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Recent economic trends
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In this number:
Inflation in the Community

Summary

The process of reduction in Community rates of inflation, which had characterized a large part of the 1980s, came to an end during 1988. 1989 and the first half of 1990 saw a creeping-up of inflation rates throughout the Community. The Gulf crisis and the resulting increase in the price of crude oil from August 1990 have increased concern about a possible resurgence of inflation on a major scale. The most recent Commission forecasts project an increase in the deflator of private consumption of 5.3 per cent in 1991 after the 5.1 per cent estimated for 1990. In 1987 and 1988, this measure of inflation was 3.5 and 3.7 per cent respectively.

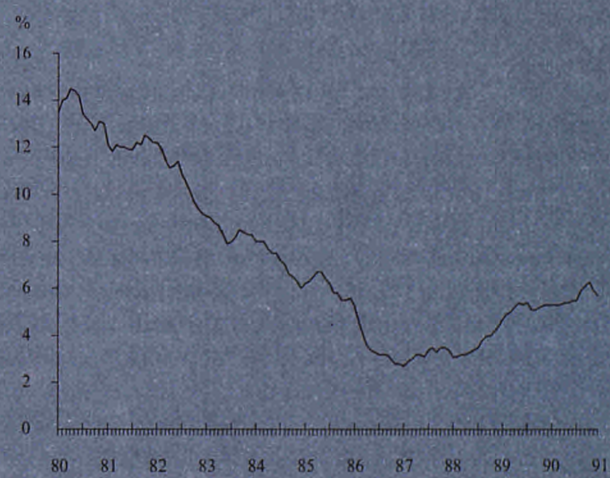
The recent acceleration in the rates of inflation is a process common to most industrialized countries which suggests that common factors must have been at play. One such factor has undoubtedly been the markedly expansionary stance of monetary policy in all countries following the stock market crash of October 1987. The resultant strong economic expansion throughout the industrialized world in 1988/1989 led to high rates of capacity utilization which may have added to inflationary pressures. Apart from the recent increase in the price of oil, changes in the price of raw materials and energy products do not appear to have contributed in any significant way to the world-wide acceleration of inflation rates over the last 3 years.

With regard to the Community's inflation performance, a number of other factors have played a part. The most disturbing feature has been the acceleration of wage increases. The increase of nominal compensation per employee rose from 5.6 per cent annually in 1988 to 6.0 per cent in 1989 and has reached 7.5 per cent in 1990. The resulting 2.2 per cent average increase of real wages in 1990 was much higher than the overall trend for the previous decade and as high as that of 1986 when the European economy was benefiting from the terms of trade gain resulting from the marked drop in the price of oil. The increase in the price of oil since August 1990 has certainly taken place at an unwelcome moment when inflation was already rising, but its impact has not been as strong as it is commonly assumed, as it was more or less compensated by the appreciation of the ECU against the US dollar.

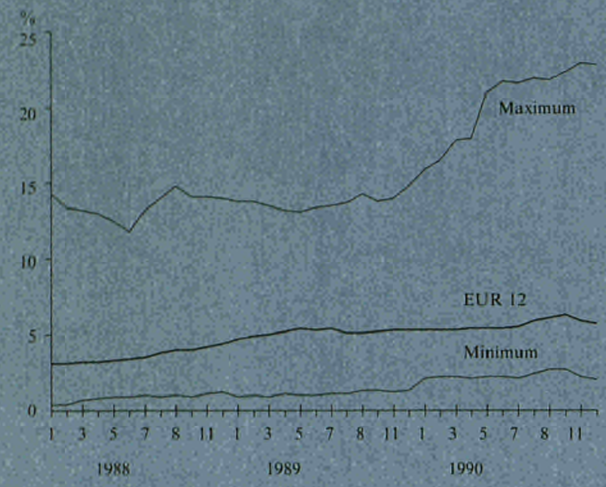
The deterioration in the overall Community inflation performance has gone hand in hand with a slight deterioration of the dispersion in the individual results (see graphs 2a and 2b). This is all the more worrying since the Community has now entered Stage One of the process towards full Economic and Monetary Union where continued progress towards nominal convergence is essential.

GRAPH 1: **Consumer price index; EUR 12**

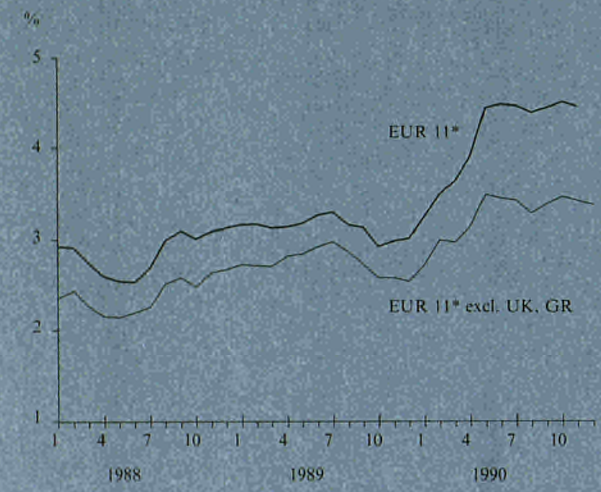
(annual percentage change increase on the year)



GRAPH 2a: **Convergence of consumer prices**
(annual percentage change)

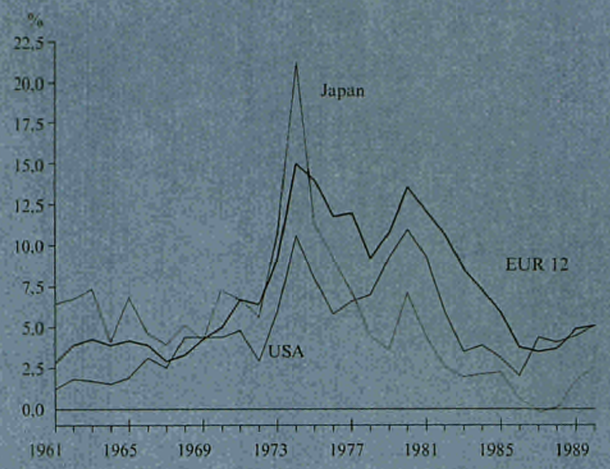


GRAPH 2b: **Average percentage deviation from average EUR 11***
(annual percentage change)



* EUR 11 = EUR 12 excl. IRL where only quarterly data are available.

GRAPH 3: **Deflator of private consumption**
(annual percentage change)



The present acceleration of inflation, as well as the whole inflation trend of the last thirty years, is not a specific Community problem. Over the last number of years, rates of inflation have accelerated throughout the industrialized world (see graph 3). The deflator of private consumption in the USA, which had reached the extremely low figure of 2 per cent in 1986, increased from 4.1 per cent in 1988 to 5.1 per cent in 1990. In Japan, the deflator of private consumption increased from zero in 1987/1988 to 2.5 per cent in 1990. Similar accelerations can be found in most other industrialized countries.

As in the past, the acceleration of inflation in the Community has been accompanied by an increase in the dispersion of the individual performances of the Member States. However, the latest developments of price convergence have to be seen against the background of an impressive improvement throughout the Community during most of the eighties. The initial narrow-band countries (Belgium, Denmark, Germany, France, Ireland, Luxembourg and the Netherlands), in particular, have achieved a very good degree of convergence during the last decade even if their average level of inflation has modestly increased over the last two years.

The less favourable convergence picture in the Community at the end of 1990 - with respect to both the average level of inflation rates and their dispersion - is largely due to the developments in Greece and the United Kingdom (see graph 2b). In these two countries, the rates of inflation have increased significantly in the course of 1990 especially under the pressure of high wage increases.

In Germany, Belgium and the Netherlands, the return in 1989 to rates of inflation of 2 to 3 per cent, after the very low rates of 1987/1988, while certainly not welcome, was largely seen as a normalisation following the disappearance of the effects of the exceptional terms of trade improvement of 1986. During the second half of 1990, the

Recent trends

In January 1987, the rate of increase in consumer prices in the Community reached its lowest level since the 1960s (2.7 per cent, consumer price index, rate of increase over twelve months). This was under the positive effect of the large drop in the price of oil and the appreciation of the European currencies vis-à-vis the dollar. After hovering around the 3 per cent mark for a few months, inflation started accelerating again from mid-1988 and reached 5.5 per cent in July 1990. The increase in the price of oil which followed the outbreak of the Gulf crisis pushed it up to 6.3 per cent in October. December 1990, the last month for which figures for the whole of the Community are available, saw a certain easing to 5.7 per cent, due partly to a reduction in oil prices (see graph 1).

monthly rates of inflation increased rapidly in all the countries which had respected the narrow band of the EMS from the start. The only exception was Denmark which made significant progress in the course of 1990 to reduce the rate of inflation from the 5 per cent reached in 1989. In October, November and December 1990, Denmark had the lowest rate of inflation in the Community with 2.7, 2.2 and 2.0 per cent respectively (consumer price index, increase on the year).

In Italy, the monthly rates of inflation increased only slightly in 1988, relatively strongly in the first half of 1989 and have remained more or less stable over the last 18 months, although an upward trend seems to have emerged during the second half of 1990. In Spain, however, the increase in inflation rates was more pronounced, from a low of 3.9 per cent in April 1988 to a high of 7 per cent in October 1990. This development was due particularly to an erosion in the social consensus which resulted in a large increase of wage costs and added to the inflationary factors common to all EC Member Countries.

In the United Kingdom, inflation has accelerated sharply since 1988 mainly due to very high wage settlements. On top of that, the statistical effects of the introduction of a new method of financing local government ('Community Charge') and of higher mortgage interest costs have added to the creeping up of the consumer price index which rose by almost 11 per cent in September and October 1990. But even if the effects of the 'Community Charge' and mortgage interest rates are disregarded, the underlying inflation rate has sharply increased. This can be seen by the sharp increase in nominal unit labour costs (9.4 and 10.9 per cent in 1989 and 1990 respectively; see table 2).

