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In this number:
The EFTA Countries: Partners of the Community in a changing Europe

SUMMARY

- *The European Community and the EFTA countries have developed an expansive web of economic links which have ensured a high level of interdependence between the two areas. Together they account for nearly 30 % of the world's gross domestic product and constitute by far the largest global trading bloc, with close to 45 % of world trade (Graph 1). Well developed and similar economic structures, institutional arrangements, geographical proximity and cultural affinity have all been driving forces behind the creation of strong, mutually beneficial, ties between the two regions.*

- *The EC and EFTA are each other's most important trading partners. The EFTA region is the destination of over 25 % of the Community's exports with a share greater than the US and Japanese markets combined. The density of economic transactions has also been reflected in close exchange rate links. Norway, Sweden and Finland have all recently pegged their currencies to the ECU. Iceland's trade-weighted basket system has a large ECU component while Austria has had its currency pegged to the Deutschmark since the 1970s.*

- *Output in the EFTA countries as a group is estimated to have stagnated in 1991, a factor which contributed to the deterioration in the Community's external environment in that year. Future prospects in the EFTA area are only for a modest recovery in 1992 and 1993. Successful implementation of adjustment programmes aimed at restoring price stability and export competitiveness will be crucial to EFTA's future economic prospects. Ongoing structural reform is needed to ensure that the exposed sectors and the relatively small and heavily concentrated EFTA domestic markets are in a position to meet future competitive challenges.*

NOTE: This supplement was produced by the Directorate-General for Economic and Financial Affairs with the assistance of Eurostat.

GRAPH 1: **EC and EFTA**

INTRODUCTORY REMARKS

Interdependence has been the key feature of the successful relationship between the European Community and the EFTA countries. Both regions have displayed a high degree of homogeneity in terms of wealth and export orientation with the structure and economic performance of one area closely resembling that of the other. This similarity has been nurtured by strong bilateral trading and investment links which have grown steadily from the inception of both entities. The magnitude of the latter links has resulted in a substantial recent strengthening of monetary ties between the two areas with the three Scandinavian countries directly linking their currencies to the ECU over the last 18 months.

This close partnership is presently undergoing a process of significant re-evaluation as a result of unprecedented political and economic changes in Europe. Politically the break-up of Eastern Europe and the former USSR and economically the Community's 1992 programme are major driving forces in the search to re-define and deepen the existing relationship. The final shape of a new more structured partnership has still to be decided. At the moment, two of the EFTA countries, Sweden and Austria, have applied for full EC membership with negotiations probably beginning as early as 1993. Other countries in the group may decide to follow the latter's lead or to pursue forms of association such as that represented by the agreement at the end of 1991 to establish a European Economic Area (EEA).

The EEA agreement amounts to the EFTA countries accepting the entire 'acquis communautaire' relating to the realization of the four essential freedoms underpinning the Community's internal market programme i.e. free movement of goods, services, people and capital. If adopted, it would represent a substantial milestone in the drive to deepen European economic integration. It would extend the favourable effects emanating from the Community's own internal market programme to an additional 32 million high income consumers. Economic benefits would clearly arise as a result of this increased level of integration. A better exploitation of economies of scale would ensure a significant reduction in costs, an intensification of competitive pressures would lead to improved efficiency and a rationalisation of industrial structures; all of which would contribute to a substantial medium-term improvement in output and employment.

SIMILAR ECONOMIC STRUCTURES AND PERFORMANCE

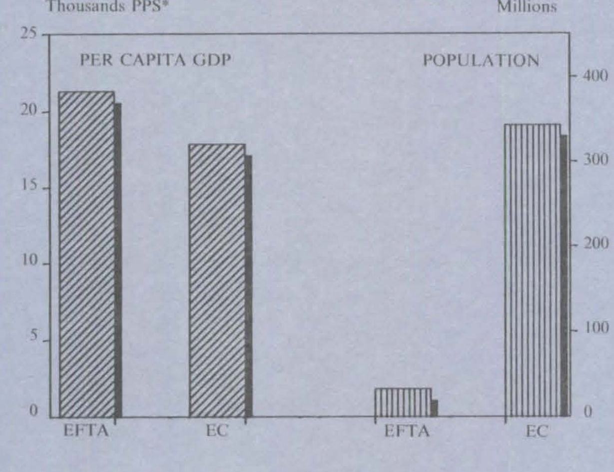
While the EFTA countries as a group cover a geographical area which is equivalent to nearly 60 % of the Community's total, their productive land space is substantially lower than the latter's. The Community has a much higher population density and its total number of inhabitants is 10 times greater than that of EFTA (Graph 2). The demographic structure of the two areas is remarkably similar with both having 20 % of their population in the over 60 age group and 25 % in the under 20 category.

Similarities also exist with regard to living standards with both regions characterized by a high purchasing capacity. In 1990 the Community had a per capita income approaching 18,000 PPS with an even higher average of over 21,000 PPS prevailing in the EFTA region. Disparities in income are much more pronounced between the 12 Member States of the Community than between the EFTA countries. Both areas have broadly similar shares for consumption in their gross domestic product with Graph 3 also indicating few differences in the structure of household expenditure.

The sectoral breakdown of civilian employment and of gross value added is virtually identical (Graphs 4 & 5). The services sector in the Community and in EFTA continues to expand its relative importance compared to industry and agriculture. The tertiary sector now represents 60 %, or over, of both employment and of economic activity in both areas. The industrial sector still retains a higher percentage share of total output than of total employment. The opposite situation applies in agriculture where even though it contributes only 3-4 % of overall output in both regions, it still represents 6-7 % of total employment.

