

# EUROPEAN ECONOMY

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Supplement A

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## Recent economic trends

**Stabilization of total output in the fourth quarter.** — Provisional estimates, based on national accounts data for the four major EC Member States, indicate that real gross domestic product in the Community stabilized in the fourth quarter of 1980 after having fallen by 6,4 and 1,9% (annual rate, revised figures) in the two preceding quarters. Industrial production fell rather sharply but the service sectors which now count for some 55% of the Community's GDP have performed much more favourably. Developments in the fourth quarter were marked in particular by a pronounced decline in inventory formation, reflected in a sharp decline in imports. Domestic final demand, excluding inventory formation, rose at about the same low rate as in the previous quarter. Private consumption rose close to 2% at an annual rate whereas gross fixed asset formation dropped further.

### Major supply and demand components, total

Percentage change on preceding quarter, seasonally adjusted annual rates, real terms.

	GDP	Imports <sup>1</sup>	Exports <sup>1</sup>	Foreign balance <sup>2</sup>	Domestic demand	Change in stocks <sup>2</sup>	Gross fixed investment	Private consumption
1977 Q1	2,1	-3,4	1,7	1,2	0,9	1,6	1,9	-1,4
Q2	-0,8	-0,1	9,7	2,3	-3,0	-4,6	-2,9	3,4
Q3	1,9	1,8	5,5	0,9	1,4	-1,8	-2,9	5,7
Q4	3,9	0,9	0,6	-0,1	3,4	0,6	2,0	2,6
1978 Q1	3,2	5,9	6,5	0,2	3,4	-1,9	4,8	5,6
Q2	6,4	8,6	6,6	-0,3	6,7	1,5	8,3	4,7
Q3	2,0	12,1	2,0	-2,2	4,0	1,1	2,2	3,6
Q4	5,0	11,1	9,6	-0,2	5,4	0,5	5,5	4,6
1979 Q1	1,1	7,9	0,5	-1,7	3,3	1,9	-7,0	4,1
Q2	6,3	20,0	14,1	-1,2	7,5	-0,8	17,3	7,1
Q3	1,4	14,0	3,7	-2,4	3,6	4,0	10,0	-4,2
Q4	5,3	4,8	4,6	-0,1	5,5	-0,2	9,4	5,5
1980 Q1	5,8	13,7	14,8	0,2	5,2	-0,9	3,4	8,0
Q2	-6,4	-8,3	-13,7	-1,5	-4,8	-0,8	-4,7	-5,8
Q3	-1,9	-2,3	-4,5	-0,6	-1,3	-2,1	-2,9	1,7
Q4	0,2	-8,7	0,4	2,5	-2,1	-2,8	-3,0	1,9

<sup>1</sup> Goods and services, including intra-EC trade.

<sup>2</sup> Change on previous quarter, as % of previous quarter's GDP.

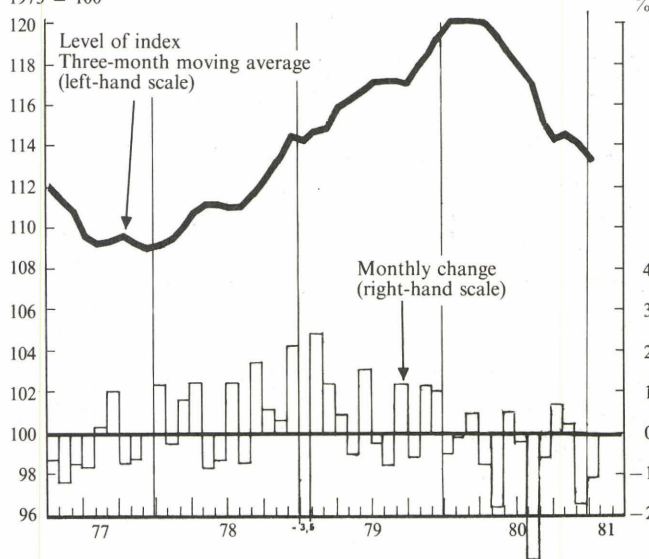
Source: Estimates by the Commission services based on national accounts data for the Federal Republic of Germany, France, Italy and the United Kingdom.

