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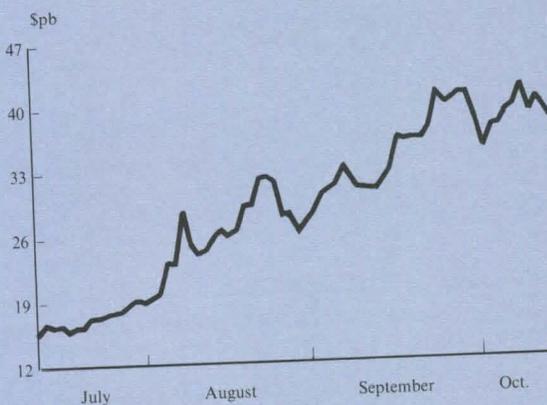


*In this number:
The rise in the price of oil
and its macroeconomic implications*

SUMMARY

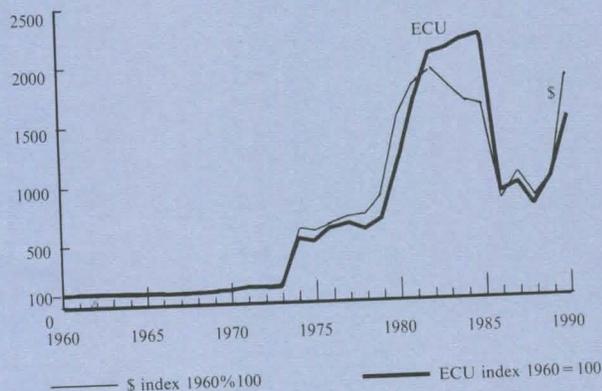
- Since August the world's economies have been faced with a substantial and unexpected rise in the price of oil. If the average spot price per barrel in 1991 were to work out at USD 30 for example, the world's economies would have to cope with a rise of some 60% between 1989 and 1991. In practice, however, the impact on balances of payments and on the Community economies in general depends not only on the nominal price but also on such factors as the movement of the dollar's exchange rate against national currencies, the increase in the price of oil in real terms and the degree of energy dependence.
- If the dollar were to remain in 1991 at its current level of approximately DM 1.55, the rise in the Ecu-denominated price per barrel of imported oil between 1989 and 1991 would be limited to 40% (from ECU 16.0 to ECU 22.5). Furthermore, the current rise in the price of oil applies to an oil bill which, as a proportion of GDP, had returned in 1989 to its 1973 level (1.1% of GDP).
- Under these circumstances, the increase in the oil bill would be significantly less than that experienced at the time of the 1973 and 1979 oil shocks.
- Whatever the actual extent of the rise in the price of oil by 1991, economic policy will have to remain directed towards stability in order to safeguard the bases of future growth, to avoid divergences and, subsequently, to improve the degree of convergence in the Community.

GRAPH 1: Spot quotation of Brent oil in US\$ per barrel
July 12th-Oct. 15th, 1990



Source: Platt's oil database.

GRAPH 2: Oil import price



Source: Energy statistics of the IEA.

Since July, as a result of the OPEC meeting and the subsequent Gulf crisis, the spot price of a barrel of oil has more than doubled, from an average of USD 17.4 in the first half of 1990 to almost USD 40 at the end of September (see Graph 1). Whatever the role of the various factors (expectations, speculation, imbalance between supply and demand) in this surge, it seems unlikely that the price of oil will return in the short term to the level of the past two years (i.e. USD 16.5 per barrel on average).

The world's economies will therefore be faced for the rest of 1990 and in 1991 with an exogenous shock: a substantial and unexpected rise in the price of the principal raw material and source of energy of the Western productive system.

If the average spot price per barrel of oil in 1991 were to work out at USD 30 for example, the world's economies would have to cope with a rise of some 60% in the dollar price between 1989 and 1991. While the spot price is not of course an exact measure of the cost of this raw material for the different economies (which is better reflected in the import price¹), these two indicators have nevertheless been extremely close to each other in the past.

This would therefore mean a significant rise, but one much lower than those of the two oil shocks in the 1970s. After remaining at a relatively constant and low level of around USD 1.80 per barrel between 1960 and 1970,

the price of oil began to increase from 1971, quadrupling between 1973 and 1974 (from USD 2.7 to USD 10.5), tripling between 1978 and 1981 (from USD 13.8 to USD 36.3) on an annual average basis and, finally, fluctuating between USD 15 and USD 20 between the end of 1985 and mid-1990. In absolute terms the rise was a good deal sharper in the second oil shock than in the first, amounting to more than USD 20 per barrel between 1978 and 1981 compared with approximately USD 8 per barrel between 1973 and 1974. If the hypothesis adopted by way of example of USD 30 per barrel on average for 1991 were to prove correct, the current nominal dollar increase, calculated again in absolute terms, would be comparable to that which occurred between 1978 and 1981 (see Table 1), whereas in relative terms it would be significantly less.