Close parallels are again evident when an analysis is made of the respective economic performance of the Community and of EFTA during the 1980s (Table 1). For the decade as a whole growth, employment, inflation and balance of payments developments were broadly similar in both areas. Unemployment was the one area of significant difference where the Community's rate was nearly four times higher than the EFTA average. While EFTA's performance remained relatively stable over the decade there was a significant shift in the Community's fortunes between the first and second half of the decade due to the successful implementation of a more appropriate

GRAPH 2: **EC & EFTA: Population & Per Capita GDP**



* Purchasing Power Standards.

GRAPH 3: **Household expenditure (%), 1989**

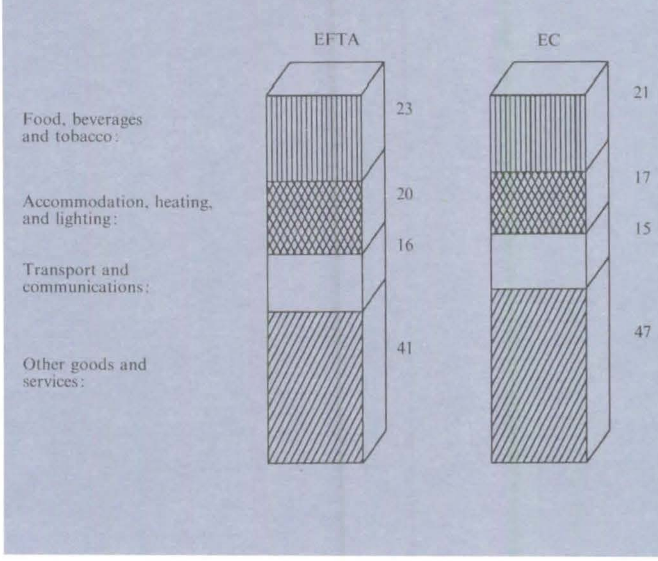


TABLE 1: **Comparative Macroeconomic Performance, EC, EFTA: 1980-1990 (Average annual % changes)**

	1981-1985		1986-1990		1981-1990	
	EFTA	EC	EFTA	EC	EFTA	EC
GDP growth	2.0	1.5	2.6	3.1	2.3	2.3
PC deflator	7.5	8.9	4.4	4.2	5.9	6.6
Employment	0.6	−0.4	0.8	1.3	0.7	0.4
Unemployment (% of Labour Force)	2.7	9.6	2.5	9.6	2.6	9.6
Balance of payments (% of GDP)	1.0	−0.1	0.1	0.4	0.6	0.2

Source: National sources, Commission services.

macroeconomic framework, including a significant wage adjustment, coupled with a concerted drive to improve resource allocation, centred on the internal market programme.

AUSTRIA has one of the most diversified export structures of any of the EFTA countries with the bulk of its trade being with EC Member States and Germany in particular. GDP grew at 2 ¼ % on average in the 1980s with inflation at an annual rate of 3 ½ %, much lower than the other EFTA countries and only paralleled by Switzerland. Its per capita income is the lowest of the EFTA group (Graph 6). The services sector employs a smaller percentage share of the civilian population than in EFTA as a whole (Table 2). Labour force participation rates, while lower than the EFTA average, are much higher than the equivalent Community rates.

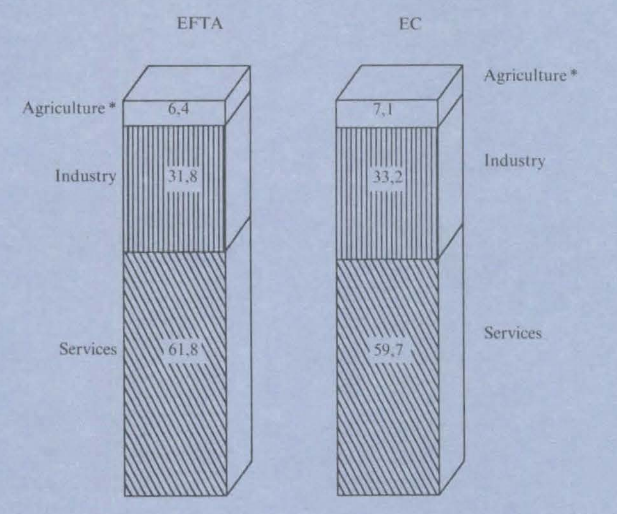
FINLAND has a high percentage of its output and employment still emanating from the agricultural sector. GDP grew at an average rate of 3 ¼ % between 1980-90 with inflation slightly higher than for EFTA as a whole (5.9 %). A large percentage share of the land area is wooded: 70 % compared with a Community average of less than 30 %. Finland has the lowest export propensity of all the EFTA countries. The government debt/GDP ratio is low in relative terms.

ICELAND has one of the lowest population densities in the OECD area. The Icelandic economy depends heavily on agriculture and fisheries for its economic wealth with over 20 % of its gross domestic product coming directly from these two sectors. It has a heavily concentrated export structure with fish products representing 75 % of the total in 1990. Employment creation in Iceland was particularly impressive during the 1980s, averaging 2 % per annum. Inflation however was at an annual rate of over 30 % for the same 10 year period.

NORWAY is the most export-orientated EFTA country. GDP grew at an average of 2 ½ % between 1980-90 with a relatively high annual rate of inflation of 7 ½ % over the same period. It has a well developed oil and gas industry which contributes a large percentage share of its gross domestic product and accounts for a quarter of its export revenue. As with most Nordic countries, it has a substantial percentage of male and female part-time employment; nearly double the Community average. Norway has been experiencing budgetary surpluses in recent years.