In Portugal, and to an even greater extent in Greece, inflation rates are still out of touch with developments in the rest of the Community. Reversing the previous converging trend with the rest of the Community, the inflation rate in Portugal started to rise sharply in 1988 and reached double digit figures in the course of the year (11.7 per cent in November 1988 after 8.4 per cent in January 1988). Thereafter inflation increased further until the end of 1989 when the upward trend came to a halt. Since January 1990 inflation has fluctuated between 12 per cent and 14 per cent with a peak of 14.1 per cent in October 1990.

Greece, which already had the highest rate of inflation in the Community, experienced an increase of more than six percentage points between 1989 and 1990. After a certain improvement during the first half of 1988, inflation showed a strong upward momentum which accelerated since December 1989 following the abandonment of the stabilization program. In May of 1990, the rate of consumer price increase had reached 21 per cent.

In Spain, Italy, Portugal and Greece, the oil price increase appears to have had, until now, a relatively small impact on the consumer price index. On the one hand, this might reflect the high level of taxes on petrol existing in these countries which dampens the repercussions of increases in crude oil prices on consumer prices more than in low-tax countries. On the other, this may be due to longer lags in the passing through of the oil price increases resulting from the price formation mechanism in force.

Factors and policies determining the acceleration of inflation in the Community

A useful, if somewhat too mechanical, way to analyse price trends is to look at the contributions to the deflator of total final uses (see table 1 and Graph 4). Total final uses is the only aggregate for which a meaningful identification of the price components is possible. The trend of its deflator diverges from that of the deflator of private consumption when there are significant terms of trade changes. It moves, however, sufficiently in line with the deflator of GDP to be used in normal conditions as an acceptable proxy (for methods used, see technical annex of European Economy, No 18, November 1983).

Import prices - being the net effect of a 'pure' price component and an exchange rate component - are an important external factor influencing the price performance. For the Community as a whole, the reduction of inflation rates during the period between 1984 and 1987 was helped by a declining or even negative contribution of import prices to the deflator of total final uses. During the period 1988-89, however, import prices have again contributed to the increase of the deflator of total final uses. This small contribution was mainly due to an increase in the prices of non-oil primary commodities in 1988 and the appreciation of the dollar in 1989.

In 1990, the contribution of import prices to the deflator of total final uses again declined in importance. This may come as a surprise given the development of oil prices in the second half of the year. In fact, the effect of the oil price increase has been more than offset by the strong depreciation of the US dollar against the European currencies and a slight fall in import prices for manufactured goods and primary non-fuel commodities. Given the relatively favourable development of import prices, internal factors must have been the main cause of the acceleration of inflation since 1987.

The most important internal contribution to the increase of the deflator of total final uses, and to the price level in general, comes from nominal unit labour costs. During the period of wage moderation between 1981 and 1987, the rate of wage increases had slowed down considerably. In the Community as a whole, the growth rate of the nominal compensation per employee had been falling from 15.0 per cent in 1980 to 5.5 per cent in 1987 which was reflected in a reduction of the contribution of nominal unit labour costs to the deflator of total final uses. However, since 1988 wages are rising at an increasing rate and, thus, nominal unit labour costs have contributed more strongly to price increases.

TABLE 1: **Origin of price developments in the Community, USA and Japan, 1982-1991 (annual percentage change)**

		Price deflator total final uses	Contribution to the change of the price deflator of total final uses (a)						
			Import prices (b)	Import prices (excl. nom. eff. exch. rates)	Nominal effective exchange rates	Price deflator of GDP	Unit labour costs	Net indirect taxes	Gross operating surplus
		(1) = (2) + (5)	(2) = (3) + (4)	(3)	(4)	(5) = (6) + (7) + (8)	(6)	(7)	(8)
B	**1982-84**	7,5	4,0	1,7	2,3	3,5	1,9	0,3	1,3
	1985-87	−0,1	−2,1	−1,0	−1,1	2,2	1,1	−0,3	0,8
	1988	2,2	1,1	0,6	0,5	1,2	−0,4	0,0	1,6
	1989	5,1	2,7	2,4	0,3	2,7	0,5	0,6	1,6
	1990*	1,6	−0,1	1,7	−1,8	1,9	1,3	0,3	0,2
	1991*	4,4	2,1	2,0	0,0	2,5	1,8	0,4	0,3
DK	**1982-84**	7,7	1,9	1,4	0,5	5,9	2,9	0,7	2,3
	1985-87	2,7	−0,7	0,2	−0,6	3,5	2,6	1,0	−0,1
	1988	4,2	0,5	0,1	0,4	3,8	2,2	0,1	1,5
	1989	4,7	1,4	0,9	0,5	3,5	0,8	−0,3	2,9
	1990*	1,9	−0,3	0,9	−1,2	2,3	1,0	−0,1	1,3
	1991*	2,6	0,8	0,7	0,1	1,8	1,0	0,3	0,5
D	**1982-84**	3,1	0,6	1,2	−0,7	2,5	0,7	0,2	1,5
	1985-87	0,9	−1,0	0,2	−0,8	1,9	1,0	0,0	0,9
	1988	1,4	0,3	0,2	0,1	1,2	0,1	0,0	1,1
	1989	2,8	0,9	0,8	0,1	2,1	0,5	0,6	1,0
	1990*	2,8	0,1	0,9	−0,7	2,9	1,3	0,3	1,3
	1991*	4,0	0,8	0,9	−0,2	3,5	1,6	0,5	1,4
GR	**1982-84**	21,5	4,8	1,4	3,4	16,7	13,7	2,5	0,5
	1985-87	14,4	2,1	−2,9	4,9	12,5	9,4	1,8	1,5
	1988	12,5	1,6	−0,2	1,8	11,0	8,4	1,9	0,6
	1989	14,2	2,9	1,1	1,8	11,9	9,5	1,2	1,2
	1990*	17,8	2,4	−0,1	2,5	15,8	10,1	3,8	1,9
	1991*	16,4	3,1	0,9	2,1	13,6	8,7	2,6	2,3
E	**1982-84**	12,6	2,6	1,0	1,7	10,0	5,5	0,8	3,7
	1985-87	5,9	−0,7	−1,1	0,4	7,0	3,7	1,2	2,1
	1988	4,6	0,3	0,8	−0,5	4,8	2,3	0,0	2,5
	1989	5,3	0,4	1,1	−0,8	5,7	2,6	0,6	2,5
	1990*	5,4	−0,1	0,6	−0,6	6,0	3,7	0,6	1,7
	1991*	5,8	0,6	0,8	−0,2	5,6	3,2	0,7	1,6
F	**1982-84**	9,8	2,0	0,9	1,1	7,8	4,8	1,1	1,9
	1985-87	3,1	−0,6	−0,5	−0,2	3,8	1,5	0,5	1,9
	1988	3,1	0,5	0,2	0,3	2,7	0,6	0,8	1,3
	1989	3,8	1,2	1,0	0,1	2,8	1,2	0,5	1,1
	1990*	2,7	0,0	0,7	−0,6	2,8	2,0	0,4	0,4
	1991*	3,3	0,6	0,5	0,0	2,8	1,4	0,3	1,1
IRL	**1982-84**	9,5	2,7	1,9	0,8	6,8	4,3	0,9	1,6
	1985-87	1,9	−0,8	0,0	−0,8	2,8	1,5	0,2	1,1
	1988	4,1	2,2	1,2	1,0	1,9	0,4	0,2	1,3
	1989	5,6	2,4	2,2	0,2	3,3	−1,0	1,0	3,3
	1990*	0,3	−1,0	1,3	−2,4	1,4	0,6	−0,9	1,7
	1991*	3,6	1,5	1,2	0,4	2,1	1,5	1,0	−0,4
I	**1982-84**	13,5	1,8	1,0	0,8	11,7	7,6	0,9	3,2
	1985-87	5,5	−0,5	−0,8	0,3	6,2	3,8	0,6	1,7
	1988	5,5	0,6	0,2	0,5	5,0	3,4	1,1	0,5
	1989	6,2	1,2	1,4	−0,2	5,3	3,4	0,7	1,3
	1990*	5,8	0,2	0,3	−0,1	5,9	3,9	1,0	1,0
	1991*	6,0	0,7	0,7	0,0	5,5	3,8	0,9	0,8
NL	**1982-84**	3,0	0,9	1,4	−0,5	2,1	0,2	0,1	1,8
	1985-87	−2,2	−2,5	−1,0	−1,5	0,4	0,5	0,2	−0,3
	1988	0,9	0,0	−0,2	0,2	1,2	0,0	0,0	1,2
	1989	2,9	2,0	1,6	0,4	1,0	−0,7	0,2	1,5
	1990*	1,0	−0,7	0,6	−1,3	1,9	1,1	0,4	0,4
	1991*	3,2	1,4	1,2	0,2	1,9	1,2	0,2	0,5
P	**1982-84**	24,2	8,2	1,5	6,6	16,1	9,8	2,3	4,0
	1985-87	13,8	1,8	−1,1	2,9	12,6	7,0	2,0	3,5
	1988	11,0	3,4	1,9	1,5	8,2	4,1	2,0	2,1
	1989	10,7	2,5	1,4	1,1	8,5	3,9	0,8	3,8
	1990*	11,2	2,3	1,6	0,6	9,4	5,3	1,0	3,1
	1991*	11,0	2,7	1,8	1,0	8,6	5,0	1,5	2,0
UK	**1982-84**	6,2	1,5	0,6	0,9	4,7	2,3	0,6	1,9
	1985-87	3,8	0,2	−0,7	0,9	3,6	2,0	0,8	0,9
	1988	4,9	−0,1	1,0	−1,2	5,2	3,0	0,8	1,4
	1989	6,7	1,4	0,8	0,6	5,5	4,5	0,6	0,4
	1990*	6,5	0,5	−0,1	0,6	6,0	5,3	1,0	−3,1
	1991*	5,5	0,1	0,7	−0,6	5,3	3,8	0,9	0,6