In practice, however, the impact on balances of payments and on economies-a function in particular of the trend of the oil bill-depends on a number of factors. Firstly, account has to be taken of movements in the dollar's exchange rate against national currencies and of the trend in the real price of oil, which determine the actual extent of the price effect. Secondly, account has to be taken of changes in the dependence on oil and oil products as expressed by the percentage share of GDP represented by the volume of net imports of oil and oil products, which measures the economies' sensitivity to an increase in price.

1. The impact of changes in the dollar's exchange rate

Graphs 2 and 3 illustrate the movements in the nominal and real import prices of oil from 1960 to 1991 based on the hypothesis, adopted by way of example, that

While between 60 and 70% of imports are transactions based on the spot price of Brent crude, between 30 and 40% are governed by contracts of all kinds (generally longer term contracts) containing price clauses of all types, the aim of which is frequently to smooth out price fluctuations.

TABLE 1: Average oil import price, EUR 12 (Dollars or Ecus per barrel)

	Dollars			Ecus			
	Average import price	Price index 1972 = 100	Annual % changes	Average import price	Price index 1972 = 100	Annual % changes	Real price index* 1972 = 100
1972	2,7	100,0	—	2,4	100,0	—	100,0
1973	2,8	103,7	3,7	2,3	95,8	-4,2	87,6
1974	10,5	388,9	275,0	8,7	361,5	278,1	294,2
1975	11,3	418,5	7,6	9,1	378,4	4,6	271,6
1976	11,8	437,0	4,4	10,6	438,6	16,5	287,6
1977	13,7	507,4	16,1	12,0	499,0	13,2	302,2
1978	13,8	511,1	0,7	10,8	450,1	-10,0	253,7
1979	19,8	733,3	43,5	14,4	600,1	33,3	308,9
1980	32,5	1 203,7	64,1	23,3	970,2	61,8	450,0
1981	36,3	1 344,4	11,7	32,5	1 351,7	39,5	571,8
1982	33,6	1 244,4	-7,4	34,3	1 424,8	5,5	556,3
1983	29,9	1 107,4	-11,0	33,6	1 396,1	-2,0	518,6
1984	29,0	1 074,1	-3,0	36,8	1 527,4	9,5	537,6
1985	27,8	1 029,6	-4,1	36,4	1 513,9	-1,1	508,4
1986	14,4	533,3	-48,2	14,6	608,1	-59,9	197,8
1987	18,1	670,4	25,7	15,6	656,3	6,9	208,2
1988	14,9	553,3	-17,7	12,6	527,9	-19,2	160,5
1989	17,7	655,6	18,8	16,0	680,4	27,0	196,9
1990**	23,7	877,8	33,9	18,9	781,6	18,1	216,7
1991**	30,0	1 111,1	26,6	22,6	944,4	19,6	248,4

* Index of oil price in Ecus deflated by the deflator of Community GDP in Ecus.

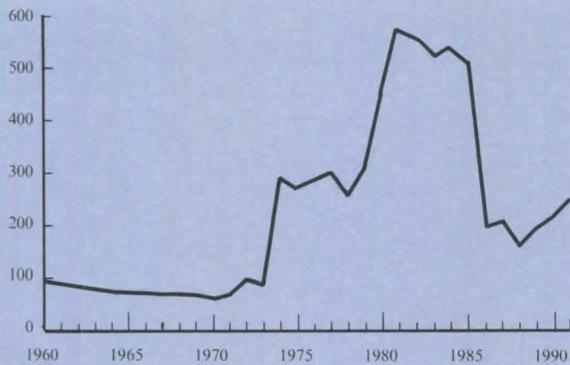
** On the assumption of

i) an average import price of \$23.7 in 1990 and \$30 in 1991;

ii) the dollar remaining until the end of 1991 on the levels of the beginning of October 1990 (1\$ = 1,545 DM and 0,755 Ecus).

Source: Energy statistics of the IEA and national accounts of Eurostat.

**GRAPH 3: Oil Real import price
Ecu index 1972=100 (*)**



* Index of oil price in Ecus deflated by the deflator of Community GDP in Ecus.
Source: Energy statistics of the IEA and national accounts of Eurostat.

the future movement in prices will lead to an average price of USD 24 in 1990 and USD 30 in 1991. For 1990 and 1991, it has been assumed that the increase in the spot price works through fully to the import price.

As Graph 2 shows, the sharp rise in the dollar against the Ecu between 1981 and 1985 not only accentuated the second oil shock for the Community countries but also prevented them from benefiting from the fall in the dollar price of oil from 1982. On the other hand, the dollar's sharp depreciation in 1985 enabled the Community to return in 1986 to an Ecu oil price level which cancelled out the previous rise.

This exchange-rate effect is playing an appreciable cushioning role for the European economies at the

present time too. If the dollar were to remain at October 1990 levels in 1991 (USD 1 = DM 1.55), the rise in the Ecu-denominated price per barrel would be limited to 40% between 1989 and 1991 (from ECU 16.0 to ECU 22.5), as compared with some 70% in dollar terms (from USD 17.7 to USD 30).

