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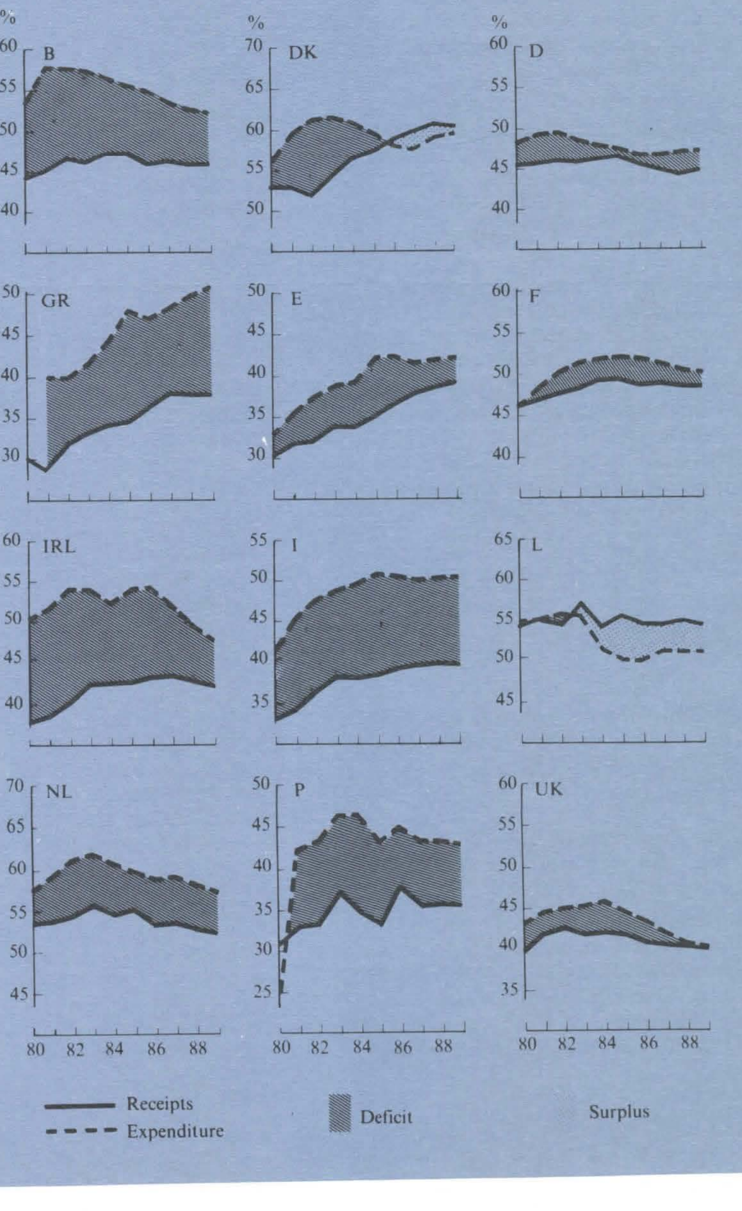


RELEASING AND EXPLOITING THE COMMUNITY'S GROWTH POTENTIAL

Short-term economic outlook and budgetary policies for 1989

(Commission communication in accordance with article 3 of the Council decision of 18 February 1974)

SUMMARY AND MAIN ISSUES

In conformity with the requirements of the Council's Convergence Decision (February 1974), the Commission has examined the economic situation of the Community. Here is a summary of the Communication and a review of the main issues raised therein.

I. At the time of the crash, an upsurge of growth

1. The *economic recovery* in industrial countries is becoming the longest running since World War II, with inflation at one quarter the 1980 rate. Yet, on average, GNP growth has not been particularly strong. Furthermore, several imbalances (unemployment, trade and indebtedness) have kept growing with, and even despite, the growth of activity.

2. The *stock market crash* of October 1987 took place at a moment when all major industrial economies were experiencing a remarkable acceleration of growth. When that happened this was not fully appreciated at the time (see table 1).

The implications of the financial storm on economic activity are uncertain: *(a)* fears of an immediate weakening of growth following the crash have now largely dissipated. Yet, *(b)* the volume of securities transactions and of new issues have both fallen by one third on most stock exchanges, with respect to a year ago.

3. Growth in our countries has thus proved quite resilient. Three reasons stand out. *First,* the higher purchasing power due to the 1986 collapse of oil prices has eventually given new impulse to activity. *Second,* the liquidity resulting from Central Banks' intervention in 1987 (problematic, for its inflationary threat) has accommodated or even reinforced the demand upsurge. *Third,* governments' efforts to promote flexibility in economic behaviour have contributed to make economic systems exactly what they were supposed to be: better equipped to withstand shocks and bounce back from setbacks with dynamism.

II. .... but problems remain

4. The *outlook* for the less immediate future (1989 and beyond) points to weaker growth, as some of the sources of the recent acceleration weaken. In addition, the Community continues to face the same preoccupations as in the past.

5. (a) The international *payments disequilibria* are only slowly being reduced and meanwhile the stocks of debt and credit are increasing. Since the situation of financial markets remains fragile, the path towards healthier trade positions is narrow. Too fast a reduction in the US trade deficit will impose costly adjustments on its partners. Too slow a reduction may renew financial turbulence. In addition, the US fiscal deficit may actually increase in 1988: such continuing high absorption in the US is a matter of concern. It will eventually result in higher inflation, which could then spread.

6. (b) The economic outlook in the Community is for steady, but uneven growth of demand and output. Persistent payments surpluses and growing intra-EEC deficits are therefore to be expected. These increasing *intra-EEC external imbalances* ai cause for growing concern.

(c) Job creation will continue, but at a rate just in line wit the labour force increase. *Unemployment* will thus remain high.

7. (d) The external *debt of developing countries* continues t restrain investment and therefore, their growth potential an subsequently, their imports continue to suffer.

III. The task of policy in the period ahead

8. In the coming years, the Community can count only on it own forces to improve its growth performance. There are *thre priorities* for economic policy:

a) to strengthen the *internal determinants* of growth no\ that the external sector is reducing, and no longer crea ting, demand;

b) to utilise *the EC-wide potential for growth* stemming fron the creation of the single market and the narrowing o income gaps within it;

c) to improve the *coordination of economic policy* in lin with the growing economic interdependence.

Upon these foundations is built *Europe's own growth initiative.*

9. The first priority concerns the switch *from external to domes tic growth.* The Community faces a negative contribution o trade to growth not only in the months ahead, but well into th next decade. For the US external debt to stop growing and b serviced, the US trade balance has to turn positive. A swing o over $150 billion in the US trade position will have enormou repercussions abroad. Unless Europe manages its own adjust ment properly (indigenous growth has to be accompanied b greater stability, and thus greater competitivity), the US trad situation will improve mostly at Europe's expense.

10. The *second* component of the EC strategy involves the shif from national towards *Community-based growth.* Fragmented markets can grow. But growth is easier to come by if the synergy of different forces is exploited. The only way Europe can cope with its problems is by putting the single market into place, reinforcing the economic and social cohesion and making better use of its human resources.

a) The completion of the internal market is a supply side programme without precedent for the Community, which was also warmly welcomed by the World Economic Summit of Toronto, 19 to 21 June 1988. The European Council of Hannover, 27 and 28 June 1988, confirmed that the internal market programme has reached a stage where it is now irreversible. As regards the economic effects of this programme, the resulting productivity gains were found to be substantial in a recent study by the Commission;

b) the catching-up process of the less prosperous areas in the Community needs to be strengthened. For that to happen the increased transfer of resources via the structural funds has to be accompanied by proper macroeconomic conditions in recipient countries;

c) the unemployment of an important part of the EC's active population (over 16 million people) has to come to an end. This requires better adaptability of labour markets and the continuation of moderate real wage increases (below those of productivity) accompanied by sustained demand.

With the restructuring of supply conditions underway, EC countries will find that policy constraints are eased: lower inflation, better external balances and healthier budgets will result. Therefore, the above needs to be supported by concerted macroeconomic policy: the *third* aspect of the strategy.

. The macro-economic priorities

. Throughout 1987, *monetary policy* was quite expansionary ırtly, because of the need to stabilize exchange rates and partly, ter in the year, to cope with the crash. The prolonged monetary jection has accommodated (even reinforced) demand growth. has also made inflation a concern which eventually translated ıto higher interest rates. This happened first and foremost in ıe US, inverting the tendency on the dollar. Recently, money becoming more expensive everywhere.

2. Monetary policy can maintain the *confidence of markets* ınd therefore keep price inflation and interest rates down) if overnments:

a) pursue structural policies, so as to improve the performance of all markets;

b) keep fiscal deficits low, so as to limit the pressure on resources needed for investment;

c) sustain non-inflationary growth in surplus countries, so as to reduce payment imbalances.

3. *Budgetary policy* has a key role in maintaining growth on a ıealthy path. The objective in the *medium-term* is to contain ɔublic debts and increase the effectiveness of spending. The ılleviation of the tax burden, the switch from public consumpion and transfers to viable infrastructural investments, and the reduction of subsidies are priorities compatible with lower public dissaving and better use of public money. In the *short-term* (1989) fiscal policy in the Community as a whole will not support growth: this is a matter of concern at a time when growth weakens.

14. Economic growth has improved, but is still a matter of concern, *the Communication concludes*. In the Community (and elsewhere) major problems remain. Unless the period ahead is effectively utilized, a sense of discomfort about the more distant future cannot be avoided. Until and unless the Community is transformed into a full *Economic and Monetary Union*, even capital movements and large-scale resource transfers cannot fully prevent market-enforced adjustments.

