

EUROPEAN ECONOMY

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

Supplement A — No 3 — March 1988

*In this number:
Price developments
in the Community*

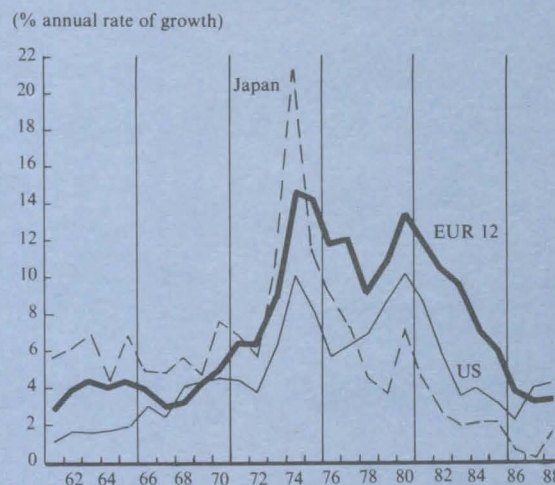
Recent economic trends

THE MAIN POINTS IN BRIEF

In addition to the commentary on recent economic trends, this issue contains a note on price developments in the Community.

- Industrial production in the Community increased by 2,6 % in the year to December 1987. Despite a small reduction in that month, the general indicators suggest that, notwithstanding the October crash, growth is continuing, though at a slow pace. Also in December there was an improvement in the Community's trade balance compared with the previous month. In January and February, the ECU lost some of its value against a firmer US dollar and against the yen.
- Inflation in the Community as a whole is expected to stabilize at a low level in 1987 and 1988 (3,2 % and 3,3 % respectively). Convergence of price developments is expected to continue in 1988. Up to the mid-1980s, the disinflation was mainly due to domestic factors as the external environment was unfavourable. More convergent monetary policies conducted with a view towards price stability, rapidly adjusting nominal wages and a shift in the financing of public deficits, away from monetization to medium and long-term bond issues to the non-bank sector contributed to a quick reduction in inflation rates. After 1985,

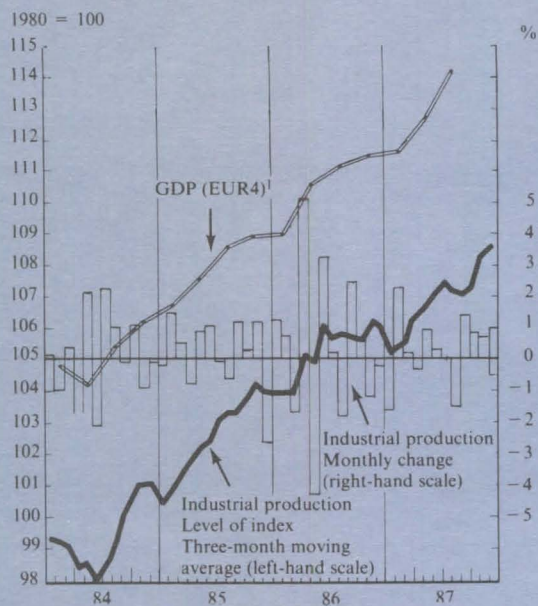
GRAPH 1: The evolution of the private consumption deflator



Source: Commission services.

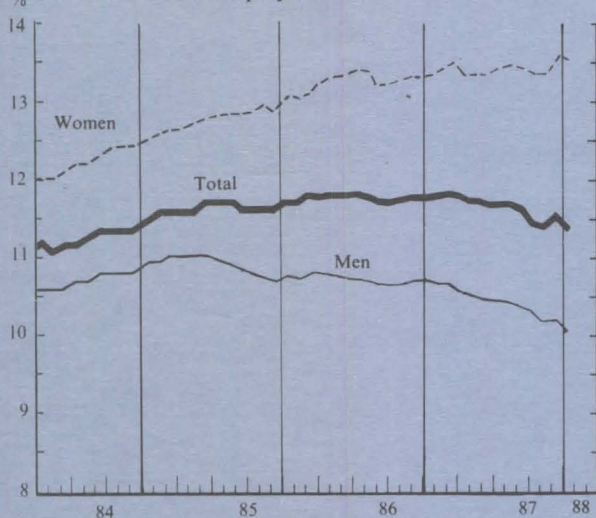
import price developments also helped in pushing down inflation, especially in 1986. The recent decline in import prices seems to have been transmitted through to wage developments. Despite favourable recent developments, vigilance should continue to be exercised, especially as monetary aggregates show some tendencies to grow more rapidly.

GRAPH 2: Industrial and gross domestic product (s.a.) — EUR total



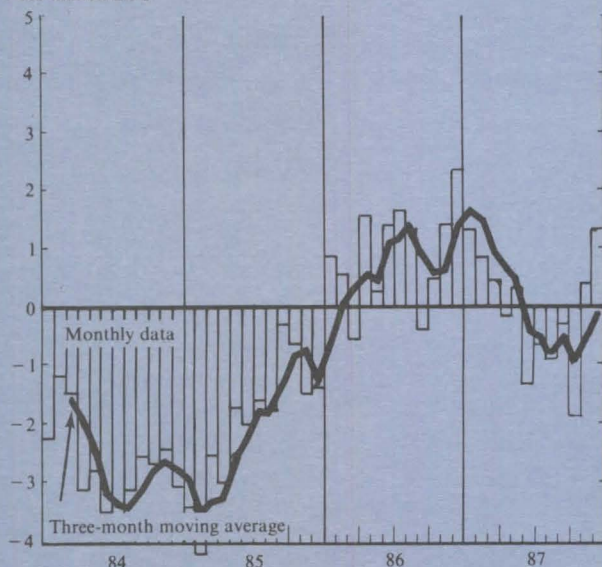
¹ France, Germany, Italy and UK: quarterly figures.

GRAPH 3: Unemployment (s.a.) EUR 12
Number unemployed as % of civilian labour force



GRAPH 4: Trade balance (s.a.) EUR 12

1 000 million ECU



Trend in industrial production remains positive. — There was an increase of 2,6 % in industrial production in the Community during the year to December. The largest year-on-year increase occurred in Ireland (13,7 %), followed by Luxembourg (7,1 %), the United Kingdom (5,2 %), Spain (5,2 %) and Italy (5,0 %). Only Portugal and Belgium experienced declines, -2,2 % and -0,3 %, respectively. While the seasonally adjusted index of industrial production fell by 0,5 % in December, the trend calculated by the three-month moving average continued to show an improvement. The monthly fall in output occurred in all sectors with the largest decline (-1,0 %) in the investment goods sector. There was a wide variation among the Member States with the United Kingdom and Germany increasing output by 0,6 % each, compared with a fall of 5,4 % in the Netherlands, 2,8 % in Spain and 0,7 % in Italy.