2. The trend in the real cost of oil for the Community

Graph 3 shows the trend of the Ecu-denominated oil price index in nominal terms and in real terms, i.e. the nominal oil price index divided by the GDP deflator index in Ecus.

The combination of the trend of the Ecu-denominated nominal price and that of the GDP price deflator brought the real Ecu-denominated cost of oil in 1986 well below the levels reached in 1974. Consequently, if the assumptions made for the nominal price of oil, the dollar/Ecu exchange rate and average inflation in the Community were to turn out correct, the current increase would lead to a real price level below that recorded after the first oil shock. The real price of oil in 1991 would be equivalent to 75% of the 1974 real price and to some 50% of the 1981 real price.

3. The trend of dependence on oil

Apart from the two previous factors, which, generally speaking, have the same impact on all the Community economies, dependence on the use of oil is probably the most important element determining the scale of the effects of the exogenous shock represented by a rise in the price of this source of energy. The degree of energy dependence, and more particularly dependence on oil products, and its trend are determined by the changes in national productive industries, the energy conservation policies implemented and the energy resources used.

TABLE 2: Energy intensity (*)

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR 12	USA	J
Volume of primary energy requirements per unit of GDP at 1985 prices															
1970	100,3	109,2	102,0	89,7	94,8	99,3	99,0	94,6	107,2	90,8	101,4	103,1	99,8	101,1	101,3
1975	88,8	88,2	93,6	103,1	107,4	92,5	86,2	92,6	84,3	92,9	106,6	90,7	92,7	96,2	97,5
1980	83,0	84,5	90,4	110,1	116,4	92,3	84,8	82,1	70,8	89,3	108,2	82,5	88,3	89,2	85,3
1985	74,7	74,5	83,5	118,9	112,8	87,8	79,2	74,3	55,1	80,0	115,7	75,4	81,7	76,0	72,5
1989	69,0	70,0	74,7	123,7	110,2	83,4	75,5	73,6	51,6	76,2	126,3	67,4	76,4	71,9	69,7
Volume of total requirement on oil and oil products per unit of GDP at 1985 prices															
1970	98,1	105,0	98,2	87,8	96,3	90,0	89,5	92,2	98,8	103,7	91,8	96,5	95,6	97,2	95,1
1975	78,4	81,9	86,6	98,7	121,3	87,8	90,2	87,7	85,1	75,8	116,7	80,3	86,9	96,7	95,6
1980	68,8	62,1	77,1	108,4	130,0	77,4	79,7	74,7	64,1	79,2	118,9	64,7	77,4	85,0	77,0
1985	49,6	44,8	62,2	99,5	95,3	55,4	52,6	59,6	54,4	53,8	118,0	56,0	60,4	67,5	54,6
1990	47,7	35,6	53,6	99,6	97,7	50,8	44,2	58,7	65,1	54,2	136,2	50,9	56,4	64,1	54,2
Volume of net imports of oil and oil products per unit of GDP at 1985 prices															
1970	100,6	107,5	98,1	91,9	95,0	92,5	73,7	95,2	99,0	100,8	94,3	101,0	97,3	76,3	96,7
1975	80,8	83,5	86,6	87,2	106,3	83,1	74,1	82,6	85,5	75,5	108,9	78,1	83,7	131,8	96,4
1980	70,4	59,3	80,1	116,9	117,7	78,1	66,5	72,0	64,1	77,6	118,3	1,5	66,7	121,0	76,8
1985	50,2	33,3	61,4	87,2	87,9	51,9	42,2	56,9	55,4	48,4	104,0	-36,3	41,7	72,2	53,1
1989	53,2	15,1	53,2	98,2	94,0	48,6	36,1	53,3	64,7	53,2	128,8	-5,7	44,4	100,4	52,6

* 1000 TOE per BN PPS; 1972 = 100.

Source: Energy statistics of the IEA and national accounts of Eurostat.