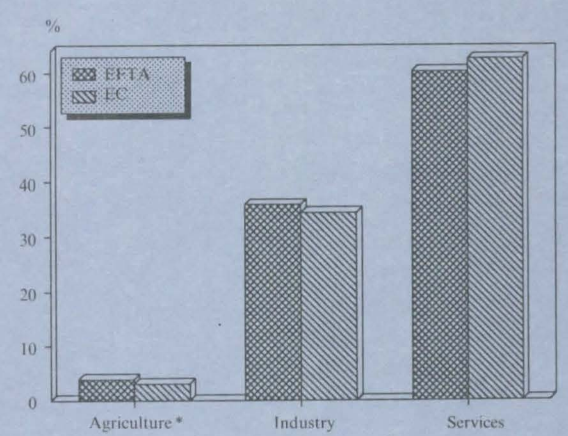
SWEDEN with 8 ½ million inhabitants has the largest population of all the EFTA countries (Graph 7). The Swedish economy grew by less than 2 % on average in the 1980s with employment growth of around ½ % and a worryingly high inflation rate in excess of 8 %. Sweden has a well diversified export structure with strong direct investment links with the Community, which in 1990 was the destination of 70 % of its foreign investment. A relatively low percentage share of its total employment is in the agriculture sector (4.1 %). Along with a low debt/GDP ratio it has had, until recently, a strong budgetary surplus.

GRAPH 4: **Total Civilian Employment per Sector of Activity, 1989 (%)**



* Agriculture, forestry, fishing.

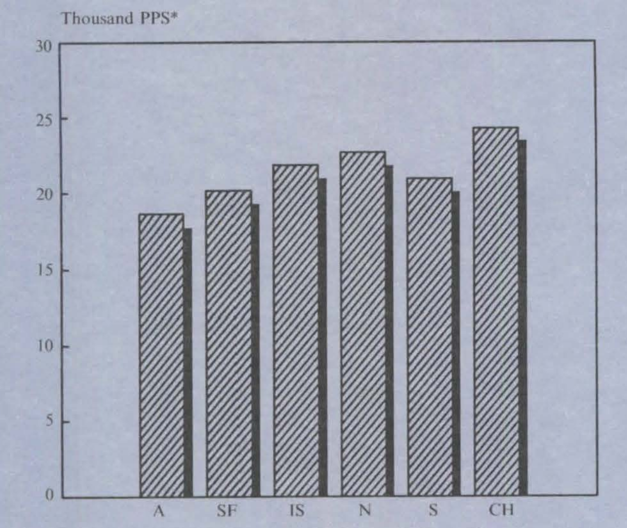
GRAPH 5: **Gross Value Added by Sector (%), 1989**



* Agriculture, forestry, fishing.

GRAPH 6: **EFTA countries: per Capita GDP**

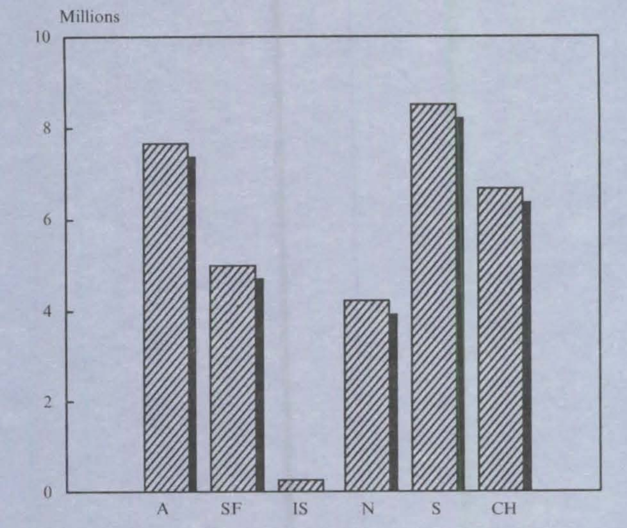
1990



* Purchasing Power standard.
A: Austria; SF: Finland; IS: Iceland; N: Norway; S: Sweden; CH: Switzerland.

GRAPH 7: **EFTA countries: Population**

1990



A: Austria; SF: Finland; IS: Iceland; N: Norway; S: Sweden; CH: Switzerland.

SWITZERLAND is the most densely populated EFTA country with a standard of living which is one of the highest in the world. Switzerland's annual GDP growth rate was close to the EFTA average in the 1980s but its employment growth was nearly twice that of its partners and its annual inflation rate was only 3 ½ % over the same period. It is by far the wealthiest of any of the EFTA countries with an investment ratio of over 27 % of GDP in 1990. Its employment and output structure is not, however, substantially different from that of EFTA as a whole and its export propensity is also broadly similar.