**Industrial production falls further.** — The index of industrial production in the Community, seasonally adjusted, fell by 1,1% in January after a 1,7% fall in December. After three months of relative stability, the trend, as expressed by the three-month moving average, has thus definitely turned down. The monthly data for the individual Member States show marked fluctuations, but the underlying fall is general. The level of industrial production in the Community in January 1981 was 7,9% down on a year earlier: the country figures range from -3,4% in the Netherlands to -17,5% in Luxembourg.

**Unemployment worsens.** — Unemployment in the Community continued to increase, rising from 7,1% of the civilian labour force in January to 7,3% in February. The number of unemployed is 29,7% up on a year earlier, compared with 27,0% in January, with the rate of

GRAPH 1: Industrial production (s.a.), EC-9

1975 = 100



GRAPH 2: Unemployment (s.a.), EC-9



increase over twelve months particularly high in the United Kingdom, the Netherlands, Ireland and Denmark and relatively low in Italy and France. The average unemployment rate in the Community is now higher than in the United States.

**Pressures on prices persist.** — The monthly consumer price index in the Community went up by 1,0% in February after a 1,2% rise in January. This new surge in the index is due to energy product price adjustments in several Member States (Denmark, the Federal Republic of Germany, France, Italy and Belgium). In France, the rise in the index has nevertheless slowed down compared with January while in the United Kingdom the lull in price rises in the second half of 1980 seems to be giving way to a renewed acceleration. For the Community as a whole the trend of consumer prices, expressed by the rise over six months, seasonally adjusted, has hovered around 12% (annual rate) since October 1980.

**Trade deficit down.** — The falling trend of the Community's trade deficit, suggested by developments in the closing months of 1980, was confirmed in January: a provisional estimate puts the deficit at well under 3 000 million ECU. Several Member States have recorded an improvement in their trade balance, notably the United Kingdom with a surplus of 698 million ECU and the Netherlands where the trade balance showed a surplus for the first time since 1976. The surplus, however, again narrowed in the Federal Republic of Germany, but the recovery which took place there as well as in France in February points to a continuing process of scaling down the Community's external disequilibrium.

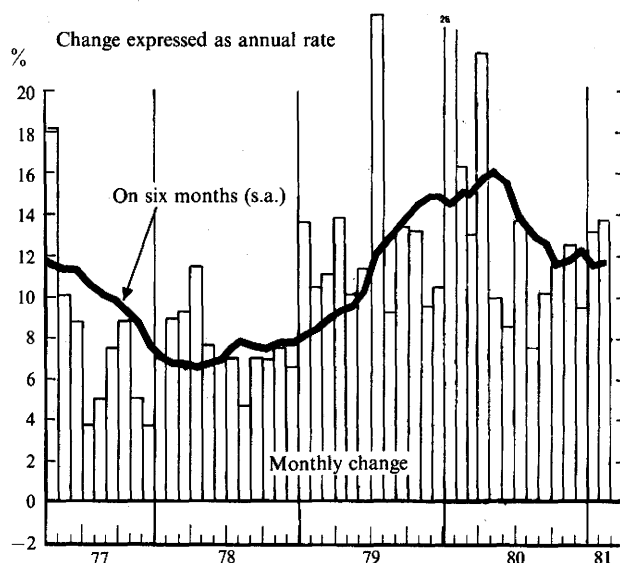
**Monetary expansion slows down.** — After rising rapidly (1,3%) in November the money supply (s.a.) in the Community decelerated in December, increasing by 0,8% over the previous month. The slowdown was pronounced in France and the United Kingdom, while in the Netherlands money supply fell for the second month in succession. In the Federal Republic of Germany monetary expansion remained brisk in December (and January) and a marked acceleration was noted in Italy.

**Mixed movement of interest rates.** — Short-term interest rates, which had risen vigorously at the end of February, fell back slightly in the first three weeks of March as the international markets eased. However, from 23 March, the slide was halted by a distinct upturn in money market rates; all the same, the end-of-month levels were generally lower than a month earlier in the Member States, except for Belgium. Several Member States adjusted their official rates during the month: the Netherlands monetary authorities raised their discount rate by one point, and the Bank of England minimum lending rate was brought down from 14 to 12% in the context of the presentation of the new budget bill. Italy raised her discount rate from 16,5% to 19% when the lira was devalued, and Belgium raised her discount rate first from 12 to 13% and then from 13 to 16%. Long-term yields, which were definitely tending upward in February, remained buoyant in March.