TABLE 3: Net imports of oil and oil products; Ecu billions*

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR 11	EUR 12	USA	J
1972	0,5	0,3	2,3	0,1	0,6	1,9	0,1	1,6	0,0	0,7	0,1	1,8	8,2	10,1	3,8	3,9
1973	0,5	0,3	2,3	0,2	0,7	2,1	0,1	1,7	0,0	0,7	0,1	1,8	8,6	10,5	4,8	4,3
1974	1,8	1,1	8,2	0,7	2,7	8,0	0,3	6,3	0,1	2,3	0,4	7,0	31,9	38,9	17,9	16,9
1975	1,6	1,1	7,8	0,5	2,7	6,6	0,3	5,7	0,1	2,1	0,4	5,8	29,0	34,7	19,7	16,0
1976	2,0	1,2	10,2	0,9	3,6	9,0	0,4	7,3	0,1	2,9	0,6	6,1	38,1	44,2	27,4	19,3
1977	2,3	1,4	12,1	0,8	3,9	9,6	0,5	8,1	0,1	3,1	0,6	4,6	42,6	47,2	42,0	22,4
1978	2,1	1,3	11,1	0,9	4,1	8,6	0,5	7,4	0,1	2,9	0,6	3,3	39,6	42,8	33,8	20,0
1979	2,8	1,6	15,7	1,1	4,7	11,8	0,7	9,7	0,1	4,2	0,9	1,8	53,2	55,1	46,2	26,7
1980	4,0	2,3	22,8	2,1	8,1	18,1	1,0	16,0	0,2	6,3	1,5	0,3	82,4	82,7	56,2	41,7
1981	4,6	2,5	25,9	2,8	11,1	21,9	1,2	21,5	0,2	7,2	2,0	-4,1	101,0	96,9	65,8	50,1
1982	5,3	2,4	18,2	2,6	10,2	22,5	1,1	21,7	0,3	6,8	2,3	-7,0	93,2	86,2	55,2	52,4
1983	4,7	2,1	24,8	2,4	9,9	20,6	1,0	19,7	0,2	6,2	2,3	-10,5	93,9	83,4	52,8	50,9
1984	4,9	2,2	27,7	2,6	10,2	22,4	1,1	21,9	0,3	6,6	2,6	-10,2	102,4	92,2	63,5	58,0
1985	4,9	2,2	27,9	2,7	10,0	21,0	1,1	21,2	0,3	6,3	2,2	-13,0	99,9	86,9	56,5	54,0
1986	2,4	0,9	12,6	1,1	3,9	8,6	0,5	8,3	0,1	3,1	1,0	-5,1	42,6	37,5	29,8	24,6
1987	2,4	0,7	12,6	1,3	4,7	9,4	0,5	9,7	0,1	2,8	1,1	-5,4	45,5	40,0	33,2	23,6
1988	2,0	0,5	10,3	1,1	4,0	7,6	0,4	7,6	0,1	2,7	0,9	-3,3	37,1	33,8	29,0	21,0
1989	2,6	0,4	12,2	1,4	5,6	9,6	0,5	10,0	0,2	3,4	1,4	-1,0	47,3	46,3	40,9	26,4

EUR 11: EUR 12 excl. UK.

* The value of imports is obtained by multiplying the volumes of imports of oil and oil products expressed in TOE by average crude oil import prices for each country.

Source: Energy statistics of the IEA and national accounts of Eurostat.

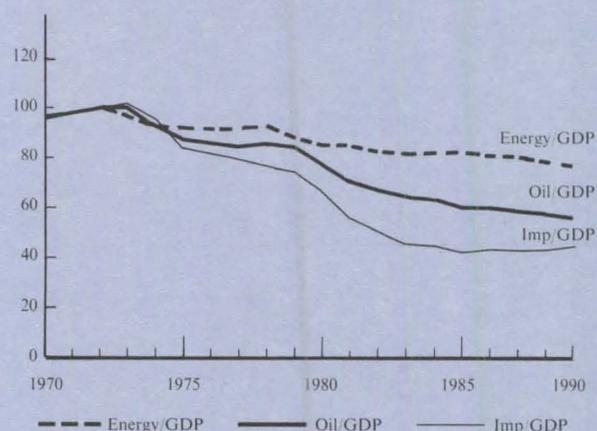
Graph 4 shows particularly clearly the effort made by all the Community countries since the first oil shock to reduce not only overall energy intensity (-24.6% between 1973 and 1989) but also and in particular consumption (-46.3%) and net imports (-55.6%) of oil products.

While the reduction in overall energy dependence is primarily attributable to the energy conservation policies triggered by the rise in the price of oil and to the restructuring of productive industries aimed at incorporating the new technologies, the more marked fall in the consumption of oil and oil products is the result of the exploitation of new sources of energy that the rise in the oil price has made more competitive. However, the even more rapid fall, in the Community countries as a whole, in the ratio of oil and oil product imports to GDP is mainly due to the exploitation of new oil resources in the United Kingdom and Denmark. It should be noted, however, that this ratio has ceased to fall since 1985 and even tended to increase slightly in 1988 and 1989. This can be explained largely by two factors: first of all, the sharp fall in the price of oil in 1986, which called into question the policy of substituting alternative forms of energy for oil and which had the effect in particular of curbing the use of nuclear energy; and secondly, the sharp reduction in the United Kingdom's oil surplus due, on the one hand, to the depletion of North Sea oil reserves and, on the other, to reduced competitiveness following the price fall.

The overall pattern described above must, however, be qualified for individual countries (see Table 2). While overall energy intensity has been reduced to a similar degree in nine Community countries since 1973 (by an average of some -30%), it increased in Spain ($+10\%$) and particularly in Greece ($+23.7\%$) and Portugal ($+26\%$) owing to the transition in those countries to a

productive structure with a greater industrial content. Looking at the consumption of oil and oil products and their net import volume, the Community countries can be divided into three categories. The first category comprises the countries in which production structures have not been transformed as quickly as in others and in which dependence has decreased only slightly or has remained static (Greece and Spain) or has even increased (Portugal). The second category consists of countries in which the restructuring process has taken place but which possess very little or no exploited oil resources and in which the new technologies have led to a reduction of some 50% in consumption of oil and oil products and in net imports of those same products (Belgium, the Federal

GRAPH 4: Energy intensity EUR 12
1972 = 100



Source: Energy statistics of the IEA and national accounts of Eurostat.