HIGHLY DEVELOPED COMMERCIAL LINKS

The EFTA and the European Community are amongst the most open trading regions in the world with imports representing nearly 35 % of the EFTA countries GDP (including intra-EFTA trade) and almost 25 % for the Community (including intra-EC trade) . A geographical breakdown of the EC's and the EFTA's trade over the last two decades highlights the dominant role played by trade flows within and between the two blocks. Well developed and similar economic structures, institutional arrangements, geographical proximity and cultural affinity have been driving forces behind the creation of such strong

TABLE 2: **Individual EFTA Countries**

A. Economic Performance 1981-1990 (average annual % changes)

	Austria	Finland	Iceland	Norway	Sweden	Switzer-land	EFTA
GDP growth	2.2	3.2	2.3	2.4	1.9	2.1	2.3
PC deflator	3.6	6.5	33.6	7.5	8.1	3.5	5.9
Employment	0.4	0.6	2.0	0.5	0.6	1.2	0.7
Unemployment (% of labour force)	3.3	4.8	0.9	3.1	2.1	0.6	2.6
Balance of payments (% of GDP)	−0.1	−2.2	−3.5	0.7	−1.3	4.4	0.6

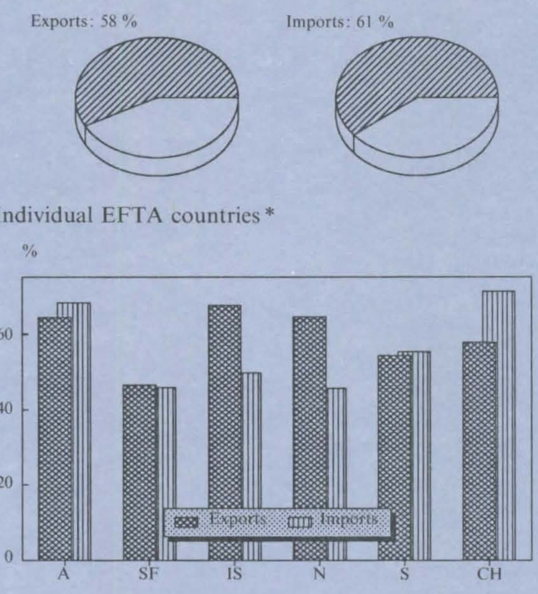
B. Misc. Economic Indicators 1990

	Austria	Finland	Iceland	Norway	Sweden	Switzer-land	EFTA
1. Uses of GDP (% of total)							
Exports of goods & services	41	23	39	45	30	37	35
Investment	24	26	19	19	20	27	24
2. Labour market (¹)							
Services employment (% of total)	55	60	63	68	67	59	62
Labour force participation rate	60	69	78	70	74	68	68
3. Public finances (% of GNP/GDP)							
Gross public debt	55	15	32(¹)	42	45	11*	—
General govt. financial balances	−2.1	+1.4	−2.7(¹)	+2.3	+3.9	+0.5*	—

(¹) 1989.
* 1987 (Data refers only to the operations of central government).
Source: National sources, OECD, 9M3.

GRAPH 8: **Percentage of trade with EC countries 1990**

A: EFTA



* A: Austria; SF: Finland; IS: Iceland; N: Norway; S: Sweden; CH: Switzerland.

commercial links. However, given the difference in size between the EFTA and the Community the degree of dependence is clearly greater for the former than for the latter. Furthermore, it should be noted that a high degree of regionalisation exists even within the EFTA group itself between the Nordic and the Alpine countries, with a significant degree of inter-regional concentration within these two groups of countries.

In 1990, the EC supplied over 60 % of EFTA's total imports compared with 7 % and 5 % emanating from the US and Japan respectively (Graph 8). Among the EFTA countries, dependence on EC markets as a source of imports varies from a relatively low 46 % in the case of Norway and Finland to 72 % for Switzerland. The EFTA countries are in turn the Community's major suppliers, accounting for nearly a quarter of all extra-EC imports, compared with 18 % from the US and 10 % from Japan (Graph 9).

A broadly similar picture emerges from an analysis of export trends. Again, the EC represents by far the biggest export market for EFTA countries, absorbing nearly 60 % of the total in 1990. By comparison the US and Japan combined accounted for less than 10 %. Austria, Norway and Iceland are the three EFTA countries with the highest export dependency on the EC market with Finland being the least dependent. The EC market will, in view of the recent collapse of its trade with the former USSR, become increasingly important for Finland. The EFTA market is in turn the Community's key export destination, absorbing 27 % of all extra-EC exports in 1990. It is more significant than that of the US which absorbed around 18 %, and is much more important than the Japanese market, with a share of only 5 %.

EFTA-EC trade is heavily concentrated on manufactured products. Bilateral trade in such goods was completely liberalized during the 1970s. The proportion of manufactured goods in total EFTA imports from the EC was around 85 % in 1990. This share increased substantially since the mid-1980s, in particular for machines and transport equipment plus miscellaneous manufactures. Primary goods experienced a decrease in their percentage share over the same period mainly as a result of a substantial decline in imports of mineral fuels. Manufactured exports in turn accounted for nearly three quarters of total EFTA exports to the EC in 1990 with their percentage share increasing by over 13 % points since 1984. Exports of machines and transport equipment plus miscellaneous manufactures were, as with imports, the areas which experienced the largest increases over the period. The trend in primary goods exports was similar to that for imports, with the share of mineral fuels declining strongly due mainly to oil price developments. Finally, there is strong evidence that a large proportion of EFTA-EC trade is of the intra-industry variety since 7 of the 10 most important product divisions appear in both imports and exports.

Overall, the EFTA region has had a small but persistent deficit in its trade with the Community throughout the 1970s and 1980s due essentially to a significant and increasing deficit in its trade in manufactured goods. The trade deficit experienced by the EFTA countries, however, is relatively small when compared to the total trade between the two groups (in 1990 the cover ratio was nearly 98 %). The performance of individual EFTA countries, however, varies considerably with that of EFTA as a whole, with Norway running a substantial, oil-related, surplus with the EC since the late 1970s; Finland, Sweden and Iceland being in a near equilibrium situation and finally the Alpine countries, Austria and Switzerland, running large deficits with the Community over the last two decades.

