977 / December 1976	1976	1977[1]	1976	1977[1]
Denmark	8.5	10.5	13.1	12.3	8.6	7.5	8.3	8.0	7.0	9.5
FR Germany	4.4	3.9	3.9	3.5	5.1	0.1	1.4	4.3	6.3	1.4
France	9.9	9.3	9.9	9.3	13.5	1.9	9.7	9.9	9.7	12.2
Ireland	17.0	13.6	20.6[2]	10.8[2]	22.5	11.6[3]	(16.9)	(11.5)	17.4	18.7
Italy	17.5	18.5	22.0	14.0	31.5	9.5	16.1	19.8	24.5	17.8
Netherlands	9.2	7.0	8.3	5.6	9.0	4.7[2]	6.2	6.3	6.3	3.5
Belgium	8.9	6.5	7.6	6.4	5.6	– 1.2	7.4	6.2	7.2	2.3
Luxembourg	9.8	6.7	8.5	4.3	:	:	5.8	7.5	6.0	2.4
United Kingdom	15.4	14.9	15.0	12.1	17.7	15.9	11.4	9.4	22.0	15.9
Community	9.8	9.6	11.2	8.7	13.7	5.6	7.6	8.8	12.0	8.7
USA	5.3	5.6	4.8	6.8	4.7	6.7	4.8	6.0		
Japan	8.5	7¾	10.4	4.8	6.1	– 1.4				

[1] Estimates
[2] November/November.
[3] October 1977/October 1976.
Data not available.
Source. Commission's departments.

TABLE 5

Unemployment[1]

Country	Number of total unemployed (1000)		% change	Women as a percentage of total		Young persons under 25 years as a percentage of total		Unemployment rate[2]	
						January			
	1976	1977	1976/1977	1976	1977	1977	1978	1976	1977
Denmark	118.2	147.0	24.4	37.2	42.2	21.6	:	4.7	5.9
FR Germany	1 060.3	1 030.0	– 2.9	46.6	49.8	28.6[3]	21.6[3]	4.1	4.0
France	933.5	1 071.8	14.8	52.5	53.4	42.2	37.5	4.3	4.9
Ireland	110.5	109.0	– 1.4	19.1	20.0	:	:	9.8	9.7
Italy	1 181.7	1 377.8	16.6	37.3	39.0	:	:	(6.0)	(7.0)
Netherlands	210.9	203.5	– 3.5	24.2	28.6	38.2	40.5	4.4	4.3
Belgium	266.6	307.6	15.4	57.0	59.6	37.8	38.1	6.8	7.8
Luxembourg	0.5	0.8	79.6	38.6	39.8	:	52.5	0.3	0.6
United Kingdom	1 360.0	1 483.6	9.8	24.8	27.9	36.6	:	5.3	5.8
Community	(5 242.2)	(5 731.1)	9.3	38.7	41.2	:	:	5.0	5.4

[1] Since the definitions vary, it is not possible to compare the unemployment rate from country to country.
[2] Number of unemployed as a percentage of civilian labour force For Ireland mid-April
[3] September 1976 and 1977
: Data not available.
Source EUROSTAT

TABLE 6

External trade and development of the balance of payments in 1976 and 1977

Country	Exports		Imports		Terms of trade (% change on preceding year)		Current account balance					
	(Goods and services) % change, in volume terms, over preceding year						National currency milliards		In USD milliards		As % of GDP	
	1976	1977	1976	1977	1976	1977	1976	1977	1976	1977	1976	1977
Denmark	2.6	3.9	16.8	– 1.3	2.4	– 2.3	– 12.0	– 10.1	– 2.0	– 1.7	– 5.1	– 3.9
FR Germany	11.4	4.7	11.4	4.6	– 2.6	0.3	9.2[1]	6.0[1]	3.7	2.6	0.8	0.5
France	9.4	6.3	19.5	1.0	0	– 0.6	– 29.1	– 14.7	– 6.1	– 3.0	– 1.8	– 0.8
Ireland	6.4	13.7	15.4	11.4	4.0	– 2.3	– 0.15	– 0.15	– 0.3	– 0.3	– 3.4	– 2.8
Italy	12.6	5.5	13.1	– 2.0	– 3.8	2.3	– 2 380	1 800	– 2.9	2.0	– 1.7	1.0
Netherlands	10.5	– 2.4	10.9	1.9	0	– 0.3	6.7	1.3	2.5	0.5	2.8	0.5
Belgium	8.0	3.9	10.7	3.1								
Luxembourg	3.2	1.6	0.2	2.4		0.7	– 13.0	– 2.9	– 0.3	– 0.1	– 0.5	– 0.1
United Kingdom	7.0	5.4	3.0	0.4	0	2.0	– 1.2	0.2	– 2.2	0.3	– 1.0	0.1
Community	9.7	4.3	11.6	1.8					– 7.6	0.4	– 0.5	0
USA	6.5	2.2	18.4	9.9	0.4	– 3.0			– 1.4	– 18	– 0.1	– 1.0
Japan	17.1	12.9	7.8	3.6	– 1.5	1.1			3.7	11	0.7	1.7