Unemployment remains high. — The seasonally adjusted rate of unemployment in the Community in January was 11,4 %. This represents a small reduction (-0,4 point) on the rate a year earlier and indicates that growth is still too slow to have a significant impact on the figures. The largest year-on-year decline was recorded in the United Kingdom (-2,1 percentage points), but part of this fall is due to an increase in part-time employment. In comparison with December there were reductions of 0,3 percentage point in the rates in the United Kingdom and Denmark. Smaller declines were also recorded in January in Belgium, Germany, Greece, Ireland and the Netherlands. Portugal, on the other hand, showed a slight increase in its rate, up from 6,7 % in December to 6,8 % in January.

The cumulative trade surplus declines in December. — The cumulative trade surplus, seasonally adjusted, for the twelve months ending in December 1987 was 1047 million ECU compared with an equivalent figure for December 1986 of 11160 million ECU. There was, however, an improvement in the balance of trade in the month of December with the seasonally adjusted surplus increasing to 1246 million ECU from 361 million ECU the previous month. This is particularly due to the BLEU, where a deficit of 89 million ECU in November was turned into a surplus of 565 million ECU in December, and to an increase of 58 million ECU in the German surplus. A small improvement also occurred in the trade balance of Portugal. The deficit in Italy, on the other hand, increased from 225 million ECU in November to 679 million ECU in December and that of the United Kingdom still remains high at 2340 million ECU (seasonally adjusted).

Rate of growth in money supply stabilizes. — There was an average increase of 11,2 % in the Community money supply in the year to December. This compares with 11,3 % in November and the somewhat larger annual increase of 11,9 % recorded in October. On the same basis there were significant increases in Greece (M3: 24,2 %), the United Kingdom (£M3: 22,7 %), Portugal (L⁻: 18,4 %) and Spain (ALP: 14,1 %). Money supply growth in Denmark, Germany and the Netherlands, on the other hand, was significantly below the Community average for the last year. The increase in Germany, however, was somewhat above its upper target limit. The money supply increase in the Community in December was 0,6 %, compared with 0,5 % in November and 1,4 % in October (seasonally adjusted). The largest monthly increases were in the United Kingdom and Denmark, 1,4 % (£M3) and 1,2 % (M2), respectively.

Interest rates remain steady. — There was a fall of 0,1 percentage point in the average Community long term interest rate in February, resulting in a year-on-year increase of 0,5 point. The largest declines occurred in Ireland (-2,0 percentage points) and Denmark (-1,6 percentage point). Greece and Italy, on the other hand, have experienced increases of 2,9 and 2,0 percentage points respectively. Short-term rates remained at 7,9 % in February, following four successive months of decline. This represents a reduction of 0,9 percentage point on the same period

1987 and is 1,3 % point lower than the 1987 peak recorded September.

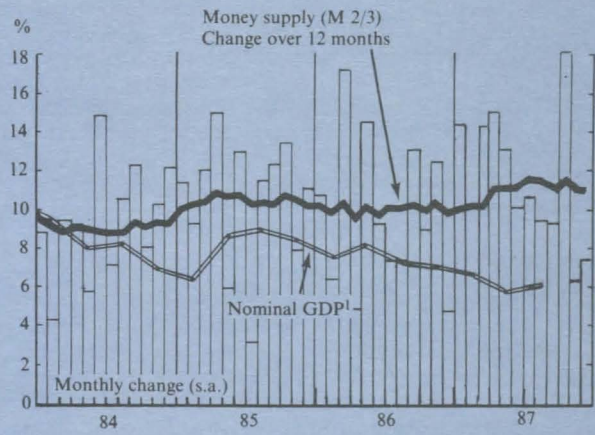
Small depreciation in ECU. — With the strengthening of the dollar the ECU continued to depreciate somewhat against the JS currency during February. However, it remains 7,7 % above its value against the dollar twelve months previously. It has similarly depreciated against the yen where it has lost 5,3 % of its value since November and 9,3 % in comparison with February 1987. Within the exchange rate mechanism of the EMS there was very little change in the relative position of the participating currencies. The pound sterling remained relatively stable during the month of February, but at the time of writing, it had come under significant upward pressure.

PRICE DEVELOPMENTS IN THE COMMUNITY

Inflation remains at a low level in the Community. — In January 1988, the year-to-year inflation rate (measured by the change over 12 months in the index of consumer prices), remained subdued at 3 %, with annual figures ranging from 0,7 % in Germany and the Netherlands to 14,3 % in Greece. For the Community as a whole, the annual figure implies a marginal increase compared with January 1987, when the rate of inflation reached an exceptionally low level of 2,7 %. However, this current rise does not indicate that inflation is accelerating. The trend of inflation, measured as the seasonally-adjusted rate of change over six months at an annual rate, fell back to 2,7 %. All countries, except Denmark and Luxembourg, shared in the deceleration in trend rates. In fact, it can be observed that this trend rate has been fluctuating around 3,1 % since the second half of 1986.

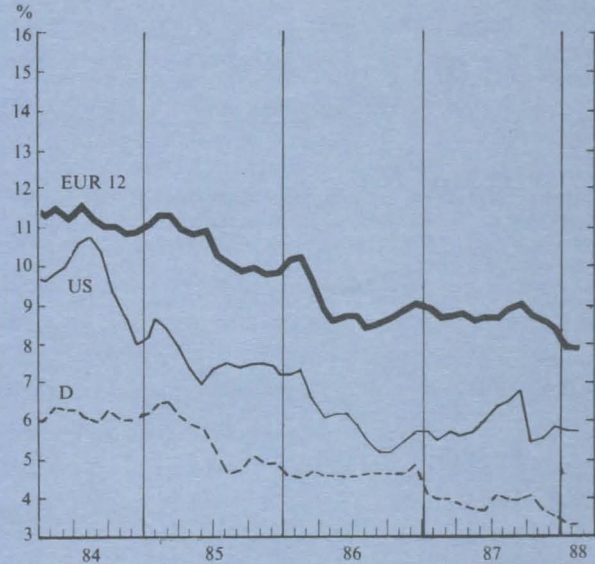
All indicators therefore suggest that inflation in the Community will stabilize at a very low level by historical standards. The growth rate of the Community's private consumption deflator is estimated at 3,2 % in 1987 and expected to be 3,3 % in 1988. Such subdued rates have not been matched since 1967 and 1968, when inflation was at 2,9 % and 3,1 % respectively and are below the average of the 1960s, as borne out by graph 1 and

GRAPH 5: Money supply (EUR 12) and nominal GDP (EUR 4)



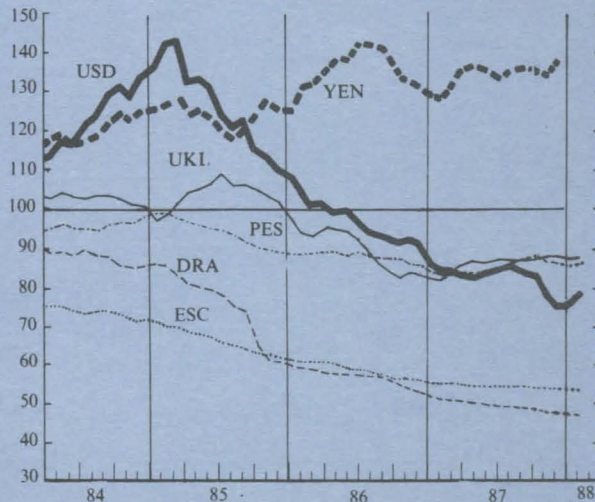
1 Change over the same quarter of previous year.