I. The situation and short-term outlook

I.1 A more dynamic than expected world economy

A major outcome of *1987* was partly clouded by the discussion on the effects of the stock-market crisis and the fears to which it gave rise: namely, *the strong acceleration in growth between the first and second half of the year* in the major industrialized economies.

TABLE 1: **Growth in GDP/GNP** (at constant prices)

	I/87	II/87	1987	1988	1989
EUR 12	2,1	3,8	2,7	2 3/4	2 1/4
USA	3,2	4,0	2,9	3	2
Japan	3,7	5,9	4,2	4 1/2	3 1/2
Total OECD	2,9	4,1	3,1	3	2 1/4

The industrialized countries thus displayed in 1987 a renewed vigour, even though growth has been continuing for almost seven years, the longest on record. This performance is all the more remarkable now that inflation is under control.

The implications of the financial storm on economic activity are uncertain: *(a)* certainly the revival could have been dampened by the financial crisis. But fears of a marked slow-down in growth in 1988 seem to be without foundation. According to the latest information the revival in the second half of 1987 is continuing into the first half of 1988. Yet, *(b)* the volume of securities transactions and of new issues have both fallen by one third on most stock exchanges, with respect to a year ago.

Many *favourable factors* deserve to be highlighted:

a) *world trade* is continuing to expand steadily (about 6 1/2 % in 1988 compared with 5 1/2 % in 1987),

b) the *trade deficit of the United States* continues to fall (37,4 billion dollars in the first quarter of 1988 against 42,1 in the first quarter of 1987),

c) the *financial and foreign exchange markets* are calmer: stock prices have regained a large part of their fall; the dollar has strengthened on foreign exchange markets,

d) the consumer and industrial *confidence indicators* are good and are even improving in some countries

Two complementary explanations for this particular vigour, since 1987, can be advanced:

Firstly, certain temporary factors have played a role: for example, *the reduction in oil prices* which resulted in an improvement in the balances of payments of oil importing countries in 1986 while also supporting domestic demand. The increase in *monetary liquidity* in 1987, following the interventions by central banks, accommodated, if not actually strengthened, a sustained expansion in demand throughout last year and up until now.

Whether by necessity or by choice, these two factors will wane over the coming quarters. The effects of the reduction in oil prices will disappear; since 1987, average prices of raw materials have been rising (already on average by about 13 % between 1986 and 1987). Interventions in favour of the dollar are no longer necessary or will work in the opposite direction following its recent strengthening on the foreign exchanges. In general, the risk of an uptake in inflation is now imposing limits on too fast an expansion in international liquidity.

Secondly, the structural policies which have been followed for a number of years are now bearing fruit and have strengthened in a lasting way the industrialized economies, making them more flexible and resistant. The behaviour of economic agents and the functioning of our economies has changed profoundly. Greater flexibility in the behaviour of individuals, enterprises and the public sector has awoken a *new 'spirit of enterprise'*.

As a consequence of the above, the outlook for growth in the world economy in 1988 remains favourable (3 %) but it gradually reflects the outcome of factors that are not all operating in the same direction: in 1989, for the eighth consecutive year, average growth in OECD countries will be positive; but it should be less than that of 1988.

In the United States, growth is expected to be about 3 % in 1988, but should fall about 1 point in 1989, because of a slowdown in domestic demand, notably of investment where growth should decline sharply, mainly due to the effects of higher interest rates. The effects on import prices of a depreciation of the dollar and of production constraints in some sectors should result in some increase in inflation (5 % in 1989 compared with 4 % in 1988 and 1987).

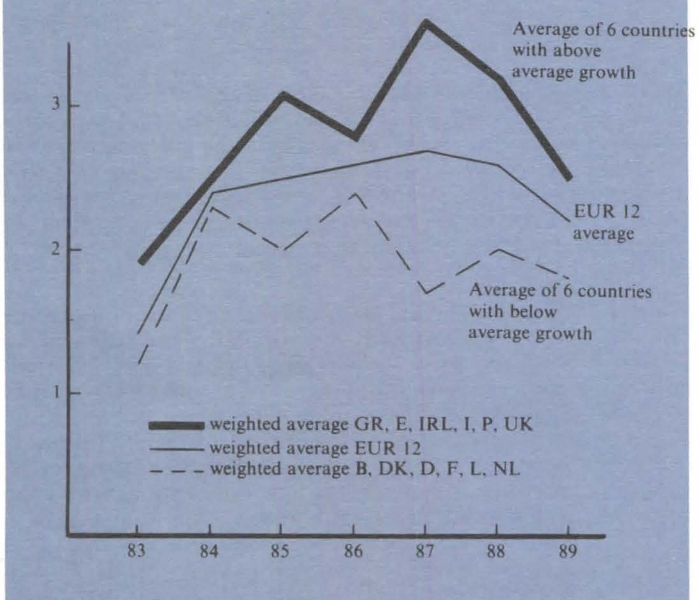
In Japan, where growth is the strongest of the three major industrialized zones (4 1/2 % in 1988 and 3 1/2 % in 1989), both private consumption and investment are showing remarkable dynamism.

In developing countries, the situation is becoming more varied. The Asian countries, in particular the NICs, are enjoying strong growth and substantial current account surpluses. The other countries, especially the countries of Latin America and Africa, are still confronted by acute debt problems which are restricting their growth, in particular as far as investment is concerned, thus reducing their development potential. Their debt has increased from 626 billion dollars in 1986 to 670 billion in 1987.

For the Community, the main aspects of the forecast are as follows:

a) *growth* should remain remarkably stable over the next 18 months, slightly above 2 1/2 % in 1988 and dipping slightly in 1989. A slowdown in domestic demand is expected, notably in private consumption, because of the effects of a stabilization in the household savings ratio after the significant decline experienced between 1986 and 1988. It should particularly effect the most dynamic countries in the Community (E, I, P, UK). However growth in the other countries should stabilize at an average of about 2 %.

GRAPH 2: **GDP growth rate, in volume**



Source: Commission services

b) *employment* continues to increase at a rate of about 0,8 % per annum. However, this increase is in large part due to an increase in more flexible types of employment (part-time, fixed-term etc...). The unemployment rate remains above 11 %, as a result, in particular, of an increase in participation rates. This increase is, among other things, related to an ongoing restructuring of work practices so that the jobs on offer are more suitable to categories of employees who up to now have not been seeking employment.

c) the *inflation rates* are converging towards a historically low average (around 3 % for the private consumption deflator). With the exception of the United Kingdom where the internal inflationary pressures are strong, inflation in general in the Community is under control. Among those countries where the inflation rate in 1986 was still close to 10 % (Spain and Portugal), or clearly above it (Greece), the first two are recording very significant progress. In these two countries, inflation should be below 5 % from 1988 onwards. In Greece, as a consequence of the measures adopted at the end of 1985, a significant reduction in the inflation rate (from 22 % to 14 %) between 1986 and 1988 was observed. This reduction could be consolidated and result in 1989 in a lower rate of inflation than that forecast by the Commission experts, if the Greek government puts into effect the policy direction that it has announced.

d) the *external surplus* should continue to fall and is expected to reach no more than 0,3 % of GDP in 1989. This reduction will be accompanied by greater divergences between the current balances of Member States (see I – 2 and I – 3).

I.2 The payments adjustments world-wide are progressing slo

A reduction in the current external deficit of the United St: and the surplus of Japan is under way, although rather slo\ The surplus of the Community is falling significantly, while t of Germany remains high.

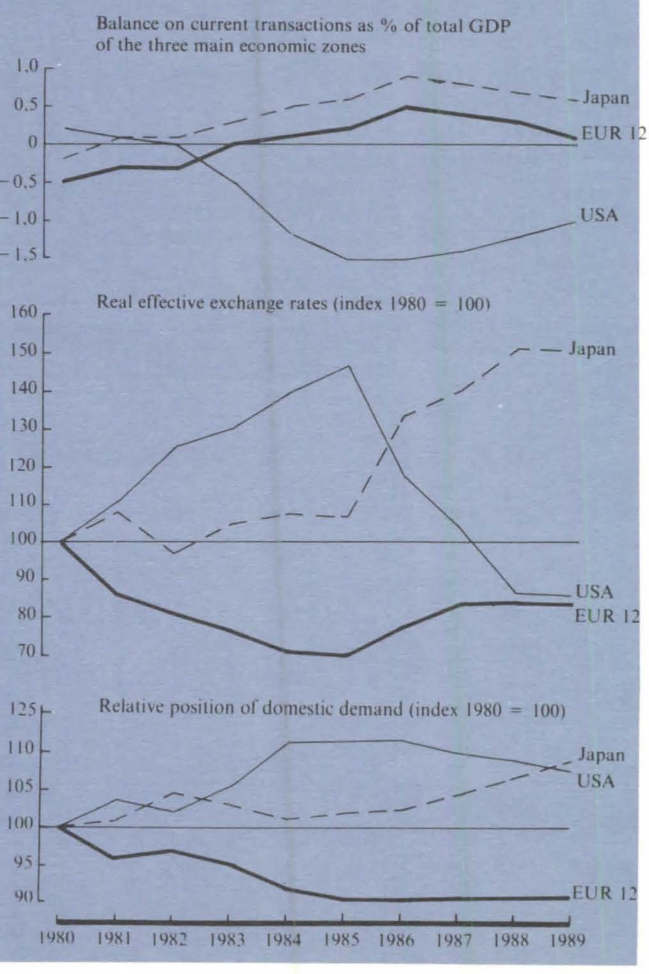
TABLE 2: **Balance of current transactions**

a) in USD bn

	84	85	86	87	88*	89*
EUR 12	7,8	18,4	50,4	44,2	30,1	17,4
– D	8,1	15,2	37,2	43,6	40,8	39,8
USA	– 107,0	– 116,4	– 141,4	– 160,7	– 142,9	– 126,4
Japan	35,0	49,2	85,8	86,6	84,1	79,8
b) as % of GDP						
EUR 12	0,3	0,7	1,5	1,0	0,6	0,3
– D	1,3	2,4	4,2	3,9	3,3	3,1
USA	– 2,4	– 2,9	– 3,4	– 3,6	– 3,1	– 2,6
Japan	2,8	3,7	4,3	3,6	2,9	2,6

* May-June 1988 forecasts.