[1] According to Bundesbank balance of payments figures
1976 DM 8.5 milliard (USD 3.4 milliard).
1977 DM 8.2 milliard (USD 3.5 milliard)

TABLE 7

Exchange rates, competitivity and official reserves

Country	% changes in effective exchange rates [1]			% changes in competitivity[2]			Official reserves [3] USD milliards (End-year)		
	December 1975 / December 1974	December 1976 / December 1975	December 1977 / December 1976	IV 1975 / IV 1974	IV 1976 / IV 1975	IV 1977 / IV 1976	1975	1976	1977
Denmark	− 0.8	+ 7.4	− 5.9	+ 2.2	− 5.7	+ 5.3	802	842	1 588
FR Germany	− 3.1	+ 15.4	+ 6.6	+ 6.2	− 7.4	− 0.4	23 128	26 522	29 388
France	+ 7.2	− 9.5	− 1.5	− 11.7	+ 10.9	− 0.6	8 440	5 605	5 887
Ireland	− 6.9	− 11.7	+ 4.4	− 1.3	+ 7.3	− 5.0	1 513	1 818	2 352
Italy	+ 0.3	− 21.1	− 6.5	+ 3.5	+ 2.2	+ 2.1	1 304	3 222	8 094
Netherlands	− 0.8	+ 10.0	+ 0.8	− 0.6	− 2.3	+ 0.2	4 893	5 188	5 766
Belgium	− 3.1	+ 10.7	+ 2.1	+ 5.0	− 4.7	+ 1.8	4 152[4]	3 724[4]	4 599[4]
United Kingdom	− 10.4	− 16.6	+ 5.6	− 1.9	+ 11.6	− 17.2	3 174	1 908	12 956
Community							47 406	48 829	70 630
USA	+ 5.2	+ 1.7	− 6.2	− 3.8	+ 0.2	+ 3.1	4 627	7 149	7 497[5]
Japan	+ 1.8	+ 6.1	+ 19.4	+ 6.1	− 3.6	− 10.8	11 951	15 747	19 094[6]

[1] Appreciation (+) or depreciation (−) national currency against the average of all the other currencies.
[2] Gain (+) or loss (−) of competitivity Definition · the change in a country's wholesale price index (or similar index) corrected by the appreciation or depreciation of that country's currency against the dollar, compared with the average change in wholesale prices, in dollars (calculated in the same way), in the principal competitor countries
[3] Excluding gold, gross value
[4] BLEU
[5] November
[6] October
Source Commission's departments

TABLE 8

Monetary targets 1977 and outturns

	Denmark	FR Germany	France	Ireland	Italy		Netherlands	Belgium	United Kingdom	
	M_2	Central bank money	M_2	M_3	Total credit	M_2	M_2	Bank credit to the private sector	Sterling M_3	Domestic credit expansion
Targets for 1977 proposed by the Commission in the Annual Report on the Economic Situation in the Community (October 1976)	less than + 11-12 % [2]	less than + 9-10 % [1]	+ 12.5 % [1]	less than + 16 % [2]	—	+ 18-19 % [2]	+ 11 % [1]	+ BFR 223 mrd	+ 12 % [2 6]	—
Official targets for 1977	—	+ 8 % [1]	+ 12 5 % [2]	—	+ LIT 30 600 mrd [3] + LIT 30 000 mrd [4]	—	—	—	+ 9-13 % [5]	+ UKL 7.7 mrd [4 5]
Results 1977	+ 10 % [2]	+ 9 % [1]	+ 12.5 % [1]	+ 17 % [2 7]	+ LIT 35 000 mrd	+ 21 % [2]	+ 8 % [2 7]	+ BFR 210 mrd [7]	risks exceeding + 13 %	+ UKL 4 5 mrd [5 7]

[1] Annual average
[2] December/December
[3] Following the negotiations with the EEC
[4] Following the negotiation with the IMF (target period 31-3-77/31-3/78). A second 'letter of intent' in December 1977 extends the period until the first quarter of the 1978/79 fiscal year, by the end of this period the money supply may rise by about UKL 6 milliard
[5] Fiscal year 1 April 1977 to 31 March 1978
[6] Old definitions, M_3.
[7] Estimates

TABLE 9

Money supply, credit, and interest rates

Money supply [1] [2]

Country	1975 December M_1	1975 December M_2	1976 December M_1	1976 December M_2	1977 March M_1	1977 March M_2	1977 June M_1	1977 June M_2	1977 September M_1	1977 September M_2	1977 December M_1	1977 December M_2
Denmark	26.0	25.5	6.2	11.4	6.3	9.0	6.9	9.2	7.0	10.1	9.0	9.8
FR Germany	15.7	8.5	1.9	8.4	7.8	9.2	5.7	7.7	9.1	9.3	11.3	11.1
France	12.7	15.9	7.7	12.8	7.7	12.3	5.9	10.4	8.6	12.6	8.0[4]	12.5[4]
Ireland	20.3	19.1	16.6	14.3	15.2	15.3	16.2	:	:	:	24.9[4]	16.4
Italy	12.5	23.6	20.1	20.7	18.4	19.5	20.1	20.6	21.2	20.7	19.7	19.7[4]
Netherlands	19.7	5.7	6.8	22.7	7.0	20.2	16.8	11.4	20.2	7.8	13.9[4]	7.8[4]
Belgium	14.3	15.0	7.0	14.2	9.4	13.4	6.8	12.1	10.2	10.8		10.5
United Kingdom	21.4	7.8	13.3	11.3	8.8	6.3	13.6	8.1	12.2	6.3	19.8	9.2
USA	4.1	8.8	5.7	10.5	6.1	10.6	6.2	10.3	7.8	10.4	7.2	9.4