TABLE 1 *(continued)*: **Origin of price developments in the Community, USA and Japan, 1982-1991 (annual percentage change)**

		Price deflator total final uses	Contribution to the change of the price deflator of total final uses (a)						
			Import prices (b)	Import prices (excl. nom. eff. exch. rates)	Nominal effective exchange rates	Price deflator of GDP	Unit labour costs	Net indirect taxes	Gross operating surplus
		(1) = (2) + (5)	(2) = (3) + (4)	(3)	(4)	(5) = (6) + (7) + (8)	(6)	(7)	(8)
EUR 12	**1982-84**	6,2	0,7	−0,3	1,0	5,5	2,8	0,6	2,1
	1985-87	2,1	−0,8	−0,4	−0,4	3,1	1,6	0,4	1,1
	1988	3,8	0,2	0,1	0,2	3,8	1,8	0,6	1,5
	1989	5,2	0,8	0,5	0,3	4,7	2,4	0,6	1,6
	1990*	4,0	−0,1	1,0	−1,1	4,3	2,8	0,6	0,9
	1991*	5,0	0,4	0,5	−0,1	4,7	2,8	0,7	1,2
USA	**1982-84**	3,9	−0,2	0,3	−0,5	4,1	2,6	0,3	1,2
	1985-87	2,5	0,0	−1,0	1,0	2,5	1,8	0,1	0,5
	1988	3,2	0,3	−0,5	0,8	2,9	2,0	0,2	0,6
	1989	3,7	0,1	0,5	−0,4	3,7	2,0	0,3	1,4
	1990*	4,0	0,2	−0,2	0,4	3,8	3,0	0,3	0,5
	1991*	5,8	0,9	0,5	0,4	4,9	4,2	0,5	0,2
J	**1982-84**	0,9	−0,2	−0,1	−0,1	1,1	0,7	0,2	0,3
	1985-87	−0,5	−1,3	−0,1	−1,2	0,9	0,2	0,3	0,4
	1988	−0,2	0,0	0,6	−0,6	0,4	−0,2	0,3	0,3
	1989	1,8	0,9	0,4	0,5	1,4	0,7	0,1	0,6
	1990*	2,4	1,1	0,3	0,9	1,4	0,8	0,1	0,5
	1991*	1,9	0,1	0,6	−0,4	1,9	1,6	0,1	0,1

* Economic forecast October-November 1990.
(a) For methods used, see technical annex of European Economy, No 18, November 1983.
(b) Excluding intra-Community trade.
Source: Commission services.

In 1990, the particularly strong increase of nominal unit labour costs was a widespread phenomenon in the Community. Even in low inflation countries like the Netherlands, Germany, Ireland, France, Belgium and Luxembourg, the contribution of nominal unit labour costs to the deflator of total final uses has more or less doubled between 1989 and 1990. Given the continuing low absolute figures in these countries, concern relates more to the trend of unit labour costs rather than to the actual absolute amounts of the increases. In Portugal, the United Kingdom, Italy, Spain and particularly in Greece, on the other hand, the increase in unit labour costs is much larger and bound to affect their competitive position and to threaten progress towards convergence. In Denmark, a particular situation exists since the country has successfully managed to reduce the level of wage settlements which had, particularly in 1987, pushed inflation rates up. The contribution of unit labour costs to the deflator of total final uses has fallen between 1987 and 1990. The external account, however, reveals that additional efforts are needed to remove remaining imbalances.

The increase in nominal unit labour costs (see table 2) results from both an acceleration in the rate of growth of nominal compensation per employee and a slower growth of labour productivity. In the Community as a whole, the rate of increase of nominal compensation per employee was falling between 1980 and 1987. Since then, the trend has changed and in 1990 the annual increase was 7.5 per cent. The growth rate of GDP per person employed has been reduced Community wide from 2.2 per cent in 1988 to 1.2 per cent in 1990, the lowest increase since 1981.

Three main factors appear to have played a substantial role in the change in wage trends. First, the less firm anti-inflationary stance of monetary policies in the period 1987/1988 may have fuelled inflationary expectations. Furthermore, these expectations probably contributed to higher wage claims by employees who wanted to preserve their real position. The more expansionary monetary stance may have created expectations of higher wage settlements being accommodated. Second, since the early eighties, profits were rising and the wage share declined. Thus, employees may have felt a certain justification to demand a higher share of the benefits of economic prosperity which was experienced since that time. Third, at least in some countries, shortages of skilled labour have appeared which have improved the bargaining position of these groups. Depending on the institutional wage formation process, spill-over effects from the resulting higher wage increases seem also to have contributed to the general acceleration in labour costs.

In the Community, net indirect taxes have added to the deflator of total final uses only to a moderate extent during the last number of years (between 0.4 and 0.6 per cent since 1983). Nevertheless, the pattern varied among the Community countries from year to year, with changes in the individual member countries being much greater than the figures for the Community show. The reason for this can be seen in tax rate changes which normally cause a kink in the development of this component in the respective year and occur at different times in the individual countries.

In Greece, net indirect taxes contributed 3.8 percentage points (one fifth) to the deflator of total final uses in 1990. On the other hand, in Ireland and Denmark, the tax pressure even receded with the contribution being negative in recent years (in Denmark -0.3 per cent and -0.1 per cent in 1989 and 1990 respectively and -0.9 per cent in Ireland in 1990).

TABLE 2: **Recent developments in private consumption, import prices, nominal compensation per employee, nominal and real unit labour costs, money supply**

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR 12
1) Price deflator private consumption													
1980-85	6,9	8,4	4,0	19,9	12,8	10,3	12,3	15,2	7,8	4,2	22,6	8,5	9,7
1986	0,3	3,5	0,2	22,0	8,7	2,9	4,0	5,7	1,2	0,2	13,8	4,4	3,8
1987	1,8	4,4	0,8	15,6	5,4	3,3	2,6	5,0	1,5	0,4	10,0	3,9	3,5
1988	1,8	4,9	1,3	14,0	5,1	3,0	2,5	4,8	2,6	0,7	10,0	5,0	3,7
1989	3,4	5,0	3,2	14,4	6,6	3,3	3,9	6,0	4,0	2,1	12,8	6,1	4,9
1990*	3,6	2,8	2,8	20,5	6,8	3,4	2,8	6,1	3,5	2,4	13,2	7,0	5,1
1991*	4,5	3,3	3,9	18,5	6,6	3,6	3,5	6,3	4,0	2,8	12,6	6,3	5,3
2) Price deflator imports of goods and services													
1980-85	9,7	10,5	5,6	22,7	19,0	12,3	10,1	15,1	8,4	6,1	24,6	7,5	11,0
1986	−12,5	−9,3	−11,7	8,4	−16,3	−12,2	−10,2	−14,9	−3,0	−16,2	−6,8	−4,1	−10,7
1987	−4,4	−2,2	−4,6	0,4	0,2	−0,5	1,1	−0,4	−2,6	−5,6	12,6	2,7	−1,0
1988	2,8	2,1	1,4	6,6	2,1	2,8	6,3	4,1	1,2	−0,1	11,6	0,7	2,2
1989	6,5	6,2	4,8	12,3	2,2	6,6	6,9	7,5	6,0	5,9	8,0	6,4	6,1
1990*	−0,3	−1,4	0,7	9,8	0,5	0,3	−2,8	0,9	3,0	−2,1	7,2	2,3	0,9
1991*	4,9	3,5	3,7	13,2	3,1	3,1	4,3	4,1	4,5	4,2	8,6	0,7	3,7
3) Nominal compensation per employee; total economy													
1980-85	6,8	8,2	4,4	22,3	13,2	11,4	14,1	16,3	7,0	3,2	22,3	10,4	10,5
1986	4,7	4,9	3,8	12,8	9,5	4,3	4,6	7,4	5,2	1,6	21,6	7,3	6,2
1987	2,0	8,4	3,1	11,3	6,4	3,5	6,1	9,3	3,9	1,4	17,9	6,2	5,5
1988	1,8	4,6	3,1	17,2	6,4	4,0	4,1	8,8	3,1	1,4	13,4	7,2	5,6
1989	3,9	3,5	2,8	18,8	5,9	4,9	2,3	9,2	3,9	0,5	13,0	8,8	6,0
1990*	6,2	3,3	4,7	18,0	8,2	5,4	5,3	8,9	6,2	4,7	16,9	10,4	7,5
1991*	7,1	3,0	5,1	16,7	7,4	4,7	5,4	9,0	5,3	4,4	15,6	8,7	7,0
4) Nominal unit labour costs; total economy													
1980-85	4,7	6,5	2,8	22,2	9,7	9,4	10,2	14,8	5,1	1,6	19,7	8,4	8,6
1986	3,7	4,4	2,5	12,3	8,5	2,3	5,3	5,5	3,4	1,6	13,6	4,1	4,3
1987	0,6	9,7	2,1	11,2	6,2	1,9	1,8	6,8	3,7	1,8	12,6	3,6	3,9
1988	−1,0	4,4	0,1	14,5	4,3	1,3	0,8	6,1	1,9	−0,1	9,1	6,3	3,3
1989	1,2	1,7	0,9	16,3	5,0	2,4	−2,3	6,0	1,5	−1,8	9,1	9,4	4,3
1990*	3,6	2,1	2,8	17,3	7,3	4,1	1,4	7,1	5,3	2,9	12,9	10,9	6,2
1991*	4,9	2,1	3,5	15,1	6,3	2,9	3,7	6,9	4,1	3,0	12,3	7,5	5,3
5) Real unit labour costs; total economy													
1980-85	−0,7	−1,1	−0,6	1,9	−1,9	−0,2	1,2	−0,3	−1,5	−2,1	−1,6	−0,5	−0,6
1986	0,2	−0,2	−0,2	−4,6	2,2	2,8	−0,8	−1,9	1,7	1,1	−5,7	0,6	−1,2
1987	−1,5	4,4	0,1	−2,6	0,3	−1,1	−0,2	0,6	2,8	2,2	1,3	−1,1	−0,2
1988	−2,9	−0,5	−1,3	0,0	−1,3	2,0	−2,0	0,2	−0,3	−1,9	−2,2	−0,4	−1,1
1989	3,1	2,7	1,6	0,7	−1,8	−1,0	−7,0	−0,3	−2,2	−3,2	−3,0	2,3	−0,7
1990*	0,3	−0,8	−0,9	2,9	0,0	0,6	−0,8	0,0	2,2	0,0	−0,8	3,0	0,4
1991*	0,5	−0,2	−0,9	−2,2	−0,4	−0,5	0,4	0,2	0,3	0,2	−0,2	0,7	−0,2
6) Money supply													
1980-85	7,4	14,6	25,5	27,5	15,5	10,0	11,5	12,7	:	7,7	24,6	14,9	11,3
1986	10,7	8,4	6,6	19,0	12,2	6,3	−1,0	9,4	:	5,1	25,8	15,9	9,8
1987	9,9	4,4	5,9	25,2	13,6	7,3	10,9	8,4	:	4,4	16,8	16,3	9,8
1988	6,6	3,5	6,9	22,6	10,3	7,3	6,3	8,5	:	13,1	14,8	17,6	10,2
1989	11,0	5,9	5,5	23,7	12,9	7,9	5,0	10,8	:	14,5	8,8	18,4	11,0
1990*	6,8	4,4	5,1	18,5	8,7	4,5	8,0	8,5	:	8,0	14,0	14,2	8,1