TABLE 4: Net imports of oil and oil products; % of current GDP*

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR 11	EUR 12	USA	J
1972	1,6	1,7	1,0	1,2	1,2	1,1	2,0	1,4	1,9	1,5	1,3	1,3	1,2	1,2	0,4	1,4
1973	1,4	1,3	0,8	1,4	1,1	1,0	1,6	1,3	1,7	1,3	1,1	1,3	1,1	1,1	0,4	1,3
1974	4,1	4,1	2,6	4,3	3,6	3,5	5,8	4,1	4,5	3,7	3,8	4,3	3,4	3,5	1,5	4,3
1975	3,3	3,5	2,3	3,1	3,1	2,4	4,9	3,4	4,5	2,9	3,6	3,1	2,7	2,3	1,5	3,9
1976	3,3	3,2	2,6	4,3	3,7	2,8	5,3	3,9	4,6	3,4	4,0	3,1	3,1	3,1	1,7	3,8
1977	3,3	3,5	2,7	3,7	3,7	2,8	5,7	3,8	4,9	3,2	4,4	2,1	3,1	3,0	2,4	3,7
1978	2,9	2,8	2,2	3,5	3,6	2,3	4,6	3,1	4,0	1,7	4,0	1,3	2,6	2,4	1,9	2,6
1979	3,5	3,3	2,8	3,9	3,3	2,8	5,5	3,6	4,2	3,7	6,2	0,6	3,1	2,8	2,6	3,6
1980	4,7	4,7	3,9	7,5	5,3	3,8	6,9	4,9	5,2	5,1	8,6	0,1	4,4	3,7	2,9	5,5
1981	5,3	4,8	4,2	8,5	6,7	4,2	7,1	5,9	6,6	5,7	8,9	-0,9	5,0	3,9	2,4	4,8
1982	6,2	4,1	2,7	6,6	5,6	4,0	5,7	5,3	7,2	4,8	9,8	-1,4	4,2	3,2	1,7	4,7
1983	5,2	3,3	3,4	6,1	5,7	3,5	4,8	4,2	6,2	4,1	9,7	-2,0	4,0	2,9	1,4	3,8
1984	5,0	3,2	3,5	6,1	5,1	3,5	4,9	4,2	6,1	4,2	10,6	-1,9	4,0	3,0	1,3	3,6
1985	4,7	2,9	3,4	6,3	4,6	3,0	4,4	3,8	6,1	3,8	8,2	-2,2	3,6	2,6	1,1	3,1
1986	2,1	1,0	1,4	2,9	1,7	1,2	2,1	1,4	2,4	1,7	3,3	-0,9	1,4	1,1	0,7	1,2
1987	2,0	0,8	1,3	3,2	1,9	1,2	1,9	1,5	2,8	1,5	3,4	-0,9	1,4	1,1	0,9	1,1
1988	1,6	0,5	1,0	2,5	1,4	0,9	1,3	1,1	2,1	1,4	2,4	-0,5	1,1	0,8	0,7	0,9
1989	1,9	0,5	1,1	2,9	1,7	1,1	1,5	1,3	2,8	1,7	3,5	-0,1	1,3	1,1	0,9	1,0

EUR 11: EUR 12 excl. UK.

* The value of imports is obtained by multiplying the volumes of imports of oil and oil products expressed in TOE by average crude oil import prices for each country.

Source: Energy statistics of the IEA and national accounts of Eurostat.

Republic of Germany, France, Italy, Luxembourg and the Netherlands). The third category is made up of those countries which, in addition to restructuring their production sector, have also used their exploitable and exploited oil resources to achieve net exports of oil and oil products (the United Kingdom since 1981) or of alternative energy resources (gas), thereby helping to reduce both dependence on oil products and net imports of such products.

4. The trend in the oil bill

An analysis of the trend of the oil bill in value terms and of its size as a percentage of GDP during the 1973-74 and 1978-81 crises can be used to gauge the magnitude of the current increase. It also confirms the above comments concerning the cushioning role that energy conservation policies, restructuring of productive industries and the exchange rate variable can play.

Under the impact of the first oil shock, the Ecu-denominated import price per barrel virtually quadrupled, and that rise worked through in full to the oil bill, which, for the twelve Community countries, rose from ECU 10.5 billion in 1973 to ECU 38.9 billion in 1974 (see Table 3). By contrast, although this same Ecu-denominated price of oil per barrel more than tripled between 1978 and 1981, the oil bill only slightly more than

doubled (from ECU 42.8 billion to ECU 96.9 billion) owing to the reduced energy dependence on oil and oil products. Subsequently, and thanks to a continuation of that reduction, the oil bill fell despite the fact that, with the dollar appreciating against the European currencies, Ecu-denominated import prices continued to increase.