GRAPH 3: **Current balances and determinants**



But in real terms and as a percentage of GDP, *the adjustment of the balances of current transactions* at the global level is more appreciable. The imbalances were at a maximum in 1986. In 1989 current balances should have a structure similar to that of 1984, which, it is true, was one of severe imbalance. But, *the accumulated external debt of the United States* now makes it more difficult to solve the current deficit of that country. Net interest payments (excluding direct investment), which were in surplus until 1984, have already significantly deteriorated: from − 1 billion dollars in 1985 to − 20 billion in 1987. This deterioration has thus contributed almost half to the total deterioration in the current balance between 1985 and 1987.

The task by which the balances of payments can be brought back to equilibrium at a satisfactory level of growth is very difficult. The reduction in the trade deficit must be sufficiently rapid *to stabilize expectations on the financial and foreign exchange markets,* but *gradual* enough to avoid violent adjustments in the rest of the world.

In this respect, it is particularly important that the American economy can maintain a non-inflationary growth path. This will only be possible if *the budget deficit* can be reduced in parallel with the *external deficit.* An increase in the budget deficit, foreseeable in 1988, or even too slow a reduction, in relation to the external deficit would increase the risk of inflation and would make the task of monetary policy more difficult. If the budget deficit were reduced too quickly, net exports would not be sufficient to make up for the shortfall in domestic demand so as to ensure continued growth.

The necessary efforts in the United States *to control domestic demand* and to *increase net exports* need to be complemented by *symmetric adjustments in the other industrialized economies.* Graph 3 shows that the adjustment in the relative positions of domestic demand is already progressing well, especially between Japan and the United States. But it also appears that the accumulated imbalances of the first half of the 1980s can only be reduced over the medium term. It is all the more important, therefore, that in surplus countries other economic policies should continue to produce additional scope for the maintenance of domestic growth.

The stabilization of *the dollar exchange rate* also remains an essential element of an orderly adjustment process.

a) An *appreciation* of the dollar, which has already increased in value by 11 % against the DM since its lowest point at the end of December 1987, would call into question the adjustment efforts already made.

b) *depreciation* of this currency would certainly permit an accelerated improvement in the trade balance, but would also be inflationary unless accompanied by a greater reduction in the budget deficit or an increase in net private saving.

TABLE 3: **Money market rates** (3 months, end of period)

	December 1987	January 1988	March 1988	May 1988	June 1988[1]
			Rates		
EMS	6,1	5,7	5,8	5,6	5,8
D	3,5	3,3	3,4	3,5	4,1
USA	5,9	5,8	5,9	6,7	6,7
Japan	3,9	3,9	3,9	3,9	4,0
			Differentials		
USA—EMS	− 0,2	+ 0,1	+ 0,1	+ 1,1	+ 0,9
USA—D	+ 2,4	+ 2,5	+ 2,5	+ 3,2	+ 2,6
USA-Japan	+ 2,0	+ 1,9	+ 2,0	+ 2,8	+ 2,7

[1] As at 24 June 1988.

During the first months of this year the foreign exchange markets were calmer: the current deficit of the United States was largely financed by private capital inflows in place of the massive interventions necessary in 1987 — in volume almost equal to the current deficit of the United States. The progressive increase in the interest rate differential between the United States and its partners has contributed to this as also has the announcement of favourable results for the United States' trade deficit.

I.3 Intra-Community imbalances remain

The contribution by the Community to the international adjustment process is not being shared equally by the different member countries. This reduction is chiefly due to the appearance of deficits in many Community countries. Furthermore, these deficits are tending to increase whereas the current account balances of the surplus countries are hardly falling.

The growth gap in favour of *Spain, Portugal, the United Kingdom* and, to a lesser extent *Italy,* in comparison with their partners largely explains the particular deterioration of the external balances of these countries. This growth gap should narrow in 1989, lowering the Community average. However, the surpluses of *Belgium, the Netherlands, Luxembourg and also Germany,* should only reduce slightly in 1988 and 1989. These last countries have a growth rate which is lower than the Community average. This helps to explain their better external positions.

These developments should be examined at two levels:

a) *Firstly,* taking a medium-term perspective, the current external imbalances in the Community correspond to a certain extent to the *transfer of real resources* which is necessary for the catching-up process of the disadvantaged countries. It must be expected that in the next few years some countries with very low incomes per head will maintain a structural external deficit and others will remain in surplus. In general, the current levels of deficit appear to be sustainable. It will, however, be necessary (i) that they are accompanied by *private capital inflows* attracted by a favourable return; (ii) that they are supported by *sound economic policy management;* (iii) that they generate *additional productive investment.*

b) *Nevertheless,* so long as financial and monetary integration is not complete, there are limits above which excessive divergences between the current account and trade balances are liable to be a source of tension. To reduce these tensions, *stronger growth in the surplus countries is desirable.* This would allow a *convergence towards the higher* growth rates within the Community rather than a convergence towards the lower rates which is happening at the moment.

II. Priorities of economic policy in the Community

II.1 European growth initiative

The outlook for the coming months is *favourable,* but some *disconcerting features* remain:

— The *unemployment rate* remains at an unacceptable level.

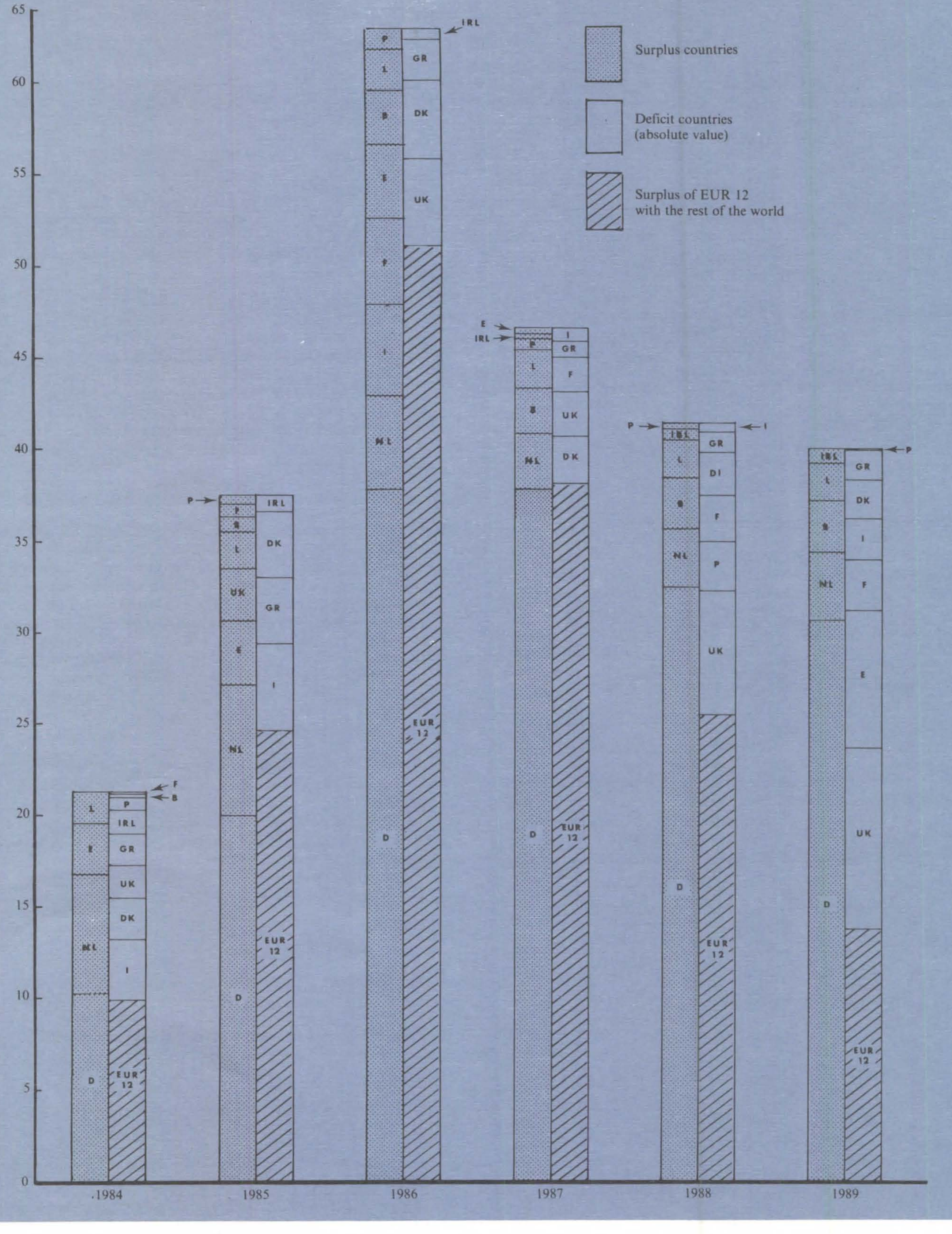
— *Growth* in the Community is the slowest of the three major economic zones.