* Economic forecasts, October/November 1990*. With respect to the money supply, figures mentioned are assumptions underlying the economic forecasts of October/November 1990*.
Source: Commission services.

As a residual of the above mechanical decomposition of components of the deflator of total final uses one can derive the contribution of the gross operating surplus. Profit margins remain intact if the increase of the contribution of the gross operating surplus matches that of the two other components (unit labour costs and net indirect taxes). After a perceptible rise in the mid eighties (see table 1), profit margins have been narrowing since 1988.

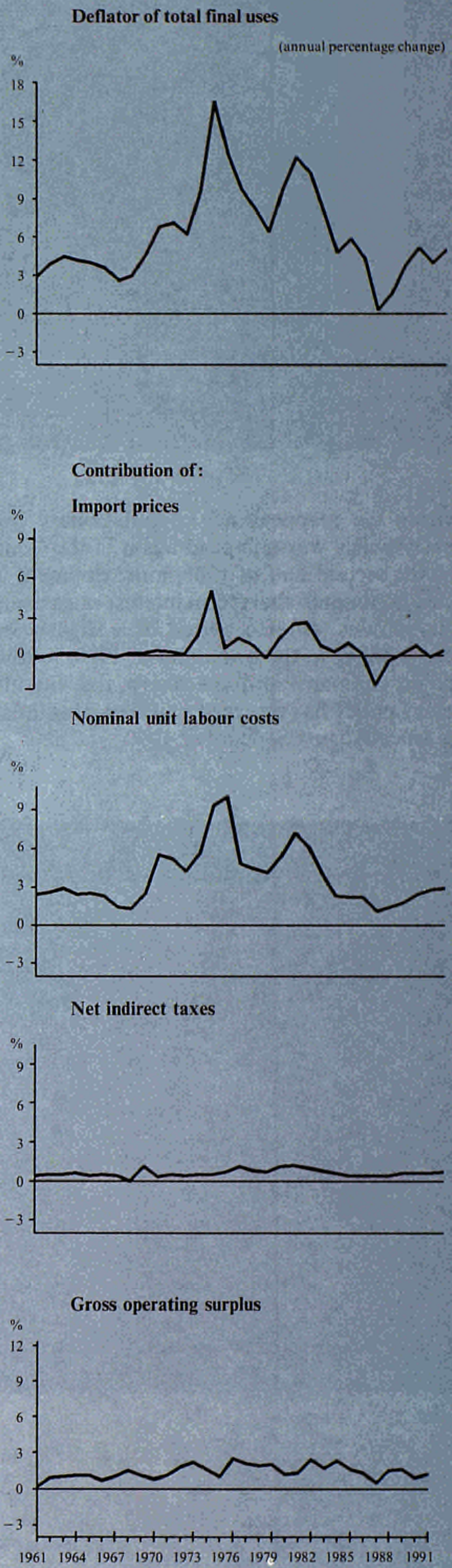
The components discussed so far have been derived in a mechanical way under the perspective of costs. Demand factors also play their role in influencing the price performance. In fact, the acceleration of inflation since 1987 coincided with an acceleration in output growth and an increasing degree of capacity utilization.

The most recent results of the European Community business surveys, however, show that a certain turnaround is taking place: general economic sentiment is less optimistic, order books are increasingly judged too small and the actual degree of capacity utilization (see graph 5) is slightly falling from the very high levels of 1989. These trends appear throughout the Community - the only exception being Germany where the unification process continues to sustain buoyancy in the economy. These results, which are in line with the short-term forecasts of the EC Commission, indicate that demand factors are likely to have a dampening effect on inflationary pressures in the months ahead.

Another factor which has a large impact on the price performance is monetary policy. Even if it is generally acknowledged that the relationship between money supply, interest rates and price changes is not always clear, with institutional changes having blurred the meaning of traditional monetary aggregates, it is possible to identify some broad developments which go some way towards explaining price trends.

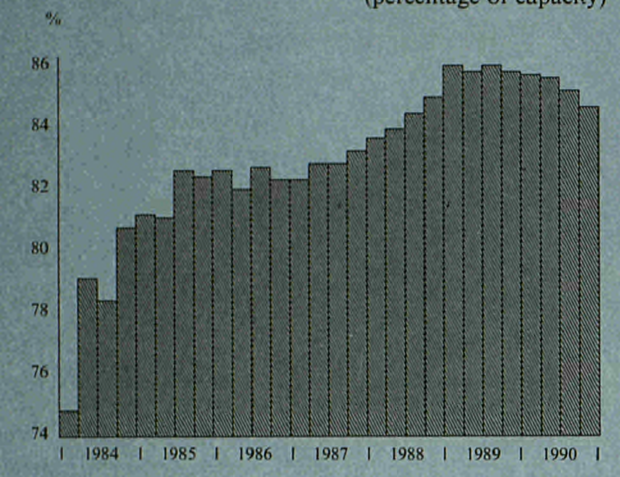
At the end of the seventies and the beginning of the eighties, tight monetary policies were an essential component of the general policy stance aimed at bearing down on inflationary pressures. The comparatively low rate of growth of money supply per unit of GDP has helped to bring down labour costs per unit of GDP (see graph 6). Since 1982, both variables moved downwards in parallel, with the rate of increase of money supply per unit of real GDP remaining even higher than the rate of increase of unit labour costs. This development was first translated in increasing nominal demand. However, since 1986 and especially in the aftermath of the stock exchange crash in October 1987, monetary policy in the Community became even more accomodating. This resulted in an increasing liquidity supply and a widening gap between short term and long term nominal interest rates (see graphs 6 and 7). The high rates of increase in the money supply, in conditions of increasing degrees of capacity utilization, may have added to the pick-up of inflation at the beginning of 1988.

GRAPH 4: **Contribution to the change of the price deflator of total final uses, EUR 12**



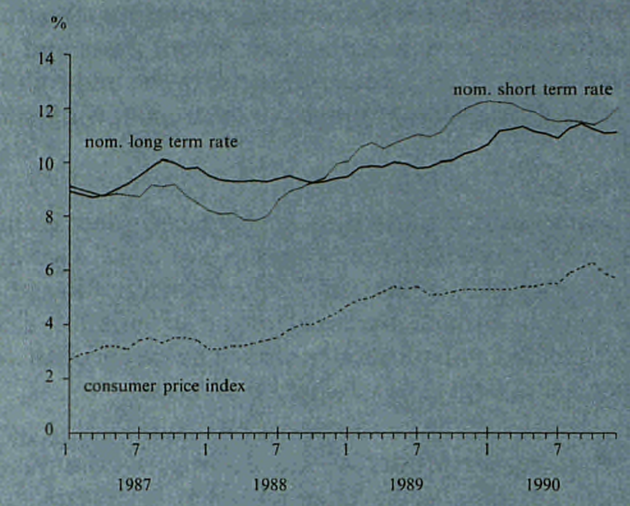
GRAPH 5: **Level of capacity utilization; EUR 12**

(percentage of capacity)



GRAPH 7: **Interest rates and consumer price index; EUR 12**

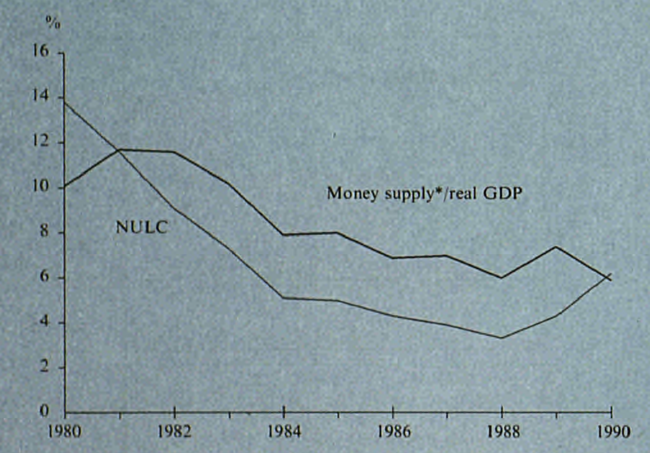
(annual percentage change)



Following the reappearance of inflationary pressures, monetary policy was tightened again in the Community during the second half of 1988, a development which is reflected in nominal short term interest rates rising above long term rates. After a period of a slightly less rigid monetary policy in the beginning of 1990, following the events in Germany and the sharp rise in oil prices, monetary policy has returned to a firm anti-inflationary stance since August/September 1990.

