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*In this number:
Some basic facts about
the European financial sphere.*

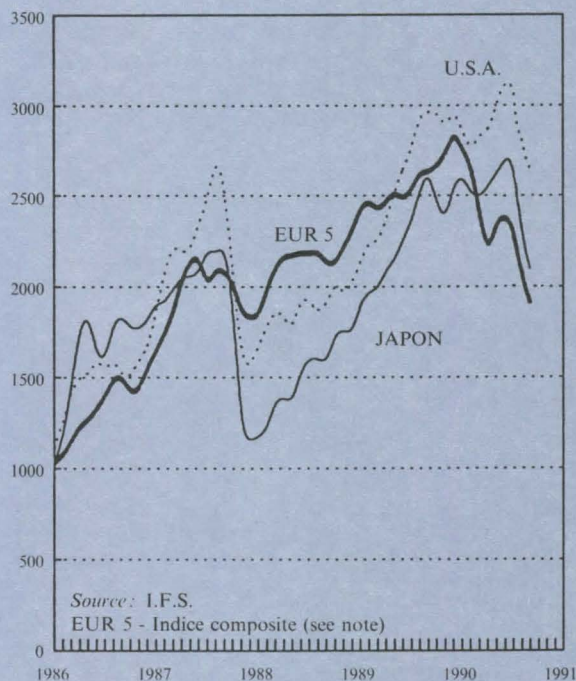
Introduction

- In July 1990, for the first time since the Gold Standard era, capital will move freely between most Community countries. This will gradually affect credit conditions and investment opportunities. In order to pinpoint these changes on the increasingly global capital market, this issue of *European Economy*, Supplement A, the first in a series to be published every six months, presents some essential facts on the structure of the major financial markets.

Summary

- **Where world saving is concentrated:** 75 % in the OECD area and 51 % in the EEC-Japan area alone. For twenty years the Community has had the largest pool of savings in the world.
- **The structure of savings by households:** it is increasingly channelled into securities and shares. Securities such as Unit Trusts have made a decisive contribution to this.
- **Even though there has been an exceptional rise in share prices since 1983,** the role of the European stock markets is a minor one compared with centres such as New York or Tokyo. Also, stock exchange places are losing importance as physical locations.
- **The financing of European firms:** since the mid-1980s, the increase in profits has made it possible to consolidate company liquidity and self-financing. However, even though their own resources are higher, European firms (except for German firms) on average have to bear heavier financial charges than Japanese firms.
- **Regarding interest rates, we find out that the yield curve has been inverted.** The eventual subsequent weakening of the tendency to invest might in turn weaken both the European integration process and the opening up of markets in Eastern Europe.

CHART 1: Stock market price developments



Note:

The EUR 5 index corresponds to the first major component of share indices in five European financial centres (Frankfurt, London, Paris, Milan, Madrid), with the axes being adjusted.

Remark

Since the end of 1989, share prices have been on a downward trend; particularly marked in Tokyo. However, if one takes a broader view (see in particular Table 3.3), the present situation could indicate that an adjustment is taking place between the stock market valuation of company assets and their actual productive capacity. This tendency has probably been over-amplified with the latest events in Kuwait that occurred after the completion of this current issue.

TABLE 1.1: Savings ratio and gross investment — 1987 (in current dollars)

	Savings ratio	Current account balance	Gross investment		
	as % of area GDP		as % of world	as % of are GDP	as % of World GDP
	(1)	(2)	(3)	(4)	(5)
World (a)	22	-0,3	100	22,3	24,2
OECD	21	0	75,6	21,0	16,8
EUR	21,4	1,0	25,2	20,4	5,6
Japan	34	3,6	21,4	30,4	4,8
United States	13	-3,4	21,9	16,4	4,9
Oil exporting countries	23,0	0	5,9	23,0	1,3
17 most heavily indebted countries	21,0	2	3,2	19,0	1,0
4 East European countries (b)	34,6	0,9	3,1	33,7	0,5

(a) Countries reporting statistics to IMF (USSR and Czechoslovakia in particular are excluded).
 (b) Hungary, Poland, Romania and Yugoslavia.

1. Basic data on world saving

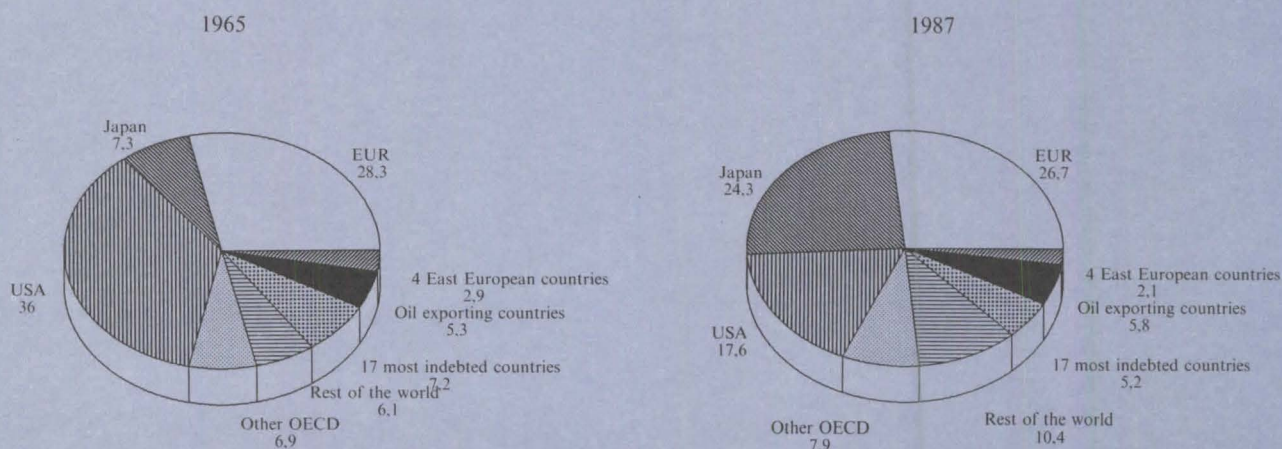
The twelve-member European Community has the largest pool of savings in the world, as can clearly be seen from Graph 2, which represents its main areas of distribution. Graph 2 also demonstrates that over three-quarters of global savings is concentrated in the OECD area, within which the largest part (51 %) is held by the EEC-Japan group. The salient feature of the last twenty years is the contraction in the share of United States savings, which has been halved: this is mirrored by corresponding increases in the share of Japan and the rest of the world.

Savings reached a global level of USD 3 300 billion in 1987: it is estimated that since 1965 savings will have increased at the average rate of 10.5 % a year, i.e. by a little more than nominal GDP.

Table 1.1 shows the distribution of savings, and column 2 in particular shows the countries which do not generate sufficient savings. It can be seen that the United States is one of these countries, a situation which is offset at world level by the Japanese surplus. Similar counterbalancing exists within areas such as the EEC and the East European countries where surpluses (Federal Republic of Germany, Romania and Yugoslavia) are partly absorbed by the deficits of the other countries of the same area.

Table 1.1 also shows the overall allocation of saving, and the countries likely to generate high income, and therefore significant savings, as a result of a high investment ratio..

CHART 2: Distribution of gross world savings (in current dollars)



Source: I.F.S. and the World Development Report 1990.

TABLE 2.1: Use of households' income

	D	F	I	NL	UK	EC-5	USA	JAP
1980								
Consumption	89,3	84,8	76,6	88,5	85,0	85,1	79,8	76,3
Investment	0,5	10,7	11,3	—	5,7	6,0	15,4	12,2
Financial saving	10,2	4,5	12,1	11,5	9,3	9,0	4,8	11,5
of which:								
Bank deposits	5,5	7,2	10,5	—	10,4	7,9	6,8	
Bonds	2,5	2,2	4,8	—	1,1	2,5	1,7	
Shares	0,1	0,6	0,4	—	-1,9	-0,2	-0,4	
Other	2,1	-5,5	-3,6	—	-0,3	-1,2	-3,3	
	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
1984								
Consumption	90,6	86,1	75,3	85,2	87,8	85,6	79,6	78,5
Investment	0,5	8,6	8,0	—	7,2	5,3	16,1	9,5
Financial Saving	8,9	5,3	16,7	14,8	5,0	9,1	4,3	12,0
of which:								
Bank deposits	3,8	6,8	7,6	—	9,1	6,5	8,8	11,1
Bonds	2,2	1,3	11,3	—	0,9	3,6	4,1	1,4
Shares	0,1	1,4	0,3	—	-1,4	0,2	-1,7	0,2
Other	2,8	-4,2	-2,5	—	-3,6	-1,2	-6,9	-0,7
	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
1988								
Consumption	89,1	87,9	75,6	97,7	96,2	87,4	81,0	78,1 ⁽¹⁾
Investment	—	9,3	8,6	—	8,5	6,5	17,0	10,4 ⁽¹⁾
Financial saving	10,9	2,8	15,6	2,3	-4,7	6,1	2,0	11,5 ⁽¹⁾
	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: Eurostat.

