

# EUROPEAN ECONOMY

COMMISSION OF THE EUROPEAN COMMUNITIES • DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

No 8-9 — August-September 1981

Supplement A

## Recent economic trends

**Small rise in GDP in first quarter.** — Provisional estimates, based on national accounts data for the four major EC Member States, indicate that real gross domestic product in the Community rose by 0,6% (seasonally-adjusted annual rate) in the first quarter of 1981 after a rise of 0,5% (revised figure) the preceding quarter. The real foreign balance showed a very large improvement with notably a marked rise in the volume of exports whereas inventory formation showed a further decline and final domestic demand (excluding inventory formation) fell a little in response, notably, to a drop of 10% in gross fixed capital formation, and a very modest rise in private consumption.

### Major supply and demand components at constant prices, EC total

Percentage change on preceding period, annual rates; seasonally adjusted

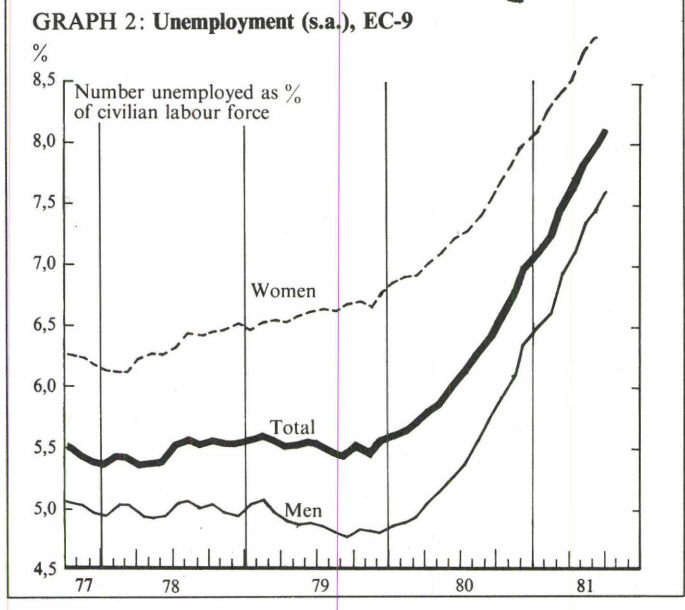
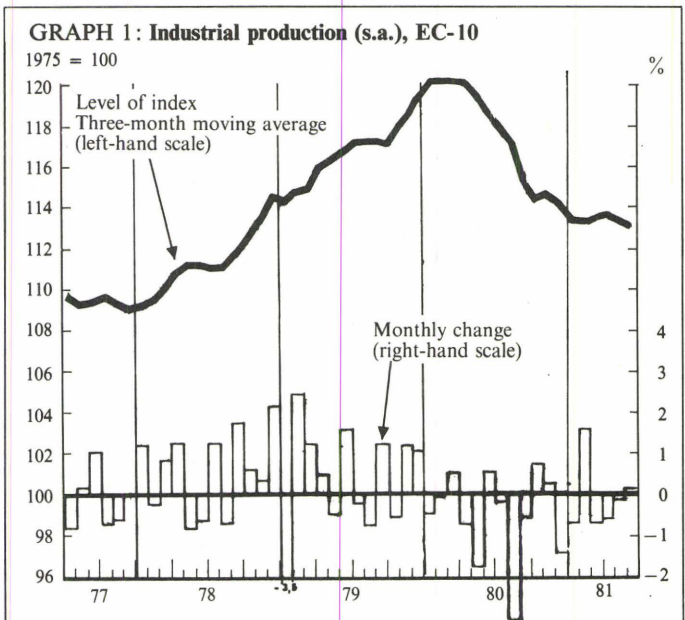
|         | GDP  | Imports | Exports | Foreign Balance | Domestic demand | Change in stocks <sup>2</sup> | Gross fixed investment | Government consumption | Private consumption |
|---------|------|---------|---------|-----------------|-----------------|-------------------------------|------------------------|------------------------|---------------------|
| 1978 Q1 | 3,6  | 6,0     | 5,8     | 0,0             | 3,6             | -1,3                          | 3,4                    | 5,3                    | 5,5                 |
| Q2      | 5,8  | 9,0     | 7,2     | 0,3             | 6,2             | 1,5                           | 7,9                    | 1,9                    | 4,4                 |
| Q3      | 2,0  | 11,4    | 1,8     | -2,2            | 4,3             | 0,8                           | 2,3                    | 3,0                    | 4,1                 |
| Q4      | 5,1  | 11,1    | 9,6     | -0,3            | 5,4             | 1,5                           | 6,0                    | 3,7                    | 3,2                 |
| 1979 Q1 | 2,1  | 7,5     | -0,5    | -2,0            | 4,2             | 1,7                           | -6,9                   | 2,0                    | 6,0                 |
| Q2      | 5,5  | 19,9    | 14,8    | -1,1            | 6,7             | -1,9                          | 18,4                   | 2,3                    | 7,8                 |
| Q3      | 1,9  | 13,3    | 3,2     | -2,5            | 4,4             | 5,0                           | 10,0                   | 0,5                    | -4,3                |
| Q4      | 5,6  | 6,4     | 4,4     | -0,5            | 6,2             | 0,3                           | 9,8                    | 2,4                    | 5,8                 |
| 1980 Q1 | 5,3  | 13,7    | 15,1    | 0,2             | 5,0             | 0,0                           | 1,5                    | 2,9                    | 7,1                 |
| Q2      | -6,4 | -7,7    | -12,8   | -1,4            | -5,0            | -1,6                          | -4,0                   | 2,8                    | -5,1                |
| Q3      | -1,6 | -2,9    | -5,0    | -0,5            | -1,0            | -2,0                          | -3,2                   | 2,1                    | 2,0                 |
| Q4      | 0,5  | -6,1    | 0,2     | 1,8             | -1,3            | -2,3                          | 2,3                    | -0,8                   | 1,2                 |
| 1981 Q1 | 0,6  | 1,1     | 14,6    | 3,4             | -2,7            | -2,4                          | -10,1                  | 8,3                    | 0,8                 |