— Worrying imbalances *in the current balances* in the Community are developing.

— In the medium-term the reduction of the United States trade balance will continue to *restrain growth* in the Community.

To resolve its own internal problems and to help solve those of other countries the Community can only rely on its own forces by developing *a European growth initiative.* To achieve this:

GRAPH 4: **Balance on current transactions with the rest of the world (ECU billion)**



a) *domestic demand* must be the engine of growth,

b) the *Community bases* for growth need to be strengthened,

c) *closer co-ordination of macroeconomic policies* must be achieved.

a) *Domestic demand must be the engine of growth*

The Community can no longer rely, in the coming years, on external impulses to maintain its growth: the net contribution of exports to growth will remain negative; the positive effects of the improvement in the terms of trade in 1986 and 1987 are weakening. Therefore, the simultaneous improvement in supply and demand conditions by the full implementation of the co-operative strategy for growth and employment is still appropriate.

To solve the problem of unemployment, the strengthening of internal demand must come, essentially, from a significant acceleration in *investment*. This implies in particular further increases in profitability which would be even more favourable if financial costs were low. Moderate increases in real wages would contribute to this increase in profitability.

But favourable *demand prospects* are also essential for businesses. In 1986 and also to a lesser extent in 1987, the moderate real wage cost developments were consistent with a rapid increase in private consumption (+4,0 % in 1986 and +3,6 % in 1987 on average in the Community). In fact, personal disposable income benefitted from an improvement in the terms of trade resulting from both a fall in oil prices and an appreciation of European currencies. It is no longer possible to count on these factors. The rate of growth in private consumption, the main component of domestic demand, should therefore weaken and increase by no more than 2 1/2 % in 1989 (compared with 3 1/4 % in 1988).

In this situation, *economic policies* have an important role to play: *structural policies* in controlling inflationary pressures and in allowing a more flexible and faster adaptation of production to demand; *budgetary policy* in fully exploiting whatever scope is available. But, confined to the national level, these possibilities are insufficient. That is why it is important that the Community bases for growth should be strengthened.

b) *Objective 1992: fully exploiting the growth potential of the Community*

(i) *The completion of the internal market* between now and 1992 will permit national barriers and the resulting loss of competitiveness to be overcome. Thereby, possibilities for rationalization exist. If fully exploited, these will lead to substantial productivity gains and to numerous cost and price reductions.

Here the completion of the internal market will *alleviate the constraints* that restrain macro-economic policies: inflationary pressures will be reduced; the productivity gains will improve the external position of the Community; budgetary savings will be realized. By fully exploiting the synergetic effects of more competitive markets, it will be possible to achieve greater growth while preserving both internal and external macro-economic equilibrium.

To fully exploit the completion of the internal market it is important first of all that *its irreversible character*, reaffirmed by the European Council, 27 and 28 June 1988, is made clear by the speed and conviction with which the necessary decisions, outlined in the White Paper, are taken by the Council. Business enterprises must be able to position themselves, without delay, for the coming of 1992. Furthermore, it needs to be accompanied by structural policies in other domains: (i) *a rigorous competition policy*: the positive effects of greater competition should not be diminished by state aids and subsidies. An overall reduction in such aids would increase the efficiency of European industry at the same time as in general improving national budgetary situations. Furthermore, the free access to markets and free movements of goods and services should not be impeded by firms in a dominant market position; (ii) the *research and development effort* and the improvement in the *technological competitiveness* of European firms; (iii) a strengthening of *infrastructure investments of European interest*.

So as to facilitate the structural adjustments and to fully succeed in the objective of the free movement of workers and to strengthen the cohesion of the Community it is necessary to take full account of the *social dimension* of the internal market. *The social dialogue* at a Community level has a particular role to play in this.

Besides the completion of the internal market the Community has available to it additional productivity and growth reserves: *the potential dynamic of the poorer countries*.

(ii) With the doubling of the *structural funds* between now and 1993, completed by the adoption of the Outline Regulation for the reform of structural funds, one condition favourable to the catching-up process of these countries is now fulfilled.

But, at the macro-economic level, it is also necessary to create *the conditions for success in the poorer countries*: this means that the transfer of resources via the structural funds and financial instruments must go hand in hand with an increase in the investment rate and higher growth in potential output. Greater profitability and efficiency of investment in addition to a favourable business environment must contribute to this. On the other hand, the task of the poorer countries would be made easier by the faster growth of their partners. Such growth would ease the external constraint already alleviated by the doubling of the structural funds. In return, faster growth in the poorer countries would give an added impetus to all their partners.

(iii) *The challenge* is to translate *the productivity gains* which will result from the completion of the internal market and the catching-up process of the poorer countries into *increased growth*. This is *necessary* because the structural adjustments will be made easier and better accepted in the context of strong growth. And this is *possible* on condition that *the third growth reserve* available to the Community is progressively mobilized: the underemployment of the labour force, in particular, the unemployed - as it was possible in the post-war period to transform surplus jobs in agriculture, with low marginal productivity, into higher productivity jobs in other sectors. But, to rise to this challenge, macro-economic policies designed to achieve higher and non-inflationary growth, are also necessary.

c) *Improving the co-ordination of economic policies and progressing towards Economic and Monetary Union*

The completion of the internal market and the complete liberalisation of capital movements are increasing the degree of economic, financial and monetary integration and the interdependence of the European economies. Stable exchange rates are necessary for the realisation of a fully integrated market. This must go along with converging performances and compatible policies. Closer co-ordination on the means and objectives of all macro-economic policies is necessary and will require additional efforts within the Community.

Furthermore, the European Council of Hannover confirmed the objective of a progressive realization of Economic and Monetary Union. To that end they decided to entrust to a committee presided over by Mr. Jacques Delors, President of the Commission, the task of studying and proposing concrete stages leading towards this Union.

II.2 Macro-economic policies in 1988 and 1989

a) *Monetary policy*

During recent years, exchange rate problems dominated the conduct of monetary policies in the Community. In 1987, interventions led to large increases in official reserves in both the Community and the world at large. After the stock market crisis, short-term interest rates reduced significantly in the Community and Japan; this contributed to the stabilization of the dollar. Monetary expansion was strong, sharply in excess of nominal GDP. This can partly be explained by interventions and lower interest rates and partly by an increase in the demand for money due to lower inflationary expectations and financial innovations. The quantitative monetary targets were exceeded in a number of countries, notably in Germany. By this expansive orientation of monetary policy, demand was accommodated in the *short-term*, if not sustained.

But the gap between long-term interest rates (largely determined by market forces) and short-term rates (more directly influenced by central banks), known as *the yield curve*, has widened in recent months. Two main factors can be put forward to explain

TABLE 4: **Monetary policy indicators**

	Apr. 1987	Sept. 1987	Apr. 1988
Short-term rates	8,7	9,1	7,8
Nominal long-term rates	8,8	10,1	9,3
Diff. long/short-term (yield curve)	+ 0,1	+ 1,0	+ 1,5

	1985	1986	1987	1988	1989
Money supply M2/M3[1] (avg. EUR 12, ann. % change)	9,8	9,8	11,0	9,9	7,9
Liquidity ratio[2] (avg. EUR 12, ann. % change)	1,7	1,5	1,1	3,5	2,6
Change in official reserves in the world[3]	45,8	66,8	205,0	—	—
— EUR 12	13,0	27,4	95,6		
— D	4,1	7,4	26,9	—	—

[1] End of period
[2] Average money supply (M2/M3) above nominal GDP.
[3] Bn dollars, excluding eastern block countries — *Source*: BIS.

this resistance to lower long-term rates: a high level of demand for long-term capital in the Community, so long as the financing of the external deficit of the United States is a significant source of pressure on world capital markets; continuing high inflationary expectations.

However, taking a *longer-term* perspective the fast monetary expansion is worrying. Monetary policy in fact cannot simultaneously have as its objective the stabilization of exchange rates, a maintenance of demand and the control of inflation. To reduce inflationary expectations further, it is essential that monetary policy concerns itself in a credible and durable way with the objective of securing stability.

The recent strengthening of the dollar on the foreign exchanges if it lasts, should reduce the current conflict between the control of monetary expansion and the exchange rate objectives. Already, this strenghtening has created some tensions in the Community money markets and the Bundesbank, at the beginning of June, increased one of its leading rates by 1/4 of a point. This risks putting a break on convergence towards lower interest rates, notably between the countries participating in the EMS exchange rate mechanism. However, part of the liquidity created in recent months could be absorbed by interventions designed to stabilize exchange rates in the spirit of the Louvre accord. This would strenghten the credibility of monetary policies and would create a solid base for further reductions in long-term interest rates, desirable for the support of private investment and for easing budgetary problems.

b) *Budgetary policy*

The direction of *budgetary policy* should be examined under two aspects:

In the medium term, while striving for or maintaining sustainable public debt positions, the efficiency of budgetary action should be increased. In this respect, a reduction in taxation, a strengthening of economically profitable public investment and the reduction of unproductive subsidies, where the impact on budget deficits would be neutral, are priority objectives.

In recent years, progress towards such a qualitative and quantitative improvement in the position of public finances in the Community as a whole has been modest. On average in the Community:

— *The budget deficit* fell from 5,3 % of GDP in 1983 to 4,1 % in 1987. Public debt has increased by almost 20 percentage points more than GDP in this period.

— The share of *government receipts in GDP* and also taxes and social security contributions increased between 1983 and 1987.

— The share of *public investment in GDP* has remained almost constant.

A slight increase in the share of public receipts in GDP, and stability in the share of public investment: trends in recent years show that budgetary policy did not strengthen the internal determinants of growth in the Community as a whole.