These facts become even clearer when the oil bill is viewed as a proportion of GDP. As Table 4 shows, the oil bill as a percentage of GDP for the Community as a whole rose from 1.1% in 1973 to 3.5% in 1974, giving an increase of 2.4 percentage points of GDP, whereas it rose from 2.4% in 1978 to only 3.9% in 1981, giving an increase of 1.5 percentage points.

It must be stressed, however, that the United Kingdom began in 1978 to use North Sea oil, which enabled it to reduce its net oil imports very appreciably (from the equivalent of 3.1% of GDP in 1976 to 0.1% in 1980). From 1981, the United Kingdom even became a net exporter of oil. If the level of the oil bill in GDP terms is calculated for all Community countries except the United Kingdom, it can be seen to have risen by the equivalent of 2.4 percentage points of GDP, from 2.6% in 1978 to 5% in 1981. For the rest of the Community, therefore, the second oil shock was equivalent to the first in terms of the increase in the oil bill.

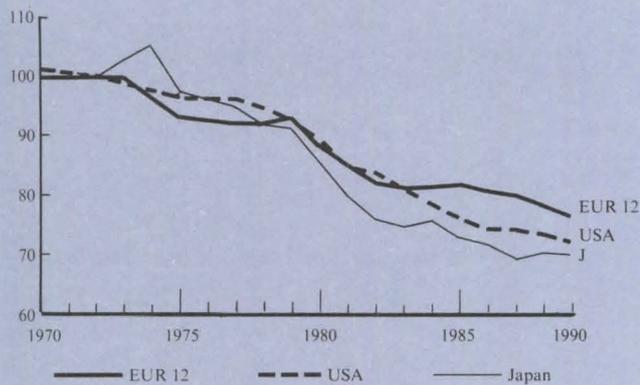
TABLE 5: Impacts of the oil shocks - EUR 12(*)

1973-74	1978-81	1989-91**				1988-91**			
		\$ 25 = 18,9 Ecus	\$ 30 = 22,6 Ecus	\$ 35 = 24,6 Ecus	\$ 40 = 30,2 Ecus	\$ 25 = 18,9 Ecus	\$ 30 = 22,6 Ecus	\$ 35 = 24,6 Ecus	\$ 40 = 30,2 Ecus
2,3	1,5	-0,02	0,20	0,40	0,60	0,24	0,45	0,56	0,88

* Change in the import bill expressed as a percentage of current GDP.

** On the assumptions of import volumes in 1991 equal to those of 1989 and of the dollar remaining until the end of 1991 on the levels of the beginning of October 1990 (1 \$ = 1,545 DM and 0,755 Ecus).

GRAPH 5: Energy intensity per unit of GDP
1972 = 100



Source: Energy statistics of the IEA and national accounts of Eurostat.

The impact of the policies aimed at conserving oil and substituting other energy sources increased during the 1980s. That impact, combined with the fall in the dollar-denominated price of oil and in the dollar rate against the Ecu, cut the size of the Community's oil bill to the equivalent of 0.8% of GDP in 1988, i.e. to a lower level than in 1973. This very favourable trend immediately suggests that a rise-even a sharp rise-in the price of oil will have a lesser impact on the European economies than the previous shocks, especially if the dollar remains at its current level or falls further (see Table 1).

Assuming a volume of net imports of oil and oil products in 1991 identical to that in 1989¹, an average price of

¹ This hypothesis, adopted in order to avoid having to include highly uncertain elements in the calculation, may seem less arbitrary if it is borne in mind that the impact on demand and the increase in prices and growth will work in opposite directions and could in fact offset each other.

USD 30 per barrel in 1991 (i.e. ECU 22.5) would represent an increase in the oil bill equivalent to 0.20% of GDP between 1989 and 1991. It should be noted, however, that in 1989 the Ecu price of oil per barrel had already risen by 27%. If 1988 is taken as the reference point (and still assuming that the volume imported in 1991 is equal to that in 1989), the increase in the oil bill in 1991 would be equivalent to 0.4% of GDP. On the basis of these same hypotheses regarding consumption and reference years, Table 5 shows the impact in relation to GDP of an average oil price in 1991 of USD 25, USD 30, USD 35 and USD 40 per barrel. In all these cases, the net effect is still appreciably less than one percentage point of GDP.