<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.

**Trend of industrial production still hesitant.** — The index of industrial production in the Community, seasonally-adjusted, rose by 0,1% in June, following a decline of 0,1% in May and 0,6% in April. For the second quarter as a whole industrial production fell by 0,4% over the preceding one, and the trend, as measured by the three-monthly moving average, showed a small decline after the rise the month before. Several Member States (Belgium, Denmark, France and the United Kingdom) experienced a certain recovery of industrial production in June; in the Federal Republic of Germany on the contrary output fell by 2,8%.

**Unemployment tops nine million.** — The number of unemployed persons in the Community was just over nine million in July (seasonally adjusted), equivalent to an unemployment rate of 8,2% of the labour force, and representing a rise of 0,2% points over the June result. In the Community as a whole, the rate of change over 12 months has fallen from 35% to 33%, with falls in this measure in most Member States between May and July. In two large Member States, however, unemployment is still accelerating: in the Federal Republic of Germany it jumped 0,3% points in July to reach 5%, and is now some 46% higher

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than a year ago. In France, after rising slowly over the early months of the year, it increased by 0.2% points to reach 7.8% in July, a rise of 26.3% over a year previously.

**Community inflation rate edges up.** — After some respite in May and June, the consumer price index for the Community picked up to 0.9% in July. The underlying annual rate, based on the change over six months, seasonally-adjusted, also accelerated marginally to 12.4%. The major reasons for this change in trend were higher energy prices and discretionary tax changes. Thus in the Netherlands higher petrol excise duties came into operation on 6 July, in Belgium the 'Maribel' operation raised indirect taxation and in France prices of energy and transportation, in addition to higher rents, were the major factors behind the strong increase recorded in July. In the United Kingdom inflation remained low in June and July due to lower food prices. Greece, which has now been included in the Community aggregate for the first time, recorded a fall of 0.5% in prices in July largely attributable to seasonal factors. The remaining countries showed decelerations in the growth of the index. In Italy the rate fell in July to 0.8%, the lowest figure recorded for over a year and in the Federal Republic of Germany the slowdown in the monthly figures continued during the summer. The deceleration recorded in Denmark came after a number of months which had been influenced by special factors (abolition of price controls and implementation of the new wage agreements) and in Luxembourg the slowdown from the peak recorded in June is attributable to lower food prices.

**External trade results diverge somewhat.** — Since the United Kingdom has not yet published any external trade statistics since those for February, it has not been possible to construct a Community series since that date. The improvement in the trade balance in the Federal Republic of Germany in April continued in the following months. This was particularly so in July, when the surplus was exceptionally high. Denmark's trade deficit was also reduced in May and June, while some worsening was recorded for France and Italy (figures being available only up to May for Italy). For the BLEU, Ireland and the Netherlands, the recent trend remains unclear. In the Netherlands, however, the trade deficit has clearly improved over the last twelve months.