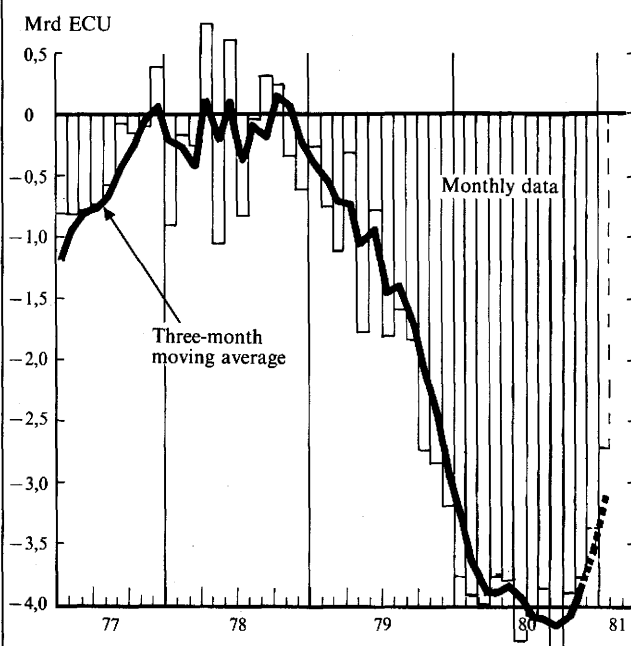
**Dollar stabilizes.** — March saw the average dollar value of the ECU stabilize after its steady erosion since summer 1980, but the daily variations in the dollar rates were often still large. After February's monetary measures, the German mark regained the upper limit of the exchange rate mechanism. Substantial intervention was required to support the Belgian franc, permanently at its lower bilateral limit *vis-à-vis* the German mark. Sterling's loss in value against the ECU averaged 3% for the month: this marked a break in its steady advance since the closing months of 1979. The parity of the Italian lira, which had progressively weakened, was changed within the EMS with effect from 23 March (see special article on this parity alignment and the recent changes in 'green rates' and monetary compensatory amounts).

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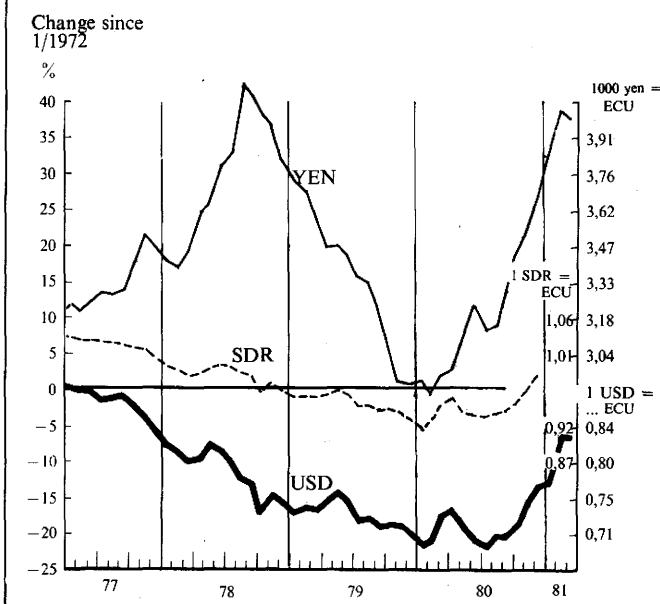
GRAPH 3: Consumer prices EC-9



GRAPH 4: Trade balance (s.a.), EC-9



GRAPH 5: Value of USD, yen and SDR in ECUs







## The monetary and agri-monetary adjustments of 23 March and 2 April 1981

On 22 March 1981 the Ministers and Central Bank Governors of EEC member countries have by mutual agreement, in a joint procedure including the Commission and after consultation with the Monetary Committee, decided on an adjustment of central rates within the European Monetary System (EMS). This adjustment results in a devaluation of 6% of the Italian lira against the other currencies of the EMS. Moreover, given that in order to calculate the central ECU rates it is necessary to attribute a theoretical central rate to the pound sterling, the devaluation of the Italian lira results in attributing to the pound sterling a new theoretical central rate derived from its market rate.

The new central rates of the ECU in terms of the EMS currencies therefore stem both from the 6% devaluation of the Italian lira and the revaluation of the theoretical rate of the pound sterling.