TOWARDS CLOSER MONETARY INTEGRATION

The EFTA countries, as small open economies, are vulnerable to economic shocks. Consequently, with the exception of Switzerland, they have been implementing exchange rate policies aimed at ensuring the stability of the nominal effective exchange rate (Graph 10).

The three Scandinavian countries had for many years a foreign exchange rate regime based on a basket-pegging system but over the period October 1990-June 1991 each, unilaterally, decided to peg their currencies to the ECU, keeping the same fluctuation bands they had had with the previous basket (Table 3). The link with the ECU aims to enhance the credibility of their anti-inflationary policy stances and highlights both the existing strong economic relationships which the Scandinavian countries have with the EC's Member States and the anticipation of even closer monetary and economic ties in the future.

GRAPH 9: **Direction of Extra-EC Exports and Imports 1990**

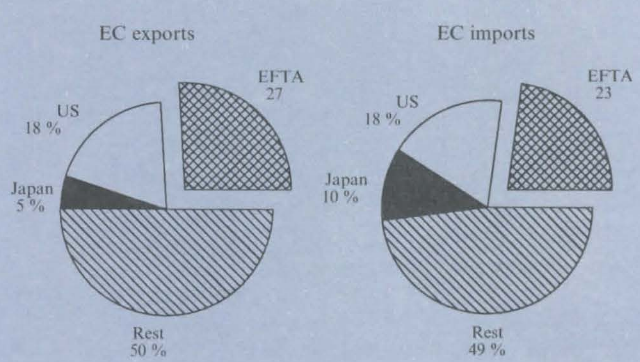


TABLE 3: **Currencies pegged to the ECU**

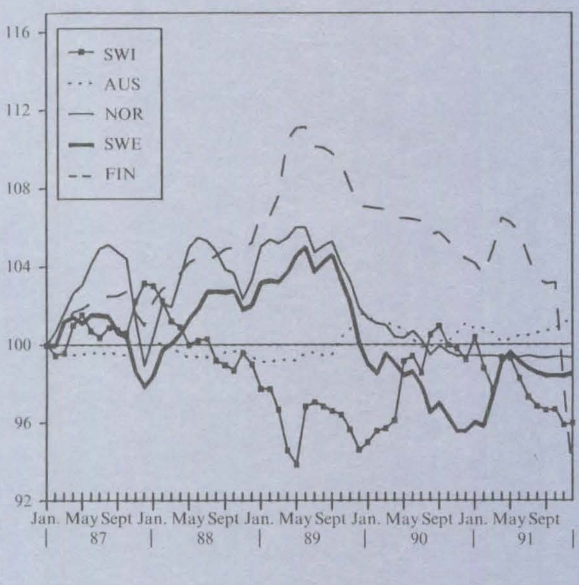
	Date of peg	Central rate	Fluctuation band
NKR	22.10.90	7.994	+/−2.25 %
SKR	17.05.91	7.40054	+/−1.5 %
FIM	07.06.91	4.87580	+/−3%
		5.55841[1]	

[1] New central rate of the Finnish Markka since 15.11.91, following a 12.3 % depreciation.

The remaining EFTA countries have, as yet, not formally linked their currencies to the ECU. Iceland continues to adhere to a trade-weighted basket system but with the ECU making up a very large percentage share of the basket. Since the 1970s Austria has implemented a policy of pegging its currency to that of the Deutschmark (DM), with Switzerland being the only EFTA country which has not pegged its currency either to the ECU (as a basket) or to the DM. Until quite recently Switzerland's approach has been to concentrate on the pursuance of intermediate monetary targets centered on the money supply and to accept the exchange rate implications.

In October 1990 *Norway* pegged the Krone to the ECU with the objective of increasing the anti-inflationary discipline inherent in their existing exchange-rate policy. The ECU linkage with its commitment to stabilizing the exchange rate within a narrow band of fluctuation margins has gained credibility in international capital markets. Confidence in the Norwegian currency has been strengthened and its risk premium has, as a result, been lowered. The differential between domestic interest rates and ECU rates has become negligible in recent months as the political commitment to the recent change in exchange rate policy is perceived to be strong.

GRAPH 10: **Exchange rates vis-à-vis ECU**
(Index Jan. 1987 = 100)



The decision to peg the *Swedish Krona* (SKR) to the ECU in the middle of last year was only a first step in the reorientation of Swedish exchange rate policy which has as its ultimate ambition full participation in the EMS. The initial impact of the ECU peg was favourable with Swedish interest rates experiencing a sharp downward movement. The Swedish Central Bank, however, was forced to raise its key lending rate by six percentage points in December 1991 in order to stem a major currency outflow. The strong downward pressure on the SKR emanated from a number of external factors: the Finnish devaluation, the weak US$ and the troubles in the Nordic banking system. The raising of interest rates was seen as a temporary measure to restore confidence in the SKR by reaffirming the government's stated commitment to avoiding any devaluation. The markets, as expected, have responded to this move with an inflow of capital which is pushing down interest rates. A continuation of existing trends will substantially reinforce the credibility of the Swedish policy option.

Finland's decision to peg its currency to the ECU in June 1991 was driven by a need to emphasize both Finland's commitment to a fixed exchange rate regime as well as to the wider concept of European financial and monetary integration. Nevertheless, on 14 November 1991, the Bank of Finland was forced to let the currency float and the following day, the Markka (FIM) was devalued. This devaluation is the consequence of a very sharp downturn in the Finnish economy. Some of the economic problems were already visible in June when linking the FIM to the ECU, but the severity of the situation undoubtedly increased. The devaluation does not, however, signal a reorientation of Finnish exchange rate policy priorities but it does demonstrate the need to pursue vigorous economic and fiscal policies which are consistent with the requirement of a stable currency.