**Faster growth in money supply.** — The money supply in the Community after a relatively slow expansion in February and March grew by 1.3% (s.a.) in April and by 0.9% approximately in May. Incomplete data for the following month show a rather slow expansion in the Federal Republic of Germany and an irregular development in other countries. Money creation in recent months has been mainly due to an increase in bank lending to the private sector (Denmark, Federal Republic of Germany and France). However monetary financing of public sector deficits has in general increased in magnitude.

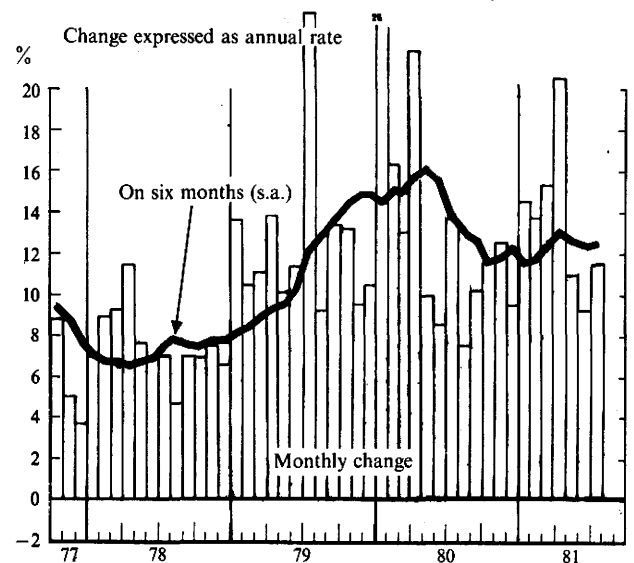
**Renewed pressure on interest rates.** — After a slight fall in June the average of short-term interest rates in the Community rose by three-tenths of a point in July to reach 15.5%. First estimates suggest that this level was maintained in August. A relatively strong rise was recorded in Ireland, Italy, the Netherlands and the United Kingdom; in Denmark, where a large increase had already taken place in June, some easing was apparent in July. Long-term rates, which had advanced in June, remained firm in July, at around 14.5% on average, about the same level as in the United States.

**The dollar at parity with the ECU.** — During July and August, the dollar continued its upward movement against European currencies. After reaching a new peak at the beginning of the second week in August, it subsequently lost some ground but, for the month as a whole, parity with the ECU was attained. The yen, after a relative faltering in July continued its upward movement in August. Within the European Monetary System, the Belgian franc remained weak all summer and the financial franc was at a substantial discount on the free market; the French franc weakened again in August and was pushed towards the bottom of the band. The pound sterling weakened by more than 2% against the ECU on average in July but its position stabilized in the following month.

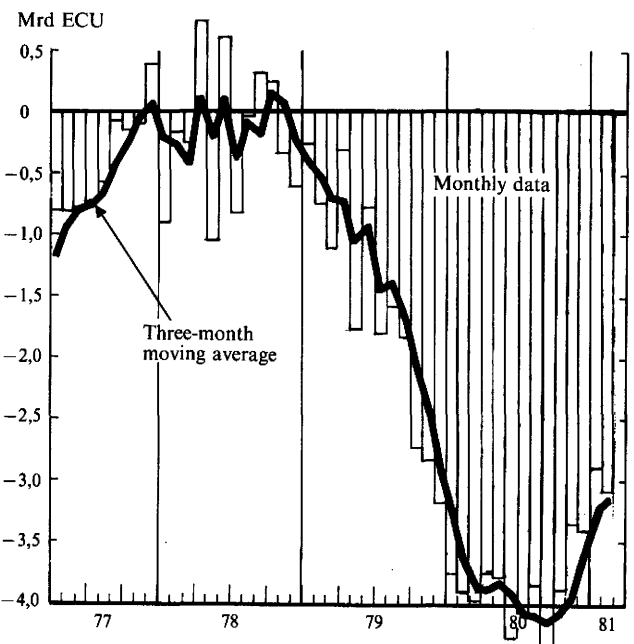
**New data on effective exchange rates.** — Beginning with this issue of Supplement A, the table on wholesale prices is being abolished. In its place a table is included giving estimates prepared by the Commission services of the development of effective exchange rates, calculated on the basis of a matrix of coefficients for the 18 major industrialized countries. The trend in the effective exchange rate indices is shown in Graph 6 in this issue, which highlights the strong effective appreciation of the dollar and the depreciation of the EMS currencies since the middle of 1980. This movement continued until August of this year.