In neither 1988 nor 1989, according to current forecasts and stated policies, budgetary policy will not be supportive of growth: the average budget deficit in the Community should decrease slightly; the burden of taxation is not expected to decrease nor is the share of public investment in GDP expected to rise. The trend of public debt in the Community remains a concern.

TABLE 5: **Budgetary policy[1] indicators (EUR 12), as % GDP**

	1983	1986	1987	1988*	1989*
Taxes and soc. sec. receipts	39,6	39,8	40,2	40,3	40,3
Other public receipts	3,8	3,9	3,5	3,4	3,4
Total receipts	**43,4**	**43,6**	**43,8**	**43,7**	**43,6**
Current expenditure	45,0	44,7	44,4	44,2	44,0
Gross capital formation	2,9	2,8	2,8	2,8	2,8
Other capital expenditure	0,9	0,9	0,8	0,8	0,7
Total expenditure	**48,7**	**48,4**	**47,9**	**47,8**	**47,6**
Net lending	− 5,3	− 4,8	− 4,1	− 4,1	− 3,9
Debt/GDP[2] (% change p.a.)	7,1	1,8	3,3	3,3	2,6

* Forecast of the Commission services of May-June 1988.
[1] General government. ESA definition which includes social security funds.
[2] Gross public debt as a percentage of GDP. See Table 6.

In these conditions, adjustments to budgetary policies seem desirable. These adjustments could have a twin objective:

— *to strengthen the internal determinants of growth.* The restructuring of expenditure and receipts could contribute to this objective even in those countries where a reduction in the budget deficit is an absolute priority.

— *to reduce the tensions* which could arise from the current account imbalances within the Community. In this respect, a more contrasting development in budget deficits between those countries with external surpluses on the one hand and those with deficits on the other, appears desirable.

TABLE 6: **Gross Public debt[1] in Community countries as % of GDP**

	1973	1981	1983	1985	1986	1987	1988*	1989*
B	63,2	87,7	105,0	117,2	120,1	124,8	128,5	132,4
DK	5,0	43,7	62,6	65,7	59,8	58,4	57,1	55,7
D	18,6	36,3	40,9	42,5	42,6	43,7	45,8	48,0
GR	19,5	34,3	44,3	62,6	64,6	67,3	70,1	73,6
E	12,8	22,7	34,5	46,4	47,4	48,8	50,3	51,1
F	22,7	23,9	29,5	33,8	35,1	36,7	38,0	39,2
IRL	60,1	89,8	107,4	117,9	133,3	133,5	136,7	139,1
I	52,1	54,7	75,0	84,6	87,9	93,4	98,4	103,5
L	20,4	14,4	14,8	14,4	14,7	15,0	15,0	15,0
NL	43,4	50,3	61,9	69,9	73,4	79,0	84,3	88,0
P	—	47,5	56,2	60,1	64,0	66,6	71,0	76,5
UK	63,3	50,9	57,5	57,5	56,1	54,2	52,8	50,4
EUR 12	**36,9[2]**	**43,2**	**51,5**	**56,9**	**57,9**	**59,8**	**61,8**	**63,4**

* Forecasts May-June 1988

1 General government; for Belgium and the Netherlands: excludes social security funds; for Greece and Ireland: central government only.

2 Excludes Greece.

Source: Commission services.

TABLE 7: **Net government lending (+) or borrowing (−)[1] as % of GDP**

	1973	1981	1983	1985	1986	1987	1988*	1989*
B	−3,3	−12,7	−11,2	−8,3	−8,9	−7,2	−7,0	−6,5
DK	5,2	−6,9	−7,2	−2,0	3,1	2,1	1,3	1,2
D	1,2	−3,7	−2,5	−1,2	−1,2	−1,7	−2,6	−2,1
GR	—	−11,0	−8,3	−13,6	−10,8	−10,3	−11,8	−13,1
E	1,1	−3,9	−4,8	−7,0	−5,7	−3,6	−3,4	−3,2
F	0,9	−1,9	−3,2	−2,9	−2,9	−2,5	−2,4	−2,1
IRL	—	−13,4	−11,7	−11,3	−10,9	−8,5	−6,7	−5,7
I	−6,1	−11,5	−10,7	−12,3	−11,4	−10,5	−10,0	−10,4
L	3,3	−3,6	1,6	5,5	7,0	5,6	6,0	5,5
NL	0,8	−5,5	−6,4	−4,8	−5,6	−5,1	−5,2	−5,1
P	—	−9,5	−9,1	−10,0	−7,4	−8,1	−7,9	−7,8
UK	−2,7	−2,5	−3,4	−2,9	−2,7	−1,4	−0,7	−0,7
EUR 12	**−1,1[2]**	**−5,3**	**−5,3**	**−5,2**	**−4,8**	**−4,1**	**−4,1**	**−4,0**

* Forecasts May-June 1988

1 ESA definition of general government which includes social security funds.

2 Excludes Greece, Ireland and Portugal.

Source: Commission services.

TABLE 8: **Share of selected categories of total government receipts as % of GDP**

	1983	1987	1988*	1989*	1983	1987	1988*	1989*	1983	1987	1988*	1989*	1983	1987	1988*	1989*
	Indirect Taxes				Direct Taxes				Soc. Security Contr. Received				Other Receipts			
B	12,1	11,4	11,4	11,3	18,6	18,2	18,0	17,9	13,2	14,7	14,6	14,6	2,2	1,8	1,8	1,8
DK	17,8	19,6	19,5	19,5	26,6	30,1	31,3	31,6	2,9	2,9	1,9	1,6	7,0	7,4	7,8	7,9
D	12,8	12,2	12,2	12,4	12,0	12,2	12,0	12,3	17,3	17,4	17,5	17,4	3,7	3,2	2,7	3,0
GR	15,1	17,4	17,4	17,4	5,5	6,5	7,0	6,9	10,9	11,9	11,9	12,0	1,7	2,1	1,6	1,6
E	8.5	11,1	11,4	11,5	7,9	10,3	10,5	10,7	13,7	12,9	12,8	13,0	3,9	3,8	3,9	3,9
F	14,6	14,7	14,6	14,6	8,9	9,5	9,2	9,0	20,7	20,9	21,0	21,2	4,0	4,2	4,1	4,1
IRL	17,6	16,8	16,5	16,3	13,9	16,1	15,6	15,1	5,8	5,6	5,7	5,7	5,1	4,6	4,6	4,6
I	9,2	9,5	10,0	9,9	12,4	13,3	13,6	13,7	14,1	13,9	13,7	13,5	2,4	2,9	2,9	2,8
L	16,0	16,2	16,3	16,4	20,1	20,0	20,5	19,5	14,6	14,4	14,5	14,7	6,6	5,8	6,0	5,9
NL	11,6	12,9	13,0	12,9	13,6	14,0	14,0	14,3	21,9	20,6	20,4	18,8	8,5	6,4	5,9	5,8
P	15,6	15,6	15,6	15,6	8,5	5,7	5,6	5,7	10,0	11,2	11,1	11,0	3,0	2,7	3,0	2,8
UK	16,4	16,7	16,6	16,5	14,4	13,7	13,7	13,5	6,9	7,0	7,0	7,0	4,1	3,2	2,9	2,7
EUR 12	**12,9**	**13,2**	**13,3**	**13,3**	**12,0**	**12,4**	**12,4**	**12,5**	**14,7**	**14,6**	**14,6**	**14,5**	**3,8**	**3,5**	**3,4**	**3,4**

* Forecasts May-June

Source: Commission services

TABLE 9: **Share of selected categories of total government expenditure as % of GDP**

	1983	1987	1988*	1989*	1983	1987	1988*	1989*	1983	1987	1988*	1989*	1983	1987	1988*	1989*	1983	1987	1988*	1989*
	Current Transferts				Govt. Consumption				Interest Payments				Public Investment				Oth. net capital exp.			
B	26,2	23,8	23,6	23,4	18,1	16,6	16,3	16,0	9,4	10,6	10,6	10,6	3,0	1,9	1,7	1,7	0,6	0,5	0,5	0,4
DK	22,9	21,8	23,1	23,7	27,4	25,4	26,0	25,8	8,1	8,3	7,7	7,5	2,3	2,1	2,2	2,1	0,9	0,2	0,3	0,3
D	21,3	20,5	20,9	21,1	20,1	19,7	19,7	19,6	3,0	2,9	2,9	2,8	2,5	2,4	2,4	2,4	1,5	1,2	1,2	1,2
GR	15,3	17,5	17,8	18,1	18,8	19,5	20,3	20,8	3,7	6,6	7,4	7,8	3,3	3,4	3,5	3,4	0,3	1,1	0,8	0,8
E	18,8	18,3	18,4	18,5	13,9	14,4	14,6	14,8	1,3	3,6	3,5	3,4	2,8	3,6	3,6	3,7	2,0	1,7	1,8	1,8
F	25,8	26,5	26,1	25,7	19,5	19,0	18,8	18,7	2,6	2,8	2,9	2,9	3,3	3,4	3,4	3,4	0,3	0,1	0,1	0,1
IRL	20,1	19,7	19,0	18,4	19,6	18,7	17,9	17,3	9,4	9,9	9,9	9,8	4,4	2,6	2,0	1,7	0,7	0,8	0,3	0,2
I	21,0	20,4	20,4	20,3	16,3	16,7	16,5	16,6	7,6	8,2	8,4	8,7	3,7	3,5	3,5	3,6	0,1	1,3	1,3	1,3
L	30,1	27,1	27,5	27,2	16,2	16,5	16,5	16,7	1,1	1,4	1,3	1,1	6,0	5,0	5,0	5,0	2,3	0,9	1,0	0,9
NL	33,9	33,0	32,9	32,2	17,5	16,0	15,6	15,2	5,7	6,1	6,2	6,3	2,7	2,2	2,2	2,2	2,3	1,7	1,5	1,2
P	20,4	16,8	16,7	16,5	14,5	14,3	14,3	14,2	6,4	8,1	8,2	7,9	3,1	2,7	2,7	2,9	1,8	1,4	1,4	1,2
UK	15,9	15,1	14,6	14,2	21,9	20,8	20,9	20,9	4,7	4,3	4,0	3,7	2,0	1,7	1,8	1,9	0,7	0,0	−0,2	−0,1
EUR 12	**21,6**	**21,0**	**20,9**	**20,8**	**18,9**	**18,5**	**18,4**	**18,4**	**4,4**	**4,8**	**4,8**	**4,8**	**2,9**	**2,8**	**2,8**	**2,8**	**0,9**	**0,8**	**0,8**	**0,7**

* Forecasts May-June 1988.