¹ 1987

2. Where do households invest their savings?

Table 2.1 shows the traditional characteristics of the allocation of savings by households and its trends in some European countries, the United States and Japan.

2.1 Basic trends

During the last twenty years, there has been a definite downward trend in the savings ratio (physical and financial) in the five countries surveyed: the increase in the ratio of consumption reported in Table 2.1 is clear, especially during the most recent period. This trend is particularly marked in the Netherlands, the United Kingdom and France. However, this rule does not apply in Germany, Italy and, outside Europe, in Japan. According to the 'investment' line in Table 2.1, the fall in the savings ratio seems mainly attributable to the reluctance of households to invest in housing, despite a rising trend of house purchase in the United Kingdom. These characteristics have remained very clear for about ten years but there seems to be a break in 1988 (recovery in the construction industry).

2.3 Forms of investment

In the 1980s, financial investment expanded sharply but growth was not sufficient to halt the decline in the savings ratio. In this sector substitution can be seen between bank deposits and fixed income securities or shares. However, compared with the situation in the United States, the proportion of shares held by European households still remains low, even though this discrepancy has partly been corrected by the recycling carried out by Unit Trusts.

Retirement savings schemes and life insurance are also showing a marked increase on the continent of Europe, although there is no comparison with established habits in the United States and the United Kingdom.

Unit Trusts met with remarkable success in the first half of the 1980s and since then they have continued to absorb a significant

proportion of private savings, even though their popularity fell significantly in the second half of the 1980s. Nevertheless, at the end of 1987 their share of the savings market was still close to 7 %; but it was as high as 14 % in the United States and almost 22 % in France. The appearance of this type of investment, in a variety of forms which increase its mobility and reduces the risks involved, remains the striking feature of recent years: its importance is shown in Table 2.2.

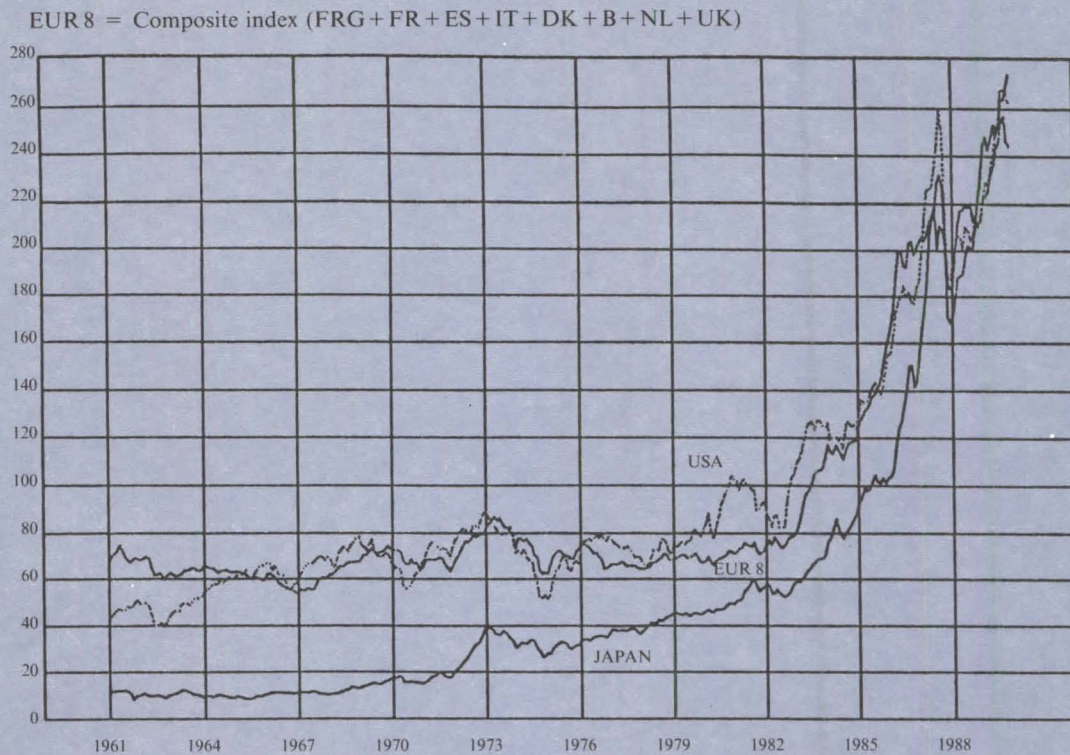
With regard to the type of institution which collects funds, the bulk (over 90 %) of funds go to the banks, except in the United States, France and Belgium where savings banks hold one-third or so of investments. Banks and savings banks have begun to compete keenly for deposits, and competition is tending to increase with financial despecialization.

TABLE 2.2: Amounts dealt with in Unit Trusts (end-of-year situation)

	Billion Ecu		As percentage	
			Structure	Growth
	1983	1988	1988	1988/83
D	14,9	43,6	9,6	+193 %
F	39,6	202,8	44,7	+412 %
I	1,5 ⁽¹⁾	33,7	7,4	+2 147 %
NL	7,5	16,4	3,6	+119 %
UK	41,4 ⁽¹⁾	94,0	20,8	+128 %
EC-5	104,9	390,7	86,1	+272 %
B	1,0 ⁽¹⁾	3,9	0,9	+290 %
L	6,6	49,1	10,8	+644 %
DK	—	2,8	0,6	—
IRL	0,1	0,8	0,2	+700 %
E	0,3	6,1	1,3	+1 933 %
P	—	0,3	0,1	—
EUR-11	112,9	453,7	100,0	+302 %
USA	333,6	691,0	152,3	+107 %
JAP	73,4	361,2	79,6	+392 %

¹ Estimate.

CHART 3: Index of share prices



The behaviour of households outlined above has not appreciably changed the overall savings ratio in the Community insofar as the other institutional operators have offset this trend. Nevertheless these changes may have major consequences in several areas.

The fall in personal savings combined with its greater mobility may represent a factor of fragility for external equilibrium, if monetary policy were to become lax.

The development of the different forms of financial savings has definite consequences on the productive structures. It may facilitate or hold back the financing of business investment, and it may even influence its nature.

As a result of the convergence of economic policies in the Community it is advisable to succeed in the coordination of financing needs of the using sectors to avoid undesirable fluctuations in prices and rates.

3. Stock market intermediation

By channelling savings into productive investment in an appropriate form of financing, the stock market helps to consolidate productive capacity and economic growth. In addition, the development of techniques and of financial innovation now makes it possible to finance firms of all sizes or with higher risks.

3.1 Main characteristics

Graph 3 shows, on the one hand, that until recently European stock markets had very little independence in relation to the movements observed in New York, and on the other, the more definite autonomy of the Tokyo stock market. Since the crisis

TABLE 3.1: Indicators of activity and of accumulation of nominal capital in industry
(annual average rate of change from 1960 to 1985 unless otherwise indicated)

	1. Gross value	2. Gross capital	3. Total employment	4. Gross capital stock in current ecu as % of EUR total	
				1982	1985
B	4,6	4,5	-1,3	3,0	3,0
D	2,9	4,0	-0,6	28,0	27,9
E	—	—	—	(6,0)	(6,2)
F	4,2	3,7	-0,4	17,5	18,3
I	5,2	3,5	0,1	14,1	15,2
NL	3,4	4,7	-1,1	5,4	5,1
P	—	—	—	(1,0)	(1,0)
UK	1,2	2,5	-1,8	25,0	23,2
EUR-6	3,6(a)	3,6(a)	-0,8	100,0	100,0
USA	3,4	3,8(a)	0,6	84,4	103,3
JAP	9,7	8,6	1,7	327,0	509,0

(a) From 1962 to 1985.

Source: Sectorial data base (Eurostat and DG II).

TABLE 3.2: Stock market capitalization at 29 December 1989

	billion ecu	% of EUR-7	% of GDP
Belgium	42,08	3,3	30,3
France	181,59	14,4	21,1
FRG	235,98	18,7	21,8
Italy	95,27	7,5	12,1
Netherlands	89,06	7,1	43,8
Spain	61,83	4,9	18,1
UK	556,72	44,1	74,1
Total EUR-7	1.262,53	100,0	30,3
Japan	2.632,14	208,5	102,3
USA	1.967,74	155,9	34,8

of 1987, however, the three indices seem to have merged, showing that the world financial market, centered on these three locations, is more homogeneous.

The general or 'common' movement of European stock markets can be followed by a composite index covering the main stock markets as shown in Graph 3 (the index was prepared by the principal components technique by merging the stock exchange indices for Denmark, Belgium, Germany, Spain, France, Italy, the Netherlands and the United Kingdom).

A comparison of Tables 3.1 and 3.2, which in particular draw a parallel between the productive capital of the main industrialized countries and their stock market capitalization, shows that the financing of companies through stock market is little used in many Community countries, whereas it is more widespread in the United States and Japan. Despite differences

in definition, coverage and period, the discrepancy which exists between capital stock and stock market capitalization in countries such as Germany, Italy, and to a lesser extent France, is striking. The situation in these countries, which contrasts with that of the United Kingdom, reflects very marked differences with respect to the financing of investment, which have shaped behaviour towards risk investment.