Iceland has successfully pursued a stable exchange rate policy since the end of 1989 with the Krona pegged to a trade weighted basket of 17 currencies, where the ECU currencies have a combined weight of nearly 60 %. The basket has been changed into one composed of the ECU, the US$ and the Yen from the beginning of this year. This policy will be continued with the aim of linking the Krona to the ECU; with the development of the foreign exchange market considered a prerequisite of this enhanced commitment to a stable exchange rate system.

The DM link of the *Austrian Schilling* has provided a powerful disciplinary framework for domestic macro-economic policy. The hard currency policy is directed to nominal objectives, no matter what this implies for the real effective exchange rate. This reduces the leeway for monetary policy to a minimum, especially since financial market segmentation, triggered by the liberalization and globalization of markets, has strengthened the link between domestic and foreign interest rates. The Austrian Central Bank has never left any doubt that it would maintain the peg and if necessary intervene and adjust the interest rate differential to whatever level required.

Switzerland's monetary policy objectives shifted from a foreign exchange rate goal in terms of the DM in the late 1970s to one based on quantitative targets for the monetary base throughout the 1980s. The latter, however, has lost credibility as a short-run indicator due to its failure with regard to the price stability objective. As a result the Swiss National Bank abstained from setting an annual goal for its intermediate target in 1991. Now the short-term emphasis appears to be directed towards developments in the foreign exchange markets with changes in the monetary base still retaining an importance in terms of a medium-term expansion path.

TABLE 4: **EFTA Countries: Economic Performance 1991-1992**

	Austria		Finland		Iceland		Norway		Sweden		Switzerland		EFTA	
	1991	1992	1991	1992	1991	1992	1991	1992	1991	1992	1991	1992	1991	1992
GDP growth	3.3	2.8	–5,0	0.0	0,5	–1.5	2,8	2.6	–1,0	0.3	–0,5	1.2	–0,1	1.3
PC deflator	3.3	3.3	5,0	3.0	6,8	3.0	3,5	3.6	7,8	3.2	4,8	4.5	5,2	3.6
Employment	1.2	1.0	–5,1	–2.7	0,5	0.5	–0,7	1.1	–1,0	–0.4	0,5	0.3	–0,8	–0.1
Unemployment (% of labour force)	3.5	3.8	7,8	10.0	1,5	2.0	5,5	4.5	2,6	3.5	1,5	1.5	3,7	4.2
Balance of payments (% of GDP)	0.1	0.1	–4,6	–3.4	–3,7	–4.5	5,3	4.7	–2,3	2.1	5,2	5.5	0,8	1.0

Source: National Forecasts.

THE EFTA COUNTRIES AS A KEY ELEMENT IN THE COMMUNITY'S EXTERNAL ENVIRONMENT

With over 25 % of EC exports absorbed by EFTA it is clear that economic developments in the latter group of countries are of great importance for the Community's own economic prospects. Mutual interdependence is certain to grow as a result of continuing trade liberalization, closer monetary links and the prospects for further integration represented either by full EC membership for some EFTA countries or through a successful completion of the European Economic Area.

Output in the EFTA countries as a group is estimated to have stagnated in 1991 (Table 4), a factor which contributed to the deterioration in the Community's external environment last year. This overview, however, conceals large differences in individual EFTA country performances. Growth in Austria, benefitting from the favourable impact of German unification, is estimated to have been over 3 % in 1991. Sweden and Finland have been experiencing recessionary conditions with the Norwegian mainland economy (i.e. excluding the oil and shipping industries) and the two remaining EFTA countries being more or less stagnant. The slowdown in activity in the area as a whole has negatively affected the labour market with a decline in total employment leading to an increase of over 1 percentage point in unemployment last year. Average inflation in the EFTA countries is estimated to have been over 5 % in 1991 , a modest improvement on the 1990 outturn.

Recovery is forecast to be sluggish over the next two years with growth in the EFTA countries expected to be of the order of 1 ½ % this year with a further small improvement in 1993 to 2 ¼ %. Despite the upturn in activity the employment and unemployment situation is not forecast to change much in 1992. On the positive side, inflationary pressures should abate substantially and the already healthy balance of payments position for the EFTA region is expected to improve further over the forecast period.

Nevertheless it must be stressed that successful implementation of adjustment programmes aimed at restoring price stability and export competitiveness, currently underway in a number of EFTA countries, will be crucial to a realization of the 1992 and 1993 growth forecasts. The below average growth performances and the high relative rates of inflation of recent years, especially in some of the Nordic countries, have led to a questioning of the existing policy framework. The decision of Sweden, Norway and Finland to link their currencies directly to the ECU is one expression of this, indicating that monetary policy is increasingly being dictated by developments in the Community. The ECU link will impose a greater self-discipline on these countries in terms of their budgetary and incomes policies and subsequently should lead to an improved non-inflationary growth performance. Furthermore, the need for the EFTA countries to become more productive and competitive in the context of a post-1992 internal market will strongly influence the pace of structural reform in the region as a whole. Substantial efforts will be needed if the exposed sectors and the relatively small and heavily concentrated EFTA domestic markets are to be in a position to meet the greater competitive challenges.

Overall, it is evident that the process of change presently being experienced in a majority of the EFTA countries will greatly facilitate a friction-free deepening of the integration process in Western Europe. This process has been, and continues to be, driven by the success of previous Community integration efforts. These have proven to be a powerful magnet in attracting a large number of countries towards closer and varying forms of partnership with the Community.