Bank lending to private sector[2]

Country	1975 December	1976 December	1977 March	1977 June	1977 September	1977 December
Denmark	14.3	11.8	9.6	11.3	10.5	11.8
FR Germany	4.6	9.4	9.4	9.3	9.0	9.0
France	14.2	15.7	15.7	14.8	14.1	13.3[4]
Ireland	16.3	27.2	29.8	:	:	18.0[4]
Italy	19.0	22.6	21.0	19.9	15.3	:
Netherlands	12.2	21.1	22.1	21.0	18.7	20.5[4]
Belgium	13.9	15.7	13.8	14.8	13.5	:
United Kingdom	0.7	11.5	12.8	13.0	13.2	12.3
USA	– 0.6	8.4	9.8	11.3	12.7	:

Interest rates[3]

Country	1975 December Short term	1975 December Long term	1976 December Short term	1976 December Long term	1977 March Short term	1977 March Long term	1977 June Short term	1977 June Long term	1977 September Short term	1977 September Long term	1977 December Short term	1977 December Long term
Denmark	4.5	13.2	13.5	15.2	13.5	15.5	15.0	15.7	18.3	15.8	19.0	16.6
FR Germany	3.9	8.6	5.0	7.4	4.5	7.0	4.1	6.4	4.0	6.0	3.2	6.0
France	6.5	10.2	10.4	11.0	9.7	10.9	8.9	11.1	8.3	11.0	9.3	11.1
Ireland	10.9	14.6	14.8	15.5	10.8	12.7	7.6	13.6	7.0	11.9	8.0	11.3
Italy	8.3	10.5	16.8	14.2	16.5	14.8	14.3	14.7	12.3	14.4	11.1	14.1
Netherlands	4.4	7.6	6.4	7.5	5.5	7.6	0.5	7.1	2.7	6.7	4.9	6.8
Belgium	3.9	8.5	7.4	9.3	5.5	9.1	5.9	8.9	4.9	8.7	7.2	8.4
United Kingdom	10.2	14.8	13.8	15.5	9.7	13.3	6.7	13.3	5.8	11.9	5.3	11.2
USA	5.2	7.1	4.7	6.4	4.7	7.8	5.4	7.6	6.1	7.7	6.6	7.8

[1] M_1: Notes and coins in circulation and deposit money. M_2 (United Kingdom and the Federal Republic of Germany, M_3): M_1 and near-money.
[2] Percentage change on same month of previous year
[3] Short-term rates: day-to-day rate; long-term interest rates: yield on fixed interest securities.
[4] November.
: Data not available

TABLE 10

General government budget (1975-1977) [1] [2]

Country	Receipts % rate of change			Expenditure % rate of change			Net balances In national currency			Net balances In % of GDP		
	1975	1976	1977	1975	1976	1977	1975	1976	1977	1975	1976	1977
Denmark (DKR milliards)	3.1	13.7	11.7	20.5	14.3	11.3	– 4.5	– 1.3	– 1.1	– 2.2	– 0.6	– 0.4
FR Germany (DM milliards)	2.0	12.5	9.1	12.9	7.3	7.0	– 60.3	– 41.8	– 34.4	– 5.8	– 3.7	– 2.9
France (FF milliards)	17.3	20.2	14.5	25.6	16.2	15.0	– 32.3	– 13.3	– 18.5	– 2.2	– 0.8	– 1.0
Ireland (IRL millions)	22.8	34.1	18.4	27.7	21.7	16.8	– 510	– 461	– 510	–13.9	–10.3	– 9.5
Italy (LIT milliards)	15.4	32.0	23.7	30.1	25.2	22.4	– 12 907	– 13 442	– 15 750	–11.3	– 9.4	– 9.1
Netherlands (HFL milliards)	11.9	16.0	11.5	20.4	14.7	11.4	– 6.1	– 5.6	– 6.2	– 2.9	– 2.4	– 2.4
Belgium (BFR milliards)	19.7	12.7	13.3	24.0	15.3	14.5	– 86.6	– 125.5	– 157.0	– 3.8	– 4.9	– 5.6
Luxembourg (LFR milliards)	11.7	16.3	14.6	23.6	18.3	14.3	0.2	– 0.7	– 0.6	0.2	– 0.7	– 0.7
United Kingdom (UKL millions)	29.7	17.0	14.2	30.0	17.4	10.5	– 4 910	– 5 906	– 4 673	– 4.7	– 4.8	– 3.3

[1] Local authorities and social security system included

[2] 1977 Estimates of the Commission's departments.

Source. Commission's departments