The central rates have been modified as follows:

Former central rates (30.11.1979 to 22.3.1981)	New central rates (as from 23.3.1981)	Revaluation (+) or devaluation (-) of the ECU against each currency (%)
1 ECU =	1 ECU =	
39,7897 BFR	40,7985 BFR	+ 2,53
7,72336 DKR	7,91917 DKR	+ 2,53
2,48208 DM	2,54502 DM	+ 2,53
5,84700 FF	5,99526 FF	+ 2,53
0,668201 IRL	0,685145 IRL	+ 2,53
1157,79 LIT	1262,92 LIT	+ 9,08
2,74362 HFL	2,81318 HFL	+ 2,53
(0,648910 UKL)	(0,542122 UKL)	- 16,45

Table 1 gives the grid of bilateral exchange rates obtained by crossing of the new ECU central rates. Since sterling does not take part in the exchange arrangements there is no bilateral exchange rate for this currency *vis-à-vis* the other EMS currencies.

Modifications of the central ECU rates have no direct impact upon the specific exchange rates applied in the common agricultural policy ('green rates') and thus have no influence upon agricultural prices. However, since the introduction (in 1979) of the ECU in the common agricultural policy modifications of the central rates influence the monetary compensatory amounts — determined by the difference between the green rates and the central ECU rates.

In the context of the agreement on agricultural prices for the 1981/82 campaign concluded on 2 April, the Council therefore examined the agri-monetary consequences of the central rate adjustments of

22 March and undertook a modification of the green rates. The main result of this is an elimination of the positive MCAs for the Benelux countries and a substantial reduction of the positive MCAs for the Federal Republic of Germany. In the case of France and Denmark the green rates devalued by the same percentage as the central rates, thus evitating new MCAs for these two countries as well as for Ireland, for which a certain difference (but without effective MCAs) existed before the adjustment. As regards the Italian lira a devaluation of the green rate was effected so as to allow agricultural prices in national currency terms to rise by 6% more than the price in ECU. For the pound sterling the green rate in force up to 22 March was maintained.

Given these modifications of the green rates the agricultural prices, expressed in national currency, for most Member States (except the Federal Republic of Germany and the United Kingdom) rose at a rate which is higher than the average rise in prices in ECU (9,5%) — see Table 2.

**TABLE 2**  
Agri-monetary adjustments of 2 April 1981

	Monetary compensatory amounts (as % of ECU prices)		Increase in agricultural prices in national currencies <sup>1</sup> %
	22.3.81	6.4.81	
Benelux <sup>2</sup>	+ 1,7 (2,2)	0	10,3
DK	0	0	12,3
D <sup>2</sup>	+ 8,8 (9,8)	+ 3,2 <sup>3</sup>	5,7
GR	0	0	12,7
F	0	0	12,3
IRL	0	0	13,8
I	- 1,7	- 1,0	16,0
UK	+ 14,1	+ 12,9	9,5

<sup>1</sup> Approximate estimates.

<sup>2</sup> MCAs for milk in brackets.

<sup>3</sup> 1981/82 campaign.

Note: The effective monetary compensatory amounts are calculated as the difference between the green rate and the central rate (D) or the market rate (I, UK, GR) less a 1% franchise for positive MCAs and a 1,5% franchise for negative MCAs. The positive MCAs represent a subsidy to exports and a tax on imports; the negative MCAs represent a tax on exports and a subsidy to imports. The MCAs are stable for the currencies respecting between themselves the 2,25% limits of fluctuation within the EMS. The MCAs for the other currencies (I, UK, GR) are adjusted each week on the basis of the development of market rates of exchange.

**TABLE 1**

**Bilateral central rates and intervention limits for the currencies participating in the EMS exchange-rate mechanism with effect from 23 March 1981**