7 September 1981

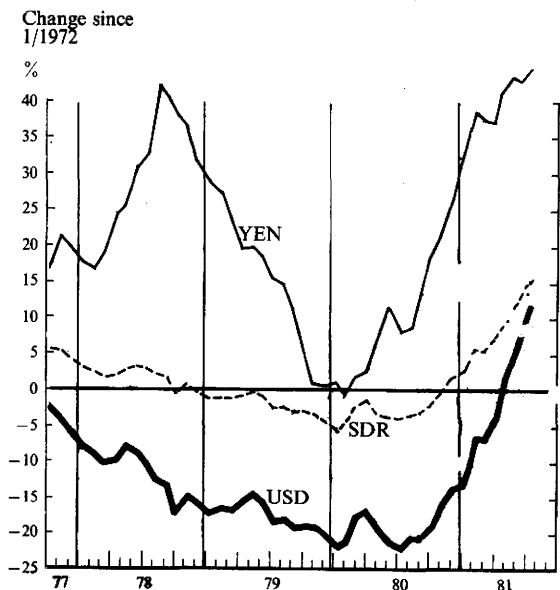
GRAPH 3: Consumer prices EC-10



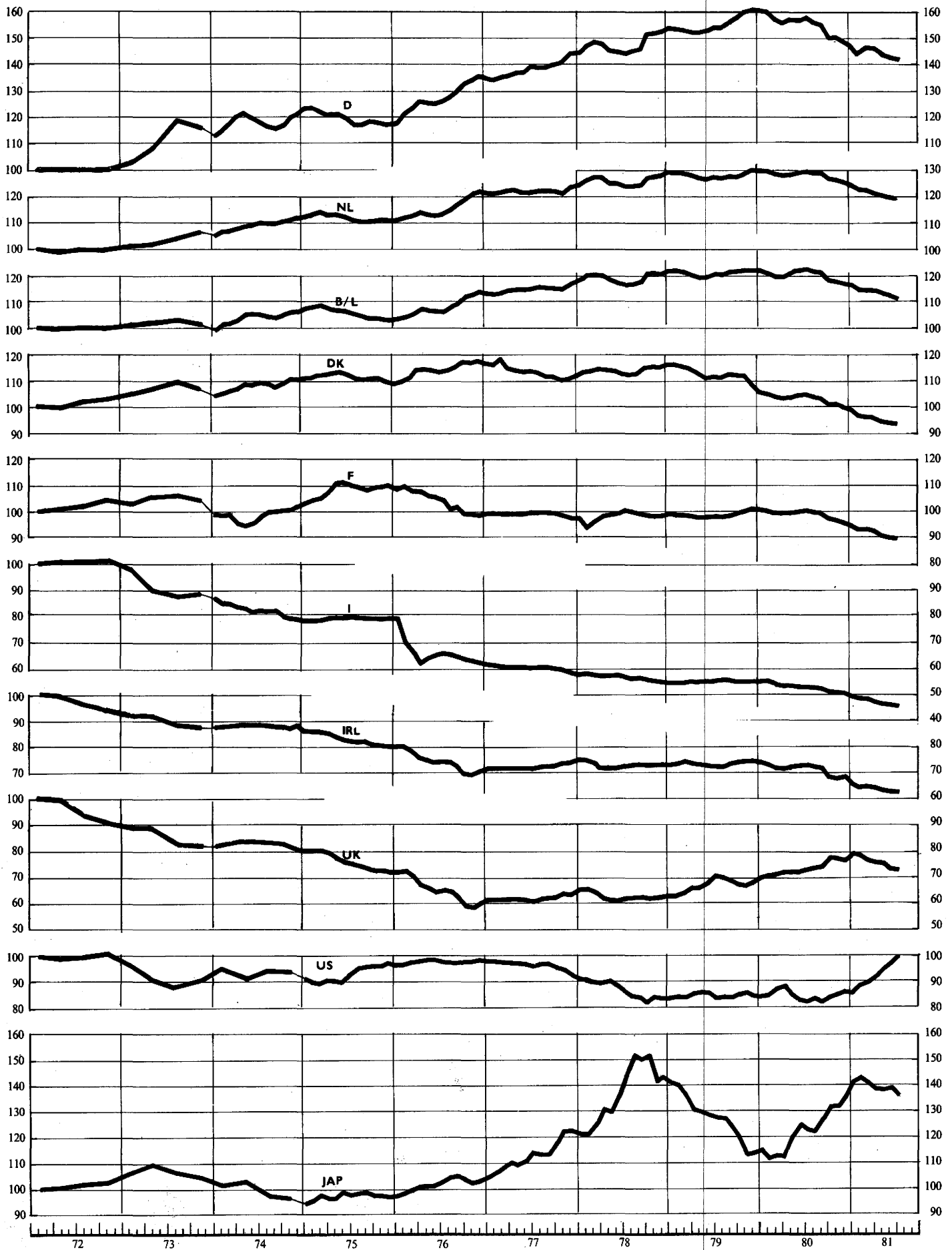
GRAPH 4: Trade balance (s.a.), EC-9



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



GRAPH 6: Effective exchange rates,  
Index, 1st quarter 1972 = 100









## Major economic policy measures — July 1981

### Community (EC)

1.7 The Commission issued a recommendation to the government of the Italian Republic under Article 108, paragraph 1 of the Treaty.

6.7 The Council (Economic and Financial Affairs) carried out its second quarterly examination of the economic situation in the Community as provided for in Article 3 of the Decision of 18 February 1974. The Council expressed its agreement on the conclusions proposed by the Commission in its Communication (see Supplement A No 7, July).

22.7 The Council issued a recommendation to the Belgian government under Article 11 of Council Decision 74/120 EEC of 18 February 1974.

22.7 The Commission submits to the Council the 5th Medium-Term Economic Policy Programme (1981-1985), in which the Commission states its recommendations: priority to productive investment and particularly in energy projects, decisive progress in the construction of the European Monetary System, a common energy strategy, systematic exploitation of the continental dimension of the Community, greater Community participation in an active employment policy.

23.7 The Commission adopted a Communication to the Council on the principles of indexation in the Community.

### Belgium (B)

23.7 The government extended the selective price freeze until 30 September.

### Denmark (DK)

None.

### Federal Republic of Germany (D)

2.7 The Central Bank Council of the Bundesbank decided that the target for the growth of the central bank money stock should be the bottom end rather than the middle of the 4 to 7% range set for the period from the fourth quarter of 1980 to the fourth quarter of 1981.