11 February 1992

Principal economic policy measures – December 1991/January 1992

Community (EUR 12)

4.12 The Commission's Annual Economic Report is presented by Vice-President Christophersen.

9-10.12 Treaty on Economic and Monetary Union is agreed. A single currency will be in place by 1999 at the latest.

17.12 Portugal's economic convergence programme for 1992/95 is favourably examined by the Ecofin Council.

Belgium (B)

19.12 The National Bank raises its discount rate from 8 % to 8.50 % in line with similar decisions by the Bundesbank and the Nederlandsche Bank.

Denmark (DK)

3.12 Parliament passes a bill concerning the special pension-scheme 'Efterlön' under which the government expects to save almost 0.5 % on general budget expenditure.

14.12 Parliament passes bill that lowers company tax rate to 34 %, now the second lowest in Europe.

Germany (D)

19.12 The Bundesbank raises its key interest rates by 0.5 percentage points each. The discount rate now stands at 8 %, the Lombard rate stands at 9 ¾ %.

19.12 Federal budget for 1992 is adopted by the Bundesrat. The foreseen increase in expenditures amounts to 2.9 %, borrowing requirements shall be limited to DM 46.5 billion (1.7 % of GDP).

19.12 The Bundesrat adopts the pension-adjustment-law for East Germany, so that pensions will increase by 11.65 % as from 1 January 1992.

19.12 The supervisory body of the Federal Labour Office adopts its budget for 1992. Total expenditures for labour labour market policy will rise to DM 85 billion (3.1 % of GDP) as compared to DM 71 billion in 1991.

Greece (GR)

21.11 By a joint decision of the Ministers of National Economy and Finance, special Treasury bonds were issued for an amount of DRS 115 billion. The bonds have a duration of 3 years of which one year is a grace period. The interest rate is fixed at 12 % p.a. For the first year the interest accrued up to 21.11.1992 will be capitalised. The Treasury bonds were placed with the National Bank of Greece in exchange for an equal amount of bonds convertible into shares (after 7 years).

20.12 The 1992 budget is approved by Parliament.

31.12 A new series of two-year, floating-rate Treasury bonds is issued. The interest rate is fixed at 23 % p.a. for the first year; i.e. 0.5 percentage point higher than the interest rate of the 12-month issue. The same rule will be followed for the second year's interest rate.

7.1 By decision of the Bank of Greece the minimum reserve requirement is extended to include, as of January 1992, in addition to bank deposits the monthly average of Treasury bills sold to the public on the basis of repurchase agreements ('repos').

16.1 The Treasury issues three series of ECU-linked bonds with a maturtiy of one, two and three years. The interest rate for the first year is fixed at 10.125 %, 10.425 % and 10.625 % respectively. For the following years the interest rates will be calculated according to the formula: LIBOR + 0.30 % for the two-year bonds and LIBOR + 0.50 % for the three-year bonds.

20.1 A package of economic policy measures is announced by the government including a radical reform of the income tax, an extraordinary tax on buildings, a wage freeze in the public sector and moderate increases in public utility charges.

21.1 The monetary programme for 1992 is presented by the Governor of the Bank of Greece. The target range for M3 growth is set at 9 %-12 %.

22.1 By decision of the Bank of Greece the compulsory investment by commercial banks in Treasury bills is reduced from 30 % to 25 % of their deposits as of 1 February. The Bank of Greece announces a further reduction to 20 % and 15 % as of 1 July and 1 October respectively.

28.1 By seven decisions of the Governor of the Bank of Greece several current transactions in foreign currency are liberalized, extending to non-EC countries the existing legal regime. In particular, the following transactions are liberalized:

- expatriation of net profits earned from 1991 onwards from foreign capital invested in Greece;
- export of rentals from real estate owned by non-residents as from 1992;
- tourist allowances are increased to ECU 1 400 per person/per journey;
- liberalization of payments for tourists' credit card expenditure;
- currency allowances for specific purposes are abolished;
- ceilings for student allowances are fixed by country;
- pensions of non-resident pensioners can be transferred abroad.

Spain (E)

4.12 The Treasury raises the interest rate at tender for 12-month bills by 0.2 percentage points to 12.06 %.

12.12 The Treasury issues 3-month bills replacing the 3-month 'repos' auctioned by the Bank of Spain every 15 days.

20.12 The Government approves a royal decree liberalizing capital movements. From 1 February 1992, all incoming and outgoing payments and transfers to and from abroad are to be fully liberalized provided they are channelled through the banking system. Prior authorization will be necessary for cash transactions of an amount greater than PTA 5 million. Spanish residents will be allowed to open bank accounts abroad and to buy, sell and hold foreign currency. The Government also approves rules governing the futures and financial options markets.

27.12 The government approves an average increase of 3.2 % in the price of electricity from 1 January 1992. An average increase of 7.4 % is authorized for postal rates, also from 1 January 1992.

27.12 New VAT rates enter into force on 1 January 1992: the higher rate is cut from 33 % to 28 % and the standard rate raised from 12 % to 13 %. Excise duties on petroleum products are also increased.

10.1 The government approves a 5.7 % increase in the minimum wage applying in all sectors: this is now PTA 56 280 per month for workers of 18 years of age and above, and PTA 37 170 for younger workers.

14.1 The Bank of Spain raises the official intervention rate (ten-day basis) by 0.15 point and cuts the daily intervention rate by 0.05 point, taking them to the same level (12.65 %).