Also, the stock market is less and less a clearly located meeting place where traders physically exchange orders. Computerization and innovation mean that traders no longer have to be present in any one place, that the vast bulk of business is conducted outside the stock exchange, and that prices adjust rapidly: the trading floor is giving way to electronic communication. Orders given in Milan, Amsterdam or Brussels are frequently executed in London or Paris. The shift in business can be seen in the fact that at the end of 1989, and for the very first time the volume of transactions (ecu purchases and sales) on the Frankfurt market reached the same level as in London.

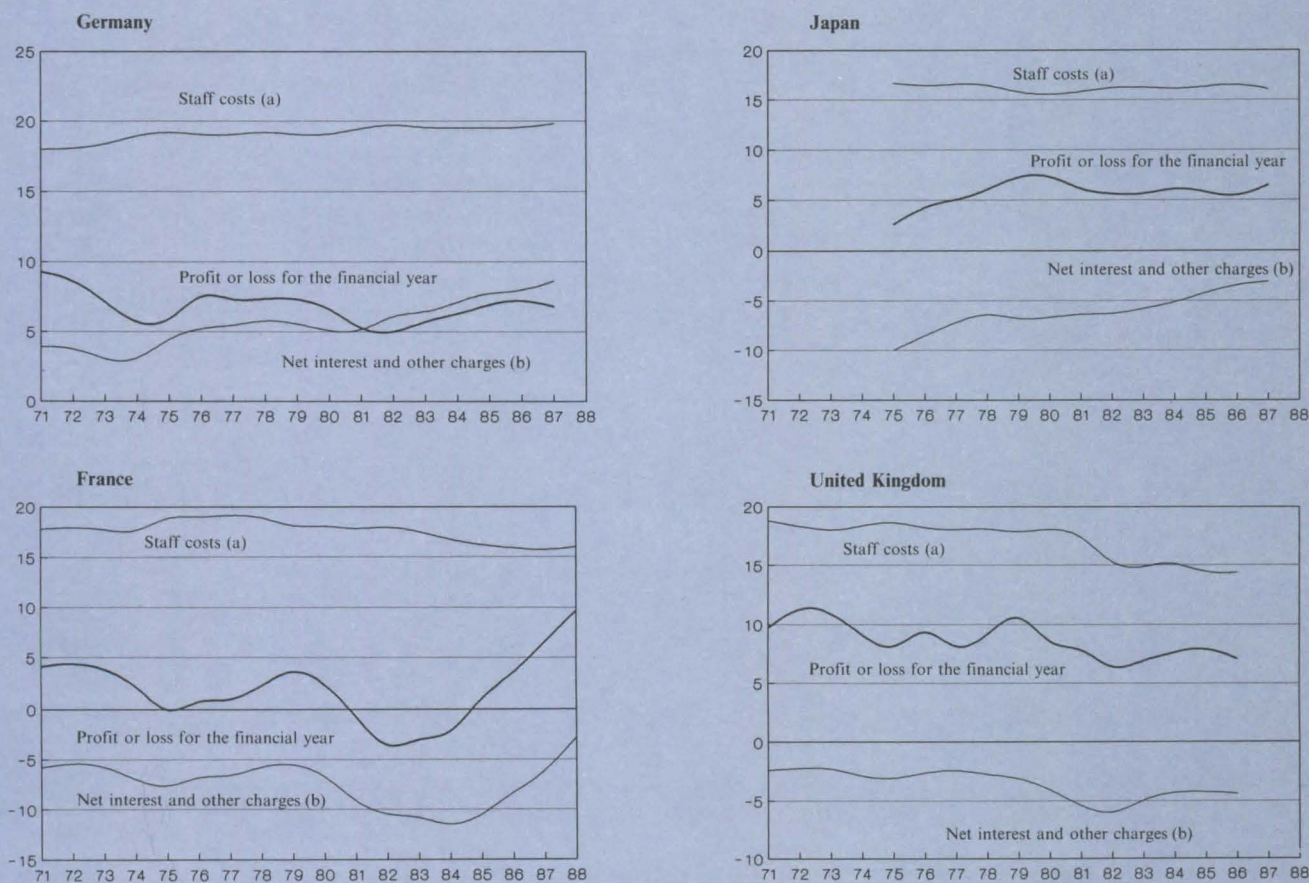
4. Finance requirements and financial structure of enterprises

Financing structure have a predominant influence on the productive and commercial performance of companies.

This relationship emerges very clearly from an analysis of the last ten to fifteen years balance sheets and profit and loss accounts which are collected by organizations centralizing balance sheet information in most industrialized countries.

This period has been marked by severe upsets in the profit and loss account, in response to which companies have altered their techniques of production and the structures of their assets.

CHART 4: Structure of profit and loss account



Source: Data base of harmonized company accounts (BACH, DG II).
 (a) For the purposes of the Graph, staff costs have been divided by 3.
 (b) Net interest and other charges = investment income - interest and other charges.

TABLE 4.1: Financial structure of enterprises – 1982*

	B	D	E	F	I	NL	P	UK	EUR-8**	USA	JAP
1. Net technical assets	31,8	34,9	40,0	28,9	32,0	51,6	44,6	37,2	37,6	—	33,5
2. Net current assets	56,8	41,1	50,9	61,6	56,2	33,4	—	49,2	49,4	—	39,0
3. Assets connected with internal activities (= 1+2)	88,6	76,0	90,9	90,5	88,2	84,0	—	86,4	87,0	—	72,5
4. Participating interests and financial credits	5,4	18,0	4,5	5,8	7,5	9,4	—	1,6	7,2	—	9,3
5. Liquidity, banks and fixed income securities	6,0	6,0	4,6	3,7	4,3	6,6	2,9	12,0	5,8	—	18,2
6. Total Assets	100	100	100	100	100	100	100	100	100	—	100
7. Net capital	17,7	14,8	14,6	9,3	13,6	8,2	10,1	9,4	12,2	—	5,5
8. Reserves and provisions	14,0	23,2	13,7	13,0	16,1	39,4	14,3	42,0	22,0	—	21,4
9. Total capital and reserves (equity) (= 7+8)	31,7	38,0	28,3	22,3	29,7	47,6	24,4	51,4	34,2	—	26,9
10. Medium and long term debt	18,2	19,8	22,4	17,3	15,7	17,6	20,4	6,1	17,2	—	17,0
11. Short term debt	50,1	42,2	49,3	60,4	54,6	34,8	55,2	42,5	48,6	—	56,1
12. Short term financial equilibrium (= 2+5-11)	12,7	4,9	6,2	4,9	5,9	5,2	—	18,7	6,6	—	1,1

* = Industry excluding the energy sector.

** = Arithmetic average of eight European countries.

4.1 Evolution of company profitability

The late 1970s saw rapid progress in industrial technology and a large-scale renewal of the stock of productive capital, with the aim of cutting labour and energy expenses which had become too expensive. Clearly, a conversion on such a scale would not have been possible without a radical restructuring of units of production and of the related financial resources.

In the early 1980s the economic upturn was interrupted by the second oil shock; on top of this came the increase in interest and other charges and the consequent drop in profits, which persisted until 1983/84.

These developments are recorded in Graphs 4(a) and 4(d), based on the profit and loss accounts of a sample of European and Japanese firms, covered by the BACH^(a) data base. The main items in the account show the fluctuations in staff costs as a

proportion of added value and the key influence of interest and other charges.

The strong revival of profits since 1984 resulted in an increase in technical assets, after a certain time lag. The interval was used to broaden and diversify the range of activities, and to alter, as a result, the allocation of financial resources particularly in order to increase liquidity. Two main reasons are mentioned to explain this behaviour:

- (i) the increase in financial yields, especially yields on risk capital, prompted firms to increase the productivity of equipment before broadening the productive base;
- (ii) the announcement of the Single Market of 1993 and of its implications for competition has compelled firms to consolidate their financial base in order to adapt to the new dimensions of the market.

TABLE 4.2: Financial structure of enterprises** – 1987

	B	D	E	F	I	NL	P	UK*	EUR-8***	USA	JAP
1. Net technical assets	37,1	37,0	38,7	29,7	25,0	53,7	40,1	35,8	37,1	56,3	34,7
2. Net current assets	47,9	33,1	47,6	56,2	58,0	27,6	—	47,4	(45,5)	34,9	34,8
3. Assets connected with internal activities (= 1+2)	85,0	70,1	86,3	85,9	83,0	81,3	—	83,2	(82,6)	91,2	69,5
4. Participating interests and financial credits	6,0	20,2	7,1	6,9	8,8	11,0	—	1,2	(8,7)	2,7	9,2
5. Liquidity, banks and fixed income securities	9,1	9,7	6,6	7,2	8,2	7,7	5,5	15,6	8,7	6,1	21,3
6. Total Assets	100	100	100	100	100	100	100	100	100	100	100
7. Net capital	19,3	14,1	19,5	9,3	11,7	8,1	18,1	7,6	13,4	12,3	5,7
8. Reserves and provisions	21,9	28,3	20,2	21,4	21,4	43,5	9,6	42,7	26,1	30,7	23,8
9. Total capital and reserves (equity) (= 7+8)	41,2	42,4	39,7	30,7	33,1	51,6	27,7	50,3	39,5	43,0	29,5
10. Medium and long term debt	15,5	18,3	14,1	23,1	10,2	16,1	19,4	7,2	15,5	25,2	17,7
11. Short term debt	43,3	39,3	46,2	46,2	56,7	32,3	52,9	42,5	45,2	31,8	52,8
12. Short term financial equilibrium (= 2+5-11)	13,6	3,5	8,0	17,2	9,5	3,0	—	20,5	(9,2)	9,2	3,3

* = 1986.