		100 BFR/LFR	100 DKR	100 DM	100 FF	100 IRL	1000 LIT	100 HFL
Bruxelles/Brussel in BFR/LFR	+ 2,25 %	—	526,90	1 639,55	696,0	60,9020	34,30	1 483,25
	Central rate	—	515,186	1 603,07	680,512	59,5471	32,3048	1 450,26
	- 2,25 %	—	503,75	1 567,40	665,375	58,2225	30,425	1 418,00
København in DKR	+ 2,25 %	19,8520	—	318,26	135,095	11,8214	6,6580	287,90
	Central rate	19,4105	—	311,165	132,091	11,5584	6,27052	281,503
	- 2,25 %	18,9785	—	304,23	129,23	11,3013	5,9056	275,245
Frankfurt in DM	+ 2,25 %	6,380	32,870	—	43,415	3,799	2,140	92,525
	Central rate	6,23800	32,1373	—	42,4505	3,71457	2,01518	90,467
	- 2,25 %	6,099	31,420	—	41,505	3,632	1,898	88,455
Paris in FF	+ 2,25 %	15,0290	77,43	240,93	—	8,9495	5,0405	217,96
	Central rate	14,6948	75,7054	235,568	—	8,75034	4,74714	213,113
	- 2,25 %	14,3680	74,02	230,33	—	8,5555	4,4710	208,38
Dublin in IRL	+ 2,25 %	1,71755	8,84854	27,533	11,6881	—	0,576034	24,9089
	Central rate	1,67934	8,65169	26,9210	11,4281	—	0,542508	24,3548
	- 2,25 %	1,64198	8,45922	26,323	11,1739	—	0,510933	23,8130
Roma in LIT	+ 6 %	3 286,80	16 933,0	52 690,0	22 367,0	1 957,21	—	47 668,0
	Central rate	3 095,51	15 947,6	49 623,2	21 065,3	1 843,29	—	44 893,0
	- 6 %	2 915,30	15 019,0	46 735,0	19 833,5	1 736,0	—	42 280,0
Amsterdam in HFL	+ 2,25 %	7,0520	36,33	113,05	47,99	4,1995	2,36525	—
	Central rate	6,89531	35,5237	110,537	46,9235	4,10597	2,22752	—
	- 2,25 %	6,7420	34,735	108,0775	45,88	4,0145	2,098	—





## Major economic policy measures — March 1981

### Community (EC)

16.3 The Council (Economic and Financial Affairs) carried out its first quarterly examination of the economic situation in the Community, on the basis of a Commission Communication. The Council shared the Commission's view that there was no need at this stage to amend the economic policy guidelines for 1981 adopted in December 1980.

### Belgium (B)

4.3 The Banque Nationale raised the interest rate for advances on current account by 1 percentage point, from 12 to 13%; the rate for special advances was raised from 13 to 14%.

22.3 The Government took a number of measures designed to produce budget savings of BFR 33 000 million in 1981. The main measures are the following: a system of global limits on departmental expenditure, the process of levelling down high pensions is to be accelerated, savings are to be made in respect of family allowances for high-income families, economy measures in the public education system; in 1981 the ceiling of BFR 750 000 will continue to apply to the taxation of incomes in the case of the disaggregation of married couples' incomes, and in the case of the 'splitting' system, where a household's single earned income is notionally allocated between the two spouses, taxation of substitution income to be implemented after consultations with management and unions; introduction of regulated radio and television advertising, moratorium on new public investment in certain areas until the end of 1981.

25.3 The Banque Nationale raised its discount rate from 12 to 13%; the rate for advances on current account went up from 13 to 15%, while the special rate for advances outside the quota will now be 2 points above the three-month interbank money rate.

27.3 The Banque Nationale raised interest rates on very short-term treasury certificates by 2 points in several stages.

31.3 The Banque Nationale raised its discount rate from 13 to 16% and the rates for advances on current account from 15 to 18%.

### Denmark (DK)

1.3 After the controls on prices, profits and dividends, introduced in December 1979, had expired at the end of February, it was decided to extend the rent freeze to the end of April 1981.

### FR Germany (D)

24.3 The Bundesbank decided to allow German banks to resume long-term lending to non-residents from the beginning of April, when the gentleman's agreement, under which the banks pledged to restrict such lending, expires. However, the banks are still requested to exercise restraint on long-term lending.

### Greece (GR)

12.3 A variety of measures were taken to help persons and businesses which were victims of the earthquake, in particular loans granted on very favourable terms (even interest-free for private individuals). This assistance will be financed by increased tax receipts and Community aid.

### France (F)

5.3 The CNPF (the employers' organization) and all the trade-union organizations signed an agreement renewing, for two years, the agreement on voluntary early retirement at the age of sixty (wage and salary earners will be guaranteed an income equaling 70% of their gross wage up to the age of sixty-five years and three months, the effective retirement date).