GRAPH 6: **Money supply* per unit of real GDP and nominal unit labour costs; EUR 12**

(annual percentage change)



* = Broad money supply (M2/M3), annual average.

Short term outlook and conclusion

In 1991, according to the most recent short term forecast of the Commission services, the general inflation picture in the Community will not change substantially. A certain improvement could take place in 1992, accompanied by renewed progress towards price convergence. This forecast, however, is subject to particularly large risk factors such as the Gulf crisis, developments in Central and Eastern Europe and the effects of German unification.

As far as individual countries are concerned, the inflation rates of the member countries with the poorest price performances in 1990, i.e. Greece, Portugal and the United Kingdom, are already projected to fall in 1991, thus preceding the expected general turn around of the Community's average in 1992. However, inflation rates are forecast to increase in those countries in which they were so far very low, e.g. in the Netherlands, which recorded the lowest inflation rate in 1990 (2.4 per cent, deflator of private consumption). In 1991 the Dutch rate of inflation, while remaining the lowest in the Community, could increase to just below three per cent.

The maintenance of sound growth conditions and the transition to stage two of EMU require that the present acceleration of the rates of inflation be halted and eventually reversed. Resumption of progress towards greater nominal convergence is also essential. A firm anti-inflationary stance will help to attain both objectives.

18 January 1990

Issues Discussed in Supplement A
(1988-1990 Chronological Order)

1988

1.	Quarterly National Accounts; 2nd and 3rd Quarters 1987
2.	March Communication to the Council: 1988 Economic Situation
3.	Price Developments in the Community
4.	Quarterly National Accounts: 4th Quarter 1987
5.	Real Convergence in the Community
6.	Economic Forecasts for 1988 and 1989
7.	Releasing and exploiting the Community's growth potential Economic Outlook for 1989
8./9.	Economic Forecasts for 1988 and 1989
10.	The Catching-up Process for Spain and Portugal
11.	Investment Trends in the Community
12.	Preparing for 1992: Summary and Conclusions of the Annual Economic Report 1988-1989

1989

1.	Differing labour cost levels in the Community
2.	Economic Forecasts for 1989 and 1990
3.	March Communication to the Council
4.	Present inflation Rates and Short-term Forecasts for their Evolution
5./6.	Economic Forecasts for 1989/1990
7.	July Communication to the Council
8./9.	Budgetary Policy in the Member Countries
10.	Economic Forecast for 1989 and 1990
11.	Wage Adjustment and Convergence during the 1980's
12.	Highlights on Employment and Unemployment

1990

1.	The International Adjustment Process
2.	Structure of Public Finance in the Community
3.	The implementation of the New Convergence Decision
4./5.	Economic Forecasts 1990/1991
6.	Trends in National Saving in the Community
7.	Nominal Convergence at the Beginning of Stage One of EMU
8./9.	Some Basic Facts About the European Financial Sphere
10.	The Rise in the Price of Oil and its Macro-economic Implications
11./12.	Economic Forecasts for 1991 and 1992

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)
						III	IV	I	II	III	April	May	June	July	Aug.	Sept.	Oct.	
B	2,5	0,8	2,1	5,8	3,4	1,3	0,8	5,4	–2,4	–0,3	–6,8	–0,7	4,4	–2,6	–3,2	5,5	:	5,6
DK	4,2	6,5	–3,4	1,9	2,3	–3,3	1,7	3,7	–5,8	1,8	–8,2	4,0	–7,2	7,4	1,2	–6,9	7,5	2,6
D	5,0	2,2	0,2	3,7	5,2	0,9	1,1	2,0	0,1	2,2	–3,1	4,9	–2,3	1,7	0,3	0,6	2,1	7,1
GR	3,4	–0,2	–1,7	5,7	1,6	–1,5	1,2	–0,7	–1,0	:	–1,3	3,6	–1,6	2,0	–3,6	:	:	–3,7
E	2,0	3,1	4,6	3,1	4,5	–1,1	–0,7	2,9	–2,3	–1,0	–6,9	6,3	0,1	–2,8	1,0	–2,8	1,0	–1,8
F	0,2	0,9	1,9	4,7	4,2	–0,6	0,9	–0,6	0,8	0,7	0,7	0,4	0,0	–0,3	2,1	–1,7	0,4	0,8
IRL	3,5	3,2	9,7	10,9	12,4	0,2	5,4	–0,6	–1,6	:	–4,9	1,2	4,6	–4,7	2,9	:	:	12,2
I	1,4	4,1	2,6	6,9	3,9	1,5	2,7	–2,5	–0,5	0,4	0,2	–1,7	0,0	0,0	1,0	1,0	–3,1	–3,5
L	6,8	2,1	–0,9	8,7	7,8	0,8	–2,8	–1,7	4,7	:	6,2	–2,3	8,6	:	:	:	:	10,7
NL	4,1	0,2	0,9	0,2	5,0	–0,4	3,7	–5,5	3,1	2,3	5,0	–1,0	2,6	–0,9	0,4	4,5	–3,7	1,8
P	10,9	5,7	2,4	6,2	4,8	0,8	3,0	2,9	2,7	:	0,5	–1,5	1,5	–0,5	:	:	:	11,5
UK	5,5	2,4	3,3	3,6	0,4	1,0	–0,2	0,0	1,9	–2,9	0,8	–1,0	2,2	–3,4	–0,7	–0,2	0,2	–1,4
EUR 12	3,3	2,3	2,0	4,3	3,7	0,4	1,2	0,0	0,1	(0,5)	–1,5	1,6	–0,1	(–0,4)	(0,7)	(–0,1)	(0,0)	(1,2)
USA	2,6	2,9	6,1	5,8	2,9	–0,3	–0,2	0,4	0,9	0,9	–0,3	0,7	0,5	0,2	0,2	0,2	:	2,1
JAP	3,7	–0,2	3,0	9,8	6,1	–0,1	0,8	0,8	1,9	2,4	–1,0	2,5	–0,2	1,8	0,3	–1,0	2,5	7,6

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)
						III	IV	I	II	III	May	June	July	Aug.	Sept.	Oct.	Nov.	
B	11,6	11,6	11,4	10,0	8,5	8,4	8,2	8,1	8,0	8,2	7,9	8,0	8,2	8,2	8,2	8,2	8,3	0,0
DK	7,2	5,6	5,7	6,5	7,7	8,0	7,7	7,6	7,9	8,2	7,9	8,1	8,3	8,3	8,2	8,4	8,0	0,3
D	7,1	6,3	6,2	6,1	5,5	5,5	5,5	5,3	5,3	5,1	5,3	5,2	5,2	5,2	5,0	4,9	4,8	–0,7
GR	7,7	7,4	7,4	7,6	7,5	:	:	:	:	:	:	:	:	:	:	:	:	:
E	21,8	21,1	20,4	19,3	17,1	16,6	16,8	16,4	16,1	15,8	16,1	16,1	15,8	15,9	15,9	16,3	16,2	–0,5
F	10,2	10,3	10,4	9,9	9,4	9,3	9,1	8,9	8,9	9,0	8,9	9,0	9,0	9,0	9,0	9,0	9,0	–0,1
IRL	18,2	18,2	18,0	17,4	16,0	15,8	15,6	15,5	15,4	15,6	15,3	15,6	15,7	15,6	15,6	15,6	15,7	0,1
I	9,6	10,5	10,2	10,8	10,7	10,8	10,3	10,0	9,7	9,6	9,8	9,6	9,6	9,6	9,6	9,6	9,6	–0,8
L	2,9	2,6	2,6	2,1	1,8	1,8	1,8	1,6	1,6	1,6	1,6	1,6	1,5	1,6	1,6	1,7	1,7	0,0
NL	10,5	10,2	10,0	9,3	8,7	8,7	8,4	8,3	8,2	:	8,3	8,2	:	:	:	:	:	–0,6
P	8,8	8,2	6,8	5,6	4,9	4,9	4,7	4,8	4,8	4,7	4,8	4,8	4,7	4,8	4,7	4,6	4,6	–0,1
UK	11,4	11,4	10,4	8,5	7,0	6,7	6,4	6,3	6,2	6,4	6,2	6,2	6,3	6,4	6,4	6,5	6,7	0,3
EUR 12	10,8	10,7	10,3	9,7	8,9	8,8	8,6	8,4	8,3	8,3	8,3	8,3	8,3	8,3	8,3	8,3	8,3	–0,3
USA (g)	7,2	7,0	6,2	5,5	5,3	5,3	5,3	5,3	5,3	5,6	5,3	5,2	5,5	5,6	5,7	5,7	:	4,0
JAP (g)	2,6	2,8	2,8	2,5	2,3	2,2	2,2	2,1	2,1	2,1	2,1	2,2	2,1	2,1	2,2	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 (%)(b)
						III	IV	I	II	III	May	June	July	Aug.	Sept.	Oct.	Nov.	
B	4,9	1,3	1,6	1,2	3,1	0,9	0,6	0,8	0,7	1,1	0,0	0,1	0,4	0,6	0,9	0,7	–0,4	4,0
DK	4,7	3,7	4,0	4,5	4,8	0,5	1,3	–0,2	0,8	0,7	0,7	–0,2	–0,3	1,0	0,8	0,2	–0,1	2,2
D	2,2	–0,1	0,2	1,3	2,8	0,0	0,6	1,1	0,5	0,4	0,2	0,1	0,0	0,3	0,4	0,7	–0,2	3,0
GR	19,3	23,0	16,4	13,5	13,7	2,4	5,8	3,5	7,1	3,8	3,0	2,2	–0,2	0,6	3,5	2,4	1,4	22,9
E	7,8	8,8	5,3	4,8	6,8	2,5	1,4	1,8	0,8	2,2	0,0	0,3	1,3	0,5	1,0	0,9	–0,1	6,7
F	5,9	2,7	3,1	2,7	3,6	0,7	0,8	0,6	0,9	1,0	0,2	0,2	0,3	0,6	0,5	0,5	(–0,2)	(3,5)
IRL (h)	5,4	3,8	3,1	2,2	4,1	1,5	0,7	1,0	0,3	0,8	(0,1)	(0,3)	(0,3)	(0,3)	(0,2)	(0,2)	(0,2)	(2,7)
I	9,2	5,8	4,7	5,1	6,2	0,9	1,7	2,1	1,3	1,4	0,3	0,5	0,3	0,7	0,5	0,8	(0,6)	(6,8)
L	4,1	0,3	–0,1	1,4	3,4	0,8	1,0	1,0	0,6	0,7	0,2	0,0	0,2	0,5	0,6	1,0	0,5	4,5
NL	2,3	0,2	–0,4	0,9	1,1	0,5	0,5	0,3	0,8	0,8	0,1	–0,1	0,3	0,4	0,9	0,3	0,0	2,9
P	19,3	11,7	9,4	9,6	12,6	2,8	2,3	4,6	3,2	2,5	1,1	0,3	0,7	1,3	1,1	1,1	0,7	14,1
UK	6,1	3,4	4,1	4,9	7,8	0,9	2,0	1,8	4,7	1,6	0,9	0,4	0,1	1,0	0,9	0,8	–0,2	9,7
EUR 12	6,1	3,5	3,2	3,6	5,2	0,9	1,3	1,4	1,7	1,2	0,4	0,3	0,3	0,6	0,7	0,7	(0,0)	(5,9)
USA	3,6	1,9	3,7	4,1	4,8	0,8	1,0	1,7	1,0	1,7	0,2	0,5	0,4	0,9	0,8	0,6	0,2	6,3
JAP	2,0	0,6	0,1	0,7	2,3	0,2	0,6	0,2	1,4	0,4	0,8	–0,6	–0,1	0,5	0,9	1,3	–0,2	4,4