** = Industry including the energy sector.

*** = Arithmetic average of eight European countries.

Source: Data Base of Harmonized Company Accounts (BACH, DG II).

(a) See: J. CH. SANANES; Data Base of Harmonized Company Accounts (BACH, DG II), October 1989.

The growth of profits since 1984 has encouraged these changes and made them happen more rapidly, which suggests that the current phase of prosperity is based on sounder and more stable technical and financial bases. However, in view of the diversity of financial situations, the opening up of markets and financial deregulation, it seems important to examine more closely whether European companies are well or badly financed as compared with their direct competitors.

4.2 Financial structures, a reflection of productive activity

Examination of the main components of the balance sheet listed in Tables 4.1 and 4.2 shows a greater diversity of financial structures than might have been imagined, together with trends which are similar.

The main contrasts in financial structures relate to: fixed technical assets (proportionately greater in the United States because of the traditional separation between the activity of production and of financial intermediation, and the fact that they are recorded in the balance sheet at replacement cost); current assets, higher in Europe and most particularly in France and in Italy, where the time for payment which customers are allowed plays an important part in sales policy; the relatively small proportion of equity and total equity and reserves in Japan where, unlike the United States, cross-equity sharing between industrial and financial sectors provide companies with easier access to credit and plentiful liquidity.

In spite of these institutional differences, often enshrined in law (transparency of balance sheets, anti-trust law, revaluation of fixed assets, payment terms, etc.) similar structural changes occurred as a reaction to the behaviour of demand and costs.

Consequently, between 1982 and 1987, the acquisition of shares in other companies tended to increase everywhere; the capital proportion fell, reflecting the restructuring of firms which was necessary and the bankruptcies caused by the two oil crises; at the same time the proportion of total capital and reserves generally increased as a result of the accumulation of reserves, which in their turn strengthened liquidity.

In particular the management of expensive operating resources which is expressed in the tables by short term financial equilibrium (credit to customers, interest and other charges, stocks management, etc.) reflects a trend towards more prudent management. Unfortunately, this trend is less widespread in Europe, where the economies of scale which would make it possible to reduce these costs have not been achieved to the same extent as in the United States and Japan.

4.3 Financial constraints

In order to assess the scale of the financial constraints which

bear down on productive activity, and on the propensity to invest, use is often made of a series of ratios, the most significant of which are:

- A = profits/total capital and reserves, which reflects the return obtained by a productive activity as compared with the interest on a financial investment.
- B = current and financial assets/fixed technical assets, which measures the diversification of balance sheet assets.
- C = total capital and reserves/fixed technical assets, which reflects the long term financial cover of means of production.
- D = short and medium term indebtedness/total capital and reserves, which measures the financial soundness of the company and its level of self-financing.

It will be noted that these ratios reflect the bulk of the financial and productive changes which took place during the period under examination.

These ratios are shown in Tables 4.3, where column C may be analysed by making use of columns B and D.^a

For the three large economic areas studied, this column reflects great stability of the ratio in Japan and Europe, and a slight decline in the United States. This decline is chiefly attributable to companies' recourse to indebtedness, corresponding to an insufficient level of profits and self-financing. A phase of industrial restructuring could therefore be on the horizon.

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On the other hand, although the situation in Europe seems generally stable or showing slight improvement, an analysis by country shows a wide variety of situations.

In Italy, Germany, Belgium and Portugal, the financial structure of companies has undergone a marked improvement during the current decade, both as a result of a diversification of assets (except for Belgium) and a reduction in external indebtedness. There are signs of the opposite trend in the United Kingdom and especially in France, where short and medium term company indebtedness is the main method of accumulating

(a) According to the equation: $CP = ((1 + B + C)/D) \cdot K$

where: CP = total capital and reserves

K = fixed technical assets

$CPK = C = (1 + B - C)/D$; or: $C = (1 + B)/(1 + D)$.

TABLE 4.3: Profitability and self-financing

	A			B			C			D		
	1975	1982	1987	1975	1982	1987	1975	1982	1987	1975	1982	1987
B	1,0	3,9	10,3	--	1,0	0,8	--	0,9	1,0	--	1,4	0,8
D	12,1	12,7	18,7*	1,3	1,5	1,5	1,0	1,1	1,2	1,3	1,3	1,0
E	--	-2,2	4,4	--	0,5	0,4	--	0,6	0,6	--	1,6	1,2
F	0,2	-1,3	12,0	0,8	0,6	0,7	0,8	0,6	0,6	1,2	1,5	2,1
I	--	-12,6	7,7	--	1,2	2,0	--	0,8	1,3	--	2,0	1,4
NL	--	6,1	11,2	0,6	0,7	0,6	0,8	0,8	0,8	1,0	1,0	0,9
P	--	-4,5	4,3	--	0,4	0,9	--	0,5	0,8	--	1,7	1,4
UK	7,0	6,6	9,3*	0,9	0,8	0,9	1,4	1,2	1,2	0,4	0,5	0,5
EUR-8	--	--	--	--	1,0	1,0	--	0,9	1,0	--	1,1	1,0
USA	--	--	11,9	--	0,3	0,3	--	0,8	0,7	--	0,6	0,9
JAP	2,4	7,6	7,4	1,5	1,4	1,3	0,6	0,7	0,7	3,2	2,7	2,2

* 1986.

productive resources, despite the spectacular improvement in profits achieved since 1982 (see Graph 4). The insufficient level of own resources seems to be due to the fact that in relative terms, profits are too widely distributed in the form of dividends.

On the whole, the foregoing analysis tends to show that with the exception of some localized situations, overall the financing requirement of European companies is less of a burden on the financial market than it was in the past, as a result of the improvement in own resources.

Nevertheless, some weaknesses persist, since even though they have a higher proportion of own capital than Japanese companies, European firms have to bear heavier financial charges.

5. Yields

5.1 Different types of yield

Throughout 1989, bond yields varied widely and were generally low, ranging from 16 % for dollar issues to -3.2 % for yen-denominated bonds with intermediate yields varying from 10.8 % for lire bonds, 6.6 % for French franc bonds, 0.7 % for German mark bonds and 3.5 % for ecu-denominated bonds.

By contrast, on the stock markets, German and French share yields were very high at 34.7 % and 33.2 % respectively, followed by yields on the United Kingdom, United States and Netherlands stock markets. The lowest yields were those recorded on the Belgian and Spanish stock markets, at 10.1 % and 16.1 % respectively. For the world as a whole, stock markets yielded 14.7 %, with the yield of European markets being significantly higher at 25.4 %.

1990 has seen a complete reversal of these trends, with yields becoming negative, and even sharply negative on the stock markets. The case of Japan is striking because of the scale of this turnaround (see Graph 1).

Yield fluctuations can chiefly be explained by the trend of long term interest rates. Since the beginning of 1990 long term rates have risen sharply throughout the world.

The current upward movement of interest rates on the capital markets is absolutely typical of a rising phase of the cycle; it is

	Shares		Bonds	
	in 1989	since 1.1.90	in 1989	since 1.1.90
Belgium	13,2	-5,5	1,3	2,6
FRG	34,7	12,0	0,7	-4,2
Italy	16,6	-0,5	10,6	3,3
France	33,2	-5,9	6,6	1,9
Netherlands	22,3	-2,5	-0,1	-4,1
Spain	8,2	-14,4	—	—
United Kingdom	30,0	-7,5	7,3	-7,4
Canada	17,1	-8,3	10,2	-1,3
United States	27,3	-3,8	17,9	-2,7
Japan	22,2	-22,7	-2,1	-7,1
Europe	25,4	-1,9	—	—

due to both exogenous factors (in particular the tightening of monetary policies) and endogenous factors, i.e. first the heavy demand for credit associated with the high level of economic activity, and second a certain fear of inflation veering out of control.

5.2 Yields according to risk

A comparison of share yields with bond yields demonstrates that financial logic was respected in 1989. The yields on high risk assets (shares) were far higher than those on lower risk assets (bonds). Throughout the 1980s, except for 1981 and 1987, the situation was the same.

For 1990, however, this situation was reversed. A comparison of long term interest rates (financial assets) with company rates of profit (physical assets; see also Table 4.3) shows that, from the point of view of the businessman, the cost of borrowed capital is close to company rates of profit. Seen from this angle, the remuneration for taking business risks is therefore becoming less and less attractive.