17.3 Pursuant to the agreement concluded between the CNPF and the trade unions, compensation for short-time working will be increased to FF 14.50 an hour on 1 April, and to FF 15.50 on 1 October. Since 1 October 1980, this compensation has been FF 13.60, corresponding to some 95% of the guaranteed minimum wage (SMIC).

26.3 The prices of a number of foodstuffs and restaurant and cafe prices were decontrolled with effect from 26 March 1981.

### Ireland (IRL)

27.2 The Central Bank introduced private sector credit guidelines for the year

until February 1982. The guidelines allow the banks to increase their lending, denominated in Irish pounds and foreign currencies, by 15%. The Bank has discontinued this year its quantitative guidelines on the increase of loans for personal purposes.

### Italy (I)

22.3 After consulting their EEC partners, the Italian authorities devalued the central rate of the lira within the European Monetary System by 6%. At the same time they raised the discount rate from 16.5 to 19% and the reserve asset ratio on increases in bank deposits from 15.75 to 20%. They also announced their intention of cutting public expenditure by some LIT 5 000 000 million so as to bring net domestic borrowing by the public sector broadly defined down to the LIT 37 500 000 million announced in the Relazione Previsionale for 1981. At the same time, the Italian Government approved the Three-Year Plan 1981-1983.

### Luxembourg (L)

10.3 The Prime Ministers of Belgium and Luxembourg signed four protocols, renewing the Economic Union convention between their two countries for a further ten years (to 2 March 1992). (See European Economy - Supplement A, No 2/1981).

1.4 Parliament adopted a number of social measures, raising the minimum social wage by 4.1%, from LFR 20 103 to 20 931, the solidarity allowance—mainly for the unemployed of reduced work capability—by 10%, and private sector pensions by 2.3%.

### Netherlands (NL)

27.2 The government extended the monthly spending limit applied since December until the additional savings for the 1981 financial year are adopted. Each ministry will have to limit its monthly cash spending share in the total expenditure provided for in the 1981 budget to the share of the corresponding month in 1980. In addition, new financial commitments will be frozen, except for those needed to ensure the normal operation of the public services.

3.3 The Nederlandsche Bank raised the discount rate from 8 to 9%.

20.3 In order to cut the budget deficit in 1981, the Government announced new measures, saving a further HFL 2 500 million:

- central government contributions to the social security system will be cut following an increase—from 1 July 1981—of 1% in the employee contribution to the unemployment insurance scheme and to 0.5% in the pension scheme contribution. Persons who do not pay these contributions, i.e. civil servants and those on social security benefits, will have their purchasing power cut in proportion;
- additional savings will be made in 1981, notably by cutting central government recruitment (by up to 50% of that previously planned) and by raising charges for certain public services, in particular education and the health service;
- with effect from 1 May 1981, the excise duties on petrol and diesel fuel will be increased; the extra revenue (HFL 250 million) will be allocated to employment support programmes.

### United Kingdom (UK)

10.3 The government presented its budget for the financial year 1981/82. The main tax proposals for 1981/82 include:

- no increase in direct tax allowances;
- a supplementary petroleum duty at a rate of 20%;
- a special once-for-all tax of 2.5% on banking deposits;
- substantial increases in excise duties.

These measures are officially estimated to increase revenue by UKL 4 310 million in 1981-82. Public expenditure is planned to remain steady in 1981-82 in volume terms. The Public Sector Borrowing Requirement (PSBR) is now forecast to be UKL 10 500 million in 1981-82 (4.25% of GDP). In a restatement of the Medium Term Financial Strategy, it was announced that:

- the target growth range for sterling M3 would be 6-10% at an annual rate for the fourteen months to April 1982, falling to 4-8% in 1983-84;
- there should be a sustained fall in the PSBR to 2% of GDP in 1983-84.

### Price (excluding VAT) in Luxembourg

	ECU	BFR	IRL	UKL	USD	
'European Economy' (3 issues per year)	17.10	700	12.00	10.50	24.50	The annual subscription runs from 1 January to 31 December of each year.
<b>Supplements</b>						
Series A — 'Recent economic trends' (11 issues per year)	8.55	350	6.00	5.30	12.30	Payments to be made only to the agents in the countries listed on page 3 of the cover of European Economy.
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Combined subscription — 'European Economy' and supplements	36.60	1 500	25.50	22.50	52.50	

