

EUROPEAN ECONOMY

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

Supplement A — No 4 — April 1986

Recent economic trends

*In this number:
EMS realignment
in April 1986*

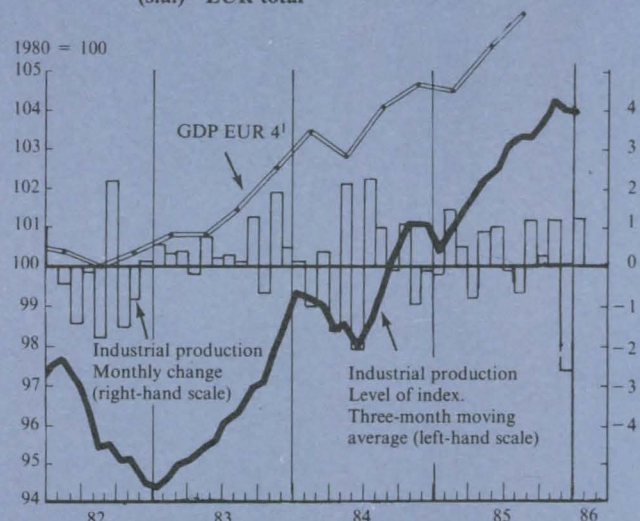
Industrial production continues to rise. — The latest results for industrial production show a continuation of the rising trend for EUR10 as a whole, with industrial production in January 1986 up 1,3% on the previous month and 3,5% higher than a year earlier. However, the three-month moving average shows some slackening in the rate of increase over the past couple of months. For those individual countries where figures are available for January, results showed a rise in industrial production over the month before, except for France. The largest increase was in the Netherlands with a 5,1% rise, but unlike some variations in monthly Dutch industrial production figures, this was due in equal parts to increases in manufacturing and energy. Germany, Italy and the United Kingdom showed increases of 2,6%, 2,0% and 1,6% respectively. Finally, all Community countries show increases in industrial production on the same month one year ago, except for Belgium and the Netherlands. The revised figures for the 1985 annual rates of growth confirm that the industrial performance in the European Community has shown considerable dynamism: the increase of 3,3% exceeds the growth rates observed in previous years as well as the growth of industrial production observed in the USA in 1985, while it again falls short of the expansion in Japan. All Member States were able to expand their industrial base in 1985, with rates of growth ranging from 0,8% in France to 5,8% in Germany.

Unemployment shows slight fall. — The number of registered unemployed in the Community (EUR12), seasonally adjusted was 15,9 million in February¹, slightly down on the previous month but still 1,6% above the numbers out of work a year earlier. The unemployment rate was 11,7%, unchanged from the January rate. Seven of the Member States showed decreases in registered unemployed on last month, but Germany, the UK and Italy, along with Luxembourg, all showed small increases. Compared to the same month a year ago, the picture is mixed; unemployment rates have fallen appreciably over the year in Belgium, Denmark, the Netherlands and Luxembourg and risen

in Spain, Greece, Italy and Portugal, while in France, Germany and the UK there has been little or no change. Part of the apparent improvements in Belgium and the Netherlands may be due to breaks in their unemployment statistics. The possibility of removing some older unemployed from the unemployment register after 1 January 1986 in Germany has so far not significantly affected German employment figures.

Inflation lower. — The index of consumer prices in the Community (EUR12) increased by 0,2% in February after the 0,5% rise registered in January. On a seasonally adjusted basis the deceleration was less pronounced with the monthly rate falling

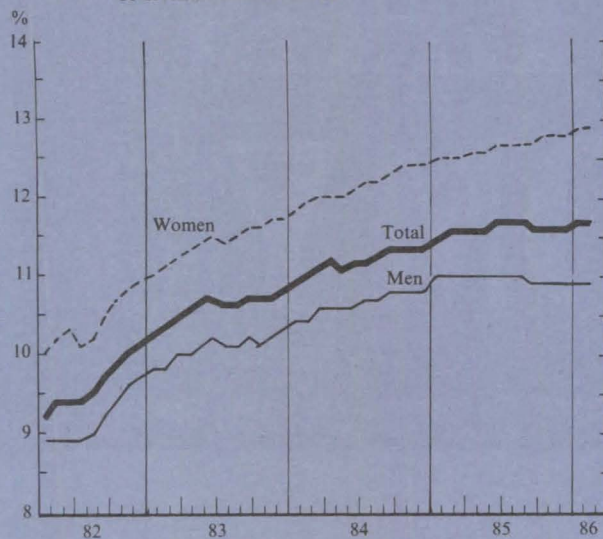
GRAPH 1: Industrial production and gross domestic product (s.a.) - EUR total



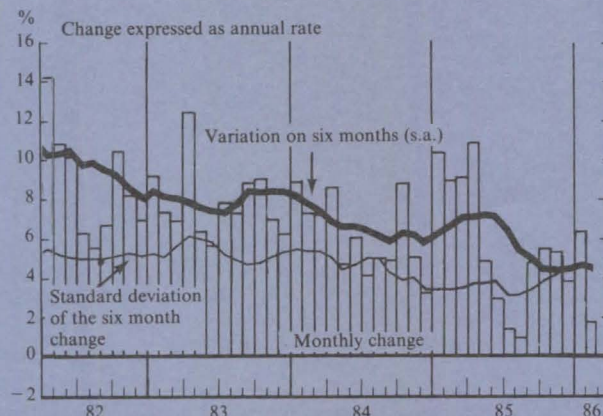
¹ France, Germany, Italy and UK: quarterly figures

¹ The corresponding figure for EUR9, the series used in this publication up to last month, was 12,8 million or 11,1% of the civilian labour force. All figures for unemployment are based on Eurostat series for the numbers registered as unemployed at public employment offices.

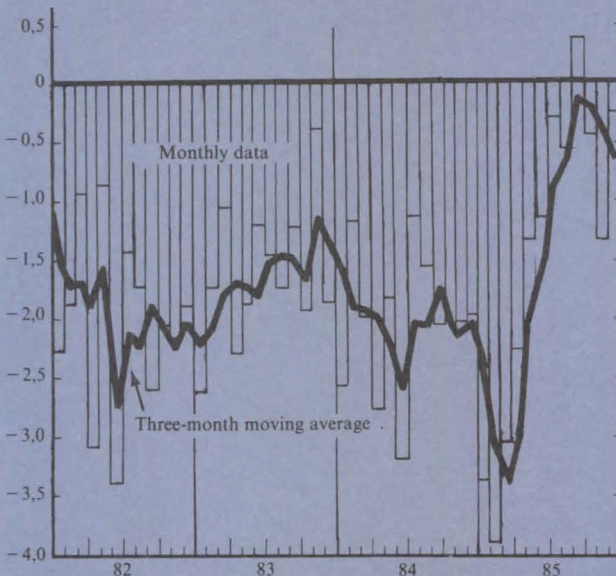
GRAPH 2: Unemployment (s.a.) EUR 12
Number unemployed as % of civilian labour force