From the investor's point of view, the high levels of long term interest rates (15 to 20 years) on major and sound currencies and the capital gains to be made on the stock market over the last ten years discourage industrial investment, because the yields on risk-free financial assets are so much higher than company rates of profit.

5.3 Structure of rates and economic cycle

Graph 5 illustrates the structure of interest rates according to whether they are short or long term and by currencies.

As can be seen, short term rates are higher than long term rates in a good many countries (inverted yield curve). Apart from a few exceptions, such as the British or Italian markets, this situation occurs only when the economic cycle is at its peak.

This inversion of the yield curve is likely to have an adverse effect on the profit margins of financial intermediaries insofar as the cost of certain liability items (short term) is close to, or even higher than the yield on their assets (longer term).

On the other hand, a comparison of interest rates on different currencies — for assets of the same quality and the same maturity — indicates how much closer such interest rates have become. The differentials between strong currencies (German mark and Yen) and weak currencies (USD) have rarely been so narrow as they are now. Interest rates on the German mark and the dollar are closer today than at any time since 1975.

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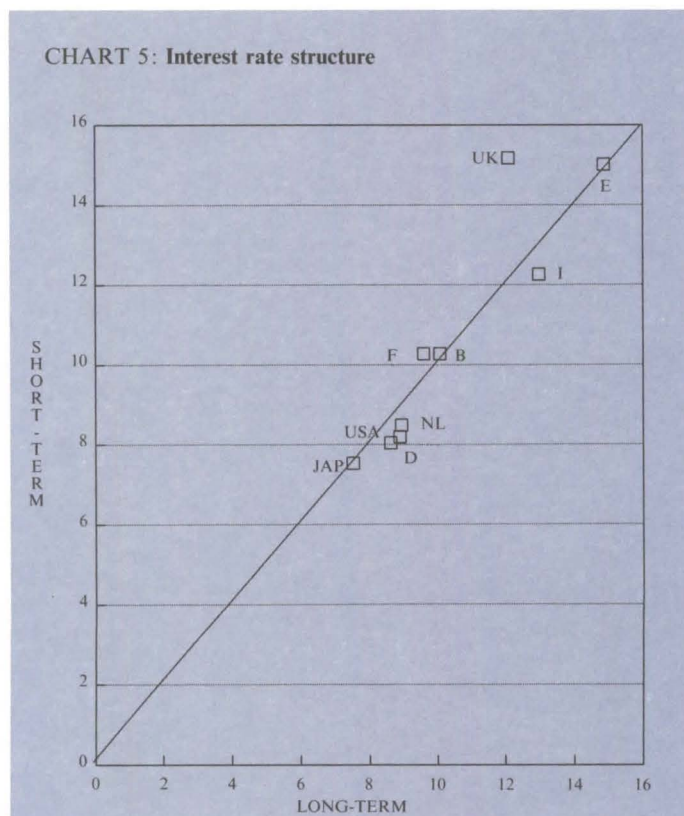


TABLE A.1: Industrial production (a) --- Percentage change on preceding period (s.a.)

	1985	1986	1987	1988	1989	1989			1990			1990			Change over 12 months (%) (b)			
						II	III	IV	I	II	Dec.	Jan.	Feb.	March		April	May	Junr
B	2.5	0.8	2.1	5.8	3.5	-1.0	1.3	1.0	3.5	:	1.6	-0.1	2.1	1.8	:	:	:	8.8
DK	4.2	6.5	-3.4	1.9	2.3	3.3	-3.3	1.7	3.7	-5.8	-5.1	5.8	-1.9	4.9	-8.2	4.0	7.2	7.5
D	5.0	2.2	0.2	3.7	5.2	1.5	0.9	1.1	2.0	0.1	0.8	1.5	-1.2	2.0	-3.1	4.9	-2.3	-2.3
GR	3.4	-0.2	-1.7	5.7	1.5	0.7	-1.4	1.2	0.2	:	2.2	0.9	1.5	-1.7	:	:	:	0.9
E	2.0	3.1	4.6	3.1	4.5	2.7	-1.1	-0.7	2.9	:	-5.7	9.2	-6.0	3.9	:	:	:	4.6
F	0.2	0.9	1.9	4.7	4.2	1.9	-0.6	0.7	-0.6	1.0	-1.1	1.1	2.4	1.1	0.9	0.2	0.3	1.1
IRL	3.5	3.2	9.7	10.9	12.4	2.1	0.2	5.4	-0.6	:	2.4	-4.2	-0.2	1.7	-4.9	1.2	:	0.1
I	1.4	4.1	2.6	6.9	3.9	0.2	1.5	2.7	-2.5	-0.4	2.5	-5.7	2.6	-0.6	0.2	-2.1	1.0	0.1
L	6.8	2.1	-0.9	8.7	7.6	3.0	0.8	-2.9	-1.4	:	-0.6	-0.7	1.8	-4.8	6.2	:	:	-2.4
NL	4.1	0.2	1.1	-0.3	5.1	6.3	-0.4	3.7	-5.4	2.6	3.1	-3.9	-6.3	0.8	4.2	-1.0	2.4	4.1
P	10.9	5.7	2.4	6.2	4.8	1.4	0.8	3.0	2.7	:	-1.1	0.6	1.6	3.6	0.5	:	:	9.5
UK	5.5	2.3	3.3	3.8	0.5	-0.5	0.9	0.1	-0.1	2.1	0.6	-0.7	-0.5	2.0	0.4	-0.4	2.5	4.8
EUR 12	3.3	2.3	2.0	4.4	3.7	1.4	0.3	1.2	-0.1	(0.5)	0.2	-0.2	1.1	1.5	(-0.9)	(1.1)	(0.0)	(2.1)
USA	2.6	2.9	6.1	5.8	2.9	0.6	-0.3	-0.2	0.4	0.8	-0.1	-0.7	1.4	0.2	0.5	0.8	0.5	1.5
JAP	3.7	-0.2	3.0	9.8	6.1	0.3	-0.1	0.8	0.8	1.8	0.0	-0.1	0.3	1.7	-1.0	2.5	-0.4	2.7

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

	1985	1986	1987	1988	1989	1989			1990			1990			Change over 12 months (%) (c)				
						II	III	IV	I	II	Jan.	Feb.	March	April		May	June	July	
B	11.6	11.6	11.4	10.0	8.5	8.4	8.5	8.2	8.1	7.9	8.1	8.1	8.0	8.0	7.9	8.0	8.2	-0.2	
DK	7.2	5.6	5.7	6.2	6.7	6.7	7.0	6.7	6.6	6.9	6.6	6.6	6.5	6.8	6.8	7.0	7.1	-0.1	
D	7.1	6.3	6.2	6.1	5.5	5.6	5.5	5.5	5.3	5.2	5.4	5.3	5.2	5.3	5.2	5.2	5.3	-0.3	
GR	7.7	7.4	7.4	7.7	7.8	:	:	:	:	:	:	:	:	:	:	:	:	:	:
E	21.8	21.0	20.4	19.3	17.0	17.1	16.7	16.5	16.2	15.8	16.3	16.2	16.1	15.9	15.8	15.8	15.4	-1.4	
F	10.2	10.3	10.4	9.9	9.5	9.5	9.6	9.5	9.4	9.3	9.4	9.4	9.4	9.3	9.3	9.4	9.4	-0.1	
IRL	18.2	18.2	18.1	17.6	17.0	17.1	16.9	16.7	16.6	16.6	16.7	16.7	16.3	16.5	16.6	16.7	16.7	-0.2	
I	9.4	10.4	10.2	10.7	11.1	11.0	11.4	11.2	11.1	11.1	11.3	11.2	10.8	10.9	11.1	11.3	11.3	0.0	
L	2.9	2.6	2.6	2.1	1.8	1.8	1.9	1.8	1.7	1.6	1.8	1.6	1.6	1.5	1.7	1.6	1.6	-0.3	
NL	10.5	10.2	10.0	9.5	9.3	9.4	9.3	9.1	8.9	8.8	9.0	8.9	8.9	8.8	8.9	8.8	8.7	-0.6	
P	8.8	8.2	6.8	5.6	5.0	5.0	5.0	4.9	5.0	5.1	5.0	5.0	5.1	5.1	5.1	5.1	5.0	-0.1	
UK	11.4	11.4	10.4	8.5	6.7	6.8	6.5	6.1	6.1	6.0	6.1	6.1	6.0	6.0	6.0	5.9	6.1	-0.6	
EUR 12	10.8	10.7	10.3	9.7	9.0	9.0	8.9	8.8	8.7	8.6	8.7	8.7	8.6	8.6	8.6	8.6	(8.6)	(-0.4)	
USA (g)	7.2	7.0	6.2	5.5	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.2	5.4	5.3	5.2	5.5	2.0	
JAP (g)	2.6	2.8	2.8	2.5	2.3	2.3	2.2	2.2	2.1	2.1	2.2	2.1	2.0	2.1	2.1	2.2	:	0.0	