GRAPH 6: Short-term interest rates



GRAPH 8: Exchange rates
Values of USD, YEN and some EC currencies in ECU

January 1983 = 100



GRAPH 7: Long-term interest rates

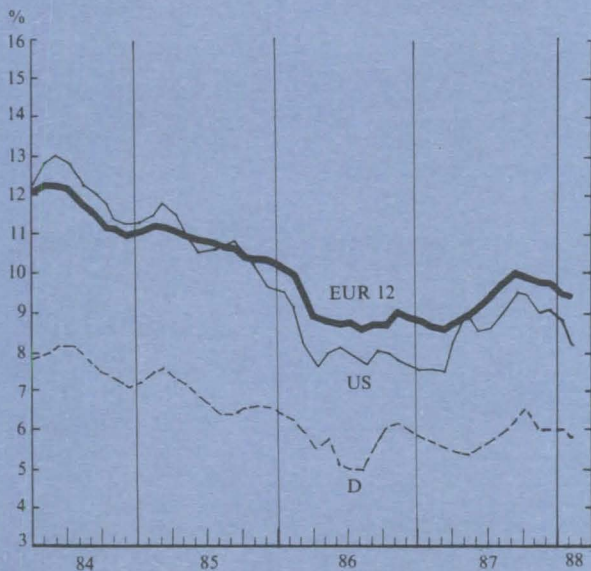


table 1. This graph also highlights two other interesting features. First, the present disinflation process, which started in 1981, is the longest period of a reduction in inflation the Community has experienced since its creation. Second, in the Community the deceleration of inflation has been stronger than in its two major trading partners, as is indicated by the narrowing of the inflation differential between the Community and the United States and Japan. Although the Community was still some way from the zero inflation rate existing in Japan in 1987 (but becoming slightly positive in 1988), its rate of inflation in 1987 and 1988 is expected to be below that of the United States, and that for the first time since 1968.

Increased convergence of price developments within the Community. — The slowdown of the average inflation rate has been accompanied by a reduction in inflationary disparities between the Member States (see table 1). Although the disinflation process has stopped at the Community level in 1987 and 1988, price convergence towards the lowest inflation rate is still going on as the downward course in the more inflation-prone Member States is expected to remain substantial, while in those countries where inflation is now exceptionally low, rates are tending to normalize. Table 1 also shows that among the Member States participating in the EMS, price convergence in recent years was even more pronounced. In 1980, the dispersion index against the lowest inflation level was nearly 8,0 for the Community and 5,5 for the EMS. It is forecast to be reduced to 3,5 for the Community and 1,9 for the EMS in 1988. These figures for 1988 are very close to those prevailing in the 1960's. This finding clearly demonstrates one of the main features of the EMS, i.e. to induce price stabilization and convergence.

Contributory factors to the disinflation process of the eighties in the Community. — In the current situation of relatively low inflation it is useful to recall the main factors which have

contributed to the reduction in inflation rates in the eighties. Firstly, monetary policy was more convergent and increasingly conducted with a view towards price stability. This is clearly illustrated by a decline in the growth of money stock per unit of real output, M/Q , (see graph 2). This indicator, which measures the extent to which money creation exceeds the growth of real GDP, has been brought down from its maximum of 11,5 % in 1981 to a low of 7,2 % in 1984. Thereafter it fluctuated around 7,5 %. In general, the slowdown in monetary indicators started earlier than the reduction in inflation. More recently, monetary expansion has picked up, but developments vary among Member States. Decelerating money expansion has to a large extent been accompanied by a marked slowdown in the increase in the nominal compensation of employees per head and unit labour costs, easing the task of monetary policy in the process of monetary deceleration. Fiscal policies contributed also to the disinflation process in most countries, but less by curbing public sector deficits than by a shift in the financing of the deficit. For the Community as a whole the public sector borrowing requirement has not declined sufficiently to have had a significant inflation-reducing impact. However, the financing of the deficit increasingly through issuing medium and longer term bonds to the non-bank sector has contributed to the achievement of the inflation objective. The counterpart of that policy has unavoidably been a rise in public debt. For the Community as a whole, the debt/GDP ratio is estimated to have grown by around 20 percentage points from 1980 onwards to attain an estimated level of about 63 % of GDP in 1988.

Under the impact of domestic factors, the larger part of the disinflation occurred in the first half of the eighties, with external factors evolving in an unfavourable way. At this time, import price increases remained very high, partly fuelled by a strongly appreciating dollar. After 1985, and temporarily pronounced in 1986, the decline in import prices particularly of oil, also fostered the reduction in the inflation rate.

The forecast for 1988 indicates a consolidation of the low inflation rate at the Community level (3,3 %). This reflects a

TABLE 1: Deflator of private consumption and convergence of price development

	1969	1977	1981							
	1960	1969	1977	1982	1983	1984	1985	1986 ¹	1987 ¹	1988 ¹
B	3,2	7,4	5,6	7,3	6,8	5,8	5,2	1,1	1,6	2,0
DK	5,7	10,0	10,6	10,2	6,8	6,5	4,8	3,6	4,1	3,9
D	2,7	5,5	4,7	4,7	3,2	2,4	2,1	-0,5	0,6	1,0
GR	2,4	10,7	18,6	20,8	18,2	18,3	18,7	22,1	15,5	14,5
E	5,9	13,5	16,3	14,5	12,3	11,0	8,3	5,0	5,3	4,4
F	4,2	8,3	11,3	11,2	9,7	7,5	5,7	2,5	3,2	2,5
IRL	4,5	13,8	15,2	15,9	8,6	9,4	4,5	3,6	3,0	2,9
I	3,7	13,0	16,5	15,9	14,8	11,4	9,3	6,3	4,8	5,0
L	2,3	6,8	6,2	10,8	8,9	5,5	5,2	0,7	0,5	1,9
NL	4,1	8,0	5,5	5,3	2,7	2,0	2,5	0,1	-0,3	0,6
P	2,7	13,4	21,6	22,5	25,3	27,2	18,9	12,1	9,6	6,8
UK	3,7	12,6	12,6	8,7	5,0	4,8	5,2	3,6	3,2	4,1
Weighted average										
EUR 12	3,7	9,9	11,3	10,4	8,6	7,0	5,9	3,7	3,2	3,3
EMS	3,6	8,7	9,9	9,8	8,1	6,4	5,1	2,4	2,4	2,5
Measures of dispersion related to average ²										
EUR 12	0,9	2,5	4,7	4,6	4,7	4,8	3,6	4,1	2,8	2,3
EMS	0,8	2,2	3,9	3,4	2,8	2,4	1,4	1,8	1,6	1,1
Measures of dispersion related to lowest ²										
EUR 12	1,4	4,7	7,4	7,7	7,5	7,3	5,4	5,8	4,6	3,5
EMS	1,5	3,6	4,8	5,5	5,0	4,3	2,8	2,7	2,5	1,9