Source: Commission services.

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

	1983	1984	1985	1986	1987	1987 I	1987 II	1987 III	1987 IV	1988 I	1987 Oct.	1987 Nov.	1987 Dec.	1988 Jan.	1988 Feb.	1988 March	1988 April	Change over 12 months %(b)
B	2,0	2,5	2,5	0,8	1,1	0,3	2,6	−1,0	0,4	:	3,0	−3,5	−0,9	9,2	−7,1	:	:	−0,8
DK	3,2	9,7	4,2	4,2	−3,1	−3,0	−1,6	0,9	0,4	0,6	−4,4	4,4	4,3	−6,1	3,2	1,8	−3,8	−2,5
D	0,7	3,2	5,3	1,9	0,2	−0,5	1,3	0,3	0,7	1,1	0,6	0,2	−0,3	−0,3	1,3	0,6	0,4	1,0
GR	−0,1	1,6	3,4	−0,2	−1,7	−1,2	−1,3	−0,3	2,4	5,3	−3,2	4,1	2,8	0,7	1,8	0,4	:	8,1
E	2,7	0,8	2,0	3,1	5,0	−0,6	2,6	2,3	0,6	−0,7	−1,2	3,1	−2,8	−4,5	5,3	3,7	−4,2	4,8
F	0,0	2,0	1,0	1,0	2,0	−0,3	2,3	0,6	1,0	0,6	0,0	0,0	1,0	0,0	0,0	0,0	−0,9	0,9
IRL	7,9	9,9	3,5	3,2	9,7	−0,5	8,8	0,4	4,1	2,8	3,3	2,8	−5,6	9,0	−4,5	0,6	:	12,7
I	−3,2	3,4	1,2	2,8	3,9	−0,4	1,8	−0,8	2,2	2,4	2,5	−0,7	−0,5	5,1	−2,6	−1,1	4,3	−2,4
L	5,4	13,3	6,9	2,8	0,8	−1,3	3,8	−2,1	5,7	:	6,8	−6,0	7,4	1,7	−0,7	:	:	10,7
NL	3,2	4,1	3,9	0,0	0,9	3,5	−3,4	−0,6	2,5	−2,2	3,9	3,7	−5,4	1,0	−0,9	0,0	−1,0	0,0
P	1,6	−0,1	10,9	5,7	2,4	−3,6	4,2	0,6	−1,4	:	−3,9	2,1	1,9	3,7	−1,3	:	:	5,8
UK	3,6	1,4	4,6	1,4	3,1	0,6	0,9	1,5	1,1	−0,8	0,8	0,3	0,2	−0,2	−2,1	1,8	1,5	3,9
EUR 12	0,9	2,3	3,3	1,9	2,0	−0,5	1,5	0,1	1,4	0,4	1,1	0,4	−0,3	0,7	(−0,7)	(0,8)	(0,3)	(3,4)
USA	7,8	12,3	2,1	2,1	4,4	0,9	1,2	1,9	1,8	1,2	1,2	0,4	0,8	0,3	(0,1)	(0,4)	(0,6)	(6,4)
JAP	3,0	9,4	3,7	−0,2	3,0	0,6	0,0	3,6	3,5	3,2	1,6	0,4	1,1	0,6	2,4	0,5	−0,9	(11,6)

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

	1983	1984	1985	1986	1987	1987 I	1987 II	1987 III	1987 IV	1988 I	1987 Nov.	1987 Dec.	1988 Jan.	1988 Feb.	1988 March	1988 April	1988 May	Change over 12 months %(b)
B (g)	14,3	14,4	13,6	12,5	12,2	12,4	12,4	12,2	11,9	11,6	11,9	11,8	11,7	11,6	11,5	11,4	11,2	−8,7
DK	10,1	9,9	8,7	7,5	7,5	7,5	7,5	7,5	7,5	(7,7)	7,5	7,6	7,4	7,7	(8,0)	8,0	8,1	(10,3)
D	8,4	8,4	8,4	8,1	8,1	8,0	8,0	8,1	8,1	8,0	8,1	8,2	8,0	8,0	8,1	8,2	8,2	2,4
GR	1,6	1,8	2,2	2,8	2,9	2,9	2,9	2,9	2,8	2,8	2,7	2,8	2,7	2,8	2,8	2,7	2,7	−7,3
E	16,5	18,4	19,5	20,0	20,7	20,6	20,7	20,7	20,9	20,7	20,8	20,9	20,9	20,7	20,5	20,3	20,3	−0,2
F	8,9	10,0	10,5	10,7	11,2	11,3	11,2	11,2	11,0	10,9	11,0	11,1	11,1	11,1	10,8	10,8	10,8	−3,6
IRL	14,9	16,6	17,9	18,3	19,3	19,0	19,5	19,5	19,2	19,1	19,3	19,2	19,1	19,1	19,1	19,0	18,9	−4,2
I	11,0	12,0	12,9	13,7	13,9	13,9	13,6	14,1	14,2	14,6	14,1	14,4	14,4	14,7	14,8	15,1	15,3	13,0
L	1,6	1,8	1,7	1,5	1,6	1,6	1,7	1,7	1,7	1,7	1,7	1,7	1,7	1,6	1,6	1,6	1,6	−5,9
NL (g)	(14,2)	14,5	13,3	12,3	11,9	12,0	11,8	11,8	11,8	11,8	11,8	11,9	11,8	11,8	11,9	11,9	11,8	−0,9
P	5,6	6,7	7,7	8,3	7,2	8,3	7,3	6,5	6,6	6,9	6,6	6,8	6,9	6,9	6,9	6,8	6,8	−4,9
UK	(11,6)	11,8	12,0	12,0	10,6	11,5	11,0	10,4	9,8	9,3	9,7	9,7	9,4	9,3	9,2	9,0	8,8	−18,7
EUR 12	(10,6)	11,2	11,6	11,7	11,6	11,8	11,6	11,6	11,4	(11,4)	11,4	11,5	11,4	11,4	(11,4)	(11,4)	(11,4)	(−1,6)
USA	9,6	7,5	7,2	7,0	6,2	6,6	6,2	6,0	5,9	5,7	5,9	5,8	5,8	5,7	5,6	5,4	5,6	−10,5
JAP (h)	2,7	2,7	2,6	2,8	2,8	2,9	3,0	2,8	2,7	:	2,7	2,6	2,7	2,7	2,6	2,6	:	12,8

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

	1983	1984	1985	1986	1987	1987 I	1987 II	1987 III	1987 IV	1988 I	1987 Nov.	1987 Dec.	Jan.	Feb.	March	April	1988 May	Change over 12 months %(b)
B	7,7	6,3	4,9	1,3	1,6	0,6	0,7	0,6	−0,3	0,0	−0,3	0,0	−0,1	0,3	0,0	0,4	0,1	1,0
DK	6,9	6,3	4,7	3,6	4,0	0,5	1,6	0,7	1,2	1,2	0,3	0,1	0,4	0,8	0,4	0,4	(0,9)	(4,6)
D	3,3	2,4	2,2	−0,2	0,2	0,6	0,4	0,0	0,0	0,5	0,0	0,2	0,2	0,2	0,1	0,2	0,2	1,1
GR	20,2	18,4	19,3	23,0	16,4	3,2	5,6	0,4	5,4	1,6	0,7	1,2	−0,2	−0,5	3,0	2,0	0,3	12,5
E	12,2	11,2	7,8	8,8	5,3	1,4	0,7	1,3	1,2	1,2	−0,2	0,4	0,6	0,3	0,7	−0,4	−0,1	3,9
F	9,6	7,3	5,9	2,7	3,1	1,2	0,9	0,6	0,5	0,5	0,1	0,1	0,2	0,2	0,3	0,5	0,2	2,5
IRL (i)	10,4	8,6	5,4	3,8	3,1	1,8	0,6	0,6	0,1	0,7	0,0	0,2	0,2	0,2	0,2	0,2	0,2	1,9
I	14,7	10,8	9,2	5,8	4,8	1,4	1,2	1,0	1,7	1,2	0,3	0,2	0,5	0,5	0,4	0,3	0,3	5,0
L	8,7	6,5	4,1	0,3	−0,1	0,2	−0,3	0,1	0,4	0,4	0,2	0,2	0,1	0,1	0,2	0,0	0,1	1,2
NL	2,7	3,2	2,3	0,3	−0,2	−1,3	0,6	0,2	0,8	−0,8	−0,1	−0,2	−0,9	0,2	0,4	0,4	(0,1)	(0,8)
P	25,1	28,9	19,6	11,8	9,3	3,8	1,7	1,0	2,5	3,1	0,4	1,4	0,8	1,4	0,7	0,3	0,3	8,2
UK	4,6	5,0	6,1	3,4	4,1	1,2	1,5	0,2	1,1	0,5	0,5	−0,1	0,0	0,4	0,4	1,6	0,4	4,2
EUR 12	8,6	7,4	6,1	3,6	2,9	0,9	0,8	0,3	0,7	0,6	0,1	0,1	0,2	0,3	0,4	0,6	(0,2)	(2,8)
USA	3,2	4,3	3,6	1,9	3,7	1,1	1,3	1,1	0,9	0,6	0,1	0,0	0,3	0,3	0,4	0,5	0,3	3,9
JAP	1,8	2,4	2,0	0,7	0,0	−0,6	1,3	−0,2	0,2	−0,5	−0,5	−0,1	−0,3	−0,2	0,4	0,5	(0,1)	(0,2)