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

	1985	1986	1987	1988	1989	1989			1990			1990			Change over 12 months (%) (c)			
						II	III	IV	I	II	Jan.	Feb.	March	April		May	June	July
B	4.9	1.3	1.6	1.2	3.1	1.1	0.9	0.6	0.8	0.7	0.4	0.2	0.2	0.5	0.0	0.1	0.4	3.0
DK	4.7	3.7	4.0	4.5	4.8	1.6	0.5	1.3	-0.2	0.8	-0.6	0.2	0.3	0.1	0.7	-0.2	-0.3	2.1
D	2.2	-0.1	0.2	1.3	2.8	0.9	0.0	0.6	1.1	0.5	0.6	0.4	0.1	0.2	0.2	0.1	0.0	2.4
GR	19.3	23.0	16.4	13.5	13.7	4.1	2.4	5.8	3.5	7.1	0.7	0.1	3.8	1.7	3.0	2.2	-0.2	21.6
E	7.8	8.8	5.3	4.8	6.8	1.1	2.5	1.4	1.8	0.8	0.9	0.6	0.4	0.2	0.0	0.3	1.3	6.2
F	5.9	2.7	3.1	2.7	3.6	1.2	0.7	0.8	0.6	0.9	0.3	0.2	0.3	0.4	0.2	0.2	0.3	3.0
IRL (h)	5.4	3.8	3.1	2.2	4.1	1.0	1.5	0.7	1.0	0.3	(0.3)	(0.3)	(0.1)	(0.1)	:	:	:	(3.5)
I	9.2	5.8	4.7	5.1	6.2	1.6	0.9	1.7	2.1	1.3	0.9	0.8	0.4	0.4	0.3	0.5	0.4	6.3
L	4.1	0.3	-0.1	1.4	3.4	1.0	0.8	1.0	1.0	0.6	0.8	0.1	0.0	0.4	0.2	0.0	0.2	3.0
NL	2.3	0.2	-0.4	0.9	1.1	0.8	0.5	0.5	0.3	0.8	-0.1	0.4	0.4	0.4	0.1	0.1	0.3	2.3
P	19.3	11.7	9.4	9.6	12.6	2.5	2.8	2.3	4.6	3.2	1.7	2.3	0.6	1.2	1.1	0.3	0.7	13.3
UK	6.1	3.4	4.1	4.9	7.8	2.9	0.9	2.0	1.8	4.7	0.6	0.6	1.0	3.0	0.9	0.4	0.1	9.8
EUR 12	6.1	3.5	3.2	3.6	5.2	1.6	0.9	1.3	1.4	1.7	0.6	0.5	0.5	0.9	0.4	(0.3)	(0.3)	(5.5)
USA	3.6	1.9	3.7	4.1	4.8	1.6	0.8	1.0	1.7	1.0	1.0	0.5	0.5	0.2	0.2	0.5	0.4	4.8
JAP	2.0	0.6	0.1	0.7	2.3	2.4	0.2	0.6	0.2	1.4	0.2	0.3	0.4	0.8	0.8	0.6	0.1	2.5

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

	1985	1986	1987	1988	1989	1989			1990			1990			Change over 12 months (%) (b)			
						II	III	IV	I	II	Dec.	Jan.	Feb.	March		April	May	Junr
B/L	-3514	146	-580	-2543	-2108	-619	-744	-789	-880	:	-752	-105	-364	-411	-925	:	:	-946
DK	-1538	-1714	96	926	1226	197	228	548	441	507	335	-31	240	232	223	30	254	330
D	32986	53044	56960	60936	64056	16329	16920	13426	18267	:	4141	6543	5435	6289	4280	5748	:	712
GR	-7266	-5809	5694	-5824	-7783	-1603	-2263	-2242	:	:	-718	:	:	:	:	:	:	-525
E	-5582	-6306	-8749	-11974	-19803	-6099	-5653	-4281	-5588	-5044	-1390	-1862	-1984	-1742	-1704	-1531	-1809	12
F	-13428	-9699	-12473	-11856	-13987	-3497	-3421	-4346	-3862	-3786	-891	-1609	-1164	-1089	-1254	-1650	-881	432
IRL	430	983	2047	2740	3049	710	809	799	901	:	347	253	240	407	266	:	:	-72
I	-16130	-2459	-7427	-8390	-11098	-2529	-3195	-2116	-3329	:	-219	-1213	-798	-1318	-594	-1362	:	-242
NL	3874	4161	1088	1296	2893	-29	1084	996	726	:	531	30	249	447	310	:	:	487
P	-2735	-1297	-2955	-3474	-5035	-1287	-1279	-1517	-1434	:	-485	-560	-327	-547	-556	543	:	108
UK	-11540	-19868	-20890	-42385	-41827	-11644	-11523	-8289	-9377	-7950	-2619	-3359	-2738	-3280	-2898	-2353	-2700	920
EUR 12 (i)	-24444	11161	1424	-20549	-30415	-10392	-8429	-7385	(-6752)	:	-1053	(-2949)	(-2125)	(-1678)	(-3663)	:	:	(-13)
USA	-194856	-157829	-132116	-100252	-99052	-24716	-25841	-25082	-19743	:	6580	-7753	-5006	-6984	-5728	:	:	1147
JAP	60497	84010	69636	65441	58691	14288	13855	11128	12899	10944	3516	3314	4685	4900	2631	2750	5563	700

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

	1985	1986	1987	1988	1989	1989			1990			1990			Change over 12 months (%) (c)			
						II	III	IV	I	II	Jan.	Feb.	March	April		May	June	July
B (M2)	7.2	12.7	10.1	6.7	11.6	1.6	3.4	3.1	2.6	:	:	:	:	:	:	:	:	11.1
DK (M3)	15.8	8.4	4.1	3.5	6.3	0.2	2.3	2.2	5.1	-0.6	2.1	2.2	0.7	1.3	0.7	-1.2	0.2	9.5
D (M2)	5.2	7.2	6.4	7.0	4.5	0.8	1.1	1.3	1.0	0.9	0.4	0.4	0.2	0.2	0.0	0.6	:	4.3
GR (M3)	26.8	19.0	25.2	22.6	23.7	5.3	4.5	7.3	2.6	:	0.4	1.2	0.9	1.6	:	:	:	19.7
E (ALP)	13.3	12.1	14.6	12.1	10.4	3.5	2.8	1.6	0.7	4.3	0.4	-0.1	0.5	1.4	1.1	1.8	:	9.8
F (M2)	6.0	4.1	4.4	3.7	4.5	1.6	2.0	0.2	-1.7	1.0	-0.5	-0.9	-0.3	0.5	0.7	1.2	0.7	0.9
IRL (M3)	5.3	-1.0	10.9	6.3	5.0	2.2	0.3	1.5	4.9	0.7	-0.3	2.6	2.6	-1.5	0.2	2.0	1.8	10.0
I (M2)	11.1	9.4	8.3	8.5	10.8	2.7	1.9	3.3	2.2	2.1	0.5	0.9	0.8	1.2	-0.2	1.1	:	9.8
NL (M2)	10.7	5.1	3.9	13.7	14.3	4.2	3.8	4.0	2.0	:	1.0	0.3	0.7	1.6	-0.7	:	:	12.6
P (L)	29.0	25.9	16.8	14.9	8.8	2.2	0.7	1.2	4.6	:	1.0	1.8	1.					

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

	1985	1986	1987	1988	1989	1989			1990		1990						Change over 12 months % (c)	
						II	III	IV	I	II	Feb.	March	April	May	June	July		August
B	9.6	8.1	7.1	6.7	8.8	8.5	8.7	10.3	10.3	9.4	10.4	10.3	10.1	9.9	9.4	9.2	9.2	0.7
DK	10.0	9.1	9.9	8.3	9.4	9.0	9.5	12.1	11.8	10.8	12.0	11.8	11.5	10.7	10.8	10.5	.	0.7
D	5.4	4.6	4.0	4.3	7.1	7.0	7.5	8.1	8.3	8.2	8.4	8.3	8.3	8.2	8.2	8.1	8.3	1.3
GR	17.0	19.8	14.9	15.9	18.7	21.0	14.9	19.3	17.1	22.0	16.0	17.1	28.2	26.3	22.0	.	.	1.0
E	12.2	11.7	15.8	11.6	15.0	15.5	14.9	16.2	15.3	15.0	15.6	15.3	14.9	15.0	15.0	15.0	15.0	-0.2
F	10.0	7.7	8.3	7.9	9.4	9.3	9.6	11.3	10.3	10.0	10.8	10.3	9.7	9.8	10.0	9.8	10.3	1.1
IRL	12.0	12.4	11.1	8.1	9.8	10.5	10.7	12.1	12.3	10.3	12.3	12.3	12.0	11.1	10.3	10.7	11.4	0.9
I	15.0	12.8	11.4	11.3	12.7	12.6	12.6	13.0	12.8	11.3	13.4	12.8	12.1	12.4	11.3	11.8	11.4	-1.4
NL	6.3	5.7	5.4	4.8	7.4	7.4	7.8	8.6	8.4	8.3	9.0	8.4	8.6	8.2	8.3	8.4	8.5	1.1
P	21.0	15.6	13.9	13.0	12.6	10.0	12.9	13.8	13.8	12.5	13.9	13.8	13.6	13.0	12.5	13.2	.	0.4
UK	12.2	10.9	9.7	10.3	13.9	14.2	14.3	15.1	15.2	14.9	15.2	15.2	15.2	14.9	15.0	15.0	.	1.0
EUR 12(m)	10.6	9.2	8.9	8.6	10.9	10.9	11.1	12.1	11.7	11.3	12.0	11.7	11.7	11.6	11.3	11.4	11.5	0.6
USA	7.5	6.0	5.9	6.9	8.4	8.3	8.1	7.9	8.1	8.0	8.0	8.1	8.2	8.0	8.0	7.7	7.6	-0.5
JAP	6.5	5.0	3.9	4.0	5.4	5.4	5.7	7.0	7.6	7.5	7.3	7.6	7.5	7.4	7.5	7.8	8.3	2.8