¹ Economic Forecasts, January 1988

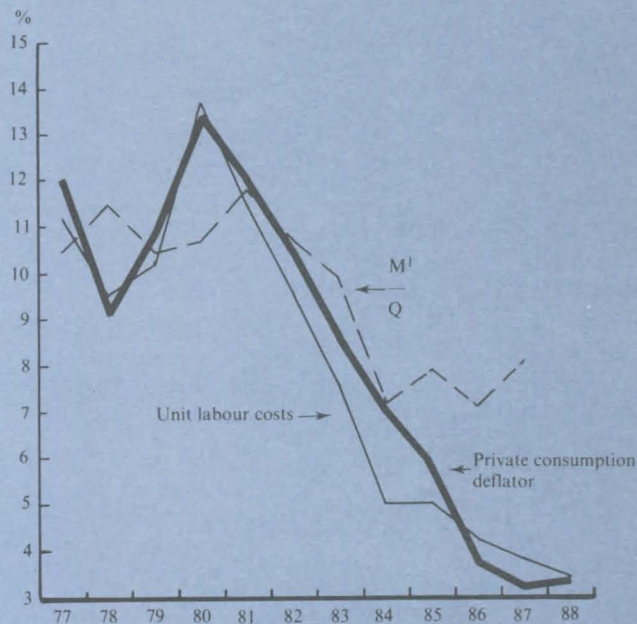
² The dispersion index is an unweighted sum, disregarding signs, of each country's deviation from the respective reference value (e.g. weighted average or lowest rate)

Source: Eurostat and Commission services.

small upward movement to medium-term levels in the low-inflation Member States and a continuation of the disinflation process in the others. The inflation rate is expected to remain subdued because significant upward pressures from commodity prices, labour costs or public deficits appear unlikely. Instead, the recent decline in import prices seems to have followed through in wage developments, as indicated by the parallel decline in the nominal increase in compensation of employees per head. The major risk of increased inflation would probably result from the recent relatively more expansionary monetary growth, although there is little evidence that these developments will have short-term inflationary effects. In a medium term view, the massive interventions of central banks in the last couple of years, producing an extremely rapid build-up of official reserves outside the US, may pose inflationary risks, unless the excessive liquidity is absorbed by stronger real growth.

21 March 1988

GRAPH 9: Private consumption deflator, unit labour costs and growth of money stock per unit of real output: Weighted average percentage changes EUR 12



¹ Broad money supply (M2/M3) divided by real GDP.

Source: Commission services.

TABLE A.1: Industrial production (a) — Percentage change on preceding period (s.a.)

	1983	1984	1985	1986	1987	1986				1987				1987				Change over 12 months % (b)
						IV	I	II	III	IV	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	
B	2.0	2.5	2.5	0.8	0.5	-2.2	0.9	2.8	-3.0	:	-0.3	-0.1	-5.6	1.4	:	:	:	-0.3
DK	3.2	9.7	4.2	4.2	-4.0	0.9	-3.0	-1.6	0.9	:	1.5	2.6	-2.5	2.0	-4.4	2.2	:	0
D	0.6	3.0	5.7	2.1	0	-0.8	-1.0	1.4	0.4	0.9	-1.3	-1.2	4.2	-1.8	0.4	0.1	0.6	1.0
GR	-0.1	1.6	3.4	-0.2	-2.2	-0.9	-1.6	-1.0	-0.2	:	-0.7	0.9	-2.0	3.6	-3.0	4.3	:	0.1
E	2.7	0.8	2.0	3.1	5.0	2.2	-0.6	2.6	2.3	0.6	4.2	3.8	-9.8	6.6	-1.2	3.1	-2.8	5.2
F	0	2.0	1.0	1.0	:	-1.3	-0.3	2.3	0.6	0.6	1.0	-1.0	0	1.0	0	0	0	4.8
IRL	6.6	12.4	2.3	2.7	9.6	3.7	-0.6	8.2	0.7	:	-2.3	-2.6	6.8	-2.5	2.8	2.2	:	13.7
I	-3.2	3.4	1.2	2.8	:	1.5	-0.4	1.8	-0.8	2.1	-2.6	0.9	-1.6	1.2	2.5	-0.7	-0.7	5.0
L	5.4	13.3	6.9	2.8	-0.3	-0.6	-1.3	2.9	-1.8	:	1.6	-1.9	-3.3	1.2	6.3	:	:	7.1
NL	3.2	4.1	4.0	1.0	:	-0.9	3.5	-3.4	-0.6	2.2	-0.9	0	0	-2.8	2.9	4.7	-5.4	0
P	1.6	-0.1	10.9	5.7	3.5	0.1	-3.6	4.2	0.5	:	1.2	3.5	-8.5	5.0	:	:	:	-2.2
UK	3.6	1.4	4.6	1.6	3.1	0.2	0.6	0.7	1.7	1.2	-0.7	1.3	1.3	-0.8	1.1	0	0.6	5.2
EUR 12	0.9	2.2	3.4	1.9	(1.9)	0.7	-0.6	1.4	0.1	(1.5)	0.3	0.1	-1.5	1.3	0.8	(0.7)	(-0.5)	(2.6)
USA	7.8	12.3	2.1	2.1	:	0.9	0.9	1.2	1.9	:	0.6	1.2	0.2	-0.2	1.0	(0.4)	:	(5.6)
JAP	3.6	11.1	4.6	-0.3	4.0	0	1.3	-0.2	3.7	4.4	4.3	1.0	-1.1	3.1	2.2	(-0.2)	(2.0)	(9.2)

TABLE A.2: Unemployment rate — Number of unemployed as percentage of civilian labour force (s.a.)