22.7 The Federal government decided to maintain the excise duty on heating fuel, originally scheduled to last until the end of 1981. The yield is estimated at some DM1 000 million for 1981.

29.7 The interest rates on the subsidized loans granted to small and medium-sized firms under the Franco-German parallel programmes were raised by ½%.

### Greece (GR)

18.7 The government adopted short-term economic measures involving in particular:

- (1) a slowdown in carrying out certain investment projects (e.g. the construction of Spata airport), so as to save DRA 5 000 to 10 000 million by the end of the year;
- (2) a 2% reduction in expenditure (excluding salaries) by general government and a 5% reduction in expenditure by State bodies and firms that are in deficit;
- (3) a ban on the recruitment of new staff in general government and in State bodies and firms that are in deficit, with the exception of hospitals, education and the security forces;
- (4) freedom for banks to increase their lending to small and medium-sized firms by DRA ½ to 1 million without the need to satisfy any conditions and by DRA 2,5 million depending on their turnover;
- (5) the granting of easier credit terms for housing.

30.7 The Greek Monetary Committee took a number of measures to assist firms in difficulty.

### France (F)

1.7 Public utility charges (SNCF, EDF, GDF) were increased by between 10,5% and 26,7%. Rents were raised by between 10% and 13%. The tax on petrol rose by 10 centimes a litre. As planned, the minimum old-age allowance, the allowances for handicapped persons, family allowances, both pre-natal and post-natal, and housing allowances were increased. Social security retirement pensions were increased by 6,2% and the UNEDIC fixed-rate allowances by 6,7%. A reduction in the rate of compulsory reserves released FF20 000 million, allowing the banks' base rate to be lowered from 17% to 15,9%.

4.7 The intervention rate of the Banque de France was reduced from 22% to 19,75%, and the maximum rate for consumer credit was increased from 25,75% to 28,4%.