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

	1985	1986	1987	1988	1989	1989			1990		1990						Change over 12 months % (c)	
						II	III	IV	I	II	Feb.	March	April	May	June	July		August
B	10.6	7.9	7.8	7.9	8.7	8.4	8.6	9.7	9.9	9.8	10.7	9.9	10.1	9.9	9.8	9.6	10.1	1.7
DK	11.6	10.5	11.9	10.6	10.2	10.1	10.3	10.8	11.0	10.7	11.7	11.0	10.9	10.8	10.7	10.4	10.9	0.9
D	6.9	5.9	5.8	6.1	7.0	6.9	7.1	7.6	8.9	9.0	8.7	8.9	8.9	8.9	9.0	8.7	9.0	2.2
GR	15.8	15.8	17.4	16.6	.	.	.	.	.	.	.	.	.	.	.	.	.	.
E	13.4	11.4	12.8	11.8	13.8	13.8	13.9	14.6	14.9	14.5	14.7	14.9	14.9	14.7	14.5	14.5	14.7	0.9
F	10.9	8.4	9.4	9.0	8.8	8.7	8.9	9.3	9.6	9.7	10.1	9.6	9.6	9.7	9.7	9.6	10.3	1.8
IRL	12.7	11.1	11.3	9.4	9.0	9.0	8.9	9.3	10.4	9.7	10.7	10.4	10.3	9.9	9.7	9.5	10.4	0.4
I	14.3	11.7	11.3	12.1	12.9	13.2	13.0	13.3	13.6	13.4	13.4	13.6	13.5	13.5	13.4	13.0	13.3	0.3
L	9.5	8.7	8.0	7.1	7.7	7.3	7.7	8.4	8.5	8.6	9.4	8.5	8.5	8.5	8.6	8.4	.	1.0
NL	7.3	6.4	6.4	6.3	7.2	7.2	7.2	7.8	9.0	9.0	8.8	9.0	8.9	9.0	9.0	8.8	9.2	2.2
P	25.4	17.9	15.4	14.2	14.9	15.1	15.0	15.7	15.2	15.3	15.3	15.2	15.4	15.3	15.3	15.3	15.4	-0.6
UK	10.6	9.8	9.5	9.3	9.6	9.7	9.8	9.9	11.6	10.9	11.0	11.6	12.2	11.3	10.9	11.0	11.3	1.8
EUR 12(m)	10.9	9.2	9.4	9.4	9.9	10.0	9.9	10.4	11.2	11.0	11.2	11.2	11.3	11.1	11.0	10.9	11.3	1.4
USA	10.8	8.1	8.7	9.0	8.5	8.3	8.1	7.9	8.6	8.5	8.5	8.6	8.8	8.7	8.5	8.5	8.9	0.7
JAP	6.5	5.2	4.7	4.7	5.2	5.4	5.3	5.6	7.5	7.2	7.0	7.5	7.5	7.2	7.2	7.3	8.0	3.0

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

	1985	1986	1987	1988	1989	1989			1990		1990						Change over 12 months % (c)	
						II	III	IV	I	II	Feb.	March	April	May	June	July		August
BFR/LFR	44.91	43.80	43.04	43.43	43.38	43.50	43.41	42.96	42.55	42.30	42.65	42.37	42.29	42.29	42.32	42.57	42.51	-2.1
DKR	8.02	7.94	7.88	7.95	8.05	8.09	8.06	7.95	7.86	7.82	7.88	7.82	7.80	7.81	7.84	7.87	7.91	-1.9
DM	2.23	2.13	2.07	2.07	2.07	2.08	2.07	2.05	2.04	2.05	2.04	2.04	2.05	2.05	2.06	2.07	2.07	-0.4
DR	104.8	137.4	156.1	167.5	178.8	177.4	179.2	184.7	192.3	200.5	192.4	194.5	198.6	201.6	201.5	202.5	203.8	13.9
FFA	129.0	137.5	142.2	137.6	130.4	130.6	130.0	130.8	131.6	128.3	131.9	130.9	129.7	128.1	127.1	126.8	127.7	-1.7
PT	6.80	6.80	6.93	7.04	7.02	7.04	7.02	6.96	6.92	6.90	6.93	6.89	6.87	6.90	6.93	6.94	6.94	-1.0
IRL	0.715	0.733	0.775	0.776	0.777	0.778	0.777	0.772	0.768	0.765	0.770	0.766	0.763	0.764	0.768	0.771	0.771	-0.9
LIT	1447	1462	1495	1537	1511	1514	1494	1507	1512	1506	1515	1505	1502	1505	1512	1515	1524	2.2
HFL	2.51	2.40	2.33	2.34	2.34	2.34	2.34	2.31	2.30	2.31	2.30	2.30	2.30	2.30	2.32	2.33	2.33	-0.4
ESC	130.0	146.9	162.5	170.1	173.4	172.3	173.7	176.6	179.8	181.0	179.9	180.2	181.0	181.1	180.9	181.7	182.7	5.3
UKL	0.589	0.670	0.705	0.664	0.673	0.661	0.675	0.712	0.728	0.730	0.718	0.737	0.740	0.733	0.715	0.698	0.693	2.6
USD	0.759	0.983	1.154	1.183	1.102	1.075	1.078	1.129	1.206	1.222	1.218	1.197	1.212	1.232	1.223	1.261	1.316	22.1
YEN	180.4	165.0	166.5	151.5	151.8	148.4	153.4	161.6	178.3	189.8	177.4	183.4	191.9	189.2	188.2	188.2	194.0	27.4
DTS	0.749	0.838	0.892	0.880	0.860	0.848	0.856	0.880	0.917	0.932	0.919	0.920	0.931	0.934	0.930	0.939	0.955	11.9

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

	1985	1986	1987	1988	1989	1989			1990		1990						Change over 12 months % (c)	
						II	III	IV	I	II	Feb.	March	April	May	June	July		August
B/L	0.9	5.5	4.1	1.3	-0.9	-0.1	0.4	2.0	2.4	1.1	0.3	0.6	0.6	0.1	-0.2	-0.2	0.8	6.2
DK	1.2	6.3	4.2	1.9	-2.7	-0.4	0.8	3.1	3.6	1.4	0.5	0.8	0.9	0.0	-0.7	0.0	0.5	8.5
D	0.3	10.7	6.9	-0.8	-1.3	-0.2	0.4	3.2	2.7	-0.1	0.0	-0.1	0.3	-0.1	-0.8	0.1	1.0	6.7
GR	15.9	21.3	-9.9	7.2	7.5	-2.3	-0.9	-1.9	-2.2	3.5	-0.9	-1.1	-1.6	-1.4	-0.1	-0.1	0.1	-8.0
E	-2.3	-1.5	0.2	3.1	4.1	-1.0	0.8	0.8	1.5	3.3	0.4	0.7	1.5	1.5	0.6	0.8	0.2	7.6
F	1.1	4.5	1.1	2.3	1.3	0.3	0.5	2.3	2.9	0.9	0.3	0.7	0.8	-0.4	-0.7	0.3	0.9	6.9
IRL	1.2	3.7	2.1	-1.4	-1.3	0.1	0.7	-2.7	-2.6	1.0	0.1	0.8	0.9	-0.2	-1.1	-0.3	0.7	6.2
I	5.2	3.7	1.1	3.5	0.4	0.5	1.6	0.5	1.9	1.1	0.6	0.6	0.8	-0.1	-0.7	0.4	0.4	3.6
NL	0.3	7.7	5.1	-0.4	-1.0	0.1	0.3	2.2	1.9	0.0	0.0	0.1	0.2	0.0	-0.7	-0.2	0.6	4.2
P	11.5	7.8	7.1	5.1	3.2	-1.0	-0.6	-0.5	0.3	-0.3	0.1	-0.2	0.1	0.0	-0.2	-0.1	0.1	-1.2
UK	0.2	7.3	-1.0	5.7	-3.4	-3.6	1.9	-3.9	0.5	0.6	2.1	-2.9	0.2	1.2	2.5	3.4	2.1	4.8
EUR 12	1.9	9.6	7.0	1.6	3.0	-1.3	0.8	3.3	5.7	1.7	1.3	0.3	1.5	0.2	-0.5	1.6	2.5	15.7
USA	4.1	-19.1	-12.1	-6.1	4.9	4.8	0.5	-2.3	-2.2	0.2	-0.2	-2.0	-0.1	-1.6	0.3	-2.7	-2.8	-9.5
JAP	3.0	27.2	8.2	10.4	4.4	4.7	3.1	2.5	5.7	5.4	0.8	-4.2	-3.9	2.4	0.0	1.6	-0.8	-12.4