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)
						III	IV	I	II	III	April	May	June	July	Aug.	Sept.	Oct.	
B/L	–3514	146	–580	–2543	–2108	–744	–789	–880	–1532	–1253	–925	–265	–342	–534	–553	–166	:	–215
DK	–1538	–1714	96	926	1226	228	548	441	507	455	223	30	254	140	116	199	101	–41
D	32986	53044	56960	60936	64056	16920	13426	18267	13682	10134	4180	5748	3654	4032	3686	2416	:	–3182
GR	–7266	–5809	–5694	–5824	–7783	–2263	–2242	–2478	–2806	:	–923	–999	–884	:	:	:	:	–317
E	–5582	–6306	–8749	–11974	–19803	–5653	–4281	–5588	–5044	–4240	–1704	–1531	–1809	–1679	–1165	–1396	–1765	–570
F	–13428	–9699	–12473	–11856	–13987	–3421	–4346	–3862	–3786	–4839	–1254	–1650	–881	–1428	–1594	–1816	–1485	245
IRL	430	983	2047	2740	3049	809	799	901	730	420	266	175	289	197	64	159	:	–228
I	–16130	–2459	–7427	–8390	–11098	–3195	–2116	–3329	–1430	–1548	–594	–1362	526	–180	–750	–618	:	334
NL	3874	4161	1088	1296	2893	1084	996	726	22	:	310	–411	123	217	–330	:	:	–702
P	–2735	–1297	–2955	–3474	–5035	–1279	–1517	–1434	–1527	–1482	–556	–543	–428	–500	–439	–543	:	–224
UK	–11540	–19868	–20890	–42385	–41827	–11523	–8289	–9377	–7950	–7350	–2898	–2353	–2700	–2989	–1961	–2401	2077	1171
EUR 12 (i)	–24444	11161	1424	–20549	–30415	–8429	–7385	–6637	–8941	(–13368)	–3707	–3113	–2121	(–3715)	(–4127)	(–5526)	:	(–3874)
USA	–194856	–157829	–132116	–100208	–99420	–26127	–23886	–21298	–16701	–21726	–6030	–6305	–4366	–7228	–7396	–7102	–8587	618
JAP	60497	84010	69636	65441	58691	13855	11128	12899	10944	11302	2631	2750	5563	3776	3588	3938	1872	–1542

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

	1985	1986	1987	1988	1989	1989		1990			1990							Change over 12 months (%)(e)
						III	IV	I	II	III	May	June	July	Aug.	Sept.	Oct.	Nov.	
B (M2)	7,2	12,7	10,2	7,6	13,0	3,6	3,9	2,8	–1,5	:	:	:	:	:	:	:	:	9,0
DK (M2)	15,8	8,4	4,1	3,5	6,3	2,3	2,5	4,5	–0,2	2,3	–0,5	–1,1	0,5	0,5	1,2	0,3	0,5	7,6
D (M3)	5,2	7,2	6,4	7,0	4,5	1,1	1,3	1,0	0,8	1,6	0,0	0,6	0,1	0,6	0,9	0,9	(0,3)	(5,5)
GR (M3)	26,8	19,0	25,2	22,6	23,7	4,5	7,3	2,6	3,9	3,7	–0,1	2,5	1,5	–1,1	3,3	(0,5)	(–0,3)	(14,4)
E (ALP)	13,3	12,1	14,6	12,1	10,4	2,8	1,6	0,7	4,3	1,9	1,1	1,9	0,8	0,5	0,6	0,7	:	9,0
F (M2)	6,0	4,1	4,4	3,7	4,5	1,9	0,3	–1,2	1,6	–0,3	0,0	1,9	–0,3	–1,0	1,0	–1,5	–0,7	–2,2
IRL (M3)	5,3	–1,0	10,9	6,3	5,0	0,3	1,5	4,9	0,7	7,5	0,2	2,0	1,8	4,0	1,6	0,2	1,3	18,4
I (M2)	11,1	9,4	8,3	8,5	10,8	1,9	3,3	2,2	1,7	2,4	–0,6	1,1	0,5	0,4	1,5	1,0	:	10,6
NL (M2)	10,7	5,1	3,9	13,7	14,2	3,8	4,0	2,1	2,0	:	–0,8	1,2	–1,0	1,4	:	:	:	10,6
P (L)	28,5	26,3	17,5	15,0	7,5	0,0	0,8	4,4	5,4	4,9	1,5	2,1	1,7	3,6	0,5	(0,9)	(1,0)	(18,1)
UK (LM3)	13,0	15,9	16,3	17,6	19,1	4,7	4,1	3,9	3,6	2,3	1,2	1,0	0,8	0,9	0,6	0,3	1,6	13,9
EUR 12 (k)	9,9	9,6	9,4	9,7	10,0	2,5	2,4	1,6	2,0	(1,6)	0,2	1,2	0,3	0,3	(0,9)	(0,3)	:	(7,8)
USA (M2)	8,5	9,6	3,5	5,5	4,9	2,0	1,8	1,5	0,4	1,1	–0,2	0,3	0,2	0,5	0,4	0,0	–0,1	3,6
JAP (M2)	8,7	9,2	10,8	10,2	12,0	2,8	3,7	3,3	2,2	3,3	–2,0	1,6	–0,2	0,9	2,5	:	:	13,2

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

	1986	1987	1988	1989	1990	1989 IV	1990 I	1990 II	1990 III	1990 IV	1990 June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Change over 12 months % (c)
B	8,1	7,1	6,7	8,8	9,7	10,3	10,3	9,4	9,0	10,1	9,4	9,2	9,2	9,0	8,9	9,0	10,1	–0,2
DK	9,1	9,9	8,3	9,4	10,8	12,1	11,8	10,8	10,2	9,9	10,8	10,5	10,0	10,2	9,9	9,6	9,9	–2,2
D	4,6	4,0	4,3	7,1	8,4	8,1	8,3	8,2	8,5	9,2	8,2	8,1	8,3	8,5	8,5	9,0	9,2	1,1
GR	19,8	14,9	15,9	18,7	:	19,3	17,1	22,2	19,1	:	22,2	18,3	13,8	19,1	19,4	:	:	4,1
E	11,7	15,8	11,6	15,0	15,2	16,2	15,3	15,0	15,1	15,3	15,0	15,0	15,1	15,1	15,0	15,0	15,3	–0,9
F	7,7	8,3	7,9	9,4	10,3	11,3	10,3	10,0	10,3	10,1	10,0	9,8	10,3	10,3	9,9	10,0	10,1	–1,3
IRL	12,4	11,1	8,1	9,8	11,3	12,1	12,3	10,3	11,0	11,5	10,3	10,7	11,3	11,0	10,4	10,8	11,5	–0,6
I	12,8	11,4	11,3	12,7	12,3	13,0	12,8	11,3	10,7	13,8	11,3	11,8	11,4	10,7	11,6	13,4	13,8	0,8
NL	5,7	5,4	4,8	7,4	8,7	8,6	8,4	8,3	8,5	9,5	8,3	8,4	8,5	8,5	8,5	9,0	9,5	0,9
P	15,6	13,9	13,0	12,6	13,5	13,8	13,8	12,5	13,5	13,6	12,5	13,2	13,7	13,5	13,5	13,9	13,6	–0,1
UK	10,9	9,7	10,3	13,9	14,8	15,1	15,2	14,9	14,9	14,1	14,9	15,0	15,0	14,9	13,8	13,6	14,1	–1,1
EUR 12 (m)	9,2	8,9	8,6	10,9	(11,6)	12,1	11,7	11,4	11,3	(11,9)	11,4	11,3	11,3	11,3	11,2	11,6	(11,9)	(–0,1)
USA	6,0	5,9	6,9	8,4	7,8	7,9	8,1	8,0	7,4	6,6	8,0	7,7	7,6	7,4	7,4	7,3	6,6	–1,2
JAP	5,0	3,9	4,0	5,4	7,7	7,0	7,6	7,5	8,5	8,2	7,5	7,8	8,3	8,5	8,3	8,4	8,2	1,2