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

	1983	1984	1985	1986	1987	1987 I	1987 II	1987 III	1987 IV	1988 I	1987 Oct.	1987 Nov.	1987 Dec.	1988 Jan.	1988 Feb.	1988 March	1988 April	Change over 12 months (c)
B/L	−2435	−4897	−3514	146	−580	−108	414	−150	−510	:	−272	−89	−149	(−138)	:	:	:	(−130)
DK	−740	−1108	−1538	−1714	96	72	61	65	5	:	58	−50	−3	:	:	:	:	46
D	18501	24136	32986	53044	56960	14373	13818	14132	14738	13 113	4175	4979	5584	(4950)	(4152)	(4011)	:	(−658)
GR	−5800	−6048	−7266	−5809	−5694	−1661	−1339	−1169	−1257	:	−584	−418	−255	:	:	:	:	−333
E	:	−4711	−5582	−6306	−8749	−2013	−2139	−2324	−2431	−2350	−1198	−700	−533	−736	−684	−931	:	−32
F	−15628	−13130	−13428	−9699	−12473	−2588	−3567	−3095	−3232	(−1745)	−1321	−911	−999	−252	(−974)	(−520)	(−524)	(508)
IRL	−621	81	430	983	2047	338	511	517	670	(640)	232	246	192	272	245	(123)	(229)	(135)
I	−8516	−13849	−16130	−2459	−7427	−1117	−2360	−1643	−1830	:	−930	−225	−675	(−783)	(−370)	:	:	(251)
NL	4499	4740	3874	4161	1088	−470	140	289	664	:	430	163	71	444	−216	:	:	(73)
P	:	−3467	−2735	−1297	−2955	−741	−810	−764	−705	:	−285	−234	−186	−195	−267	:	:	6
UK	−9681	−14005	−11540	−19868	−20890	−3705	−4911	−5714	−6618	−8688	−1976	−2303	−2340	−3014	−3123	−2550	(−2559)	(−1203)
EUR 12 (j)	:	32258	−24444	11161	(−87)	2833	−618	−1204	(−1196)	:	−1994	187	(355)	(−218)	(−1698)	:	:	(−2588)
USA (k)	−77911	−154992	−194856	−169039	148746	−34862	−37149	−41003	35732	:	−15307	−10769	−9656	−9949	−11364	−7896	:	3518
JAP	23072	42599	60497	84010	69636	21512	16544	16184	15396	16861	5766	4287	5343	6228	5325	5308	5 135	−1042

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

		1983	1984	1985	1986	1987	1987 I	1987 II	1987 III	1987 IV	1988 I	1987 Nov.	1987 Dec.	1988 Jan.	1988 Feb.	1988 March	1988 April	1988 May	Change over 12 months %(d)
B	(M2)	8,7	5,9	7,6	11,5	10,5	3,1	3,6	0,6	2,8	2,8	:	:	:	:	:	:	:	9,2
DK	(M2)	25,5	17,8	15,8	8,4	4,4	0,0	3,5	−1,0	1,8	:	−0,3	0,9	−1,2	−0,9	:	:	:	5,2
D	(M3)	5,3	4,7	5,1	6,8	6,0	1,9	1,5	1,1	1,4	2,0	0,6	0,3	1,1	0,6	0,3	0,7	:	6,3
GR	(M3)	20,3	29,4	26,8	19,0	24,8	5,5	5,2	6,2	6,0	7,0	1,4	2,6	1,5	2,7	2,6	0,6	:	24,9
E	(ALP)	15,9	13,2	12,8	11,4	14,0	3,2	3,2	3,3	3,8	2,6	1,2	1,1	1,1	0,6	0,9	1,2	0,8	13,1
F	(M2)	13,7	9,8	6,0	4,1	4,3	1,0	1,6	0,7	1,1	−0,9	0,0	0,0	1,3	−1,5	−0,8	1,3	:	3,3
IRL	(M3)	5,6	10,1	5,3	−1,0	10,9	2,5	4,3	2,9	1,6	2,3	0,8	0,7	−0,3	1,1	1,5	−0,8	2,0	8,4
I	(M2)	13,3	12,1	10,8	9,4	8,3	2,9	3,3	1,4	1,8	0,5	0,5	0,5	−0,3	0,3	0,6	1,1	:	6,8
NL	(M2)	(10,7)	(6,8)	(10,5)	4,5	3,9	1,5	1,8	1,5	1,5	:	1,0	−0,2	0,5	−0,3		:	:	4,8
P	(L)	16,8	24,6	28,9	25,9	(16,8)	5,8	3,5	5,1	(1,5)	:	(2,2)	(−2,0)	(3,5)	(0,3)	:	:	:	16,6
UK	(LM3)	11,1	10,0	13,4	(18,8)	(22,8)	(6,0)	(5,1)	5,0	5,1	4,2	−0,1	1,4	0,6	0,4	3,1	1,5	0,5	20,1
EUR 12 (m)		(11,4)	(9,8)	(9,6)	9,7	(10,1)	2,7	2,8	2,1	2,4	(1,7)	0,4	0,6	0,8	0,1	(0,7)	(1,0)	:	(9,2)
USA	(M2)	11,7	8,2	8,1	9,1	3,4	0,9	0,6	1,3	0,9	2,3	−0,1	0,4	0,8	0,7	0,7	0,8	0,4	4,4
JAP	(M2)	7,3	7,8	8,7	9,2	10,8	1,9	2,6	2,7	3,0	2,7	0,0	0,8	2,8	−0,3	0,2	1,0	:	11,1

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

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

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

	1983	1984	1985	1986	1987	1987 II	1987 III	1987 IV	1988 I	1988 II	1987 Dec.	1988 Jan.	1988 Feb.	1988 March	1988 April	1988 May	1988 June	Change over 12 months % (e)
B	11,8	12,0	10,6	7,9	7,8	7,8	8,3	8,0	7,7	7,8	8,0	7,6	7,4	7,7	7,6	7,9	7,8	0,0
DK	14,4	14,0	11,6	10,5	11,9	11,6	12,3	11,7	11,1	:	11,7	11,0	10,8	11,1	11,5	10,8	:	–0,8
D	7,9	7,8	6,9	5,9	5,8	5,6	6,2	6,0	5,7	6,1	6,0	6,0	5,8	5,7	5,8	6,1	6,1	0,5
GR	18,2	18,5	15,8	15,8	17,3	16,2	17,1	19,1	19,1	:	19,1	20,5	21,7	19,1	19,0	:	:	1,2
E	16,9	16,5	13,4	11,4	12,8	13,2	14,3	13,1	11,8	11,3	13,1	12,5	11,9	11,8	11,4	11,6	11,3	– 1,9
F	13,6	12,5	10,9	8,4	9,4	9,4	10,5	10,0	9,4	8,8	10,0	9,5	9,1	9,4	9,3	9,1	8,8	–0,6
IRL	13,9	14,6	12,7	11,1	11,3	10,9	11,3	10,5	10,1	9,6	10,5	10,6	10,4	10,1	9,7	9,8	9,6	–1,3
I	18,0	15,0	14,3	11,7	11,3	11,1	12,3	12,5	12,1	12,1	12,5	12,0	12,1	12,1	12,1	12,0	12,1	1,0
L	9,8	10,3	9,5	8,7	8,0	8,2	8,1	7,0	7,7	:	7,0	7,5	7,8	7,7	7,3	:	:	–0,8
NL	8,8	8,6	7,3	6,4	6,4	6,3	6,8	6,3	6,0	6,3	6,3	6,3	6,1	6,0	6,0	6,3	6,3	0,0
P	30,4	32,5	25,4	17,9	15,4	15,4	15,9	15,2	14,2	:	15,2	15,0	14,4	14,2	14,4	13,9	:	–1,2
UK	10,8	10,7	10,6	9,8	9,5	9,1	10,0	9,5	9,0	9,6	9,5	9,3	9,2	9,0	9,2	9,3	9,6	0,4
EUR 12 (o)	12,7	11,8	10,9	9,2	9,4	9,2	10,1	9,8	9,3	9,3	9,8	9,5	9,3	9,3	9,3	9,3	9,3	0,1
USA	10,8	12,0	10,8	8,1	8,7	8,6	9,6	9,1	8,6	:	9,1	8,8	8,4	8,6	8,9	9,2	:	0,3
JAP	7,8	7,3	6,5	5,2	5,0	4,6	7,0	5,1	4,4	:	5,1	4,2	4,3	4,4	4,4	4,7	:	1,0