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

- (a) They do not include building. Data are adjusted for working days.
- (b) % change over 12 months on the basis of the non-adjusted series of the most recent figure given.
- (c) Change with respect to the corresponding month of the previous year.
- (d) Change on corresponding month in previous year: seasonally adjusted.
- (e) Change over 12 months in the s.a. figure of the most recent figure given for each country.
- (f) Number of unemployed estimated on the basis of the results of Community labour force surveys: annual average and quarterly average.
- (g) Number of registered unemployed according to national legislation, as % of total labour force.
- (h) Monthly series calculated by linear interpolation.
- (i) The deseasonalized series for EUR 12 is the result of a deseasonalization of the gross export and import figures of the Community.
- (j) National sources for Belgium, Denmark, Germany, Spain, France, Portugal and the United Kingdom; seasonal adjustment by Eurostat for Greece, Ireland, Italy and the Netherlands.
- (k) Average of monthly changes s.a. weighted by 1985 GDP prices and purchasing power parities. The monthly change in Belgium is obtained by linear interpolation of quarterly data.
- (l) National sources: three-month interbank rate except: Belgium, yield on issue of four-month *Fonds des Renties* certificates; Denmark, daily money market rate (monthly average); Greece, monthly average; Portugal, rate on 6 month deposits; from 8/85, 3 month Treasury Bills (months average). Annual average, end quarter and end month.
- (m) Average weighted by 1985 GDP prices and purchasing power parities.
- (n) Yield on public sector bonds, annual average. Average of last month of quarter and annual average for Germany, Spain, Italy, Luxembourg, the Netherlands and Portugal. End of quarter and end of month for other Member States.
- (o) 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.

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

Principal economic policy measures — July-August 1990

Community (EUR 12)

3.7. The Council of Governors of the European Investment Bank (EIB) authorises the EIB to finance investment projects in the German Democratic Republic.

21.8. The Commission adopts a communication about the Economic and Monetary Union for the informal ECOFIN Council of September 7 to 9 in Rome.

21.8. The Commission adopts a package of measures in order to assure a rapid integration of the German Democratic Republic in the Community.

Belgium (B)

10.7 The central bank reduces interest rates on one-, two- and three-month Treasury bills by 0.10 of a percentage point. This takes the rate for three-month bills, considered to be the main instrument for guiding monetary policy, to 9.30 %.

23.7 The government presents the broad lines of the budget for 1991. The agreement reached sets the central government borrowing requirement at BFR 405.4 billion, or 5.8 % of GNP, which presupposes a BFR 59 billion deficit for the Communities and Regions. This target is to be achieved by means of savings of BFR 63.7 billion under four major chapters of expenditure:

- public debt: BFR 15 billion deriving from improved debt management by the conversion of one- to three-month Treasury bills issued in 1986-89 as a result of rescheduling agreements into seven-year bonds and a reform of the money market, chiefly with the aim of increasing competition;
- ministerial departments: BFR 6.7 billion, with national defence accounting for BFR 3 billion and employment and labour for BFR 2.5 billion (BFR 1.3 billion of which in the unemployment sector);
- social security: BFR 21 billion, as a result of the subsidy to the social security budget being held in reserve;
- taxation: BFR 16.4 billion, to come in particular from an increase in excise duties on gas oil (BFR 1.8 billion) the closing of certain tax loopholes (BFR 5.8 billion) and the revision of tax incentives-reduction in the investment allowance (BFR 6.2 billion).

Denmark (DK)

None.

Germany (D)

31.8 The FRG and the GDR sign a unification treaty containing detailed amendments to laws and the West German constitution.

Greece (GR)

30.6 The Ministers for Economic Affairs and for Finance jointly decide that the interest subsidies received by investment banks on the issue or renewal of bonds will have to be abolished completely on 31 December 1991. In the intervening period they will be reduced by 25 % every six months.

6.7 Minimum interest rates are raised by 2 percentage points. This takes minimum interest rates on savings deposits to 18 %, on working capital to 20 % and on medium and long term loans to 19 %. The interest paid on the debit balance of commercial banks' current accounts with the Bank of Greece will be increased by between one and two points, depending on the proportion of capital and reserves represented by this debit balance (thresholds of 15 % and 30 %).

23.7 Construction firms are allowed to borrow in foreign currency in order to finance their businesses except for residential construction; private persons are also allowed to contract loans in foreign currency to finance purchases of real estate for professional purposes.

27.7 The retail price of petrol is increased by some 9 %.

16.8 Enterprises and private persons are entitled to participate in auctions of Treasury bills organised by the Bank of Greece. Companies shall also be allowed to participate in the repurchase agreements. An earlier decision allowed enterprises to participate in the interbank market.

16.8 The so-called objective values (unit prices for real estate transactions fixed by the tax authorities) are increased for the major urban centres in the country by an average 70 %.

20.8 Non-residents are allowed to invest in bonds issued by resident companies and to repatriate the principal and the interest income thereon. In the case of new issues their minimum duration is fixed at 2 years, whereas for bonds already in circulation the minimum maturity is fixed at 6 months. Moreover, the existing restriction of 3 years for the repatriation of capital imported into Greece for the financing of direct investment is abolished.

21.8 The retail price of petrol is increased by some 17 %.

Spain (E)

6.7 The government decrees the establishment of a system of fixing consumer prices of petroleum products on the basis of objective criteria. Maximum prices will be set every 15 days on the basis of the spot market oil price and the level of petroleum product prices in a sample of six Community countries. The government also approved the definitive uprating of pensions for 1990; increases will average some 8 %.

27.7 The government approves a 5 % reduction in advance payments of personal income tax.

France (F)

1.7 The government approves a 2.5 % increase in the minimum statutory wage (SMIC).

8.8 In response to the crisis in the Gulf, the Government decrees maximum prices for petroleum products. These will vary on the basis of movements in the prices of refined products on the Rotterdam market which depend on the dollar price per barrel of crude oil. However, the proportion of the price corresponding to the distribution margin and tax charge remains unchanged.

28.8 For the second year in succession, the Government sets an upper limit on rent increases in Paris and the surrounding conurbation. From 1 September 1990 to 31 August 1991, rent increases will not be permitted to exceed the rise in the cost of construction index, i.e. 1.1 %.

Ireland (IRL)

None.

Italy (I)

7.7 Government, trade unions, and the employers' association reach an agreement whereby the present system of wage indexation in industry ('scala mobile') will be extended up to the end of 1991. After that date a new mechanism will be put in place, to be devised through negotiations due to start on 1st June 1991.

12.7 Law enabling public credit institutions to become joint-stock companies (with private shareholders holding up to 49 % of shares) wins final approval from Parliament.

Luxembourg (L)

19.7 The Government approves a bill under which the Luxembourg stock exchange society is permitted to set up forms of stock markets other than the traditional ones, such as options and futures markets.

Netherlands (NL)

10.7 The government limits certain social security benefits, such as entitlement to benefit for widows and widowers and unemployment benefits for persons of between 21 and 27 years of age who have completed their studies.

18.7 The government decides on a package of measures designed to save HFL 650 million on the central government budget and HFL 350 million on social security expenditure (as a result of which central government social security funding can be reduced). The objective is to limit the budget deficit to 4.7 % of NNI in 1991. This is to be achieved by a 1 % reduction in all subsidies (HFL 270 million), enterprises paying for vocational training specifically geared to the needs of branches of activity (HFL 150 million), 'efficiency savings' (cuts in the number of civil servants (HFL 230 million), a reduction in the number of persons receiving invalidity benefits and a limit on expenditure in the health sector.

19.7 The government adopts a draft law laying down the rules for adjusting public sector minimum wages and allowances to those in the private sector. The adjustment will be made twice a year: in January, on the basis of the rise in wages as estimated in the Planning Office forecasts, and in July when the difference between the estimate in the following March and the January adjustment will be granted.

19.7 The Nederlandsche Bank raises its secured loans rate from 7.8 % to 8 %.

Portugal (P)

18.7 Parliament approves a new law on urban leases, which now permits fixed term contracts for new leases.

27.7 The government increases petroleum product prices by 5 %. The purpose of this measure is to guarantee the revenue from the tax on petroleum products provided for in the budget.

Royaume-Uni (UK)

19.7 The government announces a package of measures to soften the impact of the new 'Community Charge' (poll tax) levied by local authorities as from the next financial year beginning in April 1991.

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