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

	1986	1987	1988	1989	1990	1989 IV	1990 I	1990 II	1990 III	1990 IV	1990 June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Change over 12 months % (c)
B	7,9	7,8	7,9	8,7	10,1	9,7	9,9	9,8	10,4	10,0	9,8	9,6	10,1	10,4	10,0	10,0	10,0	0,3
DK	10,5	11,9	10,6	10,2	11,0	10,8	11,0	10,7	11,3	11,0	10,7	10,4	10,9	11,3	11,0	11,0	11,0	0,2
D	5,9	5,8	6,1	7,0	8,9	7,6	8,9	9,0	9,1	9,0	9,0	8,7	9,0	9,1	9,1	9,0	9,0	1,4
GR	15,8	17,4	16,6	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
E	11,4	12,8	11,8	13,8	14,7	14,6	14,9	14,5	15,1	14,5	14,5	14,5	14,7	15,1	14,9	14,6	14,5	–0,1
F	8,4	9,4	9,0	8,8	9,9	9,3	9,6	9,7	10,6	10,0	9,7	9,6	10,3	10,6	10,3	10,1	10,0	0,6
IRL	11,1	11,3	9,4	9,0	10,1	9,3	10,4	9,7	10,6	9,8	9,7	9,5	10,4	10,6	10,2	9,9	9,8	0,5
I	11,7	11,3	12,1	12,9	13,4	13,3	13,6	13,4	13,3	13,6	13,4	13,0	13,3	13,3	13,2	13,2	13,6	0,3
L	8,7	8,0	7,1	7,7	9,0	8,4	8,5	8,6	8,6	:	8,6	8,4	8,4	8,6	8,8	8,6	:	0,2
NL	6,4	6,4	6,3	7,2	:	7,8	9,0	9,0	9,4	9,3	9,0	8,8	9,2	9,4	9,4	9,3	9,3	1,5
P	17,9	15,4	14,2	14,9	15,4	15,7	15,2	15,3	15,4	15,5	15,3	15,3	15,4	15,4	15,5	15,3	15,5	–0,2
UK	9,8	9,5	9,3	9,6	11,1	9,9	11,6	10,9	11,4	10,6	10,9	11,0	11,3	11,4	11,0	10,5	10,6	0,7
EUR 12 (m)	9,2	9,4	9,4	9,9	(11,1)	10,4	11,2	11,0	11,4	(11,1)	11,0	10,9	11,3	11,4	11,2	10,1	(11,1)	(0,8)
USA	8,1	8,7	9,0	8,5	8,6	7,9	8,6	8,5	9,0	8,2	8,5	8,5	8,9	9,0	8,9	8,5	8,2	0,4
JAP	5,2	4,7	4,7	5,2	7,5	5,6	7,5	7,2	8,4	7,2	7,2	7,3	8,0	8,4	8,0	7,8	7,2	1,6

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

	1986	1987	1988	1989	1990	1989 IV	1990 I	1990 II	1990 III	1990 IV	1990 June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Change over 12 months % (c)
BFR/LFR	43,80	43,04	43,43	43,38	42,42	42,96	42,55	42,30	42,49	42,35	42,32	42,57	42,51	42,39	42,44	42,34	42,27	–1,0
DKR	7,94	7,88	7,95	8,05	7,86	7,95	7,86	7,82	7,88	7,87	7,84	7,87	7,91	7,87	7,87	7,87	7,87	–0,3
DM	2,13	2,07	2,07	2,07	2,05	2,05	2,04	2,05	2,07	2,05	2,06	2,07	2,07	2,06	2,06	2,05	2,04	0,5
DR	137,4	156,1	167,5	178,8	201,3	184,7	192,3	200,5	20,3,0	209,9	201,5	202,5	203,8	202,5	206,9	210,3	212,6	13,6
PTA	137,5	142,2	137,6	130,4	129,4	130,8	131,6	128,3	127,9	129,9	127,1	126,8	127,7	129,3	129,3	129,9	130,5	–0,6
FF	6,80	6,93	7,04	7,02	6,91	6,96	6,92	6,90	6,93	6,92	6,93	6,94	6,94	6,90	6,90	6,91	6,94	–0,1
IRL	0,733	0,775	0,776	0,777	0,768	0,772	0,768	0,765	0,770	0,768	0,768	0,771	0,771	0,768	0,769	0,767	0,767	–0,4
LIT	1462	1495	1537	1511	1522	1507	1512	1506	1526	1542	1512	1515	1524	1539	1544	1543	1540	2,0
HFL	2,40	2,33	2,34	2,34	2,31	2,31	2,30	2,31	2,33	2,31	2,32	2,33	2,33	2,32	2,32	2,32	2,31	0,5
ESC	146,9	162,5	170,1	173,4	181,1	176,6	179,8	181,0	182,4	181,2	180,9	181,7	182,7	182,9	181,8	180,7	181,1	1,7
UKL	0,670	0,705	0,664	0,673	0,714	0,712	0,728	0,730	0,696	0,702	0,715	0,698	0,693	0,698	0,695	0,703	0,709	–3,0
USD	0,983	1,154	1,183	1,102	1,271	1,129	1,206	1,222	1,297	1,367	1,223	1,261	1,316	1,313	1,352	1,381	1,367	17,2
YEN	165,0	166,5	151,5	151,8	183,6	161,6	178,3	189,8	188,0	178,7	188,2	188,2	194,0	182,2	175,5	178,1	182,7	8,9
DTS	0,838	0,892	0,880	0,860	0,937	0,880	0,917	0,932	0,946	0,954	0,930	0,939	0,955	0,944	0,947	0,956	0,958	6,9

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

	1985	1986	1987	1988	1989	1989 IV	1990 I	1990 II	1990 III	1990 IV	1990 June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Change over 12 months % (c)
B/L	5,5	4,1	–1,3	–0,9	5,3	2,0	2,4	1,1	0,2	0,7	–0,2	–0,2	0,8	–0,1	0,1	0,6	0,2	5,0
DK	6,3	4,2	–1,9	–2,7	7,6	3,1	3,6	1,4	–0,1	0,8	–0,7	0,0	0,5	–0,1	0,3	0,6	0,0	6,2
D	10,7	6,9	–0,8	–1,3	5,7	3,2	2,7	–0,1	0,1	1,5	–0,8	0,1	1,0	–0,2	0,4	1,1	0,6	5,5
GR	–21,3	–9,9	–7,2	–7,5	–8,0	–1,9	–2,2	–3,5	–0,4	–2,8	–0,1	–0,1	0,1	0,2	–1,9	–1,2	–1,1	–9,7
E	–1,5	0,2	3,1	4,1	5,1	0,8	1,5	3,3	1,2	–0,9	0,6	0,8	0,2	–1,7	0,3	0,1	–0,4	4,8
F	4,5	1,1	–2,3	–1,3	6,1	2,3	2,9	0,9	0,4	0,8	–0,7	0,3	0,9	0,1	0,3	0,4	–0,4	5,2
IRL	3,7	–2,1	–1,4	–1,3	5,8	2,7	2,6	1,0	–0,6	1,1	–1,1	–0,3	0,7	0,1	0,2	0,9	0,1	4,8
I	3,7	1,1	–3,5	0,4	3,7	0,5	1,9	1,1	–0,4	–0,4	–0,7	0,4	0,4	–1,6	0,0	0,7	0,3	2,5
NL	7,7	5,1	–0,4	–1,0	3,9	2,2	1,9	0,0	–0,3	1,0	–0,7	–0,7	0,6	–0,1	0,2	0,7	0,5	3,4
P	–7,8	–7,1	–5,1	–3,2	–1,3	–0,5	–0,3	–0,3	–0,3	1,3	–2,5	–0,1	0,1	–0,4	0,9	1,1	–0,1	0,7
UK	–7,3	–1,0	5,7	–3,4	–0,8	–3,9	0,5	0,6	6,5	0,1	2,5	3,4	2,1	–1,6	1,0	–0,4	–0,9	7,1
EUR 12	9,6	7,0	–1,6	–3,0	11,5	3,3	5,7	1,7	2,5	1,5	–0,5	1,6	2,5	–1,8	0,8	1,5	0,2	13,1
USA	–19,1	–12,1	–6,1	4,9	–6,2	–2,3	–2,2	2,0	–5,3	–4,9	0,3	–2,7	–2,8	–1,2	–3,0	–1,0	1,4	–11,7
JAP	27,2	8,2	10,4	–4,4	–10,2	–2,5	–5,7	–5,4	3,9	8,6	0,0	1,6	–0,8	6,3	5,7	–0,1	–3,0	–1,5

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 Rentes* 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 — November and December 1990

Community (EUR-12)

13.11 EMU: Agreement by the Governors of the Twelve's central banks on the articles of agreement of the future European central bank.