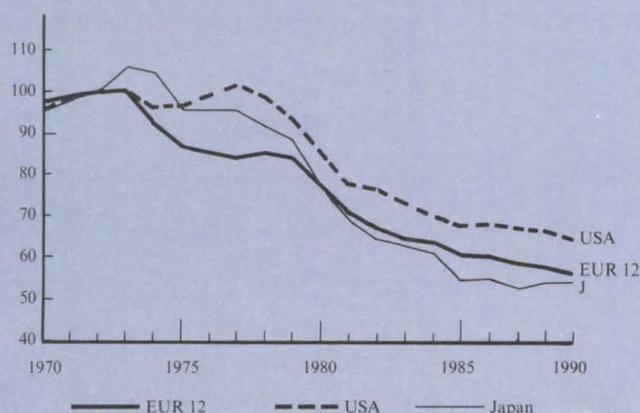
5. The Community's relative situation

The Community's position relative to that of its two main competitors, Japan and the United States, would seem to be fairly favourable. While energy consumption per unit of GDP since 1983 has not fallen as rapidly as in Japan and the United States (see Graph 5), consumption of oil and oil products per unit of GDP since 1974 has decreased more rapidly in the Community than in the United States, and Japan has recorded only a slightly more favourable trend than the Community since 1980 (see Graph 6). What is more, the volume of oil imports per unit of GDP fell by half between 1973 and 1989. In the United States, dependence on oil, after increasing sharply between 1970 and 1977, fell back to its 1970 level in the mid-1980s before beginning to increase again, albeit at a slower rate. By the end of 1989, the United States was importing almost twice as much oil per unit of GDP as the Community and Japan (see Graph 7).

6. The macroeconomic implications

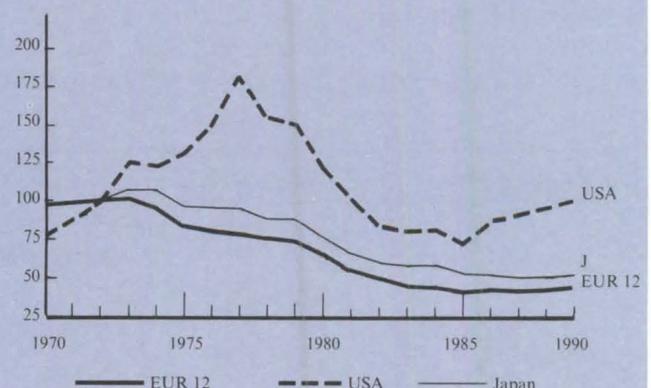
The impact on economic growth and inflation will clearly depend on the extent of the oil price rise, which is very

GRAPH 6: Oil intensity per unit of GDP
1972 = 100



Source: Energy statistics of the IEA and national accounts of Eurostat.

GRAPH 7: Oil import per per unit of GDP
1972 = 100



Source: Energy statistics of the IEA and national accounts of Eurostat.

difficult to foretell in the current situation. However, whatever the actual extent of the shock, its qualitative effects are known: an increase in prices and a negative impact on growth and employment.

Furthermore, whether countries are net importers or exporters of oil, they will be affected by the rise in the price of this raw material, which will spread to the whole of the economy through increased production and transport costs.

To prevent these developments from making more difficult the realization of the great Community projects, in particular the completion of the internal market and the transition to EMU, the Community's economic policy should aim to ensure that:

- the errors committed on the occasion of the two oil shocks are not repeated, i.e. the rise in the oil price should actually be accepted and not diluted in an inflationary process;
- the bases for long-term growth and a continuation of the convergence process are preserved;
- energy conservation measures are reinforced and projects for developing alternative sources of energy are encouraged.

To that end, monetary policy will have to maintain its anti-inflationary bias and aim for stable prices and

exchange rates between EMS currencies. Fiscal policy will have to go on pursuing its consolidation objectives, even if the effects of 'automatic stabilizers' and rising interest rates lead to a temporary deterioration in public accounts.

Such policies should ensure that the loss of income entailed by this rise is fairly split between wages and profits. This is necessary in order to minimize the negative impact on the levels of investment required to sustain future growth in the Community.

Economic policy cannot prevent a slight acceleration in inflation and a temporary slowdown in growth but by preventing the start of an inflationary spiral, it can make it possible to maintain the basis of a sustainable growth in the medium term.

It is important moreover to note that, notwithstanding the short-term negative economic impact, the higher price of oil can bring beneficial effects, in particular in the area of environmental policy; energy policy needed a positive shock to avoid falling into a dangerous complacency. The present oil price increase should therefore lead to a more active policy by accelerating the process of energy substitution, a process which would have a positive impact on growth and employment.

15 October 1990

Principal economic policy measures — September 1990

Community (EUR 12)

None.

Belgium (B)

24.9 The central bank cuts interest rates for one-, two- and three-month bills in several stages. For example, the rate for three-month bills, the main instrument for guiding monetary policy, is reduced in six stages from 9,30 % to 8,95 %.

Denmark (DK)

None.

Germany (D)

21-22.9. The three German parliamentary institutions (GDR: Volkskammer, FRG: Bundestag and Bundesrat) ratify the unification treaty taking effect on 3rd October.

Greece (GR)

4.9 The wage increases for the public and private sectors for the last four-month period of the year amount to 7,1 %. From the predicted rise in the CPI of 9,3 % is deducted the total effect (direct and indirect) of the recent rise in oil prices (estimated at 2,2 %). The indexation is full for wage and salaries up to Drs 130 000/month and is reduced to 75 % for remuneration above this ceiling.