	1983	1984	1985	1986	1987	1986				1987				1987				1988	Change over 12 months % (b)
						IV	I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.		
B (f)	14.3	14.4	13.6	12.5	12.2	12.4	12.4	12.4	12.2	11.9	12.5	12.1	12.0	12.0	11.9	11.8	11.7	-6.9	
DK	10.1	9.9	8.7	7.4	7.5	7.2	7.5	7.5	7.5	(7.5)	7.5	7.5	(7.6)	(7.3)	(7.5)	(7.6)	(7.3)	(-5.9)	
D	8.4	8.4	8.4	8.1	8.1	7.8	8.0	8.0	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.2	8.0	0.9	
GR	1.6	1.8	2.2	2.8	2.9	2.8	2.9	2.9	2.9	2.8	2.9	2.9	2.8	2.7	2.7	2.8	2.7	-0.7	
E	16.5	18.4	19.5	20.0	20.9	20.3	20.7	20.8	20.9	21.1	20.9	20.8	20.9	21.0	21.0	21.1	21.1	3.3	
F	8.9	10.0	10.5	10.7	11.2	10.9	11.3	11.3	11.3	11.1	11.2	11.4	11.2	11.1	11.0	11.1	11.1	-1.4	
IRL	14.9	16.6	17.9	18.3	19.2	18.7	19.0	19.4	19.4	19.1	19.4	19.4	19.3	19.2	19.1	19.1	19.0	-0.9	
I	11.0	12.0	12.9	13.7	14.0	13.8	13.9	13.6	14.2	14.2	14.0	14.3	14.3	14.1	14.1	14.4	14.5	6.0	
L	1.6	1.8	1.7	1.5	1.7	1.4	1.6	1.7	1.7	1.7	1.7	1.7	1.8	1.7	1.7	1.7	1.7	9.1	
NL (f)	(14.2)	14.5	13.3	12.4	11.9	12.0	12.0	11.9	11.9	11.9	12.0	11.9	11.9	12.0	11.9	12.0	11.9	-1.7	
P	5.6	6.7	7.7	8.3	7.1	8.3	8.2	7.2	6.5	6.6	6.5	6.5	6.5	6.5	6.6	6.7	6.8	-15.2	
UK	(11.6)	11.8	12.0	12.0	10.7	11.8	11.5	11.1	10.5	9.9	10.8	10.6	10.2	10.1	9.8	9.8	9.5	-17.4	
EUR 12	(10.6)	11.2	11.6	11.7	11.6	11.7	11.8	11.6	11.6	(11.5)	11.6	11.7	(11.6)	(11.5)	(11.4)	(11.5)	(11.4)	(-2.5)	
USA	9.6	7.5	7.2	7.0	:	6.8	6.7	6.2	6.0	:	6.0	6.0	5.9	6.0	5.9	:	:	-13.6	
JAP (g)	2.7	2.7	2.6	2.8	2.8	2.8	2.9	3.0	2.8	2.7	2.7	2.8	2.8	2.7	2.6	:	:	-6.4	

TABLE A.3: Consumer price index — Percentage change on preceding period

	1983	1984	1985	1986	1987	1986				1987				1987				1988	Change over 12 months % (b)
						IV	I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.		
B	7.7	6.3	4.9	1.3	1.6	0.1	0.6	0.7	0.6	-0.3	0.4	0.3	-0.2	-0.1	-0.3	0	-0.1	0.9	
DK	6.9	6.3	4.7	3.6	4.0	1.0	0.5	1.6	0.7	1.2	0	0.3	0.6	0.4	0.3	0.1	(0.5)	(4.4)	
D	3.3	2.4	2.2	-0.2	0.2	-0.3	0.6	0.4	0	0	0	-0.1	-0.2	0.2	0	0.2	0.2	0.7	
GR	20.5	18.3	19.4	23.1	:	5.9	3.2	5.6	0.4	5.4	-1.5	-0.5	2.2	3.1	0.7	1.2	-0.2	14.3	
E	12.2	11.2	8.8	8.8	:	1.2	1.4	0.7	1.3	1.2	1.0	-0.1	0.9	0.6	-0.2	0.4	0.6	4.5	
F	9.6	7.3	5.9	2.7	3.1	0.7	1.2	0.9	0.6	0.5	0.2	0.2	0.1	0.2	0.1	0.1	0.2	2.4	
IRL (h)	10.4	8.6	5.4	3.8	3.1	0.2	1.8	0.6	0.6	0.1	0.2	0.2	0	0	0	:	:	3.1	
I	14.7	10.8	9.2	5.8	4.8	1.2	1.4	1.2	1.0	1.7	0.2	0.3	0.6	0.8	0.4	0.2	(0.5)	(5.2)	
L	8.7	5.6	4.2	0.3	:	0.2	0.2	-0.3	0.1	0.4	0	0.3	0.1	0	0.2	0.2	0.1	0.6	
NL	2.7	3.2	2.3	0.3	-0.2	1.0	-1.3	0.6	0.2	0.8	-0.1	0.2	0.5	0.5	-0.1	-0.2	(-0.8)	(0.7)	
P	25.1	28.9	19.6	11.8	9.3	2.4	3.8	1.7	1.0	2.5	0.3	1.1	0.3	1.2	0.4	1.4	0.8	8.5	
UK	4.6	5.0	6.1	3.4	4.1	1.3	1.2	1.5	0.2	1.1	-0.1	0.3	0.3	0.5	0.5	-0.1	0	3.3	
EUR 12	8.6	7.4	6.1	3.6	(3.2)	0.8	1.0	1.0	0.4	0.8	0.1	0.2	0.2	0.5	0.2	(0.1)	(0.2)	(3.0)	
USA	3.2	4.3	3.6	1.9	3.7	0.6	1.1	1.3	1.1	0.9	0.2	0.6	0.5	0.3	0.1	0	0.3	4.1	
JAP	1.8	2.4	2.0	0.7	0	-0.1	-0.6	1.3	-0.2	0.2	-0.5	0.1	0.9	0	-0.5	-0.1	-0.2	1.1	

TABLE A.4: Visible trade balance -- fob/cif, million ECU (s.a.)