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

	1983	1984	1985	1986	1987	1987 II	1987 III	1987 IV	1988 I	1988 II	1987 Dec.	1988 Jan.	1988 Feb.	1988 March	1988 April	1988 May	1988 June	Change over 12 months % (b)
BFR/LFR	45,43	45,44	44,91	43,80	43,04	43,04	43,07	43,19	43,23	43,44	43,18	43,18	43,20	43,32	43,44	43,44	43,45	1,0
DKR	8,13	8,15	8,02	7,94	7,88	7,82	7,94	7,96	7,92	7,94	7,96	7,93	7,90	7,93	7,97	7,97	7,90	1,1
DM	2,27	2,24	2,23	2,13	2,07	2,08	2,08	2,07	2,07	2,08	2,06	2,07	2,07	2,07	2,08	2,08	2,08	0,1
DR	78,1	88,4	104,8	137,4	156,1	154,4	157,4	161,9	165,2	166,4	163,5	164,6	165,0	165,8	166,3	166,7	166,2	7,0
PTA	127,4	126,5	129,0	137,5	142,2	145,0	140,5	138,4	139,4	137,5	139,8	140,2	139,3	138,8	137,5	137,6	137,4	–4,7
FF	6,77	6,87	6,80	6,80	6,93	6,93	6,92	6,98	6,92	7,03	7,00	6,97	6,98	7,03	7,05	7,04	7,01	1,2
IRL	0,715	0,726	0,715	0,733	0,775	0,776	0,775	0,776	0,776	0,777	0,776	0,777	0,776	0,775	0,777	0,778	0,775	0,0
LIT	1349	1381	1447	1462	1495	1494	1502	1514	1524	1543	1521	1519	1521	1532	1542	1546	1542	2,7
HFL	2,54	2,52	2,51	2,40	2,33	2,34	2,34	2,33	2,32	2,33	2,32	2,32	2,32	2,33	2,33	2,33	2,34	–0,1
ESC	98,2	115,6	130,0	146,9	162,5	161,4	162,8	166,6	169,1	169,7	168,5	168,8	168,8	169,5	169,7	169,8	169,6	4,7
UKL	0,587	0,591	0,589	0,670	0,705	0,700	0,698	0,692	0,687	0,661	0,691	0,694	0,693	0,674	0,661	0,657	0,665	–5,0
USD	0,890	0,788	0,759	0,983	1,154	1,150	1,128	1,213	1,234	1,218	1,264	1,250	1,217	1,234	1,241	1,228	1,184	3,8
YEN	211,3	187,0	180,4	165,0	166,5	164,0	165,8	164,3	157,9	153,0	162,0	159,4	157,2	156,9	155,1	153,2	150,7	–8,6
DTS	0,833	0,767	0,749	0,838	0,892	0,859	0,895	0,889	0,902	0,890	0,889	0,909	0,914	0,900	0,898	0,893	0,879	–0,9

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

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

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) Number of registered unemployed according to national legislation. Annual average, quarterly average and end of month.
(g) Changes in the coverage of these series occurred in 1984 for the Netherlands and in 1985 for Belgium.
(h) As % of total labour force.
(i) Monthly series calculated by linear interpolation.
(j) The seasonally adjusted position for EUR 12 is obtained by seasonal adjustment of the sum of gross figures for the various countries' exports and imports.
(k) Unadjusted figures.
(l) National sources for Belgium, Denmark, Germany, Spain, France, Portugal and the United Kingdom; seasonal adjustment by Eurostat for Greece, Ireland, Italy and the Netherlands.
(m) 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.
(n) 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.
(o) Average weighted by GDP at 1980 prices and purchasing power parities.
(p) 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.
(q) 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 — June 1988

Community (EUR 12)

None.

Belgium (B)

10.6 The central bank cuts the rates for one-and two-month Treasury certificates by 0.10 and 0.05 of a percentage point respectively; they now stand at 6 % and 6.05 %. The rate for three-month certificates remains unchanged at 6.10 %.

24.6 The Government approves a draft law designed to ensure proper disclosure of the acquisition of major shareholdings in listed companies and to regulate take-over bids. This 'anti-raider' bill has two principal sections: the first deals with the obligation to declare the acquisition of a significant proportion of the shares of a listed company; the second lays down the basic rules applicable to take-over bids.

24.6 The Government decides not to extend price controls beyond 30 June 1988. They will be replaced by a system of prior notification of price rises, which will be followed by a ministerial recommendation within two months.

30.6 The central bank increases the discount rate from 6.50 % to 6.75 % and the rate for current account advances from 6.75 % to 7 % with effect from 1 July 1988. This decision is consistent with those taken by the German and Dutch central banks.

Denmark (DK)

16.6 Nationalbanken lowers its short-term facility by 1/4 %-point to 8 3/4 % on borrowing and 8 % on deposits as the DKR has approached the upper threshold within the ERM.

29.6 The Government and the association of local authorities agree on the outline for local budgets in 1989. Current expenditure will remain unchanged and the deposit scheme will be modified. Implementation of the agreed ceilings will be facilitated by increased statutory flexibility on various expenditure categories. The proposed direct cut in local government employment during 1988/89 will be replaced by a restrictive commitment. Planned capital expenditure will be cut by DKR 0,7 billion in 1989. Local taxation should remain unchanged.

30.6 The minority government received parliamentary support for a debt relief scheme, which will enable some 16 500 heavily indebted farmers (17 % of the total number) to refinance some DKR 23 billion of loans raised during 1977 to 1982 at rates close to 20 %. The scheme will be based upon a mixture of index linked bonds and bonds at subsidised interest rates at an estimated annual cost to the Government of some DKR 1,7 billion.

Federal Republic of Germany (D)

23.6 The 1990 tax reform law, leading to a net tax reduction in 1990 of about DM 19 billion, is passed by the Bundestag. Income and corporate tax reductions amounting to DM 37 billion to be partly offset by widening the tax base which will increase tax revenues by DM 18 billion.

30.6 The Bundesbank raises the discount rate by 0,5 points to 3 %. The lombard rate remains unchanged (4,5 %). Central banks of other countries (Netherlands, Austria, Switzerland and Belgium) also raised their rates. After an increase from 3,25 % to 3,5 % on 24 June, the interest rate for the repurchase agreements of the Bundesbank is raised again, from 3,5 % to 3,75 %.

Greece (GR)

None.

Spain (E)

13.6 The Bank of Spain tightens the rules for enterprises' access to loans in foreign currencies. For loans up to a value of PTAS 1 500 million, enterprises must now seek authorisation from the monetary authorities if such loans are to be repaid within a period of three years. Previously, authorization was only required if repayment was to be made within one year.

France (F)

8.6 The level of expenditure provided for in the 1988 budget is raised by FF 4.4 billion compared with the initial forecast. The Government has undertaken to make available an additional FF 800 million over a number of years for subsidized housing (FF 250 million for 1988). The Ministry of Education has been allocated FF 1.2 billion to enable it to prepare for the new school year. The Ministry of Research has been provided with an additional FF 830 million (only FF 400 million of which is entered in the 1988 budget). In addition to these measures concerning education, research and housing, the Government has decided to allocate further appropriations to two other ministries this year: Social Affairs (FF 1.4 billion to boost employment and FF 216 million to combat poverty) and Culture (FF 350 million). All of this new expenditure will have to be covered by savings, since the Minister for Economic Affairs has undertaken not to increase the budget deficit (fixed at FF 115 billion).

13.6 In the instructions sent to all his ministers, the Prime Minister sets the budget deficit for 1989 at FF 100 billion. This is FF 15 billion lower than the anciticipated 1988 deficit.

22.6 As provided for in the Decree of 29 December 1987, the ceiling for social security contributions is raised from FF 9 950 to FF 10 110 per month as from 19 July (an increase of 1.61 %).

29.6 The statutory minimum wage (SMIC) is increased by 1 % as from 1 July. The increase is made up of a 0.8 % purchasing power component and 0.2 % to cover price rises in May. The hourly rate, which has stood at FF 28.48 since 1 June, is therefore to rise to FF 28.76.

Ireland (IRL)

24.6 The Government approves a 15 % salary increase for about 1 000 senior public servants. The increase in salaries will take the form of a 'special' pay settlement outside of the present national wage agreement which restricts all nominal wage increases to 2 1/2 % per annum. The full-year cost to the Exchequer of this special pay increase is estimated to be IRL 5 million and the likely cost in 1988 (IRL 2,8 million) is to be met from existing Budget provisions.

Italy (I)

18.6 The Ministry for External Trade issues a decree authorizing residents to write cheques in Italy or abroad in favour of non-residents and drawn on bank accounts with Italian banks. This is subjet to the following conditions:

— the cheque must indicate the name of the non-resident;

— it should be non-transferable;

— the amount may not exceed LIT 5 million.

The same decree modifies the amount of funds which those travelling abroad may take with them. Tourists may now take with them up to LIT 3 million (including LIT 2.1 million in the form of foreign currency); they may in future use credit cards without restriction and, if necessary, write cheques drawn on their accounts in Italy, provided that the above rules are observed and proof of the expenditure is kept.

Luxembourg (L)

None.

Netherlands (NL)

24.6 The central bank introduces an open market policy and amends the legislation governing banks' cash reserves, which replaces the direct restrictions on lending.

30.6 The central bank increases, with effect from 1 July 1988, the discount rate and the rate for advances by 0.25 of a percentage point, bringing them to 3.50 % and 4 % respectively.

Portugal (P)

None.

United Kingdom (UK)

3.6; 6.6; 22.6; 28.6 On each of these four dates, the authorities prompt a 1/2 % rise in bank base rates. The cumulative 2 % increase brought bank base rates up from 7 1/2 % to 9 1/2 %.

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