16.7 The 1981 amending finance bill was adopted. It provides for:

- FF22 400 million for the discharge of past commitments;
- FF4 700 million for social measures and FF2 600 million for measures financed by social security;
- FF7 700 million for new measures (public-sector job creation, reinforcement of the third pact on employment).

These latter measures will be financed by a series of special taxes; the budget deficit forecast for 1981 rose from FF29 400 million to FF56 600 million.

18.7 An agreement between employers and unions was concluded on working hours (39 hours a week, 5 weeks paid holidays).

21.7 Credit restrictions were again eased. This released FF10 000 million, to be available first and foremost to small and medium-sized firms and to sub-contractors.

### Ireland (IRL)

21.7 The Minister of Finance presented a supplementary budget. Whereas the January 1981 budget estimates for the current budget deficit and the total Exchequer Borrowing Requirement were IRL515 million (5,2% of GDP) and IRL1 296 million (13% of GDP) respectively, the outturns forecast in July on the basis of developments in the first half of the year were IRL950 million (9,5% of GDP) and IRL1 973 million (20% of GDP). The new measures are expected to reduce these figures to IRL787 million and IRL1 637 million (8% and 16,5% of GDP respectively).

23.7 The 1% interest rate subsidy to the building societies was removed.

24.7 The Central Bank raised its key lending rate from 14,5% to 15%.

### Italy (I)

18.7 The annual taxable income threshold was increased by decree from LIT2 million to LIT3 million. The aim of this measure is to reduce the effect of fiscal drag on pensioners in particular.

An amending finance bill, approved on the same day, is aimed at allowing net borrowing in 1981 to be reduced to LIT39 000 000 million, of which LIT36 000 000 million is to be on the domestic market. The equivalent figures for the whole of the enlarged public sector are LIT42 000 000 million for net borrowing and LIT37 500 000 million for net domestic borrowing.

The Minister of the Treasury and the Banca d'Italia published an official notice on reform of the sale by tender of Treasury bills. The main idea is to abolish the guarantee hitherto given by the Banca d'Italia to take up all the Treasury bills not sold at the price requested by the Treasury.

### Luxembourg (L)

3.7 The government decided on various increases in the prices of oil products, to take account of the movement in the exchange rate of the dollar against the Luxembourg franc.

31.7 The government presented the draft State budget for 1982. Total expenditure is to amount to LFR55 900 million, an increase of 6,4% compared with the adjusted 1981 budget, while total revenue (including LFR2 000 million in borrowing) is estimated at LFR54 600 million, 7,5% more than in 1981. The total deficit is expected to amount to LFR1 300 million, but a surplus of some LFR4 000 million is anticipated for the current account alone.

### Netherlands (NL)

26.6 Railway fares were increased by 8%, the increase to take effect on 1 October.

10.7 After having increased the number of new subsidized dwellings by 12 000 in March, the government decided on a further increase of 6 000. The total number of subsidized dwellings to be built in 1981 will therefore be 123 000.

10.7 The Minister for Economic Affairs approved the following maximum price increases for the second half of 1981:

- (a) in industry: up to 3 ½% of the rise in labour costs may be passed on in prices;
- (b) in the distributive trades: a 3 ½% percentage points increase in profit margins;
- (c) in other services: ½% increase in charges.

It was also decided that in 1982 public service charges may be increased by 4%.

### United Kingdom (UK)

27.7 The Prime Minister announced a package of measures designed to reduce the number of people on the unemployment register by over 450 000 by early 1983. The main elements of the package involve extensions of existing schemes:

- additional funds (between UKL250 million and UKL300 million in 1982-83) will be devoted to the Youth Opportunities Programme, which provides training courses and work-experience schemes for unemployed young people;
- a reduction in the age limit of the Job Release Scheme, under which workers can retire early, from 64 to 63 in November and to 62 next February;
- additional funds (UKL60 million in 1982-83) to encourage 50 000 more young people to remain at school.

New proposals include:

- a UKL15 government subsidy to employers for each new person employed under 18 years old, provided that each such person is in his or her first year of work and earns less than UKL40 per week;
- the establishment of 20 information centres in inner cities to train young unemployed people in computing and electronic assembly skills.

The overall cost of the new measures in 1981-82, which will be met from the contingency reserve fund, is UKL150 million. New expenditure in 1982-83 will be UKL320 million.

(The measures for the month of August will be given in the next number.)

### Price (excluding VAT) in Luxembourg

|  | ECU   | BFR   | IRL   | UKL   | USD   |  |
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