	1983	1984	1985	1986	1987	1986				1987				1987				Change over 12 months % (c)
						IV	I	II	III	IV	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	
B/L	-2435	-4897	-3514	146	280	930	-108	414	-150	204	208	173	-199	-124	-272	-89	565	482
DK	-740	-1108	-1538	-1714	:	-226	72	61	65	:	-47	70	-85	80	58	:	:	167
D	18501	24136	32986	53044	56937	14502	14373	13818	14132	14719	4362	4846	4098	5189	4175	4979	5565	357
GR	-5800	-6048	-7266	-5809	:	-1126	-1661	-1339	:	:	-455	-387	-311	:	:	:	:	242
E	-15628	-13130	-13428	-9699	-12473	-1819	-2588	-3567	-3095	-3232	-1288	-1041	-756	-1299	-1321	-911	-999	-663
F	-621	81	430	983	2047	262	338	511	517	670	96	147	203	168	232	246	192	106
IRL	-8516	-13849	-16130	-2459	-7433	473	-1117	-2360	-1643	-1834	-1476	-702	-52	-889	-930	-225	-679	-1084
I	4499	4740	3874	4161	1088	206	-470	140	289	664	303	-31	173	147	430	163	71	157
NL	:	-3467	-2735	-1297	-2955	-271	-716	-827	-781	-740	-376	-219	-302	-260	-297	-249	-134	-34
P	-9681	-14005	-11540	-19868	-20890	-6180	-3705	-4911	-5714	-6618	-1710	-1735	-2366	-1613	-1976	-2303	-2340	-279
EUR 12 (j)	-32258	-24444	11161	(1047)	4314	2832	-619	(-1049)	(-119)	(-1144)	-357	-765	(73)	(-1726)	(361)	(1246)	(-1075)	
USA (i)	-77911	-154992	-194856	-169039	-148746	-41331	-34862	-37149	-41003	-35732	-13771	-14659	-14048	-12296	-15307	-10769	-9656	2533
JAP	23072	42599	60497	84010	69630	21839	21512	16544	16184	15396	4828	5495	5296	5393	5766	4287	5343	-1549

TABLE A.5: Money stock (k) — Percentage change on preceding period (s.a.)

	1983	1984	1985	1986	1987	1986				1987				1987				1988	Change over 12 months % (d)
						IV	I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.		
B (M2)	8.7	5.9	7.6	11.5	:	3.6	3.1	3.6	0.6	:	:	:	:	:	:	:	:	11.3	
DK (M2)	25.5	17.8	15.8	8.4	4.4	2.5	-0.1	3.6	-1.0	1.9	-0.8	0.3	-0.5	1.1	-0.3	1.2	:	4.4	
D (M3)	5.3	4.7	5.1	6.8	6.0														

TABLE A.6: Short-term interest rates (m)

	1983	1984	1985	1986	1987	1986					1987					1988		Change over 12 months % (e)
						IV	I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	
B	10,5	11,5	9,5	8,0	7,0	7,5	7,4	6,8	6,7	6,8	6,7	6,7	7,2	6,9	6,8	6,4	6,1	-1,7
DK	12,0	11,5	10,0	9,1	9,9	9,2	10,7	9,6	9,4	9,3	9,3	9,4	9,5	9,3	8,9	8,6	-2,4	
D	5,8	6,0	5,4	4,6	4,0	4,8	4,0	3,8	4,0	3,5	4,0	4,0	4,1	3,7	3,5	3,3	-0,7	
GR	16,6	15,7	17,0	19,8	15,6	18,9	23,3	13,9	19,5	14,1	8,0	19,5	17,1	15,0	14,1	16,6	2,3	
E	20,0	14,9	12,2	11,7	15,8	12,1	16,2	17,8	17,0	13,1	16,7	17,0	14,5	14,6	13,1	12,4	-0,8	
F	12,5	11,7	9,9	7,7	8,2	8,5	7,9	8,2	8,0	8,6	7,9	8,0	8,3	8,7	8,6	8,1	-0,8	
IRL	14,0	13,2	12,0	12,4	11,0	13,9	13,3	10,4	9,2	8,8	10,0	9,2	9,2	9,2	8,8	8,6	-0,4	
I	18,3	17,3	15,0	12,8	11,4	11,6	10,6	11,3	12,8	11,5	13,0	12,8	12,0	11,6	11,5	10,7	-0,3	
NL	5,7	6,1	6,3	5,7	5,4	6,4	5,5	5,2	5,6	4,6	5,3	5,6	5,2	4,7	4,6	4,1	-1,4	
P	20,9	22,5	21,0	15,6	13,9	14,1	13,2	15,0	14,8	13,9	14,8	14,8	13,8	13,9	13,9	13,9	0,5	
UK	10,1	10,0	12,2	10,9	9,7	11,2	9,9	9,2	10,3	8,9	10,4	10,3	9,4	8,9	8,9	8,7	-1,4	
EUR 12 (m)	12,1	11,3	10,6	9,1	8,9	9,1	8,8	8,8	9,2	8,3	9,0	9,2	8,8	8,5	8,3	7,9	(-0,9)	
USA	8,7	9,4	7,5	6,0	5,9	5,8	5,8	6,0	6,8	5,9	6,5	6,8	5,4	5,5	5,9	5,8	0,2	
JAP	6,5	6,3	6,5	5,0	3,9	4,3	4,0	3,7	3,9	3,9	3,7	3,9	4,0	3,9	3,9	3,8	0,0	

TABLE A.7: Long-term interest rates (o)

	1983	1984	1985	1986	1987	1986					1987					1988		Change over 12 months % (e)
						IV	I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	
B	11,8	12,0	10,6	7,9	7,8	7,7	7,6	7,8	8,3	8,0	7,8	8,3	8,3	8,0	8,0	7,6	7,4	-0,2
DK	14,4	14,0	11,6	10,5	11,9	11,6	12,1	11,6	12,3	11,7	11,5	12,3	12,6	11,9	11,7	11,0	10,8	-1,6
D	7,9	7,8	6,9	5,9	5,8	5,9	5,6	5,6	6,2	6,0	6,0	6,2	6,5	6,0	6,0	6,0	5,8	0,1
GR	18,2	18,5	15,8	15,8	17,2	14,7	17,5	16,2	17,1	17,1	17,1	17,1	17,4	17,4	17,4	17,4	17,4	2,9
E	16,9	16,5	13,4	11,4	12,8	10,4	10,9	13,2	14,3	13,1	13,7	14,3	14,2	13,4	13,1	12,5	11,9	1,3
F	13,6	12,5	10,9	8,4	9,4	8,9	8,5	9,4	10,5	10,1	9,8	10,5	10,0	9,9	10,0	9,5	9,5	0,6
IRL	13,9	14,6	12,7	11,1	11,3	13,0	11,2	10,9	11,3	10,4	11,9	11,3	11,0	10,2	10,4	10,6	10,4	-2,0
I	18,0	14,9	14,3	11,7	11,3	10,2	10,2	11,1	12,3	12,5	12,0	12,3	12,4	12,7	12,5	12,0	12,1	2,0
L	9,8	10,3	9,5	8,7	8,0	8,1	8,2	8,2	8,1	7,0	8,0	8,1	8,0	7,5	7,0	7,5	7,8	-0,5
NL	8,8	8,6	7,3	6,4	6,4	6,4	6,2	6,3	6,8	6,3	6,6	6,8	7,0	6,4	6,3	6,3	6,1	-0,1
P	30,4	32,5	25,4	17,9	15,4	16,0	15,4	15,4	15,9	15,2	15,3	15,9	15,8	15,7	15,2	15,2	15,2	-0,8
UK	10,8	10,7	10,6	9,8	9,5	10,3	9,1	9,1	10,0	9,5	10,1	10,0	9,3	9,3	9,5	9,3	9,2	-0,4
EUR 12 (m)	12,7	11,8	10,9	9,2	9,4	9,0	8,7	9,2	10,1	(9,8)	9,9	10,1	10,0	(9,8)	(9,8)	(9,5)	(9,4)	(0,5)
USA	10,8	12,0	10,8	8,1	8,7	7,7	7,6	8,6	9,6	9,1	9,0	9,6	9,5	9,0	9,1	8,8	8,2	0,5
JAP	7,8	7,3	6,5	5,2	5,0	5,2	4,4	4,6	7,0	5,1	5,6	7,0	5,4	5,2	5,1	4,2	4,2	-0,8