4.9 The Parliament approves a bill imposing a freeze on housing rents until 30.6.1991. Excluded are recently constructed houses and apartments rented for the first time and apartments or houses over 140 m².

28.9 The Parliament approves a bill concerning the reform of the social security, especially the public pension system. The law provides for a variety of measures, including the introduction and a gradual increase in the age limit for retirement in the public sector, the harmonisation of contribution rates between professional groups, modifications in the method of calculating the amount of pensions, an increase in contribution rates and measures against evasion in social security contributions.

Spain (E)

28.9 The government tables the draft central government budget for 1991. It provides for a moderate 6,5 % rise in expenditure, which is less than the projected increase in the value of GDP: as a result some outlays on infrastructure will be spread over a longer period than forecast. Revenue is projected to rise by 10,4 % on the 1990 budget. The central government non-financial structural deficit should fall to 0,9 % in 1991. As far as tax measures are concerned, excise duties are increased on petroleum products, while personal income tax will be updated under a new law which Parliament is also due to discuss this autumn.

France (F)

9.9 French government draft budget cuts the budget deficit for 1991 to FF 80 billion (10 billion less than in 1990).

13-17.9 The higher rate of VAT is cut from 25 % to 22 %. This measure applies to motor vehicles with effect from 13 September and to electronic equipment, luxury goods and services subject to the higher rate from 17 September. The rate for tobacco will be cut on 1 January 1991 (and will be offset by an increase in consumption duty).

15.9 The administrative control of fuel prices is lifted from 15 September. Controls were introduced on 9 August as a result of the increase in prices but from the beginning they were considered to be temporary, their sole purpose being to prevent prices from shooting up excessively.

Ireland (IRL)

28.8 Government passes legislation providing 'breathing space' in the form of court protection from creditors to any company in financial difficulty; this will enable the company to continue trading for a maximum period of 4 months while an examiner (appointed by the courts) investigates and reports on the affairs of the company.

Italy (I)

27.9 The Government presents the Finance Act for 1991 and the accompanying pieces of legislation. The target for the State sector borrowing requirement has been set at Lit 132 000 billion, in line with the objectives stated in the medium-term fiscal adjustment programme presented in May. On the primary balance the Government plans to achieve a surplus of Lit 8 100 billion.

28.9 The Parliament definitively approves the legislation which will discipline agreements between enterprises, abuses of dominant position and concentrations, in so far as they do not fall under the provisions of EC law.

Luxembourg (L)

7.8 The government presents the tax reform plan which will enter into force on 1 January 1991. It results in a LFR 13,9 billion decrease in tax revenue, equivalent to some 4 % of GDP in 1991. The reform is intended to improve the competitiveness of Luxembourg firms in the run-up to the Single Market. Its main provisions are the following: corporation tax is cut from 34 % to 33 %, the solidarity tax is cut from 2 % to 1 %, it will be possible to carry forward losses indefinitely, instead of for five years as at present, tax measures will be used to encourage ecological investment, and the trade tax on profits is reduced. With regard to the taxation of households, the measures are the following: the minimum band of tax-exempt income is increased from LFR 170 000 to LFR 220 000, a tax scale with progressive increases is introduced, the top rate of tax is cut from 56 % to 50 %, the rate of solidarity tax is reduced from 5 % to 2,5 %, the compulsory taxation of the incomes of married couples as a single income is retained but, in order to encourage women to work, the special married couples' allowance is increased from LFR 48 000 to LFR 180 000 for couples whose income is so taxed.

19.9 The government tables the draft budget for 1991 in Parliament. Gross overall revenue is estimated at LFR 106,2 billion, an increase of 9,3 % on the budget for 1990. Gross expenditure is projected to be LFR 103,7 billion (an increase of 9,8 %). The budget will close with a surplus of LFR 2,5 billion. Items to be noted are substantially higher investment in low-cost housing (up 70 %) and the increase in the amount paid to the sickness and old age insurance schemes (up 18,2 %).

Netherlands (NL)

14.9 The government abandons the plan to introduce a 35 % tax on the investment subsidy (WIR) received by firms, which had been decided in June, and should have applied retroactively with effect from 1 January 1990.

18.9 The government tables the draft budget for 1991 in the Second Chamber. The forecasts are based on projected GNP growth of 1,5 %. The central government borrowing requirement should amount to HFL 22,5 billion, or 4,75 % of NNI (5,25 % in 1990). Taxes and parafiscal charges should be 52,9 %, compared with 52,8 % in 1990.

Portugal (P)

13.9 The Minister for Finance announces that the opening of new bank branches and the establishment of new banks will be authorized only in exchange for the purchase from public banks of a certain amount of non-performing loans.

21.9 The Bank of Portugal decides that from 1 October the escudo exchange rate will float within undivulged limits which are defined in relation to the currencies in the EMS exchange rate mechanism. In addition, purely financial forward operations (other than transactions) on the escudo foreign exchange markets are suspended indefinitely.

United Kingdom (UK)

None.

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