16.1 The Treasury cuts the interest rate on its one year securities, setting it at 11.5 %.

30.1 The Treasury reduces the return on its 10-year securities by 0.5 point, to 10.9 %.

France (F)

29.11 Government earmarks FF 200 million for apprenticeships.

7.12 Money supply M3 growth target for 1992 is set at 4 % to 6 % (5 % to 7 % in 1991).

7.12 Government sets a 2.6 % ceiling for per capita wage increases in state-owned enterprises for 1992. The increase in the total wage bill is not to exceed 4 %.

18.12 Government decides to merge two main State-owned enterprises: CEA industrie (nuclear sector) and Thomson (electronic branches only) will become Thomson-CEA industrie.

19.12 The Finance Law for 1992 is finally adopted: the target budget deficit is FF 89.9 billion.

23.12 The Banque de France increases both official interest rates: the intervention rate from 9.25 % to 9.60 %, and the 5 to 10 day emergency funding rate from 10 % to 10.5 %.

1.1 According to the Law Evin, the consumer price index used as a reference for increases in the statutory minimum wage (salaire minimum de croissance), the minimum starting wage (revenu minimum d'insertion) and any other social allowances will not include tobacco and cigarette prices.

1.1 Unemployment contributions go up from 4.78 % to 4.90 %, shared equally between employers and employees.

6.1 Health expenses in the private hospital sector will increase by not more than 5.5 % according to an agreement with the government.

7.1 The increased domestic duty on petroleum products pushes up petrol prices by 4.7 centimes per litre.

22.1 Treasury bond issue of ECU 1.5 billion.

27.1 New measures to encourage foreign direct investment in France.

Ireland (IRL)

20.12 Central Bank raises its Short-term Facility (STF) by 0.5 of a point to 10.75 % in response to the corresponding rise in German official rates.

29.1 Minister for Finance presents Budget 1992 to Parliament. The impact of the budget is broadly neutral, implying continued tight control on public expenditure. A small rise in the deficit relative to GDP is expected but progress in reducing the high public debt/GDP ratio is unlikely to be interrupted. Key features of the budget are in the area of taxation, where personal income tax rates have been reduced and indirect tax rates have been brought further into line with the requirements of the Single Market.

Italy (I)

10.12 The Government, the trade unions and the industrial employers' association sign a temporary agreement on labour costs: the present wage indexation mechanism, due to expire on 31 December 1991, will not be renewed; talks on new forms of indexation will resume on 1 June 1992. The Government undertakes to cancel the 0.9 % increase in social security contributions payable by workers, included in the Financial Bill; a three-year 1 % personal income tax surcharge (payable on taxable income exceeding Lit 14,4 million) will be introduced in the Financial Bill; the Government also undertakes to reduce by 1 % the social security contributions payable by employers in 1992.

23.12 The Treasury, acting upon the advice of the Bank of Italy, raises the discount rate by half percentage point, from 11.50 % to 12 %. The penalty rate of 0.50 % applied to fixed-term advances is kept unchanged.

28.12 Parliament gives its final approval to the Financial Law for 1992: the main accompanying laws (respectively concerning tax reform and tax amnesty, health expenditure and other expenditure cuts) had already been approved. The target for the State sector borrowing requirement in 1992 is confirmed: Lit 127 800 billion.

23.1 Parliament gives its final approval to a decree-law on privatization enacted by the government as a part of the 1992 budgetary exercice. The decree-law authorizes (Art. 1) the conversion of public corporations ('enti pubblici economici', such as the State holding companies IRI, ENI and EFIM) and autonomous government agencies ('aziende autonome', such as the State Railways and the Post and Telecommunications) into joint-stock companies. Following their conversion, the government can proceed to privatize the State's share in the companies (explicit parliamentary approval is required for sale of a controlling stake).

30.1 Parliament gives its final approval to a law granting the Bank of Italy exclusive power to fix the discount rate; such power has been held to date by the Treasury Minister, who acted upon the advice of the central bank.

Luxembourg (L)

29.11 In the context of the harmonization of VAT and excise duties, the Government decides to bring forward the adjustment of the higher rate of VAT from 12 % to 15 % to 1 January 1992 (instead of 1 January 1993). Excise duties on heating fuels will also be adjusted to the Community level in several stages during 1992. The knock-on effect on inflation will amount to 0.55 % in 1992 and 0.28 % in 1993.

29.11 The government approves the budget adjustment for 1992, with revenue up by LFR 1 756 million and expenditure by LFR 1 406 million. The amended budget therefore shows a surplus of LFR 1.8 billion. The draft budget adopted in August 1991 envisaged a LFR 1.5 billion surplus.

27.12 The government reduces the higher rate of VAT for the construction of principal residences from 15 % to 3 %. The decision dates from 1 January 1992 but has been applied since 1 July 1991.

Netherlands (NL)

19.12 The Nederlandsche Bank raises its discount rate from 8 % to 8.50 %. This increase is consistent with those decided by other central banks, in particular the Bundesbank and the National Bank of Belgium.

Portugal (P)

20.1 The government tables the draft budget for 1992 before Parliament. The forecast general government deficit is ESC 500 billion, declining as a proportion of GDP from 6.5 % in 1991 to 4 % in 1992. Expenditure is set to increase by 22 %, the priorities being education and public works; the (non-wage) operating budgets of the various Ministries have been severely cut in real terms. It is envisaged that the tax burden on households will increase substantially, mainly because of the ending of the zero rate of VAT and its replacement by a reduced rate of 5 %.

United Kingdom (UK)

20.12 The government suspends the housing transaction tax ('stamp duties') for eight months from January.

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