TABLE A.8: Value of ECU = ... units of national currency or SDR

	1983	1984	1985	1986	1987	1986					1987					1988		Change over 12 months % (b)
						IV	I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	
BFR/LFR	45,43	45,44	44,91	43,80	43,04	43,29	42,86	43,04	43,07	43,18	43,06	43,09	43,21	43,16	43,18	43,18	43,20	1,1
DKR	8,13	8,14	8,02	7,94	7,88	7,86	7,81	7,82	7,94	7,96	7,95	7,99	7,97	7,96	7,95	7,93	7,90	1,3
DM	2,27	2,24	2,23	2,13	2,07	2,08	2,07	2,08	2,07	2,07	2,07	2,07	2,07	2,06	2,06	2,06	2,07	0,1
DR	78,1	88,4	104,8	137,3	156,1	143,5	151,1	154,4	157,4	161,9	157,2	158,5	159,8	162,3	163,5	164,6	165,0	9,0
PTA	127,4	126,5	129,0	137,5	142,2	139,8	145,0	145,0	140,5	138,4	140,2	138,9	136,6	138,8	139,8	140,2	139,3	-4,2
FF	6,77	6,87	6,79	6,80	6,93	6,82	6,89	6,93	6,92	6,98	6,92	6,93	6,93	7,01	7,00	6,97	6,98	1,5
IRL	0,715	0,726	0,715	0,733	0,775	0,765	0,775	0,776	0,775	0,776	0,775	0,776	0,775	0,776	0,776	0,777	0,776	0,1
LIT	1349	1381	1447	1462	1495	1443	1469	1494	1502	1514	1502	1500	1500	1520	1521	1519	1521	3,6
HFL	2,54	2,52	2,51	2,40	2,33	2,35	2,33	2,34	2,34	2,33	2,34	2,33	2,33	2,32	2,32	2,32	2,32	-0,4
ESC	98,2	115,6	130,0	146,9	162,5	154,0	159,4	161,4	162,8	166,6	162,6	163,5	164,4	166,9	168,5	168,8	168,8	5,5
UKL	0,587	0,591	0,589	0,670	0,705	0,727	0,730	0,700	0,698	0,692	0,699	0,696	0,693	0,691	0,691	0,694	0,693	-6,4
USD	0,890	0,788	0,759	0,983	1,154	1,038	1,124	1,150	1,128	1,213	1,116	1,145	1,152	1,227	1,264	1,250	1,217	7,7
YEN	211,3	187,0	180,4	165,0	166,5	166,5	172,2	164,0	165,8	164,3	164,7	163,9	165,0	166,0	162,0	159,4	157,2	-9,3
DTS	0,833	0,767	0,749	0,838	0,892	0,842	0,859	0,895	0,889	0,884	0,879	0,887	0,889	0,909	0,914	0,908	0,898	0,2

TABLE A.9: Effective exchange rates: export aspect (p) — Percentage change on preceding period

	1983	1984	1985	1986	1987	1986					1987					1988		Change over 12 months % (b)
						IV	I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	
B/L	-2,8	-2,2	0,9	5,5	4,1	1,6	2,4	-0,6	-0,3	0,6	-0,3	0,2	-0,2	1,1	0,2	-0,3	-0,5	-1,0
DK	-0,6	-3,7	1,2	6,3	4,2	2,6	2,5	-0,6	-1,9	1,1	-1,3	-0,2	0,4	1,6	0,5	-0,1	-0,3	-1,6
D	4,0	-1,6	0,3	10,7	6,9	2,9	3,0	-0,7	-0,2	1,8	-0,2	0,3	0,1	2,2	0,3	-0,5	-0,7	0,1
GR	-18,1	-14,4	-15,9	-21,3	-9,9	-3,2	-3,5	-2,2	-2,2	-1,8	-0,8	-0,6	-0,7	-0,4	-0,5	-1,0	-0,8	-8,1
E	-17,2	-2,4	-2,3	-1,5	0,2	-0,9	-1,7	-0,1	2,9	3,0	1,4	1,4	1,8	-0,2	-0,4	-0,7	0,1	5,0
F	-7,1	-4,8	1,1	4,5	1,1	1,9	0,9	-0,8	-0,2	0,3	-0,6	0,2	0,0	0,2	0,5	0,0	-0,7	-1,6
IRL	-4,1	-4,2	1,2	3,7	-2,1	-0,8	0,4	-0,9	-0,3	1,0	-0,3	0,2	0,2	1,0	0,3	-0,4	-0,4	-0,9
I	-3,8	-5,9	-5,2	3,7	1,1	2,0	0,1	-2,0	-0,9	0,5	-0,3	0,6	0,1	0,1	0,3	-0,3	-0,8	-3,5
NL	2,0	-1,6	0,3	7,7	5,1	2,0	2,1	-0,4	0,0	1,3	-0,2	0,3	0,1	1,5	0,2	-0,2	-0,4	0,5
P	-21,1	-17,4	-11,5	-7,8	-7,1	-2,2	-1,9	-1,5	-1,3	-1,4	-0,4	-0,3	-0,5	-0,4	-0,6	-0,5	-0,5	-5,4
UK	-7,0	-4,7	-0,2	-7,3	-1,0	-5,6	2,1	4,4	-0,1	2,8	-0,5	0,9	0,6	2,3	0,5	-0,9	-0,7	7,9
EUR 12	-8,5	-9,3	-1,9	9,6	7,0	2,1	4,2	-0,5	-0,6	3,3	-0,9	1,0	0,6	3,2	0,6	-1,1	-1,7	0,5
USA	5,7	7,8	4,1	-19,1	-12,1	-0,3	-5,8	-3,4	1,6	-5,8	-0,2	-2,3	-0,4	-4,4	-3,0	0,1	1,5	-9,3
JAP	10,9	5,8	3,0	27,2	8,2	-3,8	1,0	5,9	-2,2	5,1	2,1	1,8	-0,3	3,2	4,0	0,9	-0,2	14,0

Sources: For Community countries: Eurostat, unless otherwise specified; for the USA and Japan: national sources.