20.11 Council adoption of arrangements for VAT scheme applicable from 1993.

22.11 Commission adopts its second report on the state of progress of the single market.

27.11 7th Directive on aid to shipbuilding is approved for duration of 3 years.

15.12 The two intergovernmental conferences on EPU and EMU were officially opened.

Belgium (B)

5.11 The central bank raises the discount rate from 10,25% to 10,50% and the rate for current account advances from 10,75% to 11%.

8.11 Parliament adopts the ways and means budget and the central government general expenditure budget for 1991. The budget envisages a deficit of 5,3% of GDP for 1991.

13.11 Delegates from the two sides of industry approve a draft collective agreement in which they undertake to take account of the following considerations in the forthcoming wage negotiations: Belgium's position in the Single Market due to be completed at the end of 1992, the monetary policy which links the Belgian franc to the strong EMS currencies, the evolution of competitiveness in 1990 and uncertainty as to outcome of the Gulf crisis. The agreement also provides for an increase in the social security contributions of enterprises amounting to 0,07% of the overall wage bill: the funds raised will be spent on reducing the hard core of unemployment and on unskilled workers, on measures to assist women, the retraining of older workers, an increase in the minimum wage of BFR 500 in 1991 and BFR 400 in 1992, an increase in the benefit paid to unemployed persons between 50 and 55 years of age and an extra day's double holiday allowance in 1992.

16.1 In six stages, the central bank raises interest rates on one-, two- and three-month Treasury bills. This takes the rates for three-month bills from 8,95% to 10,05%.

Denmark (DK)

None.

Germany (D)

25.10 The Parliament adopts the third supplementary budget. Expenditures up by DM 20,2 billion and receipts down by DM 7,0 billion raise borrowing requirement of the Federal budget for 1990 to DM 67 billion.

1.11 The Bundesbank raises the Lombard rate by 1/2 percentage point to 8 ½% (first rise since October 1989).

13.12 The Bundesbank sets the monetary target for 1991 at '4 to 6%' for the growth of M3, the same target as for 1990.

Greece (GR)

12.11 Borrowing by domestic companies from abroad also allowed from non-banks with a minimum duration of 12 months or a 6 month limit if borrowing repaid from export receipts.

21.11 New issue of ECU-linked Treasury bonds (10,9% and 11% p.a. for two and three years respectively).

21.11 Simplified scheme announced for the clearing of 7,5 million pending tax cases. The revenue expected from this operation estimated at DRA 150 billion.

30.11 New Treasury bill issue with higher interest rates (22% instead of 20 ½%) for six month bills.

30.11 According to a decision by the Bank of Greece, domestic companies are not allowed to pay back foreign loans before maturity. Moreover, foreign loans coming to maturity must not be extended for a period of less than 12 months.

7.12 The Governor of the Bank of Greece presents the guidelines and targets of the monetary and credit policy to be pursued in 1991. To back up the Government's economic policy, monetary policy will particularly focus on disinflation and balance of payments equilibrium. The target for M3 growth in 1991 is set at 14-16%. Domestic credit expansion is to be limited to 12,5-13,5% (14% for the private sector and 12-13% for the public sector). The target for DCE to the private sector will also apply to the specialized credit institutions (the Agricultural Bank and the Mortgage Banks) but not to the investment banks. The target for DCE to the public sector is based on the budget projections for the net borrowing requirement adjusted for various items and on the DRA 600 billion target for sales of Treasury paper to the non-bank private sector.

17.12 The Treasury issues three series of ECU-linked bonds with a maturity of two, three and four years, and an interest rate of 10,7%, 10,8% and 11% p.a., respectively.

21.12 Parliament adopts the budget for 1991. A medium-term plan of fiscal consolidation covering the period up to 1993 is also included. The net borrowing requirement of the central government is projected to decline from DRA 1 775 billion (16,6% of GDP) in 1990 to DRA 1 452 billion (11,3% of GDP) in 1991. The primary balance will adjust from a deficit of 5% of GDP in 1990 to a 0,7% surplus in 1991. Total revenue is set to rise in 1991 by 44% as a result of the introduction of new taxes, the tackling of tax evasion and the selling of public assets. Total expenditure is set to expand by 25,2% over 1990. The wage and pensions bill is restrained by a tough incomes policy for civil servants (the wage bill to rise by 14,2% compared with a projected inflation rate of 19,3%) and grants and subsidies will fall by 3% in nominal terms. On the other hand, the cost of debt service is projected to rise by 37,5% in 1991 after an increase of 70% in 1990.

Spain (E)

7.12 The Government approves sending the draft law setting up the Economic and Social Committee to Parliament.

21.12 A decree-law provides that the interest deriving from government securities and paid to non-residents will not be taxed. The same conditions apply to other interest paid to non-residents whose usual residence is in another Community country.

24.12 The Bank of Spain decides to end credit restrictions on 1 January 1991. It also sets a 8,5% target for the growth of liquid assets in the hands of the public (ALP) during 1991.

28.12 The Government approves a 7,2% average increase in pensions.

France (F)

30.10 The Bank of France lowers its interest rates by a quarter-point. The money market intervention rate is cut from 9,50% to 9,25% and the rate for sale and repurchase agreements from 10,25% to 10%. This is the third time that the Bank of France has reduced its rates in 1990.

7.11 Gas is included in the scope of the December 1986 order on the freedom of prices and competition.

8.11 The non-tax charges for natural gas intended for residential consumers, the service sector and small-scale industry are increased by 3%. The new prices are set by order of the Ministry for Economic Affairs and Finance affairs under the decree relating to the Government's monitoring of gas prices.

14.11 The Government releases FF 4,5 billion in additional public expenditure for high schools, FF 2,9 billion of which represents an overall cost to the budget, to be spread over several financial years. The budget deficit for 1990 will therefore be higher than the FF 90,2 billion envisaged in the original Finance Law which had been confirmed by the supplementary budget on the same day.

22.11 A decree published in the official gazette lays down tighter conditions for prescribing and reimbursing the cost of certain new or expensive medicinal products. In order to qualify for reimbursement, medicinal products will now have to be 'more effective or less expensive' than those already on the market.

28.11 Parliament adopts the third employment plan which contains a number of measures to promote vocational training (such as the replacement of employees who are absent on training courses and to assist integration into society and work, as well as measures relating to working hours.

19.12 Central government budget law for 1991 definitely adopted: budget deficit reduced to 1,2% of GDP from 1,4% in 1990.

Ireland (IRL)

21.12 Central Bank raises official interest rate by 3/4 of a percentage point to 11 1/4%.

Italy (I)

13.12 Parliament gives final approval to a reform of the securities market. The main innovations introduced are:

- the creation of a new type of financial intermediary (Società d'intermediazione mobiliare) which will take over the functions currently performed by stock exchange dealers, but with an enlarged range of activities;
- the obligation to trade shares of public companies solely on the stock market.

21.12 Parliament gives its final approval to the Finance Law and the Budget for 1991. Changes introduced during the parliamentary scrutiny did not alter the size of the fiscal manoeuvre planned for 1991, namely, a correction with respect to underlying trends of LIT 44 500 billion (to which should be added LIT 3 500 billion of expected savings in interest payments). The target for the state sector borrowing requirement is LIT 132 000 billion (9,3% of GDP).

21.12 A decree-law, enacted by the Government, places restrictions on the use of cash in payments exceeding LIT 20 million. The measure is aimed at preventing money-laundering.

Luxembourg (L)

None.

Netherlands (NL)

2.11 The Government increases the family allowance for the first child by HFL 60,52 a year. The allowance will also be linked to the consumer price index.

2.11 The Nederlandsche Bank raises the discount rate from 7% to 7,25% and the rate for advances from 7,75% to 8%. It also raises the rate for its special advances from 8% to 8,3% in several stages. These decisions stem from the raising of the other official key rates.

1.12 As part of the Nederlandsche Bank's deregulation of capital market policy and in agreement with the Ministry for Financial Affairs, private companies are to be authorized to issue indexed guilder loans.

7.12 The Nederlandsche Bank raises the rate for its special advances from 8,3% to 8,8% in two stages. This decision is due to the guilder's slight depreciation against the German mark.

Portugal (P)

2.11 The Government decides the conditions for the privatization of BPA, the largest Portuguese bank. The operation will be carried out in three stages, with the first taking place at the beginning of December (sale of 33% of the Bank's capital). Workers and small savers will be able to purchase shares on special terms.

8.11 The Government increases the retirement and invalidity pensions paid by the social security scheme. The increases, which come into force in December 1990 and which also affect the end-of-year allowance, average 17%.

22.11 The Government liberalizes international air travel and the production, transportation and distribution of electricity. Until now, these activities had been State monopolies (TAP - Air Portugal and EDP respectively).

5.12 The Government increases allowances for dependent children (29%), marriage (87,5%), birth (15%), handicapped persons (16%), etc. Overall, two and a half million persons will benefit from this measure which enters into force on 1 January 1991.

United Kingdom (UK)

8.11 The Government presents the 'Autumn Statement' to Parliament, including revised medium-term public expenditure plans. For financial year 1991-92 (from April 1991) the public expenditure 'planning total' is raised by UKL 8 billion compared with previous plans. Compared with the outturn now expected for 1990-91 total general government expenditure excluding privatization proceeds is projected to increase by 8% in nominal terms, 2% in real terms; real increases in 1992-93 and 1993-94 are projected at 2 ½% and 1 ½% respectively. Increases in central government expenditure in 1991-92 compared with earlier plans are concentrated in the areas of social security, transfers to local authorities and the health service. Relative to GDP, general government expenditure excluding privatization proceeds is projected to remain around 39 ½ %.

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