GRAPH 3: Consumer prices EUR 12



GRAPH 4: Trade balance (s.a.) EUR 10



from 0,3 to 0,2%. The month to month increase in Spain slowed down substantially in February after the strong increase at the beginning of the year reflecting the introduction of value added tax. This factor continued to influence the monthly rate in Portugal where it is estimated that the introduction of value added tax will add 3,5 percentage points to inflation in 1986. The trend rate of inflation in the Community (seasonally adjusted annual rate over six months) began to reflect the fall in energy prices, declining by 0,2 percentage point with the fall in trend rates becoming generalised except in the two new Member States and the United Kingdom, where some further increases in the trend rates were observed. The degree of divergence in price changes in the Community, measured as the weighted standard deviation of inflation trends in each country, eased in February (see Graph 3) as the Greek trend rate moderated. The index of consumer prices in the Community in February was 4,7% higher than a year earlier with changes over twelve months ranging from 0,7% in Germany to 24,4% in Greece. All other yearly inflation rates, except in Portugal where a figure of 12,6% was recorded, were below 9%.

Trade deficit down in December. — The trade deficit in the Community fell from the high level recorded in November to 205 million ECU (s.a.) for the Community (EUR10) in December. This smaller deficit was principally due to the easing of the trade deficit position of the United Kingdom and that of Italy from the large deficit recorded in November, as well as to an increase in the German and Dutch surpluses. On the other hand, the French deficit widened. The three-month moving average of the trade deficit for the Community has continued to rise since the low point reached in October. Nevertheless it is still just over one third of the level recorded a year earlier. For the fourth quarter the deficit widened significantly only in Italy. In the BLEU and Denmark deficits were somewhat higher than in the third quarter and in Ireland the trade surplus fell somewhat. In Greece and France deficits fell and in Germany and the Netherlands surpluses rose. For 1985 as a whole the trade account improved in the BLEU, Germany, Ireland and the United Kingdom while in Denmark, Greece, France and Italy deficits rose and the Dutch surplus was lower. The result of these contrasting movements was a fall of 8,000 million ECU for the deficit of the Community (EUR10) to just over 16,000 million ECU. This compares with a deficit for the first eleven months of the year of 175,8 billion ECU for the US and a surplus for the year of 60,6 billion ECU in Japan.

A slight upturn in the Community's average monetary growth in 1985. — The 1985 monetary statistics for the whole of the Community show a slight upturn in monetary growth which averaged 9,9% for the year compared with 9,5% for 1984. The increase in money supply strengthened in five Member States — Belgium, Germany, the Netherlands, Portugal and the United Kingdom — whereas monetary expansion moderated in six others — Denmark, Greece, Spain, France, Ireland and Italy. Taking the first group of countries, money supply in Belgium expanded rapidly in the last quarter of 1985 (up 2,6%) after six months of very moderate growth. In the Netherlands, as a result of the rapid increase in the economy's liquidity, the national bank concluded an agreement with the banks under which they undertook to limit the increase in their money creation to between 5,5% and 6% this year. The United Kingdom set a new target range of 11% to 15% for the growth of sterling M_3 in 1986/87, and fixed the target range for M_0 at 2% to 6%. Of the Member States which moderated their money creation in 1986, in Ireland the expansion of bank lending to the private slowed significantly to only 3,5%, compared with the target of 8%. In Greece, however, bank lending to the private sector, which went up by 20,1% in 1985, exceeded the target set in the annual monetary programme (18%). In France, M_2R increased by only 0,2% in December, but grew by 6,9% for the whole of 1985 (variation between three-month average centred on December) whereas the target range was 4% to 6%.

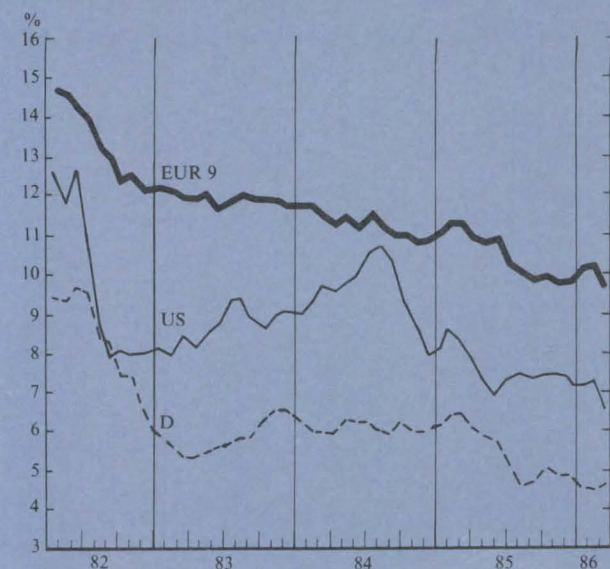
Interest rates down. — The decline in the Community average for short-term interest rates, which was interrupted from December to February, resumed in March: the short-term interest rate (EUR12) dropped to 9,7% compared with 10,1% in February, moving back to its end-November level. The downturn was encouraged in several Member States by a cut in official interest rate: on 6 March, the Bank of France reduced its money market

intervention rate by a quarter of a point; on 7 March the Bundesbank cut its discount rate from 4% to 3,5% and the Netherlands national bank brought its discount rate down from 5% to 4,5%. In the United Kingdom, the presentation of the budget for 1986-87 was followed on 19 March by the reduction of the bank base rate from 12,5% to 11,5% and at the end of March the interbank rate stood at 11,3%, one point down on the previous month. These cuts were helped by the growing strength of sterling on the foreign exchanges in the second half of March. The cost of money also eased in Belgium and Ireland, but in the latter Member States short-term rates remained distinctly up on their end-1985 levels. In February, long-term interest rates continued to edge down, with the exception of Greece where they rose slightly, and Italy and Spain where stability prevailed, so that the Community average was 10%, three-tenths of a point down on January.

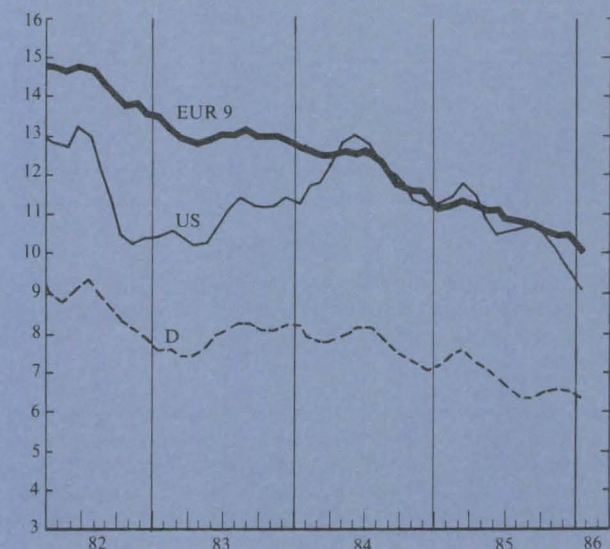
Limited decline of the ECU in March and realignment of currencies within the EMS at the beginning of April. — In March, although the monthly average dollar value of the ECU maintained its advance in comparison with February (up 2,8%), the ECU nevertheless started to lose a little ground against the United States currency from the second week of the month. This was paralleled by a slight depreciation of the basket of European currencies against the yen, the loss averaging 0,4% for the month. Sterling had continued to retreat against the ECU in the first half of the month but firmed appreciably in the second half of March, so that the loss for the month was only 0,3%. Within the EMS exchange rate agreement, the currencies remained in the relative positions which they had occupied in February. However, the relative stability of bilateral cross-rates concealed the development of strains caused by the growing expectation of a realignment of currencies. Certain currencies (in particular the Danish kroner, the Belgian franc, the French franc, and the Irish pound) were hit by speculation, generally at the end of the week, which led to central bank intervention to support them. At the close of dealing on Thursday 3 April, the Bank of France decided not to go on supporting the franc on the foreign exchanges and, in concert with all the EMS central banks, agreed to suspend, for the whole of Friday, the obligations to intervene at the limits, pending the decision to be taken by the Ministers of Finance. At the weekend, the Community's Ministers of Finance and Governors of the Central Banks decided on a realignment of currencies within the EMS with effect from 7 April (see next page for the details of the realignment).

25 April, 1986

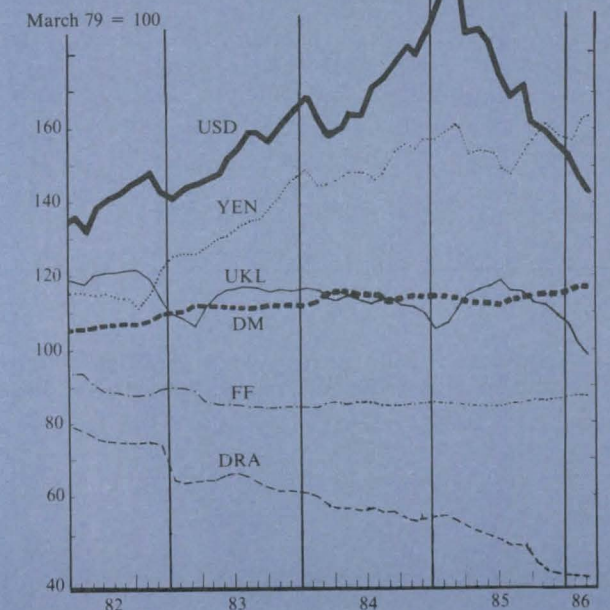
GRAPH 5: Short-term interest rates



GRAPH 6: Long-term interest rates



GRAPH 7: Exchange rates
Value of USD, yen and some EC currencies in ECU



The realignment of 6 April 1986 within the European Monetary System

On 6 April, Community Ministers of Finance, meeting in Ootmarsum in the Netherlands, decided on a realignment of parities within the EMS, with effect from Monday 7 April.

The table below shows the main monetary features of this operation in which the German mark and the Dutch guilder were revalued by 3%, the Belgian/Luxembourg franc and the Danish kroner were revalued by 1% and the French franc devalued by 3%; the parities of the lira and the Irish pound were not changed. It should also be noted that, in accordance with the rules governing the system, the notional central rates of sterling and the drachma, which do not participate in the exchange rate mechanism, were also adjusted by aligning them on their market rates.

	% change in bilateral parities	New ECU central rates (a)	Former ECU central rates	% change in ECU central rates	Change in effective exchange rates (b)	New weights of currencies (c) in the Ecu
DM	3,00	2,13834	2,2384	4,68	3,3	33,62
HFL	3,00	2,40935	2,52208	4,68	2,0	10,63
B/LFR	1,00	43,6761	44,832	2,65	0,1	8,81
DKR	1,00	7,91896	8,12857	2,65	- 0,2	2,77
LIT	0,00	1496,21	1520,6	1,63	- 0,9	9,36
IRL	0,00	0,712956	0,724578	1,63	- 1,0	1,22
FF	- 3,00	6,9628	6,86402	- 1,42	- 4,8	18,81
UKL	- 13,31	0,638317	0,555312	- 11,98	—	13,93
DRA	- 26,95	135,659	100,712	- 25,76	—	0,85

(a) UKL and DRA: notional central rate.
(b) Weighted average of bilateral parity changes against currencies participating in the EMS exchange rate mechanism; import/export weights.
(c) Based on new central rates.

The column 'change in effective exchange rates' indicates the average revaluation (+) or devaluation (-) percentage of each of the currencies in the light of the geographical structure of its imports from and exports to the partner countries belonging to the EMS exchange rate mechanism. Thus the average revaluation of the German mark is 3,3% and the average devaluation of the French franc 4,8%.

The last column of the table indicates the new weights of each of the currencies in the ECU, when they are at their central rate. When a currency is revalued, its weight increases in relation to the others, and conversely when a currency is devalued its weight falls, since each currency amount in the ECU is fixed. The modification of central rates produces new bilateral rates. The table below indicates the changes in these bilateral rates against the reference currency in each of the rows. Thus the German mark exchange rate expressed in French francs is revalued by 6,2% (first line, seventh column) and the French franc expressed in German marks is devalued by 5,8% (seventh line, first column).

	DM	HFL	B/LFR	DKR	LIT	IRL	FF	UKL	DRA
DM	0,0	0,0	2,0	2,0	3,0	3,0	6,2	18,8	41,0
HFL	0,0	0,0	2,0	2,0	3,0	3,0	6,2	18,8	41,0
B/LFR	- 1,9	- 1,9	0,0	0,0	1,0	1,0	4,1	16,5	38,3
DKR	- 1,9	- 1,9	0,0	0,0	1,0	1,0	4,1	16,5	38,3
LIT	- 2,9	- 2,9	- 1,0	- 1,0	0,0	0,0	3,1	15,4	36,9
IRL	- 2,9	- 2,9	- 1,0	- 1,0	0,0	0,0	3,1	15,4	36,9
FF	- 5,8	- 5,8	- 4,0	- 4,0	- 3,0	- 3,0	0,0	11,9	32,8
UKL	- 15,8	- 15,8	- 14,2	- 14,2	- 13,3	- 13,3	- 10,6	0,0	18,7
DRA	- 29,1	- 29,1	- 27,7	- 27,7	- 26,9	- 26,9	- 24,7	- 15,7	0,0

Each of the currencies may fluctuate by $\pm 2,25\%$ around its bilateral central rate (intervention rate), except the Italian lira which may fluctuate by $\pm 6\%$. The table below shows the new bilateral central rates and intervention rates.

In the days which followed the realignment, the currencies which had been revalued by 3% (the German mark and the Dutch guilder) were traded at their cross-rate floor against the French franc and the Italian lira. The franc did not fall by more than 3,5% against the mark and the Bank of France had to provide substantial support for the German currency to keep it within its margin of fluctuation. The Irish pound appreciated slightly against the mark and rose to the upper half of its band. The Danish kroner depreciated slightly against the German currency and remained in the lower part of its band. As dealers again bought the Belgian franc, the Belgian National Bank was able to cut interest rates and the Belgian franc appreciated slightly against the mark although it still remained in the lower half of its fluctuation band.

TABLE 3: Central rates and intervention limits of EMS currencies (a)
(parity grid in force from 7 April 1986)

		Amsterdam in HFL	Brussels/ Bruxelles in BFR/LFR	Frankfurt in DM	Kopenhagen in DKR	Dublin in IRL	Paris in FF	Roma in LIT
100 HFL	+ 2,25 %		1854,05	90,770	336,16	30,2645	295,57	65941,0
	central rate	100	1812,78	88,7526	328,676	29,5912	288,991	62100,2
	- 2,25 %		1772,45	86,780	321,36	28,9329	282,56	58480,0
100 BFR/LFR	+ 2,25 %	5,6420		5,007	18,543	1,6695	16,3045	3637,4
	central rate	5,51640	100	4,8959	18,1312	1,63237	15,9419	3425,7
	- 2,25 %	5,3935		4,787	17,727	1,5960	15,5870	3226,3
100 DM	+ 2,25 %	115,235	2089,00		378,76	34,1000	333,03	74295,0
	central rate	112,673	2042,52	100	370,332	33,3416	325,617	69970,6
	- 2,25 %	110,1675	1997,20		362,09	32,6000	318,37	65898,0
100 DKR	+ 2,25 %	31,1175	564,10	27,615		9,2080	89,925	20062,0
	central rate	30,4251	551,536	27,0028	100	9,00315	87,9257	18894,0
	- 2,25 %	29,7475	539,30	26,400		8,8029	85,97	17794,0
1 IRL	+ 2,25 %	3,4560	62,6550	3,068	11,3599		9,9885	2228,29
	central rate	3,37938	61,2606	2,99926	11,1072	1	9,7661	2098,60
	- 2,25 %	3,3040	59,8975	2,933	10,8601		9,5490	1976,46
100 FF	+ 2,25 %	35,39	641,55	31,410	116,32	10,4725		22817,0
	central rate	34,6032	627,278	30,7109	113,732	10,2395	100	21488,6
	- 2,25 %	33,8325	613,35	30,030	111,20	10,0115		20238,0
1000 LIT	+ 6,00 %	1,710	31,0	1,5175	5,620	0,505956	4,9410	
	central rate	1,61030	29,1912	1,42917	5,29268	0,476508	4,65362	1000
	- 6,00 %	1,5165	27,490	1,3460	4,985	0,448775	4,3830	
1 ECU	central rate	2,40935	43,6761	2,13834	7,91896	0,712956	6,9628	1496,21

(a) The UKL and the DRA do not participate in the exchange rate mechanism. Their notional central rates in ECUs are UKL 0,630317 and DRA 135,659 respectively.

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

	1981	1982	1983	1984	1985	1984					1985					1986					Change over 12 months % (b)
						IV	I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	
B	-2.7	0	2.0	2.5	2.3	-0.5	0.1	1.1	-0.3	2.9	-3.3	-1.8	5.0	-1.4	5.2	-4.8	...	...	...	...	-2.0
DK	0	2.7	3.2	9.7	4.4	5.1	-5.8	2.8	5.0	1.8	1.9	2.0	1.8	3.4	-3.6	-3.0	3.8	...	...	...	5.3
D	-1.9	-2.9	0.6	3.0	5.8	1.5	0.4	1.2	1.9	0.8	2.2	-3.0	0.5	2.9	0.3	-5.2	2.6	...	...	...	2.8
GR	-0.6	-4.2	-0.7	3.5	2.8	0	-1.4	1.8	5.3	-1.3	6.2	-3.7	3.2	-0.9	-2.1	0.3	...	...	...	...	8.4
E	-1.0	-1.1	2.7	0.8	...	-0.2	1.2	-1.2	2.0	...	5.8	-1.6	-0.5	7.4	-4.4	...	...	...	...	...	3.1
F	-2.3	-1.5	0.8	2.3	0.8	-2.0	-0.8	0.5	1.5	0	2.3	0	-2.2	0.8	2.2	-3.6	-0.8	...	...	...	2.3
IRL	2.2	0.3	6.5	12.9	2.2	5.7	-0.3	-1.4	-3.4	2.9	-2.2	0.8	1.3	0.2	4.0	-3.4	...	...	...	...	1.3
I	-1.6	-3.0	-3.2	3.4	1.2	-1.6	1.7	0.1	-0.6	-0.4	-3.7	0.3	2.4	-3.3	3.7	-3.7	2.0	...	...	...	2.2
L	-5.7	0.9	5.4	13.3	(5.5)	3.1	0.5	2.4	-2.5	...	-2.1	-1.7	-1.0	4.1	3.0	...	...	...	...	...	8.1
NL	-2.0	-4.1	2.1	5.2	3.0	-2.0	7.4	-2.8	-1.9	1.6	-4.7	3.0	-2.9	1.0	7.8	-10.0	5.1	...	...	...	-6.0
P	0.5	4.6	1.6	-0.1	...	0.7	-1.5	4.4	-0.6	...	-0.7	-0.2	2.8	3.0	...	...	...	...	...	...	7.2
UK	-3.4	1.9	3.6	1.3	4.7	0.9	2.8	1.9	0.1	0.3	0.1	0.6	1.1	-0.7	1.4	-2.4	1.6	...	...	...	3.4
EUR 10	-2.3	-1.5	0.9	2.9	(3.3)	0.4	0.6	0.9	0.7	(0.8)	-0.1	-0.4	0.4	0.7	1.3	(-2.7)	(1.3)	...	...	...	(3.5)
USA	2.1	-7.4	7.8	12.4	(2.5)	0.1	0.3	0.4	0.8	(0.3)	0.2	1.0	-0.4	(-0.4)	(0.7)	(0.8)	...	...	...	...	(-2.8)
JAP	1.0	0.3	3.6	11.1	4.6	2.7	-0.7	2.7	-0.1	-0.7	1.7	-1.3	-1.1	1.0	-1.1	0.7	(-0.9)	...	...	...	(0.5)

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

	1981	1982	1983	1984	1985	1984					1985					1986					Change over 12 months % (b)
						IV	I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	
B (f)	11.1	13.0	14.3	14.4	13.4	14.4	14.4	13.7	13.0	12.7	13.0	12.9	12.8	12.6	12.7	12.6	12.5	...	...	...	...
DK	8.9	9.5	10.2	9.8	(8.7)	9.4	9.4	8.8	(8.6)	(7.9)	8.5	8.3	8.1	(7.9)	(7.8)	(7.7)	(7.6)	...	...	...	(-16.7)
D	4.8	6.9	8.4	8.4	8.5	8.2	8.5	8.5	8.5	8.4	8.5	8.5	8.5	8.4	8.3	8.4	8.4	...	...	...	-0.7
GR	1.2	1.4	1.6	1.9	2.2	2.1	2.2	2.2	2.2	2.4	2.2	2.3	2.3	2.3	2.6	2.8	2.7	...	...	...	34.0
E	12.1	14.3	16.6	18.6	19.9	19.3	19.6	20.0	19.9	20.3	19.8	19.9	20.0	20.6	20.2	20.5	20.4	...	...	...	5.3
F	7.7	8.7	8.8	9.9	10.3	10.4	10.5	10.4	10.4	10.2	10.5	10.3	10.3	10.3	10.1	10.3	10.2	...	...	...	-2.0
IRL	10.2	12.2	14.9	16.5	17.6	16.7	17.2	17.4	17.9	17.7	18.0	17.9	17.6	17.6	17.9	17.6	17.5	...	...	...	2.0
I	8.0	9.7	10.9	11.9	12.9	12.1	12.4	12.8	13.0	13.2	12.9	13.0	13.2	13.3	13.3	13.3	(13.3)	...	...	...	7.8
L	1.0	1.3	1.6	1.7	1.6	1.6	1.6	1.7	1.6	1.5	1.6	1.6	1.5	1.5	1.5	1.5	1.5	...	...	...	-4.7
NL (f)	8.8	11.8	14.3	14.5	13.2	13.8	13.5	13.2	13.1	12.7	13.2	13.0	12.8	12.7	12.6	12.6	12.5	...	...	...	-6.5
P	5.8	5.7	5.6	6.7	7.7	7.2	7.3	7.6	7.9	8.0	7.9	7.9	7.9	8.0	8.0	8.1	8.1	...	...	...	10.8
UK	(9.2)	(10.6)	(11.6)	11.8	12.1	11.9	12.0	12.2	12.2	12.1	12.2	12.1	12.1	12.0	12.1	12.2	12.2	...	...	...	1.8
EUR 12	(7.8)	(9.4)	(10.6)	11.2	(11.6)	11.4	11.6	11.6	11.7	(11.6)	11.7	11.6	11.6	(11.6)	(11.6)	(11.7)	(11.7)	...	...	...	(1.6)
USA	7.6	9.7	9.6	7.5	7.2	7.2	7.3	7.3	7.1	7.0	7.1	7.1	7.1	7.0	6.9	6.7	...	...	...	...	(-7.2)
JAP (g)	2.2	2.4	2.7	2.7	(2.6)	2.7	2.5	2.5	2.6	2.8	2.6	2.7	2.7	2.8	2.9	2.7	...	...	...	...	8.8

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

	1981	1982	1983	1984	1985	1984					1985					1986					Change over 12 months % (b)
						IV	I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	
B	7.6	8.7	7.7	6.4	4.9	0.9	1.8	1.3	0.7	0.2	0	0.2	-0.1	0.2	0	0.1	0.1	...	...	...	2.5
DK	11.7	10.1	6.9	6.3	4.7	1.4	1.3	1.5	-0.1	0.8	-0.1	0.5	0.3	0.4	-0.1	-0.3	(0)	...	...	...	(2.1)
D	6.3	5.3	3.3	2.4	2.2	0.7	1.1	0.6	-0.2	0.3	-0.3	0.2	0.2	0.2	0.1	0.2	-0.2	...	...	...	0.7
GR	24.5	21.0	20.5	18.3	19.4	5.5	4.5	4.5	2.6	9.7	0.3	5.0	3.3	2.5	3.3	2.3	-0.7	...	...	...	24.4
E	14.6	14.4	12.2	11.3	8.8	1.5	3.2	1.9	1.0	1.9	0.2	1.1	0.4	0.8	0.4	2.8	0.4	...	...	...	8.9
F	13.4	11.8	9.6	7.3	5.9	1.4	1.4	1.8	0.9	0.6	0.1	0.1	0.3	0.2	0.1	0.1	-0.2	...	...	...	3.5
IRL (h)	20.4	17.2	10.4	8.6	5.4	0.7	1.9	1.3	1.5	0.2	(0.5)	(0.1)	(0.1)	(0.1)	(0.5)	(0.5)	(0.5)	...	...	...	4.6
I	17.8	16.5	14.7	10.8	9.2	2.4	2.9	2.4	1.2	2.2	0.3	0.5	1.0	0.8	0.6	0.5	(0.7)	...	...	...	(7.7)
L	8.1	9.4	8.7	5.6	4.2	1.1	1.0	1.6	0.5	0.9	-0.4	0	0.8	0.2	0.2	-0.2	-0.4	...	...	...	2.6
NL	6.7	5.7	2.7	3.2	2.3	1.1	0.2	1.0	0	0.6	0	0.5	0.3	0	-0.2	-0.4	0.2	...	...	...	1.3
P	20.0	22.7	25.1	28.9	19.6	3.1	8.0	3.4	1.1	3.0	0.8	0.1	1.0	1.6	1.7	1.9	1.3	...	...	...	12.6
UK	11.9	8.6	4.6	5.0	6.1	1.2	1.3	3.4	0.3	0.5	0.3	-0.1	0.2	0.3	0.1	0.2	0.4	...	...	...	5.1
EUR 12	12.1	10.7	8.6	7.4	(6.1)	1.5	1.8	1.9	0.6	1.1	0.1	0.4	0.4	0.4	0.3	0.5	(0.2)	...	...	...	(4.7)
USA	10.3	6.2	3.2	4.3	3.6	0.7	0.7	1.2	0.7	0.9	0.2	0.3	0.3	0.3	0.2	0.3	0.2	...	...	...	3.7
JAP	4.9	2.7	1.9	2.2	2.1	1.2	0.1	0.9	0	1.0	-1.0	1.0	1.4	-1.0	0.1	0.2	-0.3	...	...	...	1.9

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

	1981	1982	1983	1984	1985	1984					1985					1985					1986	Change over 12 months % (c)
						IV	I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.					
B/L	-5418	-3082	-2435	-4897	-3514	-1306	-1501	-581	-714	-811	-191	-247	-276	-375	-262	-174	:	88				
DK	-1475	-1866	-740	-1108	-1538	-204	-494	-306	-279	-473	-155	-106	-18	-218	-61	-194	(182)	(-8)				
D	11239	21599	18501	24136	32963	8377	6589	8631	8742	9403	3276	2421	3046	3246	2978	3179	(3987)	(1977)				
GR	-3951	-5826	-5800	-6048	-7266	-2073	-1727	-2341	-1621	-1590	-467	-590	-565	-513	-558	-520	:	739				
E	-10531	-11202	-10545	-6730	:	-1803	-2146	-2335	-1821	:	-289	-698	-834	-434	:	:	:	251				
F	-17283	-24457	-15628	-13130	-13428	-2736	-3810	-3028	-3535	-3040	-1471	-993	-1070	-1029	-916	-1095	(139)	(1609)				
IRL	-2467	-1574	-621	81	430	-32	195	56	138	28	20	78	40	-46	96	-21	(76)	(106)				
I	-13554	-12513	-8516	-13849	-16130	-5148	-5505	-5911	-1589	-4105	-738	-609	-241	-842	-1930	-1333	:	-211				
NL	1320	3500	4499	4740	3874	1419	492	1234	944	1085	470	219	255	189	183	713	:	270				
P	-5308	-5963	-4226	-3430	:	-806	-627	-718	-588	:	-179	-204	-205	-105	:	:	:	62				
UK	-445	-3295	-9681	-14005	-11540	-3930	-4514	-2272	-2493	-2493	-943	-778	-772	-709	-1084	-700	(-363)	(645)				
EUR 10 (j)	-32033	-27515	-20422	-24080	-16127	-6016	-10258	-4681	-509	-2078	-224	-679	394	-425	-1449	-205	:	1176				
USA	-35538	-43518	-77969	-156288	:	-38116	-47958	-52238	-45831	:	-13612	-12410	-19809	-13683	-16059	:	:	2359				
JAP	7832	7034	23072	42599	(60552)	14810	13114	14354	14625	(17955)	4790	5132	4753	4888	6877	(6190)	:	(786)				

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

	1981	1982	1983	1984	1985	1985				1986				1985				1986				Change over 12 months % (e)
						I	II	III	IV	I	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March					
B	15.6	14.1	10.5	11.5	9.6	10.7	8.9	9.4	9.8	9.3	9.4	8.9	8.6	9.8	9.8	9.7	9.3	-1.4				
DK	14.9	16.4	12.1	11.5	10.0	12.0	10.3	9.4	9.5	9.1	9.4	10.0	9.3	9.5	9.0	8.7	9.1	-2.9				
D	12.3	8.8	5.8	6.0	5.4	6.3	5.7	4.7	4.8	4.7	4.7	5.0	4.8	4.8	4.6	4.5	4.7	-1.6				
GR	16.8	20.2	19.4	15.7	17.1	19.3	16.6	16.5	17.9	21.8	16.5	17.3	19.5	17.9	19.0	20.5	21.8	2.5				
E	16.2	16.3	20.1	14.9	12.2	12.1	14.2	11.5	10.5	11.6	11.5	10.4	10.5	10.5	10.6	10.6	11.6	-0.5				
F	15.6	14.6	12.5	11.7	9.9	10.7	10.2	9.5	9.1	8.3	9.5	9.3	8.8	9.1	8.9	8.7	8.3	-2.4				
IRL	16.6	17.5	14.1	13.3	11.9	13.9	11.6	10.1	11.7	14.5	10.1	10.1	10.4	11.7	15.1	16.1	14.5	0.6				
I	20.0	20.1	18.1	17.2	15.1	15.6	15.1	14.1	14.9	14.7	14.1	14.8	14.6	14.9	15.7	16.5	14.7	-0.9				
NL	11.8	8.3	5.7	6.1	6.4	6.9	6.7	5.8	5.8	5.4	5.8	6.2	5.9	5.8	5.8	5.8	5.4	-1.5				
P	16.0	16.8	20.9	22.5	21.0	21.7	21.4	22.2	18.6	.	22.2	20.8	18.8	18.6	18.6	18.4	.	-3.1				
UK	14.2	12.2	10.1	10.1	12.3	13.2	12.6	11.5	11.9	11.3	11.5	11.6	11.6	11.9	12.9	12.3	11.3	-1.9				
EUR 12 (n)	15.2	13.8	12.0	11.2	10.5	11.2	10.8	9.8	9.9	(9.7)	9.8	9.9	9.7	9.9	10.1	10.1	(9.7)	(-1.5)				
USA	14.0	10.6	8.7	9.5	7.0	8.2	6.8	7.3	7.2	6.6	7.3	7.4	7.4	7.2	7.2	7.3	6.6	-1.6				
JAP	7.4	6.9	6.4	6.1	6.6	6.3	6.3	6.4	7.7	5.3	6.4	7.8	7.9	7.7	6.1	5.9	5.3	-1.0				

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

	1981	1982	1983	1984	1985	1984				1985				1985				1986				Change over 12 months % (e)
						IV	I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.					
B	13.8	13.5	11.8	12.0	10.6	11.6	11.5	10.3	10.4	9.6	10.5	10.4	9.7	9.4	9.6	9.6	9.4	-2.2				
DK	19.3	20.5	14.4	14.0	11.6	14.0	13.0	11.8	11.1	9.9	10.5	11.1	10.7	10.5	9.9	10.3	9.6	-3.6				
D	10.4	9.0	7.9	7.8	6.9	7.0	7.6	6.9	6.3	6.5	6.4	6.3	6.5	6.6	6.5	6.3	6.2	-1.2				
GR	17.7	15.4	18.2	18.5	15.8	17.9	18.4	15.8	14.2	15.1	14.0	14.2	14.0	13.1	15.1	14.7	15.0	-3.4				
E	15.8	16.0	16.9	16.5	13.4	13.9	13.5	13.8	13.9	12.3	14.4	13.9	12.6	12.1	12.3	12.3	12.2	-1.2				
F	16.3	16.0	14.4	13.4	11.9	12.7	12.3	12.1	12.0	11.3	12.0	12.0	11.7	11.2	11.3	10.8	10.1	-2.2				
IRL	17.2	17.0	13.9	14.6	12.7	14.9	13.6	12.4	11.9	11.8	11.7	11.9	11.8	12.1	11.8	11.9	10.7	-4.0				
I	20.6	20.9	18.0	14.9	13.0	13.9	12.8	13.3	13.0	13.1	13.5	13.0	12.8	13.0	13.1	12.9	12.9	0.5				
L	8.6	10.4	9.8	10.3	9.5	10.0	9.7	9.6	9.3	9.3	9.4	9.3	9.3	9.3	9.2	9.2	.	-0.8				
NL	12.2	10.5	8.8	8.6	7.8	7.8	8.6	7.8	7.4	7.5	7.3	7.4	7.7	7.6	7.5	7.4	7.2	-1.0				
P	22.6	25.3	30.4	32.5	30.8	32.5	32.5	32.5	30.0	26.0	30.0	30.0	30.0	26.0	26.0	26.0	26.0	-6.5				
UK	14.8	12.7	10.8	10.7	10.6	10.8	10.7	10.7	10.3	10.5	10.4	10.3	10.3	10.3	10.5	10.8	10.0	-1.0				
EUR 12 (n)	15.2	14.5	13.0	12.3	10.9	11.5	11.3	11.1	10.7	10.5	10.9	10.7	10.5	10.4	10.4	10.3	(10.0)	(-1.2)				
USA	12.9	12.2	10.8	12.0	10.8	11.2	11.8	10.4	10.7	9.6	10.6	10.7	10.6	10.1	9.6	9.5	9.1	-2.3				
JAP	8.4	8.3	7.8	7.3	6.5	6.5	6.8	6.6	5.8	5.8	6.2	5.8	6.6	6.4	5.8	5.8	5.2	-1.8				

TABLE A.8: Value of ECU 1 ECU = ... units of national currency or SDR

	1981	1982	1983	1984	1985	1985				1986				1985				1986				Change over 12 months % (b)
						I	II	III	IV	I	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March					
BFR/LFR	41.29	44.68	45.44	45.44	44.91	44.66	45.12	45.13	44.74	44.35	45.04	44.82	44.67	44.73	44.51	44.27	44.25	-1.2				
DKR	7.92	8.15	8.13	8.15	8.02	7.96	8.05	8.07	7.99	7.98	8.07	8.02	7.99	7.96	7.98	7.98	7.98	0.2				
DM	2.51	2.38	2.27	2.24	2.23	2.23	2.24	2.23	2.20	2.17	2.23	2.21	2.21	2.19	2.18	2.16	2.16	-3.0				
DR	61.62	65.30	78.09	88.44	105.7	91.97	98.47	104.5	127.7	133.2	106.9	122.1	130.0	130.9	132.4	132.9	134.4	42.2				
PTA	102.7	107.6	127.5	126.6	129.1	123.1	126.4	131.0	135.8	136.2	132.4	135.2	135.9	136.2	136.3	136.2	136.0	10.2				
FF	6.04	6.43	6.77	6.87	6.80	6.81	6.83	6.81	6.73	6.66	6.79	6.74	6.73	6.71	6.68	6.64	6.65	-2.4				
IRL	0.691	0.690	0.715	0.726	0.715	0.715	0.716	0.716	0.714	0.715	0.716	0.715	0.714	0.712	0.715	0.715	0.715	0				
LIT	1263	1324	1350	1381	1447	1382	1430	1484	1494	1476	1493	1493	1492	1496	1484	1472	1470	4.7				
HFL	2.78	2.62	2.54	2.52	2.51	2.52	2.53	2.51	2.48	2.45	2.50	2.49	2.49	2.47	2.45	2.44	2.44	-3.2				
ESC	68.5	78.0	98.7	116.3	130.2	122.4	127.2	132.8	138.4	141.3	134.9	137.2	138.1	139.8	140.5	141.4	142.0	15.1				
UKL	0.553	0.561	0.587	0.591	0.589	0.614	0.578	0.570	0.595	0.642	0.576	0.588	0.592	0.604	0.626	0.649	0.651	8.1				
USD	1.116	0.981	0.890	0.789	0.762	0.684	0.726	0.785	0.853	0.924	0.785	0.837	0.852	0.873	0.891	0.928	0.954	41.5				
YEN	245.4	243.5	211.4	187.0	180.5	176.1	182.0	187.0	176.8	173.3	185.5	179.6	173.8	177.0	178.4	171.0	170.4	-2.2				
DTS	0.946	0.888	0.833	0.767	0.749	0.707	0.732	0.764	0.791	.	0.763	0.785	0.788	0.801	0.812	0.822	.	17.1				

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

	1985					1986				1985				1986			Change over 12 months % (b)	
	1981	1982	1983	1984	1985	Percentage change on preceding period				I	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.		March
						I	II	III	IV									
B/L	-5.8	-9.2	-2.8	-2.1	0.7	0.1	0	1.0	1.6	1.8	-0.2	1.0	0.4	0.3	0.8	0.8	0.4	5.3
DK	-7.5	-4.4	-0.6	-3.2	0.8	0.3	0	1.1	2.4	1.9	-0.5	1.6	0.5	1.1	0.4	0.7	0.4	6.4
D	-5.6	5.0	4.0	-1.3	-0.2	-0.7	1.0	2.1	2.9	3.5	-0.4	1.8	0.3	1.5	1.4	1.1	0.7	11.0
GR	-10.2	-8.0	-18.0	-14.0	-12.5	-1.5	-4.9	-4.0	-17.2	-2.9	-2.3	-11.7	-6.0	0	-0.7	0	-0.6	-24.9
E	-9.6	-6.0	-17.2	-2.2	-0.6	0.3	-0.9	-1.8	-2.2	1.3	-1.5	-1.1	-0.3	0.5	0.5	0.5	0.7	-2.6
F	-8.8	-8.3	-7.2	-4.6	0.5	-0.4	1.3	2.3	2.9	2.8	-0.2	1.8	0.4	1.1	1.0	1.1	0.4	10.5
IRL	-8.7	-1.1	-4.1	-4.0	0.6	0.1	-0.2	1.1	2.6	3.0	-0.5	1.7	0.4	1.3	0.8	1.4	0.6	8.2
I	-12.4	-6.9	-3.8	-5.4	-6.2	-1.1	-1.9	-2.3	0.8	2.9	-0.4	1.1	0.3	0.4	1.4	1.3	0.7	2.1
NL	-4.3	5.1	2.1	-1.4	-0.2	-0.8	0.7	1.9	2.3	2.8	-0.2	1.2	0.4	1.3	1.1	0.8	0.6	8.8
P	-3.8	-12.9	-21.1	-17.1	-10.9	-2.9	-2.6	-2.9	-2.7	-0.5	-1.8	-0.7	-0.5	-0.5	0.1	-0.1	0.1	-7.5
UK	0.2	-4.4	-6.9	-4.6	0.2	-3.6	9.1	3.6	-2.7	-6.1	-0.4	-1.0	-0.3	-1.3	-3.1	-3.3	0.3	0.6
ECU	-14.7	-5.8	-5.8	-8.0	-2.2	-2.7	4.4	4.1	2.9	3.4	-1.0	2.2	0.3	1.7	1.1	0.8	1.2	17.3
USA	12.8	12.0	5.7	8.0	4.9	6.2	-3.4	-5.7	-6.8	-5.9	1.3	-5.4	-1.7	1.3	-1.3	-3.7	2.3	-23.5
JAP	13.6	-5.0	10.8	6.2	1.4	-0.6	0.4	1.1	11.0	6.7	1.4	6.8	4.6	-0.4	0.4	6.5	1.9	23.2

Principal economic policy measures - March 1986

Community (EUR)

10.3 The Council (Economic and Financial Affairs) conducted the first quarterly examination of the economic situation in the Community, on the basis of the Commission Communication of 5 March 1986 (COM(86) 114 final). Broadly speaking, it endorsed the assessment of the economic situation given by the Commission in the Communication and the Commission's opinion that there was no need at present to amend the economic policy guidelines contained in the Annual Economic Report 1985-1986 adopted by the Council in December 1985.

Following this discussion, the Council instructed the Economic Policy Committee to follow actively economic and monetary developments in the coming months and report back to it when there appeared to be a need for adjustment to the economic policy guidelines fixed in the Annual Report or other measures to achieve greater convergence in economic policy.

6.4 The Ministers for Economic Affairs and Finance and the Governors of the Central Banks of the Member States decided on a realignment of the central rates of the currencies participating in the EMS (see elsewhere in this issue).

Belgium (B)

24.3 The 6% low rate of VAT which is charged on residential construction will continue to apply from the end of April until the end of July 1986.

27.3 Parliament votes special powers which will enable the Government to implement by decree its social and economic recovery programme announced in its inaugural statement in December 1985. The first set of draft decrees, covering measures to rationalize education and the social security system (health insurance) was discussed by the Cabinet on 29 March.

Denmark (DK)

17.3 The central bank has tightened its marginal reserve requirements, reducing the interest paid on compulsory deposits, according to the system, by 2 percentage points to a level 4% below the money rate.

21.3 A parliamentary majority approves an increase in indirect taxation:

- taxes on energy will be raised by Dkr 7.9 billion thus restoring the March 1985 price level.
 - A biannual adjustment of excise duties will take place whenever actual prices deviate from a price based on a Dkr 8,50/USD exchange rate and a price of USD 17,50 per barrel of crude oil;
 - taxes on household appliances will be raised to yield Dkr 0.6 billion annually;
 - taxes on tobacco, wine, beer and spirits will be raised by an annual Dkr 1.8 billion;
 - taxes on cars with improved equipment for driving safety are lowered by Dkr 0.2 billion;
 - the stamp duty on share transactions is increased by Dkr 0.3 billion;
 - another Dkr 0.2 billion are appropriated on the 1986 budget for export promoting activities.
- Restrictions on private borrowing abroad have been extended in order to reduce the amount of consumer borrowing.

Federal Republic of Germany (D)

6.3 The Central Bank Council of the Deutsche Bundesbank lowers the discount rate from 4% to 3,5%. It was also decided to reduce the volume of rediscount quotas by DM 5 billion as from 1 May.

Greece (GR)

None.

Spain (E)

1.3 The retail prices of petroleum products and gas used for heating are modified.

14.3 A decree law is promulgated containing a package of measures to modernize the country's economic and financial structures: they include the simplification of administrative procedures concerning enterprises and individuals, more flexible legislation on overtime, the establishment of coefficients for adjusting nominal variations in net worth, the creation of Corporations and Funds to mobilize risk capital, and recognition of the equivalence of 'secondary market' securities and securities listed on ordinary stock exchanges.

France (F)

None.

Ireland (IRL)

None.

Italy (I)

1.3 Domestic electricity charges are cut by 4,5% following the decision by the Minister for Industry to reduce the electricity surcharge ('sovrapprezzo termico') by 11,5%. This follows a 1,8% cut in the surcharge on 1 January. Domestic electricity charges will nevertheless increase under the provisions of the finance law.

6.3 The excise duty on premium grade petrol is increased to keep pump prices from falling by LIT 20. This measure earns the State LIT 250,000 million. However, the Government allows the price of methane and petrol for use in agriculture and fishing to fall. The Government decides to review the price of methane within two months, instead of every six months as hitherto.

21.3 The discount rate is cut from 15% to 14%. Following this fall, three-, six- and twelve-month Treasury Bills (BOTs), offered for tender at the end of March, are allocated at prices which reflect a drop in effective yields of 0,46, 0,23 and 0,20 of a percentage point respectively. Medium-term issues include ten-year Treasury certificates of credit (CCTs) at a rate which is index-linked to twelve-month Treasury Bills, and four-year fixed-rate Treasury bonds. The certificates of credit were issued at an effective rate of 14,04%, representing a fall of 0,55 of a point, and the Treasury bonds at 12,58%, representing a fall of 0,85 of a point. The Banca d'Italia also lowers to 15,33% the rate for its refinancing operations against securities purchased under a repurchase agreement: this is 0,20 of a point down on the week before.

26.3 Entry into force of the law which delegates to the Government, until June 1987, the power to vary the duty on petroleum products. On the same day, the Government increases the duty on premium grade petrol by LIT 15 in order to keep the price at LIT 1 280.

Luxembourg (L)

None.

Netherlands (NL)

7.3 The central bank lowers the discount rate and the rate on advances by 0,50 points, to 4,5% and 5% respectively. These rates had not been changed since 16 August 1985.

23.3 An agreement is concluded between the Government, management and unions, on a programme for employing the long-term unemployed. A company which engages a person who has been registered as unemployed for at least three years and is at least 25 years of age will be exempted from paying social security contributions for that worker for a period of two years. The employer will also receive a once-and-for-all grant of HFL 4 000 from the Treasury.

Portugal (P)

8.3 Residential rent legislation is liberalized and provisions are adopted on rent allowances for low-income families.

8.3 ESC 10 000 million are issued in 'monetary regularization' bonds, a new form of public debt which enables banks to dispose of their surplus liquidity.

8.3 A measure is announced authorizing commercial banks to make housing loans and to accept deposits with maturities of over one year.

United Kingdom (UK)

18.3 The Chancellor of the Exchequer presents the budget for 1986/87 to Parliament. The main features are:

- the public sector borrowing requirement (PSBR) in the 1986-87 financial year to be held to UKL 7 billion (or 1,8% of GDP), much the same as the outcome expected for 1985-86;
- net tax reductions (over and above the indexation of income tax allowances and excise duties) of almost UKL 1 billion, used to reduce the basic rate of personal income tax by 1 percentage point to 29%;
- the excise duty on petrol raised only marginally more than required to adjust for general inflation;
- other tax changes including a new scheme for tax-free investment in equities and the abolition of capital transfer tax on lifetime gifts;
- some measures to reinforce the special employment schemes aimed at the long-term and young unemployed; in particular a New Workers Scheme providing a weekly grant to employers taking on new young workers;
- in a restatement of the Medium-Term Financial Strategy (MTFS) the intention to gradually reduce the PSBR as a percentage of GDP over a number of years was confirmed; new target ranges for monetary growth in 1986-87 were set - 2-6% for M0, narrow money, and 11-15% for sterling M₃, broad money.

Corrigendum Supplement A — No. 3 — March 1986 — English

Graph 7: title should read "Exchange rates, value of USD, yen and some EC currencies in ECU"

Prices (excluding VAT) in Luxembourg

	ECU	BFR	IRL	UKL	USD	
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