(a) National sources, except for the Community, Denmark, Ireland, Belgium and Luxembourg. Because of differences in methods of seasonal adjustment, the change in the EUR index, adjusted by Eurostat and given in Table 1 may differ from the change in the EUR index obtained by aggregating national indices. Data are adjusted for working days. They do not include building.

(b) % change over 12 months on the basis of the non-adjusted nominal series of the most recent figure given.

(c) Change on corresponding month in previous year; seasonally adjusted.

(d) Change over 12 months in seasonally adjusted figures of the most recent figure given for each country.

(e) Difference in relation to the same month of the previous year.

(f) Changes in the coverage of these series occurred in 1984 for the Netherlands and in 1985 for Belgium.

(g) As % of total labour force.

(h) Monthly series calculated by linear interpolation.

(i) Unadjusted figures.

(j) The seasonally adjusted position for the Community does not correspond to the sum of other Member States; it is obtained by seasonal adjustment of the sum of gross figures for the various countries' exports and imports.

(k) National sources for Belgium, Denmark, Germany, Spain, France, Portugal and the United Kingdom; seasonal adjustment by Eurostat for Greece, Ireland, Italy and the Netherlands.

(l) Average of monthly changes, seasonally adjusted, weighted by GDP at 1980 prices and purchasing power parities. The monthly change in Belgium is obtained by linear interpolation of quarterly data.

(m) National sources; three-month interbank rate except: Belgium: yield on issue of four-month *Fonds des Rentes* certificates; Denmark: daily money market rate (monthly average); Portugal, 6 month deposits; from 8/85, 3 month Treasury Bills. Annual average, end quarter and end month.

(n) Average weighted by GDP at 1980 prices and purchasing power parities.

(o) Yield on public sector bonds. Annual average. Average for the last month of quarter and monthly average for Germany, Spain, Italy, Luxembourg, the Netherlands and Portugal. End quarter and end month for the other Member States.

(p) Weighting coefficients are calculated so as to allow not only for bilateral trade but also for competition on third markets and on the domestic market of the exporting country.

Note: (s.a.) = seasonally adjusted ; = data not available ; () = estimated.

Principal economic policy measures - February 1988

Community (EUR)

9.2 The Council (Economic and Financial Affairs) examines two interim reports on the liberalization of capital flows presented by the respective presidents of the Monetary Committee and the Committee of Central Bank Governors. In a final report to the Council, to be submitted in April, other aspects of the European financial area will be examined.

17.2 The Commission adopts its Communication to the Council 'The Economic Situation and Outlook for 1988: Overcoming the Uncertainties', prepared in accordance with Article 2 of the Council Decision of 18 February 1974 on convergence (see February issue).

Belgium (B)

2.2 The central bank cuts the rates on very short-term Treasury certificates by 0.25 of a percentage point, in several stages. The rates on one-, two- and three-month certificates now stand at 6.10 %.

Denmark (DK)

None.

Federal Republic of Germany (D)

None.

Greece (GR)

2.2 A wage agreement is concluded between private sector employees and the employers' organization. It provides for a maximum wage indexation rate of 9.7 % for the first four months of 1988, i.e. 1.2 points higher than the rate applicable to public service employees. This agreement, which will serve as a guide for company agreements, also includes certain institutional advantages for workers (allowances and holidays).

18.2 The central bank publishes the monetary programme for 1988. It provides for a 14 % to 16 % increase in money supply (M3) and a moderate 10 % to 12 % expansion in lending to the private sector. The sale of securities to the non-bank public is set at DRA 350 000 million.

Spain (E)

2.2 The Bank of Spain reduces the interest rate paid to financial institutions on the remunerated tranche of the compulsory reserve ratio by 0.25 of a point to 7.75 %.

23.2 The Bank of Spain reduces the interest rate on its loans to financial institutions by 1.0 point to 11.5 %.

France (F)

2.2 The Official Gazette publishes the decree approving the new UNEDIC (unemployment fund) agreement which was signed by the employers' organization and the trade unions on 30 December 1987. The combined employer and employee contribution intended to cover expenditure on the unemployment insurance scheme is set at 6.90 % of the wage bill (4.43 % payable by employers and 2.47 % by employees), compared with the previous 6.58 %.

24.2 FF 3 000 million, FF 2 000 million of which will come from the sale of the Caisse nationale de Crédit agricole (National fund for agricultural credit) to the regional funds, will

be returned to agriculture in the form of an endowment to a Fund for agricultural debt relief (farmers' debt stands at around FF 200 000 million).

Ireland (IRL)

None.

Italy (I)

4.2 A ministerial decree lays down the procedures for implementing the measures liberalizing exchange controls provided for in ministerial decree n° 454 of 29 September 1987. From 1 October 1988, Italian tourists will be able to export all the means of payment that they wish, provided that they are properly negotiated with an authorized bank; the amount in banknotes is increased from LIT 500 000 to LIT 1 000 000 per person and the unlimited use of credit cards is authorized for tourism, medical care, work, education and culture; the use of cheques drawn on domestic accounts is also authorized, with no special formalities, it will be possible to transfer a maximum of LIT 5 000 000 by international postal order compared with the present authorized maximum of LIT 2 000 000; however, foreign securities purchased by residents will still have to be deposited with banks.

Luxembourg (L)

None.

Netherlands (NL)

26.2 The Government withdraw the investment incentive tax credit facility (WIR) with immediate effect on 29 February. The swiftness of its move was made possible by a discretionary clause in the WIR (Wet op de Investeringsrekening) Act allowing it to reduce the 12.5 % basic premium rate to zero.

Portugal (P)

5.2 The Minister for Finance reduces the maximum rate on bank loans from 18.5 % to 18.0 % while the interest rate on six- to twelve-month time deposits is cut from 14.0 % to 13.5 %. The impact of these measures on the cost of credit is diminished by the increase in stamp duty on 1 February.

19.2 The Bank of Portugal announces the creation of 182-day to one-year interest-bearing time deposits.

19.2 The Minister for Finance announces that credit ceilings, the chief instrument of monetary control in Portugal since 1977, will be abolished in 1988.

United Kingdom (UK)

2.2 The authorities prompt a 1/2 point increase in bank base rates to 9 %. This only partially reverses the cumulative 1 1/2 point reduction in these rates during the final quarter of 1987.

18.2 The authorities issue a White Paper announcing a new training scheme, largely for the long-term adult unemployed. The scheme will replace a total of 30 separate schemes currently aimed at this category of unemployed. No new public funds will be provided for the scheme; the projected cost of UKL 1.4 billion annually will be provided through UKL 1.3 billion currently deployed for the existing schemes and some UKL 150 million to be provided by employers. The White Paper also announces plans for a new drive against fraudulent claimants of unemployment benefit.

Prices (excluding VAT) in